

SECURITIES AND EXCHANGE COMMISSION OF PAKISTAN

Islamabad, the 27th April, 2016.

GUIDELINES FOR STRUCTURING AND OFFERING OF THE EMPLOYEES STOCK OPTION SCHEMES

Disclaimer:

These Guidelines are framed to facilitate the public limited companies in structuring and offering of Employees Stock Option Schemes (the Scheme).

While drafting the Scheme, the Public Companies (Employees Stock Option Scheme) Rules, 2001 and relevant provisions of the Companies Ordinance, 1984 must be consulted.

CHAPTER I Preliminary

1. Short title, Commencement and Application:

- (1) These Guidelines shall be called the Guidelines for the Structuring and Offering of the Employees Stock Option Schemes, 2016.
- (2) These shall come into force at once.
- (3) These shall apply to all Stock Option Schemes offered by the public limited companies to their employees.

2. Definitions:

- (1) In these Guidelines unless there is anything repugnant in the subject or context:-
 - (i) “Act” means the Securities Act, 2015 (III of 2015);
 - (ii) “Company” for the purpose of these Guidelines means a public limited company;
 - (iii) “Ordinance” means the Companies Ordinance, 1984 (XLVII of 1984).
 - (iv) “Regular Employee” means a full time working employee who is on payroll of the company or its holding or subsidiary company.
 - (v) “Rules” means the Public Companies (Employees Stock Option Scheme) Rules, 2001.
 - (vi) “Scheme” means as defined under the Rules.
- (2) All other words and expressions used but not defined in these Guidelines shall have the same meanings as are assigned to them in the Ordinance, the Securities and Exchange Commission of Pakistan Act, 1997 (XLII of 1997), the Act and the Rules.

3. Purpose and Introduction:

- (1) These Guidelines are issued under Section 506B of the Ordinance.
- (2) Purpose of these Guidelines is to facilitate and encourage offer of the Schemes by the companies. These Guidelines provide the procedure for structuring and approval of Scheme and set out the minimum information required to be disclosed therein.
- (3) These Guidelines are general in nature and may not be construed as the sole criteria for approval and structuring of a Scheme and disclosures therein. The Company that offers a Scheme shall have the obligation and responsibility under the Rules in relation to approval, structuring, disclosures and administration of a Scheme.
- (4) The Company must comply with all relevant laws including the Act, the Ordinance, the Rules, the tax laws and the accounting standards when structuring and administering the Scheme.
- (5) The Schemes must be structured with the intention to align interests of the employees and the shareholders. The Schemes must not be used as a tool for improper enrichment of executives.

CHAPTER II Eligibility and Required Approvals

4. Eligibility:

Any public limited company is eligible to offer Scheme to the following:

- (i) Regular employees who are on the pay roll of the Company; and
- (ii) Regular employees who are on the pay roll of the Company's subsidiary or holding company.

5. Approvals required:

- (1) Approvals of the shareholders of the Company by way of special resolution and the Commission are required for the following:
 - (i) Issuance of further capital without issue of right shares and allocation of certain percentage of the shares to the employees under the Scheme; and
 - (ii) Offer of the Scheme.

[Reference section 86(1) of the Ordinance and rule 2(l) & 6(1) of the Rules]
- (2) Separate special resolution shall be passed in case the Scheme is to be offered to the following in addition to the Company's employees:
 - (i) Grant of option to employees of the subsidiary or holding company of the Company; and

- (ii) Grant of option to identified employees of the Company, during any one year, equal to or exceeding one percent of the issued capital (excluding outstanding conversions) of the Company.

[Reference sub-rule (3) of rule 6 of the Rules]

- (3) In case shares are to be issued at discount to the face value and the time period for issuance of shares is beyond the time period of 60 days from the date of sanction, the Company shall also obtain approval of shareholders and the Commission.

[Reference first Proviso to sub-section (1) of section 84 of the Ordinance for approval of the shareholders and 2nd proviso to sub-section (1) of section 84 for time period for issuance of shares]

CHAPTER III

Basic Features

6. Basic Features:

(1) Entitlement Pool:

- (i) The maximum number of shares that can be issued pursuant to the Scheme must be determined and disclosed in the Scheme. This number may be fixed or in the form of percentage of the total paid up capital of the Company.
- (ii) The entitlement pool may be adjustable. For example the company may adjust the entitlement pool upon announcement of any corporate action like announcement of bonus issue and/or right issue etc., in case the entitlement pool is adjustable. The adjustment mechanism must be explained through illustrations on separate sheets attached to the Scheme. The illustration must contain at least one hypothetical example for each scenario.
- (iii) In case the Company has a plan of reduction in its share capital during the life of the Scheme i.e. on or before the last date for the exercise of the options, the adjustment mechanism of the entitlement pool must be disclosed in the Scheme.

(2) Exercise Price:

- (i) The Company shall set the exercise price. The methodology used for setting the exercise price must be disclosed in the Scheme. *[Reference rule 8 and 13 of the Rules read with Schedule thereof]*
- (ii) For setting the exercise price, first base price shall be determined. In case of a listed company, the base price must be based on minimum 90 days weighted average market price, as the average price takes care of any volatility/ manipulation in the share price. In case of an unlisted company the base price may be based on breakup value per share,

earning per share, return on equity, return on assets etc. or any combination thereof.

- (iii) The exercise price may be the base price or at a certain discount to or at a certain premium to the base price.
- (iv) The exercise price may be adjustable. For example the company may adjust the exercise price upon announcement of any corporate action like announcement of bonus issue, right issue etc. in case the exercise price is adjustable. The adjustment procedures must be explained through illustrations on separate sheets attached to the Scheme. The illustrations must contain at least one hypothetical example for each scenario.

(3) Re-pricing an option:

The Company may re-price the exercise price for the un-exercised options, whether vested or not, if the Scheme is rendered un-attractive for the option holders due to fall in the market price, in case of listed companies, or fair value, in case of unlisted companies, of the underlying share provided such re-pricing is not detrimental to the interest of the option holders and the re-pricing is approved by members of the Company by way of special resolution.
(Reference sub-rule (2) of rule 7 of the Rules)

(4) Grant, Vesting and Exercise:

- (i) The Committee shall specify the date of grant of options, the vesting period and the exercise period. The Committee shall ensure that there is a minimum period of one year between the grant of options and vesting of options.
(Reference sub-rule (1) of rule 9 of the Rules).
- (ii) In case a Scheme provides for vesting over a period of time, the vesting period shall be determined separately for each part of the options.
- (iii) Exercise period can commence any time after expiry of the vesting period. Exercise period can span over a number of years with or without specific intervals allowing the option holders to exercise the options in parts and over a period of time.

(5) Minimum lock-in period:

The Company has the freedom to specify the lock-in period for the shares issued pursuant to exercise of option i.e. the Company may restrict sale of shares, for a certain time period, issued pursuant to exercise of options.
(Reference sub-rule (2) to rule 9 of the Rules)

(6) Failure to exercise an option:

In case of failure to exercise option within the exercise period specified in the Scheme, the options granted shall lapse. *(Reference rule 10 of the Rules)*

(7) Cashless System for Exercise of Options:

- (i) The Company may arrange funding payment of the exercise price under the cashless system. *(Reference to sub-rule (2) of rule 11 of the Rules)*
- (ii) Under the cashless system, employees do not pay for the shares upfront at the time of exercise of the options rather an arrangement is made by the Company with any securities broker for payment of the shares issued upon exercise of the options. Upon payment by the securities broker on behalf of the option holders, the Company issues shares in the name of the option holders who exercise the options. The shares issued in the names of such option holder are sold, in totality or a part thereof as directed by the option holder, by the securities broker appointed for the purpose. The sale proceeds are paid to the concerned option holders after deducting the amount paid to the Company on behalf of the option holders and the brokerage commission.
- (iii) In case a Scheme provides the cashless system, the securities broker appointed by the Company must be a securities broker licensed under the Act.

“Please note that Section 95 of the Ordinance prohibits financial assistance to any person for the purposes of purchase of shares and Section 91 of the Ordinance prohibits issuance of any unpaid or partially paid shares, therefore, the companies that opt for the cashless exercise of options must note that provisions of the said sections are not violated.”

**CHAPTER IV
Procedure**

7. Procedure:

(1) Constitution of the Compensation Committee:

The Board of Directors (the “**Board**”) of the Company shall constitute a Compensation Committee (the “**Committee**”) for the administration and superintendence of the Scheme. The Committee shall consist of at least two directors. However, in case of listed companies, majority of the members of the Committee must be independent directors, if the Company has sufficient number of independent directors on its board. The chairman of the Committee should be an independent director for listed companies.
(Reference rule 4 of the Rules)

(2) Duties and Responsibilities of the Committee:

In addition to its duties and responsibilities under the Rules, the Committee shall be responsible for the following:

- (i) The Committee shall ensure that:

- (a) the contents of the Scheme are in line with the provisions of the Rules and overall financial conditions of the Company;
 - (b) the Scheme is not only in the interest of the employees but also of its shareholders;
 - (c) the Scheme is offered only to the regular employees of the Company or the regular employees of its subsidiary company or holding company;
 - (d) all pre-requisites, if any, like targets and goals set for the option holders as entitlement for the exercise of options, are clearly specified and disclosed in the Scheme;
 - (e) the options to be granted to employees are in line with the overall compensation policy of the Company and no undue favor/ injustice is done to/ with any employee (e.g. In category “A”, employee X is rated “**Excellent**” and Employee Y is rated “**Good**”. It would be an undue favor to Y if he is allotted 1,000 options and injustice with X if he is allotted 250 options). For this purpose, the Committee shall mention in the Scheme the detailed criteria for grant of options; and
 - (f) appropriate corporate education processes are in place to explain the inherent risks and rewards of share ownership and the operational details of the Scheme. Where, necessary, the eligible employees should be encouraged to seek independent advice.
- (ii) The Committee shall, in addition to the information required under the Rules and those mentioned in Annexure IV to these Guidelines, disclose in the Scheme the following:
- (a) total number of options to be granted to the employees under the Scheme (e.g 100,000 shares or 5% of the paid up capital of the Company).
 - (b) the category of employees who are eligible for grant of options under the Scheme (e.g Category A, B, C, D and E employees).
 - (c) the maximum number of options to be granted to each category of employees (e.g Category A – 40,000, B - 30,000, C – 15,000, D – 10,000 and E – 5,000 shares or allocation to each category may be made in terms of percentage).
 - (d) the maximum number of options that can be granted to a single employee.
 - (e) mechanism for recovery of options erroneously granted to an employee.
 - (f) the fate of options granted to and/or vested in the following categories of employees:
 - (A) employee who resigns or whose services are terminated; and

- (B) employee who dies or is permanently incapacitated during employment.
- (iii) The Committee shall prepare policies and procedures to ensure that there are no violations of provisions relating to insider trading.
- (iv) In case, the Scheme is to be offered to regular employees of the holding company or subsidiary of the Company, it should be mentioned in the Scheme on the same pattern as for the regular employees of the Company.
- (v) The Committee shall give an undertaking that the Scheme has been structured in a way that it is fully aligned with the business plan of the Company
- (3) The Company shall obtain requisite approvals from the shareholders as mentioned in para 5. Please note that the statement of fact annexed to a notice of general meeting wherein approval of the shareholders shall be sought and the resolution proposed to be passed must contain at least such information and material as mentioned in **Appendix-I**.
(Reference sub-rule (2) of rule 6 of the Rules)
- (4) For seeking approval of the Commission, the Company shall make formal application to the Commission on the specimen given in **Appendix-II**.
- (5) The application referred to in clause (4) shall be accompanied by the draft Scheme, approved by the members by way of special resolution, and such other documents and information as mentioned in **Appendix-III**.
- (6) The draft Scheme must contain such information, procedures and disclosures as required under the Rules and those mentioned in **Appendix-IV**. While drafting the Scheme, the companies may use, as a specimen, the model Scheme attached at **Appendix-V**.
- (7) The draft Scheme shall also be submitted in soft form in MSWord for review and examination by the Commission.
- (8) The Commission shall grant its approval to the Scheme if it is satisfied that the Company has complied with all the requirements of the law and has submitted all the required documents.

CHAPTER V

Restrictions

8. Restrictions:

- (i) The Company shall not offer the Scheme to any employee other than the regular employees who are on its pay roll or on the payroll of its holding company or subsidiary company.
(Reference rule 3 read with sub-rule (3) of rule 6 of the Rules).

- (ii) The Company shall not vary the terms of a Scheme in any manner which may be detrimental to the interests of its employees and the option holders.

Provided, that the Company shall be entitled to vary the terms of the Scheme if such variation is made to meet any regulatory requirement.

(Reference sub-rule (1) of rule 7 of the Rules).

- (iii) Exercise of option shall not take place earlier than one year from the date of grant of the options.

(Reference sub-rule (1) of rule 9 of the Rules).

- (iv) An option holder shall not have the right to receive any dividend or to vote or in any manner enjoy the benefits of a shareholder in respect of options granted to him, till such time the shares are issued to him on exercise of options.

(Reference sub-rule (3) of rule 9 of the Rules).

- (v) Options granted but not exercised during the exercise period shall lapse.

(Reference rule 10 of the Rules).

- (vi) Options granted to an employee shall not be pledged, hypothecated, mortgaged or otherwise alienated in any other manner.

(Reference to sub-rule (3) of rule 11 of the Rules).

- (vii) The Company must ensure that its executive directors and employees in senior management shall not participate in the deliberation or discussion of their own allocation of Options under the Scheme.

CHAPTER V

Disclosures and Reporting

9. Disclosures:

- (1) The shareholders must be provided with meaningful information to permit them to determine whether to approve the Scheme or not. All aspects of the Scheme must be disclosed to shareholders including full cost of the Scheme.
- (2) The Company shall make sure that the Scheme contains such information, procedures and disclosures as referred to in clause 7 of these Guidelines.
- (3) The Company shall make sure that the information mentioned in rule 12 of the Rules is disclosed in the report of the Board of Directors to each annual financial report. *(Reference rule 12 of the Rules)*
- (4) The Company shall make sure compliance with all the requirements of IFRS 2 applicable to the Scheme read with the SECP's Notification No. 929(I)/2015 dated September 10, 2015.

10. Reporting to the Commission:

The Company shall file with the Commission the following information/document:

- (1) A report, on annual basis, on offer of the Scheme which must contain at least the following information:
 - (a) total entitlement pool;
 - (b) number of options granted;
 - (c) number of options vested;
 - (d) number of options exercised;
 - (e) number of options lapsed;
 - (f) number of shares issued pursuant to the exercise of options granted;
 - (g) exercise price;
 - (h) exercise period;
 - (i) the amount of tax withheld during the year under the Income Tax Ordinance, 2001;
 - (j) variation in the terms of the Scheme, if any;
 - (k) adjustment in the entitlement pool, if any;
 - (l) adjustment in the exercise price, if any;
 - (m) number of options granted to employees in the management cadre and number of such employees;
 - (n) number of options granted to employees in other than the management cadre and number of such employees; and
 - (o) number of employees who are granted options, during the year, equal to or exceeding one per cent of the issued capital of the Company.
- (2) Copy of the auditors' certificate as required under rule 14 of the Rules, duly certified by the Company Secretary. (***Reference rule 14 of the Rules***)

11. Reporting to the Tax Authorities:

The amount of tax withheld, if any, must be reported to the Tax authorities during the respective tax year.

CHAPTER VI Education and Awareness

12. Employees Education and Awareness:

- (i) The Company shall prepare a pamphlet on educating the entitled employees about the inherent risks and rewards, restrictions, obligations, tax implications etc. and circulate the same to all the entitled employees at the time of grant of options.

- (ii) The risks associated with investment in stock options and the shares may include the following:
 - (a) Lapse: The options will lapse if the employment is terminated prior to vesting of options. Even after the options are vested, the unexercised options may be forfeited if the employee is terminated for gross misconduct.
 - (b) Illiquidity: The options cannot be transferred to anybody except the entitled employees. Therefore, the employees have rare chance or have no chance, to mitigate the risks by selling their options before they are exercised.
 - (c) Depreciation: Any fall in the value of the share of the Company i.e. the underlying share, can lead to a significant decline in the value of the option.
 - (d) Concentration: The risk arising out of any fall in value of the share of the Company is aggravated if the employee's investment is concentrated in the shares of the Company only.

CHAPTER VII Miscellaneous

13. Inspection of Audited Accounts:

The Option holders shall be entitled to inspect the latest audited accounts of the Company. The Company shall, therefore, make available its audited annual accounts on its website or at its registered office during normal business hours on all working days.

14. Removal of Difficulties:

- (i) In order to remove any difficulties in the interpretation and application of the provisions of these Guidelines, the Commission shall have the power to issue clarifications through guidance notes or circulars; and
- (ii) The Commission shall have the power to specify such disclosure and process requirements through guidance notes or circulars, as may be necessary for protection of interest of investors, securities market and for regulation of the Schemes by companies for the benefit of their employees, involving dealing, directly or indirectly, in shares and matters connected therewith or incidental thereto.

List of information and facts to be disclosed in the statement of facts to be annexed to the Notice of the General Meeting in which approval of the Employees Stock Option Scheme shall be sought

S. No.	Information and Facts
1.	<p>As required under rule 6(2) of the Rules, the statement of facts annexed to the notice of the general meeting must contain the following information:</p> <ul style="list-style-type: none">(i) Total number of options/shares to be granted/issued.(ii) Identification of classes of employees entitled to participate in the Scheme.(iii) Requirements of vesting and period of vesting.(iv) Maximum period within which any option shall be vested.(v) Exercise price or pricing formula/methodology.(vi) Exercise period and process of exercise.(vii) Appraisal process for determining eligibility of an employee to the Scheme.(viii) Maximum number of options to be issued per employee and in aggregate.(ix) A statement to the effect that the Company shall conform to the accounting policies specified in rule 13 of the Rules.(x) A statement whether the Scheme is being offered to employees of the Company, employees of the holding company and/or employees of the subsidiary company.
2.	<p>All other information as required under Section 160 of the Ordinance and those deems necessary by the Company, the Board and/or CC to be disclosed, shall also be disclosed.</p>

Form of Application

(On Company's letterhead)

Dated: _____

The Chairman,
Securities and Exchange Commission of Pakistan,
NIC Building, Jinnah Avenue,
Islamabad.

Subject: Application for approval of the Employees Stock Option Scheme under the second proviso to subsection (1) of Section 86 of the Companies Ordinance, 1984 read with the Public Companies (Employees Stock Option Scheme) Rules, 2001

Sir,

I, Mr. ... (Name of the signatory to this application) ... duly authorized by the Board of Directors (the Board) of ... (Name of the Company) ... hereby apply for approval of the Employees Stock Option Scheme of the Company (the Scheme) under the second proviso to subsection (1) of Section 86 of the Companies Ordinance, 1984 read with the Public Companies (Employees Stock Option Scheme) Rules, 2001.

2. The draft Scheme duly approved by the members of the Company by way of special resolution in general meeting held on ... (date of the general meeting) ... and the documents as required under the Guidelines for the Structuring and Offering of Employees Stock Option Schemes read with Appendix-III thereof, are attached herewith.

Yours truly,

Name:

Designation:

[Note: This application must be signed by CEO, CFO, COO or the Company Secretary with the authorization of the Board by way of resolution.]

List of Documents required to be submitted along with Application for Approval of the Employees Stock Option Schemes

S. No.	Name of Document
1.	Application to the Commission under the second proviso to subsection (1) of Section 86 of the Companies Ordinance, 1984 (the Ordinance) read with rule 2 of the Public Companies (Employees Stock Option Scheme) Rules, 2001 (the Rules) for approval of the Scheme.
2.	Application to the Commission under the first proviso to subsection (1) of Section 86 of the Ordinance for approval to issue further capital without right offer.
3.	Application to the Commission under subsection (2) and subsection(1)(d) of Section 84 of the Ordinance for approval to issue shares under the Scheme at discount to face value and beyond the time period of 60 days from the date of sanction respectively, where required.
4.	Affidavit, on Non-Judicial Stamp Paper, from the CEO, CFO, COO or the Company Secretary on accuracy of the information given in the application and the supporting documents pursuant to clause (i) of rule 30 of the Companies (General Provisions and Forms) Rules 1985, duly certified by an Oath Commissioner.
5.	Power of Attorney, on Non-Judicial Stamp Paper, in favor of the Consultants, if any, duly certified by a Notary Public.
6.	Application filing and processing fee as specified by the Commission from time to time.
7.	Copy of the special resolutions on Form-26 as require under: (a) the first proviso to subsection (1) of Section 86 of the Ordinance; (b) rule 6(1) and/or rule 6(3), if applicable, of the Rules; and (c) sub-section (1) and (2) of Section 84 of the Ordinance, if applicable. Note: (i) copies of these resolutions must be duly certified from the concerned Company Registration Office; and (ii) each resolution relating to approval of the Scheme must authorize in advance the amendments to be made by the Commission in the Scheme.
8.	Copy of the attendance sheet of the members in the general meeting of the Company in which the above-mentioned resolutions were passed. The attendance sheet must contain number of members who attended the general meeting and the number of shares held by each of them directly or through proxies.
9.	Copy of the notice of the general meeting of the Company alongwith the statement of facts attached thereto.
10.	Copy of the minutes of the Board of Directors' (BoD) meeting or that of the Board's resolution regarding appointment of the Compensation Committee.
11.	Copy of the minutes of BoD meeting in which the proposed Scheme is approved.
12.	Grade /scale wise break up of all regular employees of the Company.
13.	Copy of the policy made by the Compensation Committee to monitor and control violation of the insider trading provisions of laws.
14.	Latest pattern of shareholding showing number of shares held by each sponsor, director and their associates and relatives, institutions and individuals.
15.	Audited annual accounts of the Company for the last three years and latest half yearly and quarterly accounts, if applicable.

16.	Copy of the Memorandum and Articles of Association of the Company containing copy of the certificate of incorporation and that of the certificate of commencement of business.
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Note: If not stated otherwise, copies of all the documents should be truly certified by the Company Secretary.

List of Disclosures to be made in the Employees Stock Option Scheme

S. No.	Disclosure	Relevant Rule of the Public Companies (Employees Stock Option Scheme) Rules, 2001
1.	On cover page, name of the Company, the words, “Employees Stock Option Scheme”, Date ...and number of the Scheme. The words, “As amended on ... ‘date of amendments’ ...” be inserted in case it is amended. The amended words, expressions, paras etc. must be provided on the relevant page of the Scheme.	Procedural requirement (PR)
2.	Inside the cover page, Table of Contents.	PR
3.	On page next to the page on, “Table of Contents”, all the technical terms, acronyms and abbreviations used in the Scheme shall be defined.	PR
4.	Main objective of the Scheme.	PR
5.	Eligibility of the employees for the Scheme.	rule 3
6.	Composition of the Compensation Committee (CC).	rule 4
7.	Power and functions of CC.	rule 5
8.	Entitlement Pool i.e. the maximum number of options/share that can be granted/issued under the Scheme.	rule 5(1)(i)
9.	Maximum number of options/shares that can be granted/issued to a single employee.	rule 5(1)(i)
10.	Date(s) of grant of options.	PR
11.	Vesting period(s)	rule 9
12.	Exercise period(s).	rule 5(1)(iii)
13.	Exercise price(s) and/or pricing methodology.	rule 8
14.	Conditions and circumstances under which options vested in an employee shall lapse	rule 5(1)(ii) and (iii) rule 10
15.	Time period within which an employee shall exercise vested options in the event of termination from service or resignation.	rule 5(1)(iv)
16.	Rights of an employee to exercise all options vested in him at one time or at various points of time within an exercise period.	rule 5(1)(v)
17.	Procedure for making adjustment to the entitlement pool and the exercise price in case of rights issues, bonus issues and other corporate actions.	rule 5(1)(vi)
18.	Procedure for grant, vesting and exercise of options in case	rule 5(1)(vii)

	of an employee who is on long leave.	
19.	Procedure for exercise of options under the cashless system, if any.	rule 5(1)(viii)
20.	Policy made by CC to monitor and control violation of the insider trading laws.	rule 5(2)
21.	Targets and goals set as pre-requisites, if any, for entitlement to exercise the options, in simple and clear terms.	PR
22.	A statement that the terms of the Scheme can be varied with approval of the members by way of special resolution provided such variation: (i) is not prejudicial to the interests of the option holders; and (ii) does not relate to the options already exercised.	rule 7
23.	Specify the lock-in period, if any, i.e. restriction on sale of shares issued by the Company pursuant to exercise of the options.	rule 9(2)
24.	Restrictions: (i) Restriction on sale and transfer of options; (ii) The options granted to an employee shall not be pledged, hypothecated, mortgaged or otherwise alienated in any other manner; etc.	rule 11(1) rule 11(3)
25.	Special events and treatment of the un-exercised option: (i) in the event of death of an employee while in employment of the Company, all options granted to him till the date of his death shall vest in his legal heirs or nominees; (ii) in case an employee suffers permanent incapacity while in employment of the Company, all options granted to him, as on the date of permanent incapacitation, shall vest in him on that day; and (iii) in the event of resignation or termination of service of an employee, all options not vested on that day shall expire.	rule 11(4), (5) and (6)
26.	A statement that an option holder shall not have the right to receive any cash dividend, bonus or right shares or to vote or in any manner enjoy the benefits of a shareholder in respect of option granted to him, till shares are issued to him on exercise of option.	rule 9(3)
27.	Procedure for funding payment arranged by the company in case of cashless system of exercise.	rule 11(2)
28.	Break up of the cost of the Scheme.	PR
27.	Any other information or material not mentioned in these Guidelines but required under the Rules; deems necessary by the Company, the Board or CC to be disclosed; or required by the Commission to be disclosed shall also be disclosed.	PR

Note: Name of the Company and the words, “Employees Stock Option Scheme” must appear on top of each page of the Scheme.

XYZ COMPANY LIMITED
[Please insert name of the company]

EMPLOYEES STOCK OPTION SCHEME

....date/month/year....
[Please insert date of the Scheme. Date of approval of the Scheme by the Commission may be set as date of the Scheme.]

Number of the Scheme:xxx.....
[Number of the Scheme by the Company say, 1st, 2nd, 3rd etc.]

As amended on/tilldate/month/year...
[In case any amendments in the approved Scheme is made, please insert date of amendments]*

** The amended words, expressions, paras etc. must be provided on the relevant page of the Scheme as a foot note.]*

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1. Interpretation and Definitions:

1.1 All the technical terms, acronyms and abbreviations used in the Scheme may please be defined in this part.

1.2 The following statements shall also be added:

[Words denoting the singular shall include the plural and the words denoting one gender shall include the other.

The Scheme shall come into force with effect from the Date of Approval by the Commission.]

**XYZ COMPANY LIMITED
EMPLOYEES STOCK OPTION SCHEME**

2. Introduction:

The following language may be used:

[XYZ Company Limited, incorporated on ... [date of incorporation] ... under the Companies Ordinance, 1984 (the Ordinance) hereby introduces a Stock Option Scheme, to be known as the XYZ Company Limited Employees Stock Option Scheme dated ... [please insert date of the Scheme] ... hereinafter referred to as the Scheme, for offer of stock options to its eligible employees under Section 86 of the Ordinance read with the Public Companies (Employees Stock Option Scheme) Rules, 2001 (the Rules). The Scheme has been approved by the members in general meeting held on (please insert date of the general meeting of the members of the Company in which the Scheme was approved) and the Commission vide letter dated ... (please insert date of the approval letter of the Commission)]

3. Purpose of the Scheme:

The following language may be used:
[The purpose of the Scheme is as under:

.....{Please describe purpose of the Scheme}.....

4. Eligibility of the employees for the Scheme:

- 4.1 Eligibility of the employees who can be granted options under the Scheme shall be provided in detail and in plain and simple words.
- 4.2 Cadre, class or level of employees entitled for the Scheme must be disclosed.
- 4.3 The discretionary power, if any, of the Compensation Committee relating to the grant of options etc. must be provided.

5. Composition of the Compensation Committee and its powers and functions:

The following language may be used:

5.1 *[Pursuant to rule 4 of the Rules, a committee named as the Compensation Committee has been constituted by the Board for administration and superintendence of the Scheme. The Compensation Committee does not comprise any director who can be classified as employee of the Company or are on its payroll.*

5.2 *The Compensation Committee comprises the following directors:*

- (a) Mr. (Chairman of the Committee)
- (b) Mr. (Member)
- (c) Mr. (Member)

Mr. ... {If required, please mention name and designation of the person who shall assist the Compensation Committee}... shall assist the Compensation Committee in administration of the Scheme.

5.3 *The Compensation Committee may be reconstituted by the Board from time to time, subject to compliance with the applicable provisions of the Rules.*

5.4 *Subject to the provisions and limitations of the Ordinance, the Rules and the Special Resolution, the Compensation Committee while using its powers under rule 5 of the Rule shall administer the Scheme.*

5.5 *Powers of the Compensation Committee are as under:*

.....{List down all the powers that the Compensation Committee shall have}.....

5.6 *The Compensation Committee's interpretation of the Scheme and all actions taken and determinations made by it pursuant to the powers vested in it shall be conclusive and binding on all parties concerned including the Company, its shareholders and employees, the option holders, the eligible employees and any person receiving an option under the Scheme.]*

6. Entitlement Pool:

6.1 The maximum number of options/share that can be granted / issued under the Scheme must be mentioned. The entitlement pool may be a fixed number or may be in terms of percentage of the paid up capital of the Company.

6.2 The maximum number of options/shares that can be granted / issued to a single employee must also be mentioned. This may be a fixed number or may be in terms of percentage of the total entitlement pool or the paid up capital of the Company.

6.3 In case the Scheme provides for adjustment of the entitlement pool pursuant to any corporate action like right issue, bonus issue or any other action, the same must be stated and the adjustment mechanism must be provided separately as annexure to the Scheme. The adjustment mechanism must be elaborated through illustration by taking hypothetical figures.

7. Grant of Options:

Date(s) of grant of options to be mentioned here. Options may be granted in tranches over a period of time.

8. Vesting Period:

Date(s) on which the options granted vest in the employees to whom these are granted must be mentioned here. As required under rule 9 of the Rules, there must be a gap of atleast one year between the date of grant of options and date vesting of options.

9. **Exercise Period:**

Exercise Period must commence after expiry of the vesting period. There may be more than one exercise periods.

10. **Exercise Price:**

10.1 The exercise price(s) and/or pricing methodology must be provided.

10.2 For setting the exercise price, first base price shall be determined. In case of a listed company, the base price must be based on minimum 90 days weighted average market price, as the average price takes care of any volatility/ manipulation in the share price. In case of an unlisted company the base price may be based on breakup value per share, earning per share, return on equity, return on assets etc. or any combination thereof.

10.3 The exercise price may be the base price or at a certain discount to or at a certain premium to the base price.

10.4 In case the Scheme provides for adjustment of the Exercise Price pursuant to any corporate action like right issue, bonus issue or any other action, the same must be stated and the adjustment mechanism must be provided separately as annexure to the Scheme. The adjustment mechanism must be elaborated through illustration by taking hypothetical figures.

11. **Terms, Conditions and Restrictions:**

11.1 All the terms and conditions for exercising the options granted shall be prescribed. The conditions must not be inconsistent to the provisions of the Rules.

11.2 These conditions may include the following:

- (i) *the options granted but not vested shall not be exercised;*
- (ii) *the Options vested shall be exercisable only during the exercise period;*
- (iii) *the options vested but not exercised shall lapse;*
- (iv) *the options granted to an employee are not transferable to any other person except to an entitled employee of the Company;*
- (v) *the options granted shall not be pledged, hypothecated, mortgaged or otherwise alienated in any other manner;*
- (vi) *in the event of death of an employee while in employment of the company, all options granted to him till the date of his death shall vest in his legal heirs or nominees;*
- (vii) *in case an employee suffers with permanent incapacity while in employment of the company, all options granted to him, as on the date of permanent incapacitation, shall vest in him on that day;*
- (viii) *in the event of resignation or termination of service of an employee, all options not vested as on that day shall lapse, however, such employee shall, subject to*

the terms and conditions of the Scheme, be entitled to retain all the vested options.

12. Rights of Option holders:

All rights of the option holders must be prescribed. The right may include the following:

- (i) Rights of an employee to exercise all options vested in him at one time or at various points of time within an exercise period.*
- (ii) In the event of death of an employee while in employment of the company, all options granted to him till the date of his death shall vest in his legal heirs or nominees.*
- (iii) In case an employee suffers a permanent incapacity while in employment of the company, all options granted to him, as on the date of permanent incapacitation, shall vest in him on that day.*
- (iv) In the event of resignation or termination of service of an employee, right to retain all the vested options.*
- (v) Rights, if any, of an eligible employee on long leave.*
- (vi) An option holder shall not have the right to receive any dividend or to vote or in any manner enjoy the benefits of a shareholder in respect of options granted to him, till shares are issued to him on exercise of option.*

13. Lapse of Options:

Complete detail about lapse of options must be provided.

14. Procedures:

All procedures involved in the Scheme must be elaborated. These procedures may include the following:

- (i) Procedure for grant of options. The options must be granted through a letter on the company's letterhead.*
- (ii) Procedure for vesting of options.*
- (iii) Procedure for exercise of options. Intention to exercise the options must be intimated to the company in writing through a letter by the option holder and the letter must accompany the document evidencing payment for the purchase of shares, where required.*
- (iv) Procedure for making a fair and reasonable adjustment to the number of options and to the exercise price in case of right issues, bonus issues and other corporate actions. Illustration of the adjustment of entitlement pool and exercise price must be provided separately and annexed to the Scheme.*
- (v) Procedure for grant, vesting and exercise of option in case of an employee who is on long leave.*

- (vi) *Procedure for cashless exercise of options, in case the Scheme provides for grant of options under the cashless system.*
- (vii) *Procedure for payment for exercising the vested options.*
- (viii) *Procedure and time line for allotment, issue and credit of shares against the options paid for. The following statement must be reproduced in the Scheme:
[Upon exercise of options, shares shall be issued only in the book entry form. The option holders, therefore, must maintain a depository account with a depository company and intimate the same to the company while exercising the options.]*

15. Rights attaching to the Shares:

15.1 All rights attached to the shares to be issued upon exercise of options, shall be stated.

15.2.1 The following statement shall be provided:

[the new shares to be allotted and issued upon an exercise of option will, upon such allotment and issuance, rank pari passu in all respects with the existing issued shares of the Company.]

16. Targets and Goals:

The targets and goals set as pre-requisites, if any, for entitlement to exercise the options, in simple and clear terms, must be provided.

17. Takeovers, reconstructions, amalgamations and winding up:

During the life of the Scheme, events like takeover, reconstruction, amalgamation or winding up of the company may occur. Treatment for the options granted or vested, must be provided in case such events occur.

18. Expenses:

Detail of expenses pursuant to the Scheme to be paid by the company shall be provided.

19. General:

The Company may prescribe in this part any general instructions with respect to offer and implementation of the Scheme. These may include the following:

- (i) *any notification or other notice in writing which the Company is required to give or may desire to give, to any eligible employee or option holder (or his legal heir or nominee, as the case may be) in pursuance of the Scheme shall be sufficiently given if delivered to him by hand or sent through prepaid post and addressed to the eligible employee or option holder at the last address available at the record of the Company.*

- (ii) *any certificate, notification or other notice in writing required to be given to the Company or the Compensation Committee shall be properly given if sent to or delivered to the registered office of the Company.*
- (iii) *the Compensation Committee shall at all times keep available for issue such authorized and un-issued shares as may be required for issuance against the options exercised.*
- (iv) *Participation in the Scheme by an employee/option holder is a matter entirely separate from any gratuity, provident fund, pension right or any entitlement that he may have from the terms & conditions of employment, therefore, participation in the Scheme shall not affect in any way an employee's/option holder's other rights or entitlement or terms & conditions of the employment.*

20. Policy to monitor and control violation of the insider trading Laws:

20.1 The following statements must be added:

- (i) *[The Compensation Committee has framed a suitable policy and system to ensure that there is no violation of the insider trading provisions of the Securities Act, 2015, the Securities and Exchange Commission of Pakistan Act, 1997 and Rules and Regulations made there under.*
- (ii) *The Company will provide to each eligible employee, copy of the policy along with the Scheme prior to grant of any Option.*
- (iii) *The Options granted will lapse forthwith if the employee indulges in insider trading.*
- (iv) *The Company will provide the eligible employee, copies of the relevant sections of law (including any up-dates or amendments thereto) dealing with the prohibition against insider trading.*
- (v) *The policy shall be subject to modification if required by the amendments in the relevant laws and/or rules made there under.]*

20.2 All possible actions that may be initiated and taken against an option holder in case he breaches the policy, must be stated.

21. Cashless System for Exercise of Options:

In case the Scheme provides for the cashless exercise of the options, complete detail of the cashless system, role and responsibilities of the related parties including the company, the option holder and the relevant stock broker must be provided. For guidance please refer to the SECP's Guidelines on Structuring and Offer of ESOSs.

22. Variation of the Terms of the Scheme:

The following statement shall be provided:

[22.1 The Company shall not vary the terms of the Scheme in any manner which may be detrimental to the interest of employee.

22.2 *The terms of the Scheme can be varied with approval of the members by way of special resolution provided such variation is not: (i) prejudicial to the interests of the option holders; and (ii) relate to the options already exercised.]*

23. Lock in Period:

Lock-in period, if any, i.e. restriction on sale of shares issued by the Company pursuant to exercise of the options, must be specified.

24. Termination:

The following statement shall be provided:

[The Board may, at any time, resolve to terminate the Scheme in which event no further or new Options shall be granted but the provisions of the Scheme shall, in relation to options then subsisting, continue in full force and effect.]
