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What to expect from your advisors and your stock plan service provider to help you achieve global compliance



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Introduction & Scope of Today's Discussion

- **Introduction**
- **Objectives of this workshop:** To help you understand how the outside advisor ("Advisor") and 3rd party stock plan outsourcing service provider ("Administrator" or "OSP") should help US multinational plan sponsors achieve global compliance. This presentation will cover the following:
 - Teaming with your Advisor*
 - Identify your global tax compliance needs
 - Manage the global tax withholding process
 - Stay current on on-going tax and regulatory developments
 - Teaming with your OSP*
 - Manage the Sec 404 internal control audit requirements
 - Manage the global tax withholding process
- **Topics that are out of scope:** Data privacy, labor law, etc.

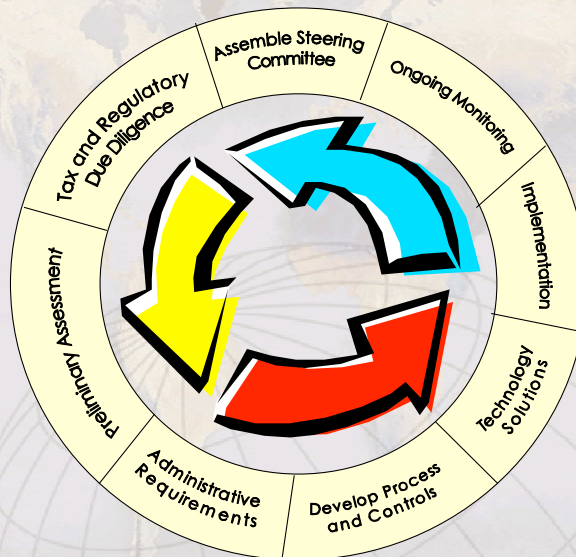
Definitions

- **Plan Sponsor:** In-house personnel with stock plan responsibilities
- **Advisor:** Outside advisor with expertise in consulting on global stock plan matters
- **Administrator or Outsourcing Service Provider (“OSP”):** 3rd party stock plan administration service provider to which the Plan Sponsor outsources some or all administrative functions associated with operating equity compensation programs

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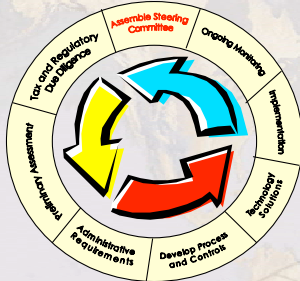
The Global Stock Plan Compliance Process



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Assemble Steering Committee: Define Roles & Responsibilities



- **Steering committee should consist of:**

- HR/Compensation/Benefits
- Tax
- Legal
- Finance/Treasury
- Stock Plan Administration (internal)

- **Primary responsibilities of steering committee:**

- Team with Advisors and Administrator
- Tax and legal requirements
- Tax planning and regulatory alternatives
- Processes and controls to ensure compliance
- Monitor tax and regulatory activity

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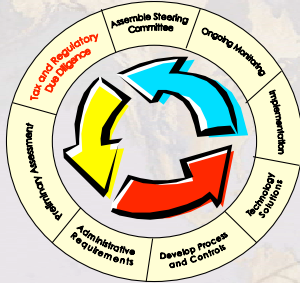
Key considerations

- Global compliance starts with building the right team
- Your Advisor can assist with the assembly of a steering committee within your company
- This is a good time to select your OSP

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Tax & Regulatory Due Diligence



Team with Advisor to:

- Understand tax and legal implications and compliance requirements
- Identify country-specific tax planning opportunities
- Identify country-specific administrative procedure variations
- Determine ability to qualify for regulatory exemptions
- Provide preliminary recommendations
- Guard against unwanted/unintended “entitlements”

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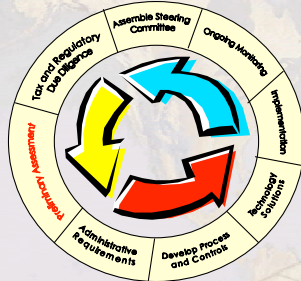
Key considerations

- Identify types of equity-based compensation programs that you may wish to operate outside the US.
- Identify countries in which you have (or expect to have) program participants.
- Prioritize countries based on participant head count and the estimated size of annual grants.
- Assess current state and internal capabilities.

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Preliminary Assessment



- **In assessing feasibility consideration should be given to:**
 - Overall objectives of equity program
 - Tax benefits to company and/or participants
 - Impact on payroll requirements
 - Company's and OSP's ability to implement
 - Cost vs. benefit
 - Potential audit risk

- **Identify outstanding issues to resolve, and agree on next steps**

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Key considerations

Team with your Advisor to:

- Determine country-specific modifications to program features/provisions
- Identify tax qualification/approval opportunities & regulatory filings/exemptions
- Perform high-level analysis of process and controls

Team with your OSP to:

- Determine processes and procedures to support modified plan features
- Identify & resolve other operational matters.

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Examples of factors to consider that will impact payroll reporting & tax withholding requirements

- Country tax statute/regulations and tax authority guidance
- Tax position adopted (i.e., remuneration vs. investment income)
- Securities, foreign exchange and other regulatory constraints and requirements
- Tax qualification of equity program
- Corporate tax position of country subsidiary
- Re-charge/corporate tax deduction may trigger tax compliance requirements

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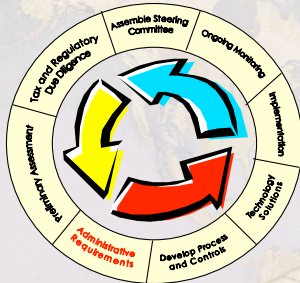
Example of possible alternatives to claim exemption from payroll compliance requirements

- **Tax “qualification”**
 - Generally requires tax authority approval
- **Statutory exemption**
 - Generally does not require tax authority approval
- **Corporate tax position of country subsidiary**
 - Decision to forego corporate tax deduction may eliminate payroll compliance requirements
- **Ruling request or negotiations with tax authorities**
 - Success dependent upon taxing jurisdiction

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Administrative Requirements



What to expect from your OSP:

- Record keeping: Accept, store, process
- Automated solutions for a full suite of equity program types
- Provide participant interface
- Provide specialized phone representatives
- External and internal report generation
- Support flexible tax withholding alternatives
- Ongoing technology innovations

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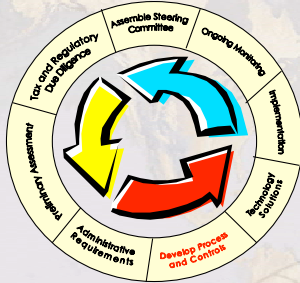
Key Considerations

- Which administrative functions should be co-managed?
- Which administrative functions warrant Advisor involvement?
- Will your OSP work directly with your Advisor if necessary?
- Does your OSP operate under adequate and appropriate internal controls complying with Sec 404 requirements?
- Will the participants' experience be seamless and service oriented or cumbersome and complex requiring multiple interactions?

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Develop Process and Controls



- Data flow
- Trade execution
- Money movement, currency conversion and international wire
- Share movement
- Reconciliation
- Special situations
- Sarbanes-Oxley Section 404.

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Key Considerations

- Involve your OSP
- Document processes and controls as required under Sarbanes-Oxley Section 404
- SAS 70 level I & II audit
- Auditors no longer able to provide FAS 123 Expenses for their audit clients

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Examples of processes and procedures to achieve global payroll compliance

Two possible approaches to tax withholding process:

Approach 1: Decentralized Tax Processing.

- Country entity has full responsibility for tax withholding.

Approach 2: Centralized Tax Processing (“Two-Step” Approach):

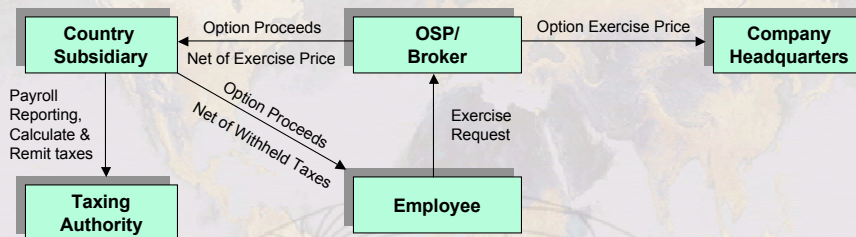
- Estimated withholding taxes withheld by broker.
- Withheld taxes sent to country payroll for true-up and remittance to taxing authorities.
- Because every company is different, many variations of this approach exist.
- Team with your OSP to design a process for your company.

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Example of processes and procedures to achieve global payroll compliance (cont.)

Tax Withholding at Country Level Only



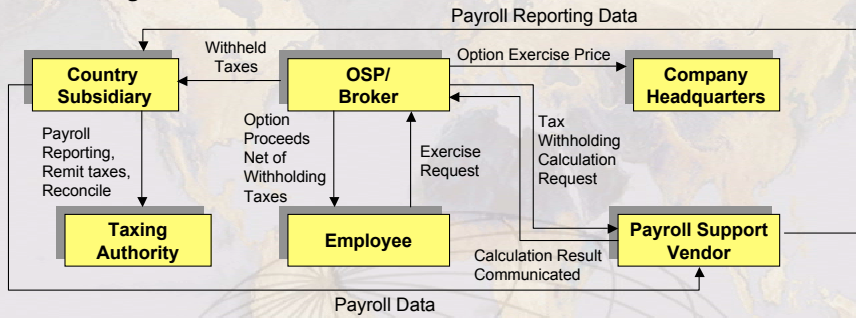
Advantages	Disadvantages
<ul style="list-style-type: none"> • No HQ involvement in withholding process • Direct access to payroll data by country subsidiary facilitates calculation of withholding taxes 	<ul style="list-style-type: none"> • Possible delay in delivery of option proceeds to employee • Little or no HQ control over process • Possible non-compliance • Only same-day-sale exercise supported

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Example of processes and procedures to achieve global payroll compliance (cont.)

An example of "Two-Step" Tax Withholding Process

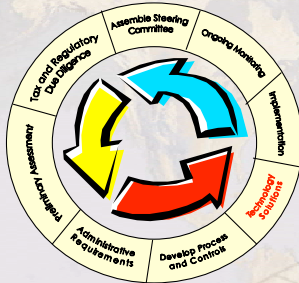


Advantages	Disadvantages
<ul style="list-style-type: none"> HQ control over process Ensures compliance Timely delivery of option proceeds to employee 	<ul style="list-style-type: none"> Additional administration (need to provide additional payroll data to payroll support vendor) Accuracy of withholding calculation by vendor dependent upon payroll data

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Technology Solutions



- Record keeping
- Transaction processing
- Globally accessible participant interfaces
- Globally accessible plan sponsor interfaces
- Flexible reporting support
- FASB expense calculation and allocation

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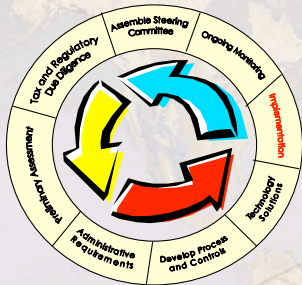
Key Considerations

- Integration between recordkeeping and transaction execution
- Integration across all equity programs
- Globally accessible participant interface
- Globally accessible plan sponsor interface with tiered access rights
- Flexible reporting tools for ad-hoc and routine country-specific reports
- Adequate technology resources to adapt quickly to changing regulatory environment

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Implementation



- **Team with your OSP:**
 - Administrative Design
 - Employee Communication
 - Data Communications
 - System Testing & History Conversion
 - Asset & Data Reconciliation
 - Share/Money Movement
- **Team with your Advisor:**
 - Define Advisor's role during the implementation
 - Administrative design validation
 - Employee communication
 - Data communications between OSP and Advisor
 - Global payroll support

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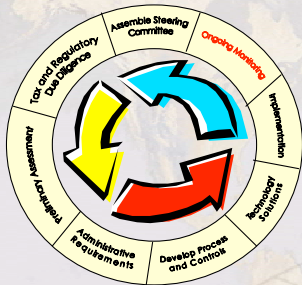
Key Considerations

- Critical factors to ensure a smooth implementation include:
 - OSP's experience with large and complex global equity programs
 - Dedicated implementation team
 - Systematic project management with detailed upfront project plan
 - Extensive acceptance testing prior to launch
 - Integrated interfaces
 - Employee communications as integral part of program

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Ongoing Monitoring



- **Team with Advisor:**
 - Identify tax and regulatory changes/proposed changes
 - Determine impact on company's equity program
 - Recommend action plan to address changes and coordinate with company's steering committee
 - Coordinate with OSP to identify modifications to processes and controls
- **Team with OSP:**
 - Assess whether changes impact existing processes
 - Develop technology solutions & best practices

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Key Considerations

- Internal regional knowledge champions
- Trade organizations
- Web-based international stock plan publications
- Network with other plan sponsors
- Provide constructive feedback concerning product/service capabilities to your OSP
- Cost of implementing plan design features that are unique to your company

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Any Questions?

Thank You

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