

Deferred Share

Bonus Plans



General Features

Deferred Share Bonus Plans allow key employees to be granted all or part of their Annual Bonus with a right to buy shares at a later date. This is often accompanied by the prospect of receiving additional matching shares from the company, free of charge, at some point in the future.

Those granted an award must typically continue to hold these shares and remain an employee of the company for the deferred period of time to receive the full amount (typically 3 years). The matching of awards is usually conditional on achievement of a specified performance target by the end of the restricted period.

Deferred Share Bonus Plans usually operate in conjunction with Annual Bonus Plans.

This is similar to a “co-investment plan” where key employees invest their own money in shares, typically with the prospect of receiving additional matching shares from the company, free of charge, at some point in the future. As most coinvestment plans are structured so that the money the employees use to buy shares comes from their annual bonuses, such plans are sometimes referred to as “deferred bonus plans” so it is worth mentioning both.

Eligibility

Normally, all employees and full-time directors are potentially eligible. However, participation will be at the discretion of the directors or the remuneration committee and the plan is often used solely to provide benefits to senior management.

Performance Targets

A perceived advantage of a Deferred Share Bonus Plan is that performance targets (which must be satisfied prior to the release of shares) can be tailored to the company establishing the plan.

A popular performance measure is total shareholder return or “TSR”. This measures a company’s increase in share price and the dividends provided to shareholders over the relevant period. This is then compared to the TSR of a comparator group of companies, e.g. FTSE 100 or FTSE 250 or perhaps a sector encompassing the company’s competitors. The position of the company in the comparator group then determines the percentage of shares under the award that is transferred to the participant.

Cessation of Employment

As most Deferred Share Bonus Plans are intended to encourage the executive to stay with the company, the plan rules would normally state that a voluntarily departure from the company can lead to forfeiture of the share entitlements.

However, if an employee leaves due to special circumstances (for example leaving due to redundancy, injury or disability) then they would normally be eligible to take the share award in full immediately but in some cases only at the end of the restricted period. In the event of death of the employee, the personal representative(s) would normally be eligible to take the share award in full immediately.

Taxation

Income tax and employee and employer's National Insurance will normally be due at the point at which the employee receives the shares outright for both the bonus and the matching shares. This allows an employee to sell sufficient shares to cover the tax due, if needed.

Limits

Shareholder approval is required for a listed company before the plan can be set up. Similar to option plans; institutional investors should ensure that awards under a Deferred Share Bonus Plan do not dilute their interests excessively. Accordingly, the plan limits (e.g. not more than 10% of share capital in 10 years being used for all plans) will apply. Typically these limits will only count shares that are issued to participants (unlikely in the context of a Deferred Share Bonus Plan) or are subscribed by the trustees. The limits do not count shares that are purchased on the market by trustees since the interests of existing shareholders are not diluted.

Dividends

Dividends would normally be paid on the shares from date of grant regardless of a restricted period. However, they may be held for the employee and only awarded, perhaps in shares, at the point of release.



Benefits Associated in Operating a Deferred Share Bonus Plan

Employer:

A Deferred Share Bonus Plan is flexible and should be designed to meet the needs of the company and its employees.

Employees:

As opposed to a CSOP or Unapproved Share Option, the executive benefits from the full value of the shares, not merely the growth in value of over the option period.

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