



READY OR NOT, HERE COMES THE GLOBAL AUDIT

Tuesday, June 26, 2018

CERTAINTY | INGENUITY | ADVANTAGE

 **Computershare**

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

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



The screenshot shows the GoToWebinar Control Panel interface. At the top, there is a menu bar with 'File', 'View', and 'Help' options. Below this is the 'Audio' pane, which includes a telephone icon, radio buttons for 'Computer audio' and 'Phone call' (the latter is selected), and dialing information: 'Dial: +1 (631) 992-3221', 'Access Code: 764-626-987 #', and 'Audio PIN: 57 #'. A link 'Problem dialing in?' is also present. Below the Audio pane is the 'Questions' pane, which is highlighted with a yellow border. It contains a text input field with the placeholder text '[Enter a question for staff]' and a 'Send' button. At the bottom of the control panel, it displays 'Computershare Webinar', 'Webinar ID: 123-456-789', a recording status indicator 'This session is being recorded.', and the GoToWebinar logo.

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



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Aon Equity Services



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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

Area of Risk	Control	Control Activity	Frequency
Plan Review	Plans are reviewed by designated equity personnel to ensure compliance	<ul style="list-style-type: none">• 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	<ul style="list-style-type: none">• 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

Area of Risk	Control	Control Activity	Frequency
Exercises	Exercises are processed accurately and timely	<ul style="list-style-type: none">• Secondary review of all exercises to ensure transactions are processed correctly per broker instructions• Comparing stock prices to prices fed into equity system• Reconcile exercise proceeds to proceeds received	Quarterly
Terminations	Forfeiture of grants are processed accurately and timely	<ul style="list-style-type: none">• Compare terms from HRIS to Equity System	Quarterly
Data Security	Only Delegated personnel has read/write access to equity database	<ul style="list-style-type: none">• Review team members and access level of equity system database	Annually

Examples of Controls

Area of Risk	Control	Control Activity	Frequency
ESPP	<p>ESPP purchases are processed accurately and timely</p> <p>Only delegated authority can approve ESPP purchases</p>	<ul style="list-style-type: none"> Compare contributions from Payroll to Equity System Provide copies of purchase detail report and sign off sheets 	Quarterly
Shares Outstanding	Roll forward accurate	<ul style="list-style-type: none"> Compare reconciliation to Transfer Agent and / or Cap Table Rerun "Plan Summary" or Rollforward report from last period, move missed shares into current period Reconciliation of Par Value and APIC GL's 	Quarterly

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

Example of Referencing

From/To

Provided by Compensation

Dear Stock Administrator

Please grant the following RSUs from Stock Plan XYZ *2/* to the following individuals as approved Comp Committee. Grant date is 4/1/16. *2/*

Participant Name	Employee ID	Options/Awards Granted
Employee A	1	46,494
Employee B	2	75,107
Employee C	3	7,153
Employee D	4	7,153
Employee E	5	53,648
Employee F	6	42,918
Employee G	7	7,153
Total		239,626 rx <i>2/</i>

Please let me know if you have any questions

Sincerely

Judy Brown

Director of Compensation

1/

Example of Referencing

From/To

Grant Plan Number - Name (Type)	Participant Name	Employee ID	Grant Type Code	Grant ID	Grant Date	Options/Awards Granted	Grant Price	FMV at Grant	Aggregate Grant Price
1/ Stock Plan XYZ	Employee A	1	RSU	29	1/ 04/01/2016	46,494	\$0.0000	\$0.0000	\$0.00
1/ Stock Plan XYZ	Employee B	2	RSU	27	1/ 04/01/2016	75,107	\$0.0000	\$0.0000	\$0.00
1/ Stock Plan XYZ	Employee C	3	RSU	24	1/ 04/01/2016	7,153	\$0.0000	\$0.0000	\$0.00
1/ Stock Plan XYZ	Employee D	4	RSU	25	1/ 04/01/2016	7,153	\$0.0000	\$0.0000	\$0.00
1/ Stock Plan XYZ	Employee E	5	RSU	28	1/ 04/01/2016	53,648	\$0.0000	\$0.0000	\$0.00
1/ Stock Plan XYZ	Employee F	6	RSU	30	1/ 04/01/2016	42,918	\$0.0000	\$0.0000	\$0.00
1/ Stock Plan XYZ	Employee G	7	RSU	26	1/ 04/01/2016	7,153	\$0.0000	\$0.0000	\$0.00
Stock Plan XYZ						1/ 239626 rx			\$0.00
Totals For All Grant Plans:						239,626			\$0.00

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 Controllershship, 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?

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