Bristows

Effective equity incentive conversations

Effective communication about equity incentives is more than a "nice-to-have": getting it wrong undermines even the best designed plans. Communication is as much about risk management as engagement.

Consistency

Offer letters, award agreements, presentations and verbal explanations should tell the same story. Avoid wording that could be misinterpreted, e.g. promising a "2% stake". Does that mean 2% of the actual issued shares or the 'fully diluted' share capital? Does it mean 2% of today's share capital or the future position on a share sale?

Clarity

Equity awards necessarily involve a degree of complexity. The goal should be to educate without losing precision so that the award is *understood* and *clearly documented*. Employees who understand the rules are more likely to see themselves as true stakeholders rather than frustrated spectators.

Good governance

Ensure that all equity incentive awards are approved by the Board or Remuneration Committee, with shareholder consent where required. Any communications with employees about their equity should be made by those with the requisite authority and understanding (avoid informal assurances – they can be binding).

Explain dilution before it happens

Employees who understand that dilution is a natural consequence of growth and success are more likely to stay engaged: a smaller slice of a larger pie is better than a large slice of nothing. Model how funding rounds, new hires, or acquisitions can dilute holdings. "Anti-dilution" protections are rare in employee plans: avoid false hope.

Transparency

Treat equity like any other performance metric: something to be reported, explained and contextualised, not just promised at the start. Silence during change breeds mistrust. Proactively update participants when key life-cycle events occur and explain how the event affects their incentives.

Manage leavers with care

Departures can be high-risk moments. Always confirm in writing whether incentives will lapse, remain exercisable, or be pro-rated. Avoid informal assurances and aim for consistent and fair treatment. Do not underestimate how the treatment of leavers impacts on the remaining workforce.

Document discretion

When exercising discretion to accelerate vesting, extend exercise periods or adjust performance conditions, record the basis for the decision and ensure it complies with plan rules. Good record-keeping that shows how decisions have been reached helps demonstrate that a fair process has been followed.

Legal & tax input

From plan design to leaver discussions, legal and tax specialists should be at the table. Small errors in communication or documentation can lead to expensive mistakes.

Have a question or need tailored advice?

Our Tax team is here to help. Get in touch or visit our webpage to find out more.