



**TAPESTRY**

**INTERNATIONAL SHARE PLANS  
TRAINING MANUAL**

Module 2 – Global Share Plan Overview

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## Global Share Plan Overview

In this module we will look at:

- Is it possible to operate one plan everywhere?
- If not, why not? What are the complications? How many can you identify?
- Who should be involved in developing and managing a global share plan?
- What are the costs of operating a global plan?
- What should you have on your checklist for implementing a new plan?

### 1 Why global plans are more complex?

To operate a plan in 50 countries is perhaps not 50 times as difficult as operating a plan in one country but it is perhaps five or 10 times more complicated.

The reason for this is that on a global plan you have to deal with:

- multiple languages
- multiple currencies
- wide geographical spread
- different national laws
- different national tax
- different payrolls
- potentially different service providers
- different cultures
- mobile workers, your colleagues who move around the world
- a whole range of other variables

Each of those issues can give rise to additional work or considerations. In the legal and tax module we are going to look specifically at various legal and tax issues as they apply country by country. However you should not underestimate the less tangible issues. For example, the mere fact that the people you are going to have to work with are spread all over the world makes the process of co-operation and collaboration much more difficult.

When you are working on a global plan you may need to involve multiple stakeholders, such as:

- payroll
- finance
- company secretarial
- in-house legal
- reward / HR
- IT
- tax advisors
- treasury
- investor relations
- an administrator
- external service providers
- external expert lawyers and project managers, like Tapestry.

In the case of a single country plan you can get those people together in a room and can explain to them what you are trying to do. On the other hand if you need input from people spread all over the world in different time zones who you may never have met and who may not be particularly interested in your project it is much more difficult to manage them.

In some companies the operation of the global plan is one of the very few truly global processes. What we mean by that is that there is a single process covering:

- participant selection
- the grant process
- on-going administration of the plan
- vesting of awards and
- post vesting shareholding arrangements

which must all operate globally.

Even though companies strive for global consistency few other areas of the business are in fact managed on a global basis.

## 2 Global project team

The person responsible for implementing a global plan is frequently to be found in HR. However, many other functions have an important role in the process. The project team would normally include the stakeholders just mentioned as well as specialist third party providers such as:

- a broker
- a custodian (for nominee services) after the shares vest and would otherwise be registered in the name of and held by the employee
- local co-ordinators
- internet portal developer and
- a trustee (in the event a trust is to be used).

In order to successfully manage the process it is important that there is somebody in charge with a global overview of the process. Somebody must be able to take decisions and make choices. Somebody must oversee the whole process on a multi-year basis. In short, somebody must oversee and be responsible for the global plan.

When management decides it wants to have plans operated globally it is very likely that it will not understand the extent of the process which needs to be created. Sometimes management thinks that all that is needed is a set of rules and then the awards can be granted and not much else needs to be done. In fact a whole process needs to be built to deal with:

- communication
- taxation
- legal compliance and on-going legal compliance
- treasury functions
- employee tracking
- administration
- banking
- broking

It is essential that at the start of the process management's expectations are managed so that there is sufficient time and budget for the job to be done properly.

It is always important to keep in mind that managing a global plan is managing a global process. The process is like a complicated machine with many moving parts. If the machine is properly built and is then allowed to run automatically it is likely to be more efficient and more accurate. However, whenever you build in a step out to the process – like, for example, a country specific set of tax rules - that will increase the complexity and make it more likely that the process will go wrong. In particular any manual intervention is likely to create issues because people make mistakes: people change jobs, people go on holiday and so on.

### 3 Communications

A share plan often involves communicating to large numbers of employees. Fifteen years ago there were very often just two or three documents: the plan rules, an invitation letter, an acceptance form and a short brochure. Over the past 15 years most communication has switched from paper to being electronic. The advent of electronic communications and the fact that a global plan needs to be understood by people in many different languages means that the sheer volume of documentation has increased dramatically.

For example, a company operating a plan globally is likely to have:

- the plan rules
- an invitation email
- a Q & A
- a brochure
- an electronic portal which may link to a large variety of other documents, such as:
  - the group's dealing rules
  - the group's disciplinary policy
  - the share price
  - certain business performance sites to enable people to see how the company is performing against performance conditions
  - online account to show outstanding share awards
  - notes on local tax
  - a value calculator.

This means that the whole suite of documents concerning the share plan may easily include 10 separate documents. If these are then translated into say 10 different languages that means you immediately have 100 different documents. The task of keeping those documents consistent with each other and up-to-date is significant. It is also important to be able to track all the documentation so that you can say which documents were in effect on a particular date three years ago<sup>1</sup>.

It is essential to keep copies of all documents for a period. They may be needed in litigation or by the tax authorities.

It therefore makes sense early on in the planning process to think about the whole suite of documents you are going to have and to rationalise that as far as possible.

### 4 Costs of operating a plan globally

One of the questions which is often asked at an initial project management meeting is about the likely cost of operating the global plan. For various reasons this is a very difficult question to answer. Let us however look at what the main cost components are.

#### 4.1 Share Cost

A share plan by its nature usually involves the delivery of shares. If those shares are free shares then the company will have had to fund the cost of those shares and will not have received any money for them. Of course the type of cost to the company depends on how those shares are sourced. If the shares are bought in the market then the company will have to spend actual cash to acquire those shares. If the shares are new issue shares then there may not be a cash cost but there will be an opportunity cost (because the company could have sold the shares in the market rather than giving them to employees) and, of course, an accounting cost. Obviously in the case of an option plan the calculation of share cost will be different. When the employee pays the exercise price the company will receive some money. However the individual will only exercise if the share

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<sup>1</sup> If we can help you keep track of key documents in our e-folder site "Your Documents", let us know if this may be of help to you.

price is higher than the option price and therefore there will always be some opportunity cost for the company. Cost does therefore vary between plans, but any share plan will involve a cost to the company in delivering the shares. This is usually the greatest cost.

#### **4.2 Administration costs**

The administration of a global plan is a complicated business. There is now a whole industry of share plan administrators. Some very small companies which operate very limited plans, perhaps limited to executives, still do it in house on a spreadsheet. However they are becoming the exception. The cost of administration varies depending on the type of plan, the number of participants, the number of countries and the range of services used.

#### **4.3 Tax compliance costs**

When operating any plan the company has to deal with a variety of tax issues.

The company will want to know:

- its own corporate tax position, particularly what corporate tax deductions are available.
- the company may also have to withhold tax in relation to employee income and may also have to deal with Social Security – for both employer and employee. This is by far one of the biggest risks of operating a global plan, knowing when and how much to withhold. If the company does not withhold, it may still be liable for that tax and it may be difficult to recover the amount from the employee.

When the plan is operated in just one country the company only has to research and comply with the tax rules of that one country. However, when a plan is operated in, say, 100 countries the company should research and comply with the tax regimes in all those 100 countries.

#### **4.4 Legal compliance costs**

In the same way when operating a plan in just one country the company should research and comply with the law in just that one country. When a plan is operated in 100 countries the company has to research and comply with the law in all those 100 countries. There are different approaches to both tax and legal compliance to make this cost effective. This is covered in Module 5.

#### **4.5 Banking, broking and nominee costs**

Depending on the structure of the plan there may be a requirement to transmit funds around the world; for example, to remit employee contributions to sell shares through a broker and or to hold shares in a nominee. Generally speaking the broking and nominee functions are centralised and take place in the home country. The banking function, in particular if there are employee savings, will however be a global process. As these activities are all generally regulated financial service activities there is a complex compliance process for the service providers when a plan operates on a global basis. This means that the costs are much higher than for a one country plan.

#### **4.6 Website and communication costs**

One of the great advantages of websites is that they can be accessed from anywhere globally. This should mean that the cost of communicating to a global population is reduced. There are no postage charges, printing charges or other distribution charges. However as noted above there are two main issues which greatly increase the cost of communications in a global plan. The first is translations. Translations, which need to be legally accurate, are expensive. The second is complexity of communication. Company websites can be extremely complex and even portals relating to share plans can have many links and can contain hundreds of pages of information. The costs of designing, building and maintaining such a site needs to be considered.

## **5 What should you have on your checklist for implementing a global plan?**

### **5.1 Checklist - Pre launch**

- plan objectives - why is the plan being introduced?

- plan design - what type and structure of plan do you want to introduce?
- geographical footprint - in which countries do you want to operate the plan?
- employee footprint - which employees are going to take part in the plan? Are they local employees or expats?
- timeline - when do you want to implement the plan?
- budget - does the company fully understand what the program will cost?
- communication program - what documents are there going to be and how are they going to be communicated?
- tax and legal compliance, how will this be done?

#### **5.2 Checklist – During the Life of the Plan**

- how will you deal with leavers?
- how will you deal with corporate events?
- how will you ensure accurate reconciliations of money and accurate reporting?

#### **5.3 Checklist – On Maturity/Vesting**

- tax – how will you ensure tax compliance?
- delivery – how will you deliver the shares?
- shareholding – how will the shares be held going forward? How can you help employees get the best value out of being a shareholder?

## **6 Action!**

If your company already operates a global plan review the checklists to see how you deal with each aspect, is it working well? Can improvements be made?