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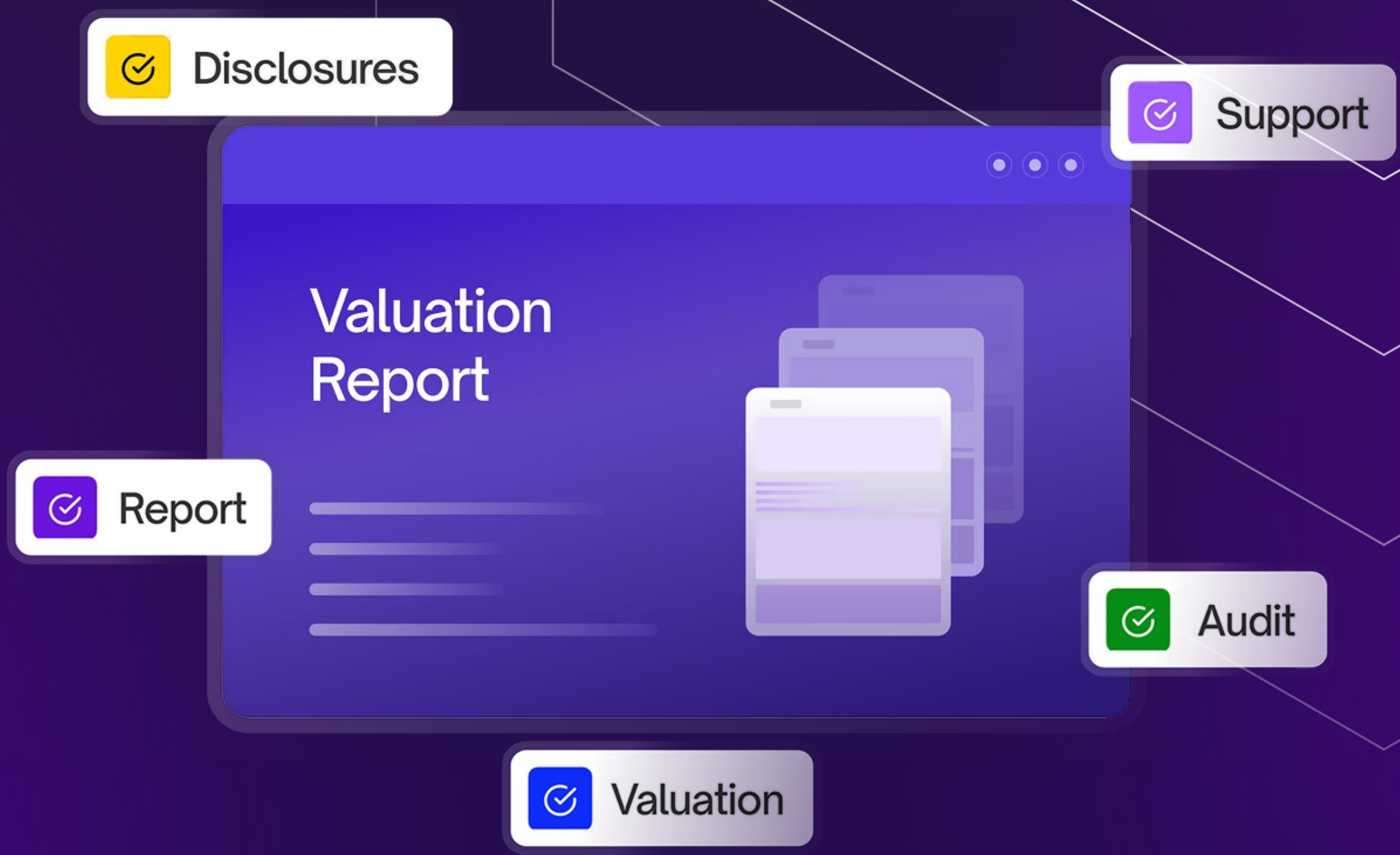



# CFO Checklist

## *Addressing the ESOP Valuations Reporting Gap*

A practical guide for finance leaders and CFOs at Seed to Series A+ startups in SEA navigating ESOP compliance, auditor requirements, and investor readiness.

# Why Share Valuations are a *CFO Problem*

Most founders treat ESOPs as a talent tool – a plan that HR designs and the legal team documents. But the moment your company issues stock options, it creates a financial reporting obligation that sits squarely on the CFO's desk.

This becomes especially important once your startup is subject to audit requirements. In Singapore, a company is generally required to undergo an audit if it exceeds at least two of the following three thresholds for two consecutive financial years:

1. SGD **$10M** In revenue
2. SGD **$10M** In Assets
3. **50** Employees

# Every Finance Leader's Blindspot
# *ESOP Reporting & Valuations*

The moment an auditor comes into the picture, the core danger isn't the complexity of the ESOP valuation and financial reporting/calculation: *it's the compounding cost of delay.*

**Panic under pressure:** Companies that skip valuations for 2 or 3 grant cycles face reconstructing years of historical grant data under audit pressure, often just weeks before the auditor's deadline or before a funding round closes.

**The cost of delay:** Remedying the problem last minute is way more costly than getting the process correctly at the beginning. Working back to find years of historical data leads to inefficiencies amidst auditor deadlines.

**Auditor Scrutiny:** Back-and-forth corrections from auditors – delaying signoff by weeks and raising investor concerns mid due-diligence. Reconstructing 2-3 years of grant valuations under time pressure is expensive and signals poor internal controls to your auditor.

**Investor Scrutiny:** Investors expect audit-ready books. Gaps in documentation and missing ESOP valuations signal weak financial governance – undermining your credibility and potentially derailing term sheet execution.

# *Why* Fair Market Valuation Matters for ESOPs

Without a defensible FMV at each grant date, companies may face significant financial reporting and audit implications, particularly as their ESOP programme scales.

**Errors in P&L:** Companies that don't recognize Share Based Compensation (SBC) are reporting higher profit than they actually have. If the auditor or the investor's diligence team eventually identifies this error, it impacts EBITDA and will require restatements.

**Severe impacts on material events:** These errors can snowball into consequences such as delayed fundraising, renegotiate deal terms, or complicate IPO filings. Your fundraising rounds, M&A, and IPOs require clean audited financials and defensible FMVs for every historical grant date.

**Tax complications for employees:** If FMV is not accurately determined, employees may file incorrect taxes, with risks to penalties, interests, and potential questions from tax authorities on deferred compensation treatment.

**Legal and cross border liabilities:** Historic grants with no FMV backing can hinder expansion to stricter jurisdictions such as US 409A, UK HMRC EMI, and Australia's ESS rules.

Campana SYSTEMS

Qapita was a valuable partner throughout our audit process. They demonstrated a strong understanding of the intricacies around our convertible instruments and employee equity plans, stayed aligned with our deadlines, and worked seamlessly with our auditors to help us navigate the process efficiently.

**CHIN Poh Huat**

Vice President of Finance,
Campana

# IFRS 2– Share-based Compensation (SBC) Demystified

## What Auditors look for in Share-Based Compensation (SBC):

Under IFRS 2, the **fair value of each option grant is determined at the grant date**, with the resulting share-based compensation (SBC) expense recognised in the P&L over the applicable vesting period.

Here are the 3 things that auditors want when they ask for your ESOP valuation:

01 An independent report signed by a qualified professional

02 Clear methodology and documented assumptions

03 A full reconciliation between valuation inputs and the share-based compensation expense in your financials.

## In a Nutshell - How to Build Defensible ESOP Reporting

SBC expense calculation starts with the grant-date Fair Market Valuation (FMV). Firstly, understand the valuation models used to determine the FMV of your ESOP.

These methods account for factors such as volatility, risk-free interest rates, expected term, and expiration dates, ensuring compliance and delivering audit-ready, transparent valuation reports.

## A defensible Fair Value (FV) requires 2 steps

01

### Step 1: Share Valuation

Calculate the share price of ordinary shares.

**Purpose**

Determine the equity value of your common shares (FMV) at the grant date.

**Methods used**

- OPM Backsolve – used when there is a recent funding round
- Relative Multiples
- Discounted Cash Flow

02

## Step 2: Obtain Option Fair Value – Inputs

- FMV from step 1
- Market and company-specific assumptions

**Purpose**

Take the share FMV (from step 1) as input to value the options. This determines the SBC expense recognised in your P&L under IFRS 2.

**Methods used**

- Black-Scholes
- Binomial Lattice
- Monte Carlo Simulation

# Share Valuations
## *Fair Valuation for Share-based Compensation*

**OPM Backsolve Method**

For companies with complex capital structure & multiple classes of equity ownership.

**Relative Multiples**

Valuation for companies without stable or predictable future cash flows.

**Discounted Cashflow**

Valuation for late-stage companies or those with predictable future cashflows.

**Black Scholes**

Fair Value calculations using the popular pricing model for ESOP instruments.

**Binomial**

Option pricing model suitable to value American style options.

**Monte Carlo**

Used when ESOP vesting is subject to market-based vesting conditions

# *CFO Checklist* for ESOP Audit Readiness

## Benefits of Staying Prepared – *Ahead* of time

**Proactive Reporting:** Companies that run annual valuations proactively close their books 3-4 weeks faster than those who scramble after auditor queries.

**Maintain trust among stakeholders:** Accurate valuation of share value is equally important for both regulatory compliance and transparent financial disclosures for your employees, investors, and auditors.

**Tax deductions:** Properly expensed SBC can allow your firm a corporate tax deduction on exercise in many jurisdictions

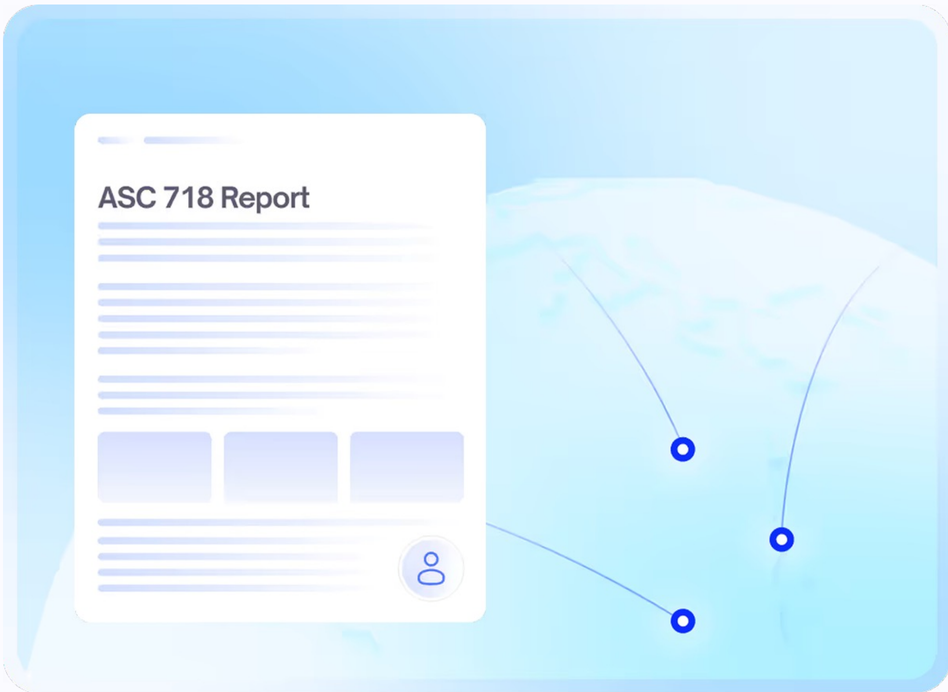
## How to Prevent Last Minute Scramble before Audit Season

We highly recommend finance leaders to prepare at least **90 days to half a year** before your financial year-end.

The checklist below gives CFOs a clear view of what needs to be in place **before auditors arrive:**

## Checklist for CFOs: what auditors look for

- **Grant documentation**
  Smaller subtitle: for every option tranche
- **Independent valuation at each grant date**
  signed by a qualified professional
- **P&L: IFRS 2 expense schedule**
  reconciling to total SBC expense
- **Vesting schedule**
  per employee per grant
- **Option Movement Table**
  And Weighted average exercise price calculations
- **Remaining contractual life**
  of outstanding options at period end
- **True-up calculations**
  adjusting expense for actual outcomes




### Automate IFRS 2 reporting of share-based compensation

Say goodbye to calculating amortization of share-based compensation expense manually. Qapita generates IFRS-compliant expense reports each month or quarter, mapped to your grants and vesting schedules, and exportable for your accounting software.

Know More

# Do you have Employees based in the following jurisdictions?

| | ACCOUNTING STANDARD (SBC) | ESOP TAXATION IMPLICATIONS | KEY CFO WATCH-OUT | PENALTY FOR NON-COMPLIANCE |
|---|---|---|---|---|
| SINGAPORE | IFRS 2 | Taxes are triggered at exercise and taxed as income, not capital gains. Take note of Singapore's "Deemed Exercise Rule" for foreign employees. | Auditors scrutinise the fair value expensing of share-based payments under SFRS(I) 2, particularly during year-end audits. | IRAS penalties for under-reporting, unwanted tax implications for employees. |
| UNITED STATES | ASC 718 (US GAAP) | Under US tax law – regardless of incorporation jurisdiction, any company that grants stock options to employees in the US is obliged to submit a 409A valuation. | Ensure 409A valuation before each grant. | Without 409A valuation, employees face immediate income tax and 20% exercise tax penalty. The company can face payroll tax liability and compliance risk. |
| AUSTRALIA | AASB 2 | Companies operating equity plans in Australia must comply with Employee Share Scheme (ESS) rules under Division 83A (Startup Concession) of the Income Tax Assessment Act 1997. | The Startup Concession requires the company to issue ESS statements to participants by 14 July each year (covering the prior tax year to 30 June). | Report data to the Australian Taxation Office (ATO) for pre-filing employee tax returns. Not all plans require ESS reporting (e.g., loan-funded plans are excluded). Companies must assess plan type, reporting triggers, and ensure timely ATO filings to avoid penalties. |
| UNITED KINGDOM | IFRS 2 (HMRC) | The UK has HMRC-approved schemes that reduce employee tax liability: Enterprise Management Incentive (EMI), Share Incentive Plan (SIP), Company Share Option Plan (CSOP). | EMI requires HMRC notification within 92 days of each grant. Miss it and you'll lose favorable tax treatment permanently for that grant. | Loss of tax-advantaged status for that grant tranche. |

docquity

Having Qapita by our side during the audit made a real difference. They brought deep expertise in navigating the complexities of our financial instruments and equity programs, kept pace with our timelines, and worked hand-in-hand with our auditors to ensure the entire process was smooth and stress-free.

**Ankur Aggarwal**

Executive Director - Finance, Strategy & Planning (Regional), Docquity

# Stay seamlessly on top of reporting deadlines with Qapita.

Ready to find out more on what's needed in your financial report?

## Startup is going through audit for the 1st time

**Success motion:** Establish a defensible motion right from the start. This is crucial to avoid costly mistakes.

**Recommendation:** Learn more about how to set up accurate ESOP Valuations and Expense Reports from the inception of your ESOP program. Speak with an independent valuations provider today.

Consult an independent 3rd party valuer →

## You already have been through recurring audits

**Success motion:** Anticipate increasing auditor scrutiny on financial reporting, with some requesting valuations for every half a year of ESOP issuance.

**Recommendation:** Start being well prepared now to save time, minimizes errors, and prevents financial setbacks. Work with a 3rd party independent valuer to review and establish reliable and error-free recurring reporting workflows for your finance team.

Speak to our valuations expert →

### Trusted Valuer for

NIUM | TripleA | VALIDUS | tazapay | docquity | ABB | CAMPANA | avant

The right reporting structure depends on your equity instrument stack, what's offered to your employees, and how you want to communicate with auditors effectively. We can help you figure out what works.

ABB

"Qapita's support was instrumental during our audit. They understood the nuances of our portfolio and worked closely with us and our auditors to ensure a smooth process."

**Fred Ng**
Executive Director, ABBPE Capital Management

**1000+**

Valuation reports delivered till date, across SEA and beyond

**10 Business Days**

Typical timeframe turnaround after receiving complete financial data

**3 Years**

Consecutive engagement with clients (FY Audits)

**Fully Compliant**

With IFRS, US GAAP, and local audit requirements. Accepted by Big 4 and industry valuers.

**Certified Valuers**

Reports prepared by CA, CFA, CVA charterholders

To learn more about valuations and how to create an effective recurring reporting workflow, speak to our Valuations team

Book a Demo