Definitions:

Terms	Explanation
Cash-settled share-based transaction	A share-based payment transaction in which the payment entity acquires goods or services by incurring a liability to transfer cash or other assets to the supplier of those goods or services for amounts that are based on the price (or value) of equity instruments (including shares or share options) of the entity or another group entity.
Employees and others providing similar services	Individuals who render personal services to the entity and either (a) the individuals are regarded as employees for legal or tax purposes, (b) the individuals work for the entity under its direction in the same way as individuals who are regarded as those rendered by employees. For example, the term encompasses all management personnel, i.e. those persons having authority and responsibility for planning, directing and controlling the activities of the entity, including non-executive directors.
Equity instrument	A contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities
Equity instrument granted	The right (conditional or unconditional) to an **equity instrument** of the entity conferred by the entity on another party, under a **share-based payment arrangement**.
Equity-settled share-based payment transaction	A **share-based payment transaction** in which the entity • receives goods or services as consideration for its **equity instruments** own (including shares or **share options**), or • receives goods or services but has no obligation to settle the transaction with the supplier
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.
Grant Date	The date at which the entity and another party (including an employee) agree to a share- based payment arrangement, being when the entity and the counterparty have a shared understanding of the terms and conditions of the arrangement. At grant date 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. If that agreement is subject to an approval process (for example, by shareholders), grant date is the date when that approval is obtained.
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. For example, a **share option** with an exercise price of Rs15, on a share with a **fair value** of Rs 20, has an intrinsic value of Rs 5.

Market condition	A condition upon which the exercise price, vesting or exercisability of an **equity instrument** depends that is related to the market price of the entity's **equity instruments**, such as attaining a specified share price or a specified amount of **intrinsic value** of a **share option**, or achieving a specified target that is based on the market price of the entity's **equity instruments** relative to an index of market prices of **equity instruments** of other entities.
Measurement date	The date at which the **fair value** of the **equity instruments granted** is measured for the purposes of this Ind AS. For transactions with **employees and others providing similar services**, the measurement date is **grant date**. For transactions with parties other than employees (and those providing similar services), the measurement date is the date the entity obtains the goods or the counterparty renders service.
Reload feature	A feature that provides for an automatic grant of additional **share options** whenever the option holder exercises previously granted options using the entity's shares, rather than cash, to satisfy the exercise price.
Reload option	A new **share option** granted when a share is used to satisfy the exercise price of a previous **share option**.
Share-based payment arrangement	An agreement between the entity (or another group* entity or any shareholder of any group entity) and another party (including an employee) that entitles the other party to receive • cash or other assets of the entity for amounts that are based on the price (or value) of **equity instruments** (including shares or **share options**) of the entity or another group entity, or • **equity instruments** (including shares or **share options**) of the entity or another group entity, provided the specified **vesting conditions**, if any, are met
Share-based payment transaction	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 arrangement**, 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.
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.
Vest	To become an entitlement. Under a **share- based payment arrangement**, a counterparty's right to receive cash, other assets or **equity instruments** of the entity vests when the counterparty's entitlement is no longer conditional on the satisfaction of any **vesting conditions.**

Vesting Conditions	The conditions that determine 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**. Vesting conditions are either service conditions or performance conditions. Service conditions require the counterparty to complete a specified period of service. Performance conditions require the counterparty to complete a specified period of service and specified performance targets to be met (such as a specified increase in the entity's profit over a specified period of time). A performance condition might include a **market condition**.
Vesting Period	The period during which all the specified **vesting conditions** of a **share-based payment arrangement** are to be satisfied.

CASE STUDIES:

Case Study: 1(a)

Freelance Ltd 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 Rs.15.

On the basis of a weighted average probability, the Freelance estimates that 20 per cent of employees will leave during the three-year period and therefore forfeit their rights to the share options.

Case Study: 1(b)

In the above example, 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 employee's × 100 options per employee) vested at the end of year 3.

In Example 1, the share options were granted conditionally upon the employees' completing a specified service period. In some cases, a share option or share grant might also be conditional upon the achievement of a specified performance target. Examples 2, 3 and 4 illustrate the application of the Standard to share option or share grants with performance conditions (other than market conditions, which are discussed in paragraph IG13 and illustrated in Examples 5 and 6). In Example 2, the length of the vesting period varies, depending on when the performance condition is satisfied. Paragraph 15 of the Standard requires the entity to estimate the length of the expected vesting period, based on the most likely outcome of the performance condition, and to revise that estimate, if necessary, if subsequent information indicates that the length of the vesting period is likely to differ from previous estimates.

Case Study: 2

Grant with a performance condition, in which the length of the vesting period varies

Mingfisher Ltd issue 100 shares to its 500 employee in 20 x 1, conditional upon the employees' remaining in the Mingfisher's employment during the vesting period. The shares will vest at the end of year 1 if the Mingfisher's earnings increase by more than 18 per cent; at the end of year 2 if the Mingfisher's earnings increase by more than an average of 13 per cent per year over the two-year period; and at the end of year 3 if the Mingfisher's earnings increase by more than an average of 10 per cent per year over the three-year period. The shares have a fair value of Rs.30 per share at the start of year 1, which equals the share price at grant date. No dividends are expected to be paid over the three-year period.

By the end of year 1, the Mingfisher's earnings have increased by 14 per cent, and 30 employees have left. The Mingfisher expects that earnings will continue to increase at a similar rate in year 2, and therefore expects that the shares will vest at the end of year 2. The Mingfisher expects, on the basis of a weighted average probability, that a further 30 employees will leave during year 2, and therefore expects that 440 employees will vest in 100 shares each at the end of year 2.

By the end of year 2, the Mingfisher's earnings have increased by only 10 per cent and therefore the shares do not vest at the end of year 2. 28 employees have left during the year. The Mingfisher expects that a further 25 employees will leave during year 3, and that the Mingfisher's earnings will increase by at least 6 per cent, thereby achieving the average of 10 per cent per year.

By the end of year 3, 23 employees have left and the Mingfisher's earnings had increased by 8 per cent, resulting in an average increase of 10.67 per cent per year. Therefore, 419 employees received 100 shares at the end of year 3.

Compute the remuneration expense to be recognized by Mingfisher Ltd.

Case Study: 3

Grant with a performance condition, in which the number of equity instruments varies

Boltel Ltd grants share option to each of its 100 employees working in the sales department. The share options will vest at the end of year 3, provided

that the employees remain in the Boltel's employment, and provided that the volume of sales of a particular product increases by at least an average of 5 per cent per year. If the volume of sales of the product increases by an average of between 5 per cent and 10 per cent per year, each employee will receive 100 share options. If the volume of sales increases by an average of between 10 per cent and 15 per cent each year, each employee will receive 200 share options. If the volume of sales increases by an average of 15 per cent or more, each employee will receive 300 share options.

On grant date, Boltel estimates that the share options have a fair value of Rs.20 per option. Boltel also estimates that the volume of sales of the product will increase by an average of between 10 per cent and 15 per cent per year, and therefore expects that, for each employee who remains in service until the end of year 3, 200 share options will vest. The Boltel also estimates, on the basis of a weighted average probability, that 20 per cent of employees will leave before the end of year 3.

By the end of year 1, seven employees have left and the Boltel still expects that a total of 20 employees will leave by the end of year 3. Hence, the Boltel expects that 80 employees will remain in service for the three-year period. Product sales have increased by 12 per cent and the Boltel expects this rate of increase to continue over the next 2 years.

By the end of year 2, a further five employees have left, bringing the total to 12 to date. The Boltel now expects only three more employees will leave during year 3, and therefore expects a total of 15 employees will have left during the three-year period, and hence 85 employees are expected to remain. Product sales have increased by 18 per cent, resulting in an average of 15 per cent over the two years to date. The Boltel now expects that sales will average 15 per cent or more over the three-year period, and hence expects each sales employee to receive 300 share options at the end of year 3.

By the end of year 3, a further two employees have left. Hence, 14 employees have left during the three-year period, and 86 employees remain. The Boltel's sales have increased by an average of 16 per cent over the three years. Therefore, each of the 86 employees receives 300 share options.

Compute the amount of remuneration expenses to be recognized by Boltel Ltd.

Case Study: 4

Grant with a performance condition, in which the exercise price varies

Moon Pharma grants 10,000 shares options to a senior executivein the year 20x 1, conditional upon the executive's remaining in the Moon Phama's employment until the end of year 3. The exercise price is Rs.40. However, the exercise price drops to Rs.30 if the Moon Phama's earnings increase by at least an average of 10 per cent per year over the three-year period.

On grant date, the Moon Phama estimates that the fair value of the share options, with an exercise price of Rs.30, is Rs.16 per option. If the exercise price is Rs.40, the Moon Phama estimates that the share options have a fair value of Rs.12 per option.

During year 1, the Moon Phama's earnings increased by 12 per cent, and the Moon Phama expects that earnings will continue to increase at this rate over the next two years. The Moon Phama therefore expects that the earnings target will be achieved, and hence the share options will have an exercise price of Rs.30.

During year 2, the Moon Phama's earnings increased by 13 per cent, and the Moon Phama continues to expect that the earnings target will be achieved.

During year 3, the Moon Phama's earnings increased by only 3 per cent, and therefore the earnings target was not achieved. The executive completes three years' service, and therefore satisfies the service condition. Because the earnings target was not achieved, the 10,000 vested share options have an exercise price of Rs.40.

Compute the amount of remuneration expense to be paid by Moon Pharma Ltd.

Case Study: 5

Grant with a market condition

Muted Breweries grants 10,000 share option in 20 x 1 to its senior executive, conditional upon the executive remaining with Muted Breweries until the end of year 3. However, the share options cannot be exercised unless the

share price has increased from Rs.50 at the beginning of year 1 to above Rs.65 at the end of year 3. If the share price is above Rs.65 at the end of year 3, the share options can be exercised at any time during the next seven years, i.e. by the end of year 10.

Muted Breweries applies a binomial option pricing model, which takes into account the possibility that the share price will exceed Rs.65 at the end of year 3 (and hence the share options become exercisable) and the possibility that the share price will not exceed Rs.65 at the end of year 3 (and hence the options will be forfeited). It estimates the fair value of the share options with this market condition to be Rs.24 per option.

Compute the amount of remuneration expense for Muted Breweries Ltd.

Case Study: 6

Grant with a market condition, in which the length of the vesting period varies

Narsignh Ltd grants 10000 share options with ten-year life to each of ten senior executives in 20 x 1. The share options will vest and become exercisable immediately if and when the Narsignh's share price increases from Rs.50 to Rs.70, provided that the executive remains in service until the share price target is achieved.

The Narsignh applies a binomial option pricing model, which takes into account the possibility that the share price target will be achieved during the ten-year life of the options, and the possibility that the target will not be achieved. The Narsignh estimates that the fair value of the share options at grant date is Rs.25 per option. From the option pricing model, the Narsignh determines that the mode of the distribution of possible vesting dates is five years. In other words, of all the possible outcomes, the most likely outcome of the market condition is that the share price target will be achieved at the end of year 5. Therefore, the Narsignh estimates that the expected vesting period is five years. The Narsignh also estimates that two executives will have left by the end of year 5, and therefore expects that 80,000 share options (10,000 share options × 8 executives) will vest at the end of year 5.

Throughout years 1–4, the Narsignh continues to estimate that a mipa Karmakar & Abhinav Mindra will leave by the end of year 5. However, in total three executives leave, one in each of years 3, 4 and 5. The share price

target is achieved at the end of year 6. Another executive leaves during year 6, before the share price target is achieved.

Case Study: 7

Grant of shares, with a cash alternative subsequently added

Phelps Ltd grants 10,000 shares with a fair value of Rs.33 per share to a senior executive, conditional upon the completion of three years' service in 20 x 1. By the end of year 2, the share price has dropped to Rs.25 per share. At that date, the entity adds a cash alternative to the grant, whereby the executive can choose whether to receive 10,000 shares or cash equal to the value of 10,000 shares on vesting date. The share price is Rs.22 on vesting date.

Compute the remuneration expense as well as the equity & liability component to be recognized.

Case Study: 8

Share-based payment with vesting and non-vesting conditions when the counterparty can choose whether the non-vesting condition is met

Doping Ltd grants an employee the opportunity to participate in a plan in which the employee obtains share options if he agrees to save 25 per cent of his monthly salary of Rs.400 for a three-year period. The monthly payments are made by deduction from the employee's salary. The employee may use the accumulated savings to exercise his options at the end of three years, or take a refund of his contributions at any point during the three-year period. The estimated annual expense for the share-based payment arrangement is Rs.120.

After 18 months, the employee stops paying contributions to the plan and takes a refund of contributions paid to date of Rs.1,800.

Compute the remuneration expense to be recognized by Doping Ltd.

Case Study: 9

Grant of share options that is accounted for by applying the intrinsic value method

Maple Inc grants 1,000 share options to 50 employees in 20 x 1. The share options will vest at the end of year 3, provided the employees remain in service until then. The share options have a life of 10 years. The exercise price is Rs.60 and the entity's share price is also Rs.60 at the date of grant.

At the date of grant, Maple Inc concludes that it cannot estimate reliably the fair value of the share options granted.

At the end of year 1, three employees have ceased employment and the entity estimates that a further seven employees will leave during years 2 and 3. Hence, Maple Inc estimates that 80 per cent of the share options will vest.

Two employees (Mr. Muffet & Mr. Bates) leave during year 2, and the entity revises its estimate of the number of share options that it expects will vest to 86 per cent

Two employees (Mr. Lobs & Mr. Shosla) leave during year 3. Hence, 43,000 share options vested at the end of year 3

The entity's share price during years 1–10, and the number of share options exercised during years 4–10, are set out below. Share options that were exercised during a particular year were all exercised at the end of that year.

Year	**Share price at year end**	**Number of share options exercised at year end**
1	63	0
2	65	0
3	75	0
4	88	6000
5	100	8000
6	90	5000
7	96	9000
8	105	8000
9	108	5000
10	115	2000

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