



Discussion Lunch  
Share schemes in the current climate  
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All together more rewarding

# “Not waiving, but drowning”; dealing with underwater options

- World recession has seen almost  $\frac{3}{4}$  of FTSE 100 companies' employee share options slip “underwater”.
- Economic boom of last decade saw an increase in share option schemes but with recent share price falls, employees may need to decide what to do to re-incentivise their employees.

# Should companies do anything?

- Simply wait out the downturn without further action?
- Concerns that employees may leave the company - some action is required to keep valued staff?
- Do nothing about historic underwater awards - but grant further awards at the next annual grant?

# Should companies do anything?

- Grant replacement options?
  - Current options could be surrendered by option holders allowing for re-grants at the current MV;
  - Frowned upon by the ABI, but current climate is such that ABI may take a flexible stance;
  - ABI more flexible about permitting short term increase in dilution limits thus permitting re-incentivising new awards.

# Should companies do anything?

- Re-price current options?
  - Simply changes the exercise price by lowering it to the current MV;
  - Requires most listed companies to get SH approval;
  - ABI does not like “re-pricing of options”;
  - HMRC does not allow re-pricing with tax approved schemes
  - But could introduce phantom option plan to make up the difference between current MV and outstanding option exercise price.

# Avoiding underwater options

- Introduce a Partnership with Matching Shares SIP instead of SAYE
- Review performance criteria attaching to Executive Share Plans - switch to non-market related criteria thus avoiding risk of P&L charge even if awards never vest.
- Switch to a Long Term Incentive Plan
- Use a bespoke arrangement

## Is it an opportunity?

- Companies may be able to turn a negative into a positive by using the downturn as an opportunity to consider whether their current share incentive plans really provide an effective and motivating aspect of employee remuneration;
- An ideal time to restructure current arrangements into a forward-looking and well planned employee incentives programme appropriate both for the near future and for the economic upturn - when it comes.

## Actions....

- In an economic downturn, companies need to be aware of the wider corporate environment in which their share incentive plans operate.
- Make sure you are aware of how options or LTIP awards will vest in different termination of employment scenarios