

The Zions Bancorp ESOARS Auctions of 2007 and 2008

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In the aftermath of the corporate scandals in the early 2000's, the Financial Accounting Standards Board in the United States adopted an accounting rule requiring the valuation of employee stock options as of the date those options are granted. Most companies responded by adopting a discounted cash valuation model, such as one based on a binomial approximation to the stochastic evolution of future stock prices augmented by the results of an historical analysis the exercising decisions of their employees. Zions Bancorp, however, sought to obtain a market valuation of its employee stock options. Zions designed a security with payoffs that tracked the actual payoffs of their employee options, then designed and conducted auctions in which these tracking securities (ESOARS), were sold to the public. The Securities and Exchange Commission approved the use of the results in the accounting done for employee stock options. The purpose of this talk is to present and discuss these ESO auction mechanisms that were designed, and to evaluate the results of these auctions.