

HR Law Hotline

May 04, 2004

LIBERALIZATION OF STOCK OPTION REGULATIONS

In another step towards liberalization, the Reserve Bank of India ("RBI") has issued Circular No. 90 dated May 3, 2004, ("Circular") permitting foreign companies to freely price their stock options ("ESOP") being offered to the employees / directors of their Indian office, branch or subsidiary. This relaxation coupled with the general relaxation announced by the RBI in February 2004 permitting Indian residents to purchase foreign securities under the automatic route for amounts up to USD 25,000 would make the ESOP route more attractive for structuring of employee compensation packages.

Under the Indian exchange control regulations, the grant of stock options by any foreign company to resident Indians must be in accordance with the provisions of the Foreign Exchange Management (Transfer or Issue of any Foreign Security) Regulations, 2000 ("Regulations"). One of the conditions laid down in sub-regulation 19(2)(a) of the Regulations stipulated that the "the shares are offered at a concessional price". While 'concessional' price had not been defined, it was interpreted to mean that the exercise price should be less than the fair market price of the shares of the foreign company on the date of grant of the stock options. The Regulations were also silent on the quantum of concession and the mechanism for determining the concession and the price, especially in case of unlisted shares. This condition posed great difficulties to US parent companies desiring to grant options to their Indian employees as under the US GAAP, grant of option at a discount results in accounting charge for the discount, amortized over the vesting period. Further, options granted at a discount, would not qualify as 'Incentive Stock Options' triggering certain US tax consequences.

Post the relaxation under the Circular, foreign companies can now freely price their options thus also making them administratively more attractive in their home countries. The ESOP issued by foreign companies would continue to be in compliance with the Employees' Stock Option Plan or Scheme Guidelines issued by the Ministry of Finance in order to qualify for the single point beneficial tax treatment in the hands of the employees.

In addition to the above, the Circular also permits the Indian employees and directors to sell the shares acquired under an ESOP without obtaining the prior permission of the RBI, provided the proceeds thereof are repatriated to India.

Vikram Shroff & Daksha Baxi

Sources:

- *RBI A.P. (DIR Series) Circular No. 90 dated May 3, 2004.*
- *The Economic Times, Mumbai edition, dated May 4, 2004.*

DISCLAIMER

The contents of this hotline should not be construed as legal opinion. View detailed disclaimer.

This Hotline provides general information existing at the time of preparation. The Hotline is intended as a news update and Nishith Desai Associates neither assumes nor accepts any responsibility for any loss arising to any person acting or refraining from acting as a result of any material contained in this Hotline. It is recommended that professional advice be taken based on the specific facts and circumstances. This Hotline does not substitute the need to refer to the original pronouncements.

This is not a Spam mail. You have received this mail because you have either requested for it or someone must have suggested your name. Since India has no anti-spamming law, we refer to the US directive, which states that a mail cannot be considered Spam if it contains the sender's contact information, which this mail does. In case this mail doesn't concern you, please unsubscribe from mailing list.

Research Papers

Handbook on New Labour Codes

April 29, 2024

Compendium of Research Papers

April 11, 2024

Third-Party Funding for Dispute Resolution in India

April 02, 2024

Research Articles

Private Client Insights - Sustainable Success: How Family Constitutions can Shape Corporate Governance, Business Succession and Familial Legacy

January 25, 2024

Private Equity and M&A in India: What to Expect in 2024?

January 23, 2024

Emerging Legal Issues with use of Generative AI

October 27, 2023

Audio

Third-Party Funding: India & the World

April 27, 2024

IBC allows automatic release of ED attachments: Bombay HC reaffirms

April 15, 2024

The Midnight Clause

February 29, 2024

NDA Connect

Connect with us at events, conferences and seminars.

NDA Hotline

Click here to view Hotline archives.

Video

Cyber Incident Response Management

February 28, 2024

Webinar : Navigating Advertising Laws in India Part II Fireside Chat

with Manisha Kapoor

February 27, 2024

**Webinar : Navigating Advertising
Laws in India**

February 20, 2024
