

Employee Stock Option Plans

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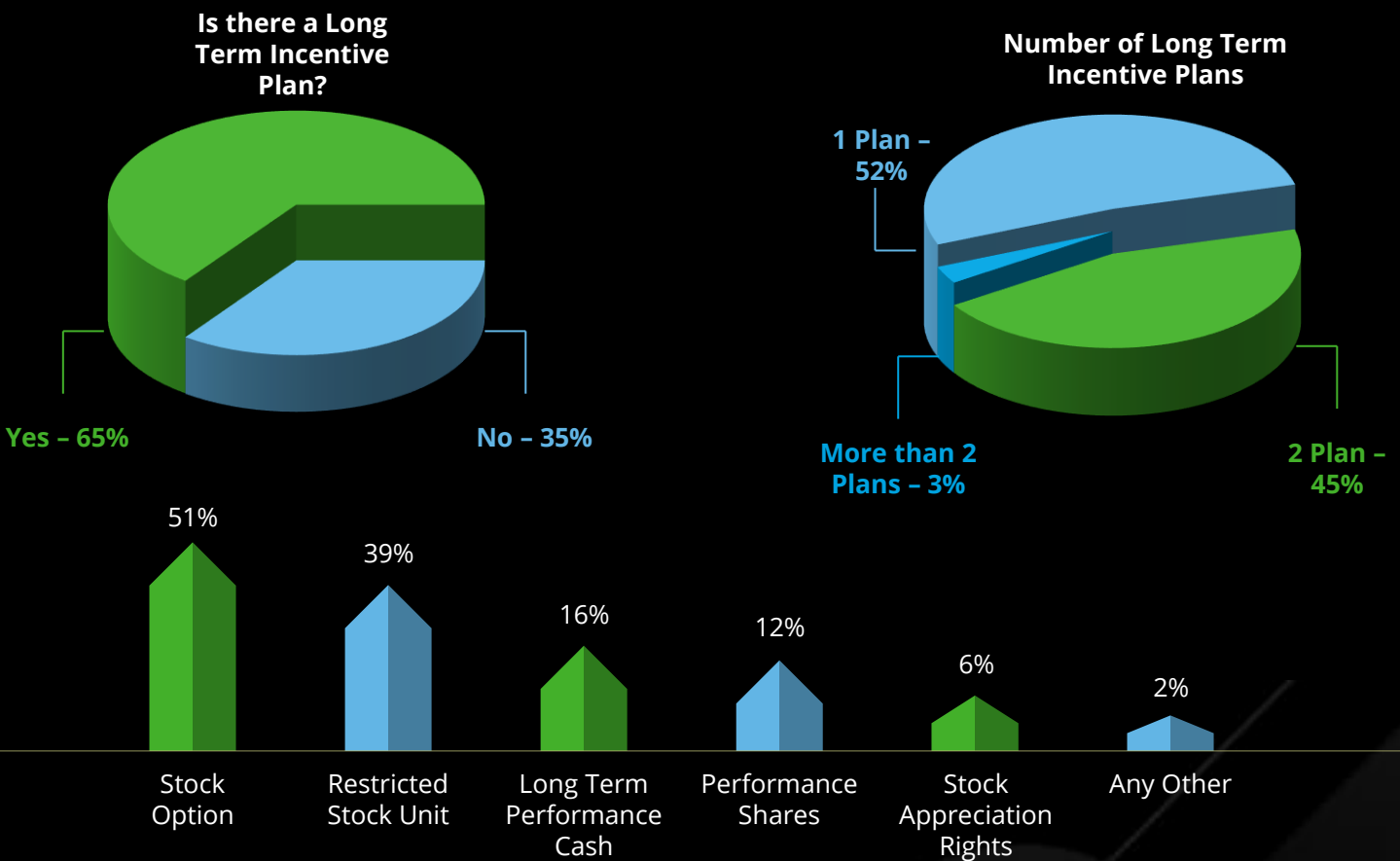


Employee Stock Option Plan ('ESOP')

ESOP is a critical part of an organisation's compensation strategy. Over the years, ESOPs have acted as stimulus to enhance employee motivation, morale and retention while linking compensation with long term performance horizons.

There are several types and forms of ESOP plans prevalent in India and globally. The type of plan adopted by a Company is usually dependent on the unique business needs and the organisation's philosophy.

India landscape – Types of plans and prevalence - (% of participant companies)



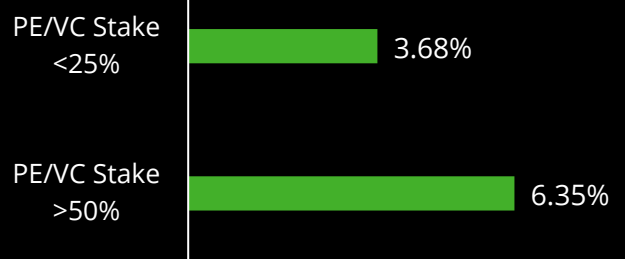
% exceeds 100% since some companies have more than 1 plan

Pre- IPO Companies set aside a sizeable portion of equity for ESOPs (All are median numbers)

Approved Pool for ESOP
(% of share capital)



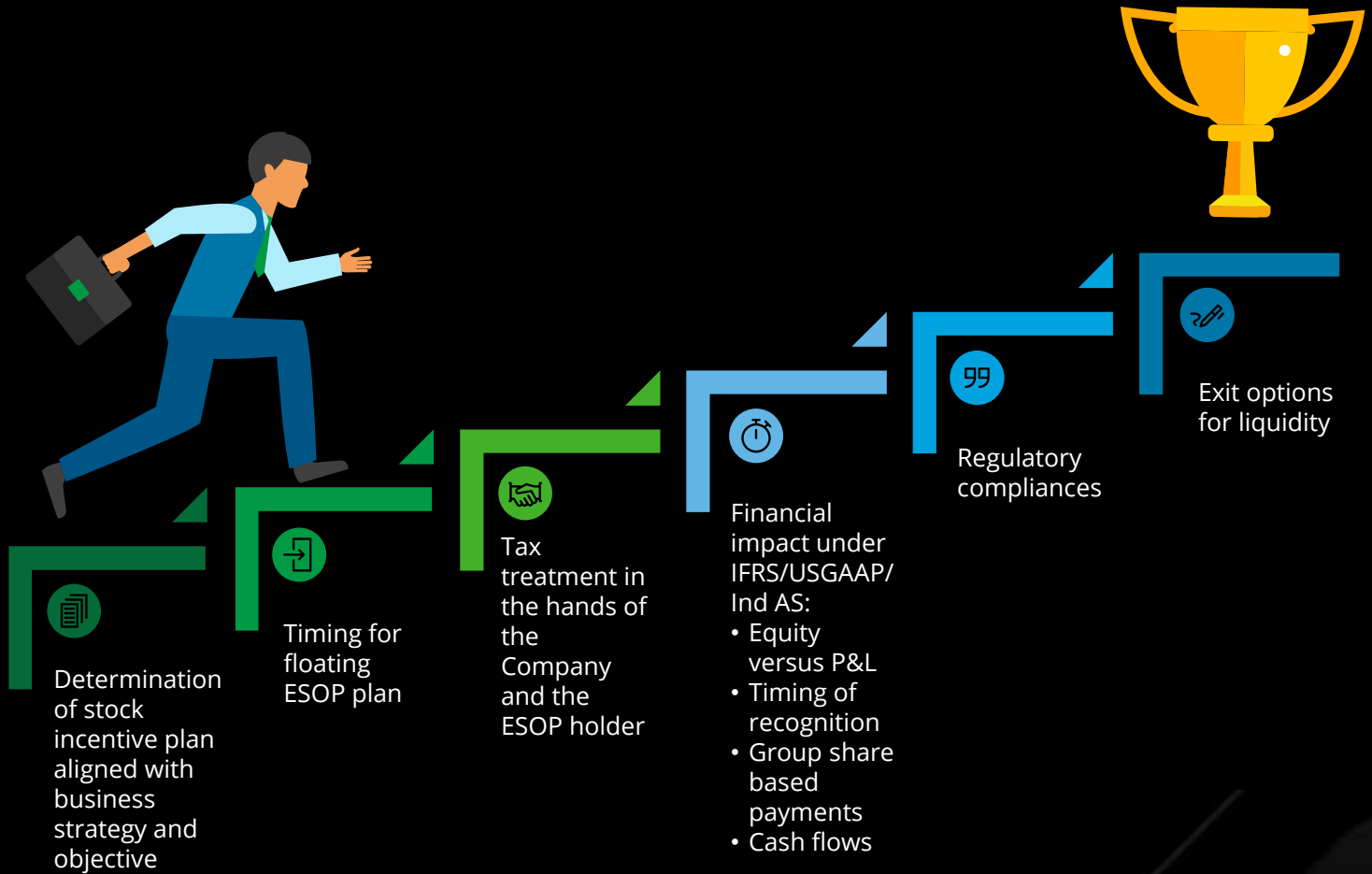
Approved Pool for ESOP
(% of share capital)





Employee Stock Option Plan for emerging Companies

Key consideration for an ESOP



Key questions for the management

- 01** How will the presence of such incentive schemes be viewed / aligned to management objective?
- 02** Have you assessed the tax, regulatory, compliance, accounting and reporting impact of ESOP
- 03** Can the stock incentives become an integral part of the compensation strategy?
- 04** Are you an 'eligible start-up' that qualifies for the deferment of tax payments by employees?
- 05** Have you considered appropriate recharge arrangements in case of group ESOPs
- 06** Is your plan compliant for grants given to overseas employees



Considerations in designing a new plan

Design parameters

What question does it answer?



— Vehicle

Given the objectives and constraints, which are the feasible long term incentive vehicles? What is the optimum vehicle. For instance, as per Deloitte study, 61% of companies which participated in the study chose ESOPs, 39% chose Restricted Stock Units



— Exercise price formula

How will the exercise price be determined?



— Coverage

What filters govern employee eligibility?



— Grant frequency

How often will the grants be made?



— Approach to determine grant quantum

How will the number of units for each covered employee be determined?



— Vesting condition

When will the units vest? Under what condition(s)?



— Exercise period

When can the units be availed?
How can process of exercise be eased for employees?



— Stakeholder implications under various scenario

Shareholders - Estimated dilution, Performance-Reward relationship, related challenges from shareholder advisory bodies
Company - Cash outgo, P&L expense
Employee - Earning opportunity, Upside/downside



— Special considerations, if any

Provisions for change in control, corporate actions
Provisions which can enable reversing of expense in case certain outcomes are not achieved
Post IPO requirements e.g., ratification of the scheme







— Administrative provisions

How will resignations or group transfers or retirements be treated?



Regulations that impact ESOPs

 <p>Regulations</p>	 <p>Financial Reporting</p>	 <p>Taxation</p>	 <p>Valuation</p>
<p>Company Law, SEBI and FEMA Regulations</p>	<p>Ind AS/Indian GAAP/ IFRS/ US GAAP</p>	<p>Income Tax Act, 1961, Income Tax Rules 1962</p>	<p>Valuation</p>

How can we help?

Deloitte will equip the management in understanding and implementing the requirements of various regulatory and tax provisions, financial reporting impact and sector specific regulations. We will leverage Deloitte's deep expertise and technology solutions to provide a practical, business-oriented view on design, implementation, accounting, valuation, regulatory compliance and taxation with respect to ESOPs.

Structuring

- Understand the business objective and suggest an appropriate plan
- Assist in finalising plan parameters and drafting of plan, related documentation
- Benchmarking Analysis for determining eligibility
- Assist in rolling out plan to the employees, managing employee workshops

Valuation, Accounting and Financial Reporting

- Valuation of shares and options
- Advice on the appropriate accounting treatment of the ESOP plan as per Ind AS/Indian GAAP/ IFRS/ US GAAP
- Advice on appropriate accounting for group share based payments and recharge arrangements.
- Assistance in identifying disclosure requirements as per applicable GAAP

Tax and regulatory Advisory support

- Advice on Company law and SEBI regulations and assistance with regulatory compliances
- Assistance in withholding calculations and payroll reporting including use of Tax treaties to mitigate double taxation for mobile employees
- Deductibility of costs for the company and taxation of ESOP trust

Cross border grants

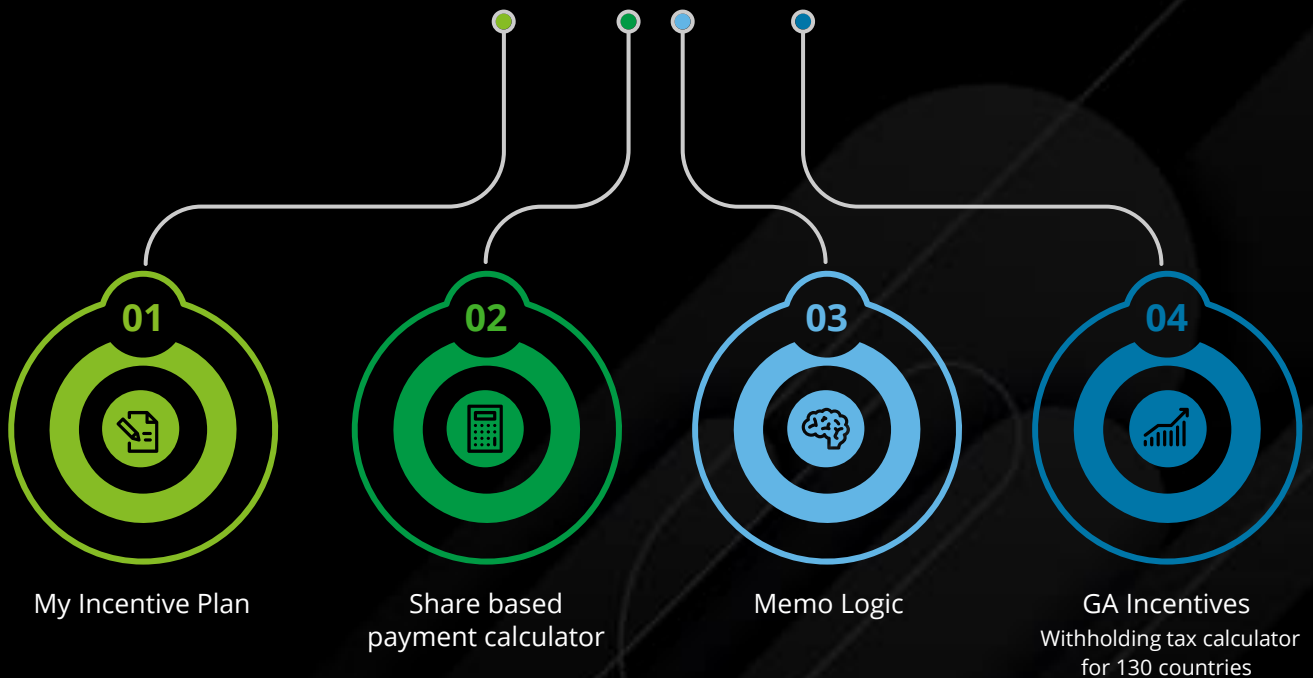
- Overseas tax regulations
- The need for an overseas addendum to the plan
- Beneficial overseas taxation regimes
- Recharge of costs, mark-up required and deductibility of the recharges
- FEMA compliances and filing requirements



Our value proposition



Global tools



Delhi

DLF Cyber City Complex
Tower B, DLF City Phase II
7th Floor, Building 10
Gurugram 122002
Tel No.: +124 679 2000
Fax No.: +124 679 2012

Kolkata

Bengal Intelligent Park
13th & 14th Floor, Building Omega
Block – EP & GP, Sector – V
Salt Lake, Electronic Complex
Kolkata 700091
Tel No.: +33 6612 1000
Fax No.: +33 6612 1001

Ahmedabad

19th floor, Shapath-V,
Besides. Crowne Plaza
S.G. Highway
Ahmedabad 380015
Tel No.: +79 6682 7300
Fax No.: +79 6682 7400

Mumbai

One International Centre
Tower 3, 27th – 32nd Floor
Senapati Bapat Marg, Elphinstone Road
(West)
Mumbai 400013
Tel No.: +22 6185 4100
Fax No.: +22 6185 4101

Chennai

ASV N Ramanas Towers,
No. 52, (Old No. 37),
Floors 7,8,9
Venkatnarayan Road, T. Nagar,
Chennai 600017
Tel No.: +44 6688 5000
Fax No.: +44 6688 5100

Hyderabad

KRB Towers, Plot No.1 to 4 & 4A,
1st, 2nd & 3rd Floor,
Jubilee Enclave, Madhapur,
Hyderabad – 500 081
Tel No.: +40 7125 3600
Fax No.: +40 7125 3601

Bangalore

Prestige Trade Tower, 14th-22nd floor
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Bengaluru 560001
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Fax No.: +80 6627 6011

Vadodara

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