

Did You Know?

Equity ownership guidelines vary widely and don't exist at some companies at all

Main Data Group's equity ownership and guidelines report

Every year, public companies deliver a substantial portion of executive compensation in the form of equity or equity equivalents to align the economic interests of the corporation and its executives. But these interests stay aligned only if the executives retain the shares after they vest, are exercised, or earned, which is not a guaranteed outcome. Here are a few common scenarios:

- Part of the equity value will be lost to federal, state, and/or local taxes;
- The recipient may gift the shares to a third party such as a family member or charitable organization;
- The recipient may sell the shares and redirect the proceeds to other investments; and/or
- If permitted under the terms of the company's incentive plans, the executive may request settlement in cash rather than shares.

To maintain the alignment of economic interests, many companies impose stock ownership or retention guidelines (or both) on their senior executives.

- **Stock ownership guidelines** require executives to own at least a stated minimum of shares they receive as compensation. Policies vary considerably from company to company, but the minimum is always defined as either a fixed number of shares, a fixed value of shares, a multiple of salary, or some combination of thereof. Unvested restricted stock, unearned performance shares, or options may be ignored in the tally. Typically, executives have a certain "grace period" to reach the minimum ownership level.
- **Stock holding guidelines** require executives to retain a stated percentage of the shares they acquire as a result of vesting or exercise. As with stock ownership guidelines, practice varies among companies. Some holding guidelines are in effect only until an executive meets the firm's ownership guidelines, but others apply to any shares that vest or are exercised, regardless of the executive's ownership level. Failure to follow the guidelines may result in a penalty.



Unless they are new hires, executives' equity portfolios typically combine:

- **Outright ownership** frequently an outcome of prior equity grants that have been settled in shares, but in other cases a family legacy or founder's cache; and/or
- **Contingent ownership** stock options and shares that are subject to continuing vesting or performance conditions.

SEC rules require public companies to include a Beneficial Ownership Table in the proxy statement, showing the equity ownership for all named executive officers, directors, and third parties holding five percent or more of the company's shares. This disclosure does not directly sync up with any other disclosure, since the tally is "as of the most recent practicable date" rather than fiscal year-end.¹ The rules require disclosure of options exercisable within 60 days and footnote disclosure of time-vesting restricted stock, but companies seldom include even footnote information about other option grants or performance shares. Notwithstanding these discrepancies, the Beneficial Ownership Table contains the most precise and detailed information regarding a named executive's unrestricted holdings that, when combined with the data in the Outstanding Equity at Fiscal Year-End Table, provides a comprehensive view of the executive's total potential ownership.

Companies may count restricted stock, performance shares, and/or stock options towards compliance with their stock ownership or holding guidelines, so it is important to consider all forms of ownership and equity vehicles in tallying an executive's aggregate equity holdings. MDG's equity ownership and guidelines report does exactly that. For each executive, it shows:

- **Relevant biographical information** that gives context to the ownership guidelines and actual ownership levels;
- **Outstanding equity at fiscal year-end**—exercisable, unexercisable and performance-contingent stock options and unvested/unearned whole-value shares are shown in number of shares and intrinsic value as of the most recent fiscal year-end date;
- **Beneficial ownership**—net of options exercisable in 60 days are shown in number of shares and intrinsic value as of the most recent fiscal year-end date;
- **Ownership guidelines**, whether denominated in terms of number of shares, value of shares, or multiple of salary, along with descriptions of the types of equity vehicles that satisfy the guidelines; and
- **Holding requirements**, whether they are in force only until the stock ownership guidelines are met or otherwise (e.g., designated period after exercise or vesting, or until retirement or resignation).

About Main Data Group

Main Data Group is a provider of executive compensation benchmarking and corporate governance analytics. Its mission is to empower executive compensation professionals with comprehensive total rewards and corporate governance information in an affordable, easy-to-use online service. For more information contact us at info@maindatagroup.com or by filling out our contact form at www.maindatagroup.com.

¹Code of Federal Regulations 228.403.b.