PwC Legal Middle East

Employment Incentives Series: Part Three - LTIPs

In Part Three of our Employee Incentive Series, we discuss the key concepts of long term incentive plans (LTIPs). As the name suggests, LTIPs are longer-term mechanisms through which companies can incentivise employees. The most popular LTIPs adopted by employers are as follows:

Employee Share Option Plan (ESOP) - employees are granted an 'option' to purchase shares in their employer's company at a future date (usually at a price slightly under market value at the time of grant). If an employee remains employed until such a future date, the option will 'vest' and the employee will benefit from any increase in share value of the company. ESOPs are more commonly used by startups, however, larger or more established companies may also decide to adopt such plans in order to incentivise employee while conserving cash in the short term.

Phantom Share Plans (PSPs) - PSPs involve linking performance to the share value of a company but without ever transferring shares to employees. Instead, employees receive a cash payment reflective of such performance over a 'vesting period'. This approach avoids the dilution of a company's equity since it is not necessary to increase and then divest share capital. For that reason, phantom schemes may be preferred by existing shareholders. The lack of share transfer also creates another advantage in that the regulatory frameworks which govern share transactions do not extend to phantom schemes which are, in essence, contractual incentive arrangements. Accordingly, phantom schemes tend to enable greater flexibility for companies.

Deferred Bonuses - Deferred bonuses work similarly as standard bonus schemes with the benefit of delayed payment. Such arrangements are easy to set up and do not trigger regulatory or other concerns, in the majority of cases. They are therefore more common than ESOPs and PSPs. As with other LTIP arrangements, deferred bonuses incentivise continued service (as payment will be linked to continuing employment) and delay the impact of bonuses on cash reserves. However, ultimately, the liability for cash payments will crystallise at an agreed point in time and should therefore be considered as a liability for the business.

PwC Legal's award-winning team of over 60 lawyers, in combination with PwC Legal's global network of over 5,500 legal professionals in 100+ countries, is ideally positioned within the Middle East market to be your employee reward and management incentives advisor. Please contact Darren Harris, PwC Legal Middle East Legal Leader (darren.harris@pwc.com) and/or Natalie Jones, Middle East Employment & Reward Leader (natalie.j.jones@pwc.com) to discuss how we can add further value to your employee reward and management incentives proposition.

PwC Legal Middle East

Contact us for further information

Darren Harris

PwC Legal Middle East | Partner
Legal Leader | Head of Corporate
Mobile: +971 (0) 56 418 9768
Email: darren.harris@pwc.com

Natalie Jones

Director | Employment & Reward
PwC Legal Middle East
Mobile: +971 (0) 5
Email: natalie.jones@pwc.com

Paul Kirk

Senior Associate
PwC Legal Middle East
Mobile: +971 (0) 56 406 3410
Email: paul.k.kirk@pwc.com