

If I had Only Known... Implementation Hindsight

You always hear that hindsight is 20/20. As we wrap up several implementations that we completed this year with multiple vendors, we wanted to provide a few key considerations for those of you that may be exploring a vendor implementation in the New Year or possibly changing your process with your current vendor.

Information Required for Brokerage Account Set-up - Understand from your vendor up front, what information is required to establish brokerage accounts and the field constraints of that information.

Let's say that you are one of the lucky ones that have a consolidated HR system, but maybe Birth Date is not something that has generally been populated for international participants. In most cases, Birth Date is a required field for brokerage accounts and obtaining this information from your international locations will take time.

Addresses can also cause many issues. Maybe your HR system allows for 50 characters in Address Line 1 through 4, but the vendor only allows for 30 characters and 3 address lines. Know exactly what will be required for participants to confirm their accounts, how this data will be populated with the vendor, and start working immediately on updating the company's data source to ensure the information is not only populated, but accurate.

Other areas to consider are names, special characters (usually non-US), and the type of account to establish for each individual (US or non-US, some brokers will have different account types which could be tricky for mobile employees). Time spent in this area will save you many headaches later on.

Go-Live Timing - Carefully schedule your participant go-live date with the new vendor taking into consideration large releases immediately prior to and after go-live date.

Why prior? Well, depending on the vendor, you may have additional challenges loading supplemental (interim) data into the new database especially if some options would have expired prior to loading the exercises or the way in which the system handles releases that should have occurred during the interim period. In most cases, you will load all prior history up through a certain point in time and will have several incremental loads for additional activity prior to go-live. The less information you are required to load incrementally, the fewer challenges you will face prior to go-live.

It is always my recommendation to also schedule the go-live date for a historically quieter period for the equity compensation group. Although you can't plan for a spike in the stock price, you can plan for releases, purchases, and quarter/year end activities. Having a large release immediately after go-live not only adds unnecessary stress to an already stressful time, but there could be additional areas such as the share transfer process or taxation which have not been fully tested with the new vendor. It is always best to start with a small population and work towards a seamless release for the broad-based population after you have more experience with the new platform.

Financial Reporting - Most vendors follow an implementation plan of participant go-live with a separate financial reporting go-live date. Understand your company's financial reporting needs and how the new vendor will accommodate.

If, for example, your Finance/Accounting group would like financial reporting to be live the same date of the participant go-live, find out during the RFP process which vendors can handle or if you have already selected the vendor, have the discussion now. You may need to adjust your participant go-live date in order to allow for sufficient time for internal groups to review reports and sign-off on the financial

reporting. This area takes a great deal of time and you need to plan accordingly. Your new vendor MAY NOT be able to work with your proposed financial reporting go-live expectations.

Historical Information - Determine what information you would like transferred to the new vendor and make sure the new vendor understands and is able to load the information.

I recommend a full data audit of your current database prior to implementation of the new vendor. Putting this effort and time in up front can save a tremendous amount of time as you approach the go-live date. Pay special attention to duplicate accounts, ISO/NQ splits, over-exercised shares, vest schedules, or other administrative considerations such as loading performance awards onto a performance platform.

In addition, work with your vendor on the information that will be loaded during a standard implementation and discuss any additional fields you would like populated such as historical taxes. Take into consideration if you will have access to your prior database after go-live. Loading the actual vesting tranches from the prior vendor, rather than vesting templates, will provide for exact vesting and will not complicate matters with rounding issues. Also become familiar with the information that will be visible to participants on the new vendor website and how long they will have access to the information at the prior vendor.

Transfer of Assets - Understand from your outgoing vendor if they will transfer the assets and if not, what type of reporting will they still be able to provide to you after you have transitioned to the new vendor.

Generally speaking, if your outgoing vendor has opened full brokerage accounts for your participants, you most likely will not be able to do a bulk transfer of equity compensation related shares to the new vendor. For example, if you have an ESPP, you will need to continue to report disposition information with respect to those shares. If the shares remain at the prior vendor and they are not able to report disposition information to you, you will need to find another solution, such as a third-party vendor, to assist in tracking those dispositions.

If you are able to transfer the shares and bring over the cost basis information to the new vendor, make sure you audit the cost basis information that is being provided. Don't assume that since the shares were split correctly for a prior stock split that the cost basis followed suit.

Communications - Prepare your communications early and don't forget about special groups. Start preparing your list of potential questions for your Frequently Asked Questions (FAQs) that will be distributed to your participants prior to go-live as soon as the vendor is selected and continue to update this list throughout the implementation. It is much easier to maintain a list rather than trying to remember all of the questions that came up immediately before go-live.

Most vendors will have a standard document that you can use as a starting point. These FAQs will be critical in a successful transition for your participants. Screen shots and step-by-step instructions are helpful. Incorporate information regarding the prior vendor, access, and costs. Also include information on the transfer of assets and trading window blackouts, if any, and how participants may update their personal information, if required. Promote participants to call the new vendor (not your group) with questions. Trust me. Your hands will be full with many other details.

Don't forget about special populations such as international, beneficiaries, Board of Directors, terminated employees with outstanding options, and those on leave. For example, international locations may require more lead time with the materials in order to translate and set up meetings to discuss the change. Depending on the type of account, instructions may be different for different populations.

I also always suggest a communication test group to review material. This group should be a cross-section of participants throughout the organization. Our equity compensation jargon may make sense to us, but may not to those without an equity compensation background.

Payroll Information and Tax Rates - Work with Payroll at the start of the implementation process to determine what the future state will look like.

You may now have additional functionality with the new vendor for example, taxation for mobile employees. Now is a good time to look at the current process and see how it can be improved such as feedback files directly into the payroll system, mobility tracking, or scheduling reports for non-US payrolls, to name a few.

Make sure that Operations at the new vendor reviews the information included on the interface files to ensure they logically make sense. Often times, Payroll, the programmers, and the vendor are not speaking the same language with respect to the fields and their functionality. For example, 1% may have been incorrectly programmed at 10%, separate accumulators may be required for different rates, or the system determination for tax rate maximum may be different than what you are used to with the prior vendor (taxable compensation or year to date paid provided). Additionally, check with your vendor regarding year-end tax rate updates.

Implementing a new vendor is a big project with a lot of moving pieces. Despite the recommendations above, the common theme we have witnessed for every successful implementation is a dedicated and engaged cross-functional team. You will not be able to do this alone and especially not on top of your normal job. Although the new vendor and other third party resources you engage will provide assistance and guidance, you or someone at your company will ultimately be responsible for the success of the project. With the right tools and people in place, you too can achieve a successful implementation and hopefully be able to keep any issues (and stress) in check.

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