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VIRTUAL COACHING CLASSES
ORGANISED BY BOS (ACADEMIC), ICAI

FINAL LEVEL
PAPER : FINANCIAL REPORTING

Faculty: CA ACHAL JAIN

Share-based Payment
IND AS 102

Comparison - IND AS 102 , ICAI Guidance note and IFRS

IND AS 102 and IGAAP (including SEBI rules)

- Accounting – For listed entities SEBI guidelines and for other entities ICAI Guidance Note
- Coverage of Non-employee share based payments under IND-AS
- Measurement – Fair value (IND-AS) vs. Intrinsic or fair value (ICAI Guidance)
- Coverage of Group share based payment plan under IND-AS
- Graded vesting – no option to spread the expense over entire award period under Ind AS

IND AS 102 and IFRS

- Accounting of Share-based payment plan administered through a trust in separate financial statement of entity under IND-AS.

What is Share based payment (SBP) transaction & arrangement ?

- SBP transaction is a transaction in which the entity

  (a) receives goods or services from the supplier of those goods or services in a SBP arrangement, or

  (b) incurs an obligation to settle the transaction with the supplier in a SBP arrangement when another group entity receives those goods or services.

- SBP arrangement is an agreement between the entity (or another group entity or any shareholder of any group entity) and another party that entitles the other party to receive

  (a) cash or other assets of the entity for amounts that are based on the price (or value) of equity instruments of the entity or another group entity, or

  (b) equity instruments of the entity or another group entity, provided the specified vesting conditions, if any, are met.

Example of Share-based payment arrangements

SBP arrangements between employers and employees

- Share appreciation rights (SAR) that entitle employees to cash payments calculated by reference to increases in the market price of an entity's shares
- Share ownership plans where employees receive an entity's shares in exchange for their services.

SBP arrangements that are not between employers and employees

- An external consultant (not an employee) may provide services in return for shares in the entity.
- A supplier may provide goods in return for shares in the entity.
- A shareholder (rather than an employer) may grant shares to an employee.

Scope of IND AS 102

IND AS 102 encompasses:

- **I. Equity-settled share-based payment transactions** in which the entity receives goods or services and as consideration for equity instruments of the entity (e.g., the grant of shares or share options to employees)
- **II. Cash-settled share-based payment transactions** in which the entity receives goods or services and incurs a liability based on the price (or value) of the entity's shares or other equity instruments of the entity as consideration (e.g., the grant of share appreciation rights to employees, which entitle the employees to future cash payments based on the increase in the entity's share price).
- **III. Share-based payment transactions with cash alternatives** in which the entity receives goods or services and either the entity or the supplier of those goods or services (the counterparty) has a choice of settling the transaction in cash, other assets, or equity instruments

Important Concepts of Accounting for Share-based payments

Grant date

- Grant date is defined as *“the date on which the Company and employees agree to the terms of an employee share-based payment plan. At grant date, the Company confers on the employees the right to cash or shares of the Company, provided the specified vesting conditions, if any, being met*.”
- In practice, it is not always clear when a mutual understanding of the award (and, therefore, grant date) has occurred. Issues of interpretation can arise as to:
  - how precise the shared understanding of the terms of the award must be and
  - exactly what level of communication between the Company and the counterparty is sufficient to ensure the appropriate degree of 'shared understanding.

Important Concepts of Accounting for Share-based payments….

Example – Determination of grant date

XYZ Ltd grants 100 stock options to each of its 500 employees. The law governing the Company requires approval of the board / shareholders on any such grant. What is the grant date of ESOP in each of the following scenarios?

- a) The Company communicates the award to employees first, followed by board / shareholders approval. The award is approved with the same terms as initially communicated to employees.
- b) Shareholder / board approval is obtained first, and later the award is communicated to the employees.
- c) The award is communicated to the individual employees, but when it goes to the shareholders/board for approval, the shareholders/board changes the original award from how it was initially communicated to employees. The entity then communicates the new terms to employees.

Important Concepts of Accounting for Share-based payments….

Grant date in each of the scenarios above:

- a) Grant date is the board/shareholders approval date.
- b) Grant date is the date of communication of the award to the employees as this is the date on which the Company and its employees agree to the terms of the ESOP.
- c) Grant date is the subsequent communication date to employees, as this is the date when the Company and its employees have a shared understanding of the terms and condition of the ESOP plan.

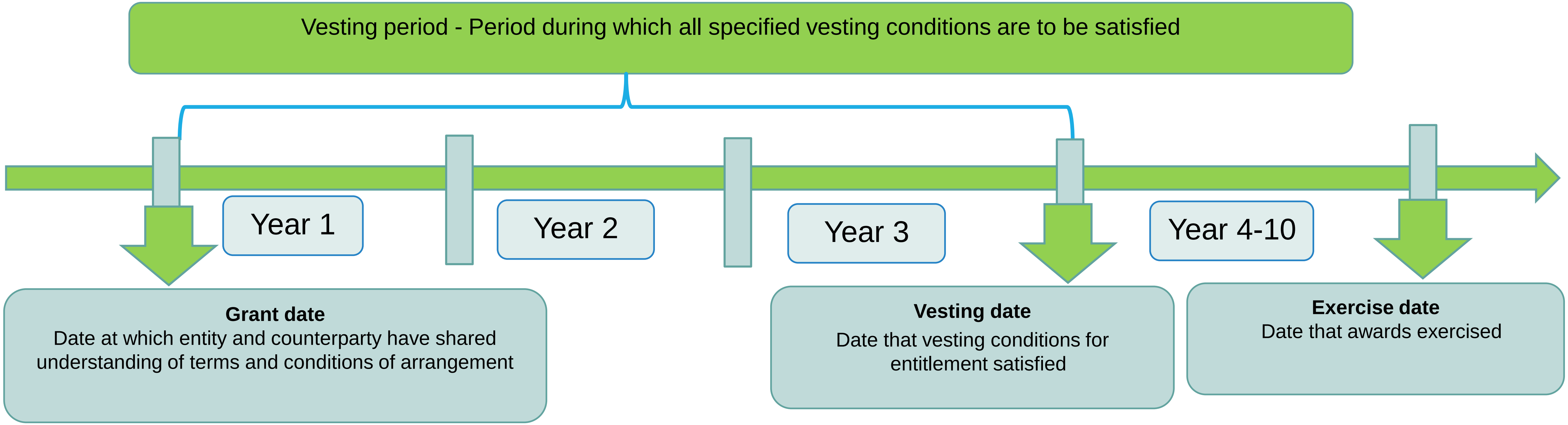
Important Concepts of Accounting for Share-based payments….

Date of receipt of goods and services

- Determination of date on which goods and services are received is critical, as the Company is **required to recognise employee stock compensation expense on** the **date of receipt of goods and services**.
- The date of receipt of goods and services **may not be the same as grant date**, if the goods or services are received prior to the grant date.
- **For example**, on 1st January, 2013 an entity advises employees of the terms of a share award designed to reward performance over the three years ended 31st December, 2015. The award is subject to board approval, which is given on 1st March, 2013. In this case, grant date is 1st March, 2013. However, the cost of the award would be recognised over the three year period beginning 1st January, 2013, since the employees would have effectively been rendering service for the award from that date.

Important Concepts of Accounting for Share-based payments….

Timeline of a share option award



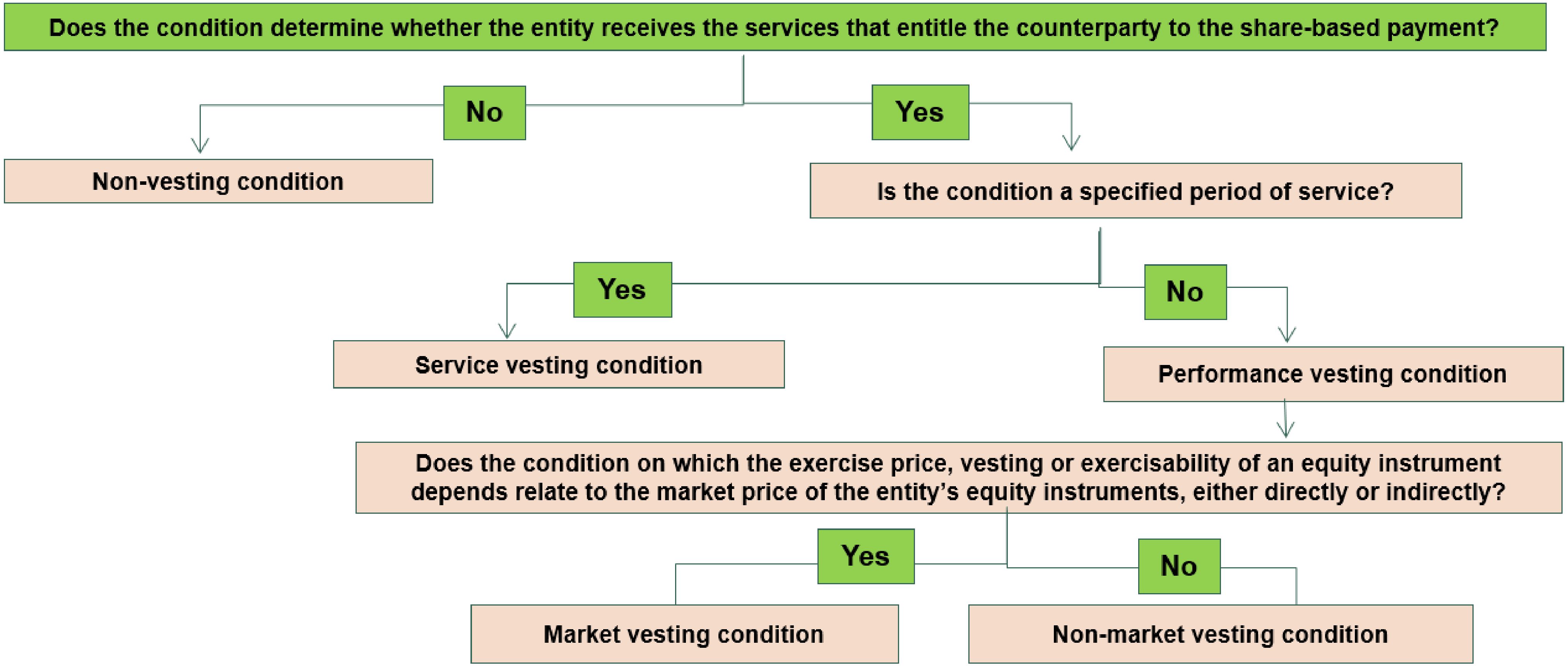
Important Concepts of Accounting for Share-based payments….

Vesting and non-vesting conditions

- A share-based payment award generally **vests upon meeting specified conditions**, such as **service conditions (time-based)** or **performance conditions** (e.g., **achieving a specified EBITDA target**).
- Under IND AS 102, the nature of the condition affects the timing of when the expense is recognised, and in some cases, the measurement of the expense.
- In addition, if a condition is not met, whether or not the entity may reverse the previously recognised compensation expense depends on the nature of the condition that was not met. Therefore, the classification of a condition is a critical step in accounting for share-based payments.

Important Concepts of Accounting for Share-based payments….

Classification of conditions to receive share-based payments



Important Concepts of Accounting for Share-based payments….

Example: Vesting period - Award with service condition only

If an employee remains in service for at least three years from the grant date of the award, the employee can exercise the options at any time after the end of three years and on or before ten years from the grant date of the award. The fair value of the award at the grant date, ignoring the effect of the vesting condition, is Rs. 300,000.

For this award, the vesting period is three years, the exercise period is seven years, and the life of the option is ten years.

The requirement to remain employed is a (vesting) service condition. The entity recognises an expense of Rs.100,000 a year for three years, with a corresponding increase in equity.

Example- Award with multiple vesting periods

- Omega grants 120 share options to each of its 460 employees. Each grant is conditional on the employee working for Omega over the next three years. Omega has estimated that the fair value of each share option is $12.
- Omega estimates that 25% of employees will leave during the three-year period and so forfeit their rights to the share options.
- Everything turns out exactly as expected.

Calculate the amounts to be recognised for services received as consideration for the share options during the vesting period.

Example- Award with multiple vesting periods….

Year	Calculation	Remuneration expense for period	Cumulative remuneration expense
1	55,200 (460 x 120) options × 75% × $12 × 1/3 years	165,600	165,600
2	(55,200 options × 75% × $12 × 2/3 years) – $165,600	165,600	331,200
3	(55,200 options × 75% × $12 × 3/3 years) – $331,200	165,600	496,800

Overview of Equity and Cash settled - Measurement

Year	Calculation	Remuneration expense for period	Cumulative remuneration expense
1	55,200 (460 x 120) options × 75% × $12 × 1/3 years	165,600	165,600
2	(55,200 options × 75% × $12 × 2/3 years) – $165,600	165,600	331,200
3	(55,200 options × 75% × $12 × 3/3 years) – $331,200	165,600	496,800

Recognition principle

- **Timing**
  - Goods → when received
  - Services → when obtained
- **Recognition (debit entry)**
  - Expense
  - Asset (if goods/services qualify as asset)
- **Recognition (credit entry)**
  - Increase in equity (for equity-settled SBP)
  - Liability (for cash-settled SBP)

Impact of conditions

Calculating total expected charge

Total value at grant date = Total number of options × Grant date fair value of options * × Percentage expected to vest

Accounting for conditions

Grant date fair value of options

Non-vesting Condition
Market Condition

)o not true up during vesting period or on
esting date*

Re-measured at each reporting date in case of cash settled SBP

Percentage expected to vest

Service conditions
Non-market performance conditions

True up estimates during vesting period and on vesting date

Example- Award with market condition only

Question - An entity granted share options to a director on the condition that the market price of the share will meet the specified target price. However it was not met.

Answer- The entity cannot reverse the expense recognised in the current or previous years and cannot revise the grant date fair value since the condition is market-based.

Example- Award with non-vesting condition only

Question- An entity grants share options to a director on the condition that the director does not compete with the reporting entity for a period of at least three years. The fair value of the award at the date of grant, including the effect of the 'non-compete' clause, is $150,000

Answer- The 'non-compete' clause is a non-vesting condition, because the entity does not receive any services. On the grant date, the entity immediately recognises a cost of $150,000, as the director is not providing any future services. The entity cannot reverse the expense recognised, even if the director goes to work for a competitor and loses the share options, because the condition is a non-vesting condition.

Example - Cash-settled awards

An entity grants 100 cash-settled awards to each of its 500 employees, on condition that the employees remain in its employment for the next three years. Cash is payable at the end of three years based on the share price of the entity’s shares on such date.

Year 1 - 35 employees leave. The entity estimates that 60 additional employees will leave during years 2 and 3 (i.e., the award will vest for 405 employees). The share price at year-end is Rs 40.

Year 2 - 40 employees leave and the entity estimates that 25 additional employees will leave during year 3 (i.e., the award will vest for 400 employees). The share price at year-end is Rs 50.

Year 3 - 22 employees leave, so that the award vests for 403 employees. The share price at year-end is Rs 52.

Example - Cash-settled awards….

- The entity recognises the cost of this award as follows:

Year	Calculation of liability	Liability	Expense for Period
1	405 employees x 100 awards x Rs 40 x 1/3	5,40,000 (Cr)	5,40,000 (Dr)
2	400 employees x 100 awards x Rs 50 x 2/3	13,33,333 (Cr)	7,93,333 (Dr)
3	403 employees x 100 awards x Rs 52 x 3/3	20,95,600 (Cr)	7,62,267 (Dr)

Entry at the end of 3rd year (Final cash settlement)

Liability A/c Dr	20,95,600	
To Cash Cr		20,95,600

Share-based payment awards with a cash alternative

The accounting differs depending on whether the choice rests with the counterparty or the entity.

- If counterparty has the right to choose the mode of settlement treat the award as a compound award. Split into a liability component (the counterparty’s right to demand settlement in cash) and an equity component (the counterparty’s right to demand settlement in shares). Once split, the entity accounts for the two components separately.
- If entity has to choice then entity shall determine whether it has a present obligation to settle in cash treat the whole award as cash settled and account award as a liability or else account for the transaction as equity settled.

Modification, cancellation or settlement…

Modifications:

- ❑ Entity to recognise, as a minimum, services received measured at the grant date at fair value of the equity instruments granted, unless those equity instruments do not vest because of failure to satisfy a vesting condition (other than a market condition) that was specified at grant date. This applies irrespective of any modifications to the terms and conditions on which the equity instruments were granted, or a cancellation or settlement of that grant of equity instruments.
- ❑ The entity shall also recognise the effects of modifications that increase the total fair value of the share-based payment arrangement or are otherwise beneficial to the Employee.

Cancellation or Settlement:

- ❑ If a grant of equity instruments is cancelled or settled during the vesting period:
  - Entity shall recognise immediately the amount that otherwise would have been recognised for services received over the remainder of the vesting period.

Modification, cancellation or settlement (Contd.)

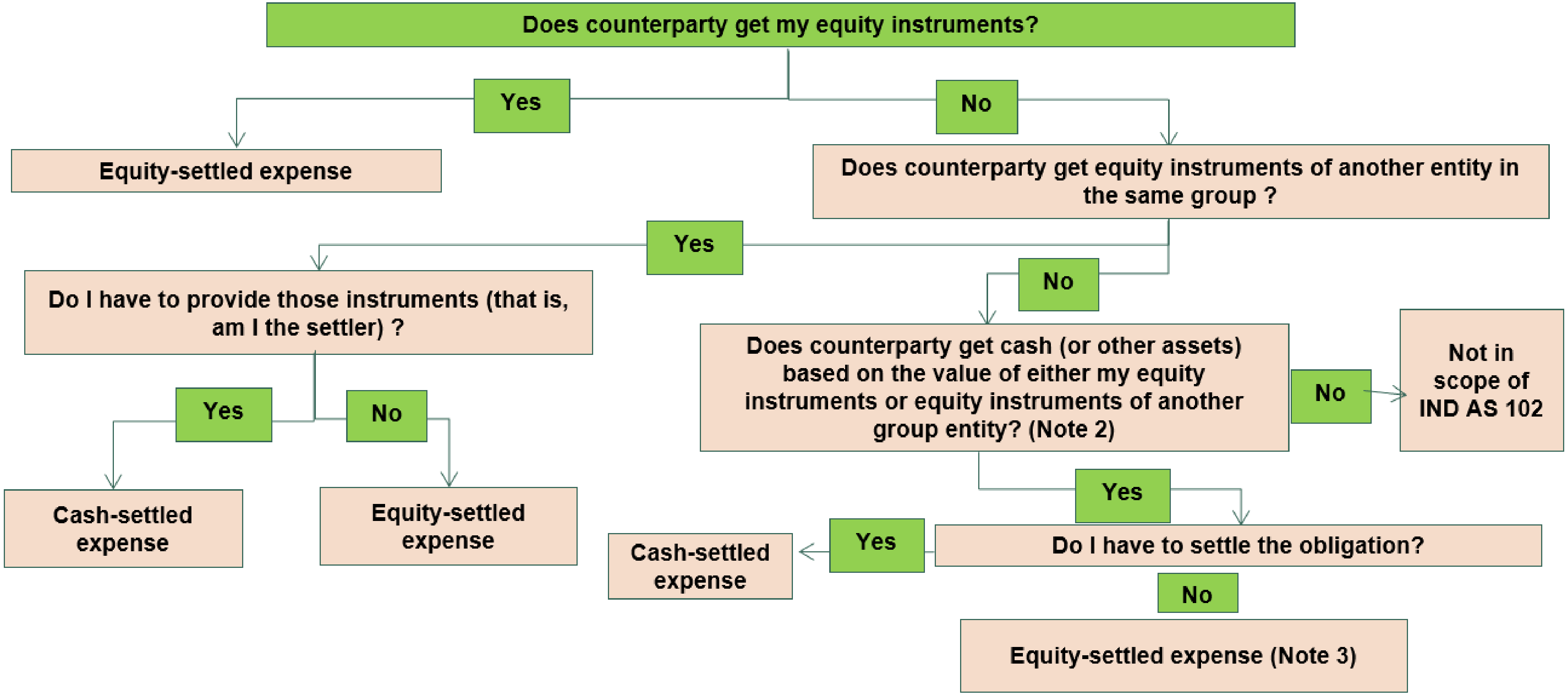
- Any payment made to the employee on the cancellation or settlement shall be accounted for as a deduction from equity, except to the extent that the payment exceeds the fair value of the equity instruments granted, measured at the repurchase date.

- If new equity instruments are granted to the employee and entity identifies the new equity instruments granted as replacement equity instruments for the cancelled equity instruments, the entity shall account for in the same way as a modification of the original grant of equity instruments.

Share-based payment plan administered through a trust

- An entity may administer a share-based payment plan through a trust constituted for this purpose.
- The trust may have different kinds of arrangements, for example, the entity allots shares to the trust as and when the stock options are exercised or the entity provides finance to the trust for subscription to the shares issued by the entity at the beginning of the plan or the entity provides finance to the trust to purchase shares from the market at the beginning of the plan.
- Since the trust administers the plan on behalf of the entity, it is an extension of the entity as a branch/agent. The financial statements of the entity shall be prepared as if the entity itself is administering the plan.
- The shares held by the trust shall be reflected in the separate financial statements of the entity. The face value of these shares shall be shown as a deduction from share capital and the excess paid over and above the face value shall be shown as deduction from securities premium with a detailed note explaining the facts. In the books of account, these shares will continue to remain recorded in a separate account and only for presentation purposes be shown as deduction from share capital/securities premium.

Classification of share-based payment transactions in group arrangements



Group share-based payment plans (Scenarios)

Below given scenarios assume that:

- the shareholder is not a group entity; and
- the subsidiary is directly owned by the parent company

Scenario	Who grants & settles the award?	Which entity receives the goods or services?	On which entity's shares is award based?	Settled in shares or cash?
1	Parent	Subsidiary	Parent	Shares
2	Shareholder	Subsidiary	Parent	Shares
3	Subsidiary	Subsidiary	Parent	Shares
4	Subsidiary	Subsidiary	Subsidiary	Shares
5	Parent	Subsidiary	Subsidiary	Shares
6	Parent	Subsidiary	Parent	Cash

Scenario	Separate financials statements of Parent	Financial statement of Subsidiary	Consolidated financials statements of Parent
1	Equity-settled transaction	Equity-settled transaction	Equity-settled transaction
2	Not dealt by IND AS 102	Equity-settled transaction	Equity-settled transaction
3	Not dealt by IND AS 102	Cash-settled transaction	Equity-settled transaction
4	NA	Equity-settled transaction	Equity-settled transaction
5	Cash-settled transaction	Equity-settled transaction	Equity-settled transaction
6	Cash-settled transaction	Equity-settled transaction	Cash-settled transaction

Example 1 - Parent entity grants share awards to subsidiary employees

Question- A parent grants its shares directly to the employees of subsidiary B. The awards will vest immediately, and the parent will issue new shares directly to the employees. The parent will not charge subsidiary B for the transaction.

Answer - **<u>In the consolidated financial statements:</u>**

The transaction is treated as an equity settled Share based payment, this is because the group has received services in consideration for the group's equity instruments. An expense is recognised in the group income statement for the grant date fair value of the share based payment over the vesting period; and a credit is recognised in equity.

Answer- <u>In subsidiary B books:</u>

The award is treated as an equity settled share based payment in the books of B, this is because the subsidiary B do not have an obligation to settle the award. An expense for the grant date fair value of the award is recognised over the vesting period and a credit is recognised in equity.

<u>In Parent A books :</u>

In the separate financial statements, the parent entity records a debit recognising an increase in the investment in the subsidiaries, and a credit to equity. This is because the employees are not providing services to the parent. These accounting entries are recognised over the award vesting period.

Example 2- subsidiary grants rights over parent's equity instrument

Question- Instead of granting rights over its own equity instruments, subsidiary B grants rights over the parent's shares to its own employees. When the shares vest, subsidiary B purchases shares from the market and passes them to its employees. Subsidiary B only makes these purchases when it settles the award with its employees.

Answer - **In the consolidated financial statements:**

The transaction is treated as an equity settled share based payment,

because the group has received services in consideration for the group's equity instruments. An expense is recognised in the income statement for the grant date fair value of the share based payment over the vesting period; and a credit is recognised in equity.

Answer - **In subsidiary B books:**

Subsidiary B has the obligation to settle the award (albeit in the parent's shares), Ind AS 102 requires the award to be treated in as a cash settled share based payment because parent company shares would be an asset (not equity) in A's financial statements. An expense is recognised in the income statement over the vesting period; and a liability is recorded as the other side of the entry. This liability is remeasured at each reporting date until settlement (in accordance with the accounting for cash settled awards).

In Parent A books:

The transaction has no impact on the parent's financial statements, this is because the parent is not a party to the transaction.

Disclosures

IND AS 102 requires entities to disclose the following:

- The type and scope of agreements existing during the reporting period.
- Description of agreements (settlement methods, vesting conditions, etc.).
- The number and weighted-average exercise price of share options by category (outstanding at the beginning of the reporting period and at the end of the reporting period, granted, vested, exercised and forfeited).
- Average share price of exercised options
- Range of exercise prices and remaining contractual life of options outstanding at the end of the reporting period.
- Valuation method used to estimate the fair value of the awards (model and input values, etc.).
- The impact on the income statement (i.e., total expense) and the financial position (e.g., carrying amount of liabilities) of share-based payment awards.

Difference between IGAAP and Ind-AS 102

IGAAP	IND-AS 102
Share-based payment to employees have an option to measure based on the grant date fair value or intrinsic value of the equity instruments issued.	Share-based payment to employees are measured based on the grant-date fair value of the equity instruments issued. Intrinsic value approach is permitted only when the fair value of the equity instruments cannot be estimated reliably.
For measuring share-based payment to non-employees there is no specific guidance.	Share-based payment to employees are generally, measured based on the fair value of the goods or services received.

Difference between IGAAP and Ind-AS 102…

IGAAP	IND-AS 102
In case of graded vesting i.e. where share options or other equity instruments granted vest in instalments over the vesting period, entity may choose to measure on a straight-line basis as a single award or an accelerated basis as though each separately vesting portion of the award is a separate award.	Awards with graded vesting is measured as, in substance, multiple awards.

THANK YOU