Ind AS 102 – Share-based Payment

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Finding the Right Key

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Basic Concepts

- GAAP
- Any GAAP is not exhaustive
- All GAAPs are based on Double entry Book Keeping (Luca Pacioli 1494)
- Personal, Real and Nominal Accounts
- Every Debit has equivalent Credit
- Disect Buisness transaction into 4 components recognition, measurement,presentation and disclosure

How to understand Ind AS/IFRS

- Understanding GAAP
- Understanding whole literature in GAAP
- Components of Financial Statements
- Elements of Financial Statements
- Grouping of Standards in Elements
- Recognition, Measurement, Presentation & Disclosure requirements
- First time Adoption of IFRS/Ind AS

Major principles of IFRSs

Type of asset / liability	Initial Measurement	Subsequent measurement
Inventories	Cost	Lower of cost and net realizable value
Property, Plant and Equipment	Cost	Cost model or revaluation model
Investment property	Cost	Fair value model or cost model
Intangible assets	Cost	Cost model or revaluation model
Exploration and Evaluation of mineral assets	Tangible asset and / or intangible asset	Tangible asset and / or intangible asset / Impairment
Government grants	Capital approach and income approach	Capital approach and income approach
Non-current assets held for sale	After classification – lower of carrying value and fair value less costs to sale	Re-measurement – measure the carrying amount and fair value
Agriculture	Fair value less estimated point-of-sales costs	Fair value less estimated point-of-sales costs

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Measurement of Financial Assets

Nature of Financial Assets	Initial recognition	Subsequent measurement
Held for trading	At fair value	At fair value (through profit or loss)
Available for sale	At fair value plus directly attributable transaction costs	At fair value(through equity)
Held to maturity	At fair value plus directly attributable transaction costs	At amortised cost
Loans and Receivables	At fair value plus directly attributable transaction costs	At amortised cost

Measurement of Financial Liability

Nature of Financial Liability	Initial recognition	Subsequent measurement
Financial liabilities at fair value through profit and loss includes derivative liability	At fair value directly attributable transaction cost is charged to profit and loss account	At fair value
Financial liability arising out of continuing involvement asset	Measured at amortised cost or fair value	
Financial guarantee contract less cumulative amortisation recognised		Higher of the 1.Amount initial recognition 2.Valuation as per IAS 37
Other financial liabilities including debentures, bonds, preference shares classified as	At fair value directly attributable transactions cost is included in the fair value	At amortised cost

Other pronouncements

- Sebi(Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999
- Sebi (Issue of Sweat Equity) Regulations 2002
- Unlisted Companies (Issue of Sweat Equity Shares) Rules, 2003
- Sebi (Issue of Capital and Disclosure Requirements) Regulations ,2009
- SFAS 123 in US GAAP
- FRS 20 in UK GAAP

About Ind AS 102

- Ind AS 102 corresponds to IFRS 2 Share-based Payments
- There is no existing AS corresponding to Ind AS 102 , except for a Guidance Note on this issue GN 18
- The date of implementation of the Ind AS will be notified by the Ministry at a later date

Contents of Ind AS 102

- Paragraphs 1-52
- Appendices
- Appendix A Defined Terms 18 definitions
- Appendix B Application Guidance
- Appendix C Guidance on Implementing Ind AS 102, Share-based Payment
- Appendix 1 Comparison with IFRS 2, Share-based Payment

Requirement of Ind AS 102

It is to reflect in its statement of profit and loss account and balance sheet the effects of share-based payment transactions including expenses if any associated with transactions in which share options are granted to employees

Share-Based Payment Transactions

Share-Based Payment Transaction

A transaction in which the entity

- *(a) receives goods or services from the supplier of those goods or services (including an employee) in a **share-based payment arrangement**, or*
- *(b) incurs an obligation to settle the transaction with the supplier in a **share-based payment arrangement** when another group entity receives those goods or services.*

Ind AS 102 – Objective and Scope

Share-based payment transactions

Equity-settled share-based payment transactions	**Cash-settled** share-based payment transactions	Share-based payment transactions with **cash alternatives**
Entity receives goods/services as consideration for **equity instruments.**	Entity receives goods/services by incurring a liability to transfer **cash or other assets** to the supplier for amounts that are based on the price (or value) of the entity's shares.	Either entity or the counterparty has a **choice** to settle in equity instruments or in cash or other assets.

Transactions with employees not within the scope of **Ind AS 2**

- Business Combinations Transactions Ind As 103
- Transactions covered by Ind AS 32/39 & 107
- It is not related to the receipt of goods or services; or
- The amount paid to the employee is not based on the market price of that entity's equity instruments.

Exemptions from Application of Ind AS 102(Ref Ind AS 101App D

- A first-time adopter is encouraged, but not required, to apply Ind AS 102 *Share-based Payment* to equity instruments that vested before date of transition to Ind-ASs.
- For all grants of equity instruments to which Ind AS 102 has not been applied i.e. equity instruments vested but not settled before date of transition to Ind -ASs, a first-time adopter shall nevertheless disclose the information required

Exemptions from Application of Ind AS 102 (App D – D1,2,3)

- If a first-time adopter modifies the terms or conditions of a grant of equity instruments to which Ind AS 102 has not been applied, the entity is not required to apply paragraphs 26 – 29 of Ind AS 102
- A first-time adopter is encouraged, but not required, to apply Ind AS 102 to liabilities arising from share-based payment transactions that were settled before the date of transition to Ind -ASs

Application of Ind AS 102

- Ind AS 102 applies to transactions other than traditional share option plans including
  - Employee Share Purchase Plan
  - Share Appreciation Rights
  - Other payments based on the issue price of the share

SBP arrangements with employees

- The following are examples of features frequently found in a share-based payment arrangement with employees.
  - Employees that are shareholders are granted additional benefits
  - The arrangement incorporates ‘leaver conditions’.
  - The arrangement involves a trust.

ANY STANDARD HAS FOLLOWING FOUR REQUIREMENTS

- Objective
- Scope –Covered and also What is not covered
- Recognition principles – no recognition no accounting entry
- Measurement – in FI depends on Presentation
- Presentation
- Disclosure

Recognition of Share based Payment Transactions

- **Timing of Recognition**
  - Of Goods when Received
  - Of Services when Obtained

General Recognition Principles

- Debit
  - Recognise goods / services received when goods are obtained or services are received
  - When the goods / services do not qualify for recognition as assets, an expense is recognised

General Recognition Principles

- Credit
  - For equity-settled share-based payment transactions a corresponding increase in equity is recognised; and
  - For cash-settled share-based payment transactions a corresponding liability is recognised

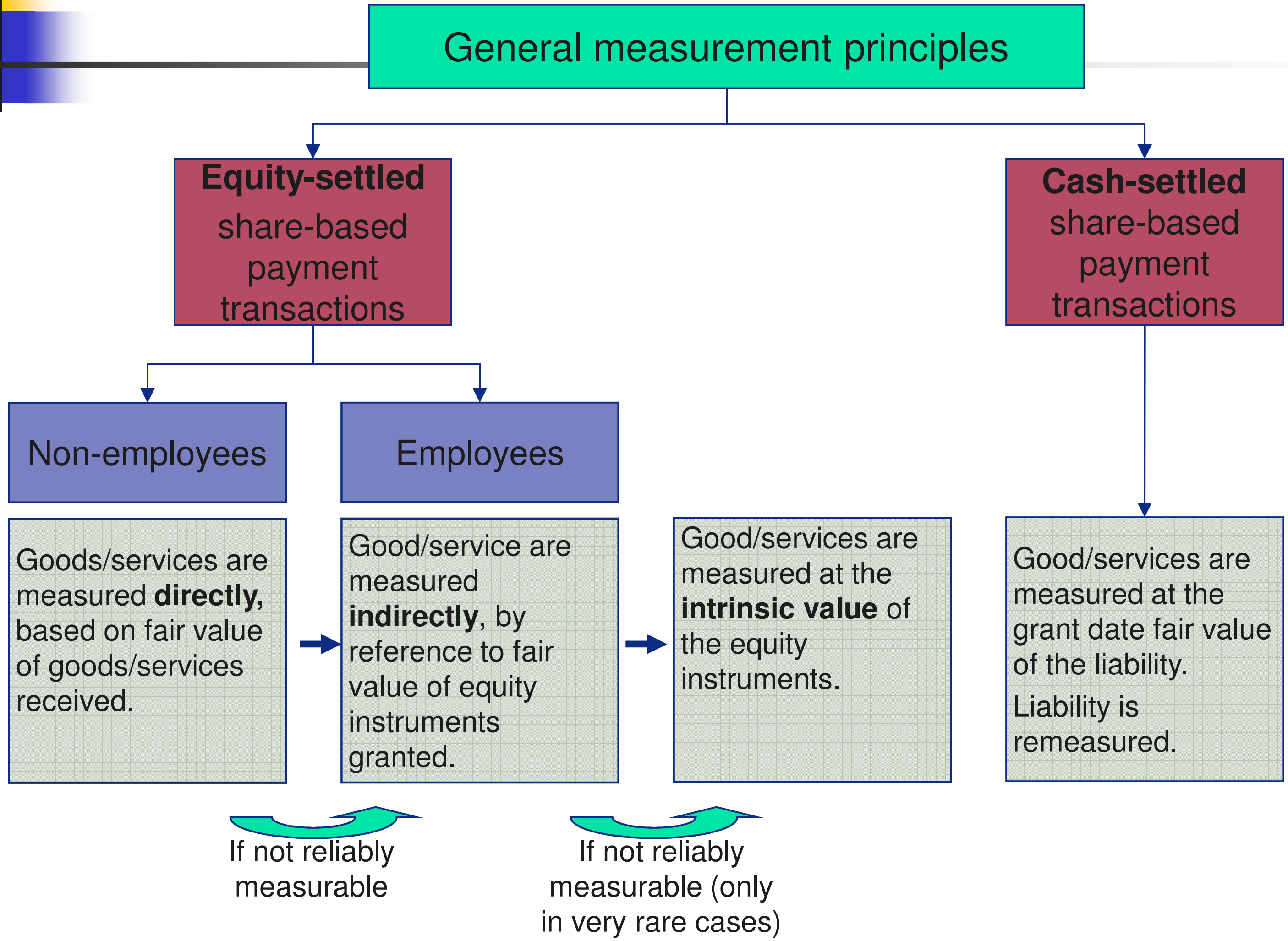
Examples

- Obtaining of services of Ca
- Construction of PPE
- Purchase of Motor Car
- Payment to Employees
- Obtaining of services of transporter

General recognition principles

- Ind AS 102 contains specific requirements for:
  - Equity-settled (shares, options, warrants)
  - Cash-settled (share appreciation rights)
  - Choice between equity and cash-settled (depends on who has choice, entity or counterparty (i.e., employee or non-employee))

General measurement principles



Determining the fair value of equity instruments granted

- Fair Value
  - Fair Value of goods and services received
  - For employee services measure fair value indirectly, based on fair value of equity instruments granted
  - Fair value of equity instruments measured at market price for instruments with similar terms and conditions (rarely available)
  - If no market exists, fair value is estimated by applying an option pricing model (Black scholes Model/ Binomial model) separate subject of financial modelling

Determining the fair value of equity instruments granted

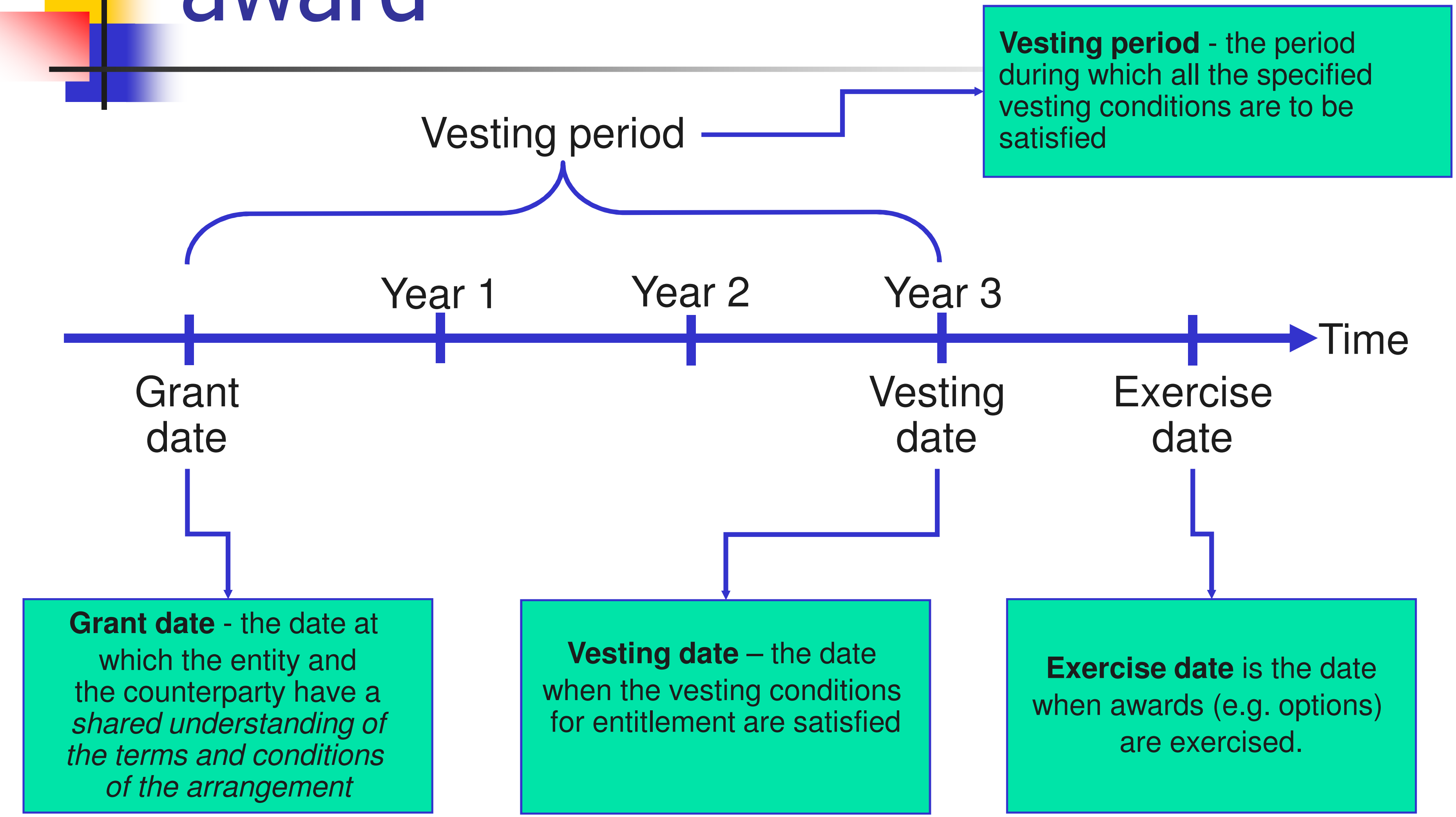
- If fair value is not measurable reliably (only in very rare cases), then services are measured at the intrinsic value of the equity instruments

- Date of measurement
  - Fair value measured at grant date

Fair Value – Intrinsic Value

- Fair Value of option and not full equity instrument
- Intrinsic Value = fair value of full share – exercise price
- Fair Value= Intrinsic Value + Time Value
- Standard requires measurement base as Fair Value
- Recognition base Grant Date

Timeline of a share option award



Determination of Grant Date

- The determination of grant date is critical to the measurement of equity-settled share-based transactions with employees, since grant date is the date at which the entity measures such transactions.

Grant Date

- Date on which the entity and another party agree to share-based payment arrangement.
- If it is subject to an approval process e.g. shareholders, MCA, or CBDT then last of such date of obtaining approval

Accounting for Share-Based Payment Transaction

- Dr. Expenses/Assets (where the Goods and Services qualify as assets)
- Cr. Equity (for Equity Settled SBPT)/Liability (for Cash Settled SBPT)

Measurement basis of SBPT

S.No	Counterparty	Basis of Measurement	Date of Measurement	Recognition Date
1	**Employee**	Fair Value of the Equity Instruments Awarded	Grant Date	Date Of Goods or Services Received
2	**Non Employee**	Fair Value of the goods or services received	Date of Goods or Services Received	Date of Goods or Services Received

Conditions on Measurement Approach

- Equity Settled Share Based Payment
  - If issued on Non- market performance conditions
    - Then Exclude from Fair Value at Grant Date
    - And Adjust the number of shares on vesting date for actual results
  - If issued on Market based performance condition

Conditions on Measurement Approach

- Then Include in Fair Value at Grant Date
- Do not adjust the number of shares on vesting date for actual results

Equity Settled SBPT

Equity Settled SBPT

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Dr. Expenses/Assets (where the Goods and Services qualify as assets)

Cr. Equity

(At Fair Value of the Goods or Services received /obtained)

(Where FV of Goods or Services cannot be estimated, the value is measured indirectly by reference to the fair value of equity instruments granted)

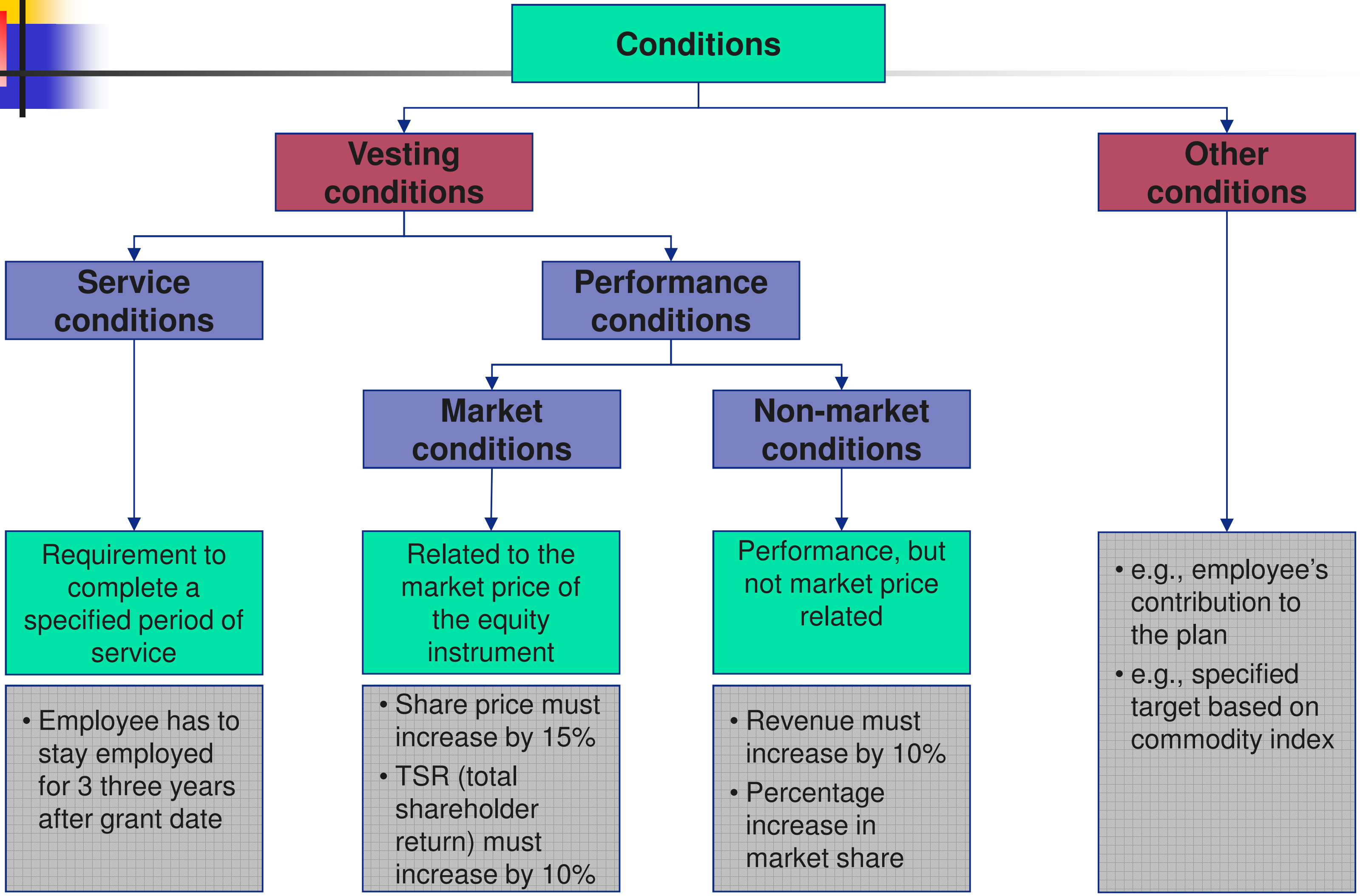
Equity-settled share-based payments with non-employees

- Measured directly at the fair value of goods and services received
  - If the fair value of goods and services cannot be estimated reliably, measure the fair value of equity instrument
  - If the fair value of the equity instrument granted cannot be estimated reliably (only in very rare cases), equity instruments are measured at their intrinsic value
- Measured at the date the goods or services are obtained
  - As opposed to grant date
  - Means "daily" if services are rendered
  - Simplification method: "regular intervals"

Equity-settled share-based payments with non-employees

- Expense immediately unless
  - Goods qualify for capitalisation as asset (e.g. Inventory/PPE/ Intangible Assets); or
  - Vesting conditions exist
    - expense when services are obtained over the vesting period

Accounting for employee services received - Overview of conditions



Accounting for employee services received "Modified grant date method"

	At grant date	During vesting period up to vesting date
Market conditions	Possibility of forfeiture to be taken into account in grant date fair value	• No trueing up for changes in estimate regarding market conditions and no reversal for forfeiture due to failure to satisfy a market condition • But trueing up for forfeiture related to other vesting conditions
Non-market conditions and **service conditions**	Possibility of forfeiture not taken into account in grant date fair value,but in number of instruments that are expected to vest	• Trueing up for changes in estimate • Expense is reversed for forfeiture due to failure to satisfy a non-market condition or a service condition

"Forfeiture": award does not vest, i.e., the employee will not be entitled to receive the award, due to failure to meet a condition.

Measurement illustration- Performance conditions

- Vesting conditions:
  - Three years continued employment (service condition)
  - A performance condition
- Assumptions:
  - 100 options granted on 1 January 20X1
  - All employees remain in service over the vesting period of the option
  - Grant date fair value of each option, 3.50 (excluding market conditions)
  - Best estimate is that the performance condition is met

Measurement illustration - Performance conditions

- If market condition, e.g., share price hitting a specified level
  - The estimated discount for market-based performance condition is 0.50
  - Therefore grant date fair value of each option is 3.00 (3.50 - 0.50)
  - Total compensation cost is 300

	Market condition
Expense recognised:	
Year 20X1	**100**
Year 20X2	**100**

Measurement illustration - Performance conditions

- Now, assume that at the end of 20X2 the best estimate becomes that the market condition will not be met (the target share price will not be reached).
- All service conditions are expected to be met

Employee service cost of 300 is recognised even if the market condition is not met (as long as services are provided)

	Market condition
Expense recognised:	
Year 20X1	**100**
Year 20X2	**100**
Year 20X3	**100**
Total	**300**

Measurement illustration - Performance conditions

- If non-market condition, e.g., certain revenue target must be met:
  - Grant date fair value of each option is 3.50
  - Total expected compensation cost is 350
  - Allocate over service period based on best estimate of outcome
  - Employee service cost is adjusted for any forfeiture

Measurement illustration - Performance conditions

	Expected total compensation cost	**Accumulated attribution**	**Expensed in prior period(s)**	**Expense in current year**
20X1	350	117 **(350/3)*1**	0	117
20X2	350	233 **(350/3)*2**	-117	116

Measurement illustration-Performance conditions

- Now, assume that at the end of 20X2 the best estimate becomes that only 50% of employees will meet the performance condition. All service conditions are expected to be met.

Measurement illustration - Performance conditions

	Expected total compensation cost	Accumulated attribution	Expensed in prior period(s)	Expense in current year
20X1	350	117 **(350/3)*1**	0	117
20X2	~~350~~ 175	117 **(175/3)*2**	-117	0
20X3	175	175 **(175/3)*3**	-117	58
Total				175

Measurement illustration - Performance conditions

- Comparison:
  A change in the expectation whether or not a performance condition will be met
  - is ignored for market-conditions
  - but recognised for non-market conditions.

Measurement illustration - Performance conditions

	Market condition	Non-market condition
Expense recognised:		
Year 20X1	100	117
Year 20X2	100	0
Year 20X3	100	58
Total	**300**	**175**

Measurement illustration- Performance conditions

- Question:
  - **What if 50% of the employees left the company at the end of 20X2?** (assuming that this is split equally between employees that have fulfilled and have not fulfilled the performance condition)

Measurement illustration - Performance conditions

	Market condition	Non-market- condition
Expense recognised:		
Year 20X1	100	117
Year 20X2	0	-58
Year 20X3	50	29
Total	**150**	**88**

Measurement illustration - Performance conditions

- Question:
  - What if only 80% of the 100 options ultimately are exercised?

Answer:

- There are no subsequent adjustments after vesting date for equity-settled share-based payments

Modification

- When modifications <u>decrease</u> the fair value of the equity instruments, recognition is based on the original grant date fair value
  - i.e., such modifications are ignored

Modification

- When modifications <u>increase</u> the fair value of the equity instruments, recognition is the sum of:
  - The original grant date fair value; and
  - The incremental fair value
    - The incremental fair value is the difference between the fair value of the modified equity instruments and the original equity instrument, both measured at the date of modification

Cancellation

- Cancellation or settlement is accounted for as accelerated vesting
  - Recognise immediately the amount that otherwise would have been recognised over the remainder of the vesting period

Cancellation

- Any payment made on cancellation or settlement is accounted for as a repurchase of equity instruments, except that any excess over the fair value of equity instruments at repurchase date is an expense.

Cash Settled SBPT

Cash Settled SBPT

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Dr. Expenses/Assets (where the Goods and Services qualify as assets)

Cr. Liability

(At FV of the Liability. Until the liability is settled the entity shall remeasure the fair value of the liability at every reporting period and also on the date of settlement, with any changes in the fair value recognized in profit or loss for the period)

Cash-settled transactions

- Results in payment of cash (or other assets) to the counterparty
- Payment is based on value of equity instrument, e.g., change in share price
- Results in a liability
  - Allocate grant date measurement over vesting period (approach as equity-settled)
  - Remeasure the fair value of the liability at each balance sheet and at settlement date
  - Remeasurement recognised in profit or loss
- Requirement to remeasure overrides no true up for market conditions

Recognition illustration – Cash-settled transaction

- Vesting conditions:
  - Three year continued employment (service condition)
  - Market-based performance condition
- Assumptions:
  - 100 share appreciation rights granted on 1 January 20X1
  - Best estimate is that all employees remain in service over the vesting period
  - Grant date fair value of each right is 3.00 (including adjustment for market condition)

Recognition illustration – Cash-settled transaction

- ***Subsequent estimates of:*** **fair value**
  Intrinsic value

End year 20X1	4.00	1.50
End year 20X2	4.25	3.00
End year 20X3	4.50	4.25
Settlement date	4.00	4.00

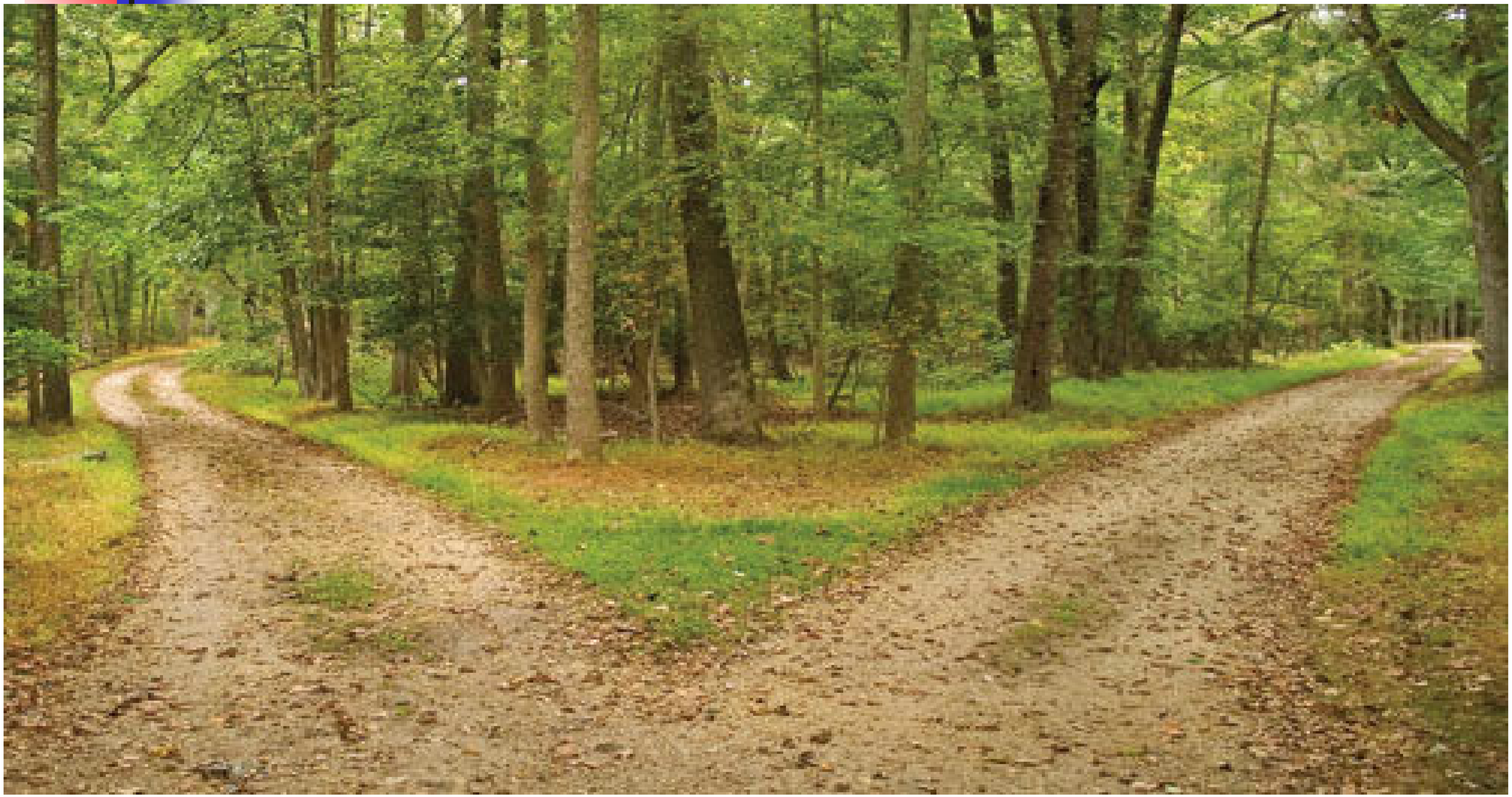
Recognition illustration - Cash-settled transaction

- Assume that all service conditions are fulfilled and that the vested benefits are settled at the end of year 20X4

Recognition illustration - Cash-settled transaction

	Original grant	Remea-surement	Current year total	Cumulative
Expense recognised:				
Year 20X1	100	33	133	133
Year 20X2	100	50	150	283
Year 20X3 (vesting date)	100	67	167	450
Year 20X4 (settlement)	-	-50	-50	400
Total	300	100	400	

Share Based Payments with Cash Alternatives



Share Based Payments with Cash Alternatives

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Cash Settled

Dr. Expenses/Assets (where the Goods and Services qualify as assets)

Cr. Liability

(To the extent the entity has incurred a liability to settle in cash)

Share Based Payment with Cash Alternatives

Equity Settled

Dr. Expenses/Assets (where the Goods and Services qualify as assets)

Cr. Equity

(Difference between the fair value of the goods or services received less fair value of the liability element)

Vesting and Non Vesting Conditions

Vesting and Non Vesting Conditions

- A Share-based payment award vests on complying with certain vesting conditions. Such conditions are either pertaining to service or performance.
  - Time based (passage of time)
  - Target based (achieving a specified EBIT target)
- Nature of Conditions ------------------------→ Recognition and Measurement of Expense

Vesting and Non Vesting Conditions

- Does the condition determine the obtaining of services by the entity which entitles the counterparty to the Share-based Transaction?
  - No – Non Vesting Condition
  - Yes – Vesting Condition

Disclosures

- Information to understand the nature and extent of share based payment arrangements that existed during the period
- Description of SBPA

Number and weighted average exercise prices of share options

1. outstanding at the beginning of the period
2. Granted during the period
3. Forfeited during the period
4. Exercised during the period
5. Expired during the period
6. Outstanding at the end of the period
7. Exercisable at the end of the period

Basis of determination of fair value

- Fair value of goods or services
- Fair value of options –option pricing model used
- Inputs in the model
- Weighted average share price , exercise price, expected volatility, option life,expected dividends, the risk free interest rate

Effect on entity's financial Statements

- Total expense recognised for the period
- Liabilities arising out of SBPT-

Total carrying amount at the end of period

- The total intrinsic value at the end of the period

Around the Word

Around the World

- IFRS 2 effective from on or after 1.1.2005
- European Union and Australia adopted IFRSs in 2005
- UK – issued FRS 20 based on IFRS 2
- Canada – expense recognition now mandatory from 1 January 2004
- US – FASB issued SFAS 123(r); applies from 15 June 2005

FAS 123 – US GAAP

Accounting for Stock-Based Compensation (Issued 10/95)

- This Statement establishes financial accounting and reporting standards for stock-based employee compensation plans. Those plans include all arrangements by which employees receive shares of stock or other equity instruments of the employer or the employer incurs liabilities to employees in amounts based on the price of the employer's stock. Examples are stock purchase plans, stock options, restricted stock, and stock appreciation rights.
- This Statement also applies to transactions in which an entity issues its equity instruments to acquire goods or services from non-employees. Those transactions must be accounted for based on the fair value of the consideration received or the fair value of the equity instruments issued, whichever is more reliably measurable.

FRS 20 - UK

- FRS 20 specifies the accounting treatment to be adopted (including the disclosures to be provided) by entities making share-based payments. In particular, it requires entities to recognise an expense, measured at fair value, in respect of the share-based payments they make. The FRS is mandatory for accounting periods beginning on or after 1 January 2005 for listed entities and 1 January 2006 for unlisted entities (other than those applying the Financial Reporting Standard for Smaller Entities (FRSSE)).

Key Points

Key Points

- Recognise goods and services received by the entity
- Recognition in profit or loss and financial position of share-based payment transactions
- Classification between equity or cash-settled share-based payment transactions
  - Equity-settled transactions → increase equity

Key Points

  - Cash-settled transactions → recognise liability
- Measure employee services indirectly by measuring equity instrument at grant date
- Recognise fair value of employee awards over vesting period
- Account for modifications that increase the fair value of the equity instrument
- Account for cancellations as accelerated vesting

Key Points

- Modified grant date approach: market, non-market and service conditions
- Remeasure cash-settled share-based payment transactions each balance sheet date and at settlement date
- Measure non-employee goods / services directly at date the goods / services are obtained

websites

- www.icai.org
- www.mca.gov.in
- www.ifrs.org
- www.annualreports.com
- www.iasplus.com

About the Author

- *CA. Rajkumar S Adukia is an eminent business consultant, academician, writer, and speaker. He is the senior partner of Adukia & Associates.*

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- *Mr. Adukia, a rank holder from Bombay University completed the Chartered Accountancy examination with 1st Rank in Inter CA & 6th Rank in Final CA, and 3rd Rank in Final Cost Accountancy Course in 1983.*

- *He started his practice as a Chartered Accountant on 1st July 1983, in the three decades following which he left no stone unturned, be it academic expertise or professional development.*

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About the Author

- *He has been coordinating with various Professional Institutions, Associations, Universities, University Grants Commission and other Educational Institutions.*

- *Authored more than 50 books on a vast range of topics including Internal Audit, Bank Audit, SEZ, CARO, PMLA, Anti-dumping, Income Tax Search, Survey and Seizure, IFRS, LLP, Labour Laws, Real estate, ERM, Inbound and Outbound Investments, Green Audit etc.*

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Thank You