IND AS 102

Share Based payments

Objective and scope

Impact of transactions in profit or loss and the statement of financial position

Entity has received goods or services as consideration for equity-settled or cash-settled share-based payments

Objective is to recognise and measure fair value of goods or services received

Continued...

Share-based payments

- **Equity-settled** share-based payments
  - Entity receives goods/services as consideration for **equity instruments.**
- **Cash-settled** share-based payments
  - 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.
- Share-based payments with **cash alternatives**
  - Either entity or the counterparty has a **choice** to settle in equity instruments or in cash or other assets.

Continued…

Share-based payment transactions include:

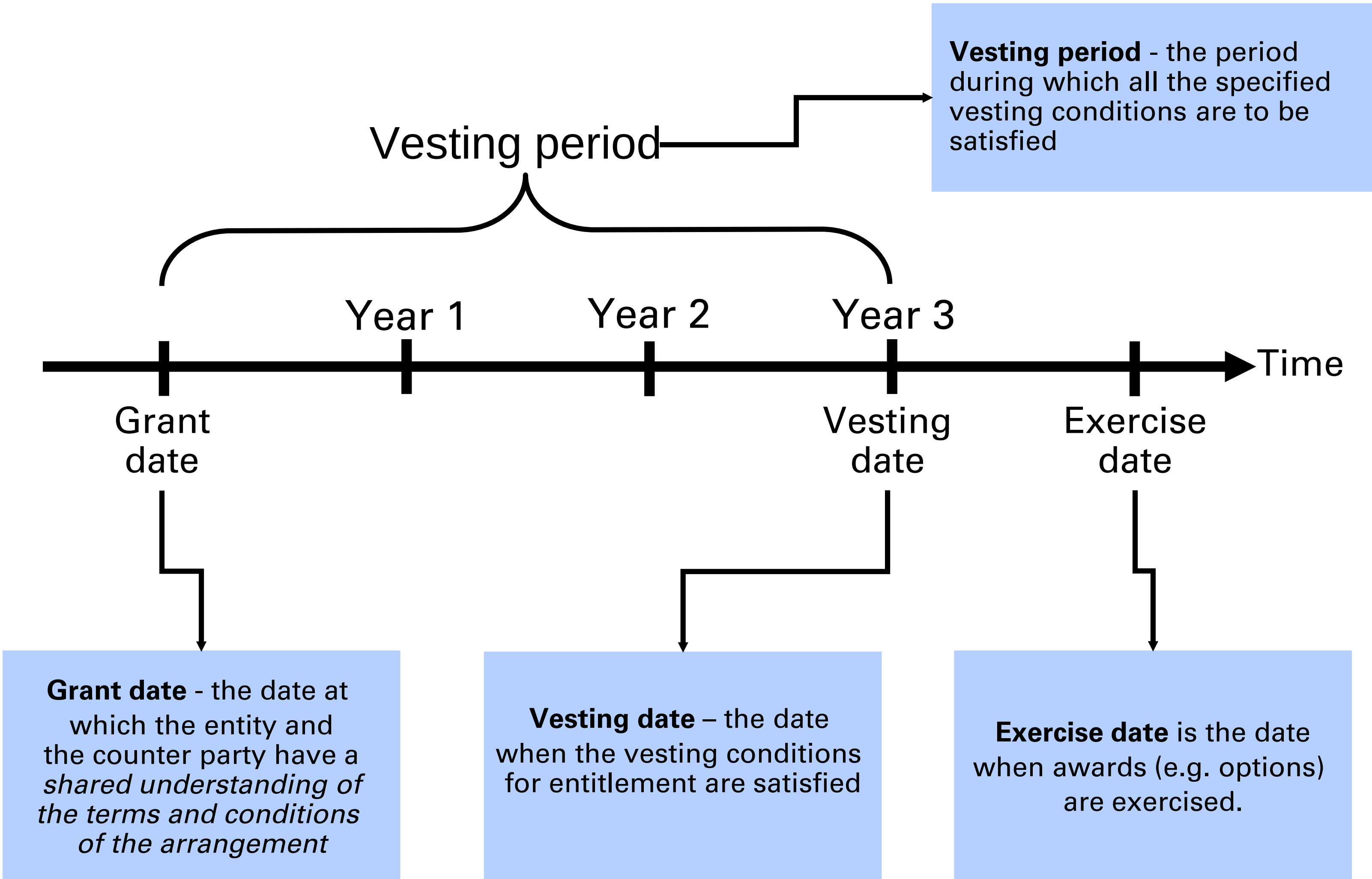
- Grants to employees (and others providing similar services, e.g. non-executive directors)
- Grants to non-employees, e.g. consultants, suppliers
- Employee share purchase plans – where the employees can buy the shares at discounted rate.
- Certain share-based payments settled by an entity in, or an external shareholder of, the same group

Scope Exemption

Equity instruments issued as consideration <u>in business combination (IND AS 103)</u>

Commodity contracts that can be settled by exchanging financial instruments and that are not for the purpose of entity's expected purchase, sale or usage (IND AS 32/IND AS 109)

Timeline of a share option award



Different types of share-based payments

Types of share based payments		
Equity-settled (shares, options, warrants)	Cash-settled (share appreciation rights, puttable shares, options on puttable shares)	Choice between equity and cash-settled (depends on who has choice, entity or counterparty (i.e. employee or non-employee))

General recognition principles

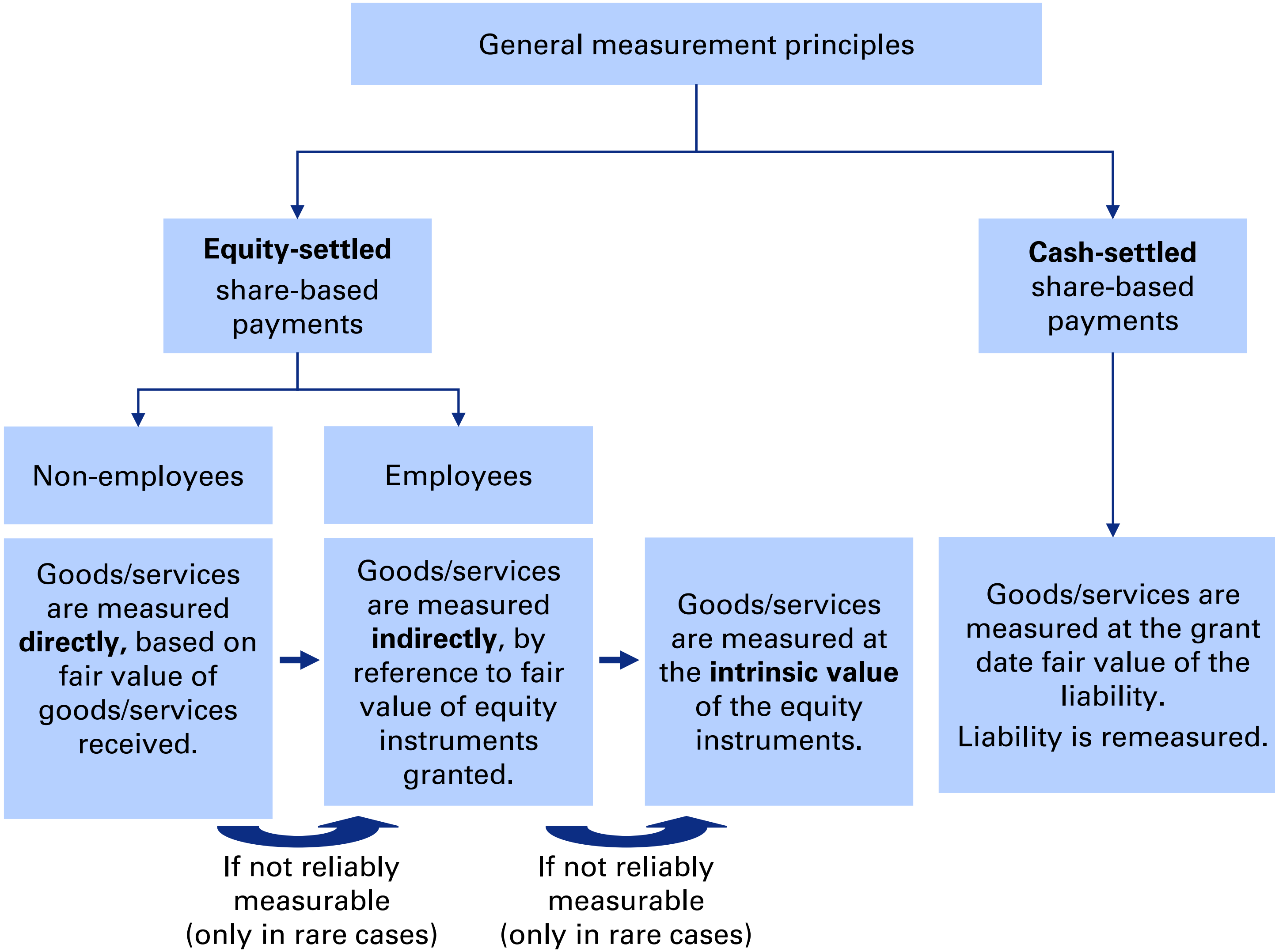
Debit

- 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

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

General measurement principles



Determining the fair value - Equity Shares

Fair Value

- Measure employee services 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 a valuation (e.g. option pricing) model
- 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

Accounting for employee services received

* If no vesting conditions → recognise immediately
  → credit equity

* If vesting conditions → spread over vesting period
  → credit equity incrementally
  → apply “modified grant date method”

Overview of vesting conditions

Conditions for employee services received	
Vesting conditions are service related, i.e. a)Service conditions; with or without … b) Performance conditions - Market performance conditions or non-market performance conditions - Performance conditions by definition always require a service condition	Non-vesting conditions are not service related, i.e. they do not determine whether the entity receives the services that entitle the counterparty to the share-based payment

Overview of vesting conditions

Vesting conditions

Service conditions

Requirement to complete a specified period of service

Employee has to stay employed for 3 three years after grant date

Performance conditions

Market conditions

Service condition
+
condition that is related to the market price (or value) of the equity instrument

- Share price must increase by 15%
- TSR (total shareholder return) must increase by 10%

Non-market conditions

Service condition
+
It is based on the entity's operations otr activities -, but not market price related

- Revenue must increase by 10%
- Percentage increase in market share

Accounting for employee services received (continued)
Overview of conditions

Non-vesting conditions

Conditions that neither the entity nor the counterparty can choose to meet

- Inflation must not be higher than 5%
- Price of gold must increase by more than 3 %

Conditions that the counterparty can choose to meet

- Holding participation shares over the holding period
- Paying monthly contributions to a share purchase plan

Conditions that the entity can choose to meet

- Continuation of the plan by the entity

Case study- Equity settled scheme

ABC Ltd offers 200 shares to each of its 1000 staff if they stay with them for 3 years. The FV of the shares on that date was 30$

At the end of year 1, 15 employees leave and the entity estimates that 25% will leave at the end of the vesting period

During the second year, a further 15 employees leave and the entity further revises its estimate of total departures over the vesting period from 25% to 27%

During the third year, a further 15 employees leave the entity

Determine the amounts to be recognised in the income statement.

Solution :

Step 1 – Fair value on grant date: 200 x 1,000 x 30 = 6,000,000

Step 2 – Cumulative charge:

Year 1 – 6,000,000 x 75% x (1/3) = 1,500,000

Year 2 – 6,000,000 x 73% x (2/3) = 2,920,000

Year 3 – 955 x 30 x 200 = 5,730,000

Step 3 – Expense for the period

Year 1 = 1,500,000

Year 2 = 1,420,000 (2,920,000 – 1,500,000)

Year 3 = 2,810,000 (5,730,000 – 2,920,000)

Measurement illustration (1) - Performance conditions

Vesting conditions:

- Three years continued employment (service condition)
- A performance condition (see next slide)

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 is 3.50 (excluding market conditions)
- Best estimate is that the performance condition is met

Measurement illustration (2) -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 (3) - 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 (4) - 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

	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 (5) - 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. This is also the actual outcome.

	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 (6) - 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.

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

Measurement illustration (7) - 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)

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

Measurement illustration (8) - 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!

Example

On 1 January 2013 an entity grants 250 share options to each of its 200 employees. The only condition attached to the grant is that the employees should continue to work for the entity until 31 December 2016. Five employees leave during the year.

The Market price of each option was $12 at 1 January 2013 and $15 at 31 December 2013.

Show how this transaction will be reflected in the financial statements for the year ended 31 December 2013.

Solution

The remuneration expense for the year is based on the fair value of the options granted at the grant date (1 January 2013). As five of the 200 employees left during the year it is reasonable to assume that 20 employees will leave during the four-year vesting period and that therefore 45000 options (250 X 180) will actually vest.

Therefore, the entity recognises a remuneration expense of $135000 (45000 X 12 X ¼) in profit or loss and a corresponding increase in equity of the same amount.

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 (same approach as equity-settled)
- Remeasure the fair value of the liability at the end of each reporting period
- Remeasurement recognised in profit or loss

Requirement to remeasure overrides no true up for market conditions

Recognition illustration (1) -

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)

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 (2)-Cash-settled transaction

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

	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	

Case study - cash settled scheme

The Company granted share appreciation rights (SAR) to its 50 employees in March 2011, vesting in March 2014. The following estimates were made by management in March 20X2:

- Estimate of the shares that will vest – 75%
- Fair value of each SAR at March 2012 - $ 2,000

Management revised its estimates in March 2013 as follows:

- Estimate of the shares that will vest – 90%
- Fair value of each SAR at March 2013 - $ 3,000

Calculate the amount of expense to be recognised in March 2013

Solution:

The fair value of the liability to be recorded at March 2012 is 50 x 2,000$ x 75% x 1/3 = 25,000$

The accrued liability as March 2013 is 90,000$ (50 x 3,000$ x 90% x 2/3)

The increase in the liability of $65,000 is recognised as an expense in the income statement

Equity-settled share-based payments with non-employees

Measured <u>directly</u> at the fair value of goods and services received	Measured at the date the goods or services are obtained	Expense immediately unless
• 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	• As opposed to grant date • Means "daily" if services are rendered • Simplification method: "regular intervals"	• Goods or services qualify for capitalisation as asset (e.g. inventory); or • Vesting conditions exist • expense when services are rendered over the vesting period

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

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	Cancellations by the employer and by the employee

Key learning 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
  - 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
- 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
- Account for modifications that increase the fair value of the equity instrument
- Account for cancellations as accelerated vesting

Thank you

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