



SOS Educational Webcast: Déjà vu All Over Again – Stock Administration Issues That Come Up Over and Over

Sarah Roberts, CEP, Stock & Option Solutions, Inc.
Laura Reis, CEP, Cylance, Inc.



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Materials Slides

<http://www.sos-team.com/pdfs/dejavu.pdf>

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Agenda

- Managing Blackout Periods
- Closing the Books
- Procedures
- RSU Release Dates
- SOX Requirements
- Simplification of Processes

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MANAGING BLACKOUT PERIODS (WHEN CAN WE TRADE?)



Blackout Periods - Background

Companies have a variety of ways of managing blackout periods:

- Some have different tiers of employees for blackout purposes
 - Officers/Directors
 - Other Insiders
 - All Other Employees
- Others have guidance/policies but don't physically block



Blackout Periods - What Are the Issues?

- Employees shouldn't trade during blackout periods
- Employees shouldn't be blocked from trading when they are entitled to do so
- Manual maintenance of Insider List can be cumbersome
- Insider Lists aren't always kept up-to-date
- Trading window dates are not always communicated

Blackout Periods - What Have We Seen?

- Complicated blackout structures
- Insider Lists that aren't kept up-to-date
- Expectation that Stock Administration should manage Insider Lists
- Employees who cannot trade when they should be able to do so

Blackout Periods - What Works Well?

- Blackouts without blocking!!!
- If physically blocking during blackout:
 - Maximum of two tiers
 - Define tiers by title, salary grade, department
 - Avoid blocking by name or ID alone
- More than one person with ability to block/unblock employees
- Business partner outside Stock who assumes responsibility for Insider List
- Calendar approved by Legal for blackout periods



**CLOSING THE BOOKS
(ALWAYS BE CLOSINGS ABCS)**



Closing the Books – What Are the Issues?

- Changes happen every day – how much do you need to track?
- Understanding the reporting periods:
 - What to include
 - What to exclude
- Staying in alignment with finance team and auditor expectations
- What to look for in the audit process

Closing the Books - What Have We Seen?

- Tracking Systems
 - In-system applications
 - Add on applications
 - Spreadsheet tracking
- Details around audit processes
- Scheduled routine meetings to cover key items, changes, out of cycle transactions

Closing the Books - What Works Well?

- Creating a checklist
- Auditor/accounting team review
- Communication channels

PROCEDURES (WHAT PROCEDURES MANUAL?)

Procedures – What Are the Issues?

- Stock Administrators come and go
- Unique, exclusive nature of stock administration in most companies
- Time-sensitive and critical nature of stock processes to the functionality of the company:
 - Compensation/ income for employees
 - Financial reporting
 - Disclosure
- Stock has many internal business partners, so it's not always clear who does what



Procedures – What Are the Issues? (cont'd)

- Stock & Option Solutions and similar companies can help in such “disasters”
- But it is A LOT EASIER when there is a record of how things are done



Procedures - What Have We Seen?

- No documentation at all; it's all in the former administrator's head
- Documentation that was written in 2011 or even 2014, but it's 2018
- Rare exception: complete documentation of processes

Procedures - What Works Well?

- Figure out all processes used in department
- As you go through a process, write it down
 - If you're not good at writing, find a partner who can write
 - Screenshots
- Complicated procedures have first priority for documentation
- Once processes are documented, review them annually
- Develop awareness of need for procedures

RSU RELEASE DATES (HOW DID WE GET SO MANY?)



RSU Release Dates – What Are the Issues?

- Releases can be time-consuming and often require advance work:
 - To ensure that tax rates are correct
 - Update YTD taxes
 - Mobile employees' calculations
 - International employees' tax rates
 - If company allows a variety of tax elections
 - If company requires grant acceptances
- Frequent releases are not efficient



RSU Release Dates - What Have We Seen?

- RSU releases throughout every month
- Missed release dates
- Companies move toward fewer release dates once they notice that there are too many to manage
- Increasingly, companies have 1 or 2 release dates per month
- Or even better, quarterly!



RSU Release Dates - What Works Well?

- Quarterly releases
 - Occasion that can be calendared and planned for
 - Advance work can be done methodically
 - One big event, then it's over for another 3 months
 - Employees begin to see the releases as an event they recognize
- Monthly, or even semi-monthly is better than dates all over the map



SOX REQUIREMENTS (IT'S A SOX CONTROL, SO IT'S REALLY IMPORTANT!)

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SOX Requirements – What Are the Issues?

- Lack of understanding inside corporations about what SOX entails
- Imperfect understanding about controls and processes that support them

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SOX Requirements - What Have We Seen?

- Lack of understanding that company writes the controls, and that they can be changed if necessary
- Processes change but the SOX narrative does not get changed
- Someone other than stock writes the equity narrative, without:
 - Adequate knowledge of the software
 - Adequate input from stock administration
- SOX narratives written with individual names instead of job titles

SOX Requirements - What Works Well?

- Review SOX controls for Equity Administration/Accounting as least annually
- Learn to update SOX narrative when you make big changes to procedures
- Stock Administration should collaborate closely on Equity SOX narrative
- In SOX narrative, use the job title of person doing the task instead of their name

SIMPLIFICATION OF PROCESSES (THIS IS THE WAY WE'VE ALWAYS DONE IT...)

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Simplification of Processes– What Are the Issues?

- Manual processes are time consuming
- Manual processes are fraught with errors
- Auditors do not look kindly upon complicated manual processes
- Manual processes are difficult to hand off to another person
- If manual processes rely upon multiple persons to operate correctly, there can be breakdowns between the process owners

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Simplification of Processes - What Have We Seen?

- Incredibly complicated Excel spreadsheets to be updated at quarter-end or year-end.
- Complicated spreadsheets that are undocumented but have to be completed anyway.
- Spreadsheets for equity accounting or tax situations that vendor's software could not calculate in 2014, but now it's 2018
 - Example: Mobile employees' tax calculations

Simplification of Processes - What Works Well?

- Review your software's capabilities at least once a year to determine if a process that couldn't be handled previously can be calculated in the software now
- If the complicated Excel spreadsheet is irreplaceable, be sure that it is thoroughly documented.

Contact Information



Sarah Roberts, CEP
Senior Equity Consultant
1475 S. Bascom, Suite 203
Campbell, CA 95008
Bus: (408) 979-8700
E-mail: sroberts@sos-team.com



Laura Reis, CEP
Director, Equity Administration
400 Spectrum Center Drive, Suite 900
Irvine, CA 92618
Bus: (925) 487-5081
Email: lreis@cyalance.com