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Guidance Note 30 (GN30): Share-Based Payments

Effective from 12 July 2025



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Agenda

- Introduction to GN30
- Scope & Coverage
- Valuation Principles
- Methodologies & Assumptions
- Reporting Requirements
- Conclusion & Q&A

Introduction to GN30

Status

- Issued by Institute of Actuaries of India under Section 19(2)(i), Actuaries Act 2006
- **Effective from 12 July 2025**
- Guidance Note: **Recommended Practice**

Purpose

- Set principles for actuarial work on share-based payment valuations.
- Improve reliability, transparency of assumptions, completeness and communication of uncertainty.
- Enable **auditors / management** to place reliance on the work.

Alignment

- Encourages compliance with IND AS 102 and other regulations such as SEBI regulations, etc.
- Does not prescribe notes to accounts formats.
- GN30 guides actuarial work and aims to standardize valuation of share-based payment.

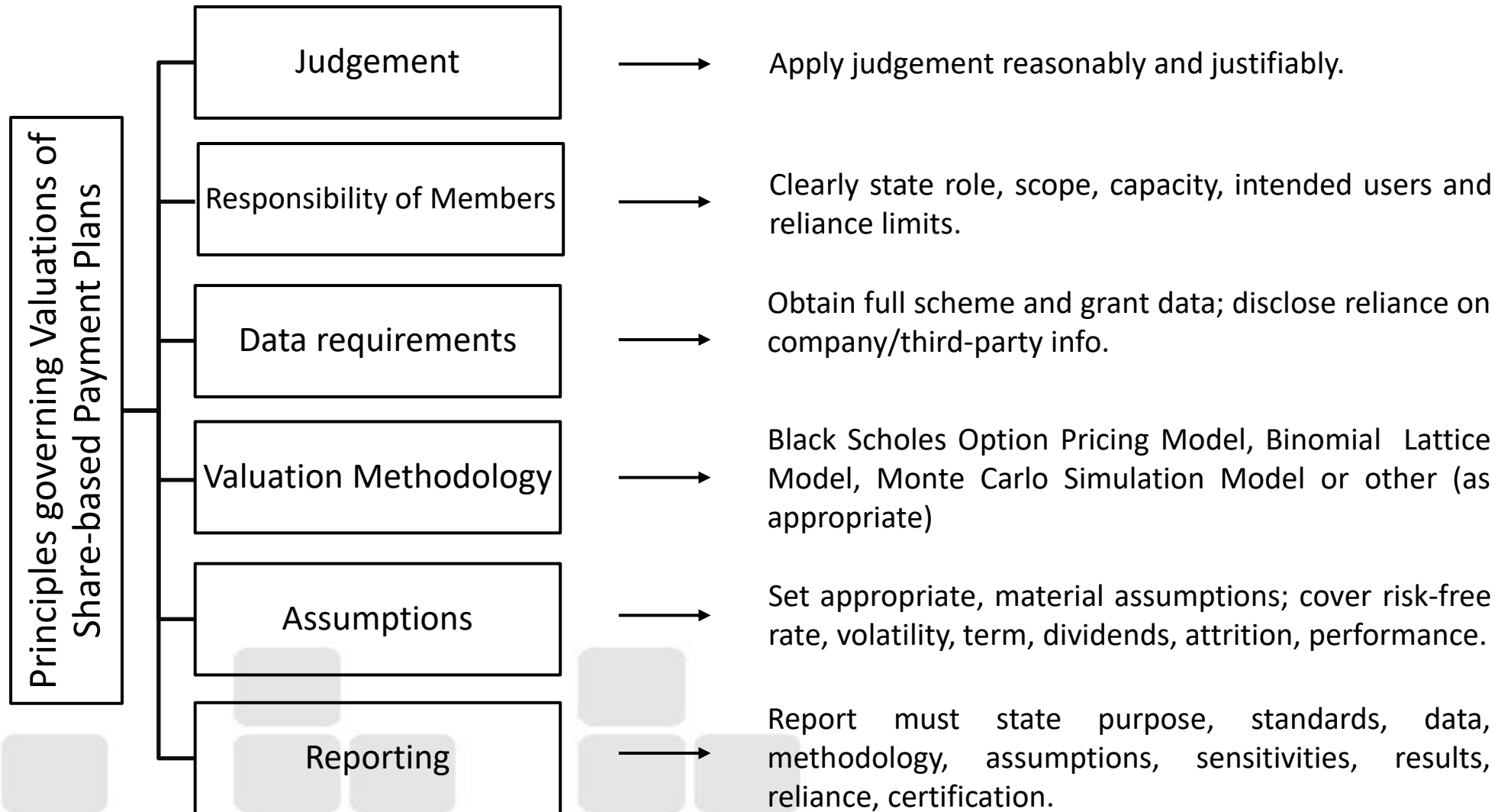
Key Benefits

- **Standardizes** ESOP/SAR/RSU valuation practice
- Enhances comparability, credibility and professional standards.
- Will help establish Actuaries as primary providers of ESOP valuation services.

Coverage and Boundaries

Coverage	Boundaries
• Applies to ESOPs, SARs (cash/equity-settled), RSUs • Principles also extend to other share-based payment plans if they impact financial reporting • Work covered includes: – Calculation of fair value / intrinsic value for reporting – Calculation of charge / provision for accounting in financials – Option pricing methodologies (no restriction on model; actuary must exercise judgement) – Assumption setting / recommending assumptions for valuation – Any other valuation work that directly impacts financial statements	• GN30 does not cover: – Determination of fair value of underlying shares or overall company valuation – Design / implementation of ESOP or similar plans – Exhaustive guidance for every scenario — GN30 is principles-based, requiring actuarial judgement • If assumptions are provided by the Company (e.g., Black-Scholes inputs) and not validated by the actuary, this must be clearly stated in the report

Structure of Guidance Note (Section 8)



Key Principles

The below are various principles that the Members should adhere to, in carrying out valuation of share-based payment plans, covering separately both responsibility of Member, role of judgement as well as technical considerations relating to data used, assumptions, reporting etc.

1. **Reasonable Application:** Apply professional judgement reasonably in assessing valuation impact and compliance with standards
2. **Financial Impact:** Evaluate how the valuation affects current and future financial statements.
3. **Compliance Assessment:** Determine relevance to financial reporting standards and regulations.
4. The Member should ensure that his / her **role in a particular assignment is clear and understood by the user.**
5. The Member should state the capacity in which he / she is providing actuarial advice, the scope, its purpose, and for whom the actuarial work has been performed.
6. **Third-Party Reliance:** Specify limitations on third-party use of actuarial work and data reliance

Data Requirements

Assess type of scheme	Employee level data	Financial impact assessment	Assumption Setting	Additional information
Equity/Cash settled	Unique grant dates	No. of options lapsed/date of lapsation	Share price on date of grant or valuation date	Past share-based payment valuation report
Scheme Documentation	Number of grants	Cause of employee exit (death, retirement or resignation)	Data / management view relating to achievement of non-market performance targets	Under US GAAP, Member may be required to factor probability of happening of events leading to exercise, where the exercise is event based;
Benefit Structure	Exercise price or strike price,	No. of options exercised/date of exercise	Forfeiture / attrition rate assumption	
Exercise rules, settlement conditions	Overall exercise period and expiry period	Cancellation, surrender or modification of scheme including any bonus or split undertaken	Additional information for market linked vesting	Information required for disclosures based on the applicable reporting standards
Expectation and past practice of settlement	Vesting Schedule (time or performance linked)	Dividend units in case of Restricted Stock Units (RSUs)	Expected term of options/expected dividend payable	

Valuation Methodologies

Option pricing models broadly categorized as **Black Scholes** Option Pricing Model, Binomial Trees / **Binomial Model** and Monte Carlo **Simulation Approach**

Other option pricing models could also be appropriate depending on the specific circumstances.

GN **does not restrict** the use of any model. Member should apply his / her professional judgement in selecting the most suitable model. In assessing the appropriate model, the Member should consider the following:

1. Purpose of valuation
2. Past valuation methodology adopted by the Company
3. **Nature of the scheme** (market or non-market based vesting schemes)
4. **Tranche-based Option Pricing vs. single option price**
5. **Using risk neutral scenarios or real-world scenarios for simulation model**
6. **Reporting option prices for each grant date**. For multiple grant dates in a short period, Member should assess the impact of option pricing variables on each date and evaluate the best approach.

Any estimation method used should be **clearly disclosed** in the valuation report, taking into account the materiality of the impact.

Accounting for share-based payment schemes

Accounting for share-based payment schemes, whether on fair value basis or on intrinsic value basis, should factor:

- 1. Cost Recognition:** Recognize cost during the vesting period based on applicable standards (e.g., IFRS 2, IND AS 102). For graded vesting, treat each tranche as a separate group and recognize proportionate cost.
- 2. Vesting Conditions:** Factor in non-market conditions (e.g., Company performance targets) and assumed forfeiture rates in cost estimates. Market conditions need to be allowed for in determination of fair value of options.
- 3. Re-measure cost at each valuation date** for cash-settled schemes post-vesting.
- 4. Assess cancellation Impact** on income statement and balance sheet on account of cancellation of options due to non-achievement of vesting conditions or expiry of exercise period.
5. Treatment of **exercise or settlement of units** in both income statement and balance sheet.
6. **Treated of modifications, surrender / cancellations including** any cash compensation paid in lieu of such events.

Option Pricing Assumptions

Particulars	Listed Companies	Newly Listed Companies	Unlisted Companies
Share Price	Readily available on public domain		As per the share price certificate provided by the Management
Exercise Price	Based on Management inputs		Based on Management inputs
Expected term to exercise	Defined separately at each vesting tranche or an overall weighted average of tranche wise assumption is taken		An overall weighted average assumption is taken for all vesting tranches factoring management input on when the options are expected to be exercised, especially where exercise is linked to happening of corporate transactions for the Company
Risk-free rate	Based on yield available on zero-coupon government bonds/government bonds of the country in whose currency the exercise price is expressed, with a term equal to the remaining expected term of the option being valued.		
Volatility	Based on Company's historical share price	Based on historical / implied volatility of similar entities over the applicable period of time. OR Based on Company's historical share prices (subject to the expected term of the option)	Based on historical / implied volatility of similar entities/similar sector over the applicable period of time
Dividend	Publicly available information / Company's business plan or management input (to incorporate future expected dividends)		Based on Management inputs

Assumptions - Additional Considerations

- Volatility typically used is the **annualized standard deviation** of the continuously compounded rates of return on the share over the specified period of time. There are **three commonly used approaches** for estimating expected volatility:

Historical Volatility, Implied volatility and Volatility forecasting models (ARCH and GARCH)

- The consideration of the expected dividends while assessing the fair value of options is dependent on **whether the counterparty** (such as the employee) is **entitled to dividends** or dividend equivalents **before** the options are **exercised**.
- Assessment by the Member on expected Probability of achieving the Performance criteria for any Performance-Based Vesting Schedule, whether linked to individual or Company performance.
- Analyses of past exercise patterns to estimate timing of option exercises.
- Assisting the Company in calculation of the forfeiture / lapse rate on account of attrition or otherwise, wherever applicable.
- Where the assumptions are not being determined by the Member but have been received as an input from the Company and the Member has relied on the same / has not validated the appropriateness or adequacy of the assumptions, **the same should be clearly spelt out in his / her report**.

Reporting Requirements

The items in the following list are normally to be regarded as essential components of any report:

- **Purpose** of the report
- **Overview of data** used
- **Description** of share-based payment **schemes**
- **Benefit Structure** (including vesting schedules and exercise conditions)
- Disclosure of modifications to the scheme
- Key variables and **assumptions**
- Valuation **methodology**
- Disclosure on **appropriateness of assumptions**
- **Sensitivity of assumptions** (Direction)
- Methodology for measurement of financial impact (cancellations, surrender, modification)
- **Profit / Loss** and **Financial Position** Impact
- Movement of number of options from opening to closing (including weighted average exercise prices)
- Results of Fair value of options, and income statement impacts
- Reliance on third-party data and limitations of the report & Compliance with actuarial guidance
- Certification should clearly specify the value being certified and the date to which it relates.

The Member should apply his / her judgement in assessing the need for additional information / disclosure.

Conclusion

- It enforces **minimum quality standards** while allowing professional judgement.
- Strengthens **consistency, transparency, and comparability** across actuarial practice.
- GN30 provides **principles-based guidance** for valuation of share-based payment plans.
- Reinforces actuaries as the **primary providers** of ESOP/SAR/RSU valuations.
- **Effective 12 July 2025** – compliance is recommended in all actuarial work in scope.

Q&A

Applicable Standards and Legislation



- **Indian Accounting Standard (IND AS) 102 or Guidance Note on Share Based Payments:** Governs the recognition, measurement, and disclosure of share-based payments in India. Requires fair value measurement at the grant date and expense recognition over the vesting period.
- **SEBI Guidelines:** Regulates ESOPs and other share-based schemes in listed companies. Ensures compliance with corporate governance and disclosure norms.
- **Companies Act 2013:** Sets legal requirements for share issuance and corporate governance. Involves shareholder approvals and board resolutions affecting share-based payments.
- **Income Tax Act 1961:** Dictates tax treatment for employees and employers regarding share-based payments. Involves considerations of perquisite taxation and TDS compliance.
- **International Standards (IFRS 2):** Applicable for cross-border transactions and multinational companies. Aligns with IND AS 102 on fair value measurement and expense recognition.
- **Professional Standards:** Guided by the Institute of Actuaries of India (IAI) and global standards. Ensures adherence to ethical and professional practices in valuations.

Data requirements

Assessing the type of Scheme

1. Scheme Documentation: Obtain approved scheme documents or other documentation explaining the benefit structure and sample grant letters for different employee categories.

2. Scheme Structure: Understand the exercise rules, settlement conditions, and management's expectations and past practices regarding the settlement of schemes.

3. Additional Information: Gather any other necessary information as deemed by the Member.

Option pricing + impact assessment

1. Grant Information: Dates, units granted, exercise prices, exercise periods.

2. Vesting Schedule: Tranches, rounding rules, performance metrics (market linkages or other)

3. Employee-Level Data: No. of units lapsed (vested/un vested) due to resignation, date of lapsation, number of units exercised.

4. Special Cases: Vesting on Death, disability, post-retirement vesting, etc.

5. Scheme Modifications: Cancellations, surrenders, cash compensations.

6. Additional Info: Specific to scheme nature, e.g., no. of dividend units in RSUs.

Assumption Setting

1. Share Price: On grant or valuation date depending on the type of scheme.

2. Volatility Assessment: Peer company data in same or similar sector

3. Management Input: Achievement of Non-market performance targets, forfeiture/attrition rates, or other information (for market-linked vesting)

4. Dividend Information: Past dividends, future estimates.

5. Expected Term: Based on scheme type and management input.

Valuation Methodologies

Option pricing models used Plans can be broadly categorized into groups:

Black Scholes Option Pricing Model

- **Simple formula application** which is easy to use, understand and can incorporate all features of a plain vanilla ESOP / SAR scheme.
- Factors such as early exercise can be incorporated via assumptions.
- **Does not work** for ESOPs / SARs wherein **vesting or exercise is linked to future share price** or market capitalization targets.

Binomial Lattice Model

- Requires **step wise projection** of share price / option pay off from grant date to exercise date, with each step moving both up and down by a specific factor.
- If time period is long, multiple paths may be needed leading to **computational delays and difficulty**.
- **More flexible than Black Scholes** in handling complex ESOPs / SARs with share price linkages.

Monte Carlo Simulation Model

- Requires fitting **probability distribution** to share price and projecting the same, along with option pay off, under **large number of simulations** (such as 5,000 or 10,000).
- **Requires statistical knowledge** to build such a model.
- **Highly flexible** to handle all type of ESOPs / SARs and widely accepted as a **more sophisticated method of option pricing**.