

# 13<sup>TH</sup> ANNUAL CEP AND SILICON VALLEY NASPP SYMPOSIUM

MARCH 28, 2017

SANTA CLARA UNIVERSITY • CERTIFIED EQUITY PROFESSIONAL INSTITUTE • SILICON VALLEY CHAPTER-NASPP



## Team IPO – Can you Make the Team?

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# Team IPO



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**Catcher (Service Provider)**



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**Shortstop (Valuation)**



# IPO Readiness - Issuer Batting (Issue) Lineup

1. Equity Database Setup
2. System Automation
3. Proxy Advisory Firm Considerations
4. Key Valuation Considerations
5. Pre-IPO Tax Clean-Up
6. Mobile Employee Tax Compliance
7. Post-IPO Payroll Tax Execution
8. Employee Communications
9. Post-IPO Best Practices

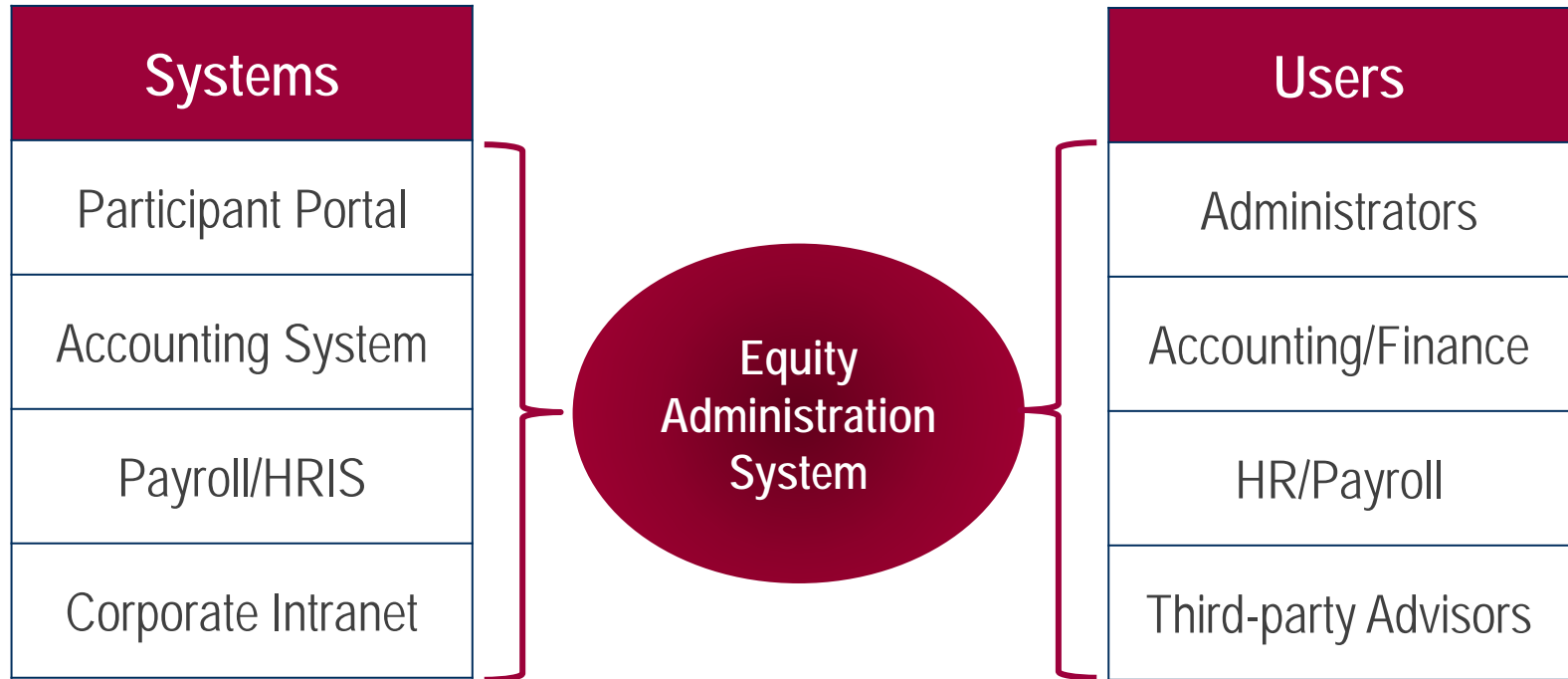


# Equity Database Setup

- Select the right software for your equity administration and reporting
- Create database
- Reconcile cap table
- Validate and reconcile equity data (grants, vesting / exercise, etc.)
- Validate and reconcile employee and shareholder data
- Properly label insiders and reporting persons
- Identify key data for proper financial reporting



# System Automation & Integration



# Automating Data Exchanges

## Step 1

- Talk with your Service Providers about your intent, and ask them what steps are needed on their end

## Step 2

- Write business requirements (in house) for data exchange
  - *Document which fields will be used*
  - *Document processes for validation/audit*
  - *Document process for identifying and implementing updates*

## Step 3

- Work with internal IT or vendor resources to build files from HR/Payroll system(s)

## Step 4

- Create a test plan—include deliverables, key business stakeholders, and due dates



# Automating Data Exchanges

## Step 5

- Test file imports in a “sandbox” environment

## Step 6

- Work through errors/issues (may require new files and multiple loads to get these files *just right*)

## Step 7

- Turn on import automation

## Step 8

- Success! Ongoing automated file transfer





# Proxy Advisory Firm Considerations

- Proxy advisory firms (e.g., ISS, Glass Lewis) will review a Company's compensation disclosures and make recommendations on relevant proxy ballot items (including say-on-pay, compensation committee nominees up for re-election, and/or any share request proposals).
- The First time a Company takes its equity plan back for new shares or even just for I.R.C. Section 162m approval (generally at the third annual shareholders' meeting following the IPO date), both proxy advisory firm's will subject the plan to a review under their share request policies.
- Advisors can assist with helping to identify potentially problematic proposals (e.g., pay proposals that don't meet advisory firm standards) or plan provisions (e.g., "evergreen provisions")



# Key Valuation Considerations

- Valuation guidance under ASC 718 does not necessarily change when a company IPO's, but the lens through which it is viewed does change
  - Auditors
  - SEC
  - Potential investors
- Most of the accounting guidance is written from the viewpoint of mature public companies, most of whom have:
  - Years of actual employee exercise behaviors (expected term)
  - Years of exchange-quoted market prices on their stock (volatility)



# Expected Term Assumption

- Represents the amount of time expected to elapse from the date of grant to the point of settlement (exercise) and it requires judgement and subjectivity, even for mature companies
- Plausible alternatives that companies consider include:
  - Conduct an analysis of company-specific data, if available (e.g., exercises, cancellations, and outstanding awards)
    - Is it significant? representative? enough?
  - Use a simplified approach like Staff Accounting Bulletin (SAB) 107/110
    - Midterm of the exercise window, but hurdles to be met
  - Examine public disclosures of comparable public companies
    - Difficult to find exact matches and rely on the judgement of others
  - Rely on aggregated data from the Society of Actuaries
    - Not yet



# Volatility Assumption

- ASC 718 does not prescribe a methodology, but instead lists factors that should be considered:
  - Length of expected term (used as look-back for historical volatility)
  - Implied volatility from market-traded options
  - Capital structure
  - Length of time since IPO
- Companies have a few approaches available to them to consider:
  - Analyze firm-specific or peer historical volatility
  - Review firm-specific or peer implied volatility
  - Use blended weights between historical and implied volatilities
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  - Use blended weights between historical and implied volatilities
- Consideration for the glide-path is important, including buy-in from independent auditor



# Pre-IPO Tax Clean-Up

- Identify location and employment status (employee or “contractor”) for all equity holders
- Review existing tax positions and identify / validate any changes to positions for defined period (e.g., 3 years)
- Document pre-IPO tax processes
- Audit historical tax compliance (payroll reporting, tax remittance, etc.)
- Clean-up! (If you can...or at least document the exposure)



# Post-IPO Payroll Tax Execution

- Identify pre-IPO tax positions that will change with IPO (e.g., UK tax withholding)
- Establish & document payroll tax withholding and reporting procedures & responsibilities
  - Withholding method
  - Tax rate approach & payroll true-up processes (if needed)
  - Withholding fund remittance procedures
- Perform payroll “test runs” & determine if special local payroll codes needed
- Establish payroll controls and audit procedures



# Mobile Employee Tax Compliance

- Assign ownership for mobility compliance
- Identify mobile employee / business traveler population
- Perform current mobility risk assessment (especially for key employees)
- Determine company mobile employee compliance strategy, and document decisions
- Establish mobile employee tax positions & validate tax positions with internal stakeholders (payroll, HR, tax, legal, etc.)
- Communicate mobility impact to employees



# Employee Communications

- Determine company strategy on employee education and communications
- What type of information, if any?
- What method of communication? (Written? Video? Wiki for employee questions?)
- Global “road show” employee presentations





# Post-IPO Considerations

- Stay INVOLVED!
- Establish and document procedures
  - Tax compliance procedures & payroll vendor requirements
  - Cash flow mechanics (tax withholding, ESPP funds, etc.)
  - Foreign exchange conversion procedures and risk burden policy
  - Mobile employee / expat reporting mechanics
  - Transfer agent and broker procedures
  - SEC filing (Forms 3, 4 & 5)
  - Trading Window procedures
- Ask your service provider about what other clients are doing



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