READY OR NOT, HERE COMES THE GLOBAL AUDIT

Tuesday, June 26, 2018
Upcoming Events

Webinar Series

- All Things ESPP @ www.computershare.com/allthingsespp
- All Things Equity Plans @ www.computershare.com/allthingsequityplans

ESPP Day

- November 8, 2018, San Jose, CA
- Register or learn more at www.computershare.com/esppday
Disclaimer

The following presentation and the views expressed by the presenters are not intended to provide legal, tax, accounting, investment, or other professional advice. The information contained in this presentation is general in nature and based on authorities that are subject to change. Applicability to specific situations should be determined through consultation with your investment, legal, and tax advisors. The information contained in these materials is only current as of the date produced. The materials have not been and will not be updated to incorporate any changes since the production date.
Asking Questions

Enter your question into the Questions pane on the GoToWebinar Control Panel.

[Enter a question for staff]
Housekeeping

Presentation is being recorded

- Email will be sent to all attendees with link to recording and presentation

Presentation qualifies for one CEP credit

Please take our survey!
Introductions

Amanda Benincasa
Associate Director
Aon Equity Services

Jessica Laddon,
Senior Relationship Manager,
Computershare
READY OR NOT, HERE COMES THE GLOBAL AUDIT

Tuesday, June 26, 2018
Types of Audit Items / Agenda

Administrative
Taxation & Tax Reform
Financial Reporting
POLLING QUESTION

What role in equity do you play?

1. Human Resources/Administration
2. Accounting/Finance/Payroll
3. Tax
4. Legal
5. Other
Developing and Performing SOX Controls

Why is this important?

- Due to ASC 718 requirements, equity compensation is a “high risk area”
- COSO requirements
- CEO/CFO certification of financials
- Demonstrates Avoidance of fraud
- “Blueprint” of administration
- Reducing Errors
- Promotes best practice and governance
ADMINISTRATIVE
### Examples of Controls

<table>
<thead>
<tr>
<th>Area of Risk</th>
<th>Control</th>
<th>Control Activity</th>
<th>Frequency</th>
</tr>
</thead>
</table>
| Plan Review  | Plans are reviewed by designated equity personnel to ensure compliance | • Review plan for expiration  
• Check for cancels from “rollover” plans, add to new share pool  
• Share reserve reconciliation  
• Grant Recipient eligibility  
• Confirm that no grant exceeds plan limits | Annually |
| Grants       | Grants are processed accurately by proper delegated authority | • Compare Equity system generated report to HR List  
• Compare control totals to Comp Committee Meeting Minutes  
• Confirm vesting terms if not “standard”  
• Document when communication to employees occurred | Quarterly |
## Examples of Controls

<table>
<thead>
<tr>
<th>Area of Risk</th>
<th>Control</th>
<th>Control Activity</th>
<th>Frequency</th>
</tr>
</thead>
</table>
| Exercises         | Exercises are processed accurately and timely                           | • Secondary review of all exercises to ensure transactions are processed correctly per broker instructions  
|                   |                                                                         | • Comparing stock prices to prices fed into in equity system                     | Quarterly   |
|                   |                                                                         | • Reconcile exercise proceeds to proceeds received                               |             |
| Terminations      | Forfeiture of grants are processed accurately and timely                 | • Compare terms from HRIS to Equity System                                        | Quarterly   |
| Data Security     | Only Delegated personnel has read/write access to equity database        | • Review team members and access level of equity system database                   | Annually    |
## Examples of Controls

<table>
<thead>
<tr>
<th>Area of Risk</th>
<th>Control</th>
<th>Control Activity</th>
<th>Frequency</th>
</tr>
</thead>
<tbody>
<tr>
<td>ESPP</td>
<td>ESPP purchases are processed accurately and timely</td>
<td>• Compare contributions from Payroll to Equity System</td>
<td>Quarterly</td>
</tr>
<tr>
<td></td>
<td>Only delegated authority can approve ESPP purchases</td>
<td>• Provide copies of purchase detail report and sign off sheets</td>
<td></td>
</tr>
<tr>
<td>Shares Outstanding</td>
<td>Roll forward accurate</td>
<td>• Compare reconciliation to Transfer Agent and / or Cap Table</td>
<td>Quarterly</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Rerun “Plan Summary” or Rollforward report from last period, move missed shares into current period</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Reconciliation of Par Value and APIC GL’s</td>
<td></td>
</tr>
</tbody>
</table>
Spreadsheet Controls

Version Control
- Use standard naming conventions
- Maintain historical files no longer available for update in a separate drive
- Version notes on a separate tab

Security and Integrity of Data
- Locking or protecting cells
- Show auditors file last update date
- Save PDFs

Sheet Protection or Validation

Documentation
- Notes pages within workbook document the procedures for each spreadsheet
- Assists with knowledge transfer

Overall Review
- Checklist with all procedures
How to Prepare Effectively for an Audit

Create audit packages per category/transaction
- Grants
- Exercises
- ESPP

Referencing documentation
- Tick marks
- Recalculation of formulas

Completeness
Challenge internal audit testing
Establish checklists
Mutually beneficial
How to Prepare Effectively for an Audit

Establish process

- Single point of contact in department
- Consolidated process of sharing information
- Understand deadlines and what is needed

Ask Questions if you don’t understand what is being asked

- Ask for the business purpose of the request
- Not “give me a report with expense for shares outstanding”
- But “I’m trying to prove the DTA Balance”

Be confident

- Remember you are the SME
Dear Stock Administrator

Please grant the following RSUs from Stock Plan XYZ to the following individuals as approved Comp Committee. Grant date is 4/1/16.

<table>
<thead>
<tr>
<th>Participant Name</th>
<th>Employee ID</th>
<th>Options/Awards Granted</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employee A</td>
<td>1</td>
<td>46,494</td>
</tr>
<tr>
<td>Employee B</td>
<td>2</td>
<td>75,107</td>
</tr>
<tr>
<td>Employee C</td>
<td>3</td>
<td>7,153</td>
</tr>
<tr>
<td>Employee D</td>
<td>4</td>
<td>7,153</td>
</tr>
<tr>
<td>Employee E</td>
<td>5</td>
<td>53,648</td>
</tr>
<tr>
<td>Employee F</td>
<td>6</td>
<td>42,918</td>
</tr>
<tr>
<td>Employee G</td>
<td>7</td>
<td>7,153</td>
</tr>
</tbody>
</table>

Total 239,626

Please let me know if you have any questions.

Sincerely,
Judy Brown
Director of Compensation
## Example of Referencing

### From/To

<table>
<thead>
<tr>
<th>Grant Plan Number - Name (Type)</th>
<th>Participant Name</th>
<th>Employee ID</th>
<th>Grant Type Code</th>
<th>Grant ID</th>
<th>Grant Date</th>
<th>Options/Awards Granted</th>
<th>Grant Price</th>
<th>FMV at Grant</th>
<th>Aggregate Grant Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>1/ Stock Plan XYZ</td>
<td>Employee A</td>
<td>1</td>
<td>RSU</td>
<td>29</td>
<td>04/01/2016</td>
<td>46,494</td>
<td>$0.0000</td>
<td>$0.0000</td>
<td>$0.00</td>
</tr>
<tr>
<td>1/ Stock Plan XYZ</td>
<td>Employee B</td>
<td>2</td>
<td>RSU</td>
<td>27</td>
<td>04/01/2016</td>
<td>75,107</td>
<td>$0.0000</td>
<td>$0.0000</td>
<td>$0.00</td>
</tr>
<tr>
<td>1/ Stock Plan XYZ</td>
<td>Employee C</td>
<td>3</td>
<td>RSU</td>
<td>24</td>
<td>04/01/2016</td>
<td>7,153</td>
<td>$0.0000</td>
<td>$0.0000</td>
<td>$0.00</td>
</tr>
<tr>
<td>1/ Stock Plan XYZ</td>
<td>Employee D</td>
<td>4</td>
<td>RSU</td>
<td>25</td>
<td>04/01/2016</td>
<td>7,153</td>
<td>$0.0000</td>
<td>$0.0000</td>
<td>$0.00</td>
</tr>
<tr>
<td>1/ Stock Plan XYZ</td>
<td>Employee E</td>
<td>5</td>
<td>RSU</td>
<td>28</td>
<td>04/01/2016</td>
<td>53,648</td>
<td>$0.0000</td>
<td>$0.0000</td>
<td>$0.00</td>
</tr>
<tr>
<td>1/ Stock Plan XYZ</td>
<td>Employee F</td>
<td>6</td>
<td>RSU</td>
<td>30</td>
<td>04/01/2016</td>
<td>42,918</td>
<td>$0.0000</td>
<td>$0.0000</td>
<td>$0.00</td>
</tr>
<tr>
<td>1/ Stock Plan XYZ</td>
<td>Employee G</td>
<td>7</td>
<td>RSU</td>
<td>26</td>
<td>04/01/2016</td>
<td>7,153</td>
<td>$0.0000</td>
<td>$0.0000</td>
<td>$0.00</td>
</tr>
</tbody>
</table>

Stock Plan XYZ

04/01/2016

Totals For All Grant Plans:

<table>
<thead>
<tr>
<th>Grant Plan Number - Name (Type)</th>
<th>Participant Name</th>
<th>Employee ID</th>
<th>Grant Type Code</th>
<th>Grant ID</th>
<th>Grant Date</th>
<th>Options/Awards Granted</th>
<th>Grant Price</th>
<th>FMV at Grant</th>
<th>Aggregate Grant Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>Stock Plan XYZ</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>239,626</td>
<td>$0.00</td>
<td>$0.0000</td>
<td>$0.00</td>
</tr>
</tbody>
</table>

```

Report Last Executed: 07/15/2016 9:22:04 PM GMT-04:00
Current User: LaddonJ_EOS4
Parameters: Company 123
For Grant Date From 4/1/2016 to 4/1/2016

```
Reconciling Timing of Exercises with Cash

If an exercise occurs at the end of a reporting period, the cash proceeds/tax amounts from the exercise will likely not be in your Company’s bank account during said reporting period.

An accrual is your best option.

Compare actual exercises from your system against the cash you have received from your service provider.

Accrue the “timing difference” amount in order to true-up the accounts for the reporting periods.

Note: your Company will need to decide whether you want to recognize exercises when they are initiated or when the cash is received.
TAX
Tax Audits

IRS more determined than ever to recover lost revenue

Must be prepared to provide documentation on tax reporting/withholding practices

Common areas for audit

- Specific Country Filing audits
- Section 162M
- Mobility
- 100k Federal Tax Deposit rules
- Forms 3921/3922
- Qualifying/Disqualifying Disposition
- W-2s
- 1099-MISC for non-employees
**Auditing Tax**

Document process for obtaining “correct” tax rates from Payroll or other sources

- Especially key that this is performed prior to large release transactions, non-US or non-qualified ESPP purchase

**Mobility**

- How are location changes tracked and used by tax?
  - Country and state
- How are taxes pro-rated, if applicable

**3921/3922**

- ISO Exercises
- ESPP Purchase
  - Unless not deposited into a brokerage account
- Sample/test forms match stock plan system
Ticking & Tying Tax

Exercises, Releases
- Confirm tax $ amounts received from broker(s) tie to system calculations
- Confirm tax $ amounts submitted to IRS via payroll deposit
- RSUs with deferrals or Retirement Eligible, confirm that FICA collected on Vest Date/RE date

Dispositions
- Document process for tracking dispositions
  - Equity Administration reports
  - Surveys for shares transferred, former employees
  - Sample/test DDs and QDs were reported on W-2s

W-2s
- Sample and test W-2 amounts match Stock Plan System
- Codes are correct (V for NQ exercises, but NOT for other transactions)
- RSU releases, ISO and ESPP DDs AND ESPP QDs!

Tie Out Taxes at Employee Level Monthly?
- Increase frequency as year-end approaches
- Split out recon to transaction type to tie to payroll W-2 reporting
NEW Tax Audits – Questions to Expect

Are the IRC Section 162(m) “covered employees” defined and agreed upon?

- The tax reform bill includes a change to who is considered “covered” under 162(m). This would change from the CEO and top 4 paid executives – excluding the CFO – to the CEO, CFO, and the top 3 paid executives.

- Additionally, under the same tax reform bill, once an employee is considered “covered”, they will always be “covered” for tax deductibility reasons under 162(m).

Have all performance awards been exempted from the $1million deduction limit?

- The draft tax reform bill makes performance awards to “covered” employees non-exempt, and therefore included in the $1million deduction limit

Have all equity awards been included properly in the calculation of the $1million deduction limit?
NEW Tax Audits – Questions to Expect

Has the tax rate been changed from 35% to 21%?

Are the impacts of this change accurately reflected in DTA calculations?

Are the impacts of the “covered employees” new limitations accurately reflected in DTA calculation?

Have outstanding performance awards that are reliant on earnings (net income, EPS, ROE, ROA, etc.) been analyzed to determine whether a modification is a) necessary and b) has a material impact on the fair value determination of the award?
FINANCIAL REPORTING
Financial Reporting

SOC I / SOC II can back up the equity system of record calculation for Black-Scholes

If provider cannot supply, auditor will want business to validate reports
  - May need to bring in a third party vendor

Engage Controllership, FP&A and various teams on their audit needs to align

To gain confidence in the reports from the system of record, reverse engineer the numbers! You are the expert
ASU ALERT!

There is a draft of an ASU that will impact ASC 718 and ASC 505 (non-employee accounting)

If adopted, this ASU will include non-employees under the scope of ASC 718, making employee and non-employee accounting the same, and getting rid of the majority of the guidelines set in ASC 505

This is up for vote in Q2 2018 with an expected implementation date for all fiscal years beginning after December 15, 2018
Questions?

Amanda Benincasa
Associate Director
Aon Equity Services
Tel. 215.255.2025
amanda.benincasa@radford.com

Jessica Laddon
Senior Relationship Manager
Computershare
Tel. 858.264.8580
jessica.laddon@computershare.com