

Neelam Bhardwaj

General Manager

Corporation Finance Department

Division of Issues and Listing

Phone: +91 22 26449350 (D), +91 22 2644 9000

Email: neelamb@sebi.gov.in

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To

All Registered Merchant Bankers

All Recognised Stock Exchanges

Dear Sirs,

Sub.: Amendments to SEBI (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999.

1. In exercise of the powers conferred under sub-section (1) of Section 11 of the Securities and Exchange Board of India Act, 1992, it has been decided to amend the SEBI (Employee Stock Option Scheme and Employee Stock Purchase Scheme) Guidelines, 1999 (hereinafter referred to as the "SEBI (ESOS & ESPS) Guidelines").
2. The full text of the amendments is given in Annexure I and the amendments are explained in brief as under:
 - (i) **Eligibility of nominee directors for ESOS**
 - (a) Presently, as per SEBI (ESOS & ESPS) Guidelines, an employee (including a director of a company / its holding company / its subsidiary, whether such director is a whole-time director or not) is eligible to participate in the ESOS of the company, if such employee is not a promoter, does not belong to the promoter group and is not 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.
 - (b) It has been decided to clarify that a director, nominated by an institution as its representative on the Board of Directors of a company, is eligible to participate in the ESOS of the company, if the contract / agreement entered into between the nominating institution and the director so

appointed specifically provides for acceptance of ESOS of the company by such director and a copy thereof is filed with the company.

- (ii) **Accounting treatment for options granted under graded vesting schemes**
- (a) Presently, as per SEBI (ESOS & ESPS) Guidelines, where an employee stock option scheme provides for graded vesting of options, the vesting period is determined separately for each portion of the option and the accounting value of each such portion is amortised on a straight-line basis over the vesting period of that portion.
 - (b) The Institute of Chartered Accountants of India (ICAI), which also prescribes the accounting treatment for employee stock options through its Guidance Note on “Employee Shared Based Payments”, has, vide its Announcement issued in March 2007, revised the accounting treatment, reorganisation and measurement of options granted under graded vesting schedule.
 - (c) It has been decided to amend SEBI (ESOS & ESPS) Guidelines to bring the accounting treatment prescribed by SEBI, for options granted under graded vesting, in line with the accounting treatment provided by ICAI in this regard.
3. The amendments made vide this circular shall come into force with immediate effect.
4. This circular and the entire text of SEBI (ESOS & ESPS) Guidelines, including the amendments issued vide this circular, are available on SEBI website at www.sebi.gov.in under the categories “Legal Framework” and “Issues and Listing”.

Yours faithfully,

Neelam Bhardwaj

Encl.: Annexure I

ANNEXURE I**AMENDMENTS TO SEBI (ESOS & ESPS) GUIDELINES, 1999**

1. After clause 4.1, the following Explanation shall be inserted, namely:-

“Explanation: *Where such employee is a director nominated by an institution as its representative on the Board of Directors of the company –*

- (i) the contract/ agreement entered into between the institution nominating its employee as the director of a company and the director so appointed shall, inter-alia, specify the following:*
 - (a) whether options granted by the company under its ESOS can be accepted by the said employee in his capacity as director of the company;*
 - (b) that options, if granted to the director, shall not be renounced in favour of the nominating institution; and*
 - (c) the conditions subject to which fees, commissions, ESOSs, other incentives, etc. can be accepted by the director from the company.*
- (ii) the institution nominating its employee as a director of a company shall file a copy of the contract/ agreement with the said company, which shall, in turn, file the copy with all the stock exchanges on which its shares are listed.*
- (iii) the director so appointed shall furnish a copy of the contract/ agreement at the first Board meeting of the company attended by him after his nomination.”*

2. After clause 11.6, the following new clause shall be inserted, namely:-

“11.7 The options granted to a director, who is an employee of an institution and has been nominated by the said institution, shall not be renounced in favour of the institution nominating him.”

3. Clause 13.2 shall be omitted.

4. In Schedule I, for clause (c), the following clause shall be substituted, namely:-

“(c) Where the accounting value is accounted for as employee compensation in accordance with clause (b), the amount shall be amortised as under :

(i) Where the scheme does not provide for graded vesting, the amount shall be amortised on a straight-line basis over the vesting period.

(ii) Where the scheme provides for graded vesting -

(1) the vesting period shall be determined separately for each separate vesting portion of the option, as if the option was, in substance, multiple option and the amount of employee compensation cost shall be accounted for and amortised accordingly on a straight-line basis over the vesting period;

or

(2) the amount of employee compensation cost shall be accounted for and amortised on a straight-line basis over the aggregate vesting period of the entire option (that is, over the vesting period of the last separately vesting portion of the option):

Provided that the amount of employee compensation cost recognized at any date at least equals the fair value or the intrinsic value, as the case may be, of the vested portion of the option at that date.”