



Ref. No.: IRDA/F&I/MISC/CIR/134/05/2021

May 11, 2021

To

The CMDs/ CEOs of
All Insurers

**Exercise of Employee Stock Options (ESOPs) – Applicability of provision of Section 6A (4)
(b) of the Insurance Act, 1938**

Reference is drawn to (i) para 7 of Insurance Regulatory and Development Authority of India (Remuneration of Chief Executive Officer / Whole-time Director / Whole-time Director / Managing Director of Insurers) Guidelines, 2016; and (ii) Clause (c) of Regulation 2 of IRDAI (Transfer of Equity Shares of Insurance Companies) Regulations, 2015 which provide as under:

1. Para 7 of IRDAI (Remuneration of Chief Executive Officer / Whole-time Director / Whole-time Director / Managing Director of Insurers) Guidelines, 2016

“ESOP is kept outside the computation of the total remuneration but the extent of ESOP should be reasonable. The details of ESOP granted should also be disclosed in terms of the disclosure requirements stipulated for the financial statements of the Insurers.

In case the shares of the insurance company are offered as ESOPs to Managing Director / Chief Executive Officer / Whole Time Directors, then:

- i. If the CEO/MD/WTDs is one of the promoters / investors or directly related to the promoters, then the same will be governed by the provisions of SEBI (Issue of Sweat Equity) Regulations, 2002 as amended from time to time except those relating to pricing of shares. The manner of pricing of shares shall be disclosed upfront to the Authority.*
- ii. In other cases, the same will be governed by the SEBI's ESOP guidelines.”*

2. Clause (c) of regulation 2 of IRDAI (Transfer of Equity Shares of Insurance Companies) Regulations, 2015

“Transfer of Shares” includes transfer of shares from existing shareholder to another person and includes transmission and fresh issuance of equity shares which lead to change in the shareholding pattern of an insurance company.

The Authority, while approving the remuneration of Whole-time Director, Chief Executive Director and Managing Director, is also considering the granting and / or vesting of ESOPs. However, in a few cases, it has been observed that the exercise of ESOP by one or more KMPs whether singly or jointly is beyond the threshold limits specified in Section 6A (4) (b) of Insurance Act, 1938. Accordingly, the exercise of such ESOPs results in invocation of the provisions of the said section.

3. It is therefore reiterated as under:

- a. All ESOPs, at the time of grant, shall be reported to the Authority preferably as a part of the application filed under IRDAI (Remuneration of Chief Executive Officer / Whole-time Director / Whole-time Director / Managing Director of Insurers) Guidelines, 2016;
- b. Exercise of ESOP is subject to provision of Section 6A (4) (b) of Insurance Act, 1938 read with IRDAI (Transfer of Equity Shares of Insurance Companies) Regulations, 2015;
- c. Where specific trust has been formed by an insurer for issuance of ESOPs to their employees, the issue of shares to such trust and exercise of option by one or more employees shall also fall within the ambit of the Section 6A of the Insurance Act, 1938 read with IRDAI (Transfer of Equity Shares of Insurance Companies) Regulations, 2015;
- d. Where exercise of ESOP by one or more KMPs whether singly or jointly is beyond the threshold limit specified in Section 6A (4) (b) of Insurance Act, 1938, the prior approval of the Authority shall be sought before such exercise.

All insurers are advised to take note of the above for compliance.

Sd/-
Dr. Mamta Suri
Chief General Manager (F&A)