Introduction & agenda

Patrick Derthoo
Welcome and registration

- What are the trends in the LTI landscape?
- How to position your company – how does the plan fit within your Total Reward strategy?
- Which type of plan matches with your needs and expectations?
- How to match your plan with the corporate governance rules on executive compensation?

Break

- What is the impact of the LTI plan on the company’s financials?
- Which KPIs are fit for purpose?
- What are the pitfalls and challenges at the moment of an (international) roll-out?
- Q&A
What are the trends in the LTI landscape and how to position/benchmark yourself as a company?

Xavier Baeten
Long-term incentive plans for listed companies
Deloitte Academy Seminar

EXECUTIVE REMUNERATION:
WHERE ARE WE (GOING TO)?

PROF DR XAVIER BAETEN
Executive Remuneration Research Centre
PARTNERS & MEMBERS

PRI ME FOUNDATION
PARTNER

RESEARCH MEMBERS

Deloitte.

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AN UNEXPECTED PERSPECTIVE: THE PERCEPTION OF TOP EXECUTIVES
What is the strongest driver of work engagement for top executives?

• Ambition
• Pay satisfaction
• Non-financial reward satisfaction
WHAT DRIVES CEOs?

- Ambition
- Age
- Job seniority
- Non-financial reward satisfaction
- Pay satisfaction
- Distributive justice
- Procedural justice

Standardized beta
WHICH NON-FINANCIAL REWARDS DRIVECEOS’ WORK ENGAGEMENT?
HOW SATISFIED ARE TOP EXECUTIVES WITH THEIR REMUNERATION?

<table>
<thead>
<tr>
<th>Category</th>
<th>Very Satisfied</th>
<th>Somewhat Satisfied</th>
<th>Neither Satisfied nor Dissatisfied</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fixed salary</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Variable remuneration</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Determination fixed salary</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Determination variable</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Salary in relation to market</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Salary in relation to...</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Fringe benefits</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Holidays</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
TO LTI OR NOT TO LTI?
1. There is no evidence that higher pay produces better executive performance
2. It is impossible to devise incentives schemes that relate executives’ actions to the performance of the firm
3. Incentives are likely to encourage unethical behaviour
STOCK OPTIONS AND PROBABILITY OF ACCOUNTING MISREPRESENTATION

Harris & Bromiley

Figure 1 Predicted Probability of Misrepresentation in Five Years vs. Percent of Compensation from Options

Incentives to cheat?

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Long-term incentive
The LTI consists of performance-related shares. Under the performance share plan, shares are conditionally granted to the members of the Board of Management. Vesting of these shares is conditional on the achievement of performance targets during a three-year period. Achievement of the performance targets is determined by the Supervisory Board in the first quarter of the year following the three-year performance period. The number of vested shares is adjusted for dividends paid over the three-year performance period. The retention period for the shares expires five years after the conditional grant.

The long-term incentive plan is subject to three performance criteria:
- 35 percent of the conditional grant of shares is dependent on AkzoNobel’s relative total shareholder return (TSR) performance compared with companies in a defined peer group
- 35 percent of the conditional grant of shares is dependent on the development in ROI during the performance period
- The remaining 30 percent of the conditional grant of shares is dependent on AkzoNobel’s relative sustainability performance, measured as the company’s average position in the RobecoSAM ranking during the three-year performance period
Shareholding requirements and share-matching

The CEO is required to build up, over a five-year period from the date of first appointment, at least three times his gross base salary in AkzoNobel shares and hold these shares for the duration of his tenure as a member of the Board of Management. For any other member of the Board of Management, this requirement is at least one time their gross base salary.

Board members are expected, for these purposes, to use both their long-term incentive and short-term incentive in the manner set out below.

Board members who have not yet achieved their minimum shareholding are required to invest one-third of their short-term incentive (net after tax and other deductions) in AkzoNobel shares. As further encouragement to build up the minimum
<table>
<thead>
<tr>
<th>Questions</th>
<th>Choices</th>
<th>(A)</th>
<th>(B)</th>
<th>(C)</th>
<th>n</th>
</tr>
</thead>
<tbody>
<tr>
<td>(A) 75% chance of $37,500 tomorrow;</td>
<td></td>
<td>329</td>
<td>337</td>
<td>90</td>
<td>756</td>
</tr>
<tr>
<td>(B) 75% chance of $90,000 in three years*;</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(C) Indifferent</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(A) 75% chance of $56,250 tomorrow;</td>
<td></td>
<td>398</td>
<td>272</td>
<td>86</td>
<td>756</td>
</tr>
<tr>
<td>(B) 75% chance of $90,000 in three years**;</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>(C) Indifferent</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The results can be used to compute an implied median discount rate of around 30% compared with an accounting discount rate currently of 3%-5%.

* Implied discount rate 32%
** Implied discount rate 17%
Cut R&D? Gamble?  Conservatism
Cut LTIPs and other bonuses, and move towards paying the CEO in cash and shares (with a long holding period).

Simplicity, Transparency, and Sustainability: A New Model For CEO Pay

18th March 2017 / in Executive compensation
Executive pay: Norse sense

Scandinavians come out swinging against long-term incentive plans

Complexity fosters excess in executive pay

Performance against all manner of benchmarks trigger LTIP share payouts which cannot be claimed for several years. Instead, Norges recommends bosses are paid partly in plain stock locked up for longer periods. These deferred payments would be smaller, but free of performance conditions
FINALLY, THE DATA!
## SAMPLE - NUMBER OF FIRMS PER STOCK MARKET INDEX

<table>
<thead>
<tr>
<th>Country</th>
<th>Index</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Belgium</td>
<td>Bel 20</td>
<td>20</td>
</tr>
<tr>
<td></td>
<td>Bel Mid</td>
<td>32</td>
</tr>
<tr>
<td></td>
<td>Bel Small</td>
<td>28</td>
</tr>
<tr>
<td>France</td>
<td>CAC 40</td>
<td>39</td>
</tr>
<tr>
<td></td>
<td>CAC Mid</td>
<td>59</td>
</tr>
<tr>
<td></td>
<td>CACX</td>
<td>184</td>
</tr>
<tr>
<td>Germany</td>
<td>DAX</td>
<td>30</td>
</tr>
<tr>
<td></td>
<td>MDAX</td>
<td>45</td>
</tr>
<tr>
<td></td>
<td>SDAX</td>
<td>50</td>
</tr>
<tr>
<td>Netherlands</td>
<td>AEX</td>
<td>24</td>
</tr>
<tr>
<td></td>
<td>AMX</td>
<td>22</td>
</tr>
<tr>
<td></td>
<td>AScX</td>
<td>25</td>
</tr>
<tr>
<td>Sweden</td>
<td>OMXS60</td>
<td>55</td>
</tr>
<tr>
<td>UK</td>
<td>FTSE100</td>
<td>100</td>
</tr>
</tbody>
</table>
FIRM SIZE IN LARGEST STOCK MARKET INDEXES PER COUNTRY - MARKET CAP > 10 BN
TOTAL REMUNERATION LEVEL
MID CAPS

- Bel Mid: 675,000
- CAC Mid: 1,965,000
- MDAX: 2,075,000
- AMX: 1,105,000
TOTAL REMUNERATION LEVEL
SMALL CAPS

Bel Small: 575,000
CACS: 355,000
SDAX: 1,090,000
AScX: 645,000
# CEO Remuneration Structure

## % of Fixed Remuneration

<table>
<thead>
<tr>
<th></th>
<th>STI %</th>
<th>LTI %</th>
<th>STI+LTI %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bel 20</td>
<td>56</td>
<td>82</td>
<td>138</td>
</tr>
<tr>
<td>Bel Mid</td>
<td>59</td>
<td>30</td>
<td>89</td>
</tr>
<tr>
<td>Bel Small</td>
<td>33</td>
<td>16</td>
<td>49</td>
</tr>
<tr>
<td>CAC40</td>
<td>125</td>
<td>163</td>
<td>288</td>
</tr>
<tr>
<td>CACMid</td>
<td>88</td>
<td>165</td>
<td>253</td>
</tr>
<tr>
<td>CACS</td>
<td>49</td>
<td>84</td>
<td>133</td>
</tr>
<tr>
<td>DAX</td>
<td>96</td>
<td>120</td>
<td>216</td>
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<tr>
<td>MDAX</td>
<td>87</td>
<td>84</td>
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<tr>
<td>SDAX</td>
<td>67</td>
<td>77</td>
<td>144</td>
</tr>
<tr>
<td>AEX</td>
<td>102</td>
<td>149</td>
<td>251</td>
</tr>
<tr>
<td>AMX</td>
<td>57</td>
<td>66</td>
<td>123</td>
</tr>
<tr>
<td>AScX</td>
<td>42</td>
<td>34</td>
<td>76</td>
</tr>
<tr>
<td>OMXS60</td>
<td>49</td>
<td>42</td>
<td>91</td>
</tr>
<tr>
<td>FTSE100</td>
<td>126</td>
<td>200</td>
<td>326</td>
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</tbody>
</table>
WHAT DRIVES TOTAL REMUNERATION?

Explained variance = 66%
WHAT DRIVES THE PROPORTION OF VARIABLE REMUNERATION?

<table>
<thead>
<tr>
<th>Variable</th>
<th>Standardised Beta Coefficient</th>
<th>Explained Variance</th>
</tr>
</thead>
<tbody>
<tr>
<td>CEO age</td>
<td>0.078</td>
<td>38%</td>
</tr>
<tr>
<td>CEO tenure*</td>
<td>-0.155</td>
<td></td>
</tr>
<tr>
<td>Local CEO</td>
<td>-0.077</td>
<td></td>
</tr>
<tr>
<td>Gender</td>
<td>0.01</td>
<td></td>
</tr>
<tr>
<td>Market cap*</td>
<td>0.522</td>
<td></td>
</tr>
<tr>
<td>EBITDA margin</td>
<td>0.062</td>
<td></td>
</tr>
</tbody>
</table>

Explained variance = 38%
OCCURRENCE OF SHARE-BASED REMUNERATION

<table>
<thead>
<tr>
<th>Country</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>UK</td>
<td>92%</td>
</tr>
<tr>
<td>Netherlands</td>
<td>58%</td>
</tr>
<tr>
<td>Belgium</td>
<td>36%</td>
</tr>
<tr>
<td>Germany</td>
<td>32%</td>
</tr>
<tr>
<td>France</td>
<td>30%</td>
</tr>
</tbody>
</table>
## OCCURRENCE OF SHARE-BASED REMUNERATION

<table>
<thead>
<tr>
<th>Index</th>
<th>% Granting Share-based Remuneration</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bel 20</td>
<td>65%</td>
</tr>
<tr>
<td>Bel Mid</td>
<td>28%</td>
</tr>
<tr>
<td>Bel Small</td>
<td>25%</td>
</tr>
<tr>
<td>CAC40</td>
<td>77%</td>
</tr>
<tr>
<td>CACMid</td>
<td>51%</td>
</tr>
<tr>
<td>CACS</td>
<td>13%</td>
</tr>
<tr>
<td>DAX</td>
<td>43%</td>
</tr>
<tr>
<td>MDAX</td>
<td>42%</td>
</tr>
<tr>
<td>SDAX</td>
<td>14%</td>
</tr>
<tr>
<td>AEX</td>
<td>71%</td>
</tr>
<tr>
<td>AMX</td>
<td>68%</td>
</tr>
<tr>
<td>AScX</td>
<td>36%</td>
</tr>
<tr>
<td>OMXS60</td>
<td>29%</td>
</tr>
<tr>
<td>FTSE100</td>
<td>91%</td>
</tr>
</tbody>
</table>
# TYPOLOGY OF LTI PLANS

<table>
<thead>
<tr>
<th>Plan Type</th>
<th>Belgium</th>
<th>France</th>
<th>Germany</th>
<th>Netherlands</th>
<th>UK</th>
</tr>
</thead>
<tbody>
<tr>
<td>Time-based options</td>
<td>20%</td>
<td>1%</td>
<td>0%</td>
<td>6%</td>
<td>2%</td>
</tr>
<tr>
<td>Performance options</td>
<td>9%</td>
<td>7%</td>
<td>6%</td>
<td>9%</td>
<td>24%</td>
</tr>
<tr>
<td>Time-based shares</td>
<td>3%</td>
<td>1%</td>
<td>2%</td>
<td>0%</td>
<td>3%</td>
</tr>
<tr>
<td>Performance shares</td>
<td>10%</td>
<td>21%</td>
<td>23%</td>
<td>51%</td>
<td>73%</td>
</tr>
<tr>
<td>Phantom stock</td>
<td>1%</td>
<td>2%</td>
<td>14%</td>
<td>4%</td>
<td>0%</td>
</tr>
<tr>
<td>Cash</td>
<td>4%</td>
<td>1%</td>
<td>37%</td>
<td>4%</td>
<td>0%</td>
</tr>
</tbody>
</table>
# TYPOLOGY OF LONG-TERM INCENTIVES

<table>
<thead>
<tr>
<th></th>
<th>Bel20</th>
<th>Bel Mid</th>
<th>Bel Small</th>
</tr>
</thead>
<tbody>
<tr>
<td>Options – time vest</td>
<td>30%</td>
<td>13%</td>
<td>21%</td>
</tr>
<tr>
<td>Options – performance vest</td>
<td>20%</td>
<td>9%</td>
<td>0%</td>
</tr>
<tr>
<td>Restricted shares</td>
<td>0%</td>
<td>6%</td>
<td>4%</td>
</tr>
<tr>
<td>Performance shares</td>
<td>30%</td>
<td>6%</td>
<td>0%</td>
</tr>
<tr>
<td>Phantom stock</td>
<td>5%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>Cash LTI</td>
<td>5%</td>
<td>6%</td>
<td>0%</td>
</tr>
<tr>
<td>Free shares</td>
<td>5%</td>
<td>0%</td>
<td>0%</td>
</tr>
</tbody>
</table>

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**WHAT MAKES HIGH PERFORMING FIRMS DIFFERENT IN THE FIELD OF CEO REMUNERATION?**

<table>
<thead>
<tr>
<th>Remuneration aspect</th>
<th>High performing firms</th>
<th>Other firms</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Remuneration level</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Positioning (% positioned above stock market index median)</td>
<td>43%</td>
<td>50%</td>
</tr>
<tr>
<td><strong>Remuneration structure</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Proportion variable remuneration</td>
<td>59%</td>
<td>45%</td>
</tr>
<tr>
<td><strong>Remuneration design</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>• % of firms granting share-based LTI</td>
<td>48%</td>
<td>40%</td>
</tr>
<tr>
<td>• % of firms granting performance shares</td>
<td>42%</td>
<td>28%</td>
</tr>
</tbody>
</table>
HAPPY TO CONNECT

- Xavier.baeten@vlerick.com
- + 32 9 210 98 97
- www.linkedin.com/in/xavier-baeten
Which type of plan matches your needs & expectations?

Nico Vanthuyne
Plan Types

- Stock options
- Warrants
- Restricted & Performance Stock Units
- Stock Purchase Plan
- Phantom awards
- Option on profit participation certificate
- Option on shares without voting rights
Why do companies use share plans?
Why do companies use share plans?

**Objectives (GOALS)**

- Share ownership & shareholder alignment
- Global "glue" & business strategy
- Retention & long-term vision
- External & market influences
- Tax efficiency
- Share price
Why do companies use share plans?

Share ownership & shareholder alignment

Shareholding requirement (e.g. up to X years of salary)

Blocking period & matching shares
Why do companies use share plans?

Global “glue” & business strategy

Share ownership & shareholder alignment

Performance measures – Executive plans

- Share price/TSR
- Sales
- Return on sales
- Return on capital
- Profit/earnings
- Non-financial performance measures
- EPS
- Economic value added
- Cashflow
- Other

Why do companies use share plans?

Retention & long-term vision

- Vesting period
- Blocking period
- Bad & good leaver clauses
- Sufficiently high budget
Why do companies use share plans?

RATCHET MECHANISMS

• Example 1: with bottom (always minimum vesting)

<table>
<thead>
<tr>
<th>KPI (yearly increase)</th>
<th>Vesting</th>
</tr>
</thead>
<tbody>
<tr>
<td>TSR ≥ 15% increase</td>
<td>Maximum 300% vesting</td>
</tr>
<tr>
<td>TSR = 10% increase</td>
<td>200% vesting</td>
</tr>
<tr>
<td>Target 5% TSR increase</td>
<td>100% vesting</td>
</tr>
<tr>
<td>TSR ≤ 2.5% increase</td>
<td>Minimum 50% vesting</td>
</tr>
</tbody>
</table>

• Example 2: Without bottom (no minimum vesting)

<table>
<thead>
<tr>
<th>KPI (yearly increase)</th>
<th>Vesting</th>
</tr>
</thead>
<tbody>
<tr>
<td>TSR ≥ 15% increase</td>
<td>Maximum 300% vesting</td>
</tr>
<tr>
<td>TSR = 10% increase</td>
<td>200% vesting</td>
</tr>
<tr>
<td>Target 5% TSR increase</td>
<td>100% vesting</td>
</tr>
<tr>
<td>TSR ≤ 2.5% increase</td>
<td>No vesting</td>
</tr>
</tbody>
</table>
Why do companies use share plans?

- **Stock option plan**
  - Favorable tax and social security treatment (if accepted < 60 days)
    - **Tax:** 9%-23% value underlying shares
    - **Social security:** exemption, except for self-employed individuals (unless threshold is reached)

- **Blocking period for RSU/PSU/Share Purchase plan**
  - **Favorable tax and social security treatment:**
    - Benefit for quoted shares reduced to 100/120 of FMV if “blocked” for min 2 years

- **Phantom plan “Synthetic equity”**
  - Pay-out in **warrants**
    - Favorable social security regime
  - Pay-out in **bonus group insurance**
    - Deferred taxation at flat rates for capital
    - Favorable social security regime
  - Avoid non-deductibility of capital loss on shares

Why do companies use share plans?
Why do companies use share plans?

- Start-up companies
- Fast growing companies
- Mostly warrant or stock option plans
Considerations for your plan choice
Stock Options

Pros

• Reward only if shareholders have price rise
• Simple, transparent and flexible
• No upfront cash investment
• Cashless exercise possible
• Option holders have control on gain realization
• Personal tax and social security regime
• No term limitations (cfr. warrants)

Cons

• Dependence from share price, irrespective of company performance
• Can be volatile or unpredictable
• KPI-based vesting
• Proxy advisors
• Upfront taxation
• Corporate tax regime
RSUs and PSUs

**Pros**
- Reward closely linked to chosen KPI’s
- Link between remuneration and share price performance
- Inherent value
- Deferral = retention mechanism
- Follows market trend
- Application of 100/120 rule
- Only taxation if actual benefit

**Cons**
- Reward even if share price goes down (KPI’s to mitigate this)
- Lesser incentive on share price growth (KPI’s to mitigate this)
- May be perceived as less attractive than SOP
- Personal tax and social security as cash bonus
- Corporate tax regime
Phantom Plan

Pros

• Ease of administration
• Legal or other restrictions avoided in particular jurisdictions
• Flexible
• Corporate tax regime
• Only taxation if actual benefit received

Cons

• Cash cost for the company
• No ‘skin in the game’
• No future capital gain
• Personal tax and social security regime
How to match your plan with the corporate financial law?

Corporate governance and market abuse prevention

Emmanuel Leroux
Scope

Directors

Executive Directors

Executive Management

- Members of the directiecomité/comité de direction (524bis)
- Members of the daily management body (525)
- "Other leaders" (members of any committee that discusses the general management of the company)
Governance

RemCo

ADVISES / PROPOSES
- Remuneration policy
- Individual remuneration
- Remuneration report

COMMENTS
Remuneration report at the annual GM

BoD

DETERMINES
- Remuneration policy
- Individual remuneration
- Remuneration report
- Proposals to the SHM wrt “Say on Pay”

SHM

SAY ON PAY
- Decides on director’s remuneration
- Annual vote on remuneration report
- Vote on deviation of minimum vesting period
- Vote on deviation of spreading rule
- SRDII: vote on remuneration policy
Structure
Variable pay – definition

Definition: payments *based on the performance* of the company or a company within the consolidation perimeter of the company, or the performance of a business unit or the individual

⇒ When do the LTI qualify as variable pay?

• When grant subject to KPI-achievement
• When vesting/exercise subject to KPI-achievement

⇒ Plain vanilla options: NOT
⇒ Free shares: NOT
Structure
Variable pay – requirements

Pre-set
• Performance criteria must be pre-set
• Bonus must only be paid if targets have been met

Spreading rule
• At least $\frac{1}{4}$ of the variable pay must be based on performance criteria measured over at least two years, and at least $\frac{1}{4}$ must be based on performance criteria measured over at least three years
• Exception: on target variable pay $\leq 25\%$ total remuneration package
Structure
Vesting of share-based payments

Shares
- Grant
- Retention: 3 year

Options
- Grant
- Vesting: 3 year
Transparency
Annual remuneration report

Chapter in the annual report => legal instrument!
Separate vote at the annual general meeting => legal impact?
Scope:
• Direct and indirect remuneration
• From the consolidation perimeter
Content is imposed by law => NO comply or explain!
## Transparency

### Annual remuneration report (selection – special points of attention for LTI)

| Description of remuneration policy | (a) Principles + relation between remuneration and performance  
(b) Relative importance of the different components  
(c) Features of share based performance awards  
(d) Remuneration policy for the following two financial years. |
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Variable pay</td>
<td>KPIs (criteria + evaluation period) + evaluation methods</td>
</tr>
<tr>
<td>Individual remuneration for CEO</td>
<td>Detailed description of a.o. variable pay indicating the form in which such amounts are paid (cash, shares, options, …)</td>
</tr>
<tr>
<td>Collective remuneration exco</td>
<td>Detailed description of a.o. variable pay indicating the form in which such amounts are paid (cash, shares, options, …)</td>
</tr>
<tr>
<td>Individual share based payments</td>
<td>Number and main features reporting on grant + exercise + forfeiture</td>
</tr>
<tr>
<td>Clawback</td>
<td>Description</td>
</tr>
</tbody>
</table>
Market Abuse Regulation (MAR)
Some points of attention


Scope: financial instruments traded, admitted to trading or for which a request for admission to trading has been made on a regulated market or an MTF + financial instruments, the price or value of which depends on or has an effect on the price or value of such financial instruments

Prohibition of insider dealing and market manipulation

Transaction disclosure for “persons discharging managerial responsibilities” and “persons closely associated”

Closed periods
What is the impact of the LTI plan on the company’s financials?

Which KPI’s are fit for purpose?

Cedric Popa & Toon Peeters
Set of multiple KPIs
Each KPI should be weighted to fit purpose

- Ease of use and implementation
- Communication to shareholders and other stakeholders
- Relevance to Management
- Positive impact on business value

Trade-off between complexity and transparency

Set of KPI metrics:
- Various KPIs are relevant
- Choose smart

Where can Management ‘make an impact that matters’ to business
How to survive the world?

VUCA 2.1

The world is VUCA:
- Volatile
- Uncertain
- Complex
- Ambiguous

But we all want VUCA 2.0:
- Vibrant
- Unreal
- Crazy
- Astounding

But we might need VUCA 2.1:
- Value driven
- Unambiguous
- Creative
- Ambitious
Pathway to appropriate LTI plan
Three step approach

**Business model**
- What are the key strategic drivers of the business?
- Understand the impact of each driver?
- Where can Management make an impact?

**LTI model**
- Different LTI plans with various sets of KPIs and weight allocation
- Link between business model and LTI plan
- Appropriate incentive

**Valuation creation model**
- How does the LTI plan incentivise management to create value in the context of the business model?
- Share price forecast
### Pathway to appropriate LTI plan
#### What you need in the planning and execution?

<table>
<thead>
<tr>
<th>Create tool</th>
<th>Analysis stage</th>
<th>Decision making &amp; next steps</th>
</tr>
</thead>
<tbody>
<tr>
<td>Various models including scenario building</td>
<td></td>
<td></td>
</tr>
<tr>
<td>• Clear and structured view on the key-drivers</td>
<td>• Involvement of all stakeholders</td>
<td>Key benefits:</td>
</tr>
<tr>
<td>• Flexibility allowing multiple outcomes</td>
<td>• Challenge all stakeholders on assumptions and impact</td>
<td>• VUCA 2.1</td>
</tr>
<tr>
<td>• Compare across scenarios</td>
<td>• Well defined methodology</td>
<td>• Relevant</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Robust</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Reliable</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Evaluate impact of difference scenarios on value under a range of options and scenarios</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Embed the strategic planning capability into the business</td>
</tr>
</tbody>
</table>

“Unless you appreciate the interconnectedness of the business, you can’t reliably assess priorities or understand the value implications of different options.” (CFO of quoted multinational in Energy & Resources sector)
Assessment of achievement
Where you want to avoid things might go wrong

Shareholder incentive

Today's KPIs are fit for purpose

KPI measurement: reported

Management incentive

But what in few years from now?

But these might need to be normalised for: one-offs, out-of-period items, like-for-like adjustments or pro forma elements

Objective (re-)view required
Pitfalls and challenges at moment of (int.) roll-out

Sofie Van Breedam
### What do you need to think about when setting up a plan? Possible pitfalls

<table>
<thead>
<tr>
<th>Tax impact for beneficiaries</th>
<th>Reporting &amp; withholding</th>
<th>Funding of (withholding) taxes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Grant of options to management companies</td>
<td>International mobility &amp; Sourcing</td>
<td>Plan Administration &amp; Tools</td>
</tr>
<tr>
<td>Share buy back Cross-charge</td>
<td>Stock Exchange Tax</td>
<td>Common Reporting Standard (CRS)</td>
</tr>
</tbody>
</table>

Communication
Options BE

Taxable at **grant**
Taxable at 9% - 23% of share value
No taxation at exercise/later sale
No Soc Sec

Options BE (>60days) and most other countries
Taxable at **exercise** + Soc Sec

Shares/ RSU’s/ PSU’s...
Taxable/Soc Sec at **vesting**
BE: Discount up to 16.67% exempt under conditions
Stock options (BE)

3% share increase/year

10% share increase/year

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100/120 rule (BE)

3% share increase/year

10% share increase/year
Net/Cost ratio
Withholding & reporting obligations

**Grant of Options**

**Withholding & Reporting obligation on fiche 281.10**

**BelCo**

**Employee**

**BelCo**

**French Subsidiary**

**Employee**

**FR subsidiary**

**Reporting obligation on fiche 281.10**
How to fund taxes and impact of closed period

<table>
<thead>
<tr>
<th>Grant of options:</th>
<th>Withholding tax: funding @ grant</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Payment by employee</td>
</tr>
<tr>
<td></td>
<td>Loan to employee:</td>
</tr>
<tr>
<td></td>
<td>w/out interest</td>
</tr>
<tr>
<td></td>
<td>! Conflict of interest</td>
</tr>
<tr>
<td></td>
<td>! Financial assistance</td>
</tr>
<tr>
<td></td>
<td>Combined with:</td>
</tr>
<tr>
<td></td>
<td>bonus payment,</td>
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<tr>
<td></td>
<td>vacation pay,</td>
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<td></td>
<td>year end premium</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Grant of shares:</th>
<th>Withholding tax @ vesting</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Payment by employee</td>
</tr>
<tr>
<td></td>
<td>Partial cash settlement/sell to cover</td>
</tr>
<tr>
<td></td>
<td>! Closed period - solutions</td>
</tr>
</tbody>
</table>
Pitfalls and challenges at moment of international roll-out
Position management companies

Direct grant of options

Legal representative

BelCo → ManCo
Mandate

Previous Higher lump sum valuation not accepted

9%

Lowered lump sum valuation accepted

18%
Impact on international mobile employees

International mobility & Sourcing

SE 57%
PT 56,5%
DK 55,79%
AT 55%
BE 53,5%
NL 52%
CH 48,5%
FR, DE, GR, ES, UK 45%
IT 43%
LU 42,8%
IE 40%
MT 35%
PL 32%
SK 25%
CZ 23%
Who will administer the plan?

In-house or outsourcing the implementation, subscription, administration and settlement of your LTIP

Web-enabled communication and administration systems

Tools to simplify compliance processes & to customize reports

Tools to source equity income over countries
The importance of communications towards employees

- Link employee communication & plan performance
- Importance of employee understanding & education
- Language of communication
- High energy communication vs. Long term impact
- Understanding the plan vs. Understanding the key drivers
- Roadshows don’t (always) work
- Clear and consistent messages
- Who communicates?
- Measure & evaluate
- Communication channels
Cross-charge & share buy-back

A) Share buy-back

initial shareholder (private person / company)

B) Exercise

Employer

C) Recharge

Stock quoted Holdco (Be)

Employee – stock option beneficiary

Share Buy-back
Cross-charge
LTIP cost
Increased scope of Stock Exchange Tax
What is new in 2017?

**Previous scope**

- **Rates and caps:**
  - Bonds: 0.09% (max €650)
  - Stocks: 0.27% (max €800)
  - CIVs: 1.32% (max €2,000)

- **In scope transactions**
  - Purchases and sales of stocks and bonds
  - Redemptions of capitalisation shares / units of collective investment vehicles

  Executed through Belgian financial intermediaries by individuals or entities regardless of their tax residence

**Current scope**

- **Rates and caps:**
  - Bonds: 0.09% (max €1,300)
  - Stocks: 0.27% (max €1,600)
  - CIVs: 1.32% (max €4,000)

- **In scope transactions**
  - Purchases and sales of stocks and bonds
  - Redemptions of capitalisation shares / units of collective investment vehicles

  Executed
  - Through Belgian financial intermediaries by individuals or entities regardless of their residence, or
  - Through foreign financial intermediaries by individuals or entities resident in Belgium
CRS – Common Reporting Standard
New standard applicable at international level for Increased Transparency thanks to an automatic exchange of data

Due diligence rules for financial institutions to collect/report/exchange financial information in tax matters
• > 100 states
• Model build on FATCA & supported by G20 and OECD in close co-operation with EU
• Purpose = avoid offshore tax evasion
• Applicable in Belgium since 1st January 2016
• Data exchange takes place as of 2017
Towards a future proof LTI
Q&A
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