



# Employee Stock Option Plan

**RNM Consulting**

A unit of Xcelency Consulting Pvt. Ltd.

# Employee Stock Options Variations

- **Employee Stock Option Plan (ESOP)**

Under ESOP an entity grants an option to its 'eligible employees' to acquire its shares at a future date but at a predetermined price.

- **Employee Share Purchase Plan (ESPP)**

A listed entity offers a right to acquire its shares instantly

- **Stock Appreciation Rights Plan (SAR)**

- No such shares will be offered to its employee but he is given the appreciation in the value of shares between two specified dates as an incentive
- It is totally linked with the entity's performance as a whole

*ESOP companies are  
25% more likely to  
stay in Business.*

# Employee Stock Options Variations

- **Restricted Stock award**

An offer subject to certain conditions such as the employer has the right to cancel the entitlement if the conditions are not met.

- **Sweat equity**

Shares issued to its key directors and/or employees at a discount or for a consideration other than cash for providing know how or rights in the nature of intellectual property, etc

- **Incentive Plans**

- **Compensation Plans**

- **Phantom ESOPs**



# Employee Stock Options Regulatory Framework

## Employee Stock Ownership (Options) Plans Regulatory Framework

Companies Act, 2013

Income Tax Act, 1961

SEBI (Share Based Employee Benefits)  
Regulations, 2014

ICDR Regulations, 2009

FEMA, 1999

IFRS 2 & SFAS 123

# Employee Stock Options Flow Chart

An Entity or Employer 'offers' to buy a certain number of stocks at a pre-determined price

An Employee can exercise the offer only if he is willing to be part of the entity for a defined period provided in ESOP agreement

Exercise Price may be either prevailing market price or less than the market price

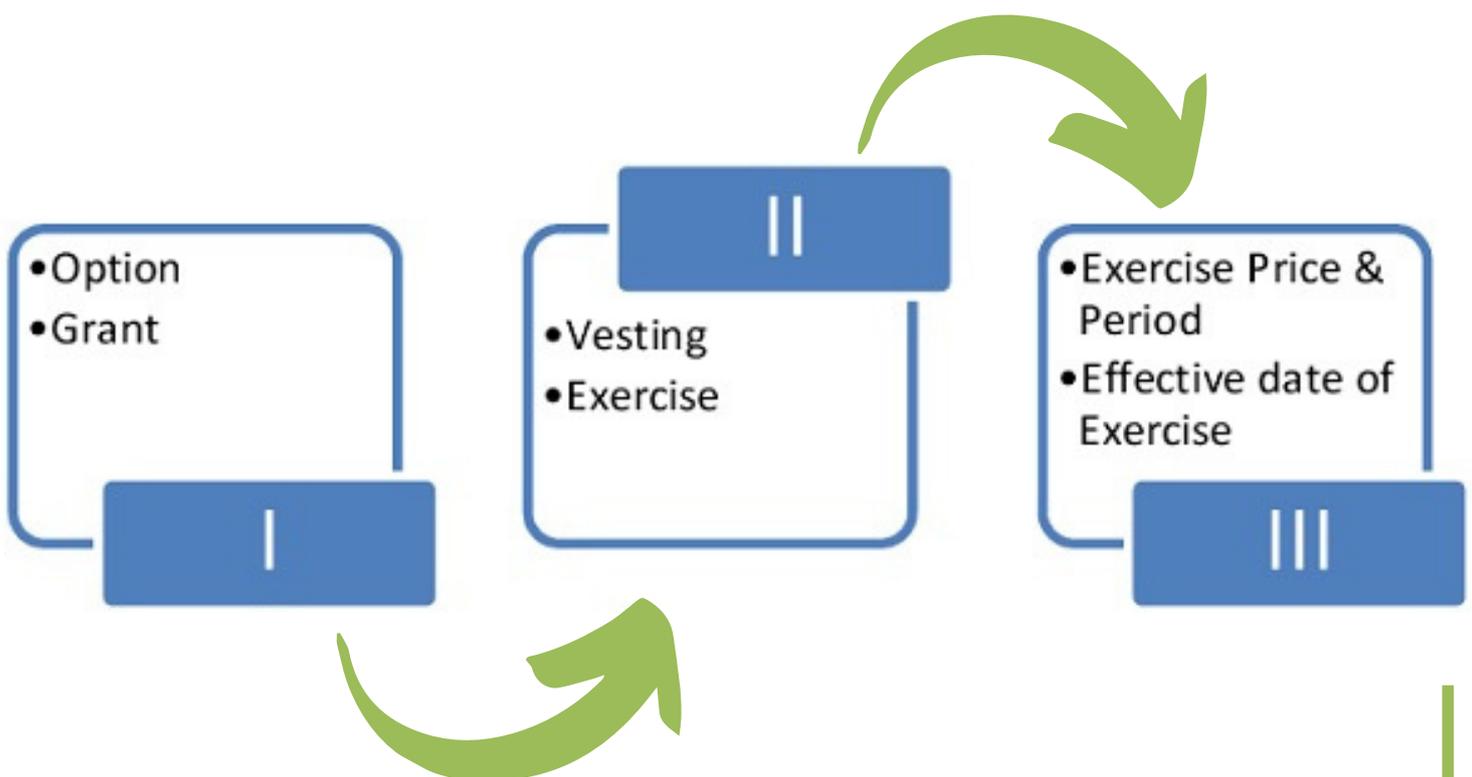
Employer can offer them directly to the employees or through a 'Trust'

ESOPs will be taxed at two stages. First when an employee exercises his rights i.e., difference between the exercise price and prevailing market price

Secondly, at the time of selling them, the profit, if any, will be considered as either LTCG or STCG taxed accordingly

# Employee Stock Options Issuing Company Concerns

- Achieving company objective (employee retention, performance /appraisal) vis-à-vis overall cost/compensation scheme.
- Determination of qualifying employee conditions as well as time line for grant of options, exercise price, vesting period, exercise period amongst others.
- Quantification of number of options to be granted keeping in view the strategic ownership of the company.



- Compliance with the laws – Company law, Income Tax laws, SEBI guidelines, RBI guidelines, Insider Trading regulations.
- Drafting and maintaining proper scheme documentation – Agreement, Scheme, FAQ, Grant letters, employee FAQs (with employee benefit quantification).
- Communication to employees – Regular/Periodical
- Industry Benchmarking and alignment/comparison with industry practices



# Employee Stock Options

## RNM Services Offered

### Designing and implementing ESOPs

- Formulating scheme in alignment with management objective
- Cost benefit analysis
- Model solutions like ESOPs through trust models or direct models
- Review of ESOP Schemes

End to End Service



## Administration of ESOPs

- ESOP valuation, reporting and accounting
- Assistance in disclosures as required under Indian laws
- Documentation preparation
- Maintaining communication with employees
- Maintenance of letters like grant letters, exercise papers, signed agreements
- Vetting of ESOP documents and legal compliances

One Stop Solution for ESOP



## About Us

RNM Consulting is a unit of Xcelency Consulting Pvt. Ltd., one of the leading Internal Audit firms in India. We are an assertive firm providing Virtual CFO, Payroll Management and ESOP services to clients across industry verticals and size.

We aim to provide best value for money by understanding each client's unique needs and business compulsions. Backed by a team of immaculate professional, RNM Consulting is one of the most discerning names in the service industry. We are the distinctive firm of choice for payroll management, ESOP Solution and CFO Services including Virtual, Interim and Special purpose CFO, as we have an ingenious and innovative commercial outlook. We take pride in fulfilling your requirements and solving your problems at an impeccable price.

We have been in the industry for 75 years now and our hard work, dedication and client satisfaction has earned us respect of the business and community. Today, RNM is reckoned by various companies, across different region, as a trusted partner who offers cutting-edge services.

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