

MINISTRY OF CORPORATE AFFAIRS

NOTIFICATION

New Delhi, the 17th March, 2017

G.S.R. 258(E).—In exercise of the powers conferred by section 133 read with section 469 of the Companies Act, 2013 (18 of 2013) and sub-section (1) of section 210A of the Companies Act, 1956 (1 of 1956), the Central Government, in consultation with the National Advisory Committee on Accounting Standards, hereby makes the following rules further to amend the Companies (Indian Accounting Standards) Rules, 2015, namely:—

1. **Short title and commencement.**-(1) These rules may be called the Companies (Indian Accounting Standards) (Amendment) Rules, 2017.

(2) They shall come into force on the 1st day of April, 2017.

2. In the principal rules, in the “Annexure”, under the heading “B. Indian Accounting Standards (Ind AS)” in “Indian Accounting Standard (Ind AS) 102, *Share-based Payment*”, -

(i) for paragraph 19, the following paragraph shall be substituted, namely:-

“19 A grant of equity instruments might be conditional upon satisfying specified vesting conditions. For example, a grant of shares or share options to an employee is typically conditional on the employee remaining in the entity’s employment for a specified period of time. There might be performance conditions that must be satisfied, such as the entity achieving a specified growth in profit or a specified increase in the entity’s share price. Vesting conditions, other than market conditions, shall not be taken into account when estimating the fair value of the shares or share options at the measurement date. Instead, vesting conditions, other than market conditions, shall be taken into account by adjusting the number of equity instruments included in the measurement of the transaction amount so that, ultimately, the amount recognised for goods or services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest. Hence, on a cumulative basis, no amount is recognised for goods or services received if the equity instruments granted do not vest because of failure to satisfy a *vesting condition*, other than a market condition, for example, the counterparty fails to complete a specified service period, or a performance condition is not satisfied, subject to the requirements of paragraph 21.”

(ii) for paragraph 30, the following paragraph shall be substituted, namely:-

“**30 For cash-settled share-based payment transactions, the entity shall measure the goods or services acquired and the liability incurred at the fair value of the liability, subject to the requirements of paragraphs 31–33D. Until the liability is settled, the entity shall remeasure the fair value of the liability at the end of each reporting period and at the date of settlement, with any changes in fair value recognised in profit or loss for the period.**”

(iii) for paragraph 31, the following paragraph shall be substituted, namely:-

“31 For example, an entity might grant share appreciation rights to employees as part of their remuneration

package, whereby the employees will become entitled to a future cash payment (rather than an equity instrument), based on the increase in the entity's share price from a specified level over a specified period of time. Alternatively, an entity might grant to its employees a right to receive a future cash payment by granting to them a right to shares (including shares to be issued upon the exercise of share options) that are redeemable, either mandatorily (for example, upon cessation of employment) or at the employee's option. These arrangements are examples of cash-settled share-based payment transactions. Share appreciation rights are used to illustrate some of the requirements in paragraphs 32–33D; however, the requirements in those paragraphs apply to all cash-settled share-based payment transactions.”

(iv) for paragraph 33, the following paragraph shall be substituted, namely:-

“33 The liability shall be measured, initially and at the end of each reporting period until settled, at the fair value of the share appreciation rights, by applying an option pricing model, taking into account the terms and conditions on which the share appreciation rights were granted, and the extent to which the employees have rendered service to date subject to the requirements of paragraphs 33A–33D. An entity might modify the terms and conditions on which a cash-settled share-based payment is granted. Guidance for a modification of a share-based payment transaction that changes its classification from cash-settled to equity-settled is given in paragraphs B44A–B44C in Appendix B.”

(v) after paragraph 33, the following paragraphs and headings shall be inserted, namely:-

“Treatment of vesting and non-vesting conditions

33A A cash-settled share-based payment transaction might be conditional upon satisfying specified vesting conditions. There might be performance conditions that must be satisfied, such as the entity achieving a specified growth in profit or a specified increase in the entity's share price. Vesting conditions, other than market conditions, shall not be taken into account when estimating the fair value of the cash-settled share-based payment at the measurement date. Instead, vesting conditions, other than market conditions, shall be taken into account by adjusting the number of awards included in the measurement of the liability arising from the transaction.

33B To apply the requirements in paragraph 33A, the entity shall recognise an amount for the goods or services received during the vesting period. That amount shall be based on the best available estimate of the number of awards that are expected to vest. The entity shall revise that estimate, if necessary, if subsequent information indicates that the number of awards that are expected to vest differs from previous estimates. On the vesting date, the entity shall revise the estimate to equal the number of awards that ultimately vested.

33C Market conditions, such as a target share price upon which vesting (or exercisability) is conditioned, as well as non-vesting conditions, shall be taken into account when estimating the fair value of the cash-settled share-based payment granted and when remeasuring the fair value at the end of each reporting period and at the date of settlement.

33D As a result of applying paragraphs 30–33C, the cumulative amount ultimately recognised for goods or services received as consideration for the cash-settled share-based payment is equal to the cash that is paid.

Share-based payment transactions with a net settlement feature for withholding tax obligations

33E Tax laws or regulations may oblige an entity to withhold an amount for an employee's tax obligation associated with a share-based payment and transfer that amount, normally in cash, to the tax authority on the employee's behalf. To fulfil this obligation, the terms of the share-based payment arrangement may permit or require the entity to withhold the number of equity instruments equal to the monetary value of the employee's tax obligation from the total number of equity instruments that otherwise would have been issued to the employee upon exercise (or vesting) of the share-based payment (i.e. the share-based payment arrangement has a 'net settlement feature').

33F As an exception to the requirements in paragraph 34, the transaction described in paragraph 33E shall be classified in its entirety as an equity-settled share-based payment transaction if it would have been so classified in the absence of the net settlement feature.

33G The entity applies paragraph 29 of this Standard to account for the withholding of shares to fund the payment to the tax authority in respect of the employee's tax obligation associated with the share-based payment. Therefore, the payment made shall be accounted for as a deduction from equity for the shares withheld, except to the extent that the payment exceeds the fair value at the net settlement date of the equity instruments withheld.

33H The exception in paragraph 33F does not apply to:

- (a) a share-based payment arrangement with a net settlement feature for which there is no obligation on the entity under tax laws or regulations to withhold an amount for an employee's tax obligation associated with that share-based payment; or
- (b) any equity instruments that the entity withholds in excess of the employee's tax obligation associated with the share-based payment (i.e. the entity withheld an amount of shares that exceeds the monetary value of the employee's tax obligation). Such excess shares withheld shall be accounted for as a cash-settled share-based payment when this amount is paid in cash (or other assets) to the employee."

(vi) for paragraph 52, the following paragraph shall be substituted, namely:-

"52 If the information required to be disclosed by this Standard does not satisfy the principles in paragraphs 44, 46 and 50, the entity shall disclose such additional information as is necessary to satisfy them. For example, if an entity has classified any share-based payment transactions as equity-settled in accordance with paragraph 33F, the entity shall disclose an estimate of the amount that it expects to transfer to the tax authority to settle the employee's tax obligation when it is necessary to inform users about the future cash flow effects associated with the share-based payment arrangement."

(vii) after paragraph 52, the following paragraphs and headings shall be inserted, namely:-

“Transitional provisions

53-59 [Refer Appendix 1]

59A An entity shall apply the amendments in paragraphs 30–31, 33–33H and B44A–B44C as set out below. Prior periods shall not be restated.

- (a) The amendments in paragraphs B44A–B44C apply only to modifications that occur on or after the date that an entity first applies the amendments.
- (b) The amendments in paragraphs 30–31 and 33–33D apply to share-based payment transactions that are unvested at the date that an entity first applies the amendments and to share-based payment transactions with a grant date on or after the date that an entity first applies the amendments. For unvested share-based payment transactions granted prior to the date that an entity first applies the amendments, an entity shall remeasure the liability at that date and recognise the effect of the remeasurement in opening retained earnings (or other component of equity, as appropriate) of the reporting period in which the amendments are first applied.
- (c) The amendments in paragraphs 33E–33H and the amendment to paragraph 52 apply to share-based payment transactions that are unvested (or vested but unexercised), at the date that an entity first applies the amendments and to share-based payment transactions with a grant date on or after the date that an entity first applies the amendments. For unvested (or vested but unexercised) share-based payment transactions (or components thereof) that were previously classified as cash-settled share-based payments but now are classified as equity-settled in accordance with the amendments, an entity shall reclassify the carrying value of the share-based payment liability to equity at the date that it first applies the amendments.

59B Notwithstanding the requirements in paragraph 59A, an entity may apply the amendments in paragraph 63D retrospectively, in accordance with Ind AS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, if and only if it is possible without hindsight. If an entity elects retrospective application, it must do so for all of the amendments made by *Amendments to Classification and Measurement of Share-based Payment Transactions* under Ind AS 102.

Effective date

60-63C [Refer Appendix 1]

63D *Amendments to Classification and Measurement of Share-based Payment Transactions* under Ind AS 102 amended paragraphs 19, 30–31, 33 and 52 and added paragraphs 33A–33H, 59A–59B, 63D and B44A–B44C and their related headings. An entity shall apply those amendments for annual periods beginning on or after 1 April, 2017."

(viii) In Appendix B, after paragraph B44, the following paragraphs and heading shall be inserted, namely:-

“Accounting for a modification of a share-based payment transaction that changes its classification from cash-settled to equity-settled

- B44A If the terms and conditions of a cash-settled share-based payment transaction are modified with the result that it becomes an equity-settled share-based payment transaction, the transaction is accounted for as such from the date of the modification. Specifically:
- (a) The equity-settled share-based payment transaction is measured by reference to the fair value of the equity instruments granted at the modification date. The equity-settled share-based payment transaction is recognised in equity on the modification date to the extent to which goods or services have been received.
 - (b) The liability for the cash-settled share-based payment transaction as at the modification date is derecognised on that date.
 - (c) Any difference between the carrying amount of the liability derecognised and the amount of equity recognised on the modification date is recognised immediately in profit or loss.

B44B If, as a result of the modification, the vesting period is extended or shortened, the application of the requirements in paragraph B44A reflect the modified vesting period. The requirements in paragraph B44A apply even if the modification occurs after the vesting period.

B44C A cash-settled share-based payment transaction may be cancelled or settled (other than a transaction cancelled by forfeiture when the vesting conditions are not satisfied). If equity instruments are granted and, on that grant date, the entity identifies them as a replacement for the cancelled cash-settled share-based payment, the entity shall apply paragraphs B44A and B44B. ”

(ix) In Appendix 1, after paragraph 4, the following paragraph shall be inserted, namely:-

“5. Paragraphs 53-59 and 60-63C in IFRS 2 have not been included in Ind AS 102 as these paragraphs relate to Transitional Provisions and Effective date, respectively. However, in order to maintain consistency with paragraph numbers of IFRS 2, the paragraph numbers are retained in Ind AS 102. ”

3. In the principal rules, in the “Annexure”, under the heading “B. Indian Accounting Standards (Ind AS)” in “Indian Accounting Standard (Ind AS) 7, *Statement of Cash Flows*”, -

(i) after paragraph 44, the following paragraphs and heading shall be inserted, namely:-

“Changes in liabilities arising from financing activities

44A An entity shall provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

44B To the extent necessary to satisfy the requirement in paragraph 44A, an entity shall disclose the following changes in liabilities arising from financing activities:

- (a) changes from financing cash flows;
- (b) changes arising from obtaining or losing control of subsidiaries or other businesses;
- (c) the effect of changes in foreign exchange rates;
- (d) changes in fair values; and
- (e) other changes.

44C Liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be, classified in the statement of cash flows as cash flows from financing activities. In addition, the disclosure requirement in paragraph 44A also applies to changes in financial assets (for example, assets that hedge liabilities arising from financing activities) if cash flows from those financial assets were, or future cash flows will be, included in cash flows from financing activities.

44D One way to fulfil the disclosure requirement in paragraph 44A is by providing a reconciliation between the opening and closing balances in the balance sheet for liabilities arising from financing activities, including the changes identified in paragraph 44B. Where an entity discloses such a reconciliation, it shall provide sufficient information to enable users of the financial statements to link items included in the reconciliation to the balance sheet and the statement of cash flows.

44E If an entity provides the disclosure required by paragraph 44A in combination with disclosures of changes in other assets and liabilities, it shall disclose the changes in liabilities arising from financing activities separately from changes in those other assets and liabilities. ”

(ii) after paragraph 52, the following paragraphs and heading shall be inserted, namely:-

“Effective date

53-59 [Refer Appendix 1]

60 Paragraphs 44A–44E have been added. When the entity first applies these amendments, it is not required to provide comparative information for preceding periods. An entity shall apply those amendments for annual periods beginning on or after 1 April, 2017.”

(iii) In Appendix 1, after paragraph 5, the following paragraph shall be inserted, namely:-

“6. Paragraphs 53-59 in IAS 7 have not been included in Ind AS 7 as these paragraphs relate to Effective date. However, in order to maintain consistency with paragraph numbers of IAS 7, the paragraph numbers are retained in Ind AS 7.”

[F. No. 01/01/2009-CL-V(Part VI)]

AMARDEEP SINGH BHATIA, Jt. Secy.

Note : The principal notification was published in the Gazette of India, Extra-ordinary, part II, Section 3, Sub-section (i), vide number G.S.R. 111(E), dated the 16th February, 2015, subsequently amended vide G.S.R. 365(E), dated the 30th March, 2016.