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2015 Global Equity Incentives Survey: Executive Summary

August 2015

A joint effort between PwC and NASPP

NASPP
National Association of Stock Plan Professionals

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Foreword

For this year's survey, PricewaterhouseCoopers (PwC) and the National Association of Stock Plan Professionals (NASPP) teamed together as we did in 2012 to compile one of the most extensive surveys in industry's history. We are pleased to share the 2015 Global Equity Incentives Survey (GEIS): Executive Summary with you. This Executive Summary provides key insights from the GEIS, the ninth in the survey series. Our survey is one of the most comprehensive studies available on the design and administration of equity incentives compensation plans for multinational companies. This year, we had approximately 245 multinational companies headquartered in 12 countries with employees in more than 75 countries participate in the survey.

Our 2015 Global Equity Incentives Survey ("GEIS") illustrates interesting trends and news from the marketplace. Our 2012 Survey showed a return to the basics after periods of economic boom and bust. At that time, companies were heavily focused on compliance and reacting to pay for performance requirements/expectations. Our 2015 results are reflective of the continuation of globalization. Not surprisingly, our 2015 survey clearly shows that our participants (virtually all U.S. multinationals) have expanded their reach of equity grantees more globally than ever before and they plan to continue to expand their reaches for granting equity even further outside of the U.S. in the next twelve months.

With participants in the survey focused on expanding their global reach for equity grants, most have not been changing the mix of equity awards. We are still seeing restricted stock units, employee stock purchase plans, and stock options as the primary equity vehicles. Another trend that seems to be continuing from our 2012 survey is a further reduction in broad based grants (with the exception of employee stock purchase plans which are usually offered to all employees).

The prevalence of performance awards has increased since 2012 with earnings per share (EPS) being most common metric followed by total shareholder return (TSR). We explain this trend by globalization, the more fierce competition in the market place as the world becomes less flat for trade and movement of talent. It is now more important to measure success in relation to how a company's competitors are performing.

We were not surprised that even though companies are making grants in new countries, our participants continue to find certain countries challenging namely Australia, China, France, India and the UK. We're not sure that this list will change any time soon!

Communication of grants still seems to be of high priority to participants and there is a rise in the number of companies that are communicating with grantees at the time of vesting, instead of just at grant. Translations seem to be on the decline, which we surmise is a combination of a global economy where more individuals speak English and also the reduction in broad based grants. For 2015, our participants continue to leverage third party administrators and brokers to deliver grant documents and to assist in the administration of plans.

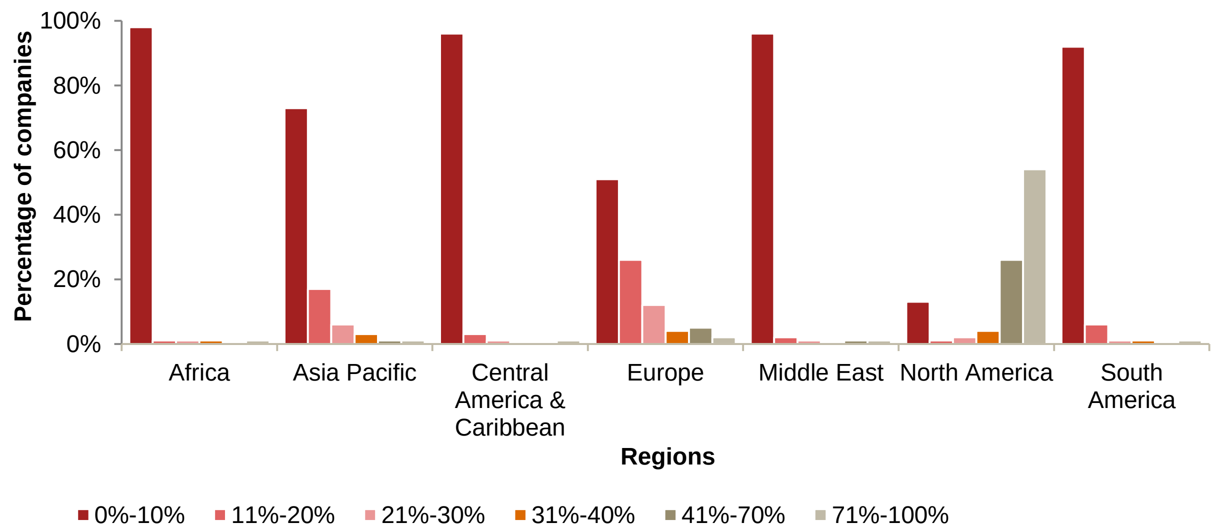
We hope you find the results from the 2015 survey useful as you evaluate and compare your employee equity plans to those of your peers and design plans that are effective drivers of the behaviors necessary for your company's success in this global economy.

Equity grant practices

Consistent with our 2012 findings, the majority of companies surveyed in 2015 continue to offer some form of equity compensation outside of the United States. While the percentage of companies offering stock-based compensation in their Headquarter country has remained constant, there has been an 11% increase in companies offering stock-based compensation to their foreign affiliates. This suggests that there is a continuing trend in companies expanding their global equity plans to provide consistent worldwide benefits. In the 2012 survey, 20% of companies intended to increase the number of foreign affiliates participating in their equity plans. This year's survey delivers similar results - 19% of companies are planning to increase foreign affiliate participation. Coupled with this, 77% of companies are not planning to make any changes to foreign participation suggesting that growth in global equity plans will remain the same. With technological advances resulting in employees being less tied to working in one location, and the global competition for talent, in essence this has led to an overall increase in the percentage of employees receiving equity awards, globally.

With regard to global equity grant trends, of the companies surveyed over the past 3 years, the majority of respondents focus their awards to employees in North America, Europe and the Asia Pacific region. These figures are consistent with both the 2012 survey results and the projected allocation of grants for the remainder of this year.

Grants made over the past 3 years (by region)



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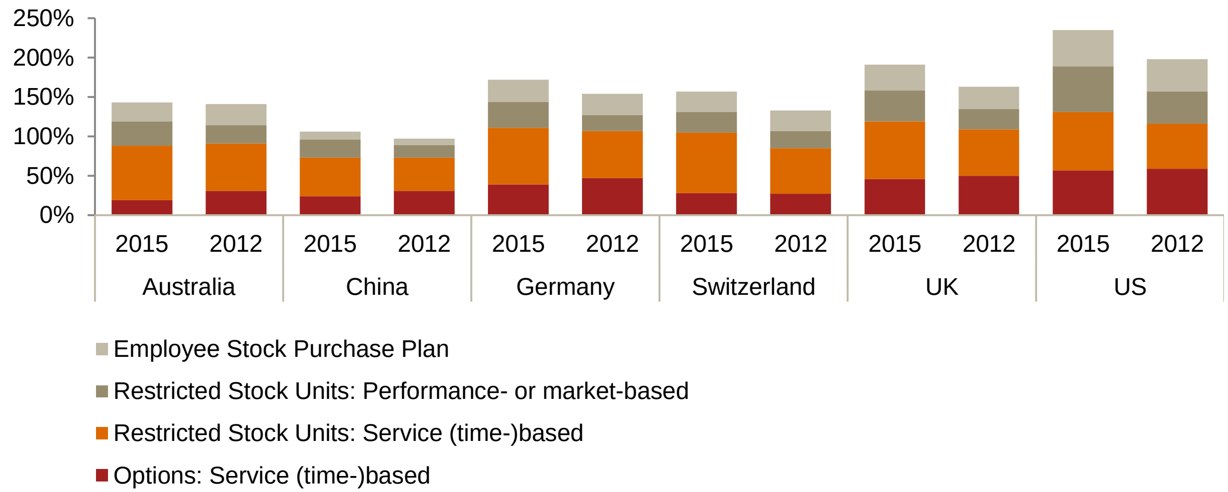
With respect to the types of equity grants companies are making worldwide, we are continuing to see fewer companies grant stock options. For the first time, the 2012 survey, reflected that the use of restricted stock units surpassed stock options as the most common type of equity award. This trend continues in the 2015 survey. There is a rise in restricted stock unit and performance stock unit grants while ESPP usage remained relatively consistent with prior years. This trend may be due in part to the complex accounting and tax issues posed by Section 409A and ASC718, respectively, when dealing with stock option valuations particularly for non-US based companies.

Comparison of equity types granted in selected countries



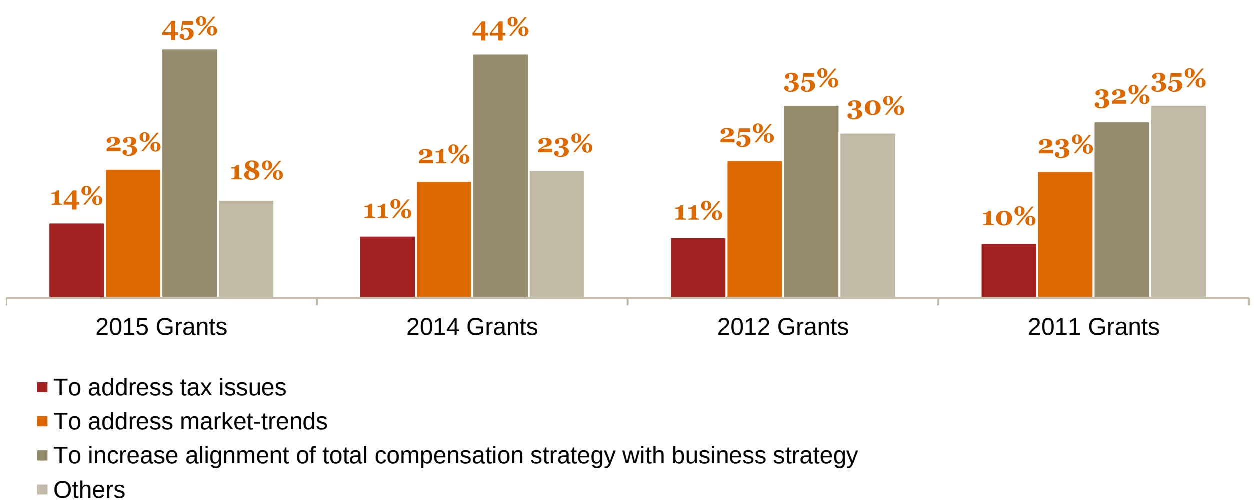
Note: This is a 'select all that apply' question and total response percentage is greater than 100%.

The 2015 GEIS also shows that 68% of companies surveyed, up from 50% of companies in 2012, have indicated that they do not offer broad-based plans in any countries. Increasingly, companies are reserving equity awards, especially those tied to performance metrics, for top executives and managers.

For companies with performance equity programs, our findings indicate that while many companies implement performance based/market based plans measuring targets on a cliff ("hit or miss") basis, since 2012 there has been a slight decline in this type of plan as compared to recipients hitting targets during the performance period and receiving cascading (incremental) payments throughout the period. Similar to the 2012 GEIS results, about 83% of companies offering performance/market plans in 2015 measure achievement at the end of the performance period, with only 12% measuring at two or more intervals during the period. Our findings in both 2012 and 2015 indicate that performance mostly impacts the number of shares vested/released, rather than number of shares granted. Therefore, companies are making similar sized grants as in the past and they continue to take a strict approach to ensure that employees meet their targets.

Our survey results reveal that the predominant drivers of equity compensation practices remain largely the same as recent years. The most significant driver continues to be alignment of total compensation strategy with the company's business, while the second most significant driver remains following market trends.

Main drivers of equity compensation practices outside the US*



*Note: 2015 survey results include grants made in 2015 and 2014, and 2012 survey results include grants made in 2012 and 2011.

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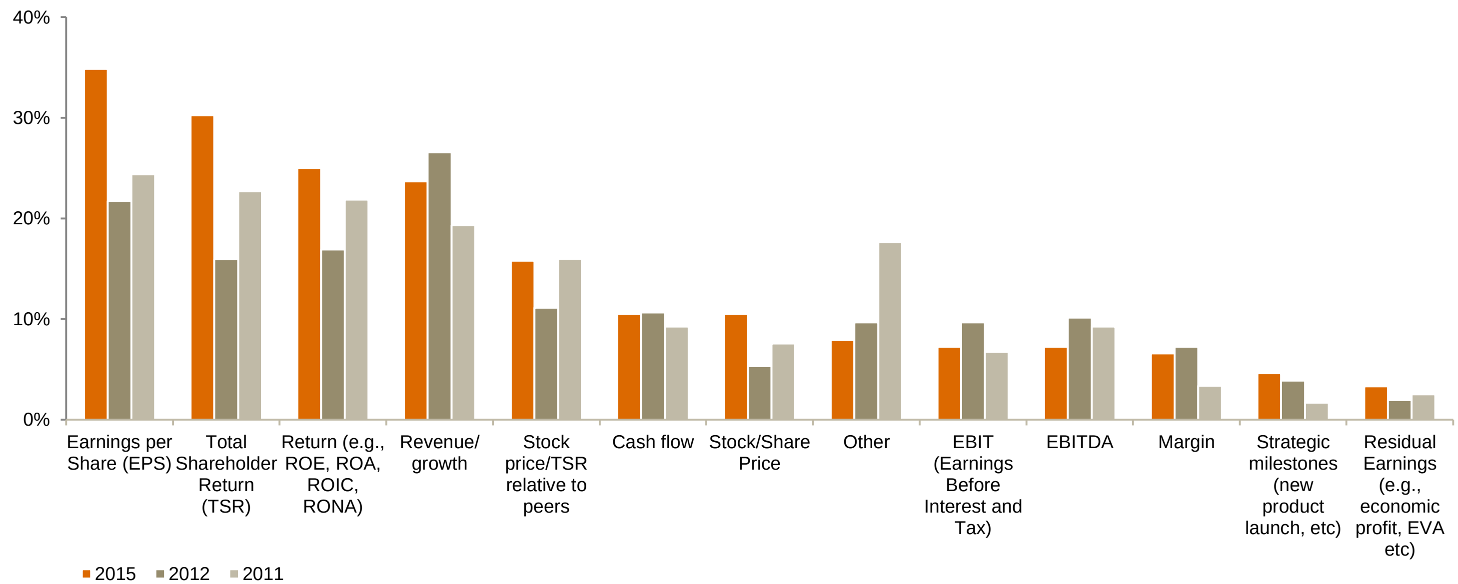
As many countries, particularly in the EU, have or are introducing corporate governance legislation similar to the Dodd-Frank Act (i.e. legislation intended to reduce risks and promote corporate transparency), it should be noted that nearly 100% of companies surveyed state that performance metrics do not differ for U.S. and non-U.S. participants. Additionally, our data indicates that grant practices generally do not vary between local hires and international assignees.

We found a notable number of companies moving to earnings per share (EPS), total shareholder return (TSR) and stock price targets, and other return metrics, over revenue and other earnings targets (EBIT and EBITDA). As shown below, the top basis for performance based/market based plan targets has historically (in 2012 and 2011) been revenue/growth, followed by EPS, return (e.g., ROE, ROA, ROIC, RONA), and TSR. In 2015, we see a continuing trend in the use of EPS, TSR, and return, but see a drop in revenue/growth as a performance metric.

Basis for target for performance based plans



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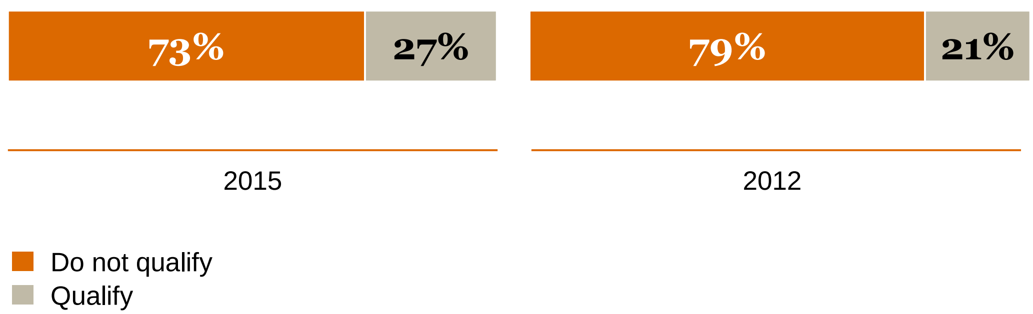
As previously noted, results from 2012 to 2015 have been relatively consistent with regard to the percentage of companies that offer ESPPs to their foreign affiliates. However, as was the case in 2012, the majority of companies report employee participation rates of less than 25% of the eligible employee population participating in ESPPs in 2015.

With respect to ESPP features, responses have remained relatively consistent. The majority of ESPPs are the same on a worldwide basis (i.e., no difference between the plans offered outside the U.S. and U.S. plans) and over the past year, 89% of the companies surveyed have not changed any of the ESPP's features for plans offered outside the U.S.

ESPPs outside of the US that qualify as a "safe harbor" plan under US GAAP



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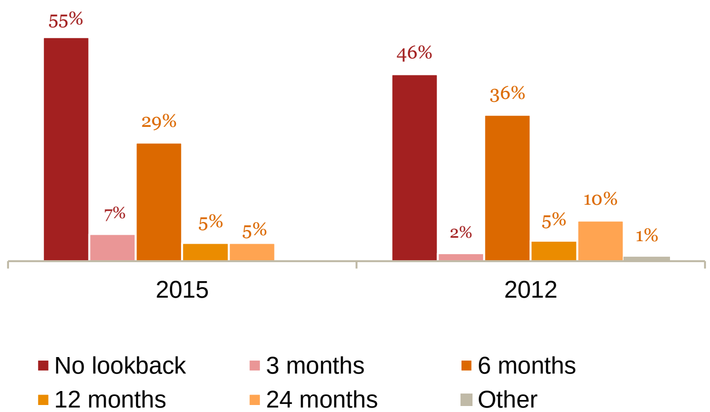
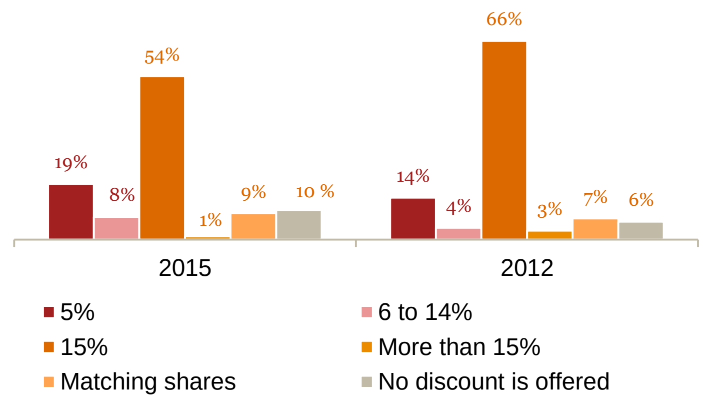
As shown above, the bulk of the ESPPs offered outside of the U.S. in 2015 do not qualify as "safe harbor" plans under U.S. GAAP. Some companies moved to a "safe harbor" plan after the 2006 changes to the accounting rules required companies to recognize a compensation expense for ESPPs. A safe harbor plan mandates no more than a 5% discount and the elimination of a lookback provision. Per the tables below, the most common ESPP offered includes a 15% discount with a 6 month purchase period. Less than half of the companies surveyed offer a lookback feature.

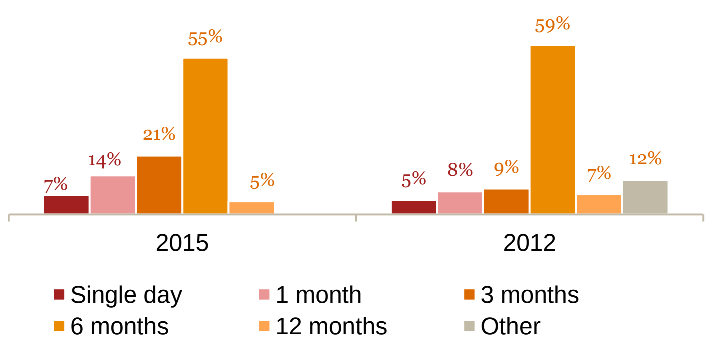
Length of lookback



Discount offered



Length of purchase period



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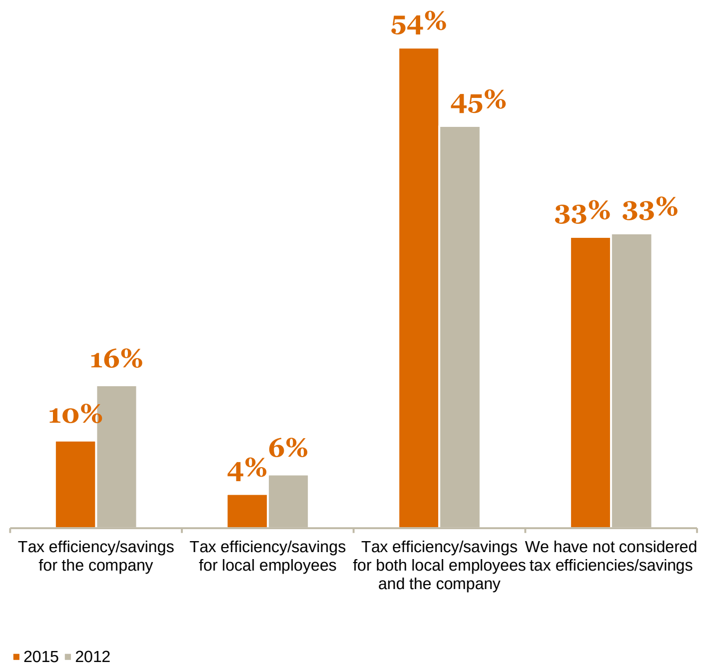
Tax compliance and planning

As expected, we saw an increase in companies whose main priority in implementing equity plans was achieving both local employee and company tax efficiency/savings, up approximately 20% from 2012 (54% compared to 45% in 2012). The number of companies that do not consider tax efficiencies remained steady at 33%.

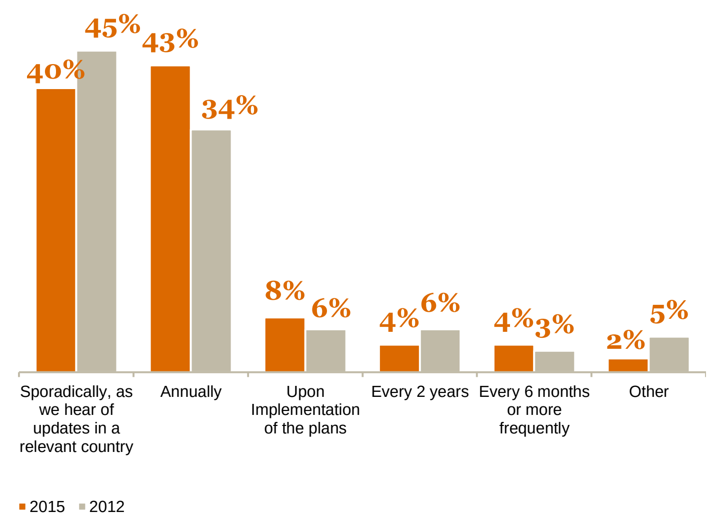
Highest priority with regards to equity plans



Tax compliance

Another positive upward trend is the frequency of annual company compliance reviews, up from 34% in 2012 to 43% in 2015. Conversely, 40% of companies conduct only sporadic compliance reviews, down from 45% in 2012.

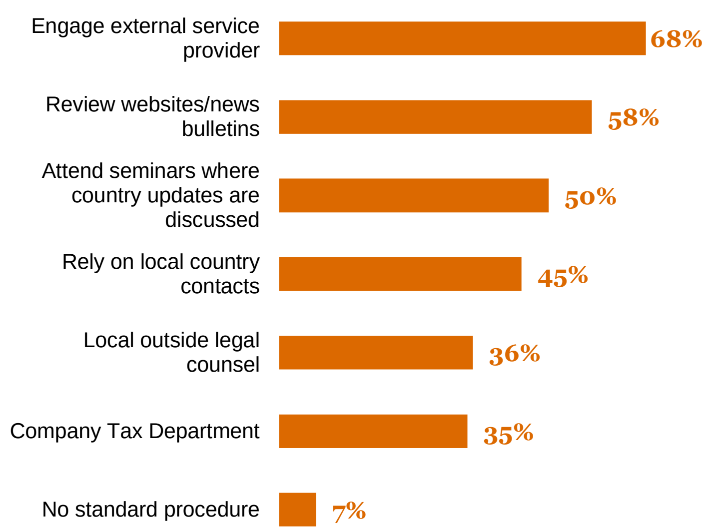
Frequency of internal tax compliance reviews of equity/stock compensation plans



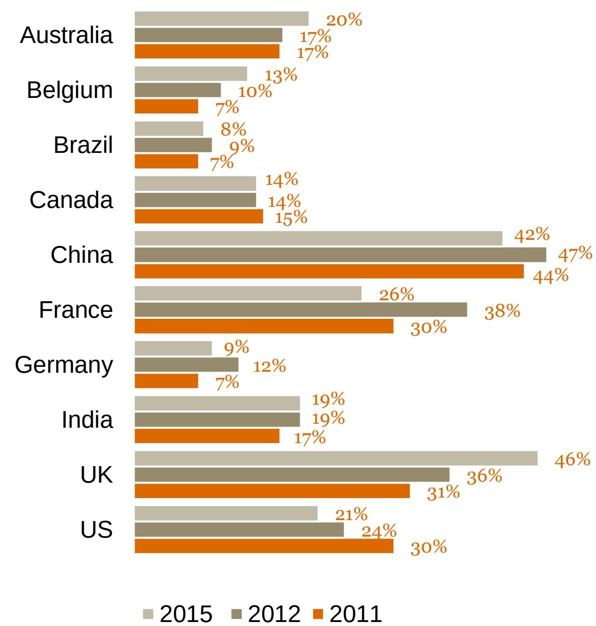
Somewhat related to the increase in frequency of companies conducting full compliance reviews, we saw a continued reliance in the use of support from outside service providers (68% of participants use an external service provider to inform them of global tax or regulatory changes).

Achieving global compliance is not without its hurdles in certain countries. The most challenging international tax compliance countries were noted to be the UK, China, France, Australia and India. These very same countries have tested the most seasoned equity compensation professionals for years, as in 2012 and 2011 the same countries appeared on our list.

Staying informed on global tax/regulatory changes



Countries with most challenging tax compliance



Note: This is a 'select all that apply' question and total response percentage is greater than 100%.

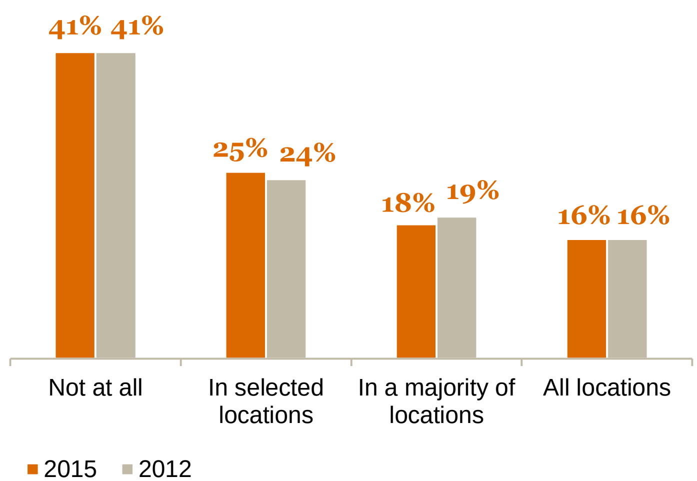
Particularly in the UK, there was a significant increase in participants finding compliance challenges, where only 36% of participants identified challenges in 2012, that number has increased to 46% in 2012. This is most likely due to the new online plan registration requirements and the transition from the annual Form 42 reporting to the online reporting tool.

Chargeback (Cost Recharge)

A chargeback or cost recharge is an arrangement between the Headquarter company and its foreign subsidiaries, where the Headquarter company charges back the costs associated with equity/stock-based compensation plan(s) to its foreign subsidiaries on a periodic basis.

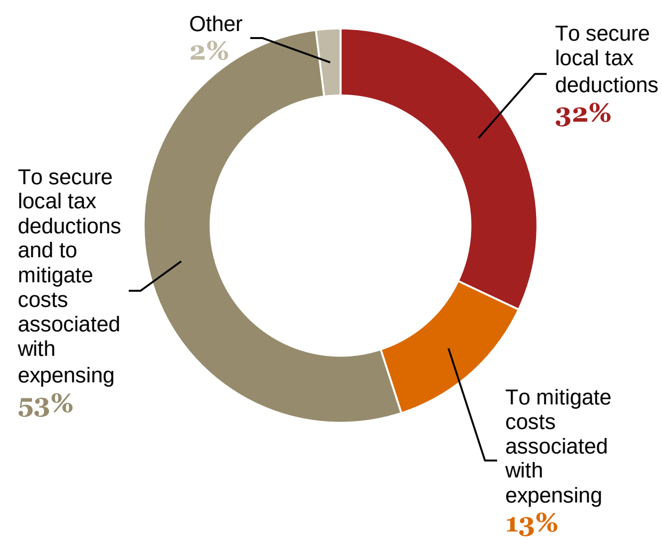
As far as the prevalence of chargebacks, we have not seen much of a change since 2012. 59% of participants responded that they chargeback the costs of the equity awards, at least in some countries, which is the same number as in 2012. Of those participants that recharge the foreign affiliate for equity grants, 36% recharge the spread/value at the time of settlement and 51% of companies recharge the grant date fair value.

Prevalence of chargeback arrangements to obtain corporate tax deductions



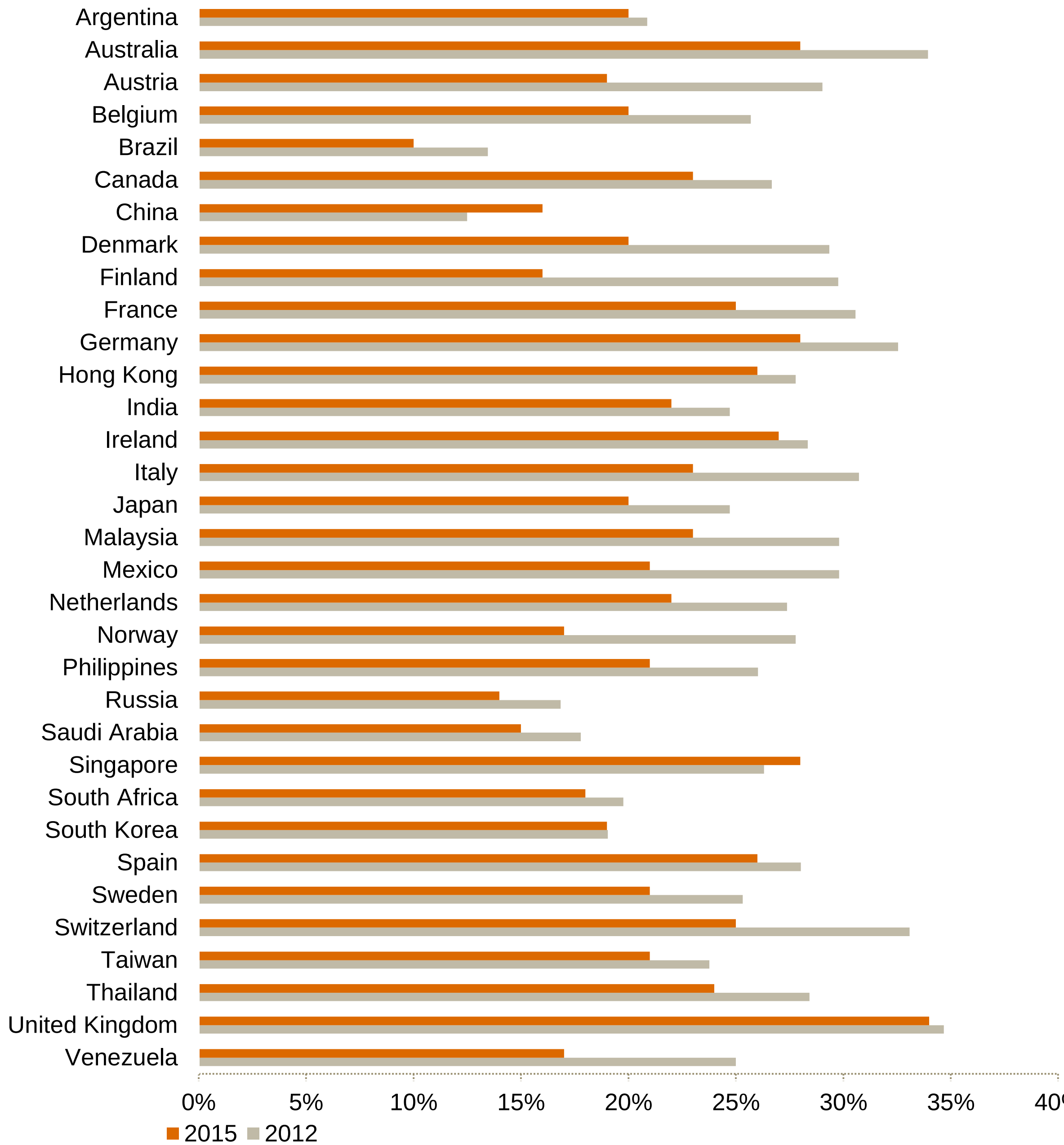
For companies that chargeback, the reasons include to achieve cash savings (32%), mitigate accounting expense (13%) or to accomplish both (53%).

Main driver for charging back equity plan costs



The highest prevalence of chargebacks are in Europe (more than 25% of the respondents indicated that they charge back in France, Germany, Ireland, Spain, Switzerland and the UK). This is despite the fact that corporate tax deductions may be limited in France and Germany. In addition, there is a statutory deduction that is generally available in the UK without the need for a chargeback. On equal ground with Europe are Australia and Singapore (both 28%).

Percentage of companies with chargeback arrangements by country



The most common reasons for not charging back equity award costs (41% of participants confirmed that they do not recharge costs to the local affiliate) are administrative burden (37% of participants), low headcount in the countries where costs are not charged back (33%), and that charging back provides only limited tax advantages based on the participant's current global structure (32%).

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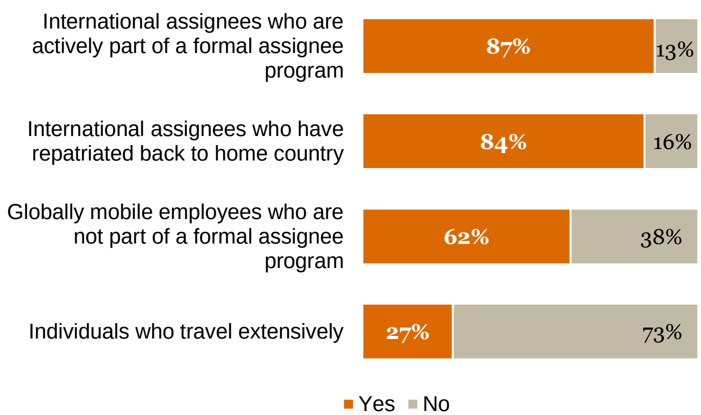
Global mobility

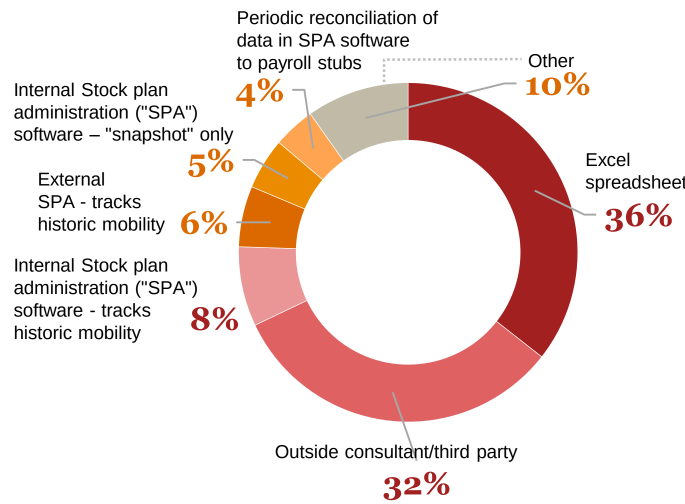
Companies continue to identify global mobility as a challenging area and one where they are making efforts to improve overall compliance for this group of employees in regards to equity awards. This is reflected in the fact that 87% of participants provided that they track the movement of international assignees, who participate in a formal assignee program, during the life of their equity awards for tax withholding and reporting purposes.

Companies tracking the movement of internationally mobile employees



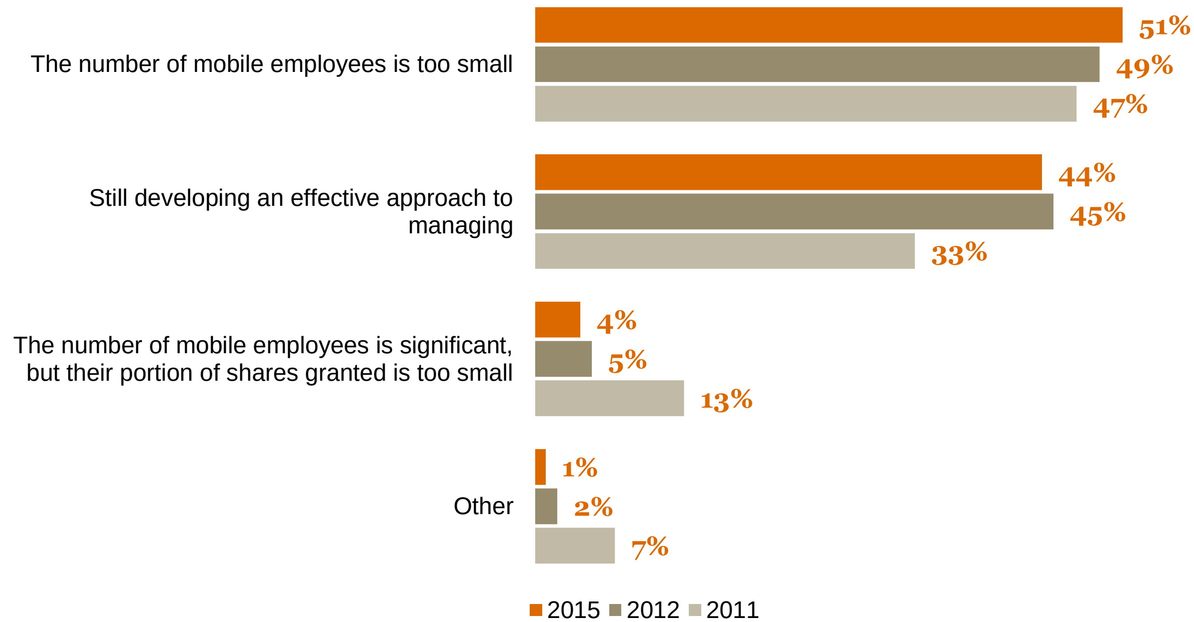
The tracking of global mobile employees is accomplished either internally through the use of Excel (36%) or through the use of outside consultants/third parties (33%) to assist with this process.

Tracking methods of expatriates/cross-border employees movements from grant through settlement date of awards



For companies that responded they do not track the movement of their globally mobile employees, the reasons remained similar to those provided in the 2012 Survey. 51% of participants provided that the population size of their mobile employees was too small for them to consider tracking and 44% of participants responded that they are in the process of developing an effective approach to manage their global employees.

Reasons for not tracking employee mobility



Process and administration

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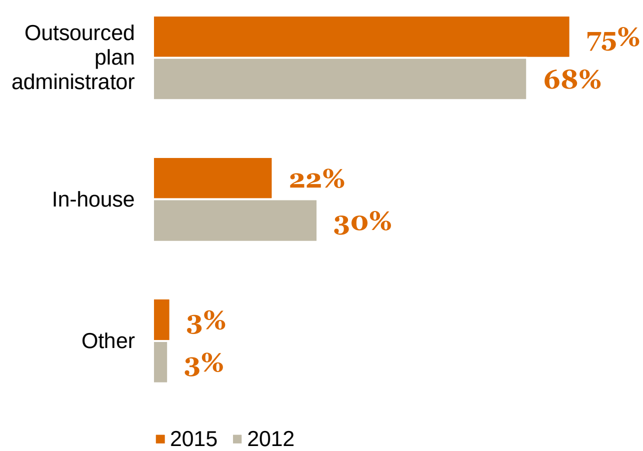
The use of a third - party administrator/vendor for stock plan administration has continued to increase since 2012. Currently 75% of companies with equity participants outside the US outsource their stock plan administration. In parallel there has been a shift away from using "in-house" solutions such as manual spreadsheets, commercially developed equity plan software and "home grown" custom databases; as companies realize global equity plan administration can be extremely challenging, time consuming and costly, particularly with an ever-changing equity compensation climate and increased focus from tax authorities on this type of compensation. Perhaps another reason for the decline is the realization that more manual-based solutions are not viable in a world where the integrity of "big data" is becoming a baseline business requirement.

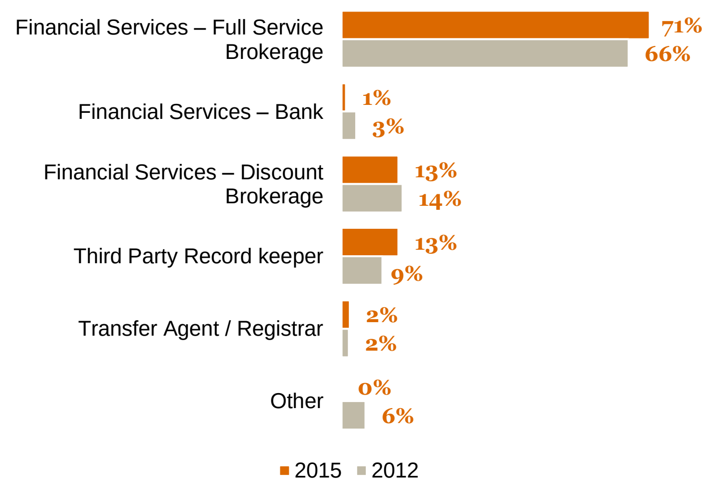
There has been a significant shift in the portion of stock plan administration (for non-US participants) that companies are outsourcing from 68% in 2012 to over 75% in 2015.

As expected, the survey results show that just over 95% of companies with stock plans for non-US based employees administer their plans from the country where the Headquarter company is located. More than two-thirds of the companies surveyed use a full service brokerage firm as their external administration partner. 34% of companies in 2015 use other service providers (e.g., banks, discount brokerage houses or third party bookkeepers) compared to 29% in 2012. This slight increase is driven by the increased use of a third-party bookkeeper from 2012.

Storage of equity/stock compensation data



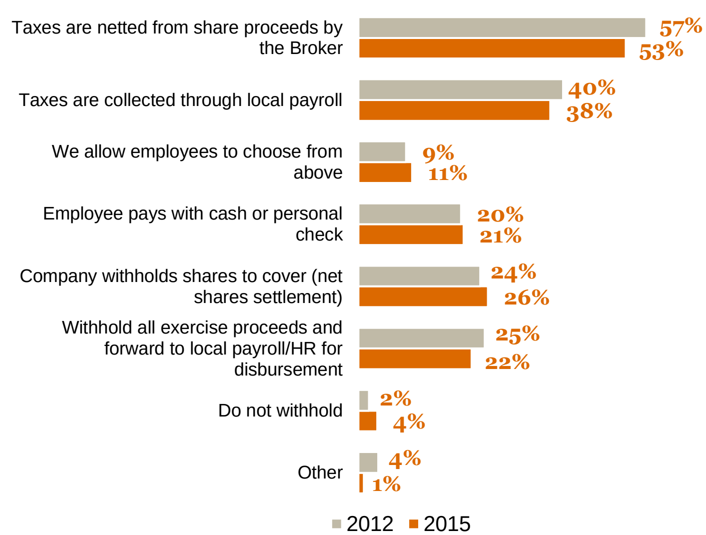
Percentage of companies in each category of service provider



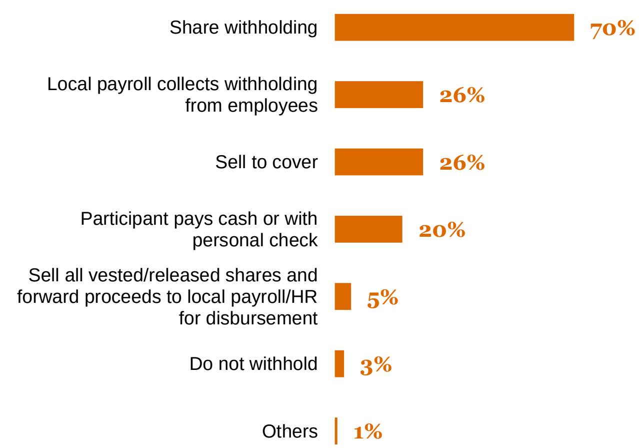
Where taxes are required to be withheld on a stock option exercise, the most prevalent settlement method is netting of taxes from share proceeds by a broker or a “cashless” transaction; this practice has slightly decreased to 53% (in 2015) from 57% (in 2012). The second most prevalent withholding practice is tax collection through local payroll, which has also slightly decreased to 38% (in 2015) from 40% (in 2012). Net share settlement for stock options rose slightly to 26% from 24% (in 2012).

The most common method used for collection of taxes on other stock based awards for non-U.S. participants is through withholding shares (47%). The second most common method of collecting tax withholdings is via local payroll and sell to cover (both at 17%). It is possible that next year we will see an overall rise in the number of companies utilizing a net share withholding approach as the Financial Accounting Standards Board (FASB) will have finalized the simplification efforts currently underway for share-based awards; one of the proposed FASB changes includes relaxing the rules around the required withholding tax rate to satisfy the minimum statutory withholding rules – if passed this will make it easier for companies to perform share withholding without risking the adverse accounting consequences that can be triggered for plan awards where companies are reporting under US GAAP.

Tax collection upon option exercise for employees based outside US



Tax withholding collection for stock awards for non-US participants

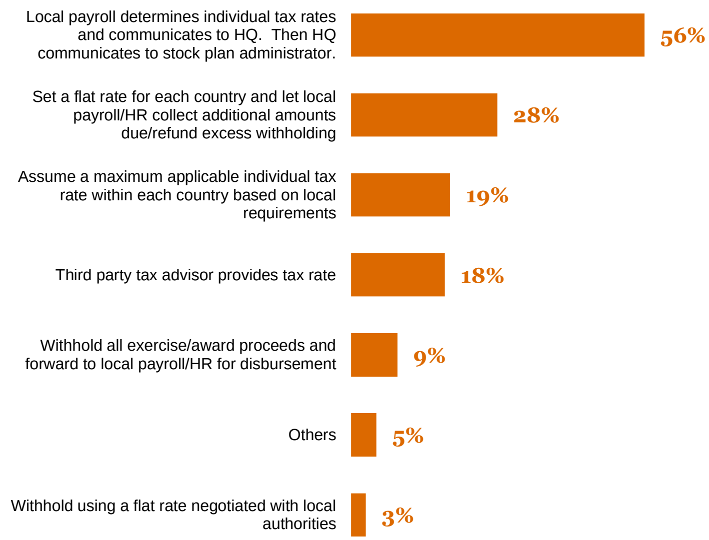


Note: This is a 'select all that apply' question and total response percentage is greater than 100%.

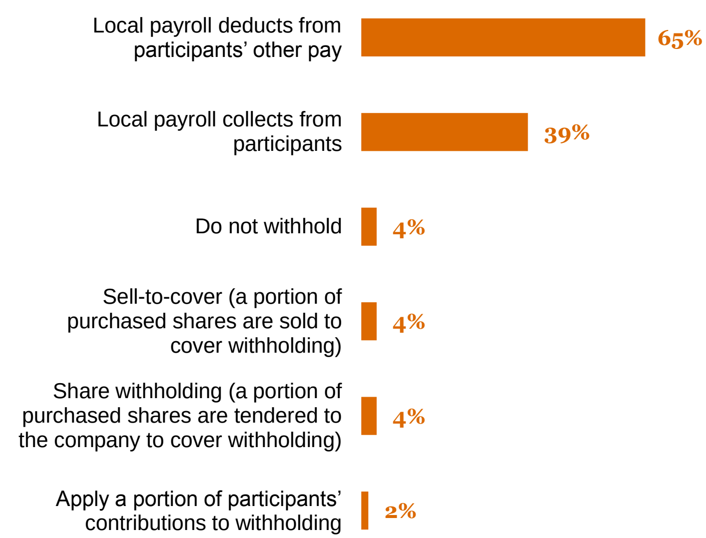
When it comes to determining withholding rates for non-US participants, the most prevalent practice is for local payroll to determine the individual rate and then communicate such rates to Headquarters. Please see graph below for other approaches to determining tax withholding rates communicated.

Most companies will either use the highest tax rate applicable across all jurisdictions, or will apply a per country rate, which may vary. When looking at tax withholding for an ESPP, virtually all companies withhold either from a participants' payroll or collect the funds directly from participants via cash or check.

Tax rate used for withholding taxes for option exercises and stock awards for non-US participants



Tax withholding under an ESPP for countries outside the U.S.



Note: This is a 'select all that apply' question and total response percentage is greater than 100%.

With respect to record-keeping, almost all companies (93.8%) have their employees access plan records through their third-party administrator's internet site; unsurprisingly, this is still by far the most popular tool for maintenance and accessing of plan records and shows an increase from 2012 where only 87.7% of companies used third-party administrators. This increase is likely driven by the increased use of third party administrators to administer global stock plans. With respect to plan communications, 86.3% of companies give their Headquarters responsibility for communication to employees.

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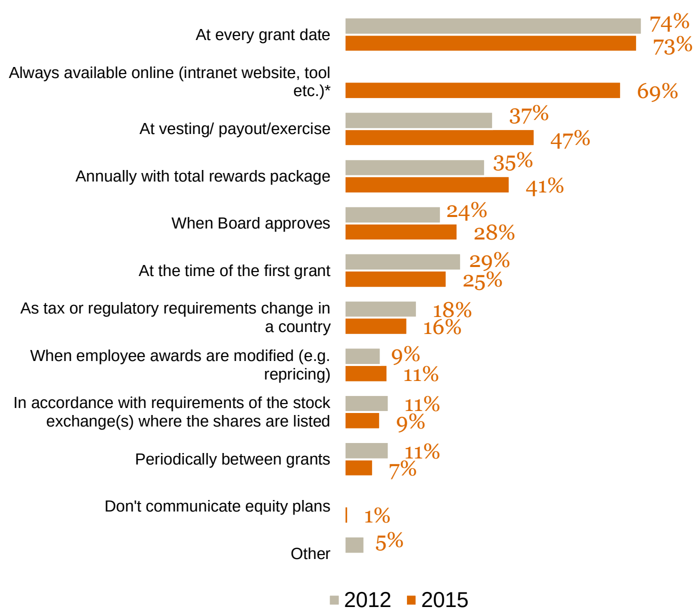
Communications

Communications are a key determinant on whether an equity plan is perceived as valuable for employees and successful for an employer. The majority of companies (73%) continue to communicate to non-US and US employees at the same time with the same details at the date of grant. Such communications are included as part of the grant package. However we saw an increase in the number of companies that communicated at vest/payout/exercise (47% in 2015, up from 37% in 2012). This demonstrates how more companies realize the need to communicate to employees on their equity awards on a more consistent basis throughout the life of the equity award.

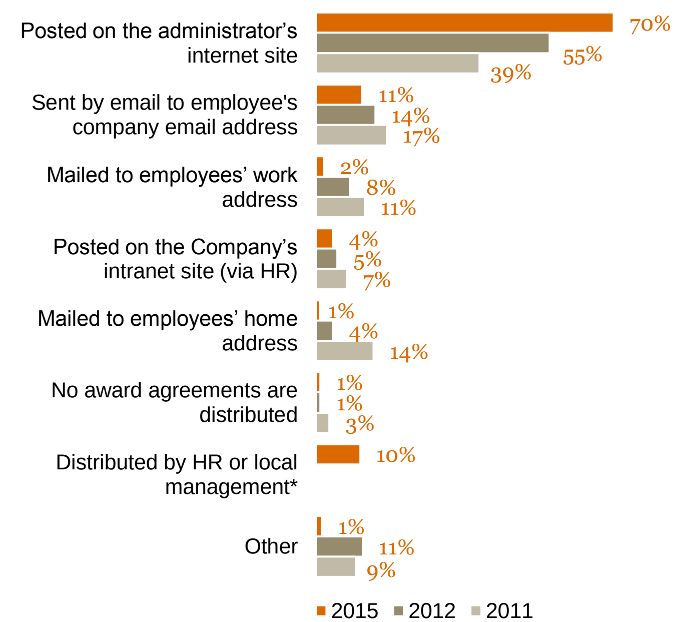
Continuing the trend from the last few years, companies are leaning more heavily on technology to disseminate plan information, with over 85% using some form of electronic delivery and less than 3% using postal services as a distribution method. Naturally, there is a significant increase in the use of the administrator's internet site to deliver the agreements (70% in 2015, up from 55% in 2012). The percentage of companies using electronic grant acceptance also rose slightly from 76% in 2012 to 81% in 2015.

Communication of equity plans to employees



*This answer choice is new for 2015

Delivery of award agreements



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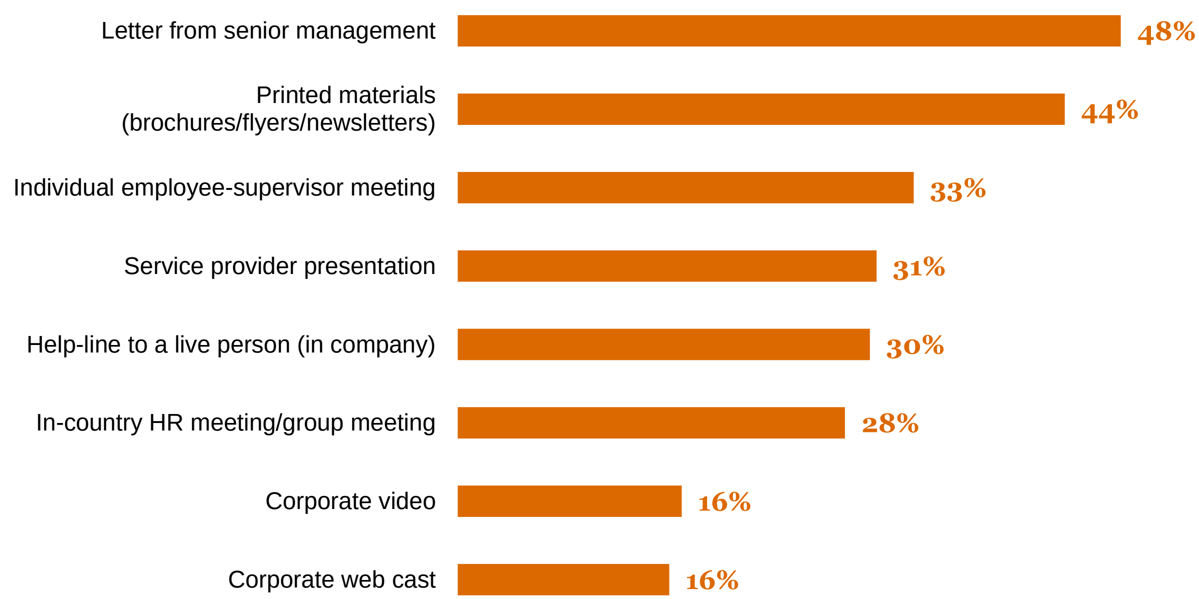
As mobility increases and most employees are familiar with the English language, there has become less of a need to translate plan documents into local languages. The majority of companies are not translating plans into local languages, approximately 66% in 2015 – thus two-thirds of the companies surveyed only provide plan documents in English. Where companies are translating plans into local languages, it's generally only due to local requirements for translations, e.g. China. The responses regarding translations were similar when asked about communications and educational materials; only 32.7% provide them in the local language.

In providing education to non-US employees the majority of companies use some form of electronic method (email/intranet/webcast) to help build understanding of their equity plans. Although technology appears to play a vital role in companies' education plans, printed materials are still popular with 44% of companies using printed materials (some alongside the use of technology).

Techniques used in building employee understanding of global equity plans

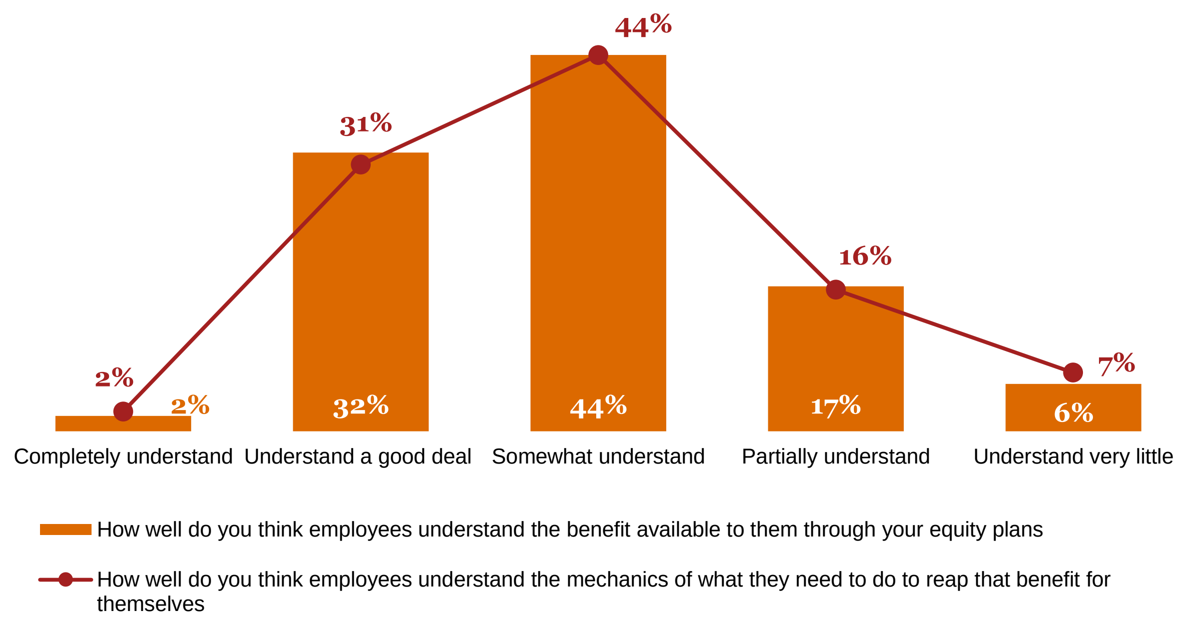


Note: This is a 'select all that apply' question and total response percentage is greater than 100%.

The results also suggested there was no method deemed to be more effective in delivering the education. Email was the most popular form (24%) due to convenience followed by in-person meetings (16%) and the use of company portal (14%).

Perhaps the lack of providing plan communications and educational documents in local languages drives the belief of the majority of companies (66%) that there is not a strong understanding of plan benefits and further, 67% believe there is not a strong understanding of the mechanics of how to reap plan benefits outside the US.

Employee Understanding of Benefits of Equity Plans



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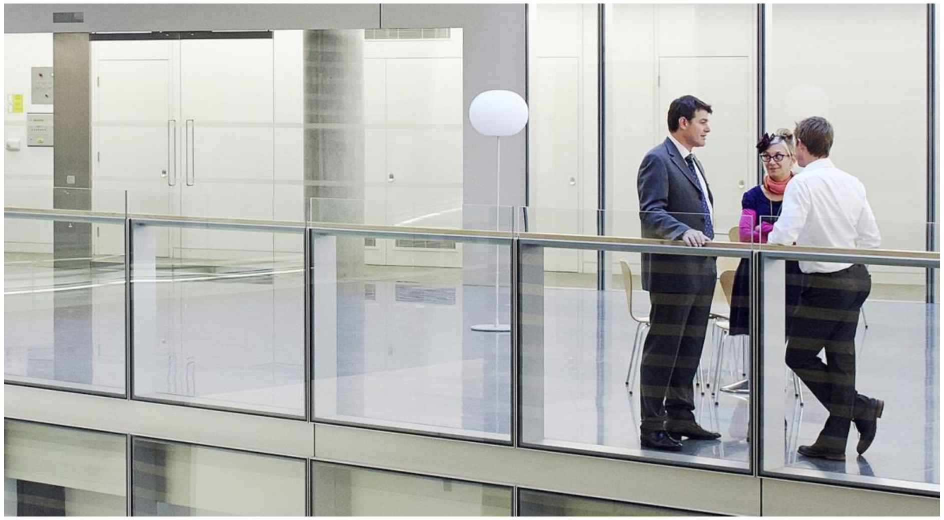
Concluding remarks

The results of the 2015 GEIS show a continuing trend in the expansion of global equity plans to employees working in foreign entities and a parallel increase in the outsourcing of stock plan administration. Over the past few years, this growth has been driven by technological advances, workers being less tied to one location and the global competition for talent resulting in an increase in employees receiving equity awards globally.

There has been a decline in the number of broad based grants being offered such that equity awards are now being reserved for key talent globally rather than for all employees. Importantly, grant practices do not differ between local hires and international assignees reinforcing the reality that there is global competition for talent. A welcome trend is nearly a 10 point increase since 2012 in the number of companies performing annual compliance reviews - clearly suggesting that companies are much more focused on maintaining a best practice compliance position as well as responding to increased focus by tax authorities globally on this type of compensation. Overall the survey results reinforce a healthy increase in global equity participation which is unlikely to stall given the economy and the focus on global growth - however there continue to be hurdles in certain countries - namely Australia, France, China, India and the UK but companies are more familiar and informed to manage these challenging locations.

It will be interesting to see if these trends continue and how emerging markets will impact grant practices. Stay tuned!



About PwC

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At PwC we build tailored people and organization solutions to help our clients achieve their strategic ambitions - reflecting their uniqueness but also grounded in rigorous analysis and data-driven insight - to create lasting, differentiated value.

We help clients to implement organizational transformation, improve the performance of their workforce, develop and move talent around their business, and manage their human capital risks.

We bring together an unmatched combination of industry, business, strategy, talent, HR, analytics and technology expertise with more than 10,000 people in 138 countries. That means you get the right team with the right skills and experience wherever you need us round the world to help you deliver the value you're looking for – from people strategy through to organizational execution.

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NASPP

The National Association of Stock Plan Professionals

The NASPP is the leading membership association for stock plan professionals and the only organization that brings together the full spectrum of roles involved in stock compensation. We have nearly 6,000 members whose responsibilities relate, directly or indirectly, to stock plan design and administration, including compensation and human resources professionals, stock plan administrators, securities and tax attorneys, accountants, compensation consultants, corporate secretaries, brokers and transfer agents, and third-party administrators and software vendors.

Here are just a few of the benefits of NASPP membership:

Up-to-the-minute news and guidance: The NASPP is the source for the latest stock plan developments. Our free webcasts, alerts, and bi-monthly newsletter keep our members current and we publish the industry's most comprehensive survey on stock plan design and practices.

Unbeatable networking and peer-to-peer guidance: The NASPP provides unparalleled networking opportunities through our 32 local chapters, popular Q&A discussion forum, and national member directory.

Industry-leading conference: The NASPP hosts the industry's premier conference on stock compensation; with close to 2,000 attendees, this is a don't-miss event.

The answers to your questions: The NASPP provides the resources to research any stock plan-related question; our online portals and surveys are a one-stop-shop for resources addressing the issues our members are grappling with today.

Practical advice from the experts: We report what the experts are saying and we insist on practical content that our members can really use. Practice pointers, action items, and insider tips are part of everything we do.

Please visit our website at: www.naspp.com

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