Securities and Exchange Board of India (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999

CONTENTS

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1. Short title and commencement :-

1.1 These Guidelines have been issued by Securities and Exchange Board of India under section 11 of the Securities and Exchange Board of India Act, 1992.

1.2 These Guidelines may be called the Securities and Exchange Board of India (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines. 1999.

2. Definitions :-

2.1 In these Guidelines, unless otherwise defined;

(1) "employee" means

(a) a permanent employee of the company working in India or out of India; or

(b) a director of the company, whether a whole time director or not; or

(c) an employee as defined in sub-clause (a) or (b) of a subsidiary, in India or out of India, or of a holding company of the company;

(2) "employee compensation" means the total cost incurred by the company towards employee compensation including basic salary, dearness allowance, other allowances, bonus and commissions including the value of all perquisites provided, but does not include:

(a) the fair value of the option granted under an Employee Stock Option Scheme; and

(b) the discount at which shares are issued under an Employee Stock Purchase Scheme;

(2A) 'employee stock option' means the option given to the whole-time Directors, Officers or employees of a company which gives such Directors, Officers or employees, the benefit or right to purchase or subscribe at a future date, the securities offered by the company at a pre-determined price.

(3) 'employee stock option scheme (ESOS)' means a scheme under which a company grants employee stock option.

(4) "employee stock purchase scheme (ESPS)" means a scheme under which the company offers shares to employees as part of a public issue or otherwise;

(4a) 'ESOS shares' means shares arising out of exercise of options granted under ESOS.

(4b) 'ESPS shares' means shares arising out of grant of shares under ESPS.

(5) "exercise" means making of an application by the employee to the company for issue of shares against option vested in him in pursuance of the ESOS;

(6) "exercise period" means the time period after vesting within which the employee should exercise his right to apply for shares against the option vested in him in pursuance of the ESOS;

(7) "exercise price" means the price payable by the employee for exercising the option granted to him in pursuance of ESOS;

(7a) 'fair value' of an option means the fair value calculated in accordance with Schedule III.

(8) "grant" means issue of option to employees under ESOS;

(9) "independent director" means a director of the company, not being a whole time director and who is neither a promoter nor belongs to the promoter group;

(9a) 'intrinsic value' means the excess of the market price of the share at the date of grant of the option under ESOP over the exercise price of the option (including up-front payment, if any).

(10) 'market price' of a share on a given date means the average of the two weeks high and low price of the share preceding the date of grant of option on the stock exchange on which the shares of the company are listed. If the shares are listed on more than one stock exchange, then the stock exchange where there is highest trading volume during the aforesaid period should be considered.

(11) 'option grantee' means an employee having right but not an obligation to exercise in pursuance of the ESOS.

(12) "promoter" means

(a) the person or persons who are in over-all control of the company;

(b) the person or persons who are instrumental in the formation of the company or programme pursuant to which the shares were offered to the public;

(c) the person or persons named in the offer documents as promoter(s): Provided that a director or officer of the company, if they are acting as such only in their professional capacity will not be deemed to be a promoter.

Explanation. Where a promoter of a company is a body corporate, the promoters of that body corporate shall also be deemed to be promoters of the company;

(13) "promoter group" means

(a) an immediate relative of the promoter (i.e. spouse of that person, or any parent, brother, sister or child of the person or of the spouse);

(b) persons whose shareholding is aggregated for the purpose of disclosing in the offer document "shareholding of the promoter group".

(14) "share" means equity shares and securities convertible into equity shares and shall include American Depository Receipts (ADRs), Global Depository Receipts (GDRs) or otherdepository receipts representing underlying equity shares or securities convertible into equity shares.

(15) "vesting" means the process by which the employee is given the right to apply for shares of the company against the option granted to him in pursuance of ESOS.

(16) "vesting period" means the period during which the vesting of the option granted to the employee in pursuance of ESOS takes place.

2.2 All other expressions unless defined herein shall have the same meaning as have been assigned to them under the Securities and Exchange Board of India Act, 1992 or the Securities Contracts (Regulation) Act, 1956 or the Companies Act, 1956, SEBI (Disclosure and Investor Protection) Guidelines, or any statutory modification or re- enactment thereof, as the case may be.

3.1. 3.1 :-

4. Eligibility to participate in ESOS :-

4.1 An employee shall be eligible to participate in ESOS of the company.

4.2 An employee who is a promoter or belongs to the promoter group shall not be eligible to participate in the ESOS.

4.3 A director who either by himself or through his relative or through any body corporate, directly or indirectly holds more than 10% of the outstanding equity shares of the company shall not be eligible to participate in the ESOS.

5. Compensation Committee :-

5.1 No ESOS shall be offered unless the disclosures, as specified in Schedule IV, are made by the company to the prospective option grantees and the company constitutes a Compensation Committee for administration and superintendence of the ESOS.]

5.2 The Compensation Committee shall be a Committee of the Board of Directors consisting of a majority of independent directors.

5.3 The Compensation Committee shall, inter alia, formulate the detailed terms and conditions of the ESOS including:

(a) the quantum of option to be granted under an ESOS per employee and in aggregate;

(b) the conditions under which option vested in employees may lapse in case of termination of employment for misconduct;

(c) the exercise period within which the employee should exercise the option and that option would lapse on failure to exercise the option within the exercise period;

(d) the specified time period within which the employee shall exercise the vested options in the event of termination or resignation of an employee;

(e) the right of an employee to exercise all the options vested in him at one time or at various points of time within the exercise period;

(f) the procedure for making a fair and reasonable adjustment to the number of options and to the exercise price in case of corporate actions such as rights issues, bonus issues, merger, sale of division and others. In this regard following shall be taken into consideration by the compensation committee

(i) the number and the price of ESOS shall be adjusted in a manner such that total value of the ESOS remains the same after the corporate action.

(ii) for this purpose global best practices in this area including the procedures followed by the derivative markets in India and abroad shall be considered.

(iii) the vesting period and the life of the options shall be left unaltered as far as possible to protect the rights of the option holders.

(g) the grant, vest and exercise of option in case of employees who are on long leave; and

(h) the procedure for cashless exercise of options.

5.4 The Compensation Committee shall frame suitable policies and systems to ensure that there is no violation of:

(a) Securities and Exchange Board of India (Insider Trading) Regulations, 1992; and

(b) Securities and Exchange Board of India (Prohibition of Fraudulent and Unfair Trade Practices relating to the Securities Market) Regulations, 1995, by any employee.

6. Shareholder approval :-

6.1 ESOS can be offered to employees of a company unless the shareholders of the company approve ESOS by passing a special resolution in the general meeting.

6.2 The explanatory statement to the notice and the resolution proposed to be passed in general meeting for ESOS shall, inter alia, contain the following information: (a) the total number of options to be granted;(b) identification of classes of employees entitled to participate in the ESOS;(c) requirements of vesting and period of vesting;(d) maximum period (subject to clause 9.1) within which the option shall be vested;(e) exercise price or pricing formula;(f) exercise period and process of exercise;(g) the appraisal process for determining the eligibility of employees to the ESOS;(h) maximum number of options to be issued per employee and in aggregate;(i) a statement to the effect that the company shall conform to the accounting policies specified in clause 13.1;(j) the method which the company shall use to value its options whether fair value or intrinsic value;(k) the following statement: 'In case the company calculates the employee compensation cost using the intrinsic value of the stock options, the difference between the employee compensation cost so computed and the employee compensation cost that shall have been recognized if it had used the fair value of the options, shall be disclosed in the Directors report and also the impact of this difference on profits and on EPS of the company shall also be disclosed in the Directors' report.

6.3 Approval of shareholders by way of separate resolution in the general meeting shall be obtained by the company in case of:

(a) grant of option to employees of subsidiary or holding company, and

(b) grant of option to identified employees, during any one year, equal to or exceeding 1% of the issued capital (excluding outstanding warrants and conversions) of the company at the time of grant of option.

7. Variation of terms of ESOS :-

7.1 The company shall not vary the terms of the ESOS in any manner which may be detrimental to the interests of the employees.

7.2 The company may by special resolution in a general meeting vary the terms of ESOS offered pursuant to an earlier resolution of a general body but not yet exercised by the employee provided such variation is not prejudicial to the interests of the option holders.

7.3 The provisions of clause 6.3 shall apply to such variation of terms as they do to the original grant of option.

7.4 The notice for passing special resolution for variation of terms of ESOS shall disclose full details of the variation, the rationale therefore, and the details of the employees who are beneficiary of such variation.

7.5 A company may re-price the options which are not exercised if ESOSs were rendered unattractive due to fall in the price of the shares in the market: Provided that the company ensures that such re-pricing shall not be detrimental to the interest of employees and approval of shareholders in General Meeting has been obtained for such repricing.

8. Pricing :-

8.1 The companies granting option to its employees pursuant to ESOS will have the freedom to determine the exercise price subject to conforming to the accounting policies specified in clause 13.1:

Provided that in case the company calculates the employee compensation cost using the intrinsic value of the stock options, the difference between the employee compensation cost so computed and the employee compensation cost that shall have been recognized if it had used the fair value of the options, shall be disclosed in the Directors report and also the impact of this difference on profits and on Earning Per Share of the company shall also be disclosed in the Directors' report.

9. Lock-in period and rights of the option-holder :-

9.1 There shall be a minimum period of one year between the grant of options and vesting of option.

9.2 The company shall have the freedom to specify the lock-in period for the shares issued pursuant to exercise of option.

9.3 The employee shall not have right to receive any dividend or to vote or in any manner enjoy the benefits of a shareholder in respect of option granted to him, till shares are issued on exercise of option.

10. Consequence of failure to exercise option :-

10.1 The amount payable by the employee, if any, at the time of grant of option:

(a) may be forfeited by the company if the option is not exercised by the employee within the exercise period; or

(b) the amount may be refunded to the employee if the option are not vested due to non-fulfillment of condition relating to vesting of option as per the ESOS.

11. Non-transferability of option :-

11.1 Option granted to an employee shall not be transferable to any person.

11.2

(a) No person other than the employee to whom the option is granted shall be entitled to exercise the option.

(b) Under the cashless system of exercise, the company may itself fund or permit the empanelled stock brokers to fund the payment of exercise price which shall be adjusted against the sale proceeds of some or all the shares, subject to the provision of the Companies Act.

11.3 The option granted to the employee shall not be pledged, hypothecated, mortgaged or otherwise alienated in any other manner.

11.4 In the event of the death of employee while in employment, all the option granted to him till such date shall vest in the legal heirs or nominees of the deceased employee.

11.5 In case the employee suffers a permanent incapacity while in employment, all the option granted to him as on the date of permanent incapacitation shall vest in him on that day.

11.6 In the event of resignation or termination of the employee, all option not vested as on that day shall expire. However, the employee shall, subject to the provision of clause 5.3(b) shall be entitled to retain all the vested options.

12. Disclosure in the Directors Report :-

12.1 The Board of Directors, shall, inter alia, disclose either in the Directors Report or in the annexure to the Director's Report, the following details of the ESOS:

(a) options granted;

(b) the pricing formula;

(c) options vested;

(d) options exercised;

(e) the total number of shares arising as a result of exercise of option;

(f) options lapsed;

(g) variation of terms of options;

(h) money realised by exercise of options;

(i) total number of options in force;

(j) employee-wise details of options granted to:

(i) senior managerial personal;

(ii) any other employee who receives a grant in any one year of option amounting to 5% or more of option granted during that year;

(iii) identified employees who were granted option, during any one year, equal to or exceeding 1% of the issued capital (excluding outstanding warrants and conversions) of the company at the time of grant;

(k) diluted Earnings Per Share (EPS) pursuant to issue of shares on exercise of option calculated in accordance with International Accounting Standard (IAS) 33;

(l) Where the company has calculated the employee compensation cost using the intrinsic value of the stock options, the difference between the employee compensation cost so computed and the employee compensation cost that shall have been recognised if it had used the fair value of the options, shall be disclosed. The impact of this difference on profits and on EPS of the company shall also be disclosed;

(m) Weighted-average exercise prices and weighted-average fair values of options shall be disclosed separately for options whose exercise price either equals or exceeds or is less than the market price of the stock on the grant date;

(n) A description of the method and significant assumptions used during the year to estimate the fair values of options, including the following weighted-average information:

(1) risk-free interest rate,

(2) expected life,

(3) expected volatility,

(4) expected dividends, and

(5) the price of the underlying share in market at the time of

option grant.

<u>13.</u> Accounting Policies :-

13.1 Every company that has passed a resolution for an ESOS under clause 6.1 of these guidelines shall comply with the accounting policies specified in Schedule I.

13.2 Where a scheme provides for graded vesting, the vesting period shall be determined separately for each portion of the option and shall be accounted for accordingly.

<u>14.</u> Certificate from Auditors :-

14.1 In the case of every company that has passed a resolution for an ESOS under clause 6.1 of these guidelines, the Board of Directors shall at each annual general meeting place before the shareholders a certificate from the auditors of the company that the scheme has been implemented in accordance with these guidelines and in accordance with the resolution of the company in the general meeting.

<u>15.</u> Options outstanding at Public Issue :-

15.1 The provisions of the Securities and Exchange Board of India (Disclosure and Investor Protection) Guidelines prohibiting initial public offering by companies having outstanding warrants and financial instruments shall not be applicable in case of outstanding option granted to employees in pursuance of ESOS.

15.2 If any option is outstanding at the time of an initial public offering by a company, the promoters' contribution shall be calculated with reference to the enlarged capital which would arise on exercise of all vested options.

15.3 If any options granted to employees in pursuance of ESOS are outstanding at the time of initial public offering, the offer document of the company shall disclose all the information specified in clause 12.1.

<u>16.</u> Eligibility to participate in ESPS :-

16.1 An employee shall be eligible to participate in the ESPS.

16.2 An employee who is a promoter or belongs to the promoter group shall not be eligible to participate in the ESPS.

16.3 A director who either by himself or through his relatives or through any body corporate, directly or indirectly holds more than 10% of the outstanding equity shares of the company shall not be eligible to participate in the ESPS.

<u>17.</u> Shareholder Approval :-

17.1 No ESPS shall be offered to employees of the company unless the shareholders of the company approve ESPS by passing special resolution in the meeting of the general body of the shareholders.

17.2 The explanatory statement to the notice shall specify:

(a) the price of the shares and also the number of shares to be offered to each employee.

(b) the appraisal process for determining the eligibility of employee for ESPS.

(c) Total number of shares to be granted.]

17.3 The number of shares offered may be different for different categories of employees.

17.4 The special resolution shall state that the company shall conform to the accounting policies specified in clause 19.2.

17.5 Approval of shareholders by way of separate resolution in the general meeting shall be obtained by the company in case of:

(a) allotment of shares to employees of subsidiary or holding company; and

(b) allotment of shares to identified employees, during any one year, equal to or exceeding 1% of the issued capital (excluding outstanding warrants and conversions) of the company at the time of allotment of shares.

<u>18.</u> Pricing and Lock-in :-

18.1 The company shall have the freedom to determine price of shares to be issued under an ESPS, provided they conform to the provisions of clause 19.2.

18.2 Shares issued under an ESPS shall be locked in for a minimum period of one year from the date of allotment.

18.3 If the ESPS is part of a public issue and the shares are issued to employees at the same price as in the public issue, the shares issued to employee pursuant to ESPS shall not be subject to any lock-in.

<u>19.</u> Disclosure and accounting policies :-

19.1 The Directors' Report or Annexure thereto shall contain, inter alia, the following disclosures:

(a) the details of the number of shares issued in ESPS;

(b) the price at which such shares are issued;

(c) employee-wise details of the shares issued to;

(i) senior managerial personnel;

(ii) any other employee who is issued shares in any one year amounting to 5% or more shares issued during that year;

(iii) identified employees who were issued shares during any one year equal to or exceeding 1% of the issued capital of the company at the time of issuance;

(d) diluted Earning Per Share (EPS) pursuant to issuance of shares under ESPS; and

(e) consideration received against the issuance of shares.

19.2 Every company that has passed a resolution for an ESPS under clause 17.1 of these guidelines shall comply with the accounting policies specified in Schedule II.

<u>20.</u> Preferential Allotment :-

20.1 Nothing in these guidelines shall apply to shares issued to employees in compliance with the Securities and Exchange Board of India Guidelines on Preferential Allotment.

<u>21.</u> 21 :-

Omitted. * * *

<u>22.</u> Listing :-

22.1 The shares arising pursuant to an ESOS and shares issued under an ESPS shall be listed immediately upon exercise in any recognized stock exchange where the securities of the company are listed subject to compliance of the following:

(a) The ESOS/ESPS is in accordance with these Guidelines.

(b) In case of an ESOS the company has also filed with the concerned stock exchanges, before the exercise of option, a statement as per Schedule V and has obtained in-principle approval from such Stock Exchanges.

(c) As and when ESOS/ESPS are exercised thecompany has notified the concerned Stock Exchanges as per the statement as per Schedule VI.

22.2 The shares arising upon exercise of option issued by an unlisted company which are to be vested or be exercised after the company is listed, may be listed after the initial public offering by such company subject to fulfilment of the following requirements:

(i) Ratification of the resolution passed for issuance of ESOS or ESPS. Earlier resolution passed for issuance of ESOS/ESPS shall be ratified by the shareholders of listed company in the General Meeting. The notice for ratification of earlier resolution shall include all the relevant disclosures required in terms of these Guidelines.

(ii) Disclosures in the offer document. Following disclosures shall be made in the offer document for IPO:

(a) A disclosure about the intention of the holders of shares allotted on exercise of option granted under ESOS or allotted under ESPS, to sell their shares within three (3) months after the date of listing of shares in such initial public offering (aggregate number of shares intended to be sold by option holders) to be disclosed. In case of ESOS the same shall be disclosed regardless of whether the shares arise out of options exercised before or after the initial public offering.

(b) Specific disclosures about the intention of sale ESOS or ESPS shares within three (3) months after the date of listing, by directors, Senior Managerial personnel and employees having ESOS or ESPS shares amounting to more than 1% of the issued capital (excluding outstanding warrants and conversions), which inter alia shall include name, designation and quantum of ESOS or ESPS shares and quantum they intended to sell within three (3) months.

(c) A disclosure in line with the clauses 12 and 19 of these guidelines, regarding all the options/shares issued in last three (3) years (separately for each year) and on a cumulative basis for all the options/shares issued prior to date of the prospectus.

22.3 For listing of shares issued pursuant to ESOS or ESPS the company shall make application to the Central Listing Authority as per SEBI (Central Listing Authority) Regulations, 2003 andobtain the in-principle approval from Stock Exchanges where it proposes to list the said shares.

22.4 The existing provisions of lock-in specified in SEBI (Disclosure and Investor Protection) Guidelines, 2000 shall not be applicable on the pre-initial public offering ESOS options/shares, ESPS option/shares held by employees other than promoters provided that the earlier resolution is ratified by the shareholders in General Meeting and disclosures in the prospectus for IPO is made as mentioned in clause 22.2(i) and (ii).

22.5 The ESOS/ESPS shares held by thepromoters prior to Initial Public offering shall be subject to lock-in as per the provisions of SEBI (Disclosure and Investor Protection) Guidelines, 2002.

22.6 The listed companies shall file the ESOS or ESPS Schemes through EDIFAR filing.

22.7 When holding company issues ESOS/ESPS tothe employee of its subsidiary, the cost incurred by the holding company for issuing such options/shares shall be disclosed in the 'notes to accounts' of the financial statements of the subsidiary company.

22.8 The Company shall appoint a registered Merchant Banker for the implementation of ESOS and ESPS as per these guidelines.

22A. ESOS/ESPS through Trust Route :-

22A.1 In case of ESOS/ESPS are administeredthrough a Trust Route, the ESOS/ESPS Trust shall be consolidated withthe company in accordance with the Accounting Standard (AS 21) specified by the Institute of Chartered Accountants of India and these Guidelines shall be applicable to the consolidated entity.

23. Commencement of the Guidelines :-

23.1 These guidelines shall come into force with effect from 19th June, 1999 and will be applicable to the options/shares granted/allotted on or after 19th June, 1999 unless otherwise specified in the Guidelines.

SCHEDULE 1

Accounting Policies for ESOS

Schedule I

(Clause 13.1)

Accounting Policies for ESOS

(a) In respect of options granted during any accounting period, the accounting value of the options shall be treated as another form of employee compensation in the financial statements of the company.

(b) The accounting value of options shall be equal to the aggregate, over all employee stock options granted during the accounting period, of the intrinsic value of the option or, if the company so chooses, the fair value of the option.]

(c) Where the accounting value is accounted for as employee compensation in accordance with 'b', the amount shall be amortised on a straight-line basis over the vesting period.

(d) When an unvested option lapses by virtue of the employee not conforming to the vesting conditions after the accounting 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 equal to the amortized portion of the accounting value of the lapsed options and a credit to deferred employee compensation expense equal to the unamortized portion.

(e) 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.

(f) The accounting treatment specified above can be illustrated by the following numerical example: '

Suppose of a company grants 500 options on 1-4-1999 at Rs. 40 when the market price is Rs. 160, the vesting period is two and a half years, the maximum exercise period is one year. Also suppose that 150 unvested options lapse on 1-5-2001, 300 options are exercised on 30-6-2002 and 50 vested options lapse at the end of the exercise period. The accounting value of the option being:

500 x (160 - 40) = 500 x 120 = 60,000

The accounting entries would be as follows:

1-4-1999	Deferred Employee Compensation Expense Employee Stock Options Outstanding (Grant of 500 options at a discount of Rs. 120 each)	60,000	60,000
31-3-2000	Employee Compensation Expense	24,000	24,000

31-3-2000	Employee Compensation Expense Deferred Employee Compensation Expense (Amortisation of the deferred compensation over two and a half years on straight-line basis)	24,000	24,000

"*(b)* The accounting value of options shall be equal to the aggregate, over all employee stock options granted during the accounting period, of the fair value of the option. For this purpose:

1. Fair value means the option discount, or, if the company so chooses, the value
of the option using the Black Scholes formula or other similar valuation
method.

2. Option discount means the excess of the market price of the share at the date of
grant of the option under ESOS over the exercise price of the option (including
up-front payment, if any)".

31-3-2001	Employee Compensation Expense Deferred Employee Compensation Expense (Amortisation of the deferred compensation over two and a half years on straight-line basis)	24,000	24,000
1-5-2001	Employee Stock Options Outstanding Employee Compensation Expense Deferred Employee Compensation Expense (Reversal of compensation accounting on lapse of 150 unvested options)	18,000	14,400 3,600
31-3-2002	Employee Compensation Expense Deferred Employee Compensation Expense (Amortisation of the deferred compensation over two and a half years on straight-line basis)	8,400	8,400
30-6-2002	Cash Employee Stock Options Outstanding Paid Up Equity Capital Share Premium Account (Exercise of 300 options at an exercise price of Rs. 40 each and an accounting value of Rs. 120 each)	12,000 36,000	3,000 45,000
1-10-2002	Employee Stock Options Outstanding Employee Compensation Expense (Reversal	6,000	6,000

		of compensation accounting on lapse of 50 vested options at the end of exercise period)		

The T-Accounts for Employee Stock Options Outstanding and Deferred Employee Compensation Expense would be as follows: Employee Stock Options Outstanding Account					
1-5-2001	Employee Compensation/ Deferred Compensation	18,000	1-4-1999	Deferred Compensation	60,000
30-6-2002	Paid Up Capital/ Share Premium	36,000			
1-10-2002	Employee Compensation	6,000			
		60,000			60,000

Deferred Employee Compensation Expense Account					
1-4-1999	ESOS Outstanding	60,000	31-3-2000	Employee Compensation	24,000
			31-3-2001	Employee Compensation	24,000
			1-5-2001	ESOS Outstanding	3,600
			31-3-2002	Employee Compensation	8,400
		60,000			60,000

Employee Stock Options Outstanding will appear in the Balance Sheet aspart of Net Worth or Shareholders' Equity. Deferred Employee Compensation will appear in the Balance Sheet as a negative item as part of Net Worth or Shareholders' Equity.

SCHEDULE 2
Accounting Policies for ESPS

Schedule II
(Clause 19.2) **Accounting**
Policies for ESPS

(a) In respect of shares issued under an ESPS during any accounting period, the accounting value of the shares so issued shall be treated as another form of employee compensation in the financial statements of the company.

(b) The accounting value of shares issue under ESPS shall be equal to the aggregate of price discount over all shares issued under ESPS during any accounting period;

For this purpose:

Price discount means the excess of the market price of the shares at the date of

issue over the price at which they are issued under the ESPS.

(c) The accounting treatment prescribed above can be illustrated by the following
numerical example:

Suppose a company issues 500 shares on 1-4-1999 under an ESPS at Rs. 40 when the market price is Rs. 160. The accounting value of the shares being:

500 x (160 - 40) = 500 x 120 = 60,000

The accounting entry would be as follows:			
1-4-1999	Cash	20,000	
	Employee Compensation Expense	60,000	5,000
	Paid Up Equity Capital		
	Share Premium Account		75,000
	(Issue of 500 shares under ESPS at a price of Rs. 40 each when market price is Rs. 160)		

SCHEDULE 3
3

Schedule III

(Clause 2.1)

(i) The fair value of a stock option is the price that shall be calculated for that option in an arm's length transaction between a willing buyer and a willing seller.

(II) The fair value shall be estimated using an option-pricing model (for example, the Black-Scholes or a binomial model) that takes into account as of the grant date the exercise price and expected life of the option, the current price in the market of the underlying stock and its expected volatility, expected dividends on the stock, and the risk-free interest rate for the expected terms of the option.

(iii) The fair value of an option estimated at the grant date shall not be subsequently adjusted for changes in the price of the underlying stock or its volatility, the life of the option, dividends on the stock, or the risk-free interest rate.

(iv) Where the exercise price is fixed in Indian Rupees, the risk-free interest rate used shall be the interest rate applicable for a maturity equal to the expected life of the options based on the zero-coupon yield curve for Government Securities.

(v) The expected life of an award of stock options shall take into account the following factors:

(a) The expected life must at least include the vesting period.

(b) The average lengths of time similar grants have remained outstanding in the past. If the company does not have a sufficiently long history of stock option grants, the experience of an appropriately comparable peer group may be taken into consideration.

(c) The expected life of ESOSs should not be less than half of the exercise period of the ESOSs issued until and unless the same is supported by historical evidences with respect to ESOSs issued by the company earlier.

(vi) If the company does not have a sufficiently long history of traded stock prices to estimate the expected volatility of its stock, it may use an estimate based on the estimated volatility of stocks of an appropriately comparable peer group.

(vii) The estimated dividends of the company over the estimated life of the option may be estimated taking into account the company's past dividend policy as well as the mean dividend yield of an appropriately comparable peer group.

(vii) Justification shall be given for significant assumptions. If at the time of further issue of ESOS/ESPS there are any changes in the assumptions, reasons for the same shall be given.

SCHEDULE 4
DISCLOSURE DOCUMENT

SCHEDULE IV DISCLOSURE DOCUMENT

(Clause 5.1)

PART A **Statement of risks**

All investments in shares or options on shares are subject to risk as the value of shares may go down or go up. In addition, employee stock options are subject to the following additional risks:

1. *Concentration:.* The risk arising out of any fall in value of shares is aggravated if the employee's holding is concentrated in the shares of a single company.
2. *Leverage.* Any change in the value of the share can lead to a significantly larger change in the value of the option as an option amounts to a levered position in the share.
3. *Illiquidity.* The options cannot be transferred to anybody, and therefore the employees cannot mitigate their risks by selling the whole or part of their options before they are exercised.
4. *Vesting.* The options will lapse if the employment is terminated

prior to
vesting. Even after the options are vested, the unexercised options may be forfeited if the employee is terminated for gross misconduct.

PART B **Information about the company**

1. *Business of the company.* A description of the business of the company on the lines of item V(a) of Part I of Schedule II of the Companies Act.

2. *Abridged financial information.* Abridged financial information for the last five years for which audited financial information is available in a format similar to that required under item B(1) of Part II of Schedule II of the Companies Act. The last audited accounts of the company should also be provided unless this has already been provided to the employee in connection with a previous option grant or otherwise.

3. *Risk Factors.* Management perception of the risk factors of the company in accordance with item VIII of Part I of Schedule II of the Companies Act.

4. *Continuing disclosure requirement.* The option grantee should receive copies of all documents that are sent to the members of the company. This shall include the annual accounts of the company as well as notices of meetings and the accompanying explanatory statements.

PART C **Salient features of the Employee Stock Option Scheme**

This Part shall contain the salient features of the employee stock option scheme of the company including the conditions regarding vesting, exercise, adjustment for corporate actions, and forfeiture of vested options. It shall not be necessary to include this Part if it has already been provided to the employee in connection with a previous option grant, and no changes have taken place in the scheme since then. If the option administrator (whether the company itself or an outside securities firm appointed for this purpose) provides advisory services to the option grantees in connection with the exercise of options or sale of resulting shares, such advice must be accompanied by an appropriate disclosure of concentration and other risks. The option administrator should conform to the code of conduct appropriate for such fiduciary relationships.

SCHEDULE 5
Information required in the Statement to be filed with

SCHEDULE V

(Clause 22.1)

Information required in the Statement to be filed with Stock Exchange

Description of Stock Option Scheme

1. Authorized Share Capital of the Company:

2. Issued Share Capital of the Company as on date of Institution of the Scheme/ amending of the Scheme.

3. Date of Institution of the Scheme/ amending of the Scheme

4. Validity period of the Scheme

5. Date of notice of AGM/EGM for approving the Scheme/for amending the Scheme/for approving grants under clause 6.3(a) or *(b)* of the SEBI (ESOS & ESPS) Guidelines.

6. Date of AGM/EGM approving the Scheme/amending the Scheme/approving grants under clause 6.3(a) or *(b)* of the SEBI (ESOS and ESPS) Guidelines.

7. Kind of security granted as Options under the Scheme.

8. Identity of classes of persons eligible under the scheme

Permanent employees

Permanent employees outside India

Permanent employees of subsidiary

Permanent employees of holding company

Whole-time directors Independent directors

9. Total number of securities reserved under the scheme:

10. Number of securities entitled under each option

11. Total number of options to be granted:

12. Maximum number of Options to be granted per employee in each grant and in aggregate:

13. Exercise price or pricing formula:

14. Whether any amount payable at the time of grant of the Options? If so, quantum of such amount.

15. Lock-in period under the Scheme

Lock-in period between grant and vesting

Lock-in period after exercise

16. Vesting Period under the Scheme

17. Maximum period within which the options shall be vested.

18. Exercise Period under the plan:

19. Whether employee can exercise all the Options Vested at one time? Yes/No

20. Whether employee can exercise vested Options at various points of time within the exercise period? Yes/No

21. Whether scheme provides for the procedure for making a fair and reasonable adjustment to the number of options and to the exercise price in case of rights issues, bonus issues and other corporate actions? Clause in Scheme describing such adjustment:

22. Description of the appraisal process for determining the eligibility of employees under the scheme.

23. The specified time period within which vested options are to be exercised in the event of termination or resignation of an employee:

24. The specified time period within which options are to be exercised in the event of death of the employee:

25. Whether Plan provides for conditions under which option vested in employees may lapse in case of termination of employment for misconduct? Clause in Scheme describing such adjustment:

26. Whether Plan provides for conditions for the grant, vesting and exercise of option in case of employees who are on long leave? Clause in Scheme describing such adjustment:

27. Whether amount paid/payable by the employee at the time of the grant of the Option will be forfeited if the employee does not exercise the option within the exercise period? Clause in Scheme describing such adjustment:

28. Details of approval of shareholders pursuant to clause 6.3 of the SEBI (ESOS

and ESPS) Guidelines with respect to:

Grant of options to employees of subsidiary or holding company.

Grant of options to identified employees, during any one year, equal to or exceeding 1% of the issued capital (excluding outstanding warrants and conversions) of the company at the time of grant of the option:

29. Details of the variation made on the scheme along with the rationale therefore and the details of the employees who are beneficiary of such variation:

Company Secretary Place:

Date: **Documents to be filed with registration statement**

Copy of Stock Option Scheme/Amended Stock Option Scheme, certified by company secretary.

Copy of Notice of AGM/EGM for approving the Scheme/for amending the Scheme/for approving grants under clause 6.3(a) or *(b)* of the SEBI (ESOS and ESPS) Guidelines, certified by the company secretary.

Copy of resolution of shareholders for approving the Scheme/for amending the Scheme/for approving grants under clause *6.3(a)* or *(b)* of the SEBI (ESOS and ESPS) Guidelines, certified by the company secretary.

List of Promoters as defined under the SEBI (ESOS and ESPS) Guidelines.

Copy of latest Annual Report.

Certificate of Auditor on compliance with SEBI (ESOS and ESPS) Guidelines.

Specimen copy of Share certificate.

Any other relevant documents.

Undertakings

A. The undersigned company hereby undertakes:

(1) To file, a post-effective amendment to this statement to include any material information with respect to the scheme of distribution not previously disclosed in the statement or any material change to such information in the

statement.

(2) To notify, the concerned stock exchanges on which the securities of the company
are listed, of each issue of securities pursuant to the exercise of options under the
scheme mentioned in this Statement, in the prescribed form, as amended from
time to time.

(3) That the company shall conform to the accounting policies specified in clause
13.1 of the SEBI (ESOS and ESPS) Guidelines.

(4) That the Scheme confirms to the SEBI (ESOS and ESPS) Guidelines.

(5) That the company has in place systems/codes/procedures to comply with the
SEBI (Insider Trading) Regulations.

Signatures

Pursuant to the requirements of the SEBI Act/guidelines, the company certifies that it has reasonable grounds to believe that it meets all the requirements for the filing of this form and has duly caused this statement to be signed on its behalf by the undersigned, thereunto, duly authorized.

Name of the company
Sd/-Name of the Compliance Officer
Designation Date: Place:

SCHEDULE 6
Format of Notification for Issue of Shares Under the Stock Option

SCHEDULE VI

(Clause 22.1)

Format of Notification for Issue of Shares Under the Stock Option Plans

1. Company Name and Address of Registered Office
2. Name of the Exchanges on which the company's shares are listed :
3. Filing date of the Statement referred in clause 22.1.b of guidelines with Stock Exchange :
4. Filing Number, if any
5. Title of the Stock Option Scheme pursuant to which shares are issued, if any
6. Kind of Security to be listed
7. Par value of the shares

8. Date of issue of shares

9. Number of shares issued

10. Share Certificate no, if applicable

11. Distinctive number of the share, if applicable

12. ISIN Number of the shares if issued in Demat

13. Exercise Price per share

14. Premium per share

15. Total Issued Shares after this issue

16. Total Issued Share capital after this issue

17. Details of any lock-in on the shares

18. Date of expiry of lock-in

19. Whether shares identical in all respects to existing shares if not, when will they become identical?

20. Details of Listing fees, if payable

Signature of Company Secretary/
Compliance Officer

Date: Place:]