

HOLD PHASE

Good leaver, bad leaver, and everything in between

Author Aaron Roes

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On paper, the leaver provisions are the crispest part of any MIP: good leavers keep this, bad leavers forfeit that, the repurchase price is calculated so. Then a real person leaves, for real and complicated reasons, and the crisp categories meet a departure that refuses to fit either of them.

A leaver event is the single most consequential thing that happens to a MIP during the holding period. It is the moment the plan's promises are tested: what does a departing participant actually keep, at what price is the rest repurchased, and who decides? It is also, not coincidentally, the moment most likely to produce a dispute, because it combines money, emotion, and ambiguity in one event.

Earlier articles in this series have touched leavers from other angles: how they reshape the pool over time, and why the repurchase valuation is one of the three most expensive things to handle casually. This article looks at the leaver event itself, the categories the documents define, the departures that fall between them, and the administrative discipline that determines whether the provisions can actually be applied when it matters.

One note before we start: leaver provisions differ meaningfully between jurisdictions, fund houses, and individual plans. What follows describes the common architecture, not your specific documents, and the moment a real leaver event raises a real question, the answer lives in your plan documents and with (external) legal counsel, not in a general article.

The basic architecture: two categories, two consequences

The classic design sorts every departure into one of two categories, each with consequences along two dimensions: what happens to the participant's equity, and at what price it is repurchased.

THE GOOD LEAVER

Good leaver status is typically reserved for departures nobody chooses: death, permanent disability or serious illness, and often retirement at an agreed age or redundancy through no fault of the participant. The treatment is correspondingly generous: the participant (or their estate) usually keeps vested equity or is bought out at market value, so that they participate in the value built during their tenure.

THE BAD LEAVER

Bad leaver status typically covers dismissal for cause and, in many plans, voluntary resignation, particularly early in the hold or to join a competitor. The consequences are deliberately sharp: unvested equity is forfeited, and even vested equity is often repurchased at the lower of cost and market value, so that leaving badly means leaving the upside behind.

Two mechanics interact with these categories and quietly do most of the work. The first is vesting: in most plans the leaver provisions treat vested and unvested equity differently, which means the precise leaver date, and therefore the vested balance on that date, directly moves money. The second is the repurchase machinery: who has the right (or obligation) to buy, within what window, and at a price determined how and by whom. Both mechanics depend entirely on the record being right, which is where this article connects to everything this series has said before.

Everything in between: where the categories run out

If every departure were a death or a defection, leaver administration would be easy. The difficulty is that most real departures are neither. Consider the cases every long hold eventually produces:

- The long illness that is not (yet) permanent disability. The documents define disability crisply; recovery timelines do not cooperate. At what point does an extended absence become a good leaver event, and who decides?
- The restructuring exit. A role is eliminated in a reorganisation the participant did not cause but the documents did not foresee. Redundancy in substance, but is it redundancy as defined?
- The mutual separation. The relationship has run its course and both sides agree to part. Formally a resignation (bad), substantively a negotiated exit (neither). The label chosen determines the money.
- The performance-shaped departure. Not dismissed for cause, but firmly encouraged to leave. These sit exactly on the line the two categories draw, which is why they generate the most disputes.
- The retirement definition. "Retirement" sounds objective until someone retires at 58, or retires and starts advising a competitor six months later.

Well-drafted plans anticipate this with two tools. Some define an intermediate category, sometimes called an early or ordinary leaver, with treatment between the two poles, often scaling with time served. And almost all reserve board discretion to upgrade a leaver's status: the ability to treat a technical bad leaver as a good leaver where the circumstances warrant it. Discretion is the safety valve the categories need. It is also, administratively, the most dangerous tool in the plan.

Discretion exercised without a documented trail is a precedent you did not mean to set. The moment the board upgrades one leaver "because the circumstances warranted it", every future leaver's counsel will ask what those circumstances were and why their client's are different. If the reasoning was never recorded, the plan's flexibility becomes the plan's exposure.

A leaver event is a process, not a moment

From the administrative side, a leaver event is a sequence of determinations, each of which has to be made explicitly, dated, and recorded, because each one moves money and each one can be challenged later.

STEP	THE QUESTION			WHY IT MOVES MONEY		
The leaver date	Notice date, last working day, or termination date?			Fixes the balance, a few weeks either way can cross a vesting cliff		
The categorisation	Good, intermediate, or bad, under which clause, decided by whom?			Determines what is forfeited, and the price basis		
The vested balance	What exactly had vested on the leaver date?			Only defensible if the vesting start and schedule were recorded at onboarding		
The repurchase	Price on which basis, determined by whom, settled when?			The valuation point this series flagged as one of the three expensive mistakes		
The record update	Register, cap table, and pool position updated as of which date?			The returned equity changes the pool, and the next participant's arithmetic		

Read the middle column again and notice something: almost every question is answered by reference to what was recorded earlier, at onboarding, at each vesting milestone, at each prior event. A leaver event does not test the leaver provisions so much as it tests the record. If the vesting commencement date was left vague at entry, the vested balance is now an argument. If the register lagged reality, the starting position itself is disputed. The leaver event is where every earlier shortcut presents its bill, with a departing participant's counsel on the other side of the table.

This is also the moment the conflict question from the previous article stops being theoretical. Leaver determinations are frequently made by, or with heavy input from, executives who are themselves participants, sometimes deciding the treatment of a colleague whose forfeited equity affects the pool they share. Route these determinations through the board, with counsel where needed, as a matter of standing process rather than improvisation.

An honest opinion: the document decides, but only the record can apply it

It is tempting to treat leaver disputes as a drafting problem, if only the categories had been defined more precisely, the argument would not have happened. Sometimes that is true. More often, in our experience, the documents were perfectly adequate and the dispute happened anyway, because the facts the documents needed were not cleanly available: the exact leaver date, the vested balance, the valuation basis, the reasoning behind a prior discretionary decision.

A leaver event is emotional by nature. Someone is leaving, often not entirely by choice, and their equity, which they were told to think of as their reward for the journey, is being taken from them at a price someone else determines. Nothing removes that emotion. What a clean record does is remove the ambiguity, which is what turns emotion into litigation. When the dates are documented, the balances reconcile, and the process is visibly the same one applied to everyone before, a departing participant can dislike the outcome and still accept it. When any of those is missing, disliking the outcome becomes disputing it.

The best leaver process is one that is boring on the day. Every determination follows a standing procedure, every number traces to a record made years earlier, and the only genuinely open question is the one the documents deliberately left open, discretion, exercised by the right body and documented as it is exercised. Boring, at a leaver event, is the product.

What this means in practice

FOR FUND MANAGERS

Agree the leaver process before the first leaver. Who determines status, who instructs the valuation, who signs the repurchase, settled as standing procedure in calm times, not improvised around a specific departure with names and emotions attached.

Insist that discretion leaves a trail. Every discretionary upgrade or settlement should be minuted with its reasoning. The next leaver's counsel will read it; write it so that you are content for them to.

Watch the intermediate cases, not the extremes. Deaths and defections administer themselves. The mutual separations and restructuring exits are where categories, discretion, and money collide, and where you want the process tightest.

FOR CFOS AND MANAGEMENT TEAMS

Fix the leaver date deliberately. It is a determination, not a formality, it sets the vested balance. Confirm which date the documents use and record it explicitly in the file.

Do not let the repurchase valuation drift. The price basis, who determines it, and the supporting record belong in the file at the time of the event, this is the same lesson as entry valuation, at the other end of the participant's journey.

Close the loop into the pool. A leaver's forfeited or repurchased equity changes the pool arithmetic for everyone remaining. The event is not finished when the participant signs, it is finished when the register, the cap table, and the pool position all agree again.

One last thought

Leaver provisions get drafted in the optimistic first weeks of a deal, when the team is united and departure is hypothetical. They get applied years later, to real people, in circumstances nobody predicted. The distance between those two moments is exactly what the administration has to bridge: the dates, the balances, the valuations, and the reasoning, carried intact from the day they were created to the day they are needed.

The plans that handle leavers well are not the ones with the cleverest categories. They are the ones where the process was agreed early, the record was kept as events happened, and the discretion was exercised in daylight. That is the discipline, and it is the work we do at MIP Desk.