Your Indexed Relative TSR Plan Just Got More Complex

By Terry Adamson, Partner

Published: April 2014

Practice Areas: Valuation & Accounting, Other Sectors, Global

Pop Quiz: How many stocks are included in the S&P 500? How about the NASDAQ 100?

It might seem obvious at first, but as of Wednesday, April 2, 2014, the answers are 501 and 101 respectively. When Google made the decision to split its stock on Wednesday into Class A (GOOGL) and Class C (GOOG) shares, it created two distinct publicly traded equities that both, both sit in the S&P 500 and NASDAQ 100 indices. S&P provides detail on their thinking to list both classes of stock in this recent press release and NASDAQ 100 components are summarized here.

Now you might be asking, why is this so important? Well, here's where the complexity ratchets up for your indexed relative total shareholder return (RTSR) plan. A large number of our PeerTracker clients use plans that compete against components of the NASDAQ 100 or the S&P 500, either as a "closed group" (the components at the beginning of the performance period) or as an "open group" (the components at the end of the performance period). In both cases, clients now face a troubling theoretical dilemma— you are competing against the same company twice.

For technology companies, this might mean more incentive to compete with Google! However, more seriously, and especially for non-technology companies tracking performance against the S&P 500, it could mean the difference between meeting or exceeding performance thresholds, and it could alter the very definition of plans where performance is based on rankings within an index.

Going forward, companies with active RTSR plans face several options:

Keep it simple, do nothing and compete against both Google equities; or

Carve out one of the Google equities entirely from your plan, and disclose this decision in award agreements.

Under any scenario, companies now face some previously unforeseen communications and technical challenges. For clients using RTSR plans with custom peer groups that include Google, the new class of Google shares is likely less of an issue. Plan documents will most likely reference the new Class C shares by name, GOOG, meaning companies could opt to compete against only that equity.

Naturally, this is an exceedingly rare situation; but, it could prompt more companies to select bespoke custom peer groups for their next round of RTSR awards.

To learn more about participating in a Radford survey, please contact our team. To speak with a member of our compensation consulting group, please write to consulting@radford.com.

Related Articles

- How Will the Changes to ASC 718 Impact the Way Your Company Expenses Its Equity Awards?
- Illiquidity Discounts for Mandatory Holding Periods: Fact vs. Fiction
- The Unexpected Tax Benefits of Post-Vest Holding Requirements in Canada
- How to Calculate Pay vs. Performance under the SEC's Proposed New Rules
- Will Today's Volatile Markets Bring Option Exchanges Back? What You Need to Know

► More related articles