
newsbrief

July 2018



RM2: UK Employee Ownership Trust book

RM2 launched the second edition of *The UK Employee Ownership Trust*, written by Garry Karch, on Thursday July 12 at a stylish reception in central London. The second edition is expanded to include recent developments in the EOT sector, as well as providing detail on structuring and financing EOT transactions.

Centre chairman Malcolm Hurlston CBE who spoke at the launch said: “Garry’s book has it all, I highly recommend it to anyone interested in learning more about EOTs. Garry was instrumental in the development of the EOT having seen the practicality of it. There has, for some time, been a US trust mechanism for firms to sell to employees. The mechanism was devised by Louis Kelso, whose friend wanted to pass on his business to its employees, but could not afford to give it away. He needed a vehicle in which to sell the business and a trust fitted the bill. However the trust was not the end of the road but the means to an end :Kelso wanted employees to enjoy the wages of capital.

“Employee ownership trusts were created under the Coalition and it is good the Conservatives now back them too. Successive small business ministers have been particularly keen on the EOT as it solves the problem of business succession. Michael Fallon MP is an advocate of employee ownership and good to have on-side. It was his suggestion and campaigning that enabled Royal Mail employees to get as many shares as they did when RM was privatised.

“But we do need a dedicated minister who would need to cross departments as with employee ownership split between BEIS and the Treasury, as it is now, the respective department ministers have not been free to add nudging-power to tax breaks.”

John Whiting, non-executive director of HMRC:

On his time at the Office of Tax Simplification Mr Whiting said simplifying tax was like pushing water uphill, but took a lesson from it. He had looked at approved and unapproved plans – the tax rules were complicated. With politicians constantly tweaking it was very difficult to dovetail the rules, but he did get some changes made, some harmonisation and simplification of share schemes.

There remains the problem of getting tax rules streamlined for unapproved schemes.

There is an image problem with shares. Rewarding employees with shares is associated with ‘fat cat’ executives. Offering free shares to all employees has, in the past, been looked on with suspicion, with some workers not accepting the shares due to the prevailing ‘us and them’ attitude. The poor image has not been helped by high profile cases of EBT abuses.

“What we are saying is that there should be a better way of passing businesses on. Anything to do with shares is very complex and there are many pitfalls, but the EOT has potential.”

Oliver Smith, head of membership, EOA:

Oliver described details of the recent year-long inquiry in employee ownership, run by the EOA and its supporters and headed by Baroness Sharon Bowles.

He said that the inquiry was ordered to put the economic case for employee ownership and set about putting an independent panel together of senior business leaders and industry experts to examine evidence from around the country drawn from interviews with 100+ employee owned businesses.

The recently published report of the inquiry – the ownership dividend – states that *while EO is not a panacea it does provide a clear and*

attractive dividend with particular relevance to succession and growth planning for SMEs and family businesses.

Garry Karch, RM2. Author of *The UK Employee Ownership Trust*:

Employee ownership is a plus for the country, for business and for individuals, but needs more widespread knowledge including that of lawyers and business advisers. We want it to be a fundamental option for succession. Currently the go to option is to sell to a business buyer, who ultimately wants to maximise profit so promises (to keep company culture, location, branding etc) are broken.

In the US, the NCEO conducted a [survey](#) which showed a massive return for offering tax breaks to EO (cost the government approx. \$2.1bn but brought in \$17bn further tax revenue and savings in benefits by keeping many in work).

The second edition of the book builds on four years' experience of EOTs and aims to give an overview and look at the question "how can we make it better?" - Part of the answer is to simplify the finance aspect with a change in tax rules around lending – and to look at how to help bridge the wealth and equality gap through, for example, combining the EOT with a SIP.

CONFERENCES AND EVENTS

Guernsey seminar: November 30

This year's Guernsey employee share schemes and trustees seminar, jointly organised with STEP, will take place on November 30 at the Old Government House Hotel in St Peter Port. Alison MacKrill of STEP Guernsey, Graham Muir of CMS, David Pett of Temple Tax Chambers, Paul Malin of Haines Watts and Elaine Graham of Zedra are all confirmed as speaking at the half day event.

To book your place, email events@esopcentre.com or call 020 7239 4971.

WEBINAR

Garry Karch, of RM2 will introduce [seven business valuation techniques](#) and how they can be applied in different situations on July 25 from 11:00-11:45.

CENTRE AND MEMBER NEWS

WEG publishes its first worked example

The Employee Shares Worked Example Group (WEG) published its first worked example, agreed with HMRC Shares and Assets Valuations, on July 9 on the [understandings](#) section of the Esop Centre website. Centre chairman Malcolm Hurlston said: "The publication of the Healthcare worked example is a significant moment in working with HMRC. In the past collaboration has typically been good but changing pressures of demand and staffing have made this the new approach the best way forward.

"Other worked examples are in the pipeline and practitioners are encouraged to submit suggestions to the secretariat: weg@esop.com.

"I congratulate William Franklin and Tony Spindler on foresight from which many will benefit."

Graeme Nuttall announced Executive ESOP Fellow

Graeme Nuttall OBE of Fieldfisher has been named as one of 22 selected [fellows](#) by The Institute for the Study of Employee Ownership and Profit Sharing at Rutgers University. The fellowships are provided to individuals researching the impact of broad-based employee share ownership, equity compensation, gain sharing, profit sharing, and worker cooperatives.

William Franklin: The Strange Death and Resurrection of EMI

William Franklin, of Pett Franklin has published an article in *Tax Advisor* which considers the recent interruption of the EMI scheme due to the government failing to secure a timely extension of the existing exemption from the EU State Aid rules. A link to the article can be found [here](#).

Clifford Chance partner elected vice president of the Law Society of Hong Kong

Brian Gilchrist of Clifford Chance has been chosen to be [vice-president](#) of the Law Society of Hong Kong.

Bird & Bird moves to new Hungarian office

Bird & Bird has moved into a [new office in Budapest](#), bringing its Hungarian operation under one roof. Konrád Siegler, partner at Bird & Bird said: "This marks a new phase for Bird & Bird in Hungary, as we completely combine businesses which have been present in the market for more than 20 years. The complementary strengths of the teams and synergies between their areas of work will be further enhanced, enabling us to fully service our clients from a single common platform."

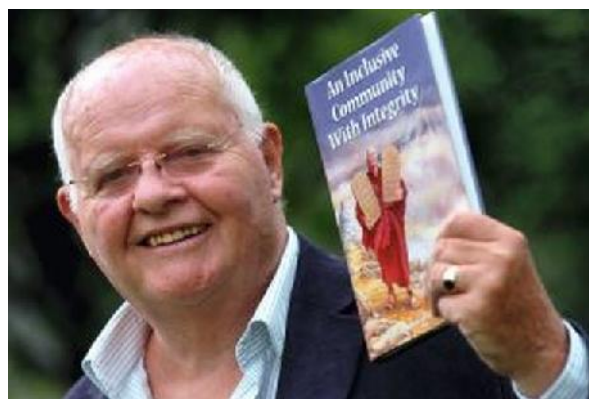
SANNE appoints new cfo

SANNE has appointed [James Ireland to be its new cfo](#). He said: "I have been working with SANNE for a number of years and watched it successfully grow and go from strength-to-strength. This is testament to its fantastic leadership team and the deep expertise the people at SANNE have collectively. In joining the business, I am really excited to be part of SANNE's ongoing journey and I look forward to helping to support its continued growth and ultimately achieving the firm's global aspirations."

YBS wins workplace culture award

Yorkshire Building Society has won the [2018 Lotus Award for Workplace Culture](#). The Lotus Awards celebrate companies across the globe which encourage employee engagement.

UK & WORLD NEWS



Esop hero Terry Thomas dies

The Centre regrets to announce that Terry Thomas, Lord Thomas of Macclesfield, has died. Centre chairman Malcolm Hurlston said: "Terry was the first chief executive of Unity Trust, the financial institution co-founded by the Co-op Group and leading trades unions. Having followed up a story about trades unions using "esops" to buy an airline in Denver I arranged for Terry and myself to visit esop companies in the US in late 1984 - in California, Colorado and Florida where we also met union leader Lord Basnett of GMB.

"Terry immediately saw the potential and asked my friend David Reid of Clifford Turner to devise a practical esop structure for the UK. Unity was the first lender to many UK esops including Roadchef, whose managing director Patrick Gee had been introduced to Terry by David Basnett.

"He went on to bring ethics into banking and led the Co-operative Bank to its highest level of success before receiving a peerage on his retirement. As well as bringing the esop to Britain he was the foremost personal banker of his century."

Lack of Brexit progress puts Irish share benefits at risk

The Irish ProShare Association (Ipsa) has [warned that more than 10,000 employees' share benefits are at risk](#) due to the lack of progress made on Brexit passporting rules for financial firms. UK firms can currently sell their services throughout the EU with a UK banking license, and do not need to get a license to operate in each member state where they do business. Following Brexit, however, this will end and could have a particularly adverse impact on employees at Irish companies who have Save As You Earn (SAYE) savings schemes warned Ipsa ceo Gill Brennan.

Ms Brennan said: "According to a report this week from the European Banking Authority (EBA), banks have failed to make enough progress in their Brexit preparations and this is very worrying in terms of the potential downside for Irish employees with SAYE share option plans.

"Most of our members surveyed that are currently utilising revenue approved Save As You Earn share option plans noted that the banks that are holding their savings are all either UK-based or UK-headquartered. We found that across Ipsa members, these banks are at present holding SAYE savings for Irish employees in the region of €12m on behalf of nearly 10,000 employees in Ireland.

"If the Brexit financial passporting issue is not resolved then these employees could face unexpected tax bills and loss of expected benefits.

"This is only a drop in the ocean. If it is in any way reflective of many other companies that have availed of this revenue approved SAYE scheme, it has to raise a concern among the [Irish] government's Brexit negotiators."

Employee Benefits poll: Financial benefits motivate employees most

A recent poll by Employee Benefits Magazine found that 29 percent of individuals believe that [financial benefits](#), such as employee share schemes, are the most motivational for employees. Holiday purchase, and health and wellbeing benefits were judged to be the second and third most important benefits with 25 and 22 percent of the vote respectively.

Treasury sub-committee Roadchef evidence session postponed

A Roadchef evidence select committee meeting scheduled to have taken place on Monday July 9 is to be rearranged following the resignation of Boris Johnson. It was decided, following an informal discussion at the session, that it should take place another day due the absence of a number of committee members who were waiting to hear the prime minister's subsequent statement.

John Mann MP said: "This is a session we want to have... [but] some things cannot be predicted... we will sort something out quickly and make sure this session is not lost". Newspad's coverage will inform the debate.

Barclays: women outperform men at picking shares

[Analysis of 2,800 Barclays Smart Investor customers](#) shows that female investors outperformed both the FTSE 100 and their male counterparts over the last three years in terms of return on investments. On average annual returns on investments for men were a marginal 0.14 percent above the performance of the FTSE 100; annual returns for women were 1.94 percent better than that of the FTSE 100.

Professor Neil Stewart, of Warwick Business School, who carried out the research said: "Men are just a little more likely to be drawn to more speculative stocks whereas women are more likely to focus on shares that already have a good track record. Women also take a more long-term perspective, trading less frequently. This possibly means women are investing more to support their financial goals, whereas men are attracted to what they see as the thrill of investing."

Former Anglo Irish Bank ceo given suspended sentence for illegal share buy back scheme

David Drumm, former ceo of Anglo Irish Bank, has been given [a 15 month suspended sentence](#) for *instigating* an illegal share buy back scheme, which aimed to halt the bank's falling share price in July 2008. Mr Drumm was charged with authorising unlawful loans to 10 property developers to buy shares in the bank.

MEMBER PROFILE



June Davenport, head of EMEA trust and nominee services, **Solium**

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

- ◆ Attracting and retaining key staff

- ◆ Allowing employees to share in the success of the company
- ◆ Helping align employees with corporate goals and culture

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

- ◆ Reduce vesting periods
- ◆ Simplify plans and provide easier access to shares
- ◆ Immediate visible access – something tangible for a mobile generation

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

- ◆ Review your culture and see how or if a share plan would be a good fit
- ◆ Do a cost/benefit analysis to make sure it's a viable option
- ◆ Research has proven that companies that offer share plans are more successful and have higher levels of retention than those that don't

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

- ◆ The way plans are offered – more international plans offering more simplicity especially for mobiles
- ◆ Shaping plans to be more attractive to younger generations – offering tangible instant gratification

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

- ◆ The internet and developments thereof – having the ability to manage plans and transact online is invaluable
- ◆ The development of mobile technology and the ability to do the above at any time anywhere

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

- ◆ Something akin to the 401K where employees shares move as they move employers, allowing them to build a more balanced portfolio and save for things like retirement

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

- ◆ In part due to the potential to reduce the burden on the state re pensions etc

Which aspect of the Esop Centre do you most value?

- ◆ The lobbying and connections to parliament

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

- ◆ Expand engagement with issuers to improve overall success and reach

What is your idea of perfect happiness?

- ◆ Family dinners with all our children and 'plus one's', in the same place, at the same time.

What is your most marked characteristic?

- ◆ Two – friendly and driven.

What do you consider your greatest achievement?

- ◆ Joining a small start up in Canada – Solium and contributing to the growth

and success of the company. On a personal level – not 'permanently' losing any of my three children – misplaced once or twice!

What historical figure do you most identify with?

- ◆ Maggie Thatcher

Which living person do you most admire?

- ◆ Richard Branson

Who are your heroes in real life?

- ◆ Hospice workers and those who care for the elderly.

Which word or phrases do you most overuse?

- ◆ "To be honest"
- ◆ "By the way"

What is your most treasured possession?

- ◆ My passports (UK & Canada) – provides me with the gift of travel.

ABOUT NEWSBRIEF

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

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

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