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PRIMARY NEED

IS TO FOCUS ON HUMAN ASSETS -
KEEP THEM WELL AND KEEP THEM

EMPLOYED.. ”

CASH CRUNCH POST COVID ??

RETAIN YOUR EMPLOYEES BY INTRODUCING
AN EFFECTIVE ESOP POLICY

- Employee Stock Option Scheme (ESOS)
- Employee Stock Purchase Plan (ESPP)
- Stock Appreciation Rights (SARs)
- Restricted Stock Award (RSA)
- Restricted Stock Unit (RSU)
- Or
- Issuance of Sweat Equity Shares

Ind-AS 102 Provide framework for financial reporting
in respect of share-based benefits



IND AS 102: SHARE-BASED PAYMENT

Objectives of Ind AS 102

Financial reporting of the effects of **share-based payment transactions**, including expenses associated with transactions in which share options are granted to employees.

Share-based payment transaction is a transaction in which the entity:

- Receives goods or services from the supplier of those goods or services (including an employee) in a share-based payment agreement; or
- Incurs an obligation to settle the transaction with the supplier in a share-based payment arrangement when another group entity receives those goods or services.

Types of Share Based Payment

Though there are several types of share based payments but the **most common** types of share based payments that company grant to its employees are **Employee Stock Option Plans (ESOPs)** and **Stock Appreciation Rights (SARs)**.

ESOPs are employee benefit schemes under which the company encourages its employees to participate in the ownership of the company by granting them options on its shares, usually at a rate lower than the prevailing market price.

SARs are schemes which entitle the employees of the company to receive cash on account of appreciation in stock prices of the company, subject to fulfillment of certain vesting conditions. The settlement in case of SARs typically happens in cash and consequently does not result in employees owning shares of the Company.

Applicability of Ind AS 102

Ind AS 102 is applicable to all share-based payments including:

- Equity-settled share-based payment transaction (Share, **ESOPs** or Warrants);
- Cash-settled share-based payment transaction (**Share Appreciation Right**);
- Choice between equity settled and cash settled.



Measurement / Valuation Requirements

Ind AS 102 mandates a fair valuation of share-based remuneration schemes. ESOPs and SARs are the most popular share-based remuneration schemes. The valuation of ESOPs and SARs determines the amount to be charged to the income statement each year and consequently the carrying value of these in the balance sheet.

Valuation Approach

Ind AS 102 does not direct the adoption of any specific method for valuation. If we refer the definition of fair value which is prescribed under Ind AS 102, **fair value** means:

“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”

Having reference of above stated definition of fair value **Black Scholes Formula, Binomial Model and Monte Carlo Method** can be used in determining the fair value of Options.

- While applying the above stated option pricing models one must take into account the following terms of the scheme:
 1. Exercise Price;
 2. Tenure of the Option;
 3. Current Price of the share;
 4. Risk-free rate of interest for the life of the option;
 5. Expected volatility on the share price and
 6. Expected dividend on the shares.
- In case of **ESOPs** the **fair value** equity instruments shall be measured **at time of grant date**.
- **SARs** are required to be valued on **fair value** basis **at each reporting date**. Thus, the SARs are required to be re-valued at each reporting date till the date of **settlement of the liability**.
- The valuation approach for both ESOP and SAR is similar – the only difference being in the model parameters such as Strike Price, value of the underlying share, etc.

Our Role: CCV has a team of experienced Professional from various disciplines having considerable experience in valuation of securities and financial assets in most effective and efficient manner.