



I. Legal Framework

The primary legal frameworks governing ESOPs and SARs in India for listed companies are:

- **SEBI (Share Based Employee Benefits and Sweat Equity) Regulations, 2021:** These regulations specifically address the issuance and administration of various share-based employee benefit schemes, including ESOPs, Employee Stock Purchase Schemes (ESPS), Stock Appreciation Rights (SARs), General Employee Benefits Schemes (GEBS), and Retirement Benefit Schemes (RBS). They lay down detailed provisions regarding shareholder approval, pricing, vesting, exercise, and disclosures.
- **SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015:** These regulations mandate continuous disclosures by listed entities to ensure market transparency and investor protection. Regulation 30, in particular, deals with the disclosure of material events, and Regulation 31 governs the disclosure of shareholding patterns.
- **Companies Act, 2013:** While the SEBI regulations specifically apply to listed entities, the Companies Act, 2013, forms the fundamental law for all companies.
 - **Section 62(1)(b) of the Companies Act, 2013** allows a company to issue further share capital to its employees under an ESOP scheme, provided a special resolution is passed by shareholders and other prescribed conditions are met.
 - It's important to note that for **cash-settled SARs**, which do not involve an issuance of shares, recourse to Section 62 of the Companies Act, 2013, may not be required as they don't involve a further issue of shares. However, **equity-settled SARs** for listed entities fall under the purview of SBEB & SE Regulations, 2021, and are treated similarly to ESOPs for regulatory purposes.

II. Key Disclosure Requirements and Recent Changes to Shareholding Pattern Format

SEBI has significantly enhanced the disclosure requirements for ESOPs and SARs, particularly with recent amendments to the shareholding pattern format. The circular **SEBI/HO/CFD/CFD-PoD-2/P/CIR/2025/35 dated March 20, 2025**, effective from the quarter ending **June 30, 2025**, has introduced crucial changes aimed at providing greater clarity and transparency.

A. Annual Reports in Prescribed Formats (Regulation 14 of SBEB & SE Regulations, 2021):

Listed entities are required to make extensive disclosures in their annual reports regarding their ESOP and SAR schemes. This includes, but is not limited to:

1. **General Disclosures:**
2. Description of each scheme.



3. Details of shareholders' approval obtained (special resolution).
 - Dates of grant, vesting, and exercise periods.
 - Exercise price or pricing formula.
 - Total number of options/SARs granted, vested, exercised, and lapsed/forfeited during the year.
 - Total number of equity shares arising as a result of the exercise of options/SARs.
 - Money realized by the exercise of options.
 - Number of options/SARs outstanding at the end of the year.
 - Number of options/SARs exercisable at the end of the year.
 - Weighted-average exercise price and weighted-average fair value of options/SARs.
 - Method used and assumptions made to incorporate the effects of expected early exercise.
 - How expected volatility was determined.
 - Expected option/SAR life, expected dividends, and risk-free interest rate.
 - Details of any material change in the scheme and whether the scheme is in compliance with the regulations.
4. **Specific Disclosures for Share-Based Benefits (Schedule I of SBEB & SE Regulations, 2021):**
 - The detailed disclosure format provided in Schedule I to the SBEB & SE Regulations, 2021, must be adhered to. This covers various aspects like the total options/SARs in force, options/SARs granted during the year, options/SARs vested, exercised, lapsed, and outstanding.
 - The quantitative and qualitative aspects of the schemes, including financial impact, must be clearly presented.

B. Event-Based Disclosures (Regulation 30 of LODR Regulations):

Listed entities must make timely disclosures of material events concerning ESOPs and SARs to the stock exchanges. SEBI Circular No. SEBI/HO/CFD/CFD-PoD-2/CIR/P/2024/185 dated December 31, 2024, has tightened these timelines:

- **Board Decisions (e.g., approval for issuance/grant of ESOPs/SARs):** Within **30 minutes of the closure of the Board meeting**. If the meeting ends after market hours and more than 3 hours before the next market open, disclosure must be made within 3 hours of the closure.



- **Internal Events (e.g., vesting of a significant number of options/SARs, modification of scheme):** Within **12 hours** of occurrence.

C. Quarterly Shareholding Pattern Disclosures (Regulation 31 of LODR Regulations and SEBI Circular dated March 20, 2025):

The recent amendments to the shareholding pattern format (effective from June 30, 2025) are particularly significant for ESOPs and SARs. These changes, outlined in **SEBI Circular No. SEBI/HO/CFD/CFD-PoD-2/P/CIR/2025/35 dated March 20, 2025**, modify Annexure 2 of Section II-A of Chapter II of the Master Circular on Shareholding Pattern Disclosure.

Key modifications impacting ESOPs and SARs include:

1. **Clarification of "Underlying Outstanding Convertible Securities":** The existing header of column X in the shareholding pattern format, which relates to "No. of Shares Underlying Outstanding convertible securities," has been explicitly clarified to **include ESOPs (i.e., "No. of Shares Underlying Outstanding convertible securities (including Warrants, ESOP etc.)"**). This removes any ambiguity regarding the inclusion of ESOPs in this category.
2. **New Column for "Total Number of Shares on Fully Diluted Basis":** A new column has been added to the shareholding pattern format to capture the **"Total number of shares on a fully diluted basis (including warrants, ESOP, Convertible Securities etc.)"**. This is a major change, as it provides investors with a comprehensive view of the potential dilution from all convertible instruments, including ESOPs and SARs (if equity settled). This allows for a more accurate assessment of per-share metrics and potential future capital structure.
3. **Disclosure of Non-Disclosure Undertakings (NDUs) and Other Encumbrances:** While not directly related to ESOPs/SARs, it's worth noting that the amended format also requires details of NDUs, other encumbrances, and the total number of shares pledged or otherwise encumbered. This enhanced transparency around promoter holdings and encumbrances indirectly contributes to a clearer overall shareholding picture.

III. Website Disclosures (SEBI Circular dated December 31, 2024):

In addition to disclosures to stock exchanges, SEBI, through its circular dated **December 31, 2024**, has mandated listed entities to disclose their **Employee Benefit Scheme documents** (under SBEB & SE Regulations, 2021) on their **official websites**.

- **Scope:** This includes the entire ESOP/ESPS/SAR scheme documents.
- **Redaction:** Companies are permitted to redact commercially sensitive information or information that would affect their competitive position.
- **Board Approval for Redaction:** Any redacted content requires explicit Board approval.



- **Compliance with SEBI Standards:** Redactions must comply with SEBI-prescribed standards to ensure transparency is not compromised.

With these changes now employee benefit related data is now available in public domain at the finger tip of investors. It also needs to be ensured that while sharing this data in the public domain (especially copies of employee benefit schemes) listed entities need to ensure that confidential data relating to the granting and vesting of employee benefits that is linked to performance targets is not disclosed.

Conclusion

SEBI's disclosure framework for ESOPs and SARs, especially with the latest amendments to the shareholding pattern format, underscores its commitment to fostering a transparent and investor-friendly securities market. Companies must diligently adhere to these regulations, not only to avoid penalties but also to build trust with their investors by providing clear and comprehensive information regarding their employee benefit schemes and their potential impact on the company's capital structure. The move towards a fully diluted shareholding disclosure, in particular, empowers investors with a more holistic view of the company's equity base, making it easier to assess valuation and dilution risks

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