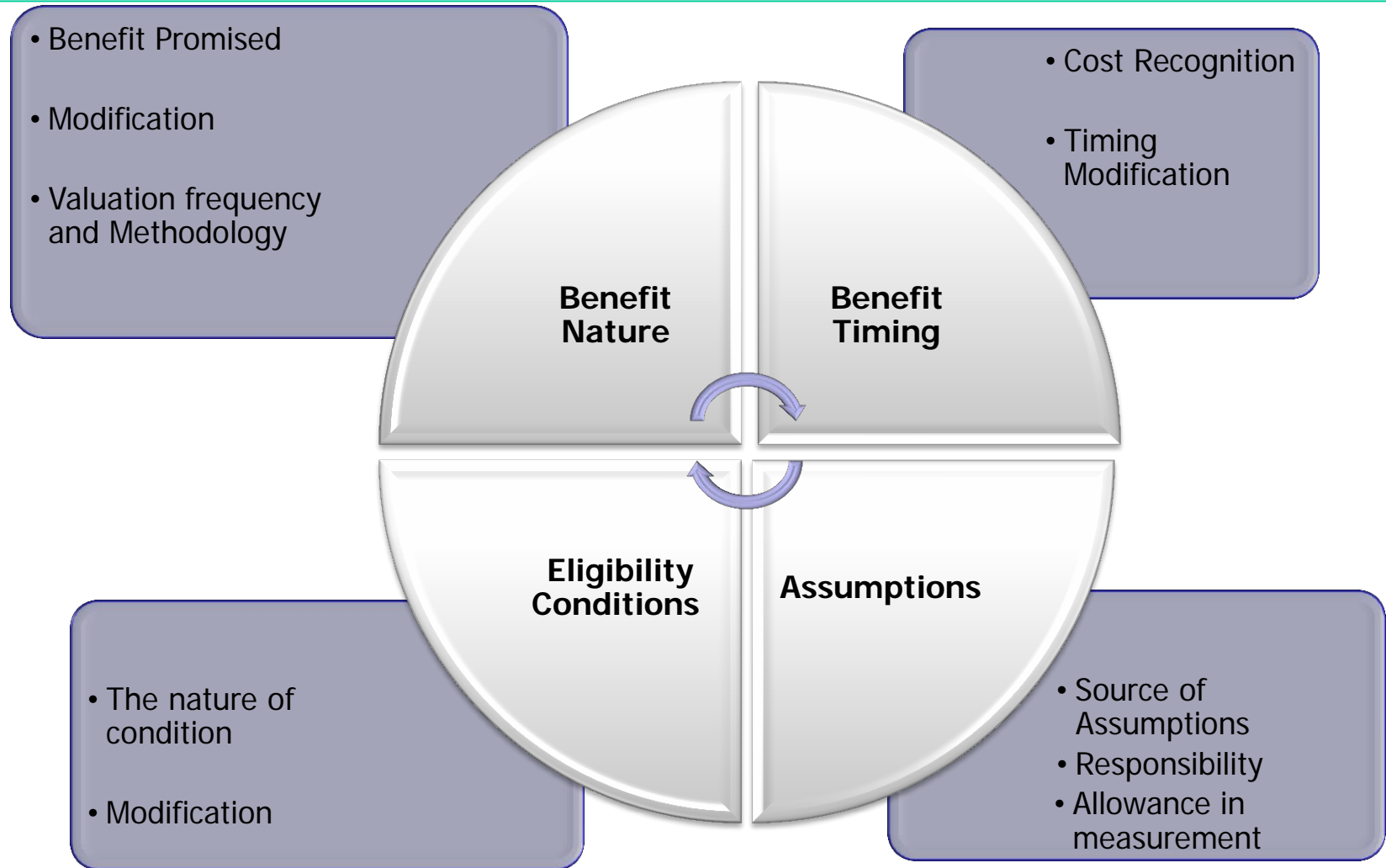

Ind AS 102- Share Based Payments

Nandan Nadkarni
Presentation to ICAI, WIRC

October 27, 2018

Valuation Framework for an Employee Benefits' Actuary



Overarching Regulatory framework

Today's Discussion

- ▶ **Applicability, Structure and Scope**
- ▶ **Grant Date and Eligibility Conditions**
- ▶ **Fair Value Models**
- ▶ **Assumptions' setting and Option Value Sensitivity**
- ▶ **Equity Settled Recognition- Example**
- ▶ **Share Based Payment Transactions (SBPT) among Group Entities**
- ▶ **Modification Treatment and Disclosures**



Ind AS 102 Share Based Payments

Entity Applicability

MCA Notification dated Feb 16, 2015

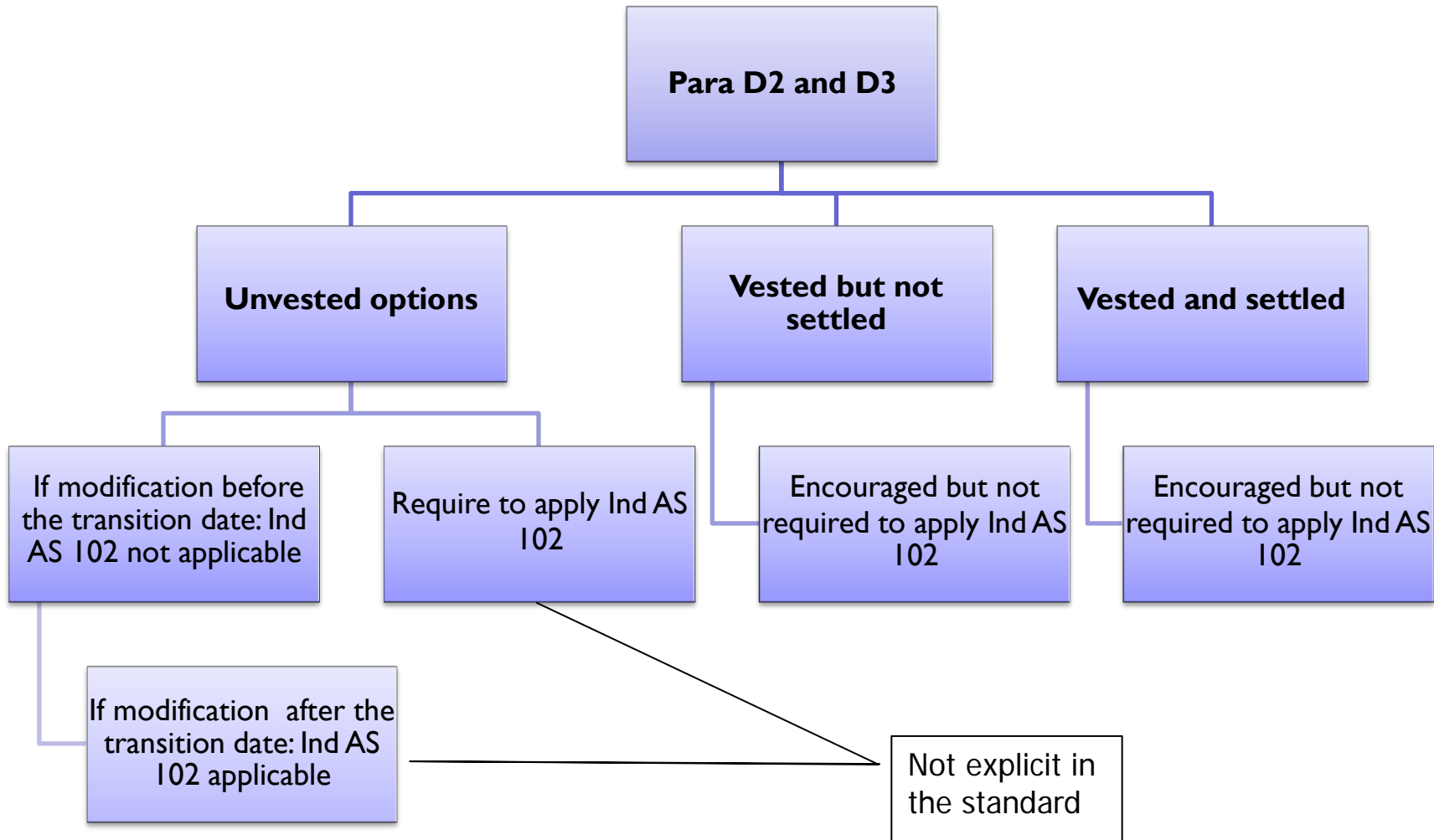
FY 2016-17

Listed and unlisted companies both with net worth above Rs 500 crores

FY 2017-18

All listed companies and unlisted companies with net worth above Rs 250 crores

First-time Adoption - Ind AS 101



Structure of Ind AS 102

Paragraphs 1 to 52

Appendix A: Defined terms

Appendix B: Application guidance

Appendix I: Comparison with IFRS
2

Implementation guidance
(accompanies, but not a part of Ind AS 102)

Overview of Ind AS 102

- Applies to **share-based payment** transactions (SBPT)
- **Equity settled, cash settled, or choice** between equity and cash settlement
- Recognized **over vesting period**; can further be expensed or capitalized
- **Fair value** basis e.g., valuation techniques for ESOP, SAR, shares or payment derived from share prices
- **Grant date** for employees
Date goods or services are received for others
- **Not for Equity settled** unless modified.
At the end of **each reporting period** and at settlement for **Cash settled**

Ind AS 102's Scope

All share-based payment transactions even if entity can't identify specifically some or all services received, including

- Equity settled share-based payment transactions
- Cash settled share-based payment transactions
- As per terms of arrangement of receiving goods or services, the entity or supplier can settle transaction in cash or equity shares

Ind AS 102's Scope .. Contd.

Ind AS 102 covers share-based payment **arrangements**, not merely share-based payment **transactions**

A share-based payment arrangement is “an agreement between the entity (or another group entity as defined in Ind AS 110 or any shareholder of any group entity) and another party (includes an employee) that entitles the other party to receive”

Ind AS 102 thus applies to share-based payment transaction settled by another group entity

A Classification exercise

Choose from:

1. Share options
2. Share appreciation rights
3. Share based payments with cash alternatives to the Counterparty
4. Restricted shares

A. Employees can choose to receive 100 shares after 3 years

B. Employees receive the difference between current market price and price prevailing at the end of 3 years of 100 shares

C. Employees receive 100 shares after 3 years, however shares have a lock-in of 2 more years

D. Employees can elect to receive 100 shares after 3 years, or its cash equivalent

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Valuation exercise

SBPT	Valuation Requirement
<i>Share options</i>	Option Valuation at grant date only
<i>SAR</i>	Valuation at each balance sheet date and at settlement
<i>SBPT with Alternative</i>	Compound financial instrument – value equity and debt separately
<i>Restricted Share</i>	Fair Value of restricted shares i.e. after allowing for opportunity lost

Excluded from Scope of Ind AS 102

Right Issue	Transactions based on the holder's capacity as an equity owner (Para 4 of Ind AS 102)
Purchase Consideration	Instruments issued as consideration in a business combination or business contribution on Joint venture formation (Para 5 of Ind AS 102)
Other Accounting Standards	Awards in which the goods or services are within the scope of Ind AS 32, Financial Instruments: Presentation or Ind AS 109, Financial Instruments (Para 6 of Ind AS 102)
Benefit not linked to share price	Amount paid is not based on market price of entity's shares (definition of Share-based Payment Arrangement, Appendix A)

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Ind AS 102 Share Based Payments

IG1, IG2 and IG3

The date at which:

- The entity and employee (or other party providing similar services) agree⁺ to a share-based payment arrangement
- A shared understanding of the terms and conditions of the arrangement exists
- The 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
- Approval is obtained (if subject to an approval process)

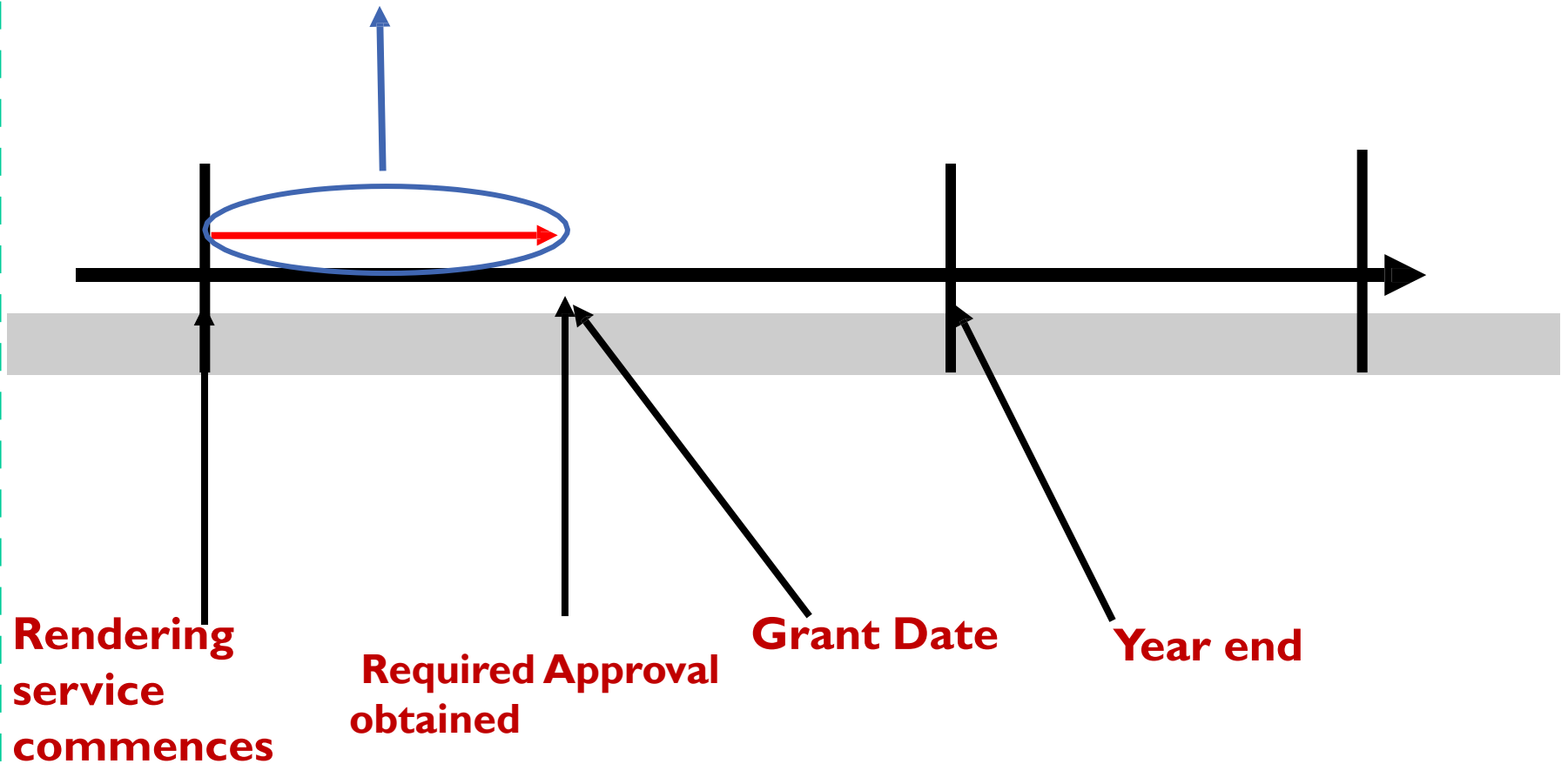
SEBI: Grant date means the date on which the compensation committee approves the grant!

⁺Agree connotes both an offer and acceptance of the offer

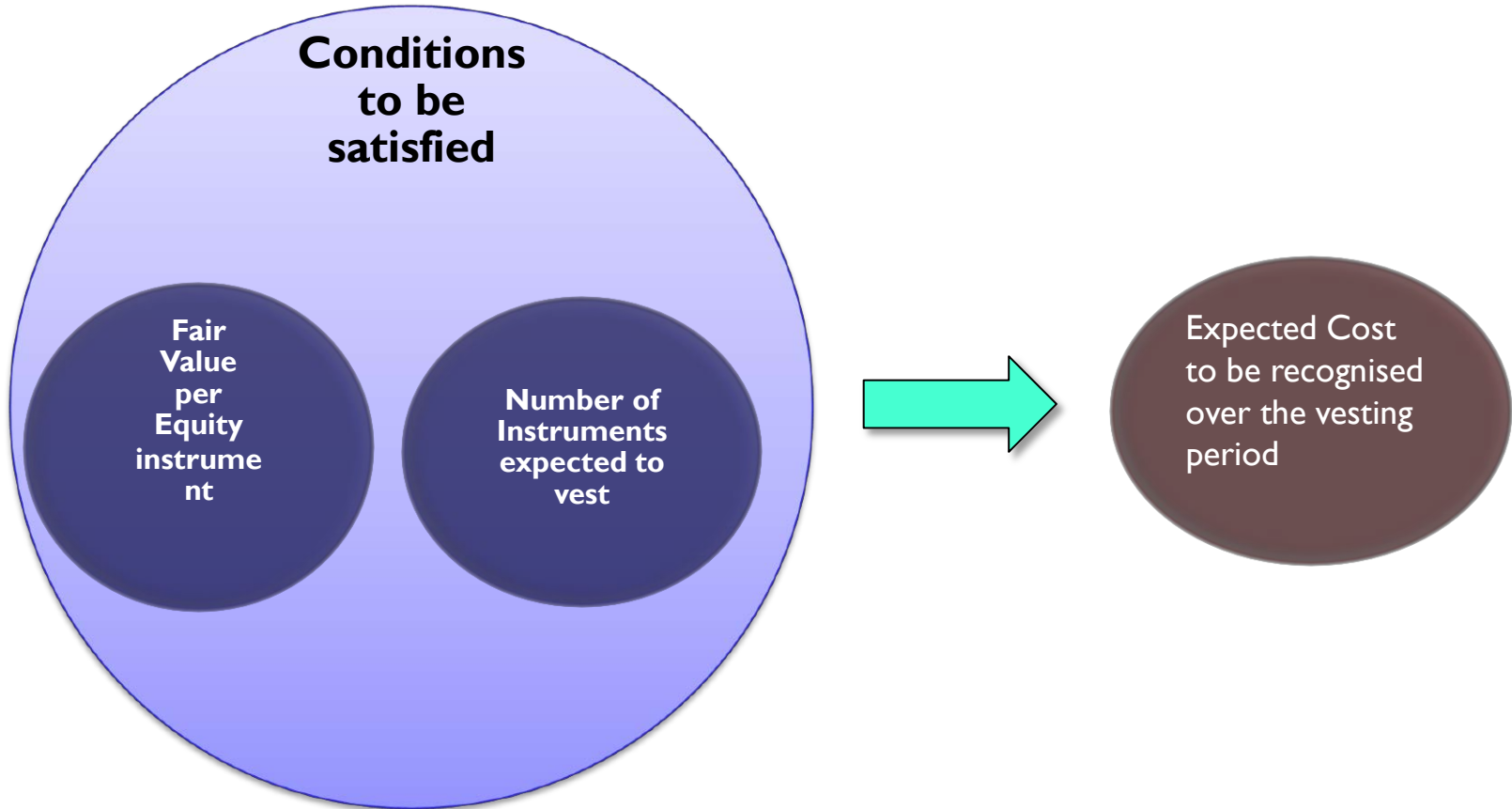
Grant date Illustration

Period of service before grant date

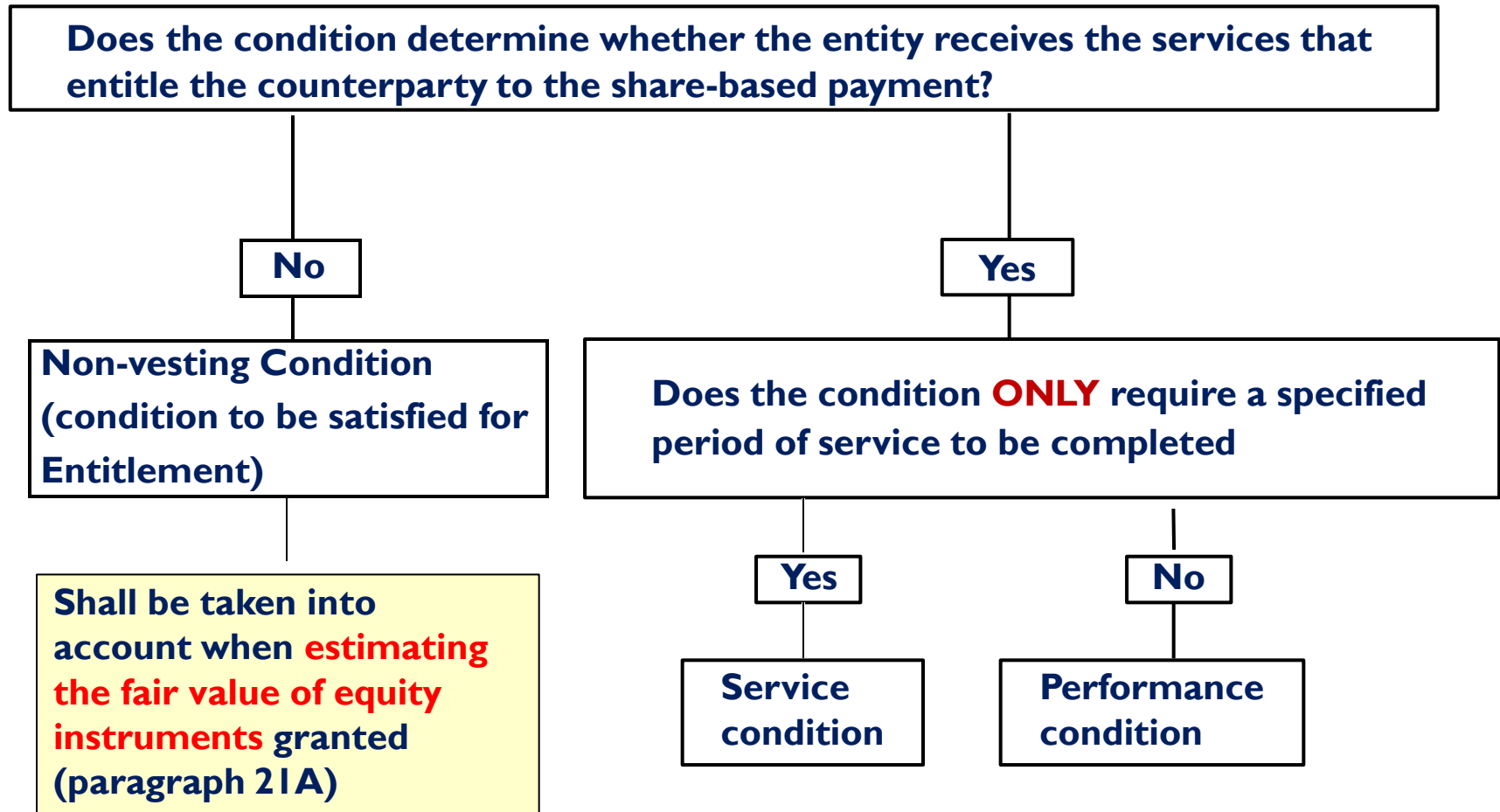
Offer and acceptance between Entity and Counterparty is needed



Purpose of Fair Value Calculation



Conditions (Vesting and Non-vesting)



Performance Condition

Does the condition upon which the exercise price, vesting, or exercisability of an equity instrument depends or is related to the market price of the entity's equity instruments, such as

- a) attaining a specified share price or
- b) specified amount of intrinsic value of a share option, or
- c) achieving a specified target that is based on the market price of the entity's equity instruments related to an index of market prices of equity instruments of other entities?

No

Non-market Condition

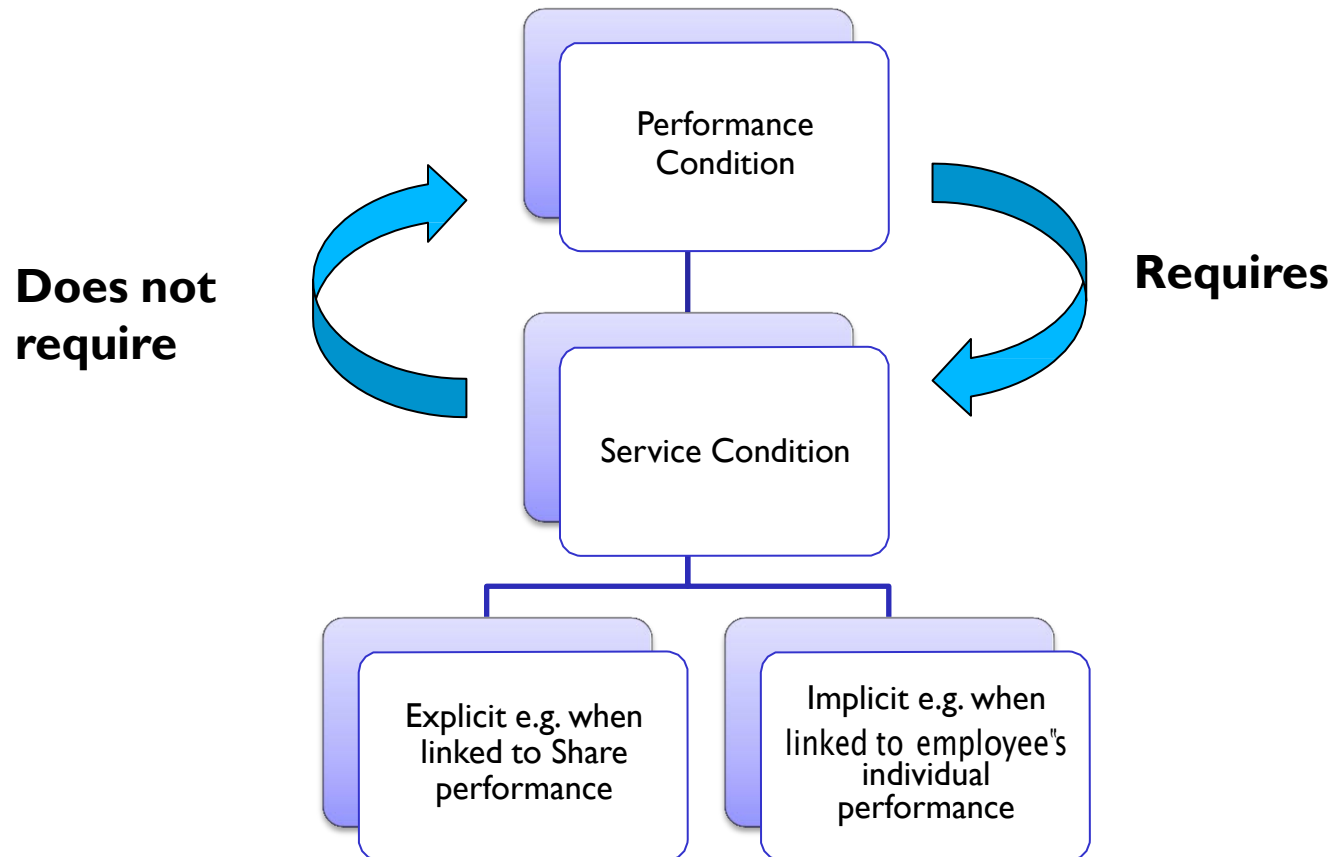
Shall be taken into account by **adjusting the number of equity instruments** included in measurement (paragraph 19)

Yes

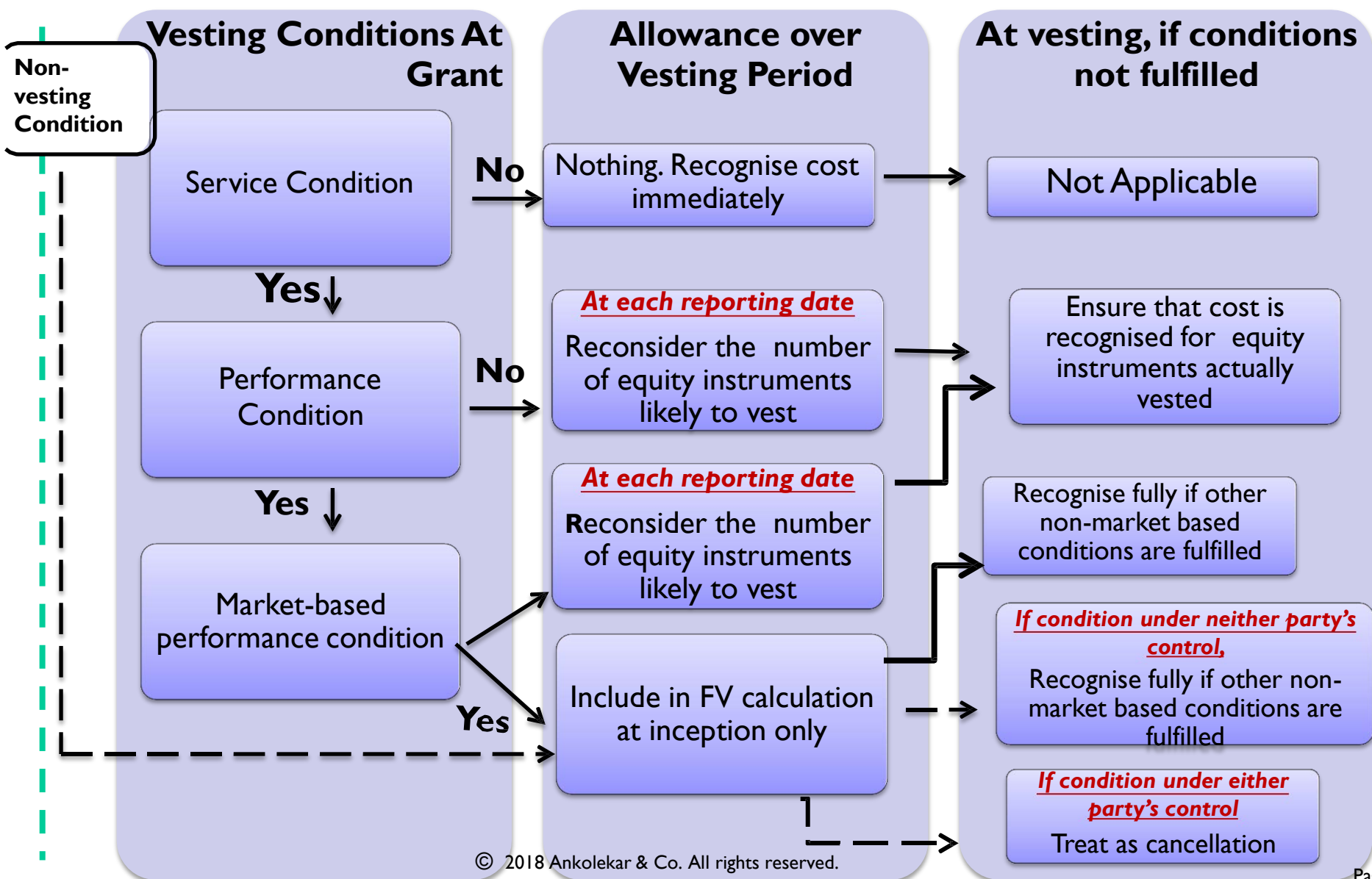
Market Condition

Shall be taken into account when **estimating the fair value of equity instruments** granted (paragraph 21)

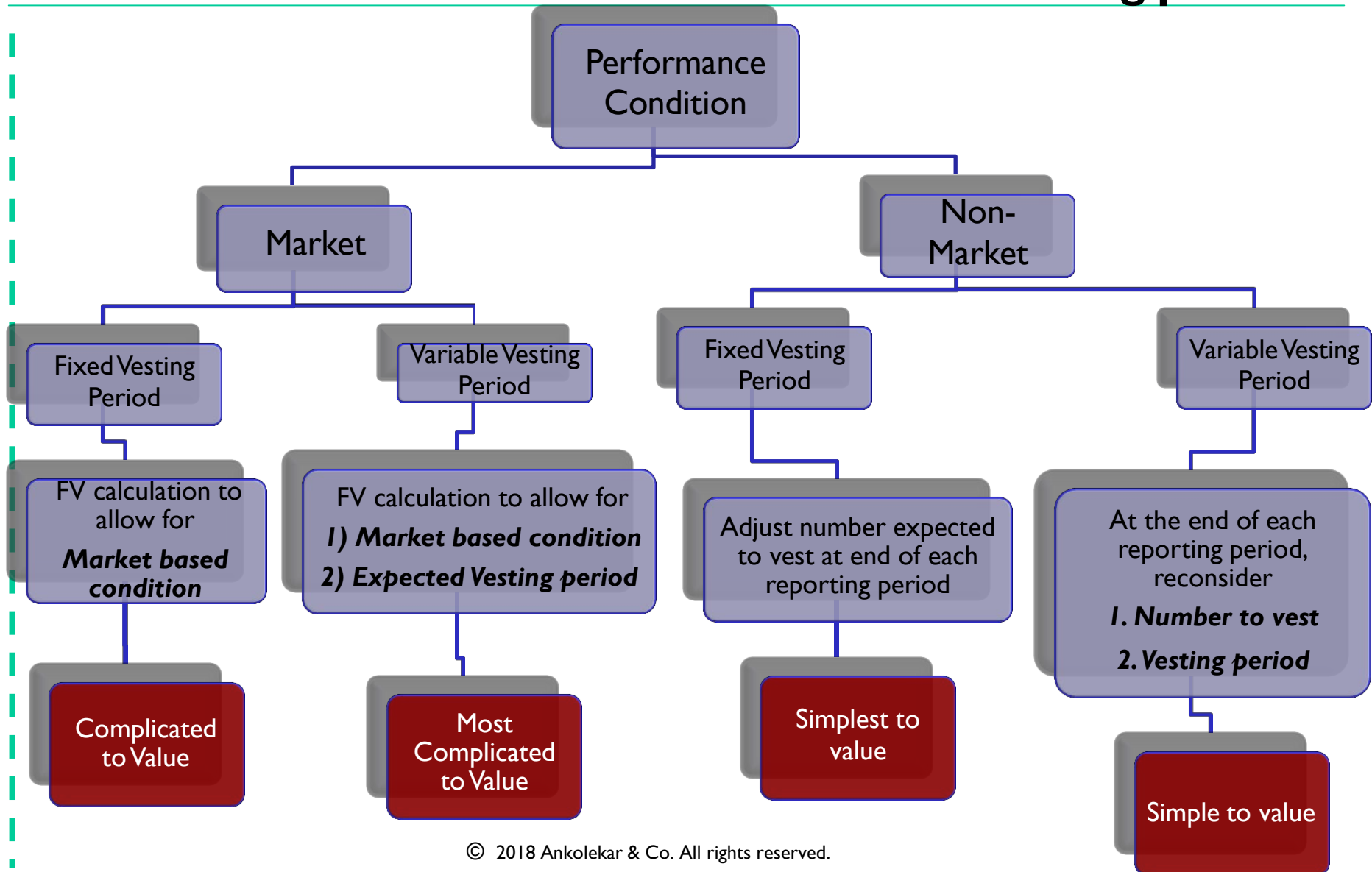
Relation between Service Condition and Performance Condition



Allowing for conditions (Equity settled)



Possible scenarios for performance condition and vesting period



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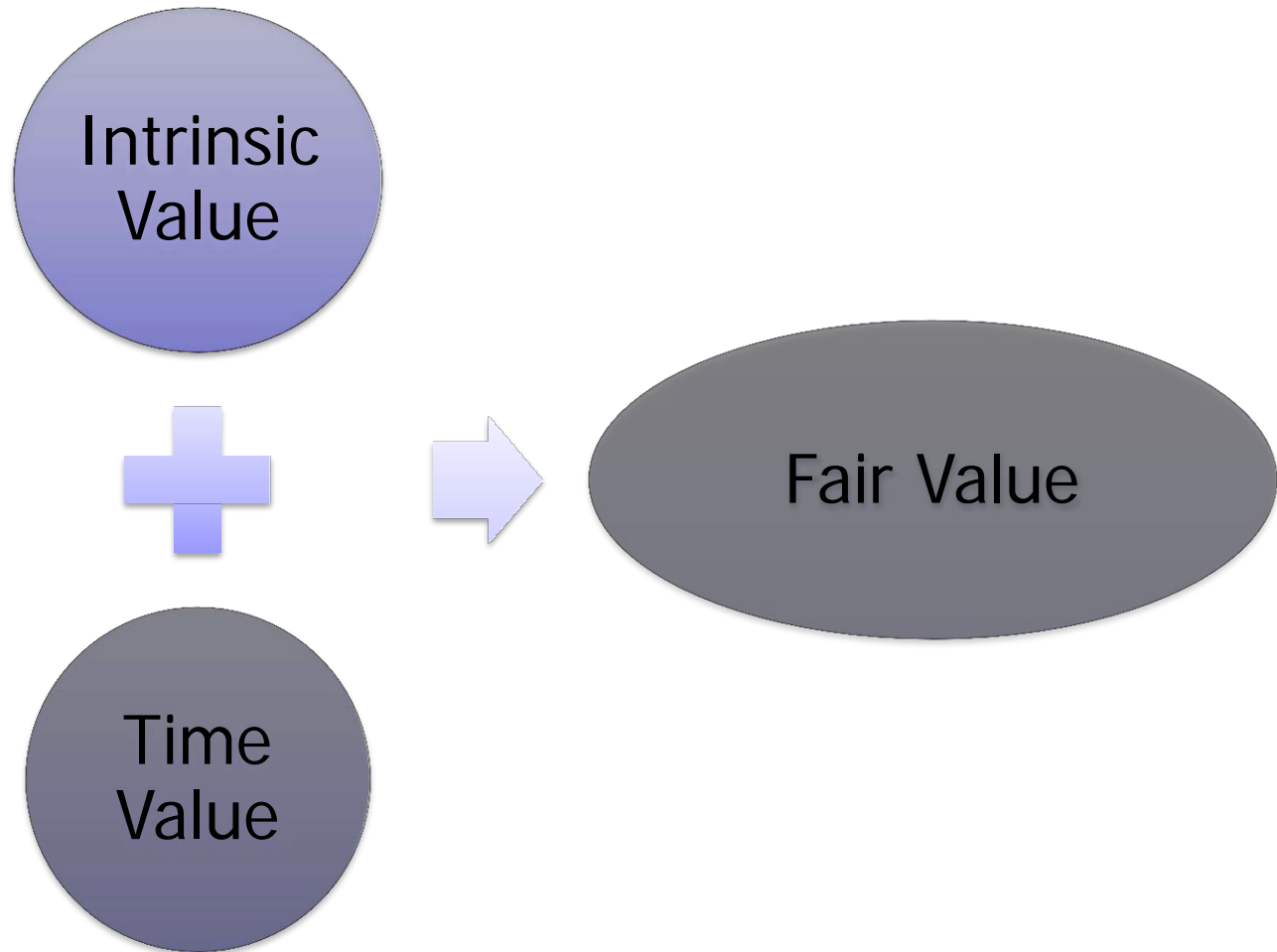


Ind AS 102 Share Based Payments

Definition of an Option

<i>Right but not an obligation</i>	A Call (Put) Option is a right, but not an obligation , to buy (sell) an underlying security at a particular time and at a predetermined Strike Price.
<i>Timing</i>	The time could be at the end of the life of the option i.e. European or at any time during the life of the option i.e. American

Fair Value Components



Definition

The excess of
Market Price
over Exercise
Price

i.e. option
payoff on
immediate
exercise

Advantages

Easy to
calculate

Easy to
understand

Disadvantages

Zero for at-
the-money &
out-of-money
options

Disregards
future price
fluctuation

Definition

The excess of option's value..

... over its intrinsic value

Advantages

Is positive for all options

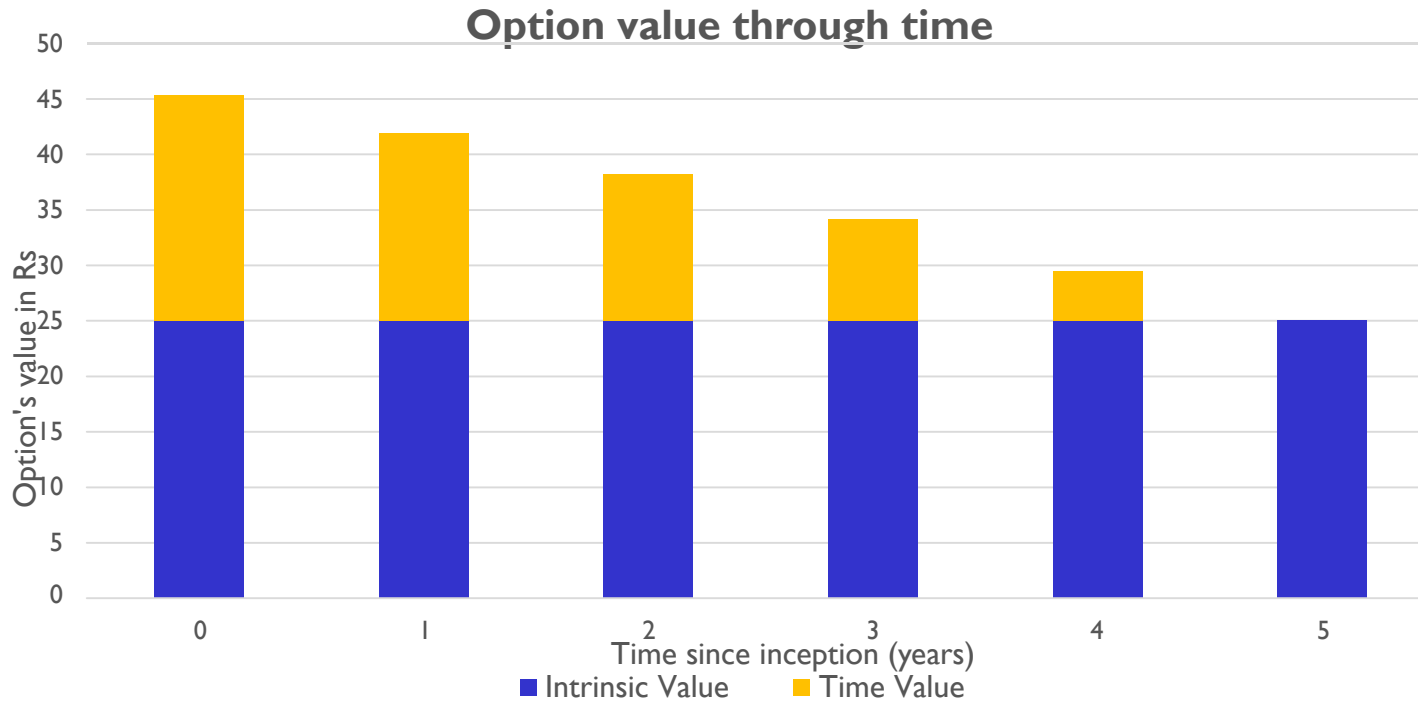
Considers future asset price movements

Disadvantages

Difficult to estimate

Not easily understood

Option's value over time till expiry*



Market Price - Rs 100

Exercise Price - Rs 75

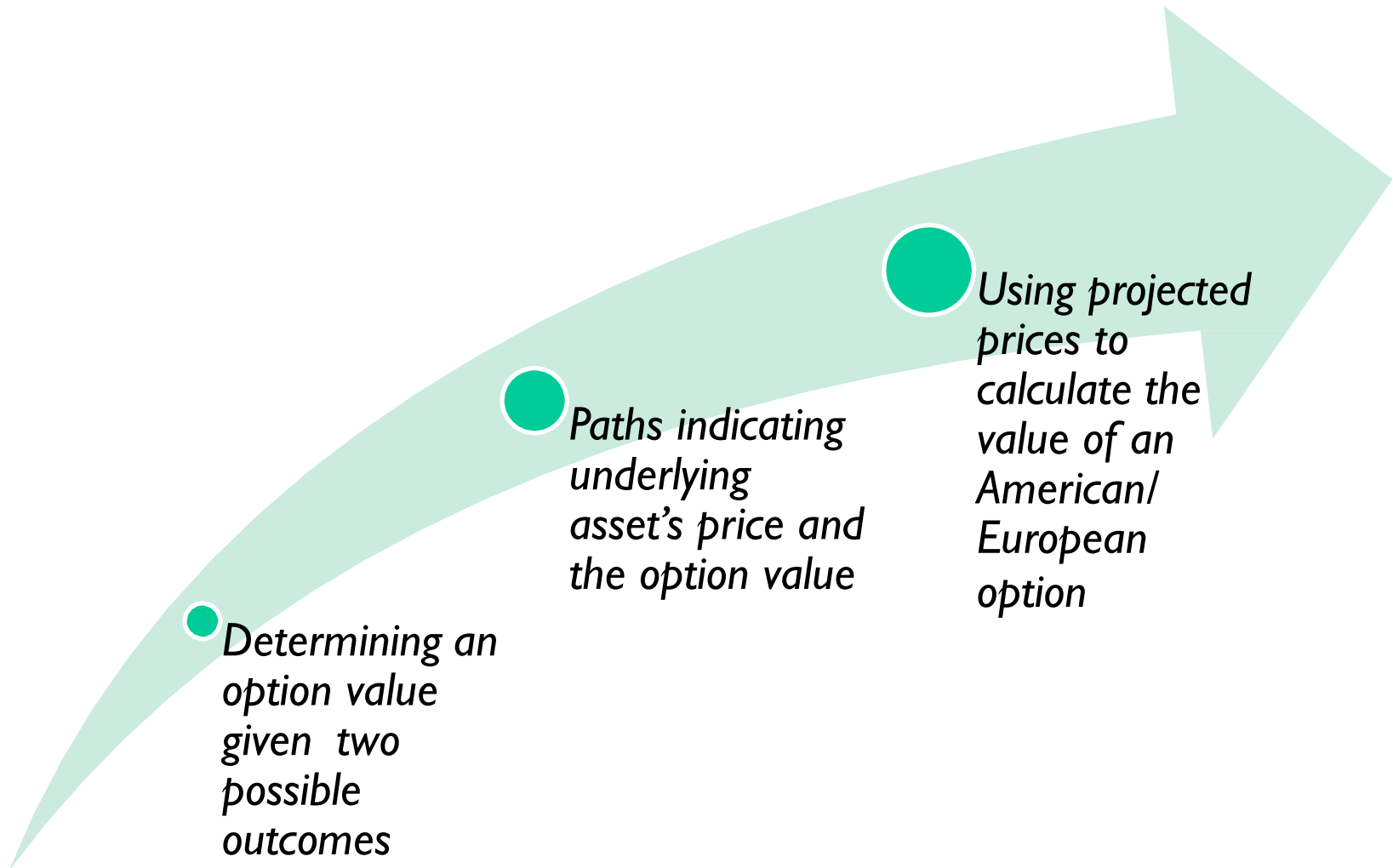
Risk free rate - 5% p.a.

Volatility - 25% p.a.

Time to Expiry - 5 years

***Assuming other aspects unchanged**

Binomial Model-Approach



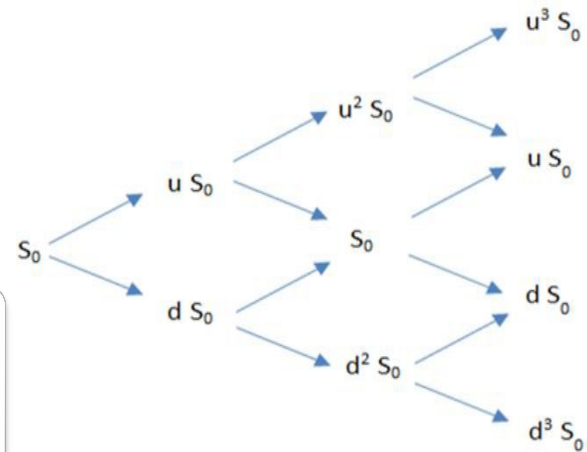
Binomial model-Methodology (European Call option)

Project stock prices at each node in the tree using the expected 'up' and 'down' movement

Determine the intrinsic value at the expiry period i.e. $\text{Max}\{S_t - K, 0\}$

Determine the option value at the penultimate nodes by weighing the values at the final nodes by probabilities and allow for time value

Undertake recursive calculation backwards till the first node.



Determination of Derivative Price

Say, at time 0 we hold Φ units of stock and Ψ units of cash.

Then at time 0 the value of this portfolio:

$$\mathbf{V}_0 = \Phi \mathbf{S}_0 + \Psi$$

At time 1 the same portfolio has the value:

$$\mathbf{V}_1 \begin{cases} \mathbf{C}_u = \Phi \mathbf{S}_0 u + \Psi e^r & \text{if the stock price went up... (i)} \\ \mathbf{C}_d = \Phi \mathbf{S}_0 d + \Psi e^r & \text{if the stock price went down... (ii)} \end{cases}$$

Solving the equations (i) & (ii) simultaneously, we get:

$$\Phi = \frac{C_u - C_d}{S_0 (u - d)}$$

$$\Psi = \frac{e^{-r} (C_d u - C_u d)}{(u - d)}$$

Determination of Derivative Price

Using results of Φ and Ψ in $V_0 = \Phi S_0 + \Psi$

To get the results of a two-state Binomial Model

$$V_0 = e^{-r} \left[c_u \frac{(e^r - d)}{(u - d)} + c_d \frac{(u - e^r)}{(u - d)} \right]$$

Indeed the value of the portfolio at time 0 i.e. V_0 is product of:

- Present value i.e. e^{-r}
- Random variable of value if it went up and down i.e. c_u and c_d ; and
- Respective probability of going up and down i.e. $(e^r - d) / (u - d)$ and $(u - e^r) / (u - d)$

or $V_0 = e^{-r} V_1$ and $V_1 = \sum (\text{Random Value} \times \text{Probability})$

Note that Φ units of shares and Ψ cash is a replicating portfolio, i.e. whichever way the share moves, V_0 is the present value of V_1

Finding the size of jumps

Much theory postulates that share prices move as per a stochastic process called **Geometric Brownian Motion**

In that case:

$$u = \exp(\sigma \cdot \sqrt{\delta t})$$
$$d = \exp(-(\sigma \cdot \sqrt{\delta t}))$$

Summary of Binomial model

Effectiveness	Powerful method to price options.
Inputs	If the volatility σ is known, the size of up and down jumps can be estimated.
Branches	The short time δt can be set up to have multiple nodes in the binomial tree.
Recombining	Uniform jump size at different times renders the binomial tree to be a recombining one.
Discounting	Discounting the payouts at the final nodes helps us to value the European option.

B-S Option Pricing Formula

European Call Option (Non-dividend paying stock)

$$c_t = S_t \Phi(d_1) - Ke^{-r(T-t)} \Phi(d_2)$$

Where

$$d_1 = \frac{\ln\left(\frac{S_t}{K}\right) + \left(r + \frac{\sigma^2}{2}\right)(T-t)}{\sigma\sqrt{T-t}}$$

and

$$d_2 = d_1 - \sigma\sqrt{T-t}$$

OR

$$d_2 = \frac{\ln\left(\frac{S_t}{K}\right) + \left(r - \frac{\sigma^2}{2}\right)(T-t)}{\sigma\sqrt{T-t}}$$

c_t = price of a call at time t

S_t = price of the underlying share at time t

Φ = the cumulative probability distribution function; standard normal

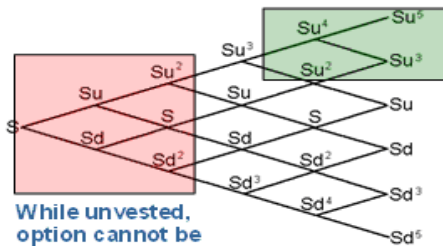
K = call option exercise price

r = the continuously compounded risk-free rate

σ = Annualized volatility of the returns on underlying share

$T - t$ = time to expiration (in years)

Binomial/ Lattice and Black Scholes Formulae – A comparison

	Black Scholes Model	Binomial/ Lattice Model
Assumptions	Static assumptions over the expected term.	Possible to use dynamic assumptions for interest rates, dividend yields, and volatility.
Market based performance Condition	Unable to allow the complexity of a market based performance condition .	Possible to embed such a condition resulting in a better estimate of fair value.
Early Exercise and Vesting Period	Approximation by “ <i>Expected Term of option</i> ”	Explicitly modeled* <div style="text-align: right;">  <p style="color: blue; font-size: small;">While unvested, option cannot be exercised (early nodes of the tree)</p> <p style="color: blue; font-size: small;">For branches where stock gets high enough (i.e., hits the “Exercise Factor”), early exercise is assumed</p> </div>
Black out Period	Periods during which trading is disallowed is not readily incorporated	Can be allowed
American Options (i.e. can exercise prior to expiration)	Not suitable	Can value American options

*Image from Investopedia

1. Presupposes that Lognormal distribution applies to share price returns; not borne out in practice
 - a) Black-Scholes model is based on the Geometric Brownian Motion theory of share price movements, which in turn lead to parameterization under the lognormal distribution
 - b) The size of up- and down-jumps are derived from the lognormal distribution of underlying share price movement
2. Assumes a perfect market with no trading and transaction costs
3. Permits unlimited borrowing and lending at risk-free rate; in practice, credit rating determines the borrowing and lending rate/ practice

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Ind AS 102 Share Based Payments

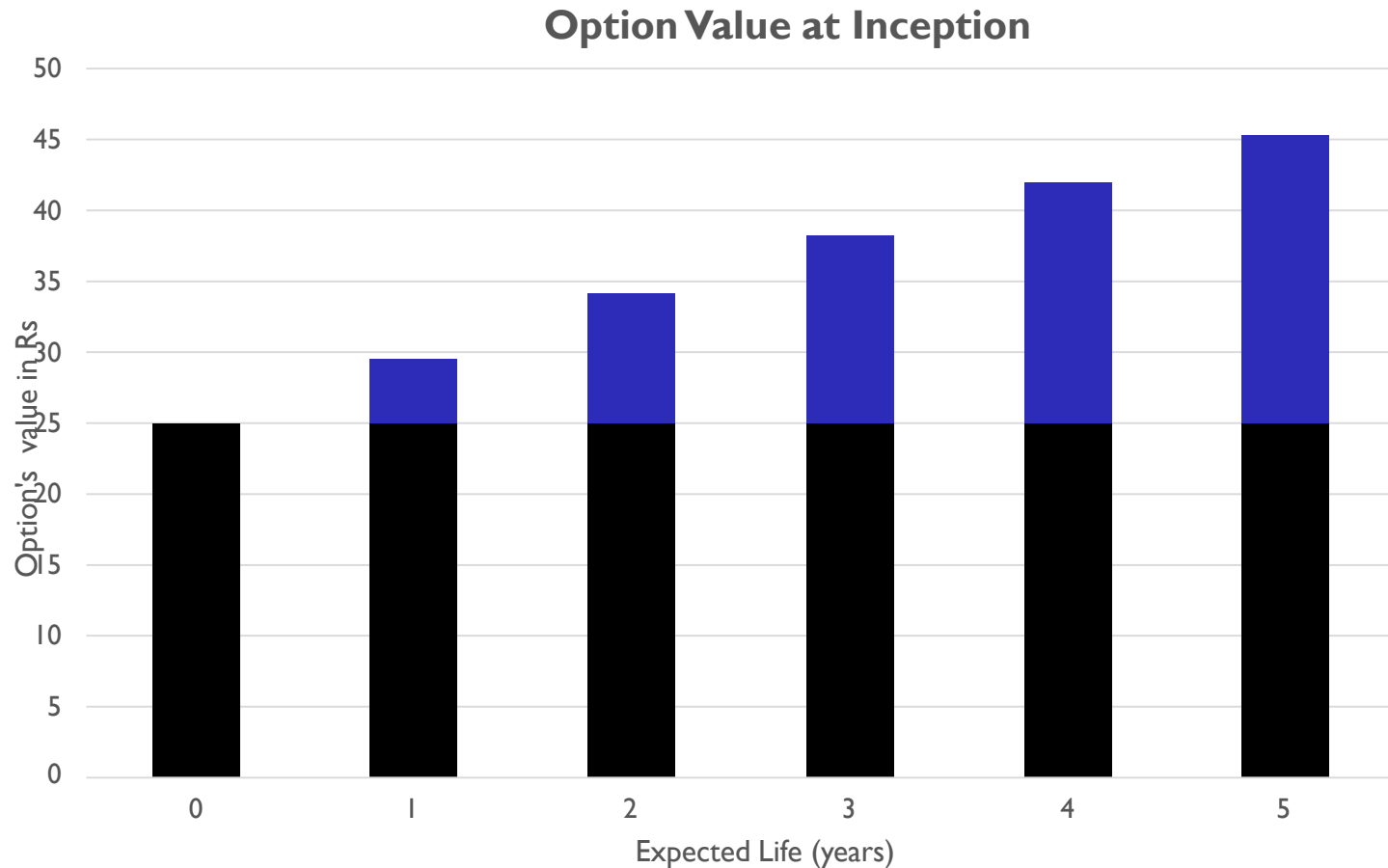
Key Parameters for Option Valuation

Whilst Ind AS 102 on Share-based Payments does not obligate any particular method, the option-pricing model used must take into account a minimum of six inputs.

These are:

- 1. Current price of the underlying share**
- 2. Exercise price**
- 3. Expected volatility of the price of the underlying share**
- 4. Expected dividends on the underlying share**
- 5. Risk-free interest rate for the expected term**
- 6. Expected term of the option, taking into account both the contractual term of the option and the expected effects of employees' exercise and post-vesting behavior**

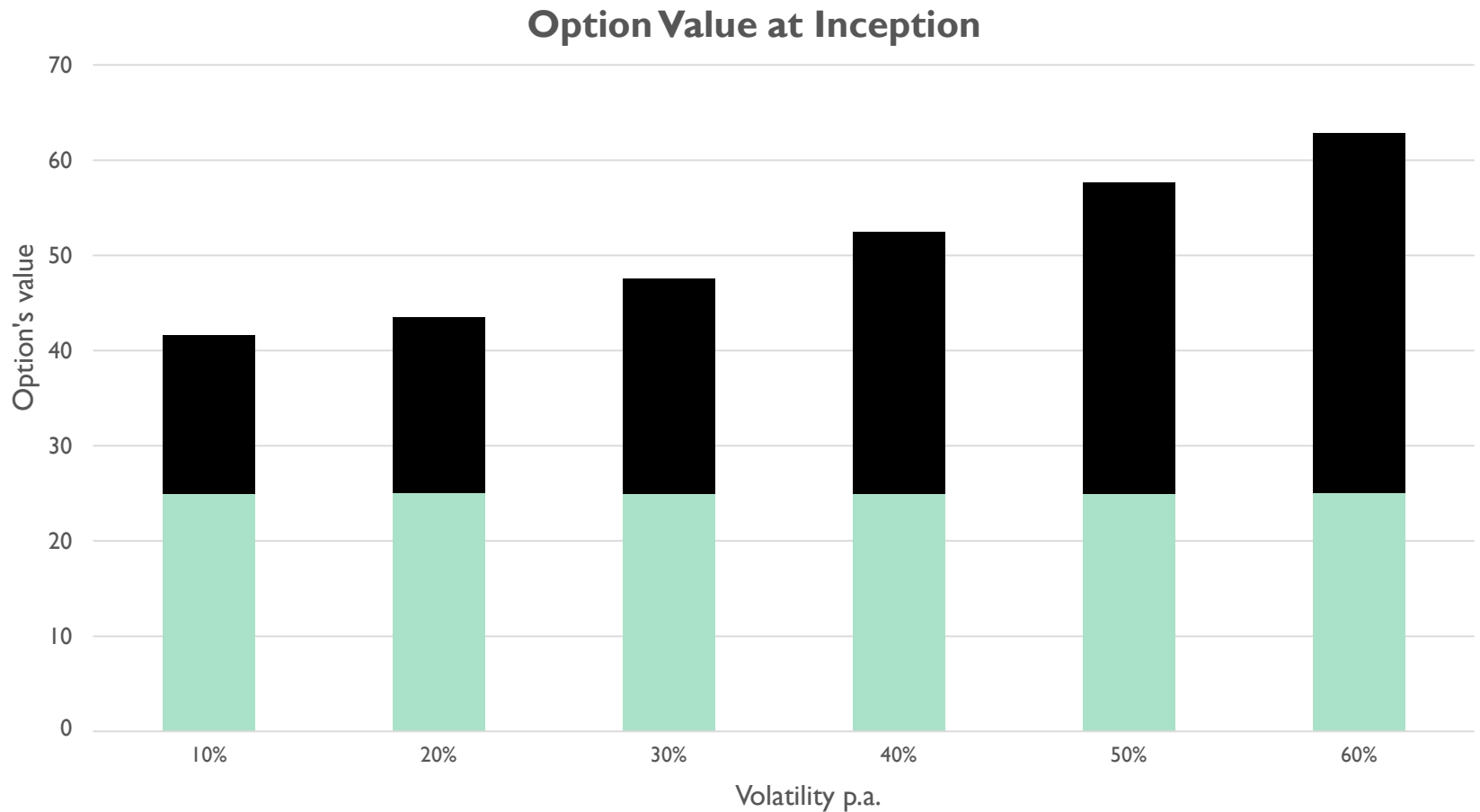
Sensitivity of Option Value-Expected life



Market Price - Rs100
Exercise Price - Rs 75
Risk free rate - 5% p.a.
Volatility - 25% p.a.

■ Intrinsic Value ■ Time Value

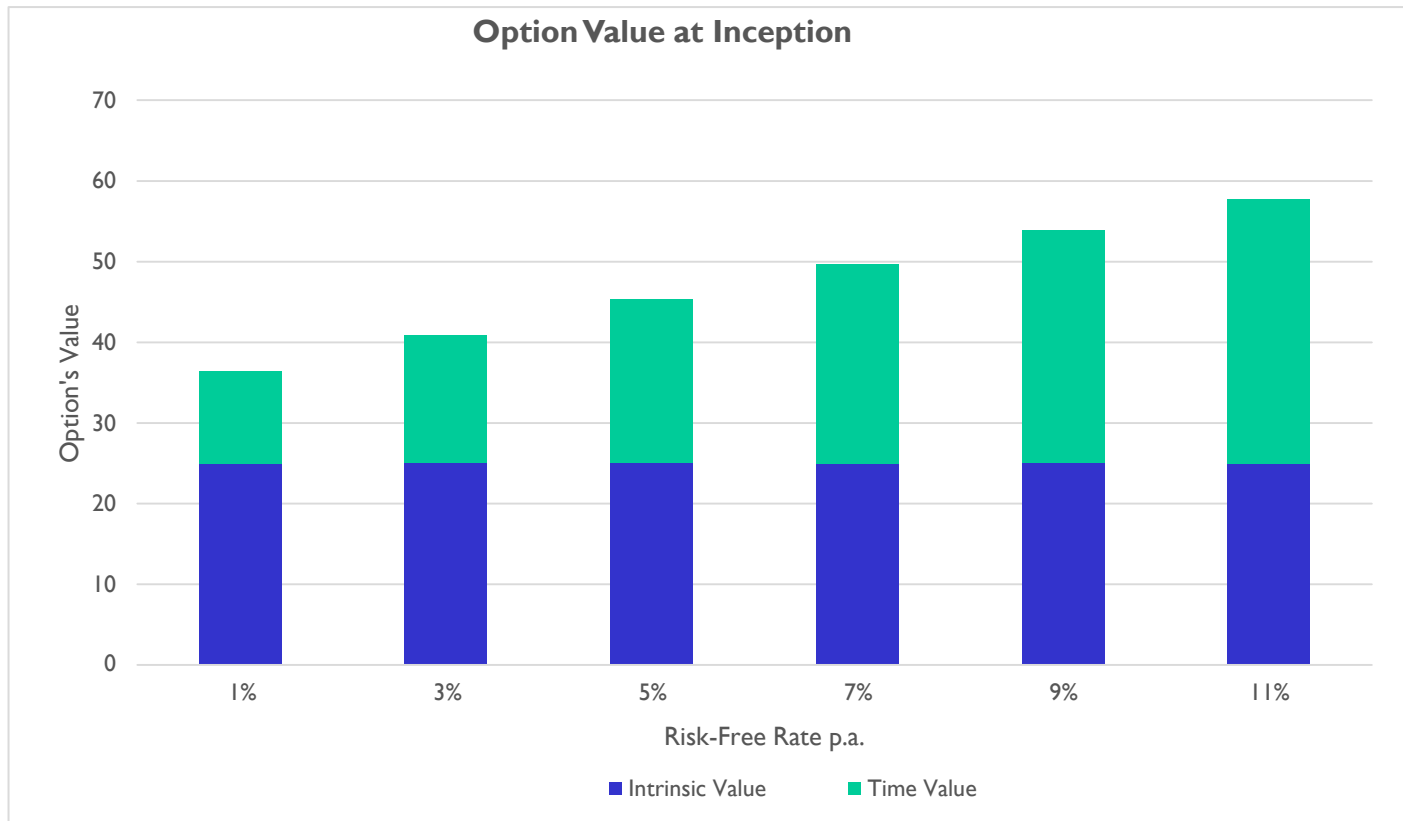
Sensitivity of Option Value-Volatility



Market Price - Rs100
Exercise Price - Rs 75
Risk free rate - 5% p.a.
Expected Life- 5 years

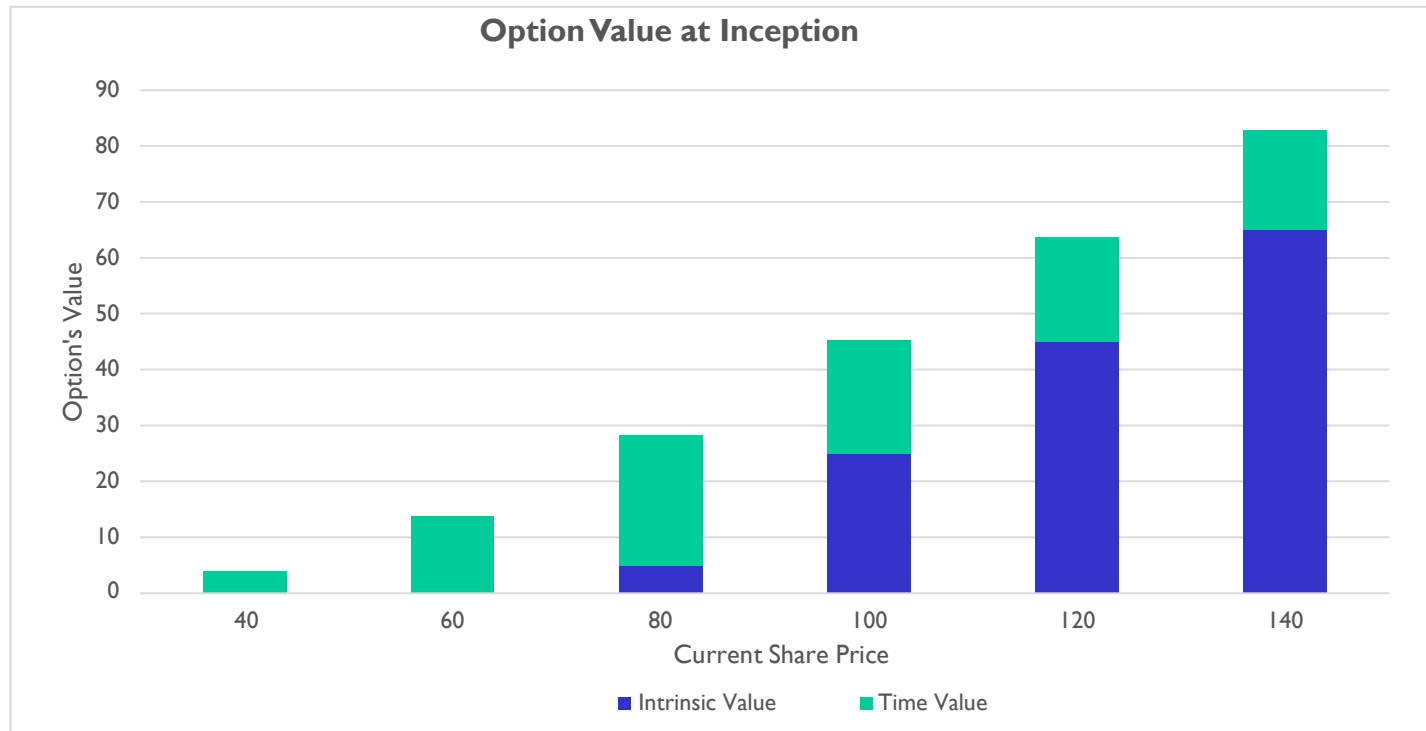
■ Intrinsic Value ■ Time Value

Sensitivity of option value-Risk free rate



Market Price - Rs100
Exercise Price - Rs 75
Volatility- 25% p.a.
Expected Life- 5 years

Sensitivity of option value-Current Share Price



Exercise Price - Rs 75
Volatility- 25% p.a.
Risk Free rate- 5% p.a.
Expected Life- 5 years

Directional Impact of the change in assumptions

An increase in the ...	Results in a fair value estimate of a Call Option
Current price of the underlying share	Higher
Exercise price of the option	Lower
Expected volatility of the stock	Higher
Expected dividends on the stock	Lower
Risk-free interest rate	Higher
Expected term of the option	Higher

It is important to understand all the terms and conditions of a share-based payment arrangement because this enables the issuer to choose the most appropriate option pricing model.

Assumptions" Setting

Expected term of the option

Vesting period	Average holding-time post vesting may vary inversely with vesting period
History of employee exercise and termination patterns	Similar grants (adjusted for current expectations)
Price of the underlying shares	Historical Exercise behaviour related to Price levels?
Employee's level within the organization	Historical experience of rank-exercise
Expected volatility of the underlying share	Usually, higher volatility results in faster exercise

SEBI: Expected Life should not be less than half the exercise period (unless supported by historical evidence).

Segregation into groups with homogenous exercise behaviour critical!

Expected volatility

Implied volatility Traded share options on the entity's shares or convertible debt

Historical volatility Share price volatility over a term commensurate with the expected term of the option

Newly listed entity High historical volatility, compared with similar entities that have been listed longer

Mean reverting Tendency to revert to the long term average

Appropriate and regular intervals for price observations Consistent observations of share price

Assumptions" Setting ... Contd.

Expected Dividends	Whether dividends are expected ? Historical pattern? Mean dividend yield of comparable peers?
Risk free rate	The risk-free interest rate is the implied yield currently available on zero coupon government issues denominated in the currency of the market in which the underlying shares primarily trade with a term equal to the term

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Ind AS 102 Share Based Payments

Measurement of Equity-settled SBPT to Employees

In practice, it is not possible to measure fair value of services rendered by employees (and others providing similar services)

Paragraphs 11 & 12 of Ind AS 102:

1. Measure at fair value of equity instruments granted
2. Fair value measured at grant date
3. Credit recognized in equity

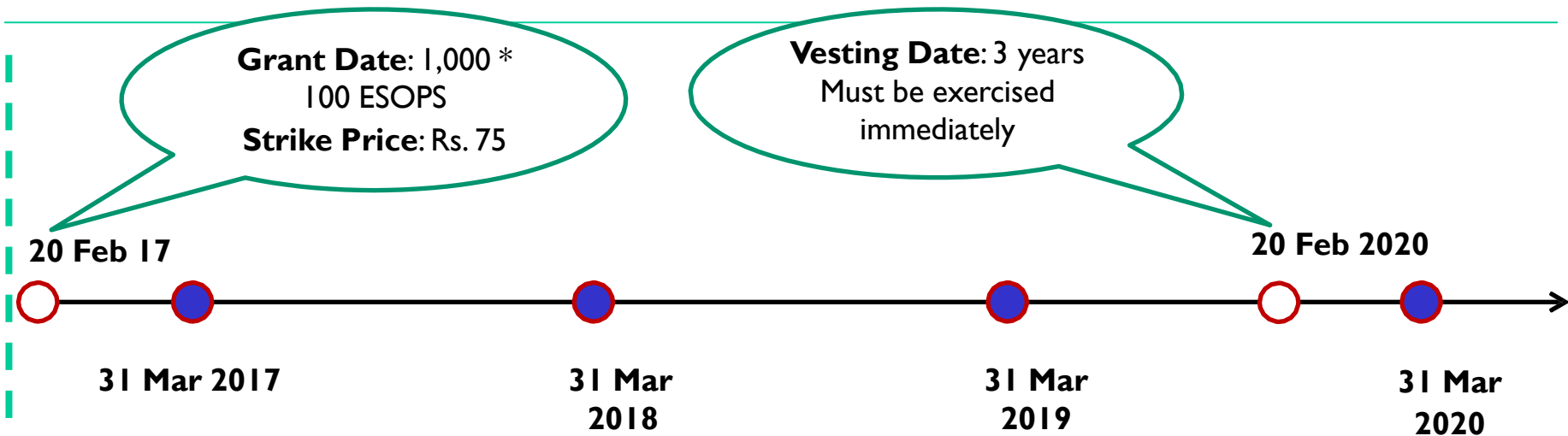
Recognition Principles: Equity-settled and Cash-settled SBPT

	At each reporting date	
Recognition Methodology	Recalculation of Fair Value	Recalculation of number expected to vest
Equity settled	Not permitted*	Required
Cash settled	Required	Required

* Unless original instrument modified

Only the grant date fair value is used to recognise cost for Equity-settled SBPT

Example: Equity-settled ESOP



Total Grant: **1,000 ESOPs each** to its **100 employees** on **20 February 2017**

Market Price per share = Rs 100

Strike Price per option = 75

Service Condition: Applicable

Vesting Period: 3 years

Expected Withdrawal rate = 10%

Face Value per share = Rs 10

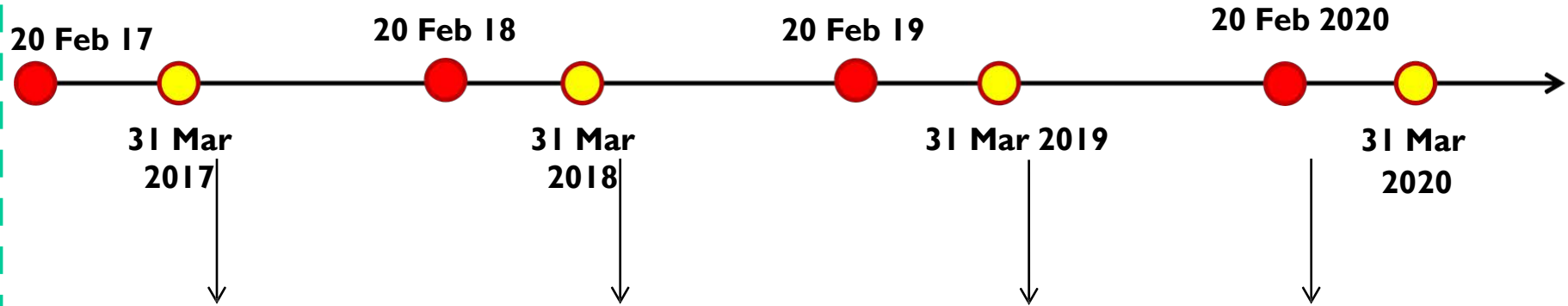
Fair Value per option on grant date = 38

Options expected to vest as on 20 Feb 2020	72,900 i.e. $1000 * 100 * (0.9)^3$
Total expected cost to be recognized	Rs. 2,770,200 (72,900 * 38)

All Amounts in Rs

Example (Contd.)

Expense Recognition



Rs 92,340
 $(2,770,200 * .10 / 3)$

Rs 923,400
 $(2,770,200 * 1 / 3)$

Rs 923,400
 $(2,770,200 * 1 / 3)$

Rs. 831,060
 $(2,770,200 * .90 / 3)$

Date	Cumulative Expense (Rs.)	Expense to be recognized during each year (Rs.)
31 March 2017	92,340 $(2,770,200 * .10 / 3)$	92,340
31 March 2018	1,015,740 $(2,770,200 * 1.10 / 3)$	923,400
31 March 2019	1,939,140 $(2,770,200 * 2.10 / 3)$	923,400
20 Feb 2020	2,770,200 $(2,770,200 * 3 / 3)$	831,060

Example (Contd..)

Expense Recognition

Date	Particulars	Debit (Rs.)	Credit (Rs.)
31 March 2017	P&L ESOP outstanding	92,340	92,340
31 March 2018	P&L ESOP outstanding	923,400	923,400
31 March 2019	P&L ESOP outstanding	923,400	923,400
20 February 2020	P&L ESOP outstanding	831,060	831,060

Example (Contd.)

Settlement Recognition

Date	Particulars	Debit (Rs.)	Credit (Rs.)
20 Feb 2020 (If exercised)	Bank account (72,900 * 75) ESOP outstanding account Equity Share capital account (72,900 * 10) Share Premium account (Balancing Item)	5,467,500 2,770,200	 729,000 7,508,700
20 Feb 2020 (If lapsed)	ESOP outstanding account General reserve account	2,770,200	 2,770,200

SBPT with cash alternative to Entity

Entity has to determine if the present obligation is to settle in cash or equity

Cash

- If settlement choice in equity has no commercial substance (unlisted)
- If entity usually settles in cash when counterparty insists
- Account as per cash-settled SBPT

Equity

- For listed company, the settlement choice in equity has commercial substance
- Account as per equity-settled SBPT

On settlement

- If recognition as **Equity settled but settlement in cash**, cash settlement amounts to equity repurchase
- If recognition as **Cash settled, but settlement in Equity**, transfer of Liability to Equity
- Any excess through P&L

SBPT with cash alternative to Counterparty

Debt Component

- Recognise a liability for goods and services received
- Account as per cash-settled SBPT

Equity Component

- Recognise an increase in Equity for goods and services received
- Account as per equity-settled SBPT

On settlement

- **Remeasure the liability at FV**
- If counterparty **chooses cash**, liability is extinguished
- If counterparty **chooses equity**, liability transferred to Equity
- Any equity component previously recognised will remain in Equity

For Employees, often the FV of one settlement alternative is the same as other e.g. choice between ESOPs and SAR



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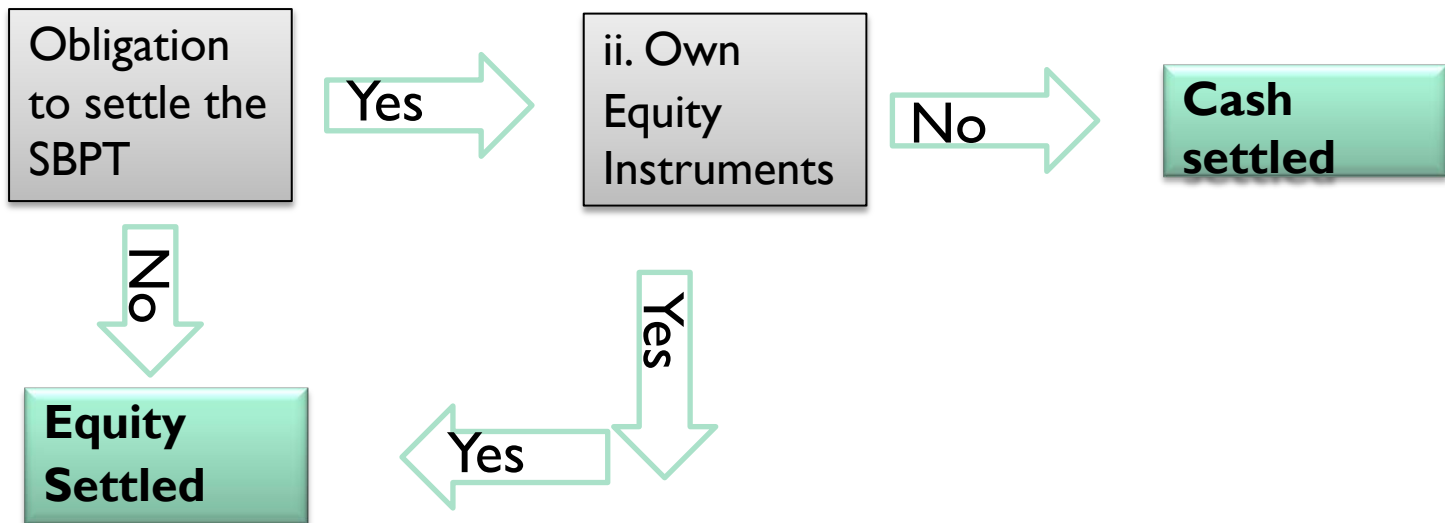


Ind AS 102 Share Based Payments

Group entities-Key Paras- Para 43(B)

Entity receiving
goods and
services
(Para 43B)

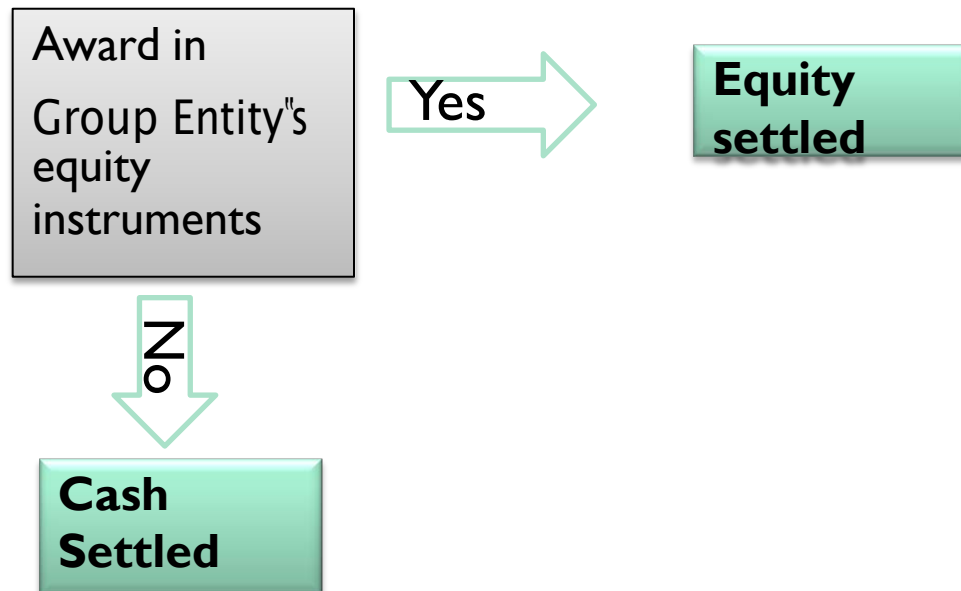
- The amount recognised by the entity shall measure SBPT as an Equity-settled transaction when*
- i. The **entity has no obligation to settle** the transaction **OR**
- ii. Awards are its **own** financial instruments



Group entities-Key Paras- Para 43(C)

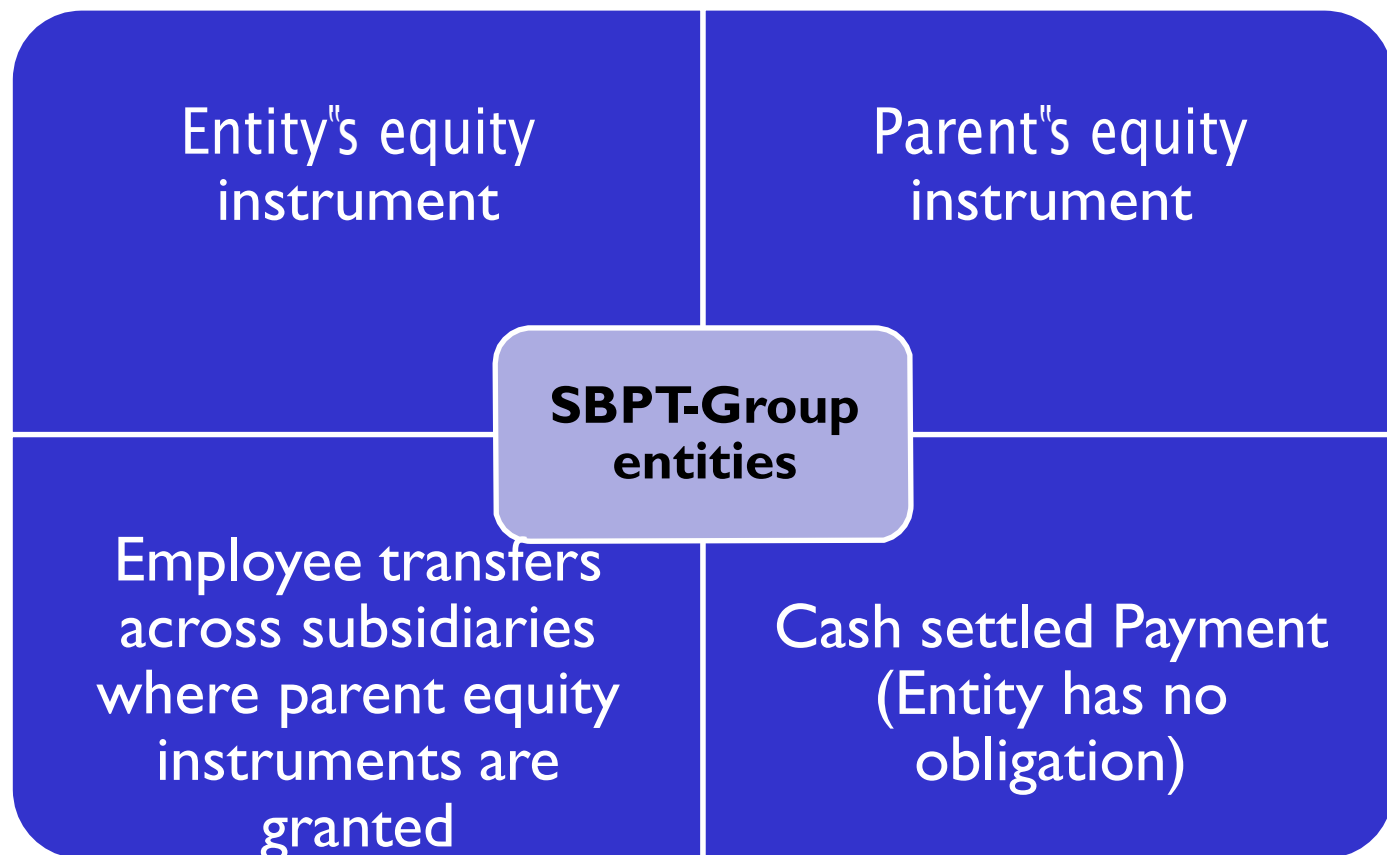
Group entity settling the SBPT of another (Para 43C)

- The entity settling a transaction shall recognise the transaction as an **Equity-settled SBPT only if it is settled in the entity's own equity instruments.** Otherwise recognised as cash-settled SBPT.



SBPT among Group entities- Four issues

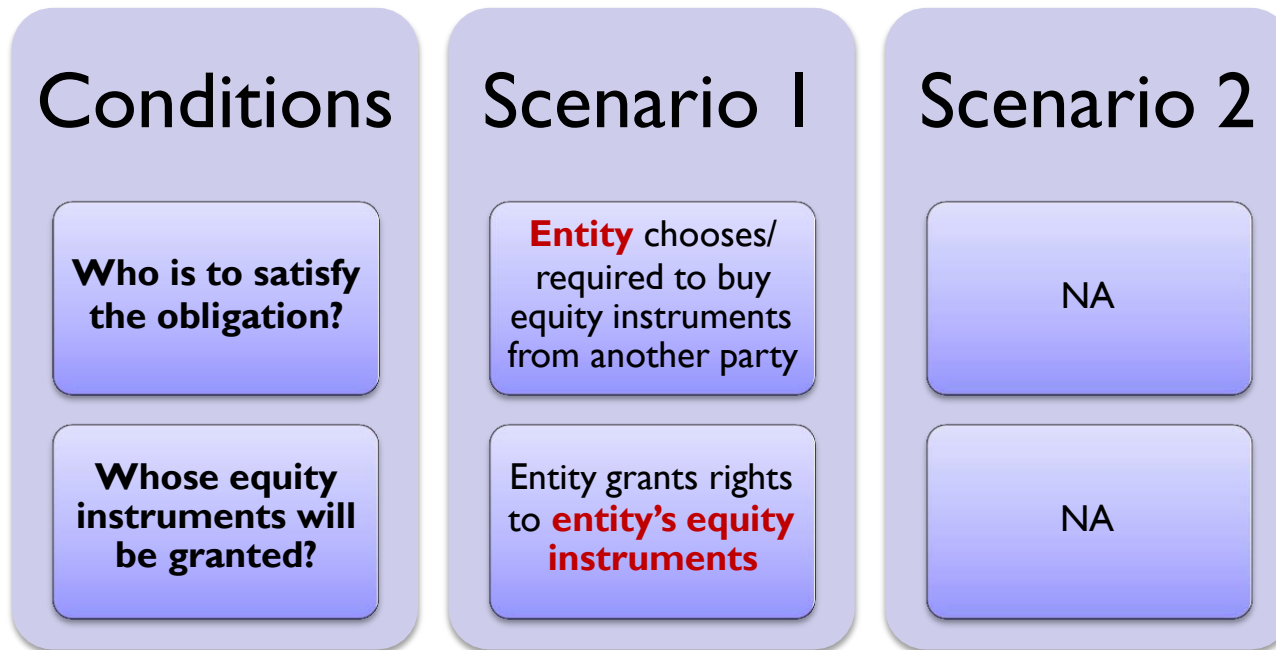
Commonly encountered issues addressed by the Standard are the ones involving...



„Entity“ and „Subsidiary“ are used interchangeably
„Shareholder“ and „Parent“ are used interchangeably

SBPT among Group entities- Entity's Equity Instrument

Scenario 1: Equity settled or Cash settled for the Entity (Subsidiary) and Shareholder (Parent)? Hint: Refer Para 43 B

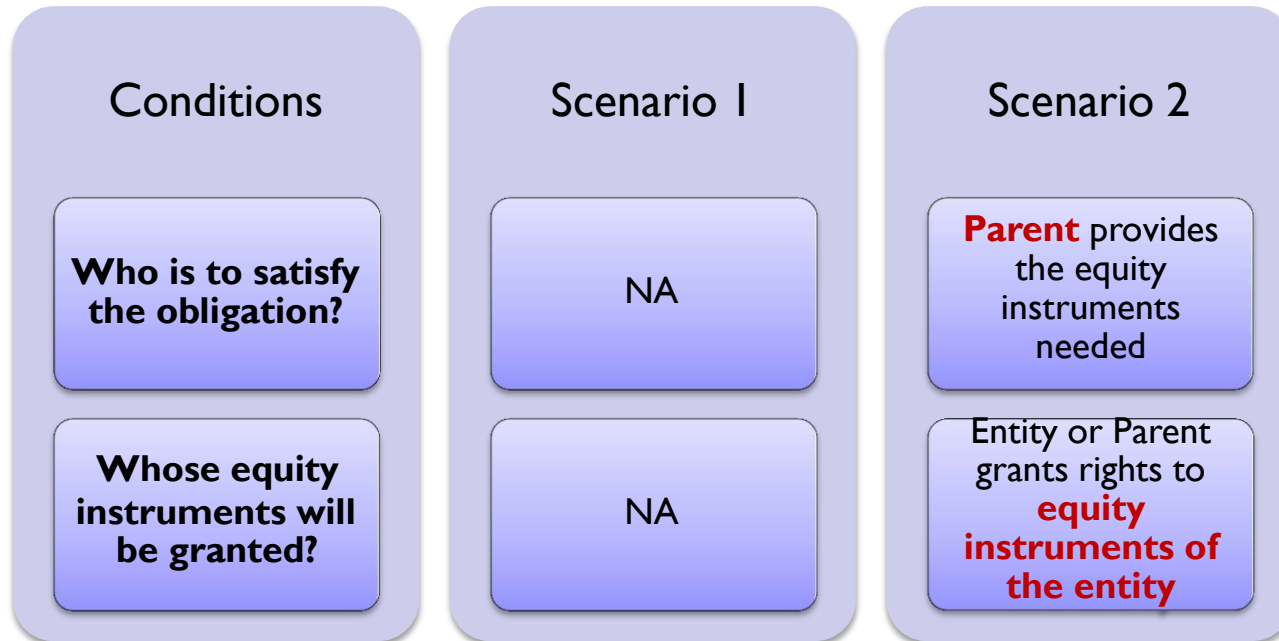


Entity's fin statement	Equity settled	43 (B) (ii) fulfilled
Parent's fin statement	Not Applicable	Parent not involved. 43(C) not invoked

SBPT among Group entities- Entity's Equity Instrument

Scenario 2: Equity settled or Cash settled for the **Entity and Parent ?**

Hint: Para 43 B for Subsidiary and Para 43 C for Parent

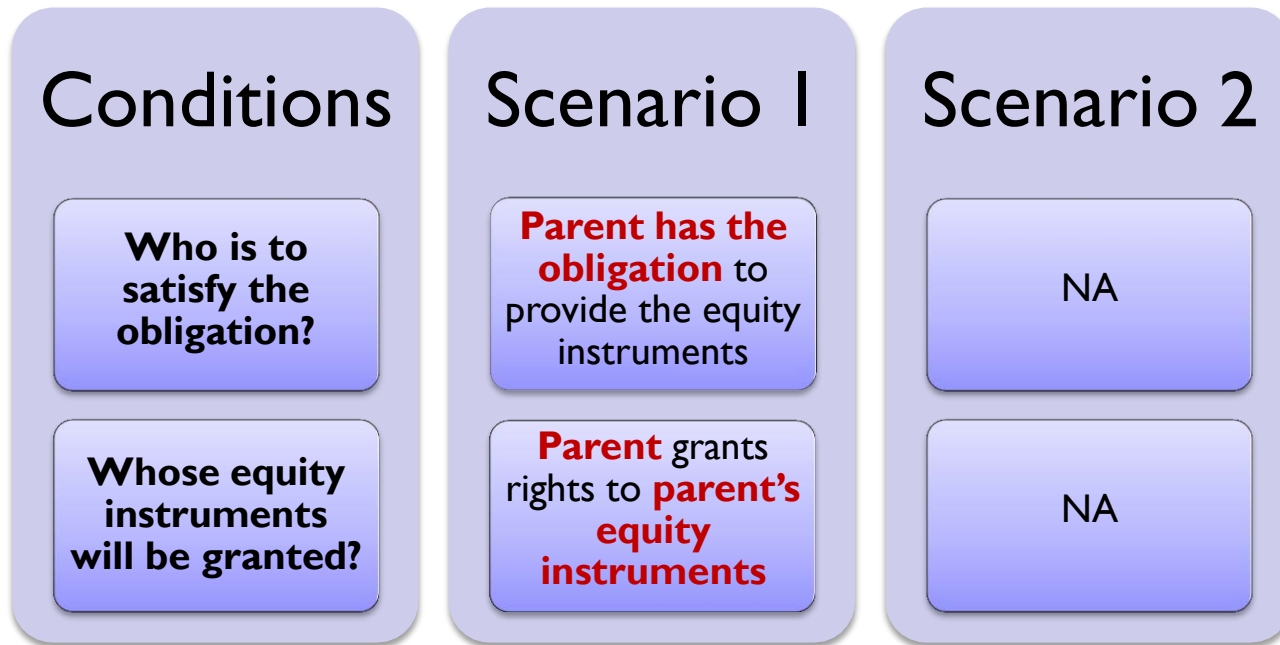


Entity's fin statement	Equity settled	43 (B) (ii) fulfilled
Shareholder's (Parent) fin statement:	Cash settled	As per 43 (C).

SBPT among Group entities- Parent's Equity Instrument

Scenario 1: Equity settled or Cash settled for the **Subsidiary and Parent ?**

Hint: Refer Para 43 B for Subsidiary and Para 43C for Parent

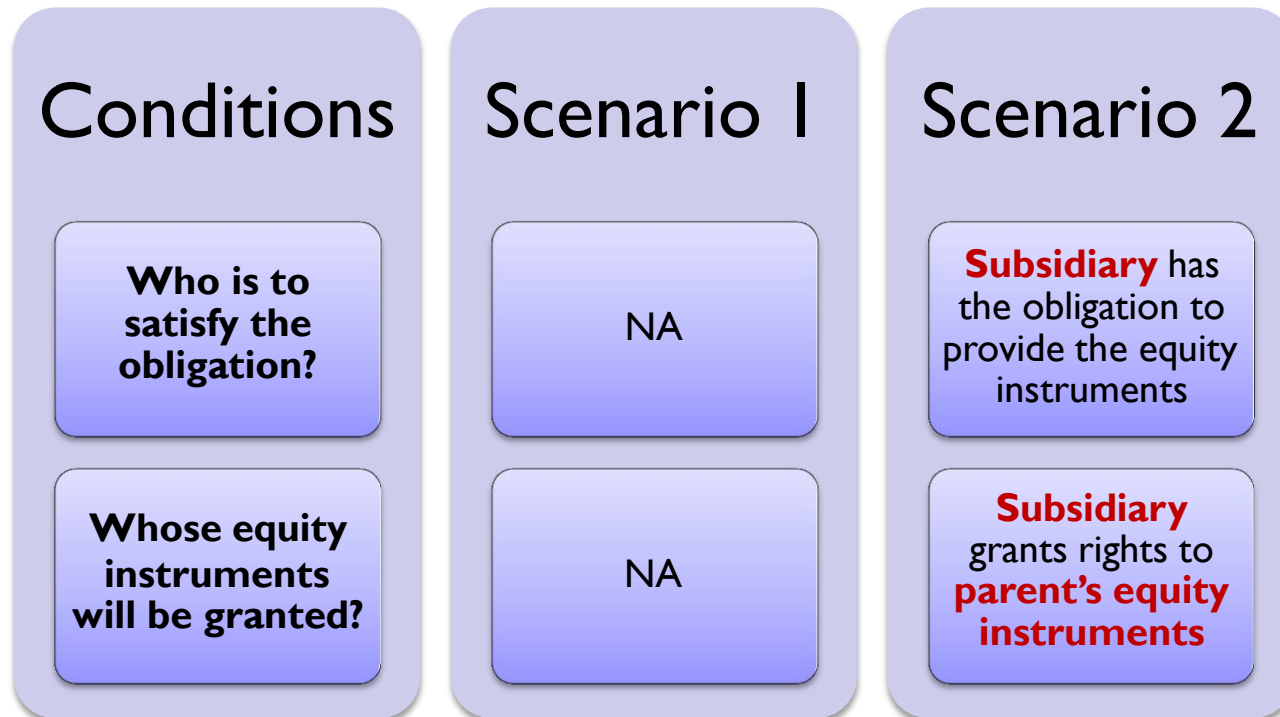


Subsidiary's (Entity) fin statement:	Equity settled (equity as a contribution from parent)	43 (B) (i) fulfilled
Parent fin statement:	Equity settled	As per 43 (C), since own equity instruments

SBPT among Group entities- Parent's Equity Instrument

Scenario 2: Equity settled or Cash settled for the **Subsidiary and Parent ?**

Hint: Refer Para 43 B for Subsidiary and Para 43C for Parent

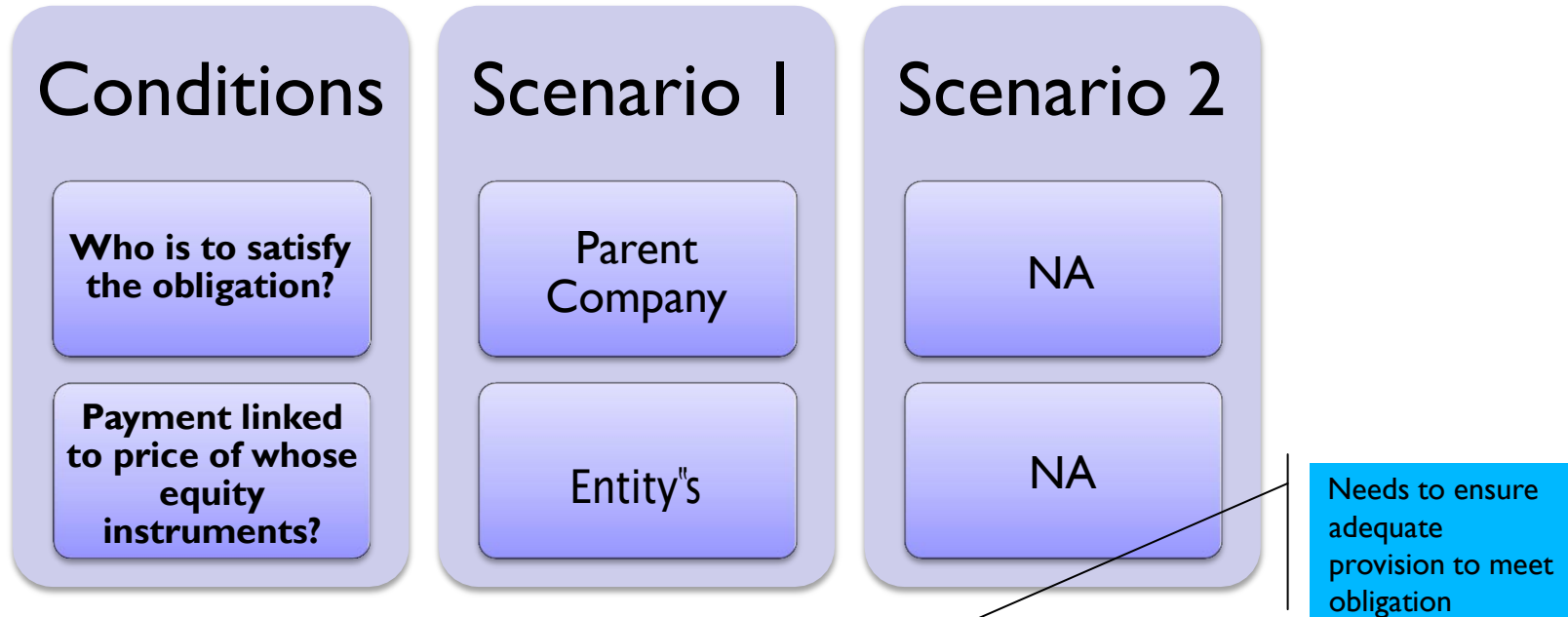


Subsidiary's fin statement:	Cash settled	43 (B) (i) & (ii) NOT fulfilled
Parent fin statement:	Not mentioned in the Standard	Since parent does not have the obligation.

SBPT among Group entities- Cash settled

SBPT

Both Scenarios: Equity settled or Cash settled for the **Subsidiary and Parent** ?
 Hint: Refer Para 43 B for Subsidiary and Para 43C for Parent

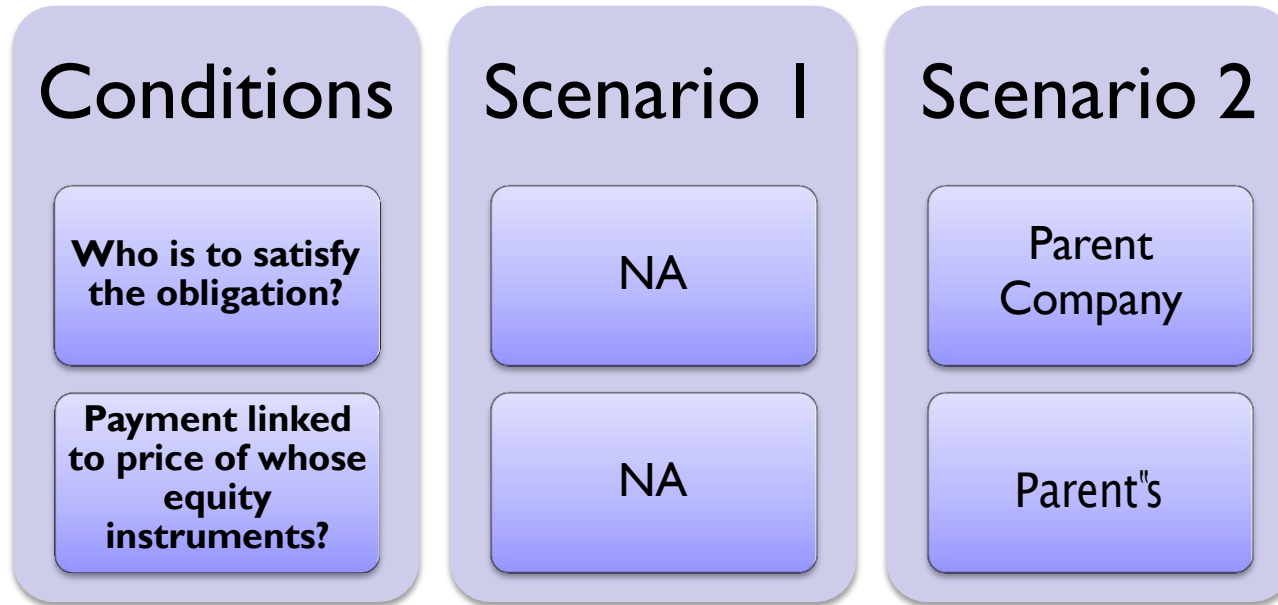


Subsidiary's fin statement:	Equity settled (equity as a contribution from parent)	43 (B) (i) fulfilled
Parent fin statement:	Cash settled	As per 43 (C), since cash payment instead of own equity instrument

SBPT among Group entities- Cash settled

SBPT

Both Scenarios: Equity settled or Cash settled for the **Subsidiary and Parent ?**
Hint: Refer Para 43 B for Subsidiary and Para 43C for Parent



Subsidiary's fin statement:	Equity settled (equity as a <i>contribution from parent</i>)	43 (B) (i) fulfilled
Parent fin statement:	Cash settled	As per 43 (C), since cash payment instead of own equity instrument

Accounting Entries in the following slide

SBPT among Group entities- Cash settled SBPT (Accounting Entries)

Entity (Equity settled)	Parent (Cash settled)
Over vesting	Over vesting
P&L Dr To Contribution from Parent	Contribution to Subsidiary* Dr To Liability
At settlement	At settlement
No entry	Liability Dr To Bank

*IFRS 2 is silent on the treatment of the debit entry arising from recognition and remeasurement of the obligation in the parent's separate financial statements

SBPT among Group entities- Employee transfers across group entities

Parent Company grants rights to own equity instruments to subsidiaries' employees

Hint: Refer Para 43 B for Subsidiary and Para 43C for Parent

Scenario I: In subsidiary books, if **Parent Company to settle the obligation** in Parent's equity instruments

Considers the proportion of vesting period served with each subsidiary

Subsidiary's fin statement:	Equity settled	43 (B) (i) fulfilled
Parent fin statement:	Not explicit in the Standard	As per 43 (C), could be equity-settled

SBPT among Group entities- Employee transfers across group entities

Parent Company grants rights to own equity instruments to subsidiaries' employees

Hint: Refer Para 43 B for Subsidiary and Para 43C for Parent

Scenario 2: In subsidiary books, if **Subsidiary to settle the obligation** in Parent's equity instruments

Considers the proportion of vesting period served with each subsidiary

Subsidiary's fin statement:	Cash settled	43 (B) (i) & (ii) NOT fulfilled
Parent fin statement:	Not mentioned in the Standard	Since Parent does not have the obligation.

Forfeiture and Lapses of Equity-Settled Instruments

Before Vesting Date

Reverse amount earlier recognized (paragraph 23)

After Vesting Date

Cannot subsequently reverse amount earlier recognized (paragraph 23)

SEBI (2009 updated): "When a vested option lapses on expiry of the exercise period, after the fair value of the option has already been accounted for as employee compensation, this accounting treatment shall be reversed by a credit to employee compensation expense."

SEBI 2014 guidelines indicate accounting implications as per GN18 though or as may be prescribed by the ICAI from time to time, including the disclosure requirements therein.

Today's Discussion

- ▶ **Applicability, Structure and Scope**
- ▶ **Grant Date and Eligibility Conditions**
- ▶ **Fair Value Models**
- ▶ **Assumptions' setting and Option Value Sensitivity**
- ▶ **Equity Settled Recognition- Example**
- ▶ **Share Based Payment Transactions (SBPT) among Group Entities**
- ▶ **Modification treatment and Disclosures**



Ind AS 102 Share Based Payments

Modification to grant terms and conditions

Modification

Equity-Settled (Fair Value Change)

Incremental FV recognised over the remaining vesting period (measured at date of modification)

Equity-Settled (Cancellation or Settlement)

Ignore if FV decrease.
If reduction in number of equity instruments, treat as cancellation*

Cash-Settled (FV change)

Acceleration of vesting
Repurchase of Equity
Any excess in P&L

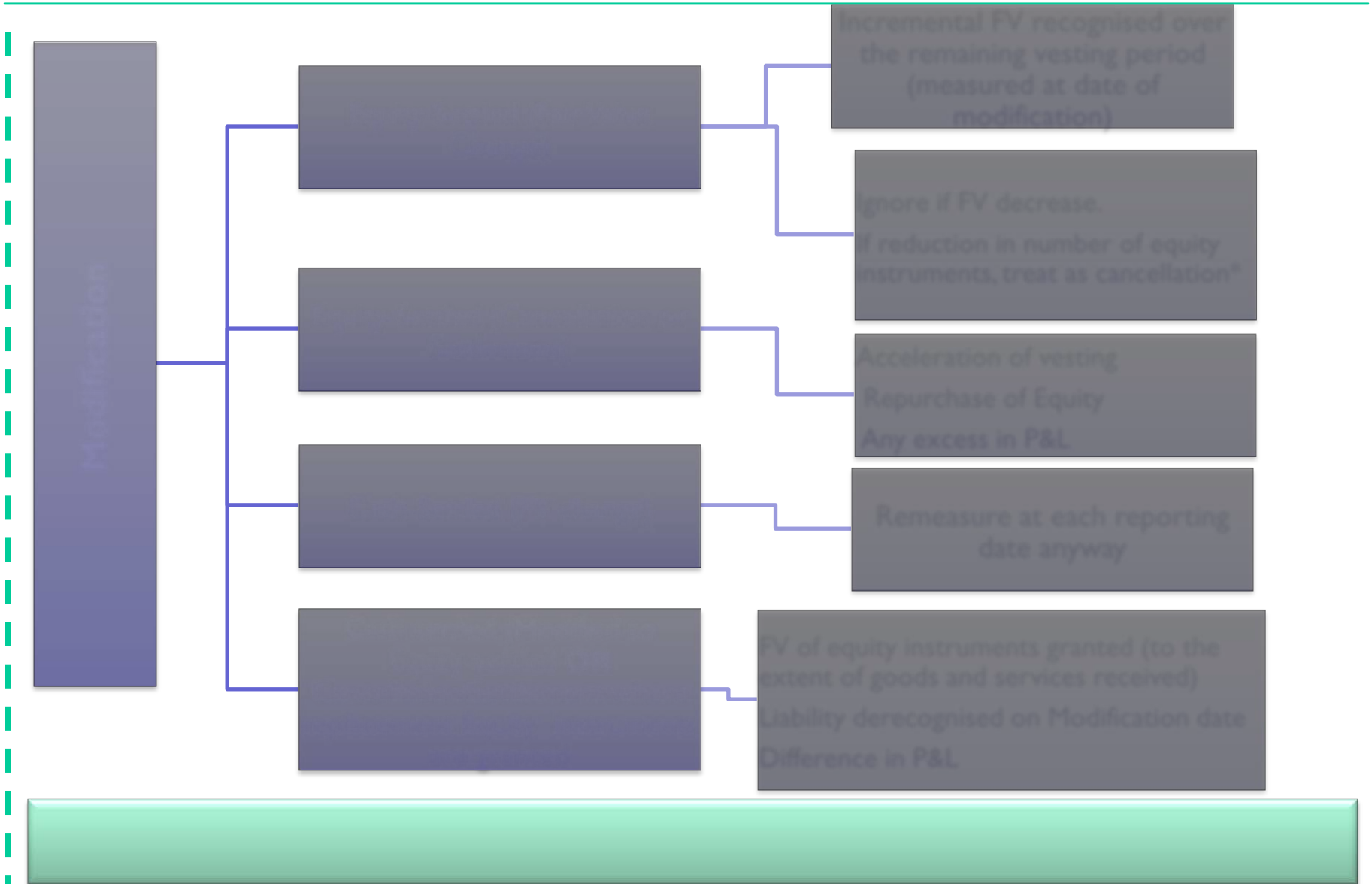
Cash settled (Modified to Equity-settled **OR** Cancellation/Settlement where replacement Equity instruments are granted)

Remeasure at each reporting date anyway

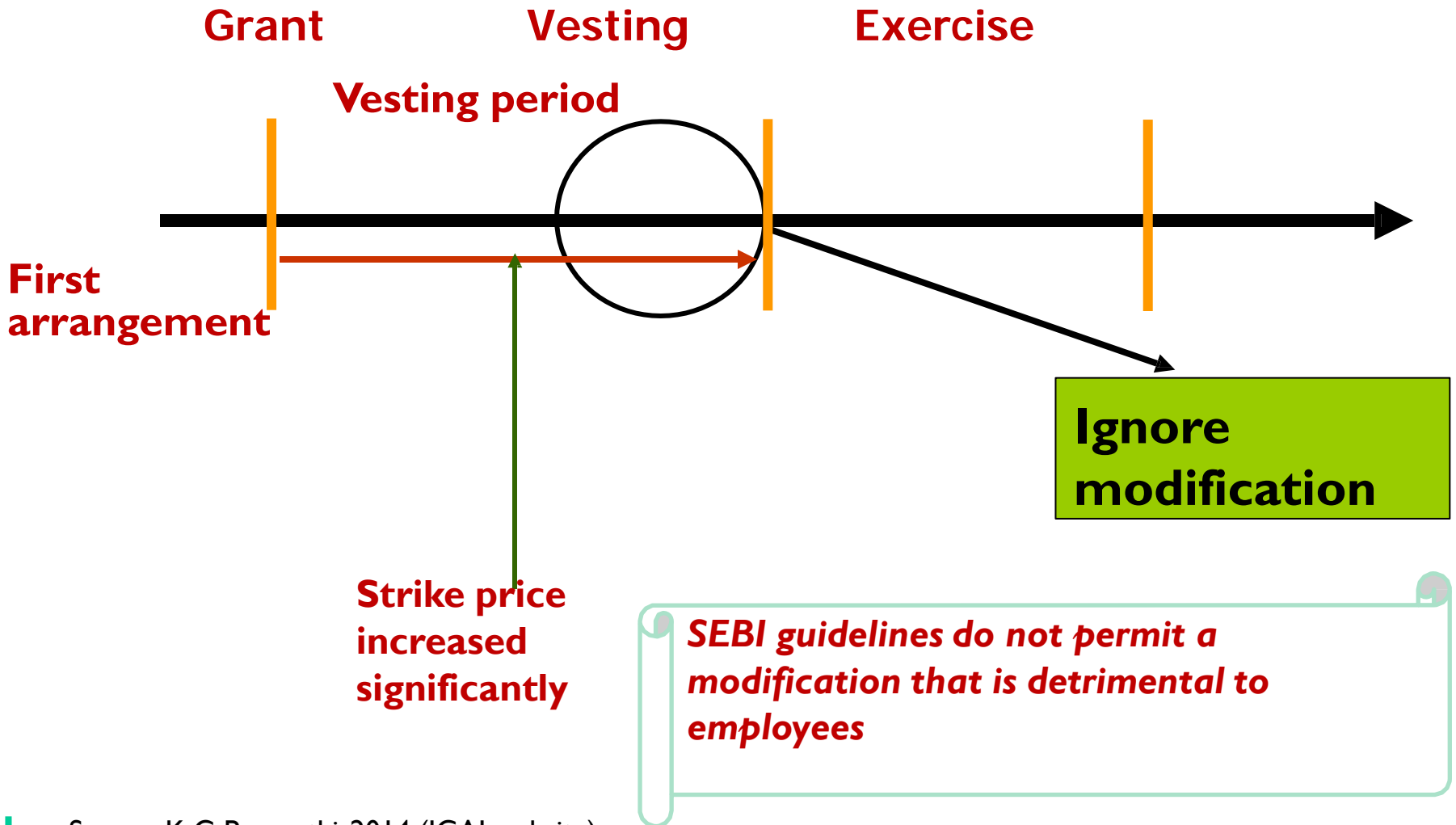
FV of equity instruments granted (to the extent of goods and services received)
Liability derecognised on Modification date
Difference in P&L

Incremental FV is the difference between the FV of the modified equity instrument and that of the original equity instrument, both estimated as at the date of the modification.

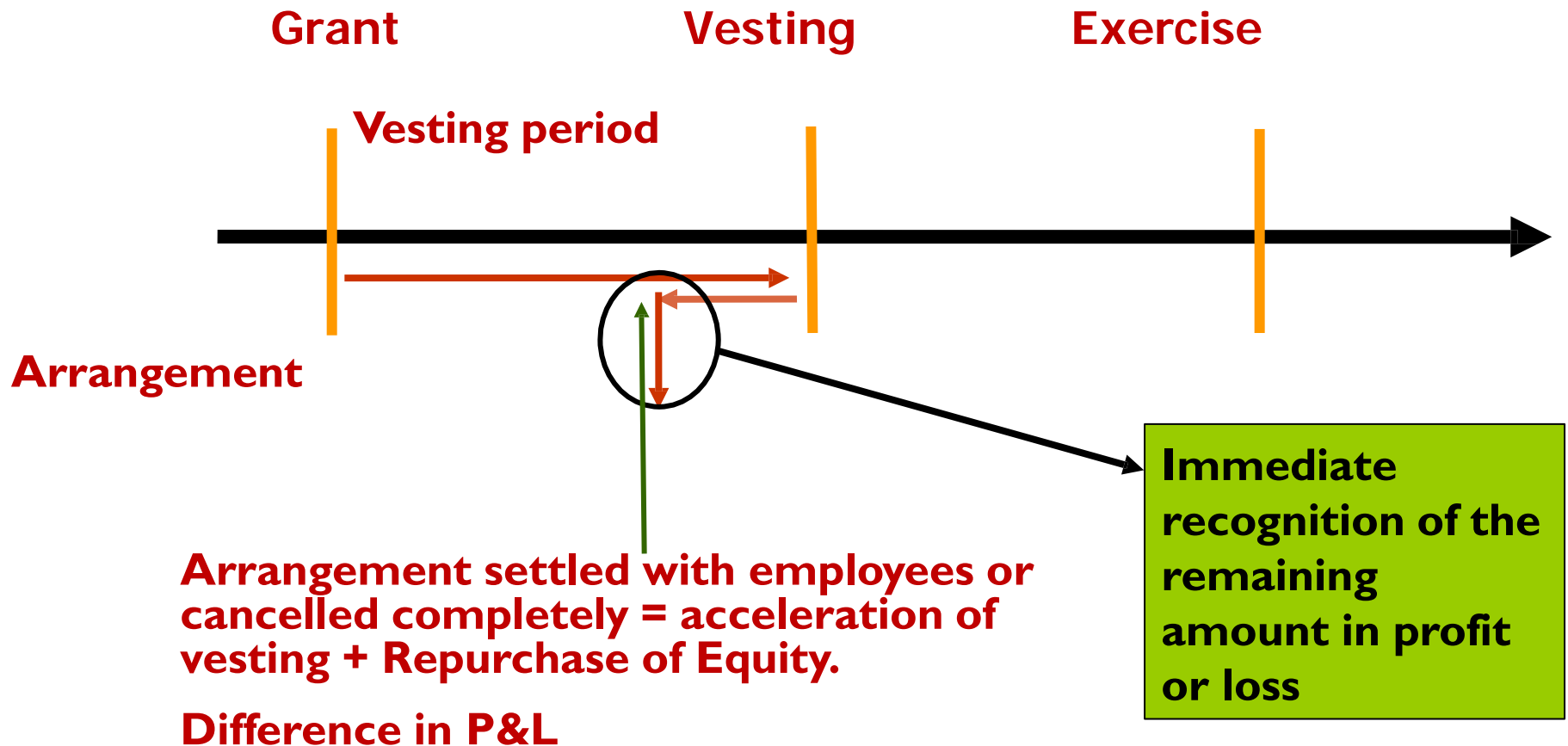
**SEBI guidelines do not permit modification that is detrimental to employees.*



Modifications – Repricing/replacement for Equity settled SBPT



Modifications – Settlement/cancellation for Equity settled SBPT



Modification Example (Exercising Professional Judgment)

Original ESOP plan feature	Expected Exercise period considered : 2 years for actively serving employees. (Lapse at resignation)
Modified ESOP plan feature	Exercise period of 1 year after resignation

Original ESOP's Fair Value

Vesting Date	Fair value (Rs) per option
03-04-19	26.20
03-04-20	31.78
03-04-21	36.99
03-04-22	41.85

Modification Example (Exercising Professional Judgment) Contd..

Considerations:

Whether this modification will affect the expected exercise period? **Yes**

If yes, will it lead to an increase in Fair Value? **Yes**

If yes, how should this be allowed for? **Recalculate the FV with a higher expected exercise period.**

Option I - Increase the expected exercise period by 1 year

Option II - Increase the exercise period by 1 year weighed by the resignation probability.

Modification Example (Exercising Professional Judgment) Contd..

Option 1: 3 year expected exercise period for all

Option 2: Increase the expected exercise period for possible resignations

Vesting Date	Original	Option 1	Difference
03-04-19	26.20	31.78	5.58
03-04-20	31.78	36.99	5.21
03-04-21	36.99	41.85	4.86
03-04-22	41.85	46.38	4.53

Vesting Date	Original	Option 2	Difference
03-04-19	26.20	26.74	0.54
03-04-20	31.78	32.23	0.45
03-04-21	36.99	37.37	0.38
03-04-22	41.85	42.17	0.32

Option 2 is appropriate because:-

- Not all employees resign after vesting
- Modification is relevant only for employees resigning
- The increase is negligible as expected compared to Option 1 because of low withdrawal rate

Indicative disclosures

Classification	Sample Content
Plan Description	Terms and conditions
ESOP Movement	Number and weighted average exercise prices in each series e.g. outstanding at the beginning of the period, granted during the period, etc
Exercised options	Weighted average share price at the exercise date
Outstanding at year end	Range of exercise prices and weighted average remaining contractual life.
ESOP	<ul style="list-style-type: none"> • The option pricing model and inputs used, • Effects of expected early exercise incorporated, • Expected volatility determination • Features of option grant in FV measurement.

Indicative disclosures

Classification	Sample Content
<i>Non-ESOP</i>	<ul style="list-style-type: none">• Number and weighted average fair value at the measurement date,• Fair Value measurement
<i>Modified SBPT</i>	<ul style="list-style-type: none">• Explanation of modifications• Incremental FV granted
<i>Direct measurement</i>	FV of goods and services calculated directly
<i>Expense for the period</i>	Expense for Equity settled transaction
<i>Liability related and Tax related cash flow</i>	Carrying amount of liability at the end of the period

Q & A

