

# SELLING RESTRICTED SHARES WITH A 10B5-1 TRADING PLAN

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**Because of the nature of their compensation packages, many corporate executives and employees develop concentrated positions in their employer's stock. Often, these shares are subject to stringent SEC rules that restrict when they can be sold. A 10b5-1 trading plan offers shareholders greater leeway in selling their restricted shares while avoiding accusations of insider trading.**

## **What is a 10b5-1 trading plan?**

In October 2000, the SEC adopted Rule 10b5-1, which allows officers, directors, executives, and other owners of restricted shares to create trading plans for selling their company stock. Typically, these insiders would only be able to sell their stock during company-defined "open windows"—periods when shareholders are deemed not to be in possession of material nonpublic information about the company. A 10b5-1 trading plan gets around this restriction by removing the shareholder from the execution of trades.

**How it works.** A 10b5-1 trading plan is a written agreement between the shareholder and the company that specifies the parameters under which sales of stock can be made—commonly, the dates when trades may be executed, the number of shares that may be traded, and the minimum price at which shares may be sold. Some trading plans forgo these simple parameters in favor of an algorithm or computer trading model. Regardless of the method used, the shareholder cannot have any influence over trades once the plan is established. In addition, at the time a 10b5-1 plan is drafted, the shareholder must not be in possession of any nonpublic information that could influence future transactions under the plan.

The employer must review and approve the 10b5-1 plan prior to the execution of any transactions. To avoid the appearance of impropriety, the employer may require an inactive period between the execution of the agreement and the implementation of the plan. Typically, inactivity periods range from one to three months, depending on the shareholder's role at the company. Once implemented, the plan may be modified, but only during periods when the shareholder is not in possession of any material nonpublic information.

## **Is a 10b5-1 plan for you?**

If you have a concentrated position in your employer's stock, a 10b5-1 trading plan may offer greater access to the wealth you've accumulated in your restricted shares. To learn more about establishing this type of plan, consult with your employer's legal department. Your financial advisor can also help you evaluate other options for selling restricted stock, including the use of a blind trust.

Commonwealth Financial Network® does not offer legal or tax advice. You should consult a legal or tax professional regarding your individual situation.



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