

Unapproved options and LTIPs

What is an unapproved option?

It is simply a right to acquire shares from a future date at a fixed price. The fixed price is commonly the shares' value at the date the option is granted, the object being to provide a reward for the option holder based on future growth in share value.

However, the price is also frequently set at nil, so if the option is exercised the option holder simply calls for the shares to be transferred to him for no payment. Options with a nil exercise price or similar arrangements are often called **Long Term Incentive Plans (LTIPs)**.

"Unapproved" simply means that it hasn't received Revenue approval for option holders to benefit from any tax breaks.

How does it work?

Unlike CSOP, EMI or SAYE options, any option gains are subject to income tax and NI (both employee and employer), when the option is exercised.

Can we choose which of our employees participate?

Yes, you can choose any employee or executive director to participate.

Are there any limits?

It isn't subject to any Revenue limits.

What happens to leavers?

You can write into the plan how leavers should be treated, according to your company's own commercial requirements.

What happens if our company is taken over?

You can write into your plan what should happen on a takeover. For example, it could stipulate that:

- *all options become exercisable even though any initial option period may not have passed; or*
- *a proportion of the options become exercisable, depending on how much time has passed between*

grant and takeover or depending on to what extent a performance target has been met.

Can my company have an unapproved plan?

Almost certainly.

What is the accounting impact?

The Accounting Standards Board requires a company providing share-based benefits for its employees to show that as a cost in its accounts. For listed companies, this will apply in respect of financial years beginning on 1 January 2005 onwards. For unlisted (including AIM) companies, the starting date is 1 January 2006.

However, this will accounting treatment will not apply to smaller companies whose accounts are prepared under FRSSSE.

Are there any benefits for the company?

Apart from the potential commercial benefits of a carefully designed option plan (employee motivation, creating a sense of ownership and fostering commitment), any gains enjoyed by employees may be treated as an expense of the employer company for corporation tax purposes.

Is there anything else I need to know?

Yes, there is more information you'll need to understand before deciding whether an unapproved option plan or LTIP may be the right solution.

How do we find out more?

Please contact Robert Postlethwaite
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