

Corporate Services: Where Human Resources and Wall Street Meet

Corporate Services, broadly defined, is the service offered by registered broker-dealers that assists publicly traded companies with affiliated shareholder transactions and other associated brokerage functions. These services have become more important over the past decade, as employee stock option (ESOP) and employee stock purchase (ESPP) plans have become standard fare and an integral piece of the compensation structure of most publicly traded companies. Human resource departments have been forced to get themselves up to speed on the intricacies of equity compensation, and have discovered that a level of familiarity with retail brokerage services is now standard.

In the most effective companies, when an ESOP or ESPP is put in place, a captive partner is chosen that will become integrated into the record keeping and reporting functions that surround the exercise and purchase of company stock. A level of expertise and technology is required to handle these functions so that employees can efficiently and accurately effect a cashless stock option exercise and comply with both company rules and regulations as well as with federal and state tax codes. As employees typically receive Incentive Stock Options (ISOs) rather than Non-Qualified Stock Options (NSOs), a familiarity with the reporting requirements is essential to passing along the preferred tax treatment to the optionee.

Until recently, brokerage firms handed these responsibilities off to traditional brokers who charged full commission rates to effect these transactions. Originally, equity compensation was a benefit that only the "C" level executives participated in, and the full service brokers saw the business as a great entre to well-heeled clients. As the employee stock option business matured, however, the business has migrated towards a lower cost, turnkey solution, one that benefits a company's entire employee base, rather than one aimed at only highly compensated executives. As stock plans have become broadly available as a standard form of compensation, the brokerage solution has had to accommodate the business on a larger scale. The introduction of scale to the business has moved the required function from the desk of a full commission broker to a more standardized and streamlined processing center that has access to employee grant information, company blackout periods, vesting schedules and expiration dates, online reporting tools, and dedicated personnel that focus solely on this critical function.

At the same time, certain core competencies that may not be present at every discount brokerage firm need to be addressed. SEC reporting of executive purchases and sales, lockup expirations, the creation and maintenance of 10b5-1 selling plans, the processing of restricted stock sales and the handling of large block transactions all need to be handled effectively by your captive brokerage partner. Companies typically look to their captive as a conduit for information on trading activities and large purchases and sales of their company stock and use often effect stock repurchase plans through this channel. While these may seem far removed from the human resources functions, they are critical needs that must be addressed competently by your captive.

As the equity compensation business has grown, vendors servicing the space have proliferated commensurately. Today, a number of very competent and helpful software solutions exist that handle the record keeping, accounting and reporting functions involved in the maintenance of a broad-based employee stock option plan. Very specific rules regarding accounting standards and requirements, specifically around the various models used to value employee option grants exist, and every employer who uses equity as a component of compensation needs to be well informed of those regulations. Further, taxation differences vary by country and the classification of the reward, so adherence to GAAP as well as IFRS accounting standards is crucial to remaining in compliance. When choosing a captive broker to handle the exercise of the stock purchases and sales, it is important to find one that supports the particular record-keeping software that you are using, even if that solution is Microsoft Excel.

A competent and effective captive broker should also offer the following to their corporate clients:

- Extensive experience in Corporate Services
- One point of contact for company administration
- Dedicated service team
- Uniform procedures & fees
- Flexibility and Open Architecture
- Institutional liquidity
- Expertise in Stock Options Business

In addition, most captive brokers will provide ancillary services such as online discount trading, wealth management and investment advice, and reinvestment vehicles including cash management options such as money market mutual funds with check writing and debit card access attached. Companies should seek a partner that can meet the brokerage needs of their entire employee base, not one that only caters to the executive suite. When seeking a captive broker, be sure to kick the tires on service levels and responsiveness, because like any HR service, the largest players lack the single point of contact that ensures a true partnership. The ideal partner will be one that combines a high level of familiarity with the intricacies of the corporate services business with the responsiveness and service levels that you require.