
newsbrief

March 2019



EVENTS

British Isles symposium

The 2019 British Isles symposium on March 7 was strongly attended and well received.

A full report will appear in April *newspad*.

Copies of the presentation slides are available to members at £100 plus vat from esop@esopcentre.com

More than 50 participants heard talks and took part in discussions on: going Global - expanding share plans offshore; Brexit and employee share schemes; the SIP - the benefits to both employers and employees; discretion and judgement in executive plans - issues arising from the 2018 UK Corporate Governance Code; employee share plans in volatile markets; expanding the remco remit - engaging with employees; case studies on the employee shareholder experience and use of an EMI scheme; trustee issues; share plan administration in privately held SMEs; managing expectations - the EMI risk and reward rollercoaster; alternatives to EMI; and hybrid EOTs - a new way to structure MBOs and employee ownership.

The event and awards reception were hosted by Travers Smith.



***newspad* awards 2018**

NEWSPAD editor Fred Hackworth won the inaugural Laurie Brennan award for ‘astounding’ achievement in recognition of his campaign for Roadchef beneficiaries.

He received his award from Paul Jackson of the Investors’ Chronicle, the leading national journalist on employee share ownership, at the reception which concluded the British Isles symposium.

True to form *newspad* carried a front-page lead on the national story of the day affecting the crown dependencies, calling out the ‘malcontent’ MPs who were trying to make trouble. Fred's lead story was accompanied by an editorial by Helen Hatton - former Jersey and Isle of Man regulator. She put the record straight explaining that Jersey had met OECD standards on transparency. “The beneficial ownership of all Jersey incorporated companies is available to law enforcement locally and internationally.”

Fred’s thoughts on Esops and reporting them:

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

First, we need a national government-led campaign to ‘nudge’ smaller quoted

companies and SMEs into offering their employees the chance to participate in all-employee share ownership plans, because it is in these sectors that employee share ownership is weakest. The very largest UK companies, mostly in the FTSE100, know all about it and should be left to work out themselves how to increase in-house participation rates in their employee equity programmes.

Secondly, Treasury/HMRC could revive the Share Incentive Plan (SIP) by allowing the full Income Tax and NICs relief to apply after three years of holding the shares – and not five years, as at present. This is because many employees these days won't participate in Esos if they have to wait for five years to get the tax benefits; most likely because they won't be working for the same employer by then.

Stemming from that, we should increase the portability of employee shareholdings, instead of asking mobile employees to cash them in when they change jobs. A way forward would be to force the company to buy, on behalf of the parting employee, the same value of shares (as those held in the leaver company plan) and place them in the employee's new company and for HMRC to accept those new employee shares as having the same status (in years of participation status) for the normal tax advantages.

Government should make all-employee participation mandatory in each company's main employee equity plan before allowing any of its other share plans (e.g. performance or management-only plans) to qualify for tax relief.

Long-term employee plan participants should be permitted to spread some of their equity investment risk into partially diversified collective funds, as in France, where their employee investment funds (FCPEs) operate as collective investment

schemes for workplace savings. Employers often award matching shares to employees who take up this option. Such an optional facility would help overcome 'all your eggs in one basket' fears about being a long-term Eso investor in your employer, in case its share price collapses some years on.



Which employee share ownership story have you most enjoyed reporting on and why?

It has been heartening to have received many encouraging letters and emails from the original participants in the Roadchef Esop, as the Centre continues to fight on their behalf for payment of the High Court ordered compensation which they are still due, five years after the ruling in their favour. *Newspad* tries to carry a new story, at least every two months, centred on the battle between lawyers, HMRC, politicians and others over the compensation pot. These former motorway services staff needed someone to speak up for them, as the Centre and I have tried to do.

How does reporting on employee share ownership differ from reporting on other financial topics?

Reporting employee share ownership events, or developments, is often very technical and

there is little information ‘spoon feeding,’ or deliberate spin, whereas these days financial reporters in wider spheres find themselves buried in media releases put out by corporate PR advisers. Reporting Eso involves assessing facts, like employee plan participation rates, regulatory changes, or new executive equity reward scheme details. The bugbear of general financial topic reporting is trying to decipher the hidden agenda of some advisers who tip off journalists about specific failings, or over-optimistic assessments of prospects in various companies.

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

The future of all-employee share ownership over the next five years may well depend on whether the developed world can avoid another financial recession of the intensity of the 2008-9 worldwide banking crisis. Funding pressure will rise in developed economies on the quite generous scale of the tax and/or NICs reliefs currently allowed under various tax-approved schemes, such as SAYE, the SIP, and the key-employee share options based Enterprise Management Incentive. An incoming Labour government would certainly revisit the already near £1bn in tax and NICs relief afforded to the mere 27,000 EMI participants.

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

The introduction of both the SIP and EMI by the then Labour chancellor Gordon Brown in the year 2000-1 was undoubtedly the most important development in employee share ownership during my ‘watch.’ Mr Brown said he had stimulated employee share

ownership because he wanted to improve the UK’s mediocre productivity rates, but the jury is still out over whether the SIP and EMI have made a difference on that front. The advent of the SIP has made participating employees think harder about if and how often they should buy the company’s shares, whereas the structure of SAYE-Sharesave has tended to encourage participants to sit back, once they have signed the savings contract. SIP has made companies think hard too about to what extent they should award free matching shares to employees who buy partnership shares. EMI has transformed the incentives front in UK gazelle-type SMEs, of whom almost 10,000 have unvested EMI options in play among their key employees. The raising of the annual employee Eso investment limit was a big moment too.

Which words or phrases do you most overuse?
I’ll be with you in a minute....

What is your most treasured possession?
An upstairs study, from which I can see the sea.

If you were to die and come back as a person or a thing, what would it be?
A witty playwright like Tom Stoppard.

Which talent would you most like to have?
I’d like to have been a good party pianist, but it’s my younger son who is the ivory tickler.

Who is your hero of fiction?
Eugene de Rastignac, the young chancer in Balzac’s epic series of novels, known as ‘La Comedie Humaine’ about Paris life in the 1820-40s. I was a bit like him when I was a young man about town.....



The Xtrac Story

Xtrac is a world leader in transmission systems and driveline components and supplies virtually all the world's top motorsport teams. Its employee benefit trust was established in 1997 and contributes to its success.

Tax barrister David Pett [reflects on the Xtrac](#) story. He collected its award for 'Best all-employee share plan in a smaller company' at the British Isles symposium.

Jersey share schemes and trustees seminar

The next share schemes and trustees seminar will take place in Jersey on Friday, May 17. The joint Esop Institute/Society of Trust & Estate Practitioners (STEP) event will be at the Pomme d'Or hotel in St Helier.

Don't miss this great opportunity to update your knowledge on the key issues. Talks will cover EBTs and the Common Reporting Standard; Share scheme and EBT issues on transactions; Entrepreneurs' Relief – a review following the introduction of the economic ownership test; an update on developments in UK employment taxes and much else. The presentations will run from 9:00 am to 1:00 pm (approx.) followed by lunch for delegates and speakers. Ticket prices: Esop Centre/STEP members: £375; Non-members: £480. Reserve your place by emailing events@esopcentre.com or call the Centre on +44 (0)20 7239 4971.

Economic Affairs journal relaunch

The journal of [Economic Affairs](#), edited by Centre friend Professor Len Shackleton of Buckingham University, publishes original commentary in association with The Institute of Economic Affairs. It focuses on explaining to the public how markets can work to benefit society, and has recently been relaunched with an attractive redesign.

The IEA is rated by MPs as the fourth most influential think-tank in the UK according to ComRes, with Tories putting it second and Labour sixth.

It is supporting a strong case in favour of the offshore financial centres in [All at Sea](#) by Jamie Whyte.

Hidden Talent Part 2 launch: has workforce reporting by the FTSE 100 improved?

The second [Hidden Talent](#) report – with research undertaken by the [High Pay Centre](#) – will explore reporting on gender and ethnicity pay gaps and supply chain ethics, as well as covering progress on disclosure on employees' mental health, training and the use of agency workers.

Date: Tuesday April 2 2019 Time: 09:00 – 10:30; Venue: PLSA offices, 24 Chiswell Street, London EC1Y 4TY. If you would like to attend, contact Nikulina.Hudi@plsa.co.uk.

WEBINARS

From “Ordinary” to “Extraordinary”: Solving Your Participant Communications Challenges

March 21 2019, 3:00 - 4:00 pm ET

This [Computershare USA webinar](#) will cast a critical eye on the old and examine the opportunities for “different” with your participant communications. Panellists will provide examples and exchange ideas on the very best ways to get your participants attention immediately.

Accounting for share schemes (2019)

April 17 2019 12:30pm BST

[Corporate and Business Tax - LexisNexis](#)
Pett Franklin's Stephen Woodhouse

provides a master class on accounting for share schemes in this corporate and business tax webinar.

CENTRE AND MEMBER NEWS

Practical issues for setting up an Eso

Charlotte Fleck, an associate at Pett Franklin, has published an [article in Capdesk Insights](#) on the practical issues companies consider before setting up an employee share scheme.

Equiniti report surprises

Equiniti Credit Services has published its [latest annual research report](#), which identifies clear differences between age groups, revealing some surprising results. For example, less than a third (30 percent) of UK consumers are not comfortable applying for a loan digitally, and this figure increases to 43 percent for millennials, despite their digital literacy.

UK AND WORLD NEWS

A listening man is hard to find

As Socrates once said, ‘the only thing I know is that I don’t know’, but he was fortunate in knowing a woman who did know: Aspasia of Miletus, philosopher and instructor of eloquence. Despite her suffering much from [lewd mistranslations](#) there is [recent research](#) which suggests Plato modelled his wise Diotima on Aspasia, making her a foundational philosopher of western thought if not speech itself. In tribute to International Women's Day, Aspasia was cited in the chairman's introduction to the British Isles symposium.

Patience is a (female) virtue

[Women keep their stock options longer than men](#)—and to that extent make their employers (or ex-employers) pay out more than their male counterparts, according to a forthcoming study, “[Employee Stock Option Exercise and Firm Cost](#),” in the *Journal of Finance*.

Women reliably exercise their stock options more slowly than men—with men losing out on two to four percent of their options’ potential value—the researchers found. But the reasons are still up for debate.

Professor Nancy Wallace of Berkeley University found that senior executives exercise their options more slowly than junior executives—perhaps because they have more wealth and less need to cash out.

Bipartisan move in Texas

The lone star state is aiming to leapfrog other states which support esops through a bipartisan initiative in the Texas legislature. It mirrors the recent Congress initiative signed into law by President Trump. Among other measures it would create contracting preferences at state and local government levels and mandate an dedicated assistance office in the Office of the Governor.

Major parties in South Africa back employee shares

Ahead of June's elections the main opposition party, the Democratic Alliance, has pledged a ‘ground up’ policy in its manifesto to promote broad employee share ownership. The governing ANC under business-friendly president Cyril Ramaphosa has already pledged employee shares will be a key agenda item. Before assuming the Presidency Cyril Ramaphosa led South Africa's trade unions and later chaired one of its major companies MTN.

Lloyds share buyback

Lloyds Banking Group has started a previously announced share buyback programme worth up to £1.75 billion of ordinary shares.

The buyback would end no later than December 31 2019, the bank said in a statement. Heading off suspicions the bank added: "The sole purpose of the programme is to reduce the ordinary share capital of the company".

BA unions call for employee share ownership

Three unions joined forces to submit a [joint pay claim to British Airways](#) the day its parent company announced record profits of €3 billion. They called for an improved three-year deal with enhanced profit-sharing and the re-introduction of an employee share ownership scheme.

Unions Balpa, Unite and GMB, which represent 25,000 workers, said it was "long overdue" that staff who make the carrier a success share in it.

The three unions said in a joint statement: "by ensuring that service to its customers remained world class – despite difficult changes, pay cuts and sacrifices made in the aftermath of the global financial crisis, including the voluntary closure of their final salary pension scheme – BA staff made these exceptional results possible. Now that times are good, that loyalty needs to be repaid.

"British Airways is now in danger of losing the support of its own staff and damaging its brand in this important centenary year."

BA staff have now moved closer towards a strike after [rejecting the airline's revised pay offer](#).

Members of Balpa, the UK pilots' union, voted 99 percent in favour of rejecting the offer, which represents a one-year increase by inflation. Ninety-six percent voted in favour of a ballot for industrial action if they could not negotiate a satisfactory deal. When BA was a British company and Gail Redwood was company secretary employee ownership was a major factor in its performance.

Welsh TV company goes employee owned

A £750,000 investment from the [Development Bank of Wales](#) has secured plans for a TV production company to become employee owned.

The move by [Cwmni Da](#), which is based in Caernarfon, of castle fame, secures 50 jobs with the investment supporting the creation of ten more.

Rhodri Evans, Bank regional manager said: "This has been an exciting opportunity to help enable the first Employee Ownership Trust in British broadcasting. We understand the importance of securing and creating local jobs and providing succession funding for the next generation of owner managers, especially in the creative industries."

Co-founder and managing director Dylan Huws said: "We are rooting Cwmni Da even more firmly in Caernarfon so the company can thrive and prosper, providing good, well-paid jobs and contributing to the local economy."

New EU disclosure law

The [European Union agreed on March 7 a new law](#) that forces asset managers, insurers and pension funds to disclose environmental risks in their investments.

The agreement reached by EU governments and EU lawmakers will also introduce

transparency requirements on the social consequences of investment decisions.

“The EU is today setting out a transparency framework to make sure that investors are well informed of the environmental and social impact of their investments,” said Eugen Teodorovici, minister of finance for Romania, which currently holds the EU presidency.

Employee share ownership championed in Brussels

On February 6 Renate Weber MEP, recent *newsbrief* interviewee, held a conference in Brussels with delegates from across the EU. The UK was represented by Centre members Inna Baranbaeva (*Computershare*) and Phil Ainsley (*Equiniti*).

"Employee share ownership for all" has been a European policy goal for 30 years. In today's Europe there are 10 million employee shareholders - that number would need to multiply six fold to make European employee ownership comparable with the US.

A European Action Plan was requested by the European Council in 2000, announced by the Commission in 2002, prepared by a Pilot Project in 2014, and reaffirmed through the European Parliament's Resolution of October 23 2018: it has now to be put in place. The support of ALDE for employees to own shares is in contrast to the formal UK position of the LibDems.

Employee ownership helps achieve UN 2020 sustainable development goals

Just over three years ago, the UN launched its Sustainable Development Goals to push world leaders into addressing problems such as poverty, hunger and climate change by 2030. These days those SDGs have become a useful framework for discussing global development across both the private and public sector.

On January 24 the Centre gave a keynote at

the European trade union confederation in Brussels focusing on goal 10, reducing inequality. The Centre made the case for employee financial participation as a key method of reducing inequality by sharing the wages of capital. The Centre is inviting international members to join a working group with its European allies ProEFP, many of whom have worked towards without making the Goal 10/efp link. The [work of multinational Centre members](#) such as *Deloitte* which helped brief the Centre was featured in Brussels.

Employee ownership ‘reduces staff turnover’

The largest employee-owned company in America is Publix, a chain of more than 1,200 supermarkets based in the Southeast. The private company, which is based in Florida, employs more than 190,000 people.

A recent article in [Reader's Digest](#) suggests that this may help explain why Publix has a voluntary turnover rate of just five percent, when the industry average is about 65 per cent, according to *Fortune*. Publix employees are often described as “bleeding green” because of their company loyalty. “Publix is employee-owned, so I felt a responsibility to provide excellent customer service,” a former cashier in Columbia, South Carolina wrote on Glassdoor.

The company's ceo, Todd Jones, started out at the chain more than three decades ago—as a bagger.

Ride-hailing giants offer share option consolation

Uber Technologies Inc and Lyft plan to offer cash bonuses to some of their most active drivers with the [option to purchase shares](#) in the firms' highly anticipated Wall Street debuts.

Both programmes will offer drivers who have

driven the longest and logged the most miles for the companies the rare chance to purchase stock at the initial public offering, before shares begin trading on public stock exchanges. Such transactions are normally unavailable to retail investors.

The move is the latest bid by Uber and Lyft to improve relations with drivers who have long contested their classification as independent contractors, low wages, and poor treatment by the companies. Both companies still face thousands of driver arbitration claims over their employment status.

Employee ownership pays off for Merlin ERD
Perth-based Merlin ERD has [celebrated a record of seven-figure profit](#) in the first full year since moving to employee ownership. Merlin provides engineering services in design all over the world, with the firm operating in 40 countries last year.

Managing director and founder Iain Hutchinson said: “the move to employee ownership had been extremely positive. It’s a great tool to attract the best possible calibre of people. The better the people are who work with us, the better the leadership team, the stronger the business and therefore the more prosperity there is for the people working in the business and the local area.”

Shetland business Laurence Odie Knitwear moves to employee ownership

Laurence Odie has sold his 100 percent stake in the business to an employee ownership trust in a deal supported by development agency Highlands and Islands Enterprise (HIE).

Mr Odie started the [traditional knitwear company](#), based in Hoswick, on Shetland’s south mainland, in 2004.

The company, which directly employs 12 people, exports 83 percent of its products, with the Far East and North America its main markets.

Mr Odie said: “We create something very special here in Hoswick. We are one of the largest producers of real Shetland knitwear – designed, produced and sold from Shetland using Shetland wool. I’m pleased we found a way to ensure the company stays in Shetland, in the hands of the people who know it best – the employees.”

Decision day for Meituan employees

Employees at Hong Kong listed Meituan were granted 512 million shares when it floated six months ago. The lock-up period expires this week after a torrid six months during which the stock price fell some 25 percent while the index rose five percent.

As everywhere it’s a different call for employee investors but will they think the company has done enough to get straight? Among other measures Meituan has scrapped its international Mobike scheme, including in the UK.

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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