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# Does One Size Really Fit All? Comparing Equity Compensation Plans Across the Globe


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# Why Equity Compensation Plans?

Studies have shown that companies derive the following benefits from their employees by offering equity compensation plans:

- Work longer hours
- Are absent less frequently
- Are less likely to quit
- Express greater job satisfaction

Source: Computershare Share Plan Survey, conducted by the London School of Economics, 2014

# Plan Types

Companies offers a variety of plan types:

- Contributory: Participant takes action to enroll in a plan typically offered to a broad base of eligible employees contributing income in order to receive a benefit in stock. (ex: ESPP, SIP, SAYE)

- Discretionary: Participants receive a grant of an option or award from their company and do not have to elect to participate but rather may need to accept their option/award. (ex: ESOP, CSOP, EMI, RSA, RSU)
    - It is not common, but some issuers do offer a choice in the mix of discretionary awards/options

# Plan Features

Tax Qualified Plans can add a nice feature:

- Government approved plans
- Tax advantages for employers/employees
- Promote employment, attract talent
- Commonly used in France, Ireland, Israel, UK, and USA
- Emerging in Australia, Denmark, Hungary, Spain, and Sweden

# Key Considerations

- What mix should you offer? Does one plan really fit all?
- Costs – administration, legal fees, unknown?
- Implementation time
- Administration – can one vendor manage all?
- Your goals – high participation, share ownership, attracting employees, save costs

*Let's get started…..*

# Oracle Corporation Profile

- 136,000 global employees
- Operates in 70+ countries across the globe
- Offers plans in 48 countries
- 95% of equity granted during annual grant cycle to approx 25,000 employees worldwide; discretionary, usually limited to director and above
  - Eligible employees are offered choice of stock options, RSUs (1:4) or 50/50 mix
  - Midyear and new hire grants are only RSUs
- ESPP switched to “safe harbor” when expensing became mandatory
  - 5% discount from ending price only
  - 25% participation in US; limited offering in non-US locations with < 1K participating
- Tax qualified plans offered in UK, France and Israel

# HP Profile

- 60,000 global employees
- Operates in 120+ countries across the globe
- Offers plans in 60+ countries
- Primarily offer Restricted Stock Units; CSARs in countries like Australia, Singapore, Russia, and South Africa; Long Term Cash in most countries to help with burn rate and country restrictions; Options still outstanding throughout the globe through acquisitions
- 10% of our employees participate in our Employee Stock Purchase Plan
  - 5% discount on a US qualified plan (changed from 15% discount when ESPP became compensatory in the US)
  - No lookback (removed a few years ago)
- Discretionary grants issued to approx. 10K employees per year
  - Master Level Individual Contributor and above
  - Manager Level and above

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# Contributory – Does One Size Fit All?

- United States – ESPP
  - Typically established to benefit all employees, not limiting participation to certain employee groups
  - Provides convenience of payroll deduction for employees
  - Allows for a discount on the fair market value of stock on date of purchase
  - Tax advantages for both employee and employer
    - No federal income tax at grant or upon purchase of shares
    - Depending on when shares are sold, taxation will differ.
    - Required holding period is later of: (i) 2 years from grant date and (ii) 1 year from purchase date

# Contributory – Does One Size Fit All?

- UK - All-employee Plans – Tax advantages
  - Sharesave/SAYE - option plan with savings element
  - Share Incentive Plan/SIP - share purchase plan with matching/free shares and dividend reinvestment

- Bring award gains into capital gains tax rather than income tax regime
  - Advantageous for participants, BUT
    - little flexibility on plan design
    - balance consistency with global plan against UK tax advantages
    - workforce expectations?

# Contributory – Does One Size Fit All?

- Ireland - All-employee Plan – Tax advantages
  - Sharesave/SAYE - option plan with savings element
  - Similar to UK - note social security contributions will still be due

- France – All-employee Plan – Tax advantages
  - Plan D'Epargne Enterprise "PEE" – French company savings plan
  - Share purchase plan with retention period, employer can contribute

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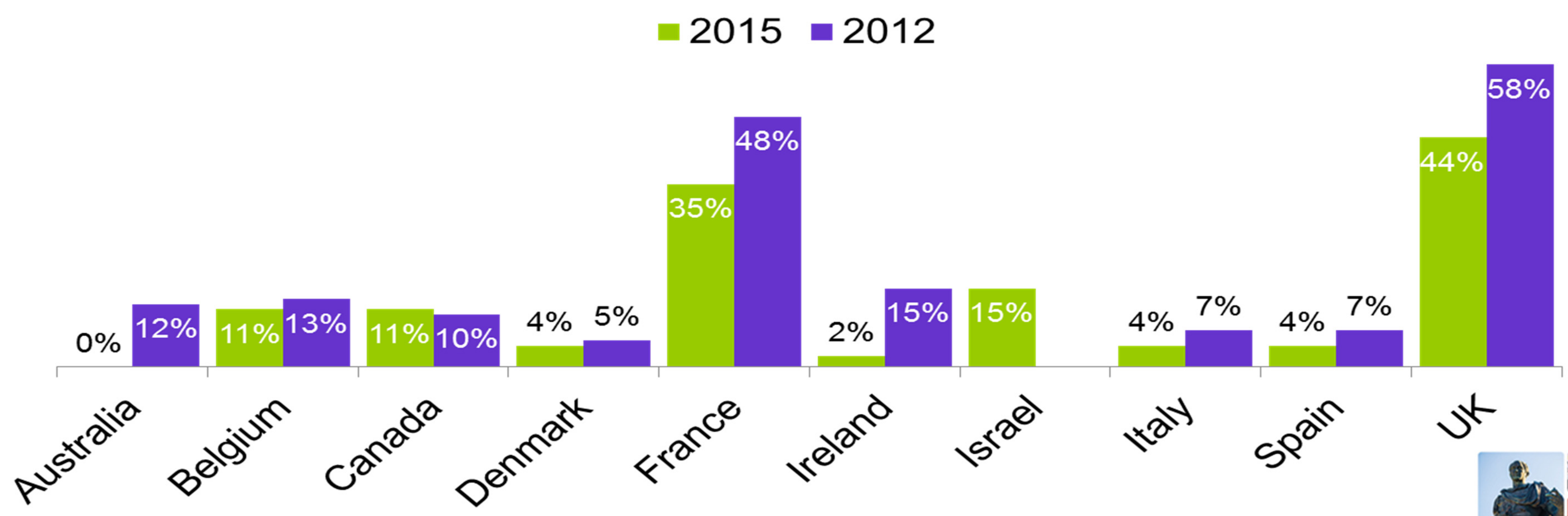
# Discretionary – Does One Size Fit All?

**Prevalence of Tax-Qualified Option Plans**




# Discretionary – Does One Size Fit All?

- UK – tax advantaged discretionary plans
  - Company Share Option Plan "CSOP"
    - Market value options over shares worth up to £30,000 at grant
    - Must generally hold for 3 years before exercise to obtain tax advantages
  - Enterprise Management Incentives "EMI"
    - More flexible than CSOP
    - Tax advantages on growth above market value at grant
    - Aimed at smaller companies – long set of conditions to fulfill

# Discretionary – Does One Size Fit All?

- France – qualified plans
  - RSU
    - Generally tax is deferred until sale
    - Employer contribution due at time of vesting
    - Gain at sale can benefit from a rate depending on length of time shares are held
  - Stock Options
    - Generally tax is deferred until sale
    - Gain at sale can benefit from a rebate depending on length of time shares are held
    - Employee only subject to social surcharges; no social taxes

# Considerations for New Countries

Before adding a new country to your plan you must consider many factors:

- Tax and legal consequences
- Cultural differences
- Labor union / works councils
- Communication (both internally and to participants)
- Administration requirements
- Securities laws
- Exchange control
- Translation requirements

# Does One Size Really Fit All?

## Pros

- Ease of administration for employer (or is it?)
- Potential tax savings for employees

## Cons

- Employees expect tax advantages (if you do for one do you do for all?)
- Administration challenges (can my vendor handle it all?)
- Rigid rules around plan design; limited flexibility

# Is Cash King?

- Pros
  - Offset burn rate
  - Compliance ease
  - Administration ease

- Cons
  - Does not promote share ownership
  - Administration burden
  - Funding issues

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# Thank You


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