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Focusing, Preparing, Executing and Improving: Employee Stock Plans in a Multinational Environment

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Focussing, preparing, executing and improving

1. Who are we

2. Challenges we face

3. Setting up for success

4. Success in action



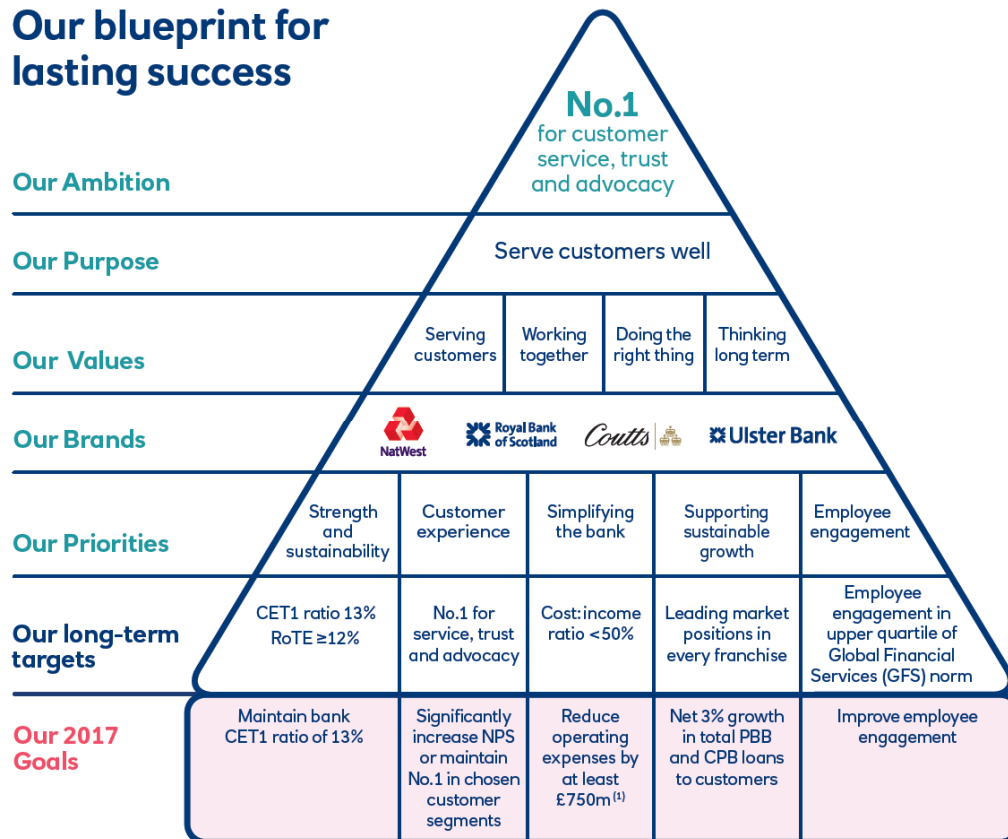
The Royal Bank of Scotland (1)

- Founded in 1727 from our headquarters in Edinburgh, RBS serves over 19 million customers
- We provide a wide range of financial products and services to personal, commercial and large corporate and institutional customers
- RBS is built on businesses that are customer-centred and highly competitive
We're shaping each of our businesses to perform better, more sustainably and to respond to new challenges
- RBS was once the largest bank in the world, the weaknesses uncovered by the financial crisis - of leverage, risk concentration and business stretch - are being fixed. So far £1.6tn of assets have been stripped out of our balance sheet - that's about the same size as Italy's GDP
- We are building a better bank for our customers, and one that will deliver sustainable returns for shareholders. Our purpose is to serve customers well, and to do so, we are becoming a safer, simpler, more customer-focused bank.
- The UK Government owns a controlling stake in RBS

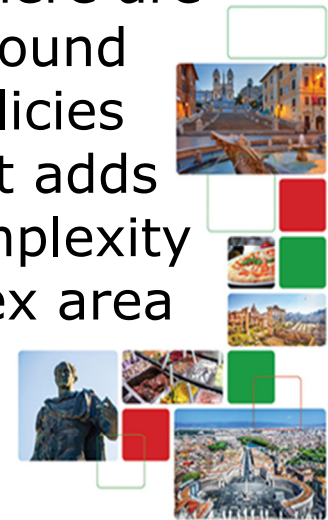


The Royal Bank of Scotland (2)

Our blueprint for lasting success



- Our vision impacts what we do day to day and how we do it. A clear vision helps us frame our remuneration policy
- Our history means there are always challenges around our remuneration policies and arrangements. It adds an extra layer of complexity to an already complex area in a complex sector.



Challenges we face

- **Diverse stakeholders and interests to manage**
 - internal/external
 - high public profile
 - challenging macro economic environment
- **Complex and changing corporate structure**
 - shrinking the bank
 - 'innovation' acquisitions
 - ring-fencing the retail bank
- **Regulation**
 - CRD IV/UCITS/AIFMD
 - Brexit?



How we set up for success (1)

- **Governance**

- Key decisions at remuneration/compensation committee level
- What are the “rules of engagement”?
- Decision making at the right level

- **Consistency**

- Internal policies can be invaluable: Grants, vestings, leaver

- **Engaging with the business**

- Through governance
- Need business buy-in to operate effectively
- Balance between good policies and agreed oversight



How we set up for success (2)

In practice this means:

- **Identify points of influence and partnering with stakeholders**
 - Do your KYC
 - Play to strengths
- **Separate governance & technical from policy**
 - Encourage healthy challenge culture
 - Added objectivity
 - Mature risk culture



How we set up for success (3)

- **Strong and well defined structure**

- Decision making at the correct level (effective delegation)
- Clear internal policies (grant, vest, leaver, malus, clawback)
- Align to corporate strategy and culture to achieve business buy-in

The RBS Share Plan Expert Centre (SPEC)

- Consistency and fairness
- Formal forum with clear ToR, minutes and record keeping
- Mitigates risk
- Ensures decisions are made at correct level
- Clear point of contact and expertise
- Gives confidence in plans and applications of policy



Case study – capital management & share delivery

- New issue/market purchase/treasury

- Tension between dilution and cost

- Consider overall strategy of company

- How to weigh off competing internal and external priorities

- RBS, market pressure caused by relative lack of liquidity

Efficient use of share capital relevant to all equity plans.

All companies subject to limits and different companies will source shares in different ways.

Each will have its own (sometimes competing) priorities. It's complicated, so how do you navigate your way through?



Case study – capital management

	MARKET PURCHASE		TREASURY SHARES		NEW ISSUE		INTERNAL RESPONSIBILITY
	PROS	CONS	PROS	CONS	PROS	CONS	
Cash cost		Yes	No		No		Finance
Adds to regulatory capital		No	Yes		Yes		Regulatory
Dealing costs		Yes	No		No		Finance/Tax
Blocklisting	No		No			Yes	Company Secretary
Dilutive	No			Yes		Yes	Company Secretary/ Reward
Limits		EBT can only hold up to 5% of share capital	Can hold up to 10% of share capital		10% investor limit		Company Secretary/ Reward
Flexibility		Can only use for employee share plans	Can be used for more than employee share plans		Can be used for more than employee share plans		Finance/Regulatory/Company Secretary/Reward
Possible increase in distributable reserves		No	Yes			No	Finance/Regulatory

- Also need to consider accounting treatment and availability of corporate tax relief



Success in action – capital management

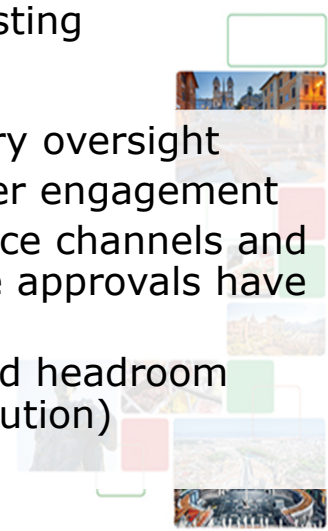
- more, better, different, less
- hold a stakeholder review
- ensure any new/amended process is documented
- develop solutions for points of challenge/failures



- blocklisting application
- handoff with administrator/broker
- disclosure
- employee communication
- issue management

- pressure on capital and dilution, each driven by different regulatory requirements
- new issue/market purchase
- establish plan of record
- how many shares will be required in FY (not always straight forward!)
- consider tax settlement approach on vesting

- establish delivery oversight
- early stakeholder engagement
- follow governance channels and ensure requisite approvals have been obtained
- review limits and headroom (blocklisting, dilution)



Success in action- divestments

At different points during the business cycle all companies are required to adapt their business model to respond to change. Buying or selling businesses impacts on employee equity arrangements and having robust governance and engaged stakeholders is the best way for share plan professionals to prepare.

- Identify strategic aims i.e. retaining people to manage orderly sale or closure
- Establishing a governance framework (divestment principles, innovation related investment) and the right delegation
- Ongoing legal, tax and regulatory obligations
- Practical considerations



Success in action – divestments

- divestment principles 2.0
- lessons learnt from Direct Line and Citizens Financial Group IPOs



- acceleration of vesting events
- engage 3rd party suppliers as required
- tax settlement and reporting
- employee communications

- multiple business sale and wind down scenarios, clear business objective, orderly exit
- how to achieve consistency and fairness
- getting engagement from the right people
- resourcing/capability considerations

- legal and tax due diligence
- regulatory considerations
- governance and oversight



Q&A



Thank You

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Thank You

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