

Long-Term Incentive Plan (LTIP)

Summary: a share plan arrangement for senior executives

The phrase “Long-Term Incentive Plan” can be used in relation to any incentive plan which is not short term in nature. In practice, however, it tends to be applied to arrangements where shares are released to selected senior executives over a period of years, subject to stringent performance and/or loyalty conditions, and is commonly used in listed companies.

LTIPs can be structured in a variety of ways, depending on the company's requirements. This might include:

- grant of a nil-cost option - effectively delivering a free share
- an award of restricted share units, or conditional shares - whereby a share is awarded to the participant but shares are only actually delivered when certain performance conditions have been met
- an award of restricted shares - whereby shares are issued free to participants but are forfeited if certain conditions are not met

An LTIP may include the requirement for shares to be "clawed back" within a certain period of time and it is usually essential that any performance conditions are genuinely stretching to demonstrate that true value is being delivered to shareholders before an award can ultimately vest with the participant.

Because LTIPs are typically used by listed companies, they are usually subject to a raft of governance principles, rules and guidelines, including the Investment Association's principles of remuneration. These will not apply to a private company.

| Key Features | How can RM2 Help? |
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| <ul style="list-style-type: none">◆ Not necessarily tax efficient.◆ Flexible and can be designed to meet company and shareholder requirements.◆ Typically used by listed companies for senior executives.◆ Private companies are subject to fewer governance regulations and thus may use some principles of LTIPs such as restricted shares or nil cost options. | <ul style="list-style-type: none">◆ Advise on alternative LTIP structures where other tax-advantaged plans (e.g. EMI) are not available.◆ Assist with drafting documentation and delivery of awards – e.g. grant of options or award of shares.◆ Manage the ongoing operation of the share plan once in place. |



Contact us to arrange a FREE consultation
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