

newsbrief

November 2018



EVENTS

Guernsey: Share schemes and trustees seminar - strong demand for places

On November 30, the Esop Institute, in partnership with STEP Guernsey, will host this year's [Guernsey share schemes](#) and trustees seminar at the Old Government House Hotel St Peter Port, where President Mitterand once famously stayed.



Presentations under the heading of **Leading the way – the Channel Islands as a global hub of ESOT specialism**, will include: Taking the ESOT to emerging markets – challenges and opportunities; JSOPs – the role of the trustee: An outline of current issues and the future of JSOPs; "Information overload – now what?" focusing on tax avoidance/evasion; The application of the 'disguised remuneration' and 'outstanding loan' legislation to employees' trusts, and "powers of trustees: a recent case"; Recent developments in employee share schemes and employment-related securities (including changes to entrepreneurs' relief); General economic environment: analytical position with Channel Islands in mind + current state of LTIPs.

Given recent developments, such as the introduction of the UK trusts register and the growth in employee ownership trusts (not to mention Brexit), it has never been more important for those interested in employee share schemes and trusteeship to stay informed with expert views and enjoy the continuing education which our Institute seminars offer.

Top-ranking speakers include: Elaine Graham,

Zedra; Graham Muir, CMS; David Pett, Temple Tax Chambers; Paul Malin, Haines Watts; Charlotte Fleck, Pett Franklin; David Craddock, David Craddock Consultancy Services; and Alison MacKrill, STEP/Appleby. The seminar will be chaired by Malcolm Hurlston.

Tickets: STEP/Centre members: £375 non-members: £480

To book, email events@esopcentre.com or call the Centre team on 020 7239 4971

Last chance to enter this year's newspad awards

The Centre is receiving late nominations for the [newspad 2018 Awards](#), for the best employee equity plans, either already operating or about to launch. This annual competition presents an opportunity for member share plan advisers and their clients to show off their best all-employee equity plans to the worldwide readership of newspad.

Award certificates, kudos and publicity await the winners, *so do ensure that you, and/or colleagues, submit at least one entry for a newspad award this year.*



This year's categories for which you can submit entries are:

- ◆ Best all-employee international share plan (companies with more than 5,000 employees)
- ◆ Best UK centred all-employee share plan (companies with fewer than 5,000 employees)

- ♦ Best employee financial education programme
- ♦ Best share plan communications
- ♦ Best use of video communication
- ♦ Best use of technology in employee share plans
- ♦ The most creative solutions to employee cultural, jurisdictional or social diversity issues when launching international all-employee share plans
- ♦ Laurie Brennan award for astounding achievement

You can enter share plans in more than one category.

Non-member companies can submit plans directly or through advisers, but advisers must be Esop Centre members in order to submit entries. Entries involving executive/managerial equity reward schemes will be accepted at the editor's discretion, provided at least 250 executives/managers participate.

For details how to enter see: www.esopcentre.com/awards. The process is simple.

The judges of the 2018 *newspad* awards will be: **Damian Carnell**, director at Willis Towers Watson, specialist in executive reward and employee share plans; **Anna Watch**, head of executive share plans (governance & compliance) at member firm BT, **Robert Head**, director of Neo Reward and formerly head of global share plans at Pearson with **Malcolm Hurlston** chairing.

Winners and commentary will be published in a special edition of *newspad* and the awards will be presented in the new year.

Sponsorship opportunity: The awards will be published *newspad*, which has an influential audience worldwide. In addition, members may propose a celebratory event to host the awards, in association with the Centre; contact Juliet Wigzell at Centre HQ. Email: jwigzell@esopcentre.com telephone: +44 (0)20 7239 4906.

Centre share plans Symposium in London, March 7

With the addition of a case history involving an online bank and EMI the speaker roster is nearly full for the third British Isles share schemes Symposium in London on Thursday

March 7 2019, hosted by Travers Smith at its London offices.

Speaker commitments to date have been received from: Colin Kendon of Bird & Bird; David Craddock of his eponymously named Consultancy Services; Bill Cohen and Martin MacLeod of Deloitte; William Franklin and Eva Simpson-Fryer of Pett Franklin; Sue Wilson and Elizabeth Bowdler of PwC; Nigel Mason and Robin Hartley of the RM2 Partnership; Nicholas Greenacre of White & Case; Damian Carnell of Willis Towers Watson; Elaine Graham of Guernsey based trustee Zedra, Jennifer Rudman of Equiniti and Elissavet Grout of Travers Smith.



Centre chairman and founder, Malcolm Hurlston CBE will welcome delegates and introduce the programme, which includes :

- ♦ employee equity plan case histories
- ♦ EMI and its *El Dorado* level almost tax-free rewards for key employees in SMEs
- ♦ How best can EMI be improved?
- ♦ Exit-only EMIs.
- ♦ alternatives for SMEs who cannot qualify for EMI tax-approved options.
- ♦ Employee Ownership Trusts - What kind of businesses are using EOT and why?
- ♦ hybrid EOTs: the new way to structure MBOs & employee ownership
- ♦ latest developments in international share plans; share plans in volatile markets
- ♦ impacts of Brexit on employee share schemes
- ♦ interactive share plan communications – what works best?
- ♦ regulatory & compliance issues; GDPR and Mifid II
- ♦ re-energising the Company Share Option Plan; SAYE-Sharesave and the Share Incentive Plan.
- ♦ executive equity reward packages: new design parameters, performance share

plans & shareholder activism

- ♦ employee equity trustee concerns

Centre members pay £240 for speaking opportunities, compared to a £395 admission charge for member practitioner delegates. Non-member service provider delegates pay £595 for admission. *Speakers and delegates from plan issuer companies are welcome free of charge.* All fees are subject to VAT.

If you are a Centre member wanting to make a *topic presentation and/or a share plan case study*, get your speaker bid in now, in order to avoid disappointment. Please email Fred Hackworth at fhackworth@esopcentre.com or call the team on +44 (0)207 239 4971.

To attend as a delegate, book your place by emailing events@esopcentre.com

This symposium will include a buffet lunch and finish with a drinks reception including special guests, both kindly provided by our host Travers Smith, in the late afternoon.

Symposium co-sponsorship packages are available: please contact the Centre.

CENTRE AND MEMBER NEWS

Capdesk interviews 2017 award winner Nokia

Nokia entered and won the 'Best All-Employee International Share Plan' last year so Centre member [Capdesk caught up with Lisa West](#), programme manager long term incentives at Nokia, to talk advantages and pitfalls of ESPPs, how she sees the future of employee ownership, and 'Share in Success' – Nokia's global employee share purchase plan. Nokia believes its plan worked well because it is simple and only lasts one year: if employees buy and hold shares for a year they have a right to free matching shares.

Lisa West has pushed hard to offer its plan in as many countries as possible – now up to 72 countries and rising. Even employees in Iraq, Kazakhstan and Russia are free to join. Nokia submitted its award entry direct to the Centre, which has added a retro Nokia 3310 to its stock.

Computershare completes Equatex acquisition

Computershare has completed its acquisition of Zurich-based Equatex Group Holding AG from Montagu Private Equity, following regulatory approval.

Equatex's 220+ employees provide share plan administration to over 160 clients, covering around 1.1 million plan participants in 168 countries and administering around USD 40 bn in assets. Equatex is an expert in managing deferred equity compensation plans for global businesses, with clients in financial services, healthcare, industrial, pharmaceuticals, energy and IT.

"We're delighted to be welcoming all Equatex staff and clients to the Computershare group," said Naz Sarkar, ceo of Computershare's United Kingdom, Channel Islands, Ireland and Africa region. "The Equatex team have a great deal of expertise, and I am confident they will continue to deliver service excellence for all clients."

Siegfried Heimgärtner, ceo of Equatex said "We are very pleased to have received regulatory approval and to be part of the Computershare group. We remain dedicated to delivering the best outcomes for clients and participants via all of our employee plans."

UK AND WORLD NEWS

McDonnell: share your employee ownership ideas...

Labour shadow chancellor John McDonnell has sought to [turn down the heat](#), telling the Financial Times in an interview he was flexible about how to achieve the "point of principle" of giving workers much greater ownership of the companies where they work. The policy was not yet nailed down, he insisted: "If you can achieve the same objective by a different route, come and talk to us. You tell me another way of doing that that's practical, pragmatic and in line with [our objective] then great, we'll listen." The Centre has accepted the invitation.

Mr McDonnell told the FT that some executives would be happy to pay more in tax. “And those that don’t, well, we’re not forcing them into penury. [We’re] not looking at a massive hit on people.”

UK: tax system should support high productivity

If UK productivity continues to lag the country will be nearly one third less productive per hour worked than Germany by 2025 according to [McKinsey](#). Chancellor Phil Hammond takes a special interest in the productivity impact of employee share ownership.

In response, Lindsay Pentelow, head of tax at Mazars, [argues that the current tax system](#) is founded on a set of orthodoxies which turn out, on a closer look, to create economic incentives that work against productivity growth.

“Our models for collective employee participation in the mid-market sector (notwithstanding the lip service given to the ‘John Lewis model’) are, pretty terrible” Pentelow says.

“Essentially, these turn any employee return on investment into earnings taxed at the highest marginal rates of income tax and NIC. There is therefore a significant tax penalty attached to these arrangements. Collective employee participation needs to have access to the same tax treatment as direct owners of shares.”

UK: Wallace & Gromit producers hand stake in business to staff

[The owners of Aardman](#), the animation studio behind Wallace & Gromit, are handing over a 75 percent stake in the business to their 140 employees in a bid to protect the Bristol-based company’s independence.

Founders David Sproxton and Peter Lord are funding the employee ownership scheme out of the company’s cash reserve which stood at £18m in December last year.

Employees will own their majority stake in the business via a trust, similar to the way the John Lewis Partnership is organised. The 140 employees, and freelancers, of whom currently 180 work for Aardman, will continue

to receive a share of profits. Anyone who has worked for the company for at least three months of any financial year is entitled to a bonus.

Staff will have an input into the running of Aardman through a workers’ council, and the senior team will sit on a new board of directors which will lead the business and decide on the staff bonus, reporting to the trust’s board.

The company is aiming to appoint a replacement for Sproxton, who acts as managing director, within the next year and Lord will remain creative director for up to five years, but a new creative head of feature films will be hired. “We’re not quitting yet,” said Lord. “We are doing this because we love the company and because we love it we think this will be the best things for it. This is a continuity deal.”

Sproxton and Lord hope that employee ownership of Aardman will encourage the team to come up with more creative ideas and ways of working once they have a stake in the company’s future.

It is also intended to put less strain on the business financially than a management buy-out backed by debt or sale to a major studio might have done. “There is a sense of security as [our staff] know their job is safe as long as they come up with ideas,” Sproxton said. “If we sold Aardman [to a big studio] it would just become an asset on the balance sheet to be traded. They could say, let’s turn it all over to CGI and shoot it in Singapore.”

UK: sticking with Knowsley

A historic [Liverpool company](#) which specialises in tape, adhesives and packaging materials has become employee-owned.

The four selling shareholders of Shand Higson – which was founded in 1828 – have set up an EOT ownership structure to ensure that the company continues in its current form and at its Knowsley location.

This was on the back of concern that sale to a trade buyer, or accepting outside investment, might put the strong local roots of the business at risk. Simon Fisher, managing director at Shand Higson Holdings, said: “the transition to employee ownership became the obvious choice.”

UK: Roadchef workers are waiting

Concerns still swirl around a [multi-million pound payout](#) due to ex-workers in the Roadchef Employee Benefit Trust. Despite a favourable court ruling four years ago the Trust has been in a protracted dispute over tax wrongly paid to HMRC by RoadChef's former boss.

The Daily Record interviewed three beneficiaries who are still waiting.

Airdrie & Shotts SNP MP Neil Gray led calls in the Commons for the £10 million plus interest to be repaid to trustees. Gray said:

"Nervousness is setting in HMRC may not honour this assurance" but HMRC said: "We continue to engage with Roadchef Employee Benefits Trustees to resolve the taxation position."

UK: John Lewis seeks new chair

The [John Lewis Partnership](#) is searching for a new chairman after it announced Sir Charlie Mayfield is stepping down in 2020.

The partnership, which owns Waitrose and the John Lewis chain of department stores, said it would consider external candidates as well as insiders as replacements for Mayfield, who has held the post for 11 years. Sources suggested that if John Lewis wanted to hire an external candidate unfamiliar with its democratic structures and employee-ownership model the company would have to change the role of the chair to make it less closely involved with the running of the company's two divisions.

The first outsider to lead the Co-op was Sir Dennis Landau, ceo of the Co-operative Wholesale Society and later chairman of Unity Trust - lender to the first UK esops. Despite expectations to the contrary he followed the path of his predecessors. His death at the age of 91 was reported this month.

South Africa: Sasol union march against 'discriminatory' share scheme

[Solidarity embarked on three weeks](#) of industrial action in September followed by a march after a process at the commission for conciliation, mediation and arbitration came to a close without resolution on October 3.

Sasol has maintained that the Khanyisa scheme is not part of Sasol's employee remuneration or benefit structures, but was designed to benefit previously disadvantaged groups, and to bump the company's black ownership up to 25 percent.

The union, which largely represents white miners, also marched to the Johannesburg Stock Exchange where it demanded that the empowerment segment be revised to ensure that listed empowerment share ownership schemes were not race-exclusive.

Ireland: Esops threatened by Brexit

The Irish ProShare Association has warned that the [employee share ownership sector in Ireland is facing crisis](#) because of government inaction to address the threat posed by Brexit.

More than 12,000 Irish employees may be hit by increased tax bills and loss of benefits because their approved Save As You Earn (SAYE) scheme savings accounts are held in the UK-licensed banks Barclays and Yorkshire Building Society (YBS). However, this banking service will have to end if the UK crashes out of the EU with no Brexit deal to continue European Union financial passporting.

IPSA CEO Gill Brennan said: "if nothing is done then 12,000 regular Irish employees are going to be facing big tax bills on money they have saved under a Revenue approved Scheme".

EU: Parliament votes for employee financial participation

MEPs have [voted in favour of an ALDE report](#) to improve and better regulate the role of employee financial participation. ALDE is the grouping to which the UK LibDems belong.

The ALDE Report aims to stimulate the development of financial participation by raising awareness on its potential for both workers and employers, and underlines the existing obstacles, which the Commission and member states need to overcome.

MEP Renate Weber, ALDE rapporteur on this file, said: "Employee share ownership has a potential to stabilise the European economy as a whole. This report aims at creating a momentum again for EFP by emphasising the

potential of these schemes for both workers and their employers, with respect to more sustainable governance, better business continuity and access to capital for SMEs.”

The Centre - an active member of European ProEFP - gave the report a strong welcome. “Centrists have been wishy-washy in the past about share schemes with employees owning shares directly, but Renate Weber has been comprehensive and realistic. It is a call to action to which the Commission and member states should respond.”

US giants: how do Sears and Amazon compare?

[Back in the day](#), Sears earmarked 10 percent of pretax earnings for a retirement plan for full-time employees and by the 1950s, the workers owned a quarter of Sears. By contrast, one man at Amazon, the founder and chief executive Jeff Bezos, owns 16 percent of the company and is [ranked as the world's richest person](#). Pony Ma in China ranked 23rd gave Tencent employees shares from his personal holding.

Last month, Amazon stopped giving stock to hundreds of thousands of employees, even as it lifted its minimum hourly wage to \$15. Not only does this reverse what had been an unusually broad employee stock ownership programme, Amazon's decision underscores how lower-paid employees across corporate America have been locked out of profit-sharing and stock grants.

“What's happened is that shareholders' interests have squeezed out other stakeholders,” said Arthur C Martinez, who ran Sears during the 1990s and was credited with a turnaround. “The mantra is shareholders above all else.”

US: Esops put in good performance

The [Economic Performance Survey](#) shows the positive performance of companies belonging to The ESOP Association.

US: a letter to Trump

A group of legislators is [calling out the Department of Labor](#) (DOL) for engaging in enforcement activities against employee stock ownership plans (Esops) without providing meaningful guidance.

Twenty-seven members of Congress sent a letter to President Donald Trump saying the DOL “has released very little guidance on substantive issues including, for example, valuation”

According to the letter, the lack of guidance has made it difficult for Esop companies to make business decisions and find someone to serve as plan fiduciary. “Ultimately, this investigatory approach is having a destabilising effect on employee ownership, which Esop companies fear will result in material losses for workers,” [the letter](#) says.

MEMBER PROFILE



Christian Gabriel, ceo and co-founder, Capdesk

In what ways does employee share ownership serve a useful purpose?

A new trend has been consolidated over the last 10 years, with fast-growing companies avoiding the stock exchange and staying private. I will boldly argue that this has resulted in the de-democratisation of capital markets. The average person is excluded from buying shares in Uber until the valuation is sky high and therefore too late to invest. Instead, most value

will be captured by institutional investors and high networth individuals with access to private equity deals. This makes it increasingly important for companies to share ownership in order to secure a fair distribution of wealth across society. However, it also makes the equity more valuable to have due to its inaccessibility. This creates a win-win scenario. Companies of all stages can compete on talent by offering co-ownership. Meanwhile, the average person is given a chance to hold equity in the companies they believe in. The win-win scenario creates a healthy relationship between companies and employees - they are all driven by the same motives and receive the same rewards.

How can we widen and deepen the adoption and use of employee share ownership?

Firstly, we need to reduce the costs and risks of setting up employee share plans. An employee share plan should not be something only big corporates can afford to set up and manage. This means simple and elegant solutions aligned with the HMRC. No need to overcomplicate schemes and make a 120 page contract just for the sake of it. Only then will employees begin to understand what co-ownership truly means.

Secondly, equity advisers need to collaborate. Currently, a company needs to hire a lawyer to design the plan, another lawyer to devise shareholders' agreements or resolutions, a company secretary for filing, an accountant to create tax forms, and a financial controller to keep track of plans and grants. Equity advisers do not communicate with each other, and ultimately deliver completed work in various formats and contracts, which nobody understands. This intransparent way of working does not benefit the company and makes it riskier to set up an employee share plan. The ongoing management of the employee share schemes should be digitised and managed by advisers on platforms like Capdesk. Advisers should work together and offer end-to-end solutions. Contracts and plans should be delivered in an understandable and transparent way to the company.

What would you tell someone on the fence about introducing employee share ownership to their company?

Make sure to make a plan for employee ownership. If you do not have a plan, nobody will benefit. The plan should be based on well-calculated dividend projections - i.e. how much would the employee earn if we achieve certain milestones? How realistic is it to achieve this goal? How can we explain this to the employees? If the employees know what should be achieved in order to receive a certain dividend, then they are more likely to value their ownership. Unfortunately, we've seen many companies implement employee share plans where the employees did not get anything upon exit. We have seen a lot of employees leaving options worth hundreds or thousands of pounds without realising it. Ownership is the most expensive perk you give to the employee, so it should be as transparent to track and understand as stock markets are.

What do you think will change about employee share ownership over the next five years?

I think the new generation of fast growing, venture-backed companies will mature and become the new corporates. This generation will remain private and therefore employee option holders will have millions of pounds in paper money, but no liquidity. We will see institutional funds looking to buy these shares as investors look for high yields and employees looking to materialise their share options. The buyout of employee shares will prove the value of receiving share options in early-stage companies and create success stories for the employee ownership industry. [Balderton Capital \(Venture Capital investor\) has already announced a fund](#) with the stated mission of buying secondary shares and options and I believe this is just the beginning. Also, I believe the administration and communication of all employee share plans will move from spreadsheets to online platforms, like Capdesk. It's incredible how many mistakes are made due to the billions of pounds of shares and options currently managed through spreadsheets, emails and cheques.

What has been the most important development in employee share ownership during your career?

Venture funds insisting on creating option pools when investing in companies. It has become standard that investors demand companies to create option pools on 10 percent of share capital. The venture funds are cherry picking the future market leaders across industries and forcing them to share ownership with employees. It's huge.

Which change to employee share plans legislation, in the UK or elsewhere, would you most like to see?

My wish is for Europe to make a pan-European tax agreement on options and shares. As an example it makes no sense to use phantom shares in Germany, warrants in Sweden and options in the UK. Let's all agree on simple similar solutions and adopt those unanimously. That would make it so much easier for companies to attract talent and scale across the continent.

What is your idea of perfect happiness?

Continuously achieving chaos and peace at the same time.

What is your most marked characteristic?

My high energy level, speed talking and constantly pacing around when on the phone.

What do you consider your greatest achievement?

In Capdesk we have convinced many sceptic companies to create employee share plans. No longer could they blame high administration costs. It's incredible to positively impact so many employees through technology. My greatest achievement is all the employees who are now co-owners thanks to Capdesk.

What historical figure do you most identify with?

Miguel de Cervantes. Serving in the army, getting shot three times and losing an arm. Then joining another battle only to be captured by pirates for five years. When finally returning to Spain, he is imprisoned twice due to bankruptcy. Despite all of the above he has the humour to begin writing the story of Don Quixote from inside his prison cell. A story of a delusional nobleman who sets out on a knight errant fighting windmills, sheep and farmers. The book became one of the most important works in history. Most people would be scarred for life and in deep depression, but Cervantes manages to write one of the most humorous stories of all time. I strive very much to be like Cervantes - an eternal optimist despite the worst of situations. Building a company is like continuously hitting your head against a wall. Building a successful company is enjoying hitting your head against a wall.

What's your favourite book?

The 13 ½ Lives of Captain Bluebear. A Bluebear having lived 27 lives but only remembering 13 ½. Raised by mini-pirates in the fantasy world of Zamonia. Written by the German cartoonist Walter Moers. What's not to like.

Who are your heroes in real life?

My parents for having raised me, my (very) energetic twin brother and sister for travelling the world while remaining self-employed.

ABOUT NEWSBRIEF

newsbrief is the Employee Share Ownership Centre's members-only mid-month publication.

To submit a story for the next issue of *newsbrief*, sponsor the publication, or to propose someone for a member profile, contact Juliet Wigzell:

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