April 1, 2022

Vanessa A. Countryman  
Secretary  
U.S. Securities and Exchange Commission  
100 F Street, NE  
Washington, DC 20548-1090

Re: File S7-20-21, 10b5-1 Plans and Insider Trading

Dear Ms. Countryman:

The Society for Corporate Governance (“the Society”) submits this letter in response to the Commission’s release of proposed amendments (“Proposing Release”) to Rule 10b5-1 under Securities Exchange Act of 1934 (the “Exchange Act”), among others.¹

Founded in 1946, the Society is a professional membership association of more than 3,500 corporate and assistant secretaries, in-house counsel, outside counsel, and other governance professionals who serve approximately 1,600 entities, including 1,000 public companies of almost every size and industry. Society members play an important role in overseeing the management of 10b5-1 trading plans² and ensuring their companies’ (or clients’) compliance with insider trading rules.

Below are our comments for consideration on select questions encompassed in the Proposing Release.

I. **Mandatory Cooling-off Period for Issuers Is Not Necessary**

Under the proposed amendments to Rule 10b5-1, issuers that structure a share repurchase plan as a Rule 10b5-1(c)(1)(i) trade agreement would be subject to a 30-day mandatory cooling-off period from the day the arrangement is adopted before any trading can start under the

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¹ Rule 10b5-1 and Insider Trading, File S7-20-21, 87 FR 8686 (Feb. 17, 2022) (“Proposing Release”).
² 10b5-1 trading plans are an important tool used by many issuers to permit executives, directors, and other insiders to sell their company shares on a regular basis while reducing litigation risk. In a 2021 survey of Society members, 13 percent of respondents said their companies require such plans, while 28 percent said their companies “strongly encourage” such plans. An additional 59 percent said their companies permit 10b5-1 plans. See Society for Corporate Governance, Morgan Stanley, and Wilson Sonsini, “10b5-1 Plan Practices 2021 Survey” (October 2021) at 9 (“Society 10b5-1 Survey”),
arrangement. The Society believes that this amendment to Rule 10b5-1 is not necessary to dissuade insider trading and would make issuers less likely to use Rule 10b5-1(c)(1)(i) trade agreements due to the increased complexity and decreased flexibility. Therefore, for the reasons listed below, we ask that the SEC not impose a mandatory 30-day cooling-off period.

**Lack of Demonstrated Need for a Mandatory Cooling-Off Period**

In the Proposing Release, the SEC cited research that supported the need for an extended cooling-off period for insiders to prevent a perceived gaming of the system for individual financial benefit, but the research provided did not demonstrate a compelling need for a mandatory cooling-off period for issuers. In our additional research, we have not found relevant academic research showing that there is an insider trading concern relating to issuer stock repurchasing agreements. Furthermore, in a review of company disclosures relating to 10b5-1 repurchasing plans, we have not seen extensive SEC commentary relating to the length of time between the announcement of a repurchasing plan and the commencement of purchasing. Therefore, we are unable to understand the justification for imposing a mandatory cooling-off period for issuers entering into a 10b5-1 repurchasing agreement. The proposed amendments appear to be an attempt to solve a problem that does not exist, while creating multiple unintended consequences for issuers and limiting their ability to use 10b5-1 repurchasing plans.

While a public announcement of the adoption of a 10b5-1 plan is not required, many companies release a press statement or other public disclosure announcing the establishment of the repurchasing plan or disclose the repurchasing plan in a Form 8-K. In addition, some issuers implement a short waiting period, typically 24 to 48 hours, to allow the press release to circulate and for the market to absorb the information. Additionally, issuers who do not make specific public announcements regarding the adoption of each new 10b5-1 plan do often describe their purchase practices generally in their periodic reports and typically implement a short waiting period after adoption of a plan. Therefore, the investing public is typically made aware of an issuer’s practices with respect to repurchase plans and there is no element of secrecy.

Furthermore, as a condition to establishing a 10b5-1 repurchasing plan, issuers cannot be in possession of material non-public information (“MNPI”). Although some issuers employ a brief waiting period prior to the commencement of purchasing to address any perception of impropriety regarding MNPI, it is clear that an issuer cannot benefit from the affirmative defense if it enters into a 10b5-1 repurchasing plan while in possession of MNPI, even if there are plans to disclose the information at a later date. Therefore, given that an issuer cannot enter into a 10b5-1 plan while in possession of MNPI and cannot cure any failure in that regard with the disclosure of such information in the 30-day cooling-off period, imposing a mandatory cooling-off period to prevent the usage of MNPI is purely an optics issue.

**Issuers Use 10b5-1 Plans Differently Than Individuals**

Issuers and individuals tend to have different focuses when engaging in trading. Most individuals are focused on maximizing personal returns, while issuers must consider the complex needs of their businesses. Corporate buybacks are less price sensitive than individual sales and

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3 See SEC, Compliance and Disclosure Interpretations, Question 120.20 (March 25, 2009).
typically reflect the issuer’s capital resources and potential uses for the repurchased shares. By mandating that issuers have a 30-day cooling-off period, the SEC is moving away from its core mission of protecting investors and toward regulating companies’ management of their capital allocation and other business strategies. The proposed cooling-off period also would hamper an issuer’s decision-making process by creating an unnecessary delay, reducing flexibility in repurchase activities by issuers and creating barriers to issuers’ use of capital for repurchases.

**Mandatory 30-Day Waiting Period Is Not Appropriate**

In addition, it is unclear why the proposed length of the mandatory cooling-off period for issuers using 10b5-1 repurchasing plans should be 30 days. We do not believe a “one size fits all” approach to regulating issuer 10b5-1 plans is appropriate. A mandatory cooling-off period of 30 days would be too short to create any meaningful change for some companies and too lengthy for other companies, limiting their flexibility. Issuers have different windows in which they engage in stock trades to ensure that they are not trading while in possession of MNPI, and issuers must analyze the state of their business to determine if repurchasing shares is appropriate. Any mandatory cooling-off period would impede the issuer’s process of determining an appropriate trade window by making the process more cumbersome and creating a delay. Furthermore, if the SEC were to mandate issuers’ cooling-off periods, it would be more practical to tie the cooling-off period with the issuer’s public reporting timeline.

In particular, a mandatory cooling-off period would make the implementation process for accelerated share repurchase (“ASR”) programs (which are designed to be implemented in a manner to allow for the reliance on the 10b5-1 affirmative defense) significantly more challenging. When engaging in an accelerated share repurchase program, the financial institution engaged to execute the issuer’s program will often begin repurchasing shares immediately. Companies would need to alter their ASR approach to start after the mandatory cooling-off period, which would increase both the difficulty of the process and the cost of the repurchased shares, thus making accelerated share repurchase programs less appealing.

**Potential Decrease in Issuer Usage of Rule 10b5-1 Plans**

Lastly, the Society is concerned that the proposed amendments would have the unintended consequence of reducing issuer usage of 10b5-1 plans. One of the greatest benefits to 10b5-1 repurchasing plans is the availability of the affirmative defense. The proposed amendments will create uncertainty around the availability of the affirmative defense, which may cause a sharp decline in issuer usage of 10b5-1 trading plans. Also, many issuers instruct brokers about which trades to do during their open trading windows, then use a 10b5-1 plan to bridge them into the next trading window. If an issuer’s trading window is 30 days, the issuer would need to adopt the 10b5-1 plan as soon as the trading window opens to be able to continue trading after the window closes. For corporate trading windows that are less than 30 days, the proposed mandatory cooling-off period will create a time period where issuers will not be able to repurchase shares. In addition, the proposed amendments would shorten the time period after a company’s earnings release during which issuers would need to enter a 10b5-1 plan to ensure the ability to execute repurchases without interruption. The entire repurchasing process will become more cumbersome, causing some issuers to cancel planned repurchasing plans and choose to not
use them in the future. This will likely have the effect of directly impacting how issuers allocate capital. We believe that this rulemaking (along with the Commission’s proposed rules on share repurchase disclosure) will significantly reduce the number of shares purchased by companies, which would reduce returns earned by their investors.4

II. Quarterly Reporting of Specific Plan Details May Lead to Front-Running

The Society also does not support proposed Item 408(a)’s requirement to report Rule 10b5-1 plan information for companies, directors, and Section 16 officers on a quarterly basis. We are concerned that requiring disclosure regarding specific plan details, such as plan dates and share amounts, may advantage speculative and short-term investors who seek to structure and time trades around this disclosed plan information. We believe that existing disclosure requirements, particularly Item 703 of Regulation S-K and Section 16(a) of the Exchange Act, provide adequate public information regarding issuer repurchases and director and officer trading, whether or not pursuant to a Rule 10b5-1 trading plan.

In addition, plan-level details about individual trading plans of directors and Section 16 officers may be misconstrued by market participants. Currently, it is common (and as proposed, would become mandatory) for individuals to notate on their Section 16 filings whether a trade was conducted pursuant to a Rule 10b5-1 trading plan. We believe disclosure of the existence of a plan, together with the ongoing Form 4 filings required for trades conducted under a plan, provide the appropriate level of detail regarding Section 16 insiders’ trading plans. Requiring additional disclosure for specific details of a plan, such as the overall size and timing of planned trades, does not appear to provide a clear benefit and, worse, may be misconstrued. For example, if an officer were to establish a long-term Rule 10b5-1 trading plan to accomplish estate planning needs, pay college tuition for children, or achieve other personal objectives, disclosure of the size of the plan might signal to the market that the individual is seeking to “dump” the stock or that the officer expects MNPI to exist during the term of the plan. We recognize that issuers and individuals are free to disclose additional context around their plans, but they may conclude they have to divulge personal reasons for establishing a plan in an effort to head off a different conclusion that some investors may reach.

III. The SEC Should Not Eliminate the Affirmative Defense for Multiple Overlapping Trading Arrangements and Single-Trade Arrangements

Eliminating the Affirmative Defense for Multiple Overlapping Trading Arrangements Would Inhibit Legitimate Uses of Rule 10b5-1 Trading Arrangements

Proposed Rule 10b5-1(c)(D) would have the effect of prohibiting trades under multiple overlapping trading arrangements for open market purchases or sales of the same class of securities, which would not be eligible for the affirmative defense. Specifically, a person who has an “outstanding” trading arrangement would not be able to enter into a new trading

4 The Society’s concerns about the proposed share repurchase rules are detailed in a separate comment letter. See Society, Comment Letter on Share Repurchase Disclosure Modernization, April 1, 2022.
arrangement. The Society believes that such a restriction on the availability of the affirmative defense could have potentially negative consequences for routine uses of Rule 10b5-1 trading arrangements that are appropriate and necessary for insiders who are compensated in their companies’ securities. For example, many insiders use, or are required by their companies to use Rule 10b5-1 trading arrangements for the sale of shares necessary to pay tax withholding obligations upon vesting and/or settlement of equity awards (e.g., restricted stock units). Insiders also rely on Rule 10b5-1 to preplan the cashless exercise of both non-qualified and incentive stock options if there is concern about being in a corporate trading blackout when the options are set to expire. These everyday circumstances and considerations could result in an insider entering into multiple trading arrangements that may overlap with respect to the time period and type of securities covered.

Given the varied nature and timing of these equity awards, the Society believes that it may not be practical or possible for insiders to anticipate future liquidity needs with enough specificity to allow insiders to design a single trading arrangement that will cover multiple types of transactions. Attempting to sort out in advance all of the tax withholding requirements for multiple equity awards, for example, likely will prove unworkable. Moreover, these practical challenges would be exacerbated under the Commission’s proposal to deem any modification or amendment to an outstanding trading arrangement to be a new arrangement, requiring a new cooling-off period. As a result, an insider would be incentivized to enter into a trading arrangement for an extended duration to avoid triggering reiterative cooling-off periods but, in doing so, likely would find it impracticable to accommodate mid- to longer-term changes in market conditions, company performance, and personal circumstances.

In view of the above examples, the Society is concerned that eliminating the affirmative defense for multiple overlapping trading arrangements may so diminish the utility of Rule 10b5-1 trading arrangements that insiders may be deterred from adopting them altogether. Additionally, companies and employees have come to rely on the Rule 10b5-1 affirmative defense to support practices relating to employee stock purchase plans (“ESPP”) and 401(k) plans with company stock funds, allowing employees to elect and modify their participation levels during open trading windows and allow for purchases pursuant to those instructions to occur at a later date. These practices are typically established as a component of the company’s insider trading policy, as opposed to an individually adopted plan, but because they rely on the Rule 10b5-1 affirmative defense, may be viewed as inhibiting an individual from adopting any other Rule 10b5-1 plan if he or she is participating in the ESPP or the company stock fund of the 401(k) plan. As such, the proposed rules also may be particularly punitive for lower-level employees who participate in these opportunities to enhance their equity ownership in their employer, and those employees who have few other means to cover their taxes or diversify out of company stock.

**Companies Also Would Face Reduced Flexibility When Repurchasing Shares**

Eliminating the affirmative defense for multiple overlapping trading arrangements also would unnecessarily reduce flexibility for companies by precluding two methods used to conduct share repurchases. Many companies conduct multi-dealer, alternating-day ASR programs to limit credit exposure to a single bank counterparty and optimize the pricing and buying of shares.
In addition, companies on occasion may execute ASRs concurrently with a traditional open market repurchase plan for increased flexibility. This practice allows companies to ensure a minimum level of repurchases over a longer period of time, while permitting companies to respond to market and business dynamics on a quarterly basis by layering in additional purchases during an open trading window. The Proposing Release does not cite any evidence of abuse that would justify preventing companies from using these optimization and risk-minimization tools for share repurchases.

The Scope of Multiple Overlapping Trading Arrangements Should Be Clarified

The scope of the proposed restriction on the availability of the affirmative defense for multiple overlapping trading arrangements is not clear. There are often valid and customary uses of multiple, overlapping Rule 10b5-1 issuer repurchase plans. For example, some companies enter into multiple Rule 10b5-1 contracts with different brokers that have staggered effective dates, such that trades are only being executed under one contract at a time during each quarter. The proposed amendment is not clear on whether different trading arrangements can be executed on or around the same time if the trading arrangements do not have any overlapping trading days, or whether different trading arrangements can be executed covering different shares of the same class of securities. If adopted as proposed, the rule would have the unintended effect of invalidating such legitimate contractual frameworks. However, if the restriction on the availability of the affirmative defense for multiple overlapping plans is adopted, the Society recommends that the Commission clarify that trading arrangements that do not have overlapping trading days would be permitted. This would permit a person to enter into consecutive plans such that the cooling-off period for a new trading arrangement would begin before the termination of an effective trading arrangement, as long as trading under that new arrangement would not start until after the termination of the prior arrangement. If the Commission does not adopt this common sense interpretation, executives and employees could find themselves out of the market for 120 days under the SEC’s proposed amendments.5

In addition, we recommend that the Commission clearly define the scope of any restriction as trading arrangements that cover the same shares of the same class of securities, which would permit a person to have a different trading arrangement for different shares of the same class of securities (e.g., one trading arrangement for shares held individually and another trading arrangement for shares held in a trust; one trading arrangement for shares held in a personal brokerage account and another trading arrangement for shares held through the third-party plan administrator for a company’s stock plan; and different trading arrangements for the sale of shares necessary to pay tax withholding obligations with respect to different grants of equity awards with difference exercise, vesting and/or settlement schedules). We also recommend that the Commission exclude from the scope of any restriction those arrangements that allow for the reliance on a Rule 10b5-1 affirmative defense through policies and procedures

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5 The proposed 120-day cooling-off period for individual 10b5-1 plans would far exceed the periods currently used by most public companies. In an October 2021 survey of Society members, just 12 percent reported that their companies had cooling-off periods of 60 days or longer for individuals. The majority (51 percent) of respondents said their companies had 30-day periods. See Society 10b5-1 Survey at 24. The Society suggests the SEC allow companies to adopt 60-day waiting periods, provided that any sales by an individual occur after the release of the company’s earnings for the quarter when the individual’s trading plan was adopted.
implemented at the company level as opposed to individually adopted plans (e.g., a 401(k) company stock fund or ESPP).

**The Restriction on the Availability of the Affirmative Defense for Single-Trade Arrangements Could Create Unintended Limitations**

Proposed Rule 10b5-1(c)(E) would limit the availability of the affirmative defense for a trading arrangement “designed” to cover a single trade, including “sell to cover” arrangements intended to satisfy tax withholding obligations (as discussed above), such that the affirmative defense would be available only for one single-trade plan during any 12-month period. Rule 10b5-1 trading arrangements often set limit prices that are higher than the stock’s current trading price, and it is possible that a set limit price may be reached on just one day during the term of a trading arrangement. We request that the Commission clarify that such a trading arrangement would not be deemed one that is “designed” to be a single-trade arrangement even if in its implementation the trading arrangement turned out to result in a single trade. Absent this exclusion, the proposed revisions to the rule could end up creating unintended limitations based on the limit prices and volatility of the applicable stock.

Further, in light of the Commission’s proposal to deem any modification or amendment to an outstanding trading arrangement to be a new arrangement, the Society believes that the Commission should clarify whether a person is permitted to amend a single-trade arrangement that was initially executed during the prior 12-month period.

In addition, the Society believes that the limitation on establishing more than one single-trade plan during any 12-month period should exclude tax withholding transactions, including those for cliff-vesting equity awards that vest and/or settle all at once on a single date.  

**IV. New Disclosure Requirements Should Not Apply Beyond Section 16 Officers**

As discussed earlier in Section II, we do not support proposed Item 408(a) to require quarterly reporting of Rule 10b5-1 plan details. If Item 408(a) were to be adopted, we do not support extending the proposed disclosures beyond directors and Section 16 officers, who are already required to report their ownership and transactions under Section 16(a). Issuers are very deliberate in their designations of Section 16 officers, given the resulting public nature of their share ownership. We believe that extending required disclosures for Rule 10b5-1 plans to employees beyond those already required to disclose publicly their ownership and transactions in a company’s securities would provide little meaningful information to the market relative to the burden that this requirement would impose on employees.

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6 We also encourage the SEC to clarify that any limitations on single-trade plans do not apply to 10b5-1 plans for issuer purchases.
7 The Society also has concerns about some of the proposed certification requirements for directors and officers. For instance, the proposed 10-year record keeping requirement appears to be longer than necessary. A five-year period, consistent with the time periods for retaining Section 302 and Section 906 certifications, should be sufficient for 10b5-1 certifications. The SEC also should clarify that companies may retain these certifications on behalf of their officers or directors.
V. New Option Grant Disclosure Is Unnecessary

The Society believes that the proposed disclosure requirements under new Item 402(x) of Regulation S-K are unnecessary. Item 402(b)(2)(iv) currently provides that “[h]ow the determination is made as to when awards are granted, including awards of equity-based compensation such as options” is an example of potentially material information for disclosure in the Compensation Discussion and Analysis (the “CD&A”) and therefore, companies subject to Item 402(b) already have an obligation to disclose their equity grant practices. In addition, Item 402(d) currently requires detailed tabular disclosure regarding option grants, including the name of the named executive officer who received the grant, the grant date, the number of securities underlying the option grant, the exercise price and the grant date fair value. Although the requirements of Items 402(b)(2) and 402(d) do not apply to smaller reporting companies or emerging growth companies, investors in these entities, as well as investors in companies subject to Items 402(b) and 402(d), are already provided information with respect to the timing of companies’ stock option grants. Executive officers and directors of these entities are required to submit Form 4 filings under Section 16 within two business days of a transaction, including a grant of stock options (except in the narrow and unusual set of circumstances where the vesting of the stock options is tied to performance conditions that do not relate solely to the stock price). As a result, stock option grants to executive officers and directors are almost always disclosed on a nearly real time basis, and investors are able to determine when or whether these grants occurred in close proximity to disclosures of other information, including material non-public information.

Option Grant Timing Typically Reflects Board Schedules, Not MNPI

The timing of annual stock option grants is typically based on the meeting schedule of a company’s board of directors or compensation committee. These annual grants are commonly made at the first or second regularly scheduled board (or committee) meeting of the company’s fiscal year. We believe that the fact that these meetings may coincide with a board’s review of financial information to be included in an upcoming earnings release or periodic report is a scheduling necessity, as opposed to an effort to time equity awards with the release of this potentially material non-public information. In fact, many companies will grant annual awards on a set schedule, at the regularly scheduled meeting, regardless of whether upcoming financial information disclosures are negative or positive, negating the concern that they are designed for spring-loading or bullet-dodging purposes.8

8 In Staff Accounting Bulletin No. 120, the SEC staff appears to acknowledge that the practice of routine annual grants of equity compensation awards does not raise concerns of spring-loading. Staff Accounting Bulletin No. 120 focused on non-routine awards that are intentionally granted prior to market-moving information, noting that adjustments to observable market prices are likely not required under Financial Accounting Standards Board Accounting Standards Codification Topic 718, Compensation – Stock Compensation (“ASC 718”), for routine annual grants (“The staff acknowledges that companies generally possess non-public information when entering into share-based payment transactions. The staff believes that an observable market price on the grant date is generally a reasonable and supportable estimate of the current price of the underlying share in a share-based payment transaction, for example, when estimating the grant-date fair value of a routine annual grant to employees that is not designed to be spring-loaded.”).
For non-annual grants, companies’ internal controls around compensation matters, and compliance with accounting rules\(^9\) and SEC disclosure requirements\(^10\) have resulted in companies developing policies and procedures for stock option grants that are not annual grants. For example, many companies have policies for option grants to coincide with first day of employment or the effective date of a new hire, promotion, or appointment. We are also aware of a common practice to delay the date of grant in these circumstances until the first day of the next quarter or the next regularly scheduled board or compensation committee meeting, in an attempt to avoid even the appearance of spring-loading or bullet-dodging. The Society believes that the timing of officer and director elections and appointments (and the related stock option grants) are by and large based on the business needs of the company, availability of individuals, and the schedule of board and committee meetings at which such elections or appointments are approved, rather than the release of MNPI.

We note also that the SEC staff recently issued Staff Accounting Bulletin No. 120 (“SAB 120”), in which it provided accounting and disclosure guidance for spring-loaded awards, including stock options. The guidance in SAB 120 provides for protection of investors because, in those instances where there is a non-routine spring-loaded grant, the adjustment to the inputs for the grant date fair values and related disclosures required under ASC 718 will give investors the necessary information about the spring-loaded option grant.\(^11\)

**Proposed Grant Disclosures Would Not Be Helpful to Investors**

We also do not believe the proposed disclosures would be helpful to investors. By requiring the proposed tabular format for any stock option grants made within two weeks of a public announcement or periodic report, companies will be assumed to have granted spring-loaded or bullet-dodging stock options, which could be misleading for investors. For example, the market price of a company’s common stock can often see a temporary “bounce” or “dip” upon an earnings release or other announcement that is not sustained for any significant period of time, including a two-week period. Disclosure of the market prices of the underlying securities on the trading days before and after disclosure of material nonpublic information may show the immediate impact of the announcement on the stock’s market price, but it would not necessarily provide information as to the longer-term effect on the market price of the underlying security.

Moreover, option pricing models, such as Black-Scholes-Merton, use several inputs in determining the fair value of stock options, including the risk-free interest rate, dividend yield, volatility and expected life of the options. As a result, the “grant date fair value” of stock options calculated in accordance with ASC 718 is not directly comparable to the market price of the underlying stock on the date of grant. Including the grant date fair value along with the market

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\(^9\) For example, under ASC 718, the determination of the “measurement date,” the “grant date,” and the “service inception date” are critical for determining compensation costs as well as whether awards will result in variable accounting.

\(^10\) The requirement to file a Form 4 within two days incentivizes companies to follow standard practices to ensure reporting obligations are met.

\(^11\) ASC 718 requires disclosure of significant assumptions used to estimate the fair value of share-based compensation, which would require disclosures relating to the adjustment of the underlying share price that occurred because of the company’s knowledge of material non-public information, including the policy related to determining if an adjustment is required and how the adjustment was determined.
price of the underlying stock before and after an announcement is likely to be confusing at best, and misleading at worst, particularly for investors who are not familiar with ASC 718 and option-pricing models.

We believe that the proposed disclosure requirements may result in companies favoring other forms of share-based compensation over stock options to avoid the burdens of the disclosure. A potential shift away from stock options may also result from companies wanting to avoid the implication, as well as the negative perception that could go along with the implication, that their stock option grants were designed to be spring-loaded or bullet-dodging. Alternatively, companies choosing to continue using stock options may implement unnecessary changes to internal controls and underlying practices and procedures relating to compensation practices in an effort to simply avoid the proposed disclosures. We believe these changes would be unnecessarily disruptive to companies with little value to their shareholders.

Thank you for considering the Society’s views on the proposed amendments to Rule 10b5-1, among others.

Respectfully submitted,

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