
newsbrief

May 2020



WEBINARS

Enterprise Management Incentives (EMIs) – Powerful lessons from five practical case studies

Friday May 15 at 14:30-15:15 BST.

Share scheme expert David Craddock, will follow up his [introduction to EMIs](#) (broadcast on April 24) with a selection of case studies to give insight into the practicalities of [setting up and running an EMI plan](#). [Register here](#).

CommunityZ Chest – Tim Ward in conversation with Michael Mainelli

Tuesday May 19 at 15:30-16:15 BST

Z/Yen conducts an irregular series of short webinars, CommunityZ Chest, featuring people from its various communities and clubs, viz. technology, financial services, civil society, and business. These webinars provide an opportunity to meet people from the wider CommunityZ, to share ideas, and to make connections.

This [CommunityZ Chest features Tim Ward](#), ceo of the Quoted Companies Alliance, the independent membership organisation championing the interests of small to mid-size quoted companies. His past roles have included head of issuer services at the London Stock Exchange, fd at FTSE International, the index company and various management roles at a smaller quoted company.

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 also tracks research institute and other thinking round the world - <https://fsclubcrm.zyen.com/newsletter/1966>.

EVENTS

Jersey 2020 – provisionally re-scheduled to 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 attend this annual seminar.

The programme includes updates 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. Experts include: Katherine Neal, Ogier; Graham Muir, CMS; David Pett, Temple Tax Chambers; David Craddock, David Craddock Consultancy

Services and Paul Malin, Haines Watts. 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." Invited guests of honour are Mark Hoban, the new chairman of the Jersey Financial Services Commission, and Rt Hon Mark Field, a strong advocate of the Crown Dependencies when he was city minister. Prices: Esop Centre/STEP members: £375, Non-members: £480. To reserve your place, email events@esopcentre.com or call the Centre on +44 (0)20 7562 0586.

Fourth British Isles share plan symposium – October 15 2020

The Centre's fourth annual **share plans symposium** and *newspad* awards presentation will take place on the revised date of Thursday October 15 2020. An impressive Central London location has been secured. The programme will be as advertised on the Centre website for the original event, postponed from March 26 owing to coronavirus, with one or two topic slots updated. The Centre thanks Ocorian for sponsoring the event. For all enquiries, contact Juliet at juliet_wigzell@zyen.com or call +44 (0)20 7562 0586.

CENTRE AND MEMBERS' NEWS

Operating all-employee share plans during Covid-19 – Q&A

Operating all-employee plans can be challenging in the current environment, when share prices may be volatile or part of the workforce may be off work. **Deloitte's Q&A** gives broad answers to some of the common questions arising in relation to UK tax advantaged plans, such as the alternatives available for participants on furlough or unpaid leave, or launching sharesave offers during a time of share price volatility.

CELIA Alliance welcomes new member firm in Italy

Abbiss Cadres announced that in April 2020, the **CELIA Alliance welcomed new member firm**, Studio Legale Associato Bacciardi.

Bacciardi and Partners was founded in 1974 by Enzo Bacciardi and nowadays specialises in cross-border employment and tax work as well as commercial, corporate and customs law.

The firm boasts more than forty-five years of proven experience and operates with a team of over 20 professionals which, for the last thirty years, has exclusively concentrated on working at a cross-border level, handling challenging and complex multi-jurisdictional deals, disputes and transactions.

Willis Towers Watson research:

Just over two in five (44 percent) of employers have increased **employee benefits communications** during the Covid-19 pandemic. The vast majority of employers (86 percent) have put measures in place to ensure that their employees feel supported. Additionally, 87 percent have said that their people have been provided with the right resources to work productively for an extended period of time.

Hazel Reese, of Willis Towers Watson, said: "It has been an incredibly challenging time for many businesses as we navigate uncharted waters and take part in what has become the world's largest work-from-home experiment. "The Coronavirus pandemic has had a profound impact on how work gets done and the longer-term implications for employers and employees are far-reaching.

"This is a defining leadership moment for many organisations. The employers that take strong action to put people first will be the best positioned to enhance employee engagement, restore stability and achieve future business success."

Ocorian appoints md in Ireland office

This year's British Isles share plans symposium sponsor, Ocorian, has appointed **Padraic Doherty as managing director** of its Ireland office. In his new role, Doherty will be responsible for managing the Dublin office, as well as building out Ocorian's structured and asset finance capabilities in Ireland.

The appointment follows the merger of Ocorian and Estera, which created the seventh-largest corporate, funds and trust player in the world by revenue, managing over 17,000 structures on behalf of more than 8,000 clients.

New chair for UK Shareholders

Colin Colvin is stepping down from the chair of UK Shareholders Association, having completed a reconstruction. He is replaced by Mark Cardale, formerly a corporate lawyer who worked with Slaughter and May in London and New York, and now an author and expert on corporate governance.

While UKSA and ShareSoc, headed by Cliff Weight from Centre member MM&K, remain independent organisations, UKSA's close links with ShareSoc remain.

CV: why we need greater wage flexibility

In his **Institute of Economic Affairs blog**, Centre friend, Professor Len Shackleton says: "Many key workers, mainly but not exclusively in the NHS, are running significant risks of being infected with the Covid-19 virus. We have already seen many tragic cases of doctors, nurses, care workers, bus drivers and other key workers dying from this awful disease.

"There have been understandable calls from unions and others for the pay of these workers to be increased to reflect the dangers they are facing on our behalf. For example, Frances O'Grady, the TUC's General Secretary, took the opportunity of her May Day message to insist that 'the government must give all key workers the pay, conditions and respect they deserve.

That's how to really thank the people who got us through this crisis.'

"I would not necessarily quarrel with this sentiment – it reflects the emotions displayed every Thursday evening at the moment – but it needs to be put into the wider context of pay determination."

CARES Act is Esop-friendly

Title 1 of the CARES Act directs the US Small Business Administration to make certain loans to qualifying small businesses to cover payroll, costs related to continuing group health care benefits, salaries or commissions, payment of interest on any mortgage obligation, rent, utilities, and debt obligations incurred before the covered period. Generally, the law applies to companies with 500 or fewer employees, with some exceptions, most notably for multi-location restaurants and hospitality companies and for larger companies that meet the SBA size standards anyway. **Esop companies can apply for this assistance**, and some of the normal barriers that they might face have been removed, reports NCEO in its blog. Centre chairman Malcolm Hurlston commented "CARES seems to have hit the spot."

UK NEWS

Are co-ops weathering the lockdown?

Co-op News reports that with continued uncertainty over the lockdown exit strategy, UK businesses are counting the cost of CV – and not all are benefiting from the government's support packages.

This has been a particular **concern for the co-op and social enterprise sectors**. Ed Mayo, secretary general of sector body Co-operatives UK, wrote to the government warning that many small organisations are not eligible for full support, and that the Coronavirus Business Interruption Loan Scheme (CBILS) is difficult to apply for and

access. Co-operatives UK has carried out a survey of its members to see how they have fared under the government support packages. Early data shows around 20 percent are ineligible for the government grant schemes (but will be able to access the JRS, SSP rebate, VAT deferral etc).

Like community businesses, the employee-owned sector has seen growth in recent years but is facing lockdown challenges. Key issues are cashflow and accessing finance – and, in the short term, employee-owned businesses need help in accessing some of this government support, in particular CBILS.

Next's worrying statistic and a new share to follow

Next's **methodical reaction to CV** resembles its reaction to another big challenge, the internet. The retailer has won justifiable plaudits for modelling cash flows as High Street sales decline, and its annual report, published in April, models the potential impact of the virus (as best Next can).

Next's modelling suggests it can withstand a reduction of more than £1 billion in sales (25 percent of the total) in the year to January 2021 without breaching the terms of its borrowing agreements.

According to *Interactive Investor*, survival in the worst-case scenario requires Next to conserve cash by suspending buybacks, delaying capital expenditure, and deferring or suspending the dividend.

It would also need to find new sources of cash, potentially by redeeming a loan to its Employee Share Ownership Trust, by effectively borrowing more through the sale and leaseback of a warehouse and using money owed by customers as collateral for borrowing.

Bectu urges Animation and VFX employers to offer a fair negotiating deal

Animation and VFX companies are proposing significant **cuts to wages, terms and conditions** in response to the Covid-19

crisis, according to reports made to *Bectu*, the union for creative ambition, which represents over 40,000 staff, contract and freelance workers in the media and entertainment industries. Members in DNeg's London office are being pressed to accept pay cuts of 20 and 25 percent.

In some cases, these proposals are posed as a "take-it-or-leave-your-job" package and short consultation deadlines have been given to agree terms. Bectu is urging Animation and VFX companies to contact the union before they make any such proposal to staff to discuss plans and will be publishing guidance to all members on how to proposals.

Members have previously been rebuffed by employers when they have asked to participate in employee share ownership schemes. Assistant national secretary Paul Evans said: "Bectu recognises that companies have to make adjustments at this difficult time. The union welcomes alternatives intended to reduce job losses."

WORLD NEWS

Ireland: Stobart Air's mystery share scheme

The *Irish Times* reports that UK aviation and energy business Stobart Group promised to pay up to £8.55 million (€9.8m) for **a stake in Stobart Air** that would give it 40 percent of the voting shares but a 78.25 percent "economic interest" in the business.

Workers' groups, including the Irish Airline Pilots' Association, say they have not seen details of the trust which holds shares that control the other 60 percent of the votes in the airline, and say that they do not know who the trustees are.

Staff were given a majority stake in Stobart Air last year through the employee benefit trust.

The move was designed to ensure that the

carrier's ownership complied with EU rules which bar any entity based outside the trade bloc from controlling EU-registered airlines. Stobart Air's other shareholders were based in the UK.

Canada: Esops - Dealing with CV and its economic impacts

ESOP Builders' April survey gathered responses from Esop companies across Canada to help understand their strategies: what happens to the annual valuation for example. The survey summary can be viewed in the news section of ESOP Builders' [website](#).

ESOP Builders also produced a complimentary webinar. The [recording](#), featuring Perry and Joanna Phillips of ESOP Builders and Dean Ell of reciprocal Centre member, the **ESOP Association Canada**, is now available.

Canada: EllisDon to Become 100 percent Employee Owned

Construction company, [EllisDon](#) [announced](#) that on Friday, February 28, a final agreement was executed under which 100 percent of the company's equity will be transferred to the company's employees. The Smith family shareholders, who previously held 50 percent ownership, have signed-off on an agreement which ensures that the firm will become entirely employee-owned. From March 1 2020, EllisDon gradually buys out the Smith stake in the company while the employees' ownership steadily rises to 100 percent over several years.

"I don't think I can overstate how momentous this agreement is in the life of EllisDon; it is one of the most important days in our history," said president and ceo Geoff Smith. "I am very proud of everyone at EllisDon, past and present, for everything that has been accomplished over the past 69 years."

USA: M&T's Wilmington Trust pays \$80 million to settle US price complaints

According to the *Philadelphia Inquirer*, Wilmington Trust NA, a unit of M&T Bancorp, has agreed to pay [\\$80 million to settle federal accusations the company overcharged workers](#) at 21 US companies from 2010 to 2017 when they bought Employee Stock Ownership Plan shares from their employers.

The Wilmington Trust case settles complaints the Trump administration brought against the bank for too readily accepting the overly expensive prices that owners and their paid advisers wanted employees to pay for their shares — instead of investigating and seeking independent valuations, as the Labor Department says professional advisers must.

USA: Design Workshop Becomes Employee -Owned

Design Workshop, an international landscape architecture, planning and urban design firm, has announced that it is now [100 percent Esop owned](#). Under this plan, ownership of the company is held in an Esop Trust, funded entirely by company contributions, and all employees participate. This is designed as a long-term retirement benefit, with the employees' accounts increasing as the value of the business increases.

"With the move to a 100 percent employee-owned company, Design Workshop now has a framework for ownership transition that provides a substantial long-term benefit for employees and positions the firm for continued success in our next 50 years," said ceo Kurt Culbertson. "The Esop is a direct application of the firm's Legacy Design principle of 'community' – extending ownership of our practice to include every employee."

USA: How the best companies enact an ownership culture that propels them forward

Employee Benefit News reports that some 400 of the best and most successful US companies vie against one another to make it onto Fortune's list of the '100 Best Companies to Work for in America'. In addition to the prestige of being named in the announcement via the well-respected magazine, inclusion also enables companies **to attract better talent as well as retain and motivate current employees.**

Silicon Valley companies are fighting especially hard for new talent and to retain in-house expertise, according to Sheila Frierson, president of plan managers, North America, at Centre member **Computershare.**

"Companies want to understand whether their benefit programmes match or even exceed those of competitors," Frierson said. "They are especially minded to take good care of high-performing executives, and an increasing number want to ensure that all of their employees feel that they own a stake in the company's future." A recent joint survey between Computershare and WorldatWork revealed that 59 percent of HR teams are increasing the amount of time they spend on the financial well-being of workers.

Research based on applicants to the Fortune "Best 100" list conducted with the Great Place to Work Institute in San Francisco indicates that employers who combine a generous equity plan with an empowering culture can cut voluntary staff turnover by a third — from 18 percent to six percent. By contrast, 15 percent of employees without access to equity plans and a supportive corporate culture say they are likely to leave their jobs during the next six months.

But analysis also revealed something else: companies with more extensive employee ownership and profit or gain sharing schemes had higher scores on The Great Place to Work Institute's Trust Index, which

is based on workers' views of their company's corporate integrity, respect, pride and camaraderie.

EU: Corona pensions?

Age Europe, BETTER Finance and CFA Institute have **called for measures to protect pension** contributions, savings and pay-outs. According to *Mondo Visione*, the health, quarantine and social distancing measures taken to fight CV are taking their toll on economies around the world. This strategy, coupled with monetary and budgetary expansions of unseen magnitudes, will have lasting and damaging economic consequences owing to the shutdown of economies.

In the aftermath of the financial crisis, governments, in an attempt to rekindle growth, took on new debt. Central banks have printed money as never before, with their balance sheets ballooning in recent years under the "quantitative easing" or "unconventional monetary policy" labels. Ordinary citizens, individual investors and pension savers, ended up footing the bill, and are likely to do so again.

The pensions time bomb is already ticking in Europe. Studies by Better Finance and OECD have demonstrated that recent real returns on long-term investments were already too often negative, and insufficient for an adequate replacement income upon retirement. Real (after inflation) pension returns will collapse this year, mainly because of stressed equity markets but also because of low interest government bonds. Returns will struggle in the near future because of financial repression, and possibly even more so if combined with resurgent inflation.

Better Finance had advocated action to tackle the overall poor long-term real returns of pension savings in the EU - including via the EU's Capital Markets Union initiative - one proposal of which was to enable employee share ownership programmes in the next 24 months,

including tax reductions. Currently personnel-related expenses are the main reasons for the reduced liquidity in companies. If such programmes were to be introduced immediately, a portion of the salaries could remain in companies as a capital contribution by employees. This could work well, they claim, if linked to tax advantages.

EU: How Eso could help level income inequality

Income inequality in OECD countries is at its highest level for the past half century. The average income of the richest 10 percent of the population is about nine times that of the poorest 10 percent across the OECD, up from seven times 25 years ago. So how can governments and businesses reduce the wealth gap when many people struggle with day to day living expenses? A universal basic income or increased taxes on the ultra rich are debated solutions but what about helping ordinary people create a passive income, in addition to their wage? Inspired by leftist French economist Thomas Piketty, Dutch entrepreneur Quintus Willemse believes that **capital distribution can be more equal if employees co-own the company in which they work.**

Only around 3.5 to five percent of employees own shares in their companies and a vast majority of those owners are top managers, high income earners already. As a bloc, Europe is performing pretty poorly although some countries such as France are doing better than others.

“In the US there is a greater representation of employee co-ownership – above 25 percent. There is a culture of employee co-ownership and the US has introduced an employee stock ownership plan (Esop) which helps. The Esop model

encourages share distribution by providing tax incentives to the company and employee.”

Slovenia: Crisis could be opportunity for more employee ownership, webinar hears

Participants of a recent international **webinar on employee ownership** agreed that the CV crisis could be an opportunity for more employee stock ownership in companies. (subscription to **STA** required to read further. Contact marketing@sta.si).

China: Huawei’s revenue growth slows sharply as US blacklisting and coronavirus outbreak bite

Employee-owned Huawei reported sharply slower revenue growth in the first three months of 2020, as the impact of a US trade blacklist and the coronavirus outbreak weighed on the company’s results.

The Chinese tech giant’s revenues came in at 182.2 billion yuan (\$25.8 billion) in the first quarter, up around 1.4 percent from the 179.7 billion it reported a year ago. By contrast, in 2019, Huawei reported a 39 percent increase in first-quarter sales.

The company also reported net profit margin of 7.3 percent, down from eight percent in the first quarter of 2019.

Despite headwinds related to CV and US political pressure, Huawei said growth remained “resilient.” It **attributed this to its employee share-ownership structure**, business continuity planning and investment in research and development. Meanwhile Pony Ma of Tencent, who gave shares to all employees from his personal holding, was able to announce first quarter results ahead of market expectations.

European Commission launches anti money laundering authority initiative

The European Commission published a six-point **anti-money laundering action plan** last week (May 7) that includes the proposal for a new EU anti-money laundering authority and better alignment of its third-country blacklist with the Financial Action Task Force list of non-cooperative countries and territories.

The Commission plan said the EU needs to adjust its approach to third countries with deficiencies in their regime. It issued a new methodology more in line with that of the FATF.

“We are determined to step up our efforts so that we are a single global actor in this area,” the Commission said when publishing the plan for public consultation. It is open for feedback from authorities, stakeholders and citizens until July 29.

In addition to the proposed new methodology to identify high-risk third countries that pose a threat to Europe’s financial system, the Commission adopted a new anti-money laundering blacklist. Added were The Bahamas, Barbados, Botswana, Cambodia, Ghana, Jamaica, Mauritius, Mongolia, Myanmar, Nicaragua, Panama and Zimbabwe. Already on the list are Afghanistan, Iraq, Vanuatu, Pakistan, Syria, Yemen, Uganda, Trinidad and Tobago, Iran and North Korea.

All countries except North Korea have committed to changing their rules in order to better tackle money laundering and terrorism financing. Bosnia-Herzegovina, Ethiopia, Guyana, Lao People’s Democratic Republic, Sri Lanka and Tunisia were removed.

The commission amended the list in the form of a Delegated Regulation, which has to be approved by the European

Parliament and Council within one month. Because of CV, the regulation and any new protective measures, such as access restrictions to EU funding, will only apply from October 1 2020. However, the delisting of countries will take effect 20 days after publication in the Official Gazettes.

The action plan seeks to establish a single EU anti-money laundering rulebook and ensure the effective application of EU rules. It is currently up to each member state to supervise these rules, therefore gaps can develop, the Commission said, and proposed setting up an EU-level supervisor. Markus Ferber, a German MEP with the European People’s Party, told Reuters that “to fight money laundering in the financial system effectively, competences must be streamlined in a stand-alone EU anti-money laundering body. This is the kind of problem that warrants a dedicated EU agency to tackle it.”

The action plan is motivated by recent money-laundering scandals involving banks in the Baltics and aims to plug the remaining loopholes in EU rules. It is also in response to an invitation by the European Parliament and the Council to investigate what steps could be taken to achieve a more harmonised set of rules; better supervision, including at EU level; as well as improved coordination among financial intelligence units. **Cayman’s anti-money laundering regime** is currently under review by the FATF. In March 2019 Cayman received a critical report from a regional FATF-affiliate, the Caribbean Financial Action Task Force. The report prompted a slew of changes to local laws and regulations to address the deficiencies identified. The FATF will decide in July if these measures were sufficient.

EOT NEWS

Electric heating firm EHC Energy hands ownership to employees

Electric heating distributor **EHC Energy Limited** has transferred to employee ownership after its directors sold a majority stake into a staff share scheme. The firm's directors Bill Walters and David Stevenson had been transferring day-to-day running of the business to managers and other staff over the previous 18 months.

EHC, which installs energy-efficient heating systems for social and private landlords across the UK and supplies plumbing and electrical wholesalers, reported turnover of £3.75 million last year.

Walters said: "The directors of EHC have actively been looking for a suitable exit strategy for a number of years that would provide a solution which safeguards all parties concerned.

When we discussed options with key staff it was agreed the employee share scheme would deliver the best long-term solution. We are delighted that the transaction is now complete and provides stability."

Architects firm sold to EOT

Located in Bath, Simon Morray-Jones Architects has expertise in renovation and remodelling listed and historic buildings. Set up by Simon Morray-Jones more than 30 years ago, the business now has a team of 20, and Simon and his wife Berni decided to explore their options for stepping back from the business, allowing them to spend more time travelling and with their family.

Insider Media reported that the couple opted for an EOT sale allowing them to realise the value for their years of work building up the firm while also handing

over a well-run business to their team, remaining on hand for a period of time to smooth that handover, and helping train up those who want to take on more active management responsibilities.

Simon Morray-Jones said: "We are so pleased to leave our business in the hands of our very capable team. I will of course remain as a consultant for as long as they want me, but the future is now in their hands, which is really inspiring." Berni added: "We have a great team, and even in the midst of this current environment, they have been very enthusiastic about this opportunity, as we had imagined they would be."

HELP FOR ZOOMER DOOMERS

Zoom calls are a key part of the new life. Here is some good advice.

<https://theconversation.com/zoom-fatigue-how-to-make-video-calls-less-tiring-137861>

A great tip is to be permanently muted but press and hold down the space bar whenever you choose to speak. It may not be for ever - people working from home are 20 percent less efficient, according to Czech research.

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:

T: +44 (0)20 7562 0586

E: juliet_wigzell@zyen.com

