

January 2017

CENTRE NEWS

EOT accounting: guidance note from the Esop Centre

There has been increasing interest in the employee ownership business model in recent years, in particular since 2014 when the government introduced significant new tax reliefs to encourage companies to become majority or wholly owned by Employee Ownership Trusts (**EOTs**).

However, leading members of the Esop Centre have been concerned that accountants might not immediately appreciate the fundamental difference between an EOT and the type of Employee Share Ownership Plan trust (**ESOP trust**) which has been traditionally used to warehouse shares for direct employee equity participation.

Under UITF38, ESOP trusts were treated in the accounts as an extension of the company, in what was sometimes called the “extended equity” method of accounting. UITF38 has now been replaced by new rules for intermediate payment arrangements in FRS102; this contains a rebuttal presumption that the extended equity method applies to ESOPs (and other similar intermediary payment arrangements).

In conjunction with William Franklin of Pett, Franklin & Co. LLP and Graeme Nuttall OBE of Fieldfisher LLP, the Esop Centre discussed the issue with staff at the Financial Reporting Council (**FRC**). Following those discussions, it is our understanding that, when an EOT owns shares in a company, the presumption that extended equity accounting applies can be rebutted because, unlike an ESOP trust, an

EOT is part of the company’s ownership and governance structure and is designed to operate alongside or independently of the board of the sponsoring company.

Move on employee shares and private equity

Following a joint letter to Treasury minister Jane Ellison from the Centre and the British Venture Capital Association, a meeting has been set with officials to examine the possibility of progress. New ideas from the two bodies may break the long-term logjam.

ESOP reporting

The Centre is looking for a member to help develop a model report on share schemes for employees suitable for voluntary inclusion in company annual reports.

CONFERENCES AND EVENTS

Newspad Summit: Paris, June 15 & 16 2017



The Centre’s next international *newspad* employee equity conference will take place in Clifford Chance’s 1 rue d'Astorg offices on Thursday June 15 and Friday June 16 2017.

Hosted in Paris, the home of the OECD, the two-day summer event is an ideal forum for keeping *au fait* with the latest legal, regulatory, taxation and market trends in international employee share schemes in both Europe and the US, including the impact of Brexit on employee equity plans; doing business; discussing share plan strategies and networking.

If you would like to deliver a speaker presentation, contact the Centre's international director Fred Hackworth: fhackworth@esopcentre.com

Newspad offers delegates the following registration fee tiers:

PRACTITIONERS

Centre member:	£395
Non-member:	£560

PLAN ISSUERS

Free (subject to £50 admin charge)

These fees are not subject to VAT, as the event takes place outside the UK

Registration and fee payment entitles all attendees to:

- Take part in all conference sessions
- Buffet lunch and refreshments during coffee breaks
- Programme with access to speech summaries
- Cocktail party early evening, June 15

To register your interest to attend as a delegate, contact the Centre at global@esopcentre.com

London share schemes for SMEs conference 2017

The next Esop Centre–Institute of Directors London share schemes for SMEs conference will be held on Tuesday September 12 2017. Save the date.

MEMBER NEWS

Willis Towers Watson launches executive pay survey

Willis Towers Watson's *Executive Pay Matters* newsletter has launched a new executive pay survey focusing on the year ahead. [Click here to take the survey.](#)

Linklaters publishes *Year in Review – English Law in 2016*

Linklaters has issued a summary of the major English legal developments last year, together with developments expected in 2017. [Click here to download the four-page document.](#)

Pett Franklin SIP webinar: January 25

David Pett will be hosting a [webinar on Share Incentive Plans](#) on Wednesday January 25 at 10am.

UK & GLOBAL NEWS

UK: final spring Budget date set

Chancellor of the Exchequer Philip Hammond has announced that his first Budget will be published on Wednesday March 8 2017. This will be followed by another full Budget in the autumn, in line with the transition to one major fiscal event each year from 2018. The traditional Autumn Statement and spring Budget will be scrapped in favour of a full budget in the autumn and a statement responding to Office for Budget Responsibility forecasts each spring.

UK: Labour leader backs earning cap

Jeremy Corbyn, leader of the UK Labour party, has called for a statutory maximum wage to tackle inequality. On January 10, Mr Corbyn told the BBC that there should be "some kind of high earnings cap" but was reluctant to specify what the cap would be and whether it would apply to footballers. Danny Blanchflower, ("Danny" is a nickname; he is a

former member of Corbyn's economic advisory committee), described the policy as "totally idiotic".

USA: Secretary of State nominee share divestiture problems

Rex Tillerson, President-elect Trump's nominee for Secretary of State, has amassed 2.6m shares in ExxonMobil over his 41-year career at the oil giant. Should his cabinet appointment be confirmed by the United States Senate, Tillerson is expected to sell his shares (currently worth just under \$245m) to prevent conflicts of interest while in office. Usually, political appointees can defer capital gain tax on investments that they have to divest, but the setup of Exxon's compensation plan means that the bulk of the shares will not qualify for the tax loophole. [Fortune magazine runs through Tillerson's options.](#)

China: company which gave shares to all employees voted best to work for
Internet company Tencent Holdings was voted the best technology company to work for in China last year, according to a survey by Zhaopin and Peking University. It follows the announcement in November that Tencent's 31,557 employees would each receive 300 shares in the company over the next three years.

China: increased employee ownership considered for state-owned enterprises

China has announced that it is considering introducing employee stock ownership plans as part of plans for mixed-ownership reform in the state-owned electricity, oil, natural gas, railway, civil aviation, telecommunications and military industries.

India: enhanced employee ownership incentives expected in budget

The Indian government has proposed that equity compensation plans be taxed when the shares are sold and that the capital gains

holding period be reduced from the current period of 24 months. These changes are likely to be included in the 2017 federal budget, published on February 1.

Finland: government launches basic income trials

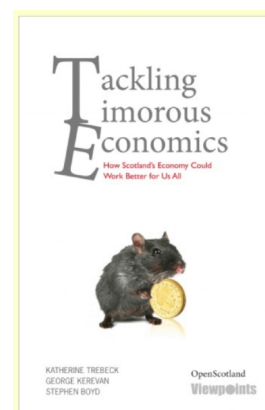
A two-year pilot scheme was launched on January guaranteeing a basic income of €560 for 2,000 unemployed Finns aged 25 to 58. Replacing all other social benefits, the sum will be paid even if they become employed. The aim is to improve the incentive to work and tackle poverty while introducing a less bureaucratic welfare system.

World's largest architectural practice owes success to employee ownership

With more than 2,500 employees and an annual turnover of over \$1bn, Gensler is now the world's largest architectural practice. According to [an article by Paul Flinch in the Architect's Journal](#), the firm's co-ownership business model is one of the underlying reasons for its success.

New book argues there is too much economic growth

[Tackling Timorous Economics](#)—by SNP MP George Kerevan, Katherine Trebeck of Oxfam and Stephen Boyd of the Scottish TUC—argues that too much growth is having hidden consequences on the societies of developed economies. The financialisation of the UK economy, they argue, has created an unbalanced economy where shareholders become wealthier while ordinary workers put in longer hours for lower pay.



MEMBER PROFILE

Steve Meiklejohn is a partner at Ogier.



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

It's a fantastic way to secure loyalty and motivate employees.

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

We need to change the mood music around this subject. There's too much negativity at the moment because of Inland Revenue focus of past few years.

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

If you work from the principle that the benefits to be obtained in terms of staff morale and motivation are paramount, then you will overcome any negative vibes that you may have.

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

I suspect we will move away from this negative path and be much more creative again in terms of what can be achieved.

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

The varied and pregnant use of the trust concept in the employee share ownership field.

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

Clarification of the rules in Jersey so as to further encourage their use in the island's business community.

Why do you think employee share ownership has enjoyed cross-party support in the UK?

Because the benefits to business are obvious.

Which aspect of the Esop Centre do you most value?

The dissemination of know how.

Which aspect of the Esop Centre would you most like to change?

None! It's perfect.

What is your idea of perfect happiness?

Eventually running three hours 30 minutes for the marathon.

What is your most marked characteristic?

Hopefully, being able to see all points of view.

What do you consider your greatest achievement?

Passing the conveyancing paper for the Jersey bar exams.

What historical figure do you most identify with?

Jesus Christ.

Which living person do you most admire?

Sir Alex Ferguson.

Who are your heroes in real life?

Cristiano Ronaldo.

Which word or phrase do you most overuse?

I do not believe I do ...in reality.

What is your most treasured possession?

My original racing green Mini Cooper Works car (last to be produced at John Cooper factory).

ABOUT NEWSBRIEF

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

To submit a story for the next issue of *newsbrief*, contact the editor:

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