

# The Retention Effects of Unvested Equity: Evidence from Accelerated Option Vesting

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Torsten Jochem , Tomislav Ladika , Zacharias Sautner

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## Abstract

We document that firms can effectively retain executives by granting deferred equity pay. We show this by analyzing a unique regulatory change (FAS 123-R) that prompted 723 firms to suddenly eliminate stock option vesting periods. This allowed CEOs to keep 33% more options when departing the firm, and we find that voluntary CEO departure rates subsequently rose from 5% to 21%. Our identification strategy exploits FAS 123-R's almost-random timing, which was staggered by firms' fiscal year-ends. Firms that experienced departures suffered negative stock price reactions, and responded by increasing compensation for remaining and newly hired executives.

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