

11th Capacity Building Seminar on Retirement Benefits (11th CBRB)

**Ramada By Wyndham Gurgaon Central, Sector 44, Gurgaon
31st January 2025, Friday**

Share Based payments – Accounting and Auditing considerations

**Nishant Dureja
Director, Accounting and Reporting Assurance practice
Deloitte India**



Contents



A. Objective & Scope

B. Definition

C. Measurement

i. Equity settled share based payment

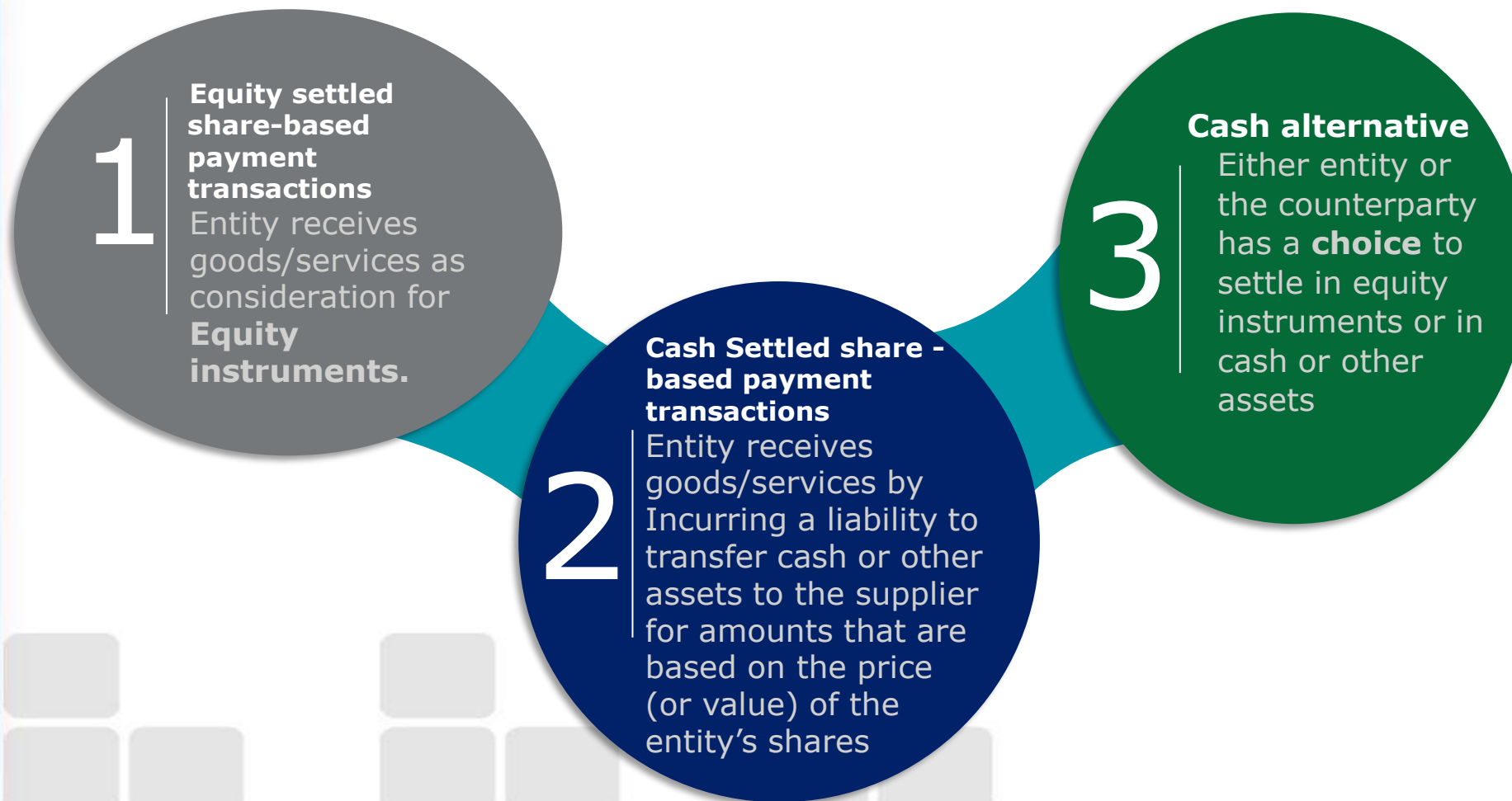
ii. Cash settled share based payments

D. Modification

E. Presentation and disclosure

Objective and scope

This standard 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 shareholder (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

Key terminology (1/2)

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 standard. For transactions with employees, the measurement date is grant date. For transactions with parties other than employees, the measurement date is the date the entity obtains the goods or the counterparty renders service.

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.

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 (ie 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.

Equity settled share based payment

Grant date and Measurement

	Employees	Non-Employees
When?	1 Grant date	2 As goods are obtained or services are rendered
How?	3 Fair value of equity instruments granted	4 Fair value of goods & services received

1

The measurement date for transactions with employees is the **grant date**.

2

The measurement date for transactions with non-employees is always the date the entity **obtains** the goods or the counterparty (e.g., the supplier) renders the service.

3

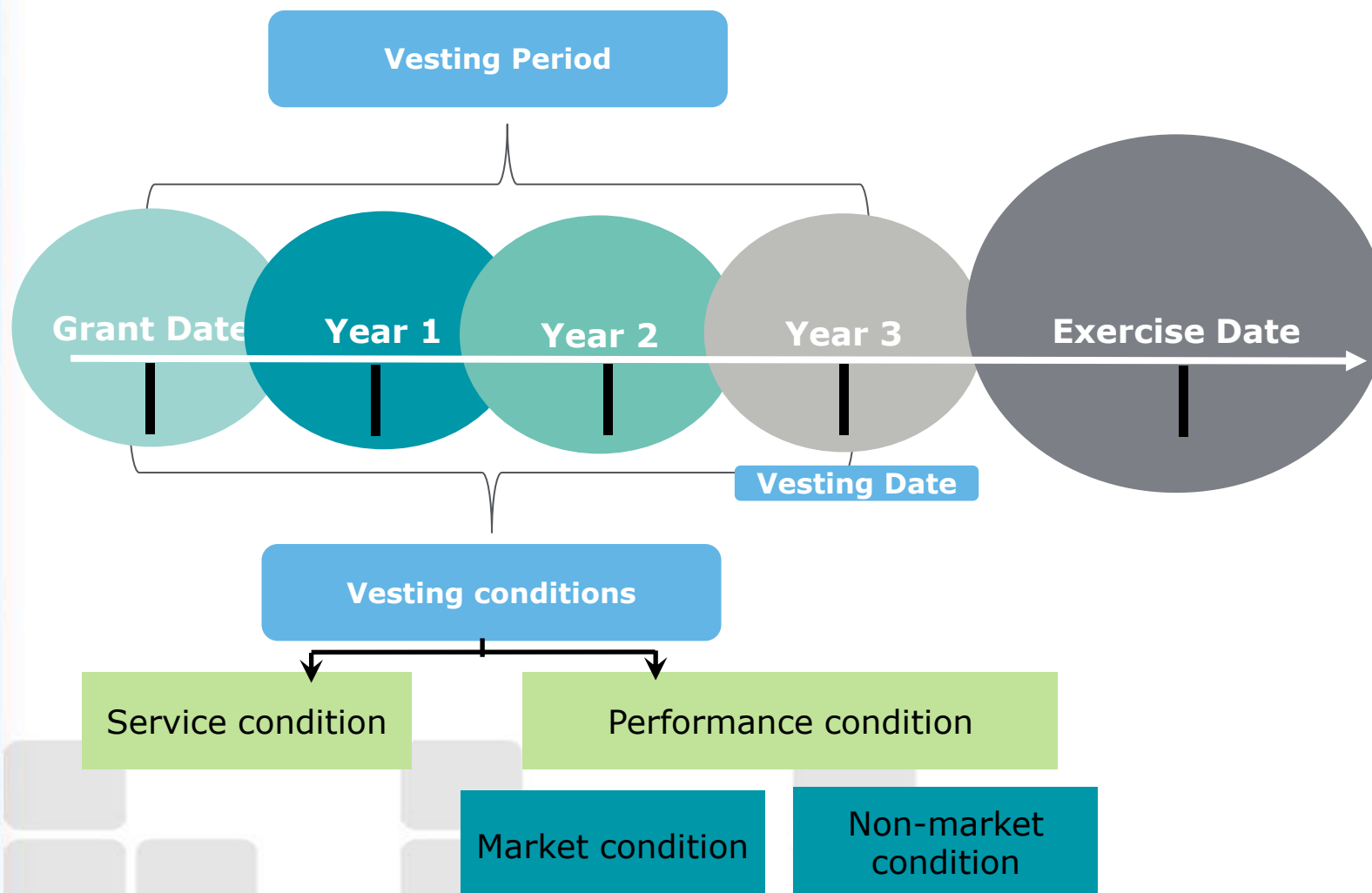
Equity settled share based payment transactions with employees are measured with reference to the **fair value of the equity instruments granted** rather than services received. If the fair value cannot be estimated reliably, then goods/services are measured at the intrinsic value of the equity instruments.

4

With non-employees, it is presumed that the fair value of the acquired goods and services can be measured reliably. Therefore, the goods and services received as well as the corresponding increase in equity are measured directly at the **fair value of the goods and services received**. If the fair value cannot be estimated reliably, the transaction is measured by reference to the fair value of the equity instruments granted

Equity settled share based payment

Vesting 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

Equity settled share based payment vesting in instalments (graded vesting)

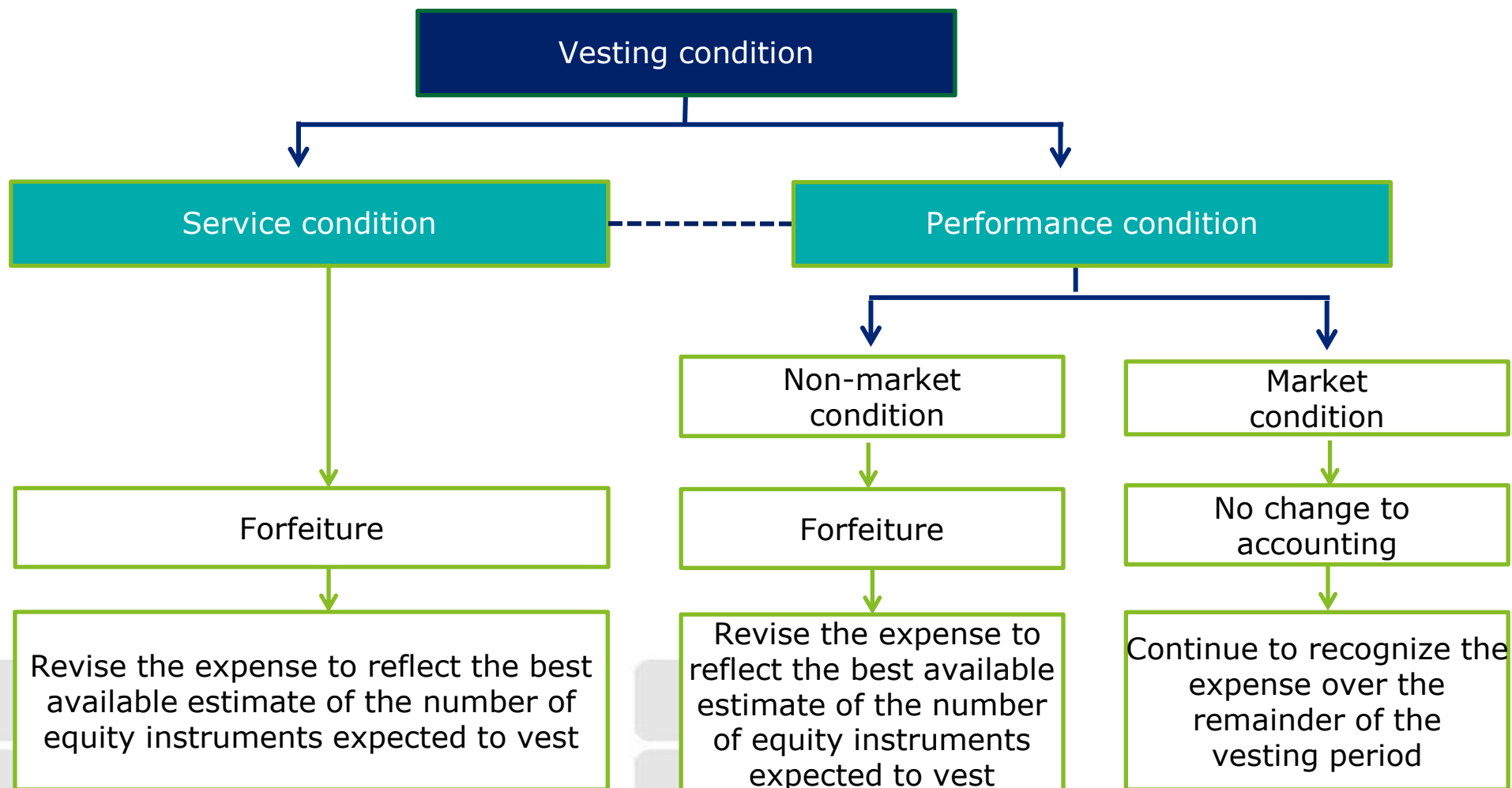
Company A grants its employees 1,000 share options each with a fair value of CU10. The options vest pro rata over the service period (one-fourth each year). Under IFRS 2, entities are required to treat each instalment as a separate share option grant because each instalment has a different vesting period 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 summarizes how the total fair value of CU10,000 [$1,000 \times \text{CU}10$] 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 CU10 for each tranche. In practice, as explained above, the grant date fair value might be slightly different for each tranche.)

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

Equity settled share based payment

Failure to meet vesting conditions



Equity settled share based payment

Failure to meet vesting conditions - Example

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 CU15. 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 :-

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 $\times$ 100 options per employee) vested at the end of year 3.

Year	Calculation	Remuneration expense for period CU	Cumulative remuneration expense
1	50,000 options $\times$ 85% $\times$ CU15 $\times$ 1/3 years	212,500	212,500
2	(50,000 options $\times$ 88% $\times$ CU15 $\times$ 2/3 years) – CU212,500	227,500	440,000
3	(44,300 options $\times$ CU15) – CU440,000	224,500	664,500

Cash settled share based payment

IFRS 2 requires an entity to recognize 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 recognized if these goods or services were acquired in a cash-settled share-based payment transaction.



Basic principles

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



Measurement

IFRS 2 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

Cash settled share based payment Example

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.

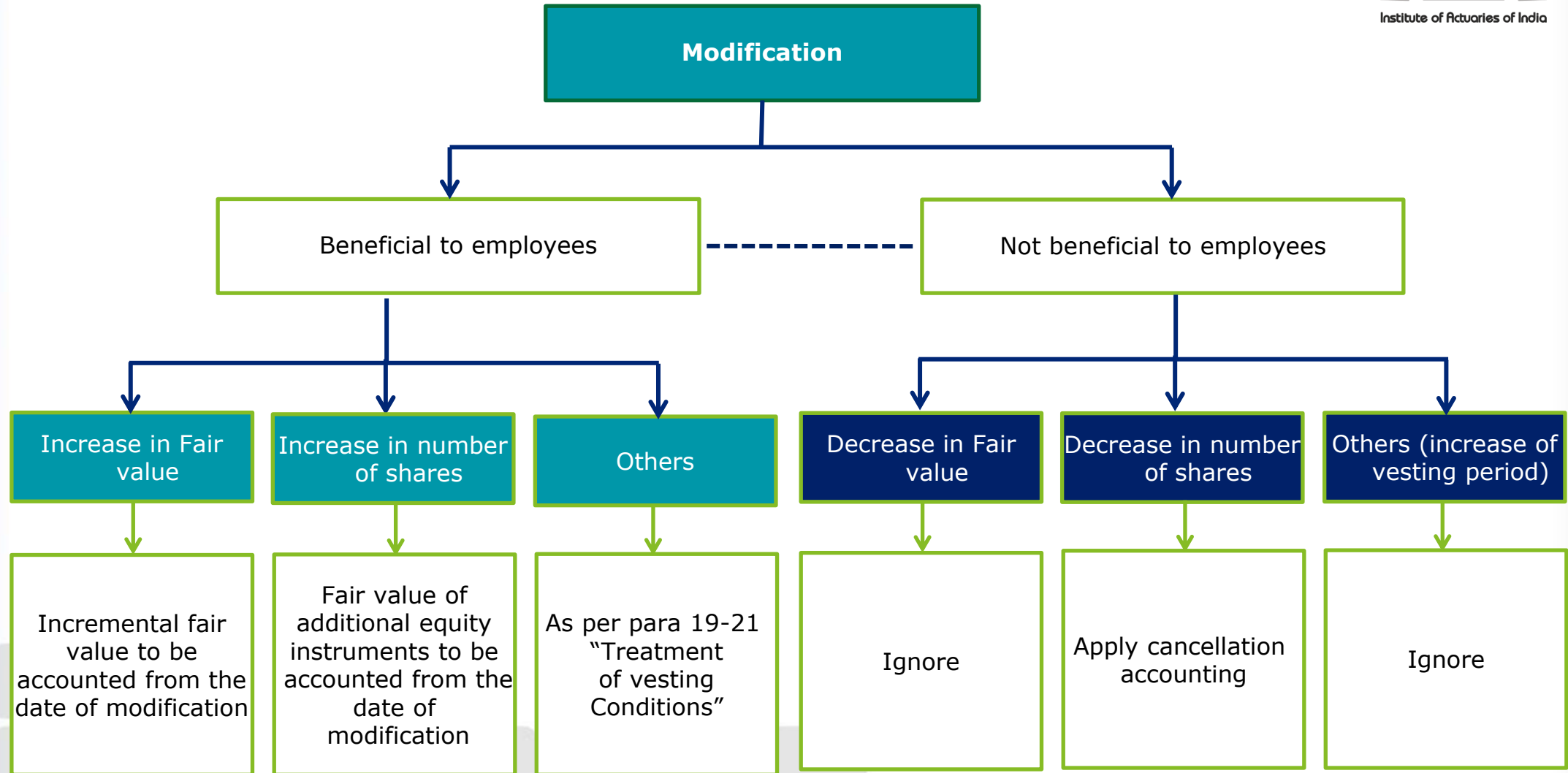
The entity estimates the fair value of the SARs at the end of each year in which a liability exists as shown below. At the end of year 3, all SARs held by the remaining employees vest. The intrinsic values of the SARs at the date of exercise (which equal the cash paid out) at the end of years 3, 4 and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

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

Cash settled share based payment Example

Year	Calculation		Expense CU	Liability CU
1	(500-95) employees x 100 SARs x CU14.40 × 1/3 years		194,400	194,400
2	(500-100) employees x 100 SARs x CU15.50 x 2/3 – CU 194,400		218,933	413,333
3	(500-97-150) employees x 100 SARs x CU18.20 – CU 413,333 + 150 employees x 100 SARs x CU15.00	47,127 225,000		460,460
	Total		272,127	
4	(253-140) employees x 100 SARs x CU21.40 – CU460,460 + 140 employees x 100 SARs x CU20.00	(218,640) 280,000		241,820
	Total		61,360	
5	CU 0 – CU 241,820 + 113 employees x 100 SARs x CU25.00	(241,820) 282,500		0
	Total		40,680	
	Total		787,500	

Modification



Presentation and disclosures



- ✓ 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