IndAS 102 – Share-based Payment



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Objective and scope

Objective & scope (1/4)
Objective

Objective

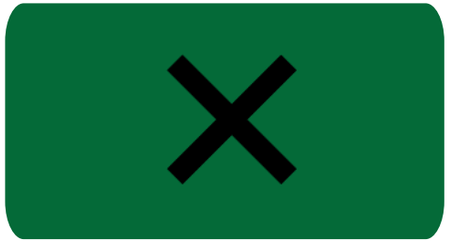
- The objective of Ind AS 102 share based payment is to **specify the financial reporting** by an entity when it undertakes a shared based payment transaction.
- It requires an entity to reflect in its profit or loss and financial position the effects of share-based payment transactions, including expenses associated with transactions in which share options are granted to employees.

Objective & scope (2/4)
Scope

Entity B grants 10 shares to its employees provided that they remain in service for the next 12 months.



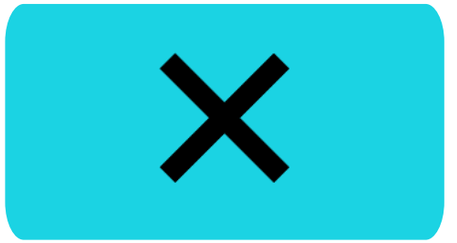
Entity C's share price is 120. E awards a cash bonus of 120 to employees, payable in one year to those who remain in service during the next 12 months.



Entity D grants employees a cash bonus equal to C's share price growth provided that they remain in service over the next 12 months.



Entity E awards a cash bonus of 500 to employees, payable in one year to those who remain in service if D'S share price exceeds a price of 10 per share during the next 12 months.



Objective & scope (3/4)
What will be the accounting

Entity B grants 10 shares to its employee on 1 April 2025 provided that they remain in service for the next 3 years.

1. Share price 1 April 2025: INR 200
2. Exercise price: 50
3. Shares can be exercised in year 4 - year 6. Employee exercises in year 5
4. Assume shares are granted to 5 employees and 2 resign in June 2026
5. 20% shares vest only if Company's revenue share increases by 10% by 31 December 2027 and this is not met
6. 31 March 2026: INR 200
   31 March 2027: INR 250
   31 March 2028: INR 300
   31 March 2029: INR 250
   31 March 2030: INR 300
7. Settlement happens in cash instead of shares

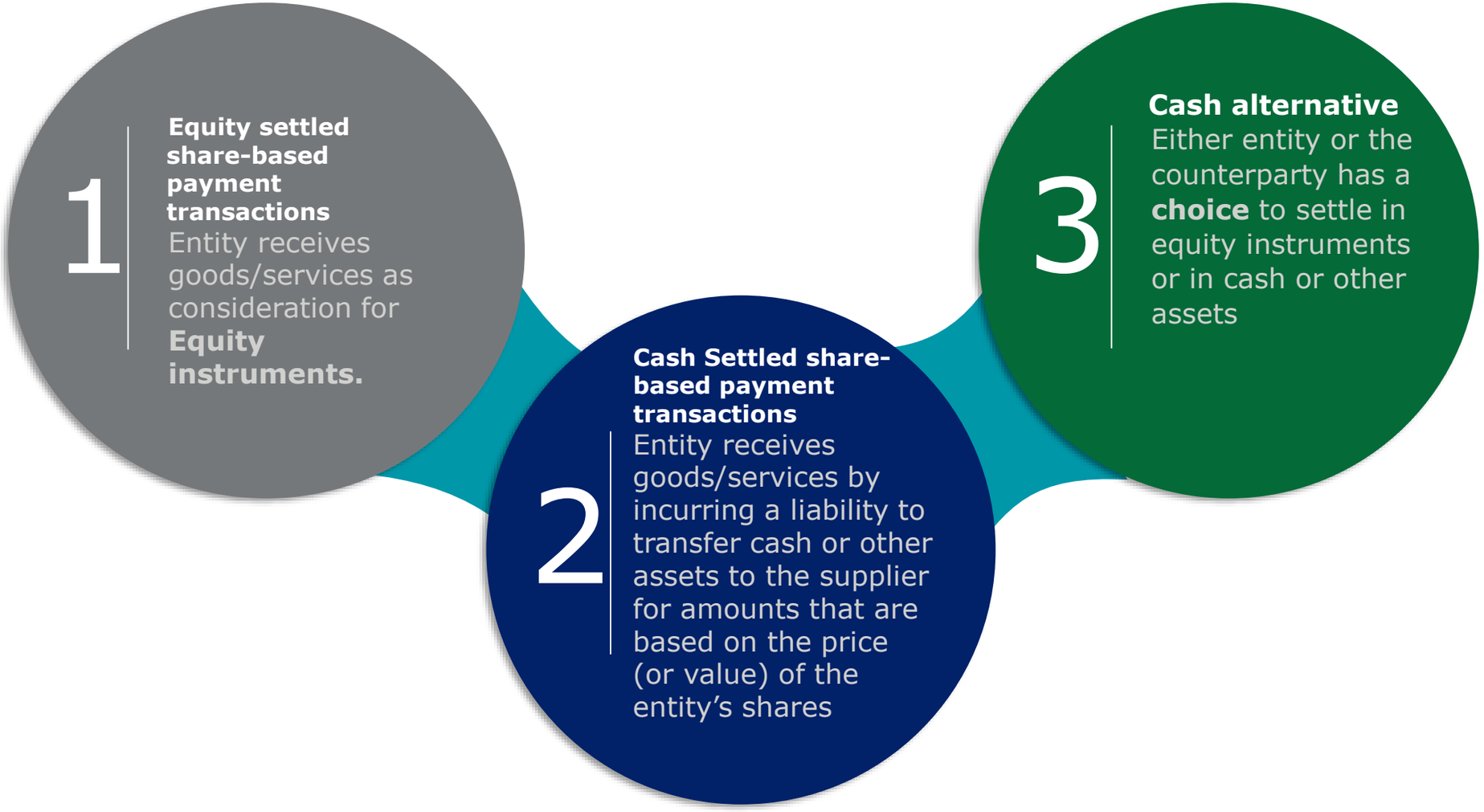
expense

25-26 INR	26-27 INR	27-28 INR	28-29 INR	29-30 INR

Objective and scope (2/4)

Scope

This Ind AS is applicable for all share-based payment transactions, whether or not the entity can identify specifically some or all of the goods or services received, including:



Scope exclusions

- Shares issued to an employee in his/her capacity as a holder of equity instruments (e.g. right issue of shares to all shareholders, including employees who are shareholders),
- Shares issued in a business combination in exchange for control of the acquiree entity, and
- Shares issued for goods other than those needed to be used in the business and/or arrangements entered into for speculative purposes.

Key Terminology

Key terminology (1/2)

Share Option	A contract that gives the holder the right, but not the obligation, to subscribe to the entity's shares at a fixed or determinable price for a specified period of time.
Fair value	The amount for which an asset could be exchanged, a liability settled, or an equity instrument granted could be exchanged, between knowledgeable, willing parties in an arm's length transaction.
Intrinsic value	The difference between the fair value of the shares to which the counterparty has the (conditional or unconditional) right to subscribe or which it has the right to receive, and the price (if any) the counterparty is (or will be) required to pay for those shares.
Measurement date	The date at which the fair value of the equity instruments granted is measured for the purposes of this Ind AS. For transactions with employees and others providing similar services, the measurement date is grant date. For transactions with parties other than employees (and those providing similar services), the measurement date is the date the entity obtains the goods or the counterparty renders service.

Key terminology (2/2)

Vesting condition	A condition that determines whether the entity receives the services that entitle the counterparty to receive cash, other assets or equity instruments of the entity, under a share-based payment arrangement. A vesting condition is either a service condition or a performance condition
Service condition	A vesting condition that requires the counterparty to complete a specified period of service during which services are provided to the entity. If the counterparty, regardless of the reason, ceases to provide service during the vesting period, it has failed to satisfy the condition. A service condition does not require a performance target to be met.
Performance condition	A vesting condition that requires: (a) the counterparty to complete a specified period of service (i.e., a service condition); the service requirement can be explicit or implicit; and (b) specified performance target(s) to be met while the counterparty is rendering the service required in (a).
Vesting period	The period during which all the specified vesting conditions of a share-based payment arrangement are to be satisfied.

Measurement

Measurement
Equity settled Share-Based payment - Grant date

Grant date is the date on which equity settled share-based payment transactions with employees and others providing similar services are measured. This requires consideration of three key factors:



AGREEMENT - The entity and the employee (or other party providing a similar service) have agreed to a share-based payment arrangement. An agreement is in place when both parties have a shared understanding of the terms and conditions of the arrangement



RIGHTS CONFERRED - The entity has conferred upon the employee (or other party providing similar services) the right to cash (or other assets), or equity instruments of the entity. Whether this is conditional upon meeting certain vesting requirements does not impact the determination of the grant date



APPROVAL – If the agreement is subject to an approval process, the grant date is the date on which that approval is obtained

Measurement

Equity settled share-based payment - Measurement objective (1/2)

Date

- The date at which the entity measures the equity instruments granted is called the **measurement date**.
- This date is different for share based payment transactions with the employees (and other providing similar service) than it is for transactions with non-employees.

Measurement

- Furthermore, the measurement is also determined in a different way for employees than for non-employees
- Ind AS 102 requires that transactions should be measured by reference to the fair value of the goods and services, unless that fair value cannot be estimated reliably.

No subsequent measurement is performed after the initial measurement date / 'grant date' unless due to subsequent modification of the ESOP plan

Measurement
Equity settled share based payment - Recognition

Ind AS 102 requires that services received as consideration in a share-based payment arrangement be recognised **as the services are received**. The terms of the arrangement can either imply that services have already been received, or that services are to be received in the future

Past Services

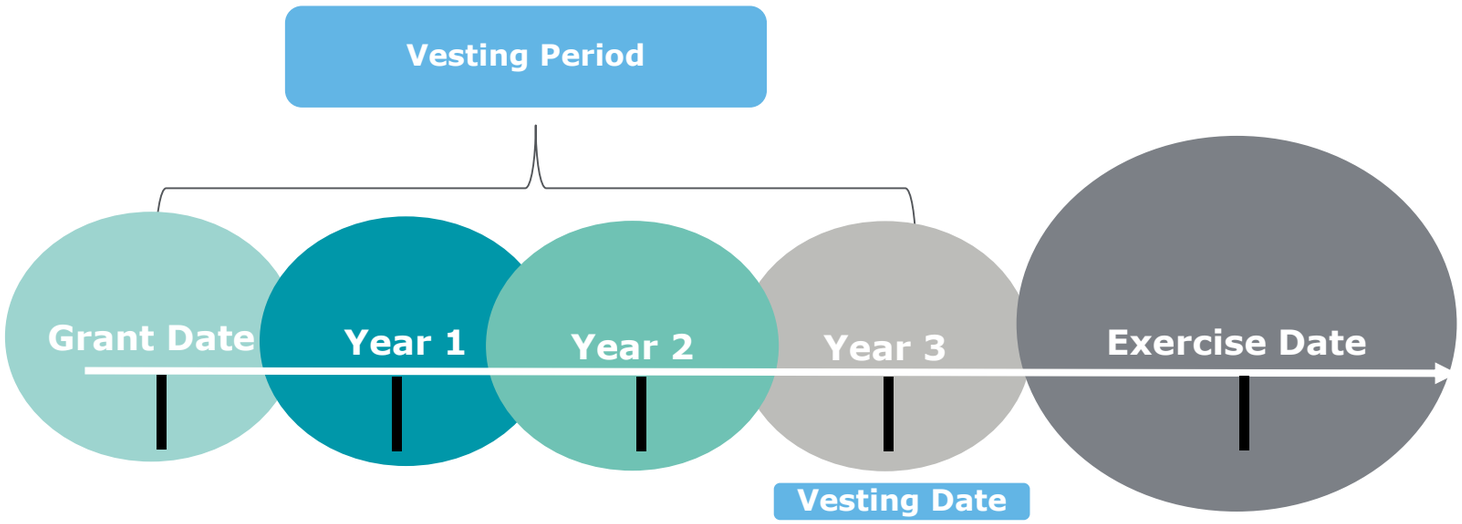
- If the share (or other equity instruments) granted in terms of the share–based payment arrangement **vest immediately**, the entity must presume, in the absence of evidence to the contrary, that the services rendered **have been received** (i.e., past services). Consequently, the full amount for services rendered is recognised on grant date.
- The word vest, means "to become entitled to". In other words, the person rendering the service "immediately becomes entitled to" the shares granted in terms of his/her agreement with the entity.
- It is therefore logical to assume that, for the purpose of recognising the related expense, the services **have been rendered at grant date**

Future Services

- If the share (or other equity instruments) do not vest immediately, but vesting is postponed until the counterparty completes a specified period of service, the entity must presume that the services to be rendered as consideration for those shares **will be received in the future**- that is, during the vesting period.
- As certain requirements are to be met before the counterparty has the right to take ownership, it is logical not to recognise the full expense immediately (that is , at grant date), but rather as the services **are rendered** during the vesting period**.**
- Ind AS 102 provides examples of other requirements that needs to be satisfied before the counterparty becomes entitled to take ownership of the shares granted. Those requirements are referred to as vesting conditions –in other words, **conditions** that needs to be satisfied in order for the shares options to **vest**.

Measurement

Equity settled share based payment - Understanding the time period



Vesting Period

The period in which all the condition specified needs to be satisfied

Grant Date

The date on which entity confers on the counterparty the right to cash, other assets, or **equity instruments** of the entity, provided the specified **vesting conditions**, if any, are met

Vesting Date

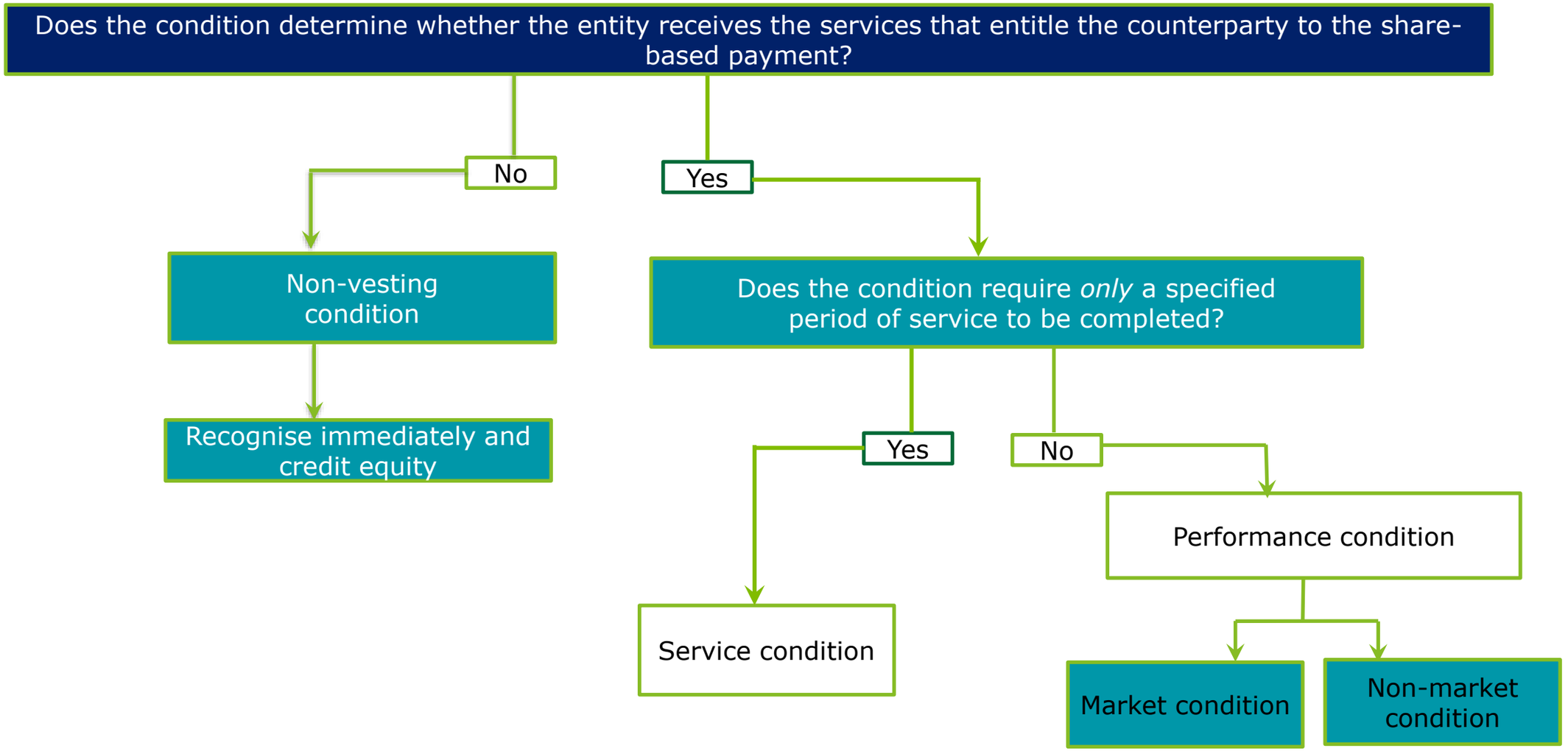
The date on which the vesting conditions are complied with

Exercise Date

The date on which the option is exercised

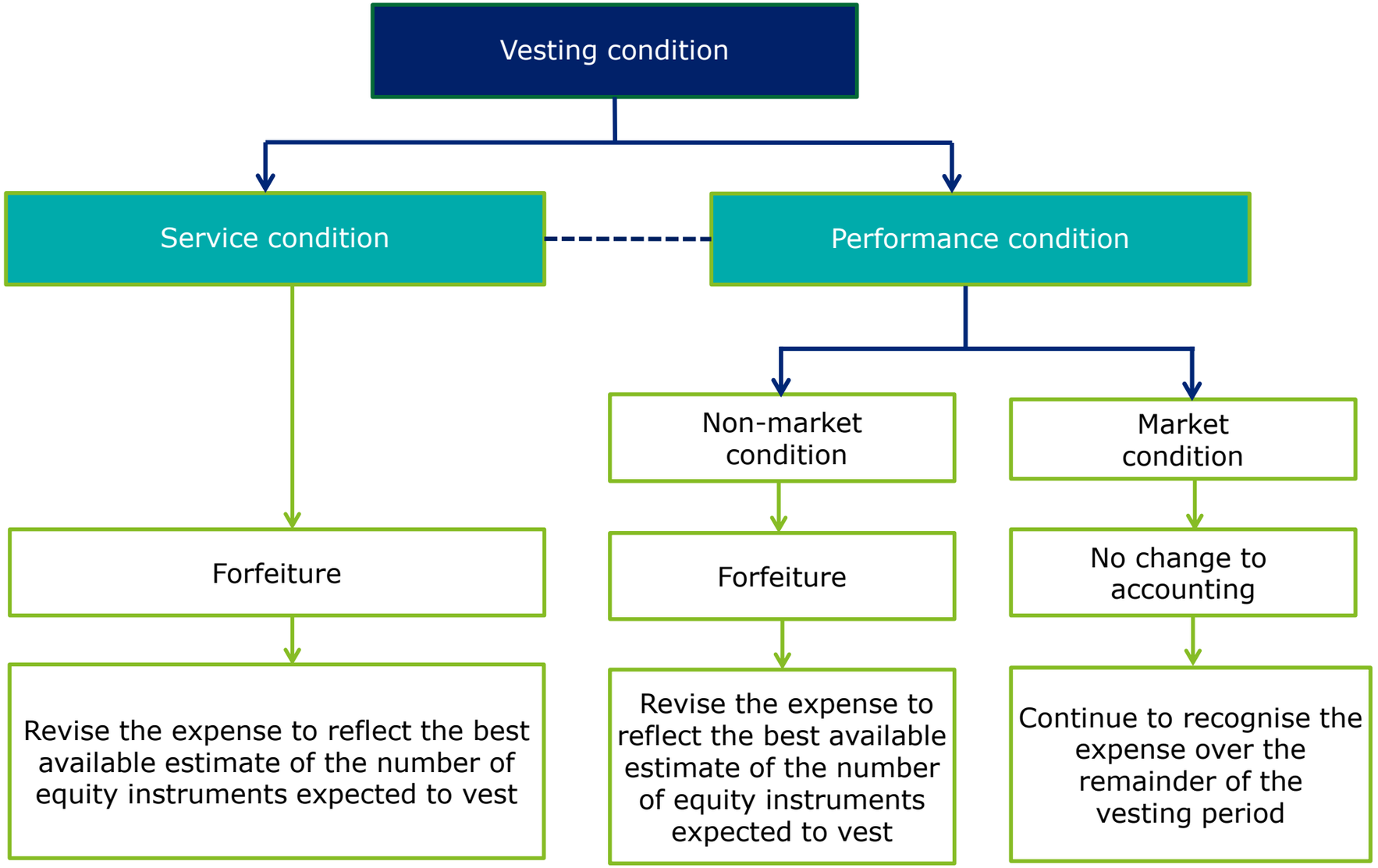
Ind AS 102 requires that services received as consideration in a share-based payment arrangement be recognised as the services are received i.e. over the vesting period

Measurement
Equity settled share based payment - Vesting conditions



Measurement

Equity settled share based payment - Failure to meet vesting conditions



Measurement

Equity settled share based payment - Valuation models

Ind AS 102 doesn't prescribe the model to be used when measuring the fair value of equity instruments granted in a share based payment transaction. Entities should select whichever model is most appropriate in their circumstances

Black - Scholes

First published in 1973, the Black – Scholes model is used for share options. It has been used as the basis to value share options and other share-based payments whose fair value is similar to share options.

This model is considered to be straightforward calculations because it requires limited inputs into a formula, which are based on estimation.

Binomial

The Binomial model is more complex than the Black-Scholes method and has a wider application than the Black-Scholes model's restricting limitations

This model breaks down this time period into interval using a tree of share price, taking into account volatility and the time to expiration.

Intrinsic value

Option fair value

Share price
Exercise price
Expected volatility
Expected dividends not receivable
Risk-free rate
Expected term

Objective & scope (3/4)
What will be the accounting

Entity B grants 10 shares to its employee on 1 April 2025 provided that they remain in service for the next 3 years.

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   31 March 2029: INR 250
   31 March 2030: INR 300

Intrinsic value → 200 – 50 = 150

Option value → 170

No. of options * **Option value** / **vesting period**

2025 – 26 = 10 * 5 * 170 * (1 / 3) **= 2,833 || 2,833**

2026 – 27 = 10 * 3 * 170 * (2 / 3) **= 3,400 || 567**

2027 – 28 = 8 * 3 * 170 * (3 / 3) **= 4080 || 680**

Example 1

Equity instruments vesting in instalments (graded vesting)

Company A grants its employees 1,000 share options each with a fair value of USD 10. The options vest pro rata over the service period (one-fourth each year). Under Ind AS 102, entities are required to treat each instalment as a separate share option grant because each instalment has a different vesting period and, therefore, the grant date fair value of each instalment is likely to be different. This is because the length of the vesting period will affect, for example, the likely timing of cash flows arising from the exercise of the options.

The following table summarises how the total fair value of USD 10,000 [1,000 × USD10] should be allocated to each of the four years in the vesting period. (Note that, for simplicity, it is assumed that the grant date fair value is USD 10 for each tranche. In practice, as explained above, the grant date fair value might be slightly different for each tranche.)

Particulars	**Year 1 USD**	**Year 2 USD**	**Year 3 USD**	**Year 4 USD**
Tranche 1 [(10000/4)*1/1]	2,500	-	-	-
Tranche 2 [(10000/4)*1/2]	1,250	1,250	-	-
Tranche 3 [(10000/4)*1/3]	833	833	834	-
Tranche 4 [(10000/4)*1/4]	625	625	625	625
Total expense	**5,208**	**2,708**	**1,459**	**625**

Example 2.1
Non-market vesting condition

An entity grants 100 share options to each of its 500 employees. Each grant is conditional upon the employee working for the entity over the next three years. The entity estimates that the fair value of each share option is USD 15. On the basis of a weighted average probability, the entity estimates that 20 per cent of employees will leave during the three-year period and therefore forfeit their rights to the share options.

Scenario 1:-

If everything turns out exactly as expected, the entity recognises the following amounts during the vesting period, for services received as consideration for the share options.

Year	Calculation	Remuneration expense for period USD	Cumulative remuneration expense
1	50,000 options × 80% × USD 15 × 1/3 years	200,000	200,000
2	(50,000 options × 80% × USD 15 × 2/3 years) – USD 200,000	200,000	400,000
3	(50,000 options × 80% × USD 15 × 3/3 years) – USD 400,000	200,000	600,000

Example 2.2
Non-market vesting condition

Scenario 2:-

During year 1, 20 employees leave. The entity revises its estimate of total employee departures over the three-year period from 20 per cent (100 employees) to 15 per cent (75 employees). During year 2, a further 22 employees leave. The entity revises its estimate of total employee departures over the three-year period from 15 per cent to 12 per cent (60 employees). During year 3, a further 15 employees leave. Hence, a total of 57 employees forfeited their rights to the share options during the three-year period, and a total of 44,300 share options (443 employees × 100 options per employee) vested at the end of year 3.

Year	Calculation	Remuneration expense for period USD	Cumulative remuneration Expense
1	50,000 options × 85% × USD 15 × 1/3 years	212,500	212,500
2	(50,000 options × 88% × USD 15 × 2/3 years) – USD 212,500	227,500	440,000
3	(44,300 options × USD 15) – USD 440,000	224,500	664,500

Measurement

Cash settled share based payment

Ind AS 102 requires an entity to recognise the goods and services acquired in a share-based payment transaction when it obtains the goods (i.e., debit assets if the goods qualify for recognition of an asset) or as the services are rendered (i.e., debit expenses).

Initial vs subsequent

- A corresponding liability must be recognised if these goods or services were acquired in a cash-settled share-based payment transaction.

Basic principles

A liability must be recognised when the goods are acquired or as services are rendered for which the compensation is a cash settled share based payment.

Recognition

A liability must be recognised when the goods are acquired or as services are rendered for which the compensation is a cash settled share based payment.

Measurement

Ind AS 102 requires that for cash-settled transactions an entity is required to measure the goods or services acquired and the liability incurred at the fair value of the liability and remeasure the fair value of the liability at the end of each reporting period

Measurement
Cash settled share based payment - Basic Principle



Basic principles

A liability must be recognised when the goods are acquired or as services are rendered for which the compensation is a cash settled share based payment.

- The entity must initially measure the goods or services acquired and the liability incurred at the fair value of the liability

Until the liability is settled, the entity must re-measure the fair value of the liability at:
- Each reporting date; and
- At the date of settlement,

with any changes in fair value recognised in the statement of profit and loss for the respective period.

Measurement
Cash settled share based payment - Recognition

Recognition

An entity might grant share appreciation rights ("SARs") to employees as part of their remuneration packages, i.e., the employees are entitled to a future cash payment (rather than an equity instrument). This is based on the increase in the entity's share price from a specified level over a specified period of time. The entity must recognise the services received, and a liability to pay for those services, **as the employees render the service.**



Immediate Vesting
Some share-appreciation rights might vest immediately, meaning that the employees will not have to complete a specified period of service to become entitled to the cash payment.

In the absence of evidence to the contrary, the entity must presume that the services rendered by the employees in exchange for the SARs have been received. So, the entity will recognise immediately the services received and a liability to pay for them.

Vesting after a specific period
However, if the SAR's do not vest until the employees have completed a specified period of service, the entity must recognise the services received (i.e., expense) and a liability to pay for them, as the employees render service during that period.

Measurement
Cash settled share based payment

Measurement

Ind AS 102 specifies that for cash settled transactions an entity is required to :

- Measure the goods or services acquired and the liability incurred at the fair value of the liability; Remeasure the fair value of the liability at the end of each reporting period until the liability is settled
- Apply an option pricing model, taking into account the terms and conditions on which the cash-settled share-based payments were granted and the extent to which employees have rendered services to date

Ind AS 102 states that the accounting for the effects of vesting and on-vesting conditions on cash-settled share-based payments should follow the same approach as for equity-settled share-based payments. This means that:

- Market and non-vesting conditions are taken into account in estimating the fair value of the cash-settled share based payment; while
- Service and non-market conditions are not taken into account when estimating the fair value, but are instead taken into account by adjusting the number of awards included in the measurement of the liability arising from the transaction.

The effects of all conditions will be revised at the end of each reporting period (unlikely equity-settled share based payments, for which the fair value is fixed at grant date), meaning that the cumulative liability recognised equals the cash eventually paid.

Example 3

Cash settled share based payment “Service condition” (1/2)

Background

An entity grants 100 cash share appreciation rights (SARs) to each of its 500 employees, on condition that the employees remain in its employ for the next three years.

During year 1, 35 employees leave. The entity estimates that a further 60 will leave during years 2 and 3. During year 2, 40 employees leave and the entity estimates that a further 25 will leave during year 3. During year 3, 22 employees leave. At the end of year 3, 150 employees exercise their SARs, another 140 employees exercise their SARs at the end of year 4 and the remaining 113 employees exercise their SARs at the end of year 5.

The entity estimates the fair value of the SARs at the end of each year in which a liability exists as shown below. At the end of year 3, all SARs held by the remaining employees vest. The intrinsic values of the SARs at the date of exercise (which equal the cash paid out) at the end of years 3, 4 and 5 are also shown below.

Year	Fair value (USD)	Intrinsic value (USD)
1	14.40	
2	15.50	
3	18.20	15.00
4	21.40	20.00
5		25.00

Example 3
Cash settled share based payment "Service condition" (2/2)

Year	Calculation		Expense USD	Liability USD
1	(500-95) employees x 100 SARs x USD 14.40 × 1/3 years		194,400	194,400
2	(500-100) employees x 100 SARs x USD 15.50 x 2/3 – CU 194,400		218,933	413,333
3	(500-97-150) employees x 100 SARs x USD 18.20 – USD 413,333 + 150 employees x 100 SARs x USD 15.00	47,127 225,000		460,460
	Total		272,127	
4	(253-140) employees x 100 SARs x USD 21.40 – CU460,460 + 140 employees x 100 SARs x USD 20.00	(218,640) 280,000		241,820
	Total		61,360	
5	USD 0 – USD 241,820 + 113 employees x 100 SARs x USD 25.00	(241,820) 282,500		0
	Total		40,680	
	Total		787,500	

Transaction among group entities

Share based payment transactions among group entities

Accounting by entities within groups

It is often the case that employees of a subsidiary will receive part of their remuneration in the form of shares in the parent, or less commonly in some other group entity. When this is the case, Ind AS 102 requires the entity that has **received the benefit** of the services to **recognise the expense**. This is so even if the equity instruments issued are those of another entity within the group.

The entity settling a share-based payment transaction, when another entity in the group receives the goods or services, recognises the transaction as an equity-settled share-based payment transaction only if it is settled in the entity's own equity instruments. Otherwise, the transaction is recognised as a cash-settled share-based payment transaction.

Ind AS 102 addresses whether the following transactions involving an entity's own equity instruments should be accounted for as equity-settled or cash-settled under the requirements of Ind AS 102:

- an entity grants to its employees rights to equity instruments of the entity (e.g. share options) and either chooses or is required (either by contract or necessity) to buy equity instruments (i.e. treasury shares) from another party, to satisfy its obligation to its employees; and

- an entity's employees are granted rights to equity instruments of the entity (e.g. share options), either by the entity itself or by its shareholders, and the shareholders of the entity provide the equity instruments needed.

Share based payment transactions among group entities

Classification of share based payment among group entities in different scenarios

i) Parent issues its own shares for the share-based payment plan issued by its subsidiary:

Since the subsidiary company does not have any obligation to settle the services/ goods which are being issued against the plan, hence it will be treated as **equity-settled** share based payment (for subsidiary).

- Parent would **debit** these shares as **"Investment in Subsidiary"** and **credit** its **equity**.
- Subsidiary will treat this as equity-settled share-based payment plan and will **debit** its **expenses** (employee related cost) and **credit** the **capital contribution** from the Parent.

ii) Parent settles the transaction by paying cash value for share-based payment plan issued by its subsidiary
Irrespective of the cash which is settled either based on Parent's equity or Subsidiary 's equity, it will be treated as **equity-settled** share-based payment plan in case of separate financial statements of subsidiary because the subsidiary does not have any obligation to settle the payments

Example 4
Accounting by entities within groups

Parent grants rights to its equity instruments to employees of its subsidiary – Accounting by the subsidiary

Parent P grants each of Subsidiary S's 100 employees 30 shares in Parent P, subject to the conditions that they remain in employment for three years and that Subsidiary S meets a specified profit target. The fair value on grant date is USD 5 per share. Assume that at the outset, and at the end of Years 1 and 2, it is expected that the profit target will be met and that no employees leave. Subsidiary S is not required to reimburse Parent P for the shares granted to its employees. At the end of Year 3, the profit target is met.

Accounting by Subsidiary S

In each of Years 1 to 3, Subsidiary S will recognise an expense in profit or loss, and a corresponding entry in equity, which reflects the capital contribution it receives from Parent P.

Particulars	Amount (USD)	Amount (USD)
Dr. Profit or loss (USD 5 x 30 x 100/3 years)	5,000	
Cr. Equity (Capital contribution)		5,000

Example 5

Accounting by entities within groups

Parent grants rights to its equity instruments to employees of its subsidiary – Accounting by the parent

Accounting by Parent P

In each of Years 1 to 3, Parent P would recognise the enhancement to its investment in Subsidiary S, and a corresponding entry in equity which reflects the capital contribution being made to Subsidiary S and the equity instruments being granted to Subsidiary S's employees.

	Amount (USD)	Amount (USD)
Dr. Cost of investment	5,000	
Cr. Equity (Capital contribution)		5,000

Presentation and disclosure

Presentation and disclosure

- ✓ Information regarding how the fair value of goods or services received, or the fair value of the equity instruments granted during the period was determined
- ✓ Additional disclosures in case the fair value of goods or services received as consideration for equity instruments of the entity by reference to the fair value of the equity instruments granted

The following shall be disclosed :

- ✓ Nature and extent of share-based payment arrangements that existed during the period.
- ✓ General terms & conditions of each type of share based payments plans
- ✓ Number of weighted average price of share option as outstanding with a movement of granted, vested, expired, exercised, cancelled and closing balance of share-based payment plans
- ✓ Average share price of exercised option
- ✓ Range of exercise prices and weighted average remaining contractual life of options outstanding at the end of reporting period.



- ✓ Disclosure of the effect of share-based payment (SBP) transactions on the entity's profit or loss for the period and on its financial position.
- ✓ Total expense recognised for the period:
  - arising from SBP transactions in which the goods or services received did not qualify for recognition as assets including separate disclosure of that portion which arises from transactions accounted for as equity-settled SBP transactions
- ✓ for liabilities arising from SBP transactions:
  - the total carrying amount at the end of the period; and
  - the total intrinsic value at the end of the period of liabilities for which the counterparty's right to cash or other assets had vested by the end of the period (e.g., vested share appreciation rights).

Thank you