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Communicating Local Tax Consequences to Participants in Global Equity Programs – Citigroup Case Study

James Hirsch, Citigroup Inc.
David Wilson, Citigroup Inc.

Laura Becking, Donahue & Partners LLP
Michael Bussa, Ernst & Young LLP



What We Will Cover Today

During today's session we will seek to answer the following critical questions:

- Why should a company undertake a detailed employee communications effort regarding its equity programs?
- Who should be involved to ensure that the communications are timely, accurate and effective?
- What is the recommended process to implement an employee communication program?
- When should communications be delivered?


Overview of Citigroup's Global Equity Program

- 118,000 participants in 96 countries
- Restricted/Deferred Stock, Stock Option and Stock Purchase Programs
- Equity election feature
- Country-specific variations
- Off cycle awards/Legacy programs

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Overview of Citigroup's Global Equity Program

- 275,000 employees...
130,000 of whom are outside the U.S. 
- Many employees outside the U.S. already participate in Citigroup's equity programs:
 - Stock Purchase Program: 23,000
 - Mgmt Stock Options: 22,000
 - Stock Award Programs: 6,000

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Overview of Citigroup's Global Equity Program

PARTICIPANTS BY REGION



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Overview of Citigroup's Global Equity Program

2004 CAP Restricted or Deferred Stock Awards	2004 Stock Option Program Grants	2003 Employee Stock Purchase Program
Annual discretionary incentive delivered in the form of stock	Six year term	One month enrollment period prior to offering date
Awarded at 25% discount	Cash Purchase, Swap, Sell to Cover exercise methods*	\$15,000 maximum goal amount
Three year cliff vesting	Three year straight line vesting	Offering price = FMV on offering date
Equity election feature - CAP and/or SOP participants may elect to receive a portion of their CAP award as an option grant or a portion of their SOP option grant as restricted/deferred stock - Election covers 25% of award - Election for stock award - Election covers 25% of award - Election for stock awards is 1 restricted/deferred share for 4 options - Election for option grant is 4 option shares for 1 restricted/deferred share		24 month offering period to accumulate payroll deductions plus interest to reach goal amount Purchase price is lower of offering price or FMV at purchase date Interim purchase and new hire offering after 12 months at lower of offering price or FMV at purchase date
* shares acquired		

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Why Undertake an Employee Communication Program?

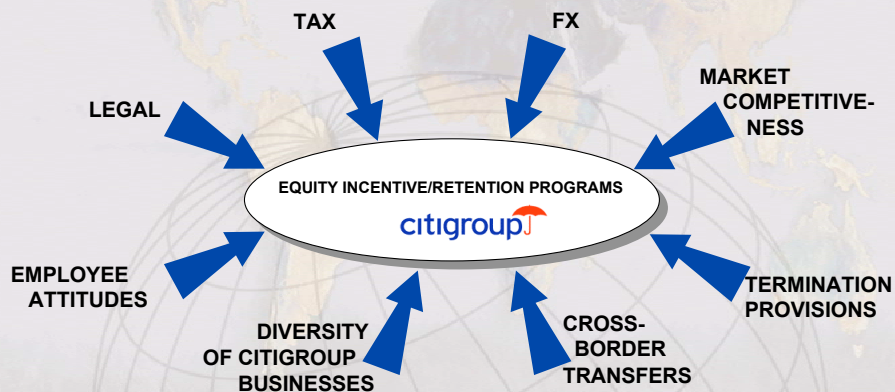
- Legal requirements
 - US securities law
 - Local regulations
- Employee relations
 - Communicate value to employees
 - Effect purpose of equity programs (motivation and retention)
- Promote employee compliance
 - Tax reporting and payment
 - Other local requirements
- Facilitate ongoing operation of equity programs
 - Provide reference tool for local equity coordinators and HR, expatriate tax administration and other program administrators

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Why Undertake an Employee Communication Program? (cont.)

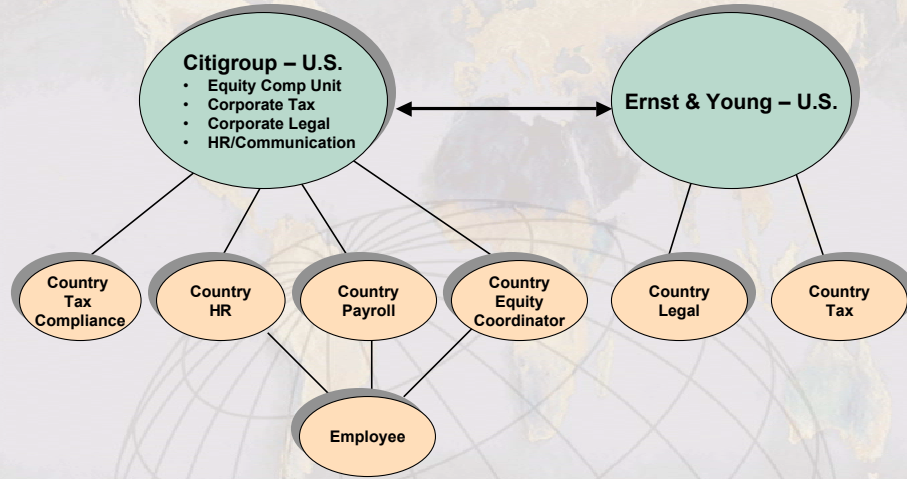
- Promote uniform program terms to achieve corporate goals
- Adapt to individual business needs and practices
- Comply with U.S. and local laws



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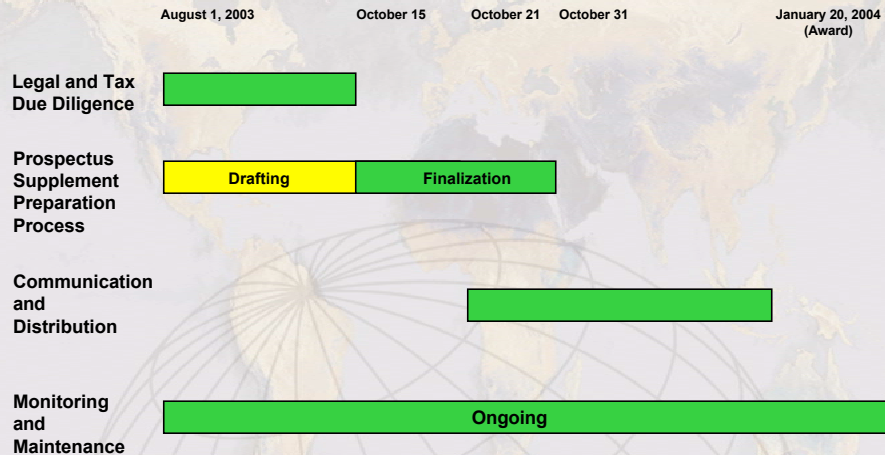
Who Needs to be Involved to Ensure a Successful Employee Communication Program?



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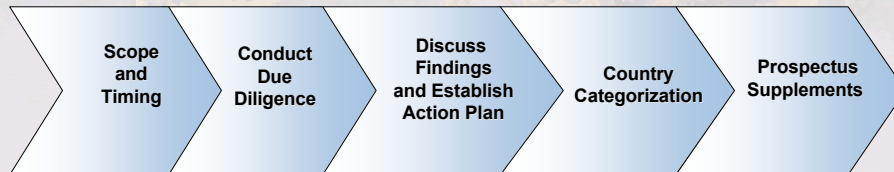
What is the Recommended Process to Implement an Employee Communication Program?



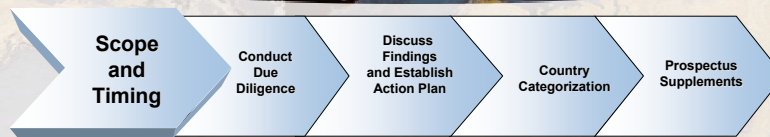
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Legal and Tax Due Diligence Process

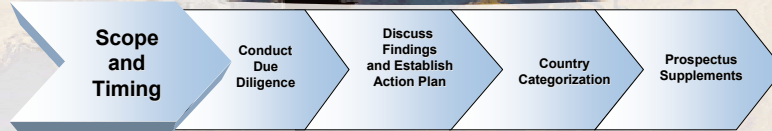


Legal and Tax Due Diligence Process (cont.)



- Citigroup briefing to Ernst & Young of:
 - Equity program changes
 - Anticipated award date(s)
 - Countries participating/number of potential participants
 - Corporate goals
- Issue identification:
 - Tax and regulatory environments
 - Potential tax and legal issues affecting programs
- Scope due diligence topics

Legal and Tax Due Diligence Process (cont.)



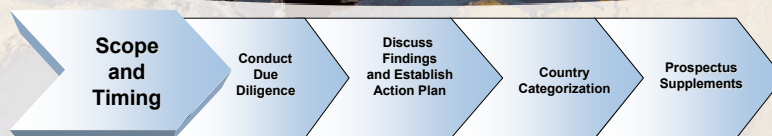
Definition of Scope – Areas Covered

<i>Legal</i>	<i>Tax</i>
<ul style="list-style-type: none"> • Company regulatory filings/approvals <ul style="list-style-type: none"> – Securities registration/exemption – Central Bank – Labor authorities • Employee restrictions <ul style="list-style-type: none"> – Ownership of foreign securities – Access to FX – Insider trading • Employment law <ul style="list-style-type: none"> – Enforceability of forfeiture/vesting provisions – Acquired rights/severance pay risks – Payroll deductions – Works council issues • Data privacy • Communications 	<ul style="list-style-type: none"> • Tax implications to employee <ul style="list-style-type: none"> – Timing of taxation – Amount subject to taxation – Character of income • Tax implications to Company <ul style="list-style-type: none"> – Employer social tax obligation – Corporate tax deductibility and requirements for securing a corporate tax deduction • Tax responsibilities of employee <ul style="list-style-type: none"> – Timely filing of tax return and payment of applicable taxes • Employer payroll reporting and tax withholding requirements

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Legal and Tax Due Diligence Process (cont.)

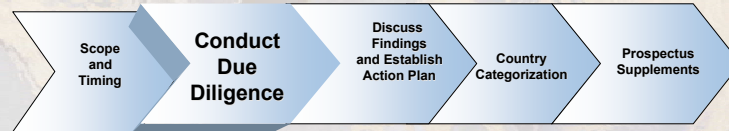


- Timing of due diligence is dependent upon Award Date, BUT... from the due diligence you may learn that legal filings and tax rulings are required PRIOR TO THE AWARD DATE.
- Therefore . . . It is imperative to obtain current legal and tax advice well in advance of your first communications regarding a global equity program.

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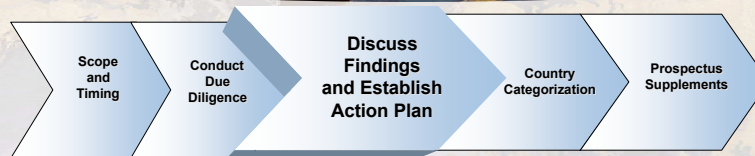
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Legal and Tax Due Diligence Process (cont.)



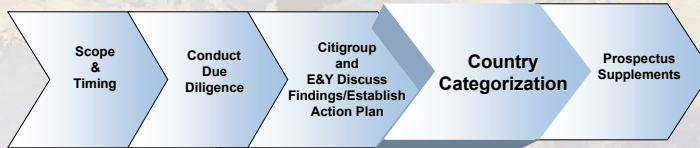
- Citigroup provides detailed program summaries for use by tax and legal advisors and signs off on project scope
- Launch to Ernst & Young specialists in participating countries
- EY-U.S. tax and legal teams consult with specialists to:
 - Identify tax and legal consequences, requirements and risks
 - Identify tax planning opportunities for company and employees
 - Explore strategies to minimize legal burdens and mitigate risks
 - Ensure that all findings and recommendations give collective consideration to tax and legal implications and requirements

Legal and Tax Due Diligence Process (cont.)



- Ernst & Young delivers findings and recommendations
- Citigroup and Ernst & Young teams determine country modifications and compliance steps
 - Legal filings and/or steps for exemption
 - Tax ruling requests
 - Tax qualification or other tax effective strategies
 - Define procedures to administer programs
- Begin final phase of prospectus supplement preparation
 - Include country-specific tax consequences and supporting examples
 - Provide required/recommended disclosures
 - Prepare translations

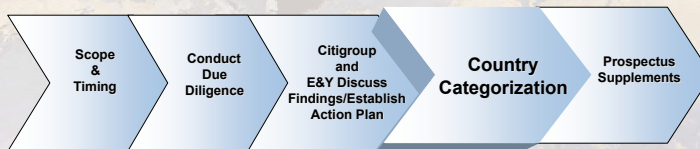
Legal and Tax Due Diligence Process (cont.)



Based on due diligence findings, countries are grouped into various categories, based on action steps and other characteristics, to aid in:

- Compliance with local tax and legal requirements
- Tax planning strategies
- Implementation of country-specific modifications to global program
- Drafting of prospectus supplements

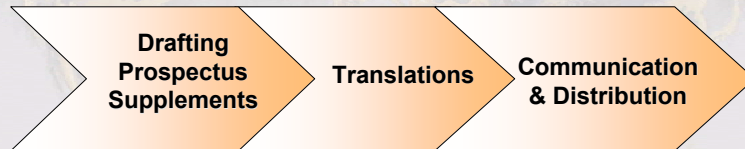
Legal and Tax Due Diligence Process (cont.)



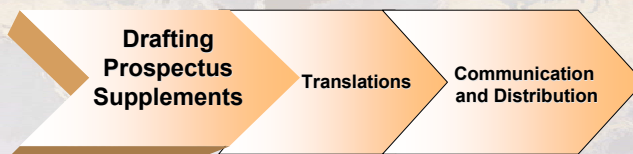
Useful Categories:

- Regulatory filings (tax and legal)
- FX limitations - restricted exercise methods
- Timing of employee taxation – grant, vesting, exercise or sale
- Tax withholding
- Charge-out/Corporate tax deduction
- Other unique tax considerations

Prospectus Supplement Process



Prospectus Supplement Process (cont.)



Prospectus supplement templates are modified for each of the participating countries to reflect:

<i>Legal</i>	<i>Tax</i>
<ul style="list-style-type: none"> • Foreign exchange language • Exercise restrictions • Other local regulatory requirements 	<ul style="list-style-type: none"> • Employer/Employee tax consequences and compliance requirements • Tax qualification if applicable • Pending or proposed legislation

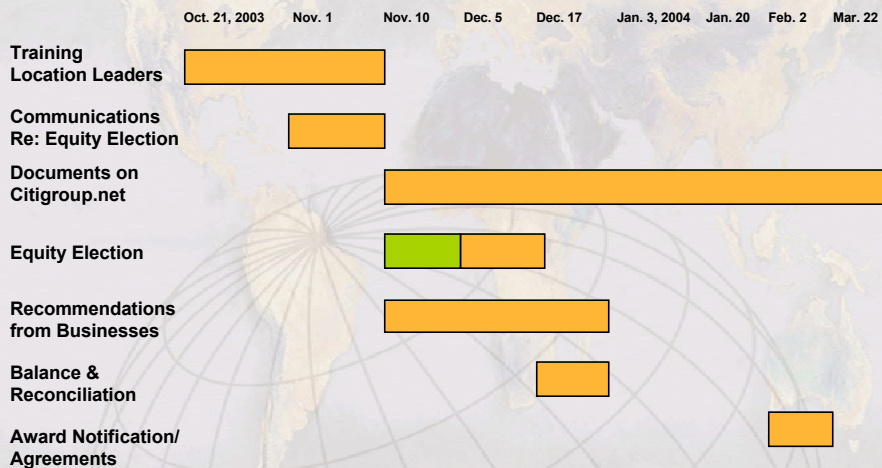
Prospectus Supplement Process (cont.)



- Prospectus supplements and other communications
 - Where required
 - Where recommended
- Filing documents
- Managing translation against distribution deadlines

Prospectus Supplement Process (cont.)

Communication and Distribution Process



Monitoring and Maintenance

- Monitor tax and legal developments to determine impact on:
 - Legal and tax filings
 - Foreign exchange restrictions
 - Country specific tax implications to:
 - Employee
 - Company
 - Payroll compliance
- Identify issues requiring action
- Determine impact on Citigroup's programs
- Modify employee communications as needed

Any Questions?

Thank You

James Hirsch, Citigroup Inc.

(212) 793-4588

hirschj@citigroup.com

Laura Becking, Donahue & Partners
LLP*

(212) 773-3829

laura.becking@dp.ey.com

David Wilson, Citigroup Inc.

(212) 291-4368

wilsond@citigroup.com

Michael Bussa, Ernst & Young LLP

(212) 773-7510

michael.bussa@ey.com

* An independent law firm allied with Ernst & Young