

newsbrief

July 2020



WEBINARS

Mark July 16 and 21 and August 4 and 14 in your diary for Centre webinars.

Tools of engagement – the power of all-employee plans

July 16 at 11:00am

How share plans can be used **to reward and retain the wider workforce** in and to convey how businesses value employees' commitment and contribution. Sarah Keith, director, Tax & Legal, at Deloitte will look at the opportunities and challenges of using UK tax approved plans from a technical and administrative angle and how these plans can be flexed for overseas roll-out.

Share valuation: the wisdom on price-setting for your employee share schemes

July 21 at 11:00am

Share valuation is a key step in the design and implementation of an employee share scheme for an unquoted company. Tax or fiscal valuations in the UK are subject to special rules which have evolved over time out of a combination of case law and legislation. Whether a valuation is acceptable for tax purposes is ultimately a matter for HMRC. HMRC's Shares & Assets Valuation Office reviews and agrees on share valuations for the tax-advantaged employee share schemes, previously known as tax-approved schemes. Since HMRC withdrew its facility for Post-Transaction Valuation Checks and PAYE Health Checks for valuation, it is vital that your valuation is rigorous in order to ensure that it is credible and capable of a robust defence if subsequently challenged by HMRC.

David Craddock is an expert employee share schemes *and* expert share valuation

consultant. He represents the Centre on the Share Valuation Worked Examples Group (WEG), to which he is also technical secretary.

Esop Sofa - Lockdown stories: adapting to business life during the pandemic

August 4 at 11:00am

Investec's Kevin Lim will chat with his guest Laura McNeil of Blue Prism on how business is faring and how her and her colleagues' **work life has changed during covid**. He will ask how the company's share plan has been performing since lockdown.

The case for employee share ownership: the heart of the matter revealed

August 14 at 10:30am

What does **employee share ownership really mean**? What opportunities are there for effective employee share ownership?

Looking at the design and structure of schemes, the human resources dimension, the origins of equity reward and its political appeal in the UK and internationally, share schemes expert David Craddock will take us to the heart of the matter.

Recordings of our earlier broadcasts can be accessed at: **Awarding Shares To Employees In A Covid-19 World; The Employee Share Trust: Establishing A Dynamic Market For Your Employee Share Schemes; How To Ensure All-Employee Share Plans Remain Relevant; Esop Sofa - What Are Today's Big Employee Share Ownership Questions?; Enterprise Management Incentives (EMIs) – Powerful Lessons From Five Practical Case Studies; Enterprise Management Incentives (EMIs) – Igniting Your Business By Sharing Success; Esop's Tales; The Foundation Of The Esop Centre.**

Broadening horizons, Z/Yen Group Limited is hosting a range of webinars over the coming weeks. For a full listing of Z/Yen, Long Finance, FS Club, and Esop Centre webinars look here - <https://fsclub.zyen.com/events/webinars/> - or sign up for mailings - <https://fsclub.zyen.com/#Subscribe>.

Our weekly Employee Share Ownership Bulletin tracks research institute and other thinking round the world - <https://fsclubcrm.zyen.com/newsletter/1966>.

CENTRE EVENTS

Jersey 2020 – now on September 25 2020

Our **Jersey share schemes and trustees seminar**, held in partnership with the Society of Trust & Estate Practitioners (STEP-Jersey branch), has been re-scheduled for Friday September 25 with the proviso that travel and social distancing restrictions are eased by the autumn. Given the hiatus in Brexit negotiations, corporate governance, the international reach of trustees and the growth in employee ownership trusts, it has never been more important for those interested in Eso schemes and trusteeship to be updated this annual seminar.

The programme includes sessions on the loan charge, case law, and Esops along with “A day in the life of a tax inspector” - looking at the knock-on effect of the pandemic for those working at HMRC. The seminar will conclude with a lunch for delegates and speakers.

Rt Hon. Mark Field, who was a strong supporter of the Crown Dependencies when a shadow Treasury minister, will be a guest of honour.

Experts include: Katherine Neal, Ogier; Graham Muir, CMS; David Pett, Temple Tax Chambers; David Craddock, David Craddock Consultancy Services and Paul Malin, Haines Watt. The seminar will be chaired by Malcolm Hurlston CBE, who first visited the seminar venue, the Pomme d’Or Hotel, during his national service in 1957. “Those were uncertain times and I wondered whether I would be able to travel so far again” he reveals. “Not unlike now.”

Prices: Esop Centre/STEP members: £375, Non-

members: £480. To reserve your place, email juliet_wigzell@zyen.com or call the Centre on +44 (0)20 7562 0586.

Fourth British Isles share plan symposium – March 24 2021

The Centre’s **fourth annual share plans symposium** and *newspad* awards presentation will take place on the revised date of **Wednesday March 24 2021** at an impressive Central London location. The programme will be as advertised on the Centre website for the original event, postponed from March 26 this year, owing to Covid, with topic slots updated. The Centre had hoped to re-run the symposium this autumn; however many member accounting, consultancy and legal groups are not allowing their London premises to be used for public conferences and other events until next year. Our thanks to **Ocorian** for sponsoring the symposium, which will offer the best of latest guidance on employee equity schemes for companies, both large and small. For all enquiries, contact Juliet at juliet_wigzell@zyen.com or call +44 (0)20 7562 0586. Admission prices will remain as advertised.

CENTRE AND MEMBERS NEWS

PricewaterhouseCoopers named best employer for equality and inclusion

Congratulations to Centre member PricewaterhouseCoopers (**PwC**). It has been recognised as one of the **best employers for equality and inclusion alongside NHS**.

The virtual ENEI Awards held on July 8 2020, saw 25 businesses win accolades in 20 categories and a further 22 entries highly commended for their efforts.

PwC was named the best private sector employer for equality and inclusion and was shortlisted for Team of the Year, Advancing Social Mobility in the Workplace and Innovative Ways of Working categories.

Leading organisations for equality and inclusion are recognised by ENEI’s

benchmarking system, looking at how the employer provides quality advice, benchmarking training, events and services. It also takes into account how they support employees to develop innovative solutions, offer access to legal advice through the employment cycle, deliver research-led training and consultancy services and facilitate change through leadership and engagement.

How are employers dealing with Covid?

Debate has recently centred on what the 'new normal' might look like, and how to manage the return to the workplace. **Lewis Silkin** has conducted a **series of employer surveys** since March, collecting information from HR and legal professionals in a range of businesses on how they are responding to the pandemic. The results of the latest survey, in early June, indicate that long-term change is upon us.

A third of employers to freeze pay

More than one-third (35 percent) of UK employers are planning to freeze pay or postpone pay rises, according to **research by Willis Towers Watson**.

Keith Coull, senior director at Willis Towers Watson's Global Data Services business, said: "It's no surprise to see that many businesses are reducing their pay budgets this year. Most organisations around the world are in cash preservation and cost optimisation mode and 80 percent of organisations in the biggest economies have already implemented a hiring freeze.

"The full extent of the economic impact of the pandemic is yet to play out as some companies froze pay this year to shore up cash flows, whereas others had already announced pay rises before the pandemic hit, so may feel more of an impact next year."

Impact of Covid on employee share schemes – HMRC bulletin

On June 8 2020, HMRC published Employment Related Securities Bulletin 35 which covers the impact of Covid on employee share schemes.

In **MM&K's view**, HMRC has helpfully addressed some of the issues that have impacted SAYE and SIP. The proposed changes to the EMI

legislation through the Finance Bill should also alleviate some of the major concerns of EMI option holders.

However further on the performance conditions attaching to certain EMI and CSOP options granted before Covid may need to be substantially altered. Would HMRC view major alteration to the performance conditions a fundamental change to the option?

Incentivising employees while conserving cash

Pinsent Masons' Fleur Benns and Tom Barton write in *Out-Law* on how **share plans can offer UK employers alternatives for incentivising the workforce** at a time when many will be looking for ways to retain cash in the business.

The Coronavirus Job Retention Scheme (CJRS) has taken off some of the short term pressure. However, as the longer-term impact becomes clearer - and the CJRS scheme begins to wind down, with employment costs gradually transferred back to the employer - companies will need to become creative in the way in which they manage cash.

KKR Partners adds veteran executive Dan Daniel to pursue acquisition opportunities in the US

Global investment firm **KKR** announced this month that it is joining with William K "Dan" Daniel, formerly a senior executive at Danaher Corporation, to pursue opportunities to acquire an industrial business headquartered in the United States.

Over the last ten years, **KKR's Industrials team has focused on employee engagement** as a key driver in building stronger companies. The centrepiece of the strategy has been to make all employees owners in the business by offering them an equity stake. Through these programmes, over 25,000 employees have become owners and more than \$1 billion of equity has been allocated to them. Beyond sharing ownership, KKR supports employee engagement by investing in training, driving improvements in worker safety and by supporting involvement in the community.

"Teaming up with such a highly talented executive like Dan is a wonderful opportunity for us and we see tremendous potential to add value together. Dan is a proven leader with a

track record that speaks for itself,” said Pete Stavros, KKR partner and co-head of private equity in the Americas. “We are excited to deploy our model behind Dan and to create long-term value for all stakeholders in a business.”

UK NEWS

Fifteen percent of UK small businesses plan to cut pay in recession

The **Employee Equity Trends 2020 report compiled by Vestd**, the share scheme and equity management platform, highlights the struggle many SMEs are currently facing.

The study of 500 UK-based business founders, owners, partners and C-level executives revealed that nearly half were rethinking how they run their business, and as part of that would be looking at sharing ownership with their team.

Ifty Nasir, the co-founder and ceo of Vestd, explained: “Some employers are in a very difficult position, they either cut their staff numbers and struggle to remain productive, or they have to cut pay, which risks losing the best employees. Pay cuts for this many people is unprecedented and, without their agreement, is illegal. It would seriously deplete spending power and that could trigger an even deeper recession.”

“Our research shows that the more progressive companies are turning to sharing equity, as it can be used to offset short term pay issues. In the long run it could be worth many times more than any gap in salary growth.”

To ‘build back better’, we must tackle executive pay

In an opinion piece for Open Democracy, Luke Hildyard of The High Pay Centre says: “This year, for the first time, **UK listed companies are required to publish ‘pay ratio’ data** in their annual reports. This must show the total earnings of the company’s ceo compared to the individuals at the upper, median and lower quartiles of the pay distribution of their UK employees.

“The figures are of considerable value to the debate about economic inequality in the UK.

Rather than relying on abstract economy-wide data showing income shares and levels, we can now look specifically at some of the biggest employers in the country, understand the scale of inequality they contain, make intra-sector comparisons, and propose revisions to the balance between high and low earners.

“[The High Pay Centre] found that the median gap between the ceo and the lower quartile threshold of the pay distribution was 78:1 for all companies in the sample, while for the larger FTSE 100 companies it was 109:1.

“The research also shows that relatively minor redistributions from the upper quarter of earners to the lower would make a significant difference to the earnings of the latter group.”

Next trust firm ups stake

A company which acts as a trustee of a **Next employee shares trust** has upped its stake in the listed retailer. Computer Trustees (Jersey) Ltd now has three percent of the shares in the Leicester-headquartered company.

WORLD NEWS

Europe: When employee stock options pay off

Employee stock option plans have become a popular way for young start-ups to attract great talent. Employees are rewarded for taking a chance on a newly founded company with virtual shares that may one day pay off big if the company goes public. Such “magic bean” tales have been known to happen in Silicon Valley, think Amazon or Facebook, but the typical Esop story in Europe can be long and uncertain.

After its latest funding round, digital tax accounting firm, **Taxfix offered eligible former and current employees the option to sell part of their virtual assets**. In total it paid out 3.8 million euros to employees. “We are happy to be able to demonstrate that the virtual shares which you were granted and which you earned are indeed of real value,” explained founders Mathis Buechi and Lino Teuteberg in their letter to all eligible employees.

Dialog Semiconductor issues four million new shares for ESOT

Dialog Semiconductor plc has offered, and agreed to allot, and the Dialog Semiconductor plc Employee Share Ownership Trust (the Trust) on behalf of its beneficiaries has agreed to subscribe, **4,000,000 new ordinary shares of 10 pence each** (the new shares).

The company expected that the Frankfurt Stock Exchange will grant the new shares admission to trading on or about June 29 2020, and that introduction of the new shares to trading on the Regulated Market (*Regulierter Markt*) of the Frankfurt Stock Exchange to take place on or about July 1 2020.

The Trust was established on October 29 1998 to encourage and facilitate the holding of shares in the company by or for the benefit of the directors and employees, including by the transfer of shares in the company to directors and employees on exercise of share options or vesting of conditional shares that are awarded to them under its share incentive arrangements from time to time. The new shares have been allotted to the Trust to ensure that it holds sufficient shares in the company.

Germany: Hornbach Baumarkt AG resolves share buyback for employee share programme

On July 6, the board of management of Hornbach Baumarkt AG, based in Bornheim/Pfalz, resolved to acquire up to 60,000 treasury stock shares pursuant to § 71 (1) No. 2 of the German Stock Corporation Act. The shares are to be acquired in preparation for the **annual issue of shares to employees** scheduled to take place at the end of 2020. The buyback meets the objective of an employee share scheme as defined in Article 5 (2) c) of Regulation (EU) No. 596/2014 of the European Parliament and Council dated April 14 2014.

Ireland: Group calls for government backing for shares-for-salary scheme

A representative organisation for companies that have some form of employee share ownership has called on government to allow changes to Revenue rules so that **more**

employees could take shares instead of some of their salary to help companies cope with cash flow during the Covid-19 pandemic.

IPSA is seeking government backing for a shares-for-salary scheme to help “struggling businesses protect jobs and withstand the impact of the Covid-19 economic crisis”.

Lessons from China Inc.?

Observer Research Foundation reports that Covid came with its own set of **challenges for each nation**, revealing the importance of public healthcare systems. Combined with one of the earliest nationwide lockdowns, it catapulted China into a downward spiral for growth and development alike. The Chinese congress binned its growth expectations for 2020 and would inevitably have to delay its deadline to lift its people out of absolute poverty. The shutdown proved especially challenging for businesses. More than 4,29,000 firms in China closed permanently in the first quarter of 2020 and over 2,40,000 filed for bankruptcy, giving the world a glimpse into the struggles faced by companies weathering the crisis and their future. From employee engagement to rapid digitalisation, there are many lessons to be learnt from Chinese businesses as the world reopens.

Zimbabwe: Dairibord increases employee share ownership

Chronicle reported that Dairibord Holdings Limited has **increased shares for its employee share ownership trust** to 17.9 million from 10 million after the group’s shareholders passed the resolution at the annual general meeting in Harare at the beginning of July.

The group established the DZL Holdings Employee Share Trust in April 2005. The trust was granted a loan amounting to \$10 million by the company to acquire 10 million shares, constituting approximately 3.15 percent of the total issued share capital of the company at the time of establishment.

USA: When bosses shared their profits

Since the 1980s, profit-sharing has declined. It deserves to make a comeback.

The *New York Times* reports, “after the

bruising crises we're now going through, it would be wonderful if we could somehow emerge a fairer nation. **One possibility is to revive an old idea: sharing the profits.**"

The original idea for businesses to share profits with workers emerged from the tumultuous period when America shifted from farm to factory. In December 1916, the Bureau of Labor Statistics issued a report on profit-sharing, suggesting it as a way to reduce the "frequent and often violent disputes" between employers and workers, thereby "fostering the development of a larger spirit of harmony and cooperation, and resulting, incidentally, in greater efficiency and larger gains."

But since the 1980s, profit-sharing has almost disappeared from large corporations. That's largely because of a change in the American corporation that began with a wave of hostile takeovers and corporate restructurings in the 1980s.

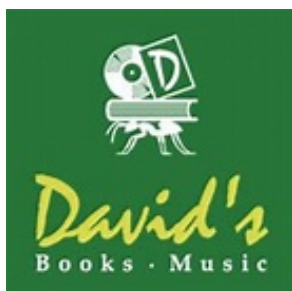
But, there are many ways to encourage profit-sharing. For example, Congress should prohibit the Treasury or the Federal Reserve from bailing out any corporation that doesn't share its profits with its employees.

It's impossible to predict what kind of America will emerge from the current crises, but the four-decade trend toward higher profits and lower wages is unsustainable, economically and politically. Sharing the profits with all workers is a logical and necessary first step to making capitalism work for the many, not the few.

EOT NEWS

Award-winning bookshop moves to employee ownership

David's Bookshop, in Letchworth, is thought to be one of the country's first independent bookshops to **convert to an employee owned structure** – a move welcomed by staff during these unprecedented times.



Owner Paul Wallace – who bought the business from the founding Armitage family in 2009 – has stepped down, leading the business to remodel as an employee ownership trust.

Fd Andy Oaten said: "The staff are already embracing the employee ownership trust ethos and the additional input from all sides will be invaluable for our future success."

"The prospect of profit sharing is an incentive but we have a fully committed and talented team in place already, which is a huge bonus in itself. With this – and the added increase in our social media presence – we can only see a bright future for David's."

Digital firm supports workers with new employee ownership initiative

Answer Digital is set **to give its 85-strong team ownership in the business** through a new employee ownership trust.

Founder and managing director, Gary Parlett commented: "To support the team and create a platform for what comes next, we have decided to move Answer Digital to employee ownership. It means everyone will have a stake in building a sustainable business that has the freedom to do great work."



"Typically, employee-owned businesses have higher productivity, greater levels of innovation and are more resilient to economic headwinds. The people that work in them are often more engaged, happier in their jobs and less stressed."

"We believe that employee ownership can answer some of the big questions we are facing as a society and an economy. We need to address the balance between work and reward and unite people behind a common purpose."

Seetec employees go to polls as firm cements employee ownership structure

SeetecInspire, a provider of employment, skills, apprenticeships and rehabilitation services, cemented its **new employee ownership structure** as it elected its first employee council, which will see one employee serve on the company's new Employee Ownership Trust board.



Seetec Group ceo, John Baumbach, said: "These elections are a critical milestone as we implement our new employee ownership structure, which puts the future of our business in the hands of our people. "It is Seetec's employees who know the people they support best and understand what it takes to deliver life-changing services. These new structures give our employees influence as owners and a stake in the success created when Seetec delivers social value. I look forward to working with the employee council and the employee trustee director on the board to help strengthen our business and our offer to the people and places we serve."

Knowles Associates installs EOT

Colin Knowles, founder of Colchester-based Knowles Associates, has transferred 100 percent ownership of the business **to its 54 employees through an Employee Ownership Trust**.



The reason behind the decision to become an EOT was to secure a sustainable future for the business and, crucially, to retain independent

status which has been a major factor in Knowles Associates' success.

Mr Knowles said "We are excited to embark on the next stage of our strategic growth as an employee owned business."

The transition process was led by Centre member Fieldfisher.

Architects join forces with an EOT

Camerons Strachan Yuill Architects brings together the collective experience of Camerons Architects, Douglas Strachan Architects and Bain Swan Architects.



The combined team has the capacity to deliver across a range of scales and sectors, from four offices; in Dalkeith, Galashiels, Edinburgh and Eyemouth. The team will own the majority of the unified practice **through an employee ownership trust**, and the practice will be led by two managing directors; Gavin Yuill and Douglas Strachan.

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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