



July 2024

EVENTS

Share schemes & trustees conference Guernsey 2024

The Esop Centre is set to return to Guernsey for its **annual conference on employee share schemes and trustees**. Held in conjunction with STEP Guernsey, we look to emulate the success of the 2023 event, building on the achievements of this industry-leading networking and learning opportunity.

The seminar will be on the morning of **Friday November 8** at the Old Government House Hotel, St Peter Port.

We are putting together a programme of talks from expert speakers, who will address the key issues currently facing trustees and employee share scheme professionals.

The programme is drafted to provide relevant technical information, which we trust will be acceptable as counting towards Continuing Professional Development or Continuing Competence.

Presentations will run from 09:00 to 13:15 (approx.), followed by a networking lunch for delegates and speakers.

Don't miss this great opportunity to update your knowledge.

Tickets: Book early to secure discounted ticket prices:

Esop Centre/STEP members: **£380**/each
(if booked before 04 October 2024. £420 thereafter)

Non-members: **£485**/each
(if booked before 04 October 2024. £538 thereafter)

Multi-booking discount: 50% off cost of ticket for your **third delegate**.

To reserve your place, email events@esopcentre.com



Guernsey Les Hanois Lighthouse Photo by Enrapture Captivating Media on Unsplash

Sponsorship opportunities

We are pleased to be able to offer the following sponsorship opportunities to Centre members for the Guernsey conference:

Headline sponsor

The benefits will include mention in all the pre and post event publicity and promotion including mention of the sponsorship in Centre monthly publications *newspad* and newsbrief; company logo displayed on the event web page; a brief welcoming address to the participants; and inclusion of materials with the delegate pack. The sponsor will also be named on event signage produced.

Lunch sponsor

The lunch sponsor will be invited to address the delegates at the end of the morning's session and, if desired, to make a comment on the morning's proceedings and developments in the market. The lunch sponsor will also be named on event signage produced and may include materials in the delegate pack.

Please contact the esop@esopcentre.com for further information.

CENTRE AND MEMBERS NEWS

General Election 2024: What changes can we expect?

Doyle Clayton has provided an overview on some of the key proposals announced by the Labour Party in its manifesto and its New Deal for Working people, considering the implications for employers, and providing some practical tips. Topics include **day-one rights, gender, ethnicity and disability pay gaps and non-compete clauses**.

A **Linklaters** publication sets out the **expected wide-ranging reforms** in laws, practices and protections and discusses the impact on operations, workforces and strategic business planning.

RM2 is cautiously hopeful that share plans for employees will continue to benefit from the cross-party support that they've enjoyed for decades. As its **July 4 blog** said "arguably it doesn't matter what colour the government is. Employee ownership is widely accepted by all parties as a strong driver for increased productivity, with a bit of employee motivation, retention and improved well being thrown in for good measure". RM2 hopes the Starmer government will review the outstanding consultations on SIPs and EOTs on which it provided feedback earlier this year.

Reflecting on the election result, **Travers Smith** summarised the key election pledges from the Labour party around **employment law and what they could mean for employers**.

Granting stock options to employees around the globe

In an insight piece, **Global Shares** examines the practicalities of granting stock options to employees based worldwide. The process needs thought and care.

While the international element may bring greater complexity, the ultimate objective is the same as in any other equity award scenario, to create a **win-win for employer and employee alike**.

North Carolina Law is first in US qualifying Esops for historically disadvantaged contracting preferences

Writing in an **NCEO** blog this month, founder Corey Rosen said "*The North Carolina legislature has passed and the governor has signed S. 802, an infrastructure finance bill that also includes an unrelated provision allowing Esops in which at least 51 percent of the participants are 'minority persons or socially and economically disadvantaged' to qualify for the state's historically underused business set-aside programme. 'Previously, Esops had not qualified for any state or federal set-aside programmes for contracting with historically disadvantaged business owners. Because the Esop's formal owner is the Esop trust, and the trustee is not a member of a historically disadvantaged group, these set-aside programmes have not been available to Esop companies even if the large majority of their ownership is held by these disadvantaged individuals. The North Carolina law is a groundbreaking effort to help Esops qualify. Ideally, this will serve as a model for other states and the federal government.'*"



CENTRE AND MEMBERS NEWS

Global reports on employee wellbeing

Pinsent Masons draws attention to the annual state of the **global workplace report** published by Gallup. Global employee mental health declined in 2023, particularly among the under 35s. Worker rights such as fair wages, employment security and fair treatment affect worker wellbeing. Engaged managers can directly impact worker wellbeing and engagement, by up to 70 percent variance.

Wellbeing in the workforce increases productivity and profitability and reduces absenteeism and turnover. *“The report contains a wealth of statistical information”*.

Solving the UK recruitment crisis: How share schemes can help

Vestd reports on the role share schemes play in improving staff wellbeing and the need for employers to focus on understanding employees to address the challenge of recruitment and retention. Only “25 percent of businesses conduct regular employee satisfaction surveys” with the result that staff morale and satisfaction is not well understood.

Businesses need to refine their strategies and prioritise offerings that are in line with their workforce’s expectations, particularly in the current labour shortage climate.

“It’s impossible to understate the significance of tailored and impactful benefits packages.”

Diversity, Equity and Inclusion: a safe legal path

A thought leadership series by the **Linklaters** Diversity Faculty, provides insights, commentary and guidance on UK law, regulation and governance on **diversity, equity, and inclusion**. *“Employers must navigate the complex legal and regulatory frameworks, while being mindful of evolving societal expectations and market trends.”*

Global Non-Compete Resource Centre (NCRC)

White & Case has created a tool providing information on the enforceability of employer-employee non-compete provisions.

On July 3 a US federal court issued a limited preliminary injunction and stay of the Federal Trade Commission's rule banning employer-employee non-compete agreements – the court enjoins as to named plaintiffs only but signals likely full injunction on the merits to come in August.

Although antitrust enforcers' concern for anticompetitive effects in labour markets has been escalating for some time, the focus on perceived anticompetitive effects of employer/employee non-compete provisions has **recently become much more acute**.



Illustration by Tumisu on Pixabay

CONGRATULATIONS

Legal500 Bar Awards 2024 - Temple Tax Chambers has been nominated for three awards at The **Legal500 Bar Awards 2024**.

Pinsent Masons appoints Scottish partners as global sector heads

Edinburgh-based partners Julia Maguire and John Maciver have been appointed as **global sector heads of energy and financial services**. Ms Maguire, previously head of client relationships in the energy sector, takes on the global sector head role for energy, while Mr Maciver, formerly head of banking for Scotland and Northern Ireland, has been named the firm's global sector head for financial services.



Illustration by Mohamed_hassan on Pixabay

UK NEWS

Business Secretary calls for feedback on government priorities

New Business and Trade Secretary Jonathan Reynolds is calling on members of the business community to give their feedback on the government's main priorities as it outlines its plans to kickstart the economy. Earlier this month, Reynolds hosted a call with business owners and entrepreneurs to outline his vision for economic growth and to discuss how the government intends to push ahead with its business strategy. In a subsequent post on social media via the **Department for Business and Trade's LinkedIn feed**, Reynolds said: "My message to business is clear – this mission-led government will build prosperity through partnership. We will continue the work we started in opposition to bring together business, government and workers to kickstart our economy and rebuild our country. There is no time to waste."

He said his four priorities are:

1. Deliver a new mission-driven Industrial Strategy with partnership at its core.
2. Support small businesses who are the beating heart of our high streets, our communities, and essential to our economic success.
3. Reset our trade relations and champion British exports with our trade strategy aligned to the Industrial Strategy, creating opportunities for UK business to compete on our strengths, break into new markets and attract investment.
4. Make work pay by delivering a new deal for working people.

UK NEWS

Half the British public doesn't understand income tax

There's been a new research in the US about a common tax misunderstanding – that if you go into a higher tax bracket, it means all your income is taxed at a higher rate. You earn one cent more, but pay thousands in tax. Some polls have shown a majority of Americans believe this; others that a third do; YouGov found 52 percent getting it right. The misunderstanding is sufficiently common among members of the public that the Tax Foundation has dedicated a page to correcting it. This made the *Tax Policy Associates* wonder whether there is similar confusion in the UK.

Updated polling evidence from the organisation and *WeThink* showed that **half the public doesn't understand this basic principle of income tax.**



Making the UK more attractive

The City watchdog will trigger the biggest shake-up of London stock market rules in more than 30 years this month, in an attempt to make the UK a more attractive place to list shares. The Financial Conduct Authority (FCA) confirmed on July 11 that it would streamline and loosen rules for listed companies on July 29, after months of “hand-wringing” over an exodus of **companies from the London Stock Exchange for rival financial hubs.**

However, in terms of how the rules - **listed here** - govern the offer of employee share plans, for the majority of companies, there are no material changes.

There is no change to the approval requirements i.e. shareholder approval is still needed for:

- ⇒ an employee share scheme that uses newly issued or treasury shares; and
- ⇒ a long term incentive scheme in which directors of the listed company are eligible to participate.

(This rule is now in Listing Rule 9.3.1-9.3.3 instead of Listing Rule 9.4.1-9.4.3.)

During the consultation, the FCA noted that there had been some discussion on the rule requiring shareholder approval for the grant of a discounted option to subscribe for new shares, with a responder asking for

clarity as to how this rule applies in practice. The FCA said it may review this rule at a later stage.

These requirements have not previously applied to companies with a ‘standard’ listing. Under the new rules, companies listing shares for the first time in the UK, who would previously have sought a standard listing, will now generally be caught by these requirements where listing in the ‘commercial companies’ category.

Centre member **Tapestry Compliance** commented: *“This is a major change to the UK listing regime and we are hopeful that it will strike the much needed balance between retaining investor confidence in the UK market and not over-burdening companies. The debate about how to make the UK attractive as a place to list rages on, with comparisons often being made between the UK and the US. Levels of executive compensation is in particular a key part of this debate and one on which we are keeping a close eye. So while there have not been any material changes on the Listing Rules relating to the offer of employee share plans (apart from some new considerations for commercial companies which would previously have sought a standard-listing), it is an exciting time in this area!”*

WORLD NEWS

Australia: Canva shows why employee share schemes matter for startup success

A billion dollar share sale turned many early Canva employees into millionaires for the risk they took on taking a job at the young company and helping to create shareholder value. Now some Australian startups, especially early-stage startups, are emulating Canva's approach. They're doubling down on employee equity and the promise it can deliver.

Just two months ago, Canva finalised the first tranche of a share sale that turned many of its early staff into millionaires overnight, as well as paid back early-stage investors. Canva released US\$1.6 billion (A\$2.4bn) into the industry.

Canva's share sale is an enormous technology industry stimulus by Australian standards. These share sales can't happen without forward-thinking employee share schemes years, sometimes a decade, in advance.

A report in *Startup Daily* complained that, puzzlingly, the Australian technology industry "doesn't talk about Esop outside of the Canva share sale anymore. Perhaps it's because depressed valuations, dragged down by lower funding levels, makes the subject less sexy to talk about, especially in a cost of living crisis. But behind closed doors, Esop hasn't been steady in the last two years. It has accelerated.

"During a downturn, the balance of power can shift from the employee to the founder because there are less jobs to go around. But motivating employees once they're hired is critical, perhaps even more critical, when economic conditions are unfavourable.

"Human nature doesn't change, and employees remain acutely aware of finding their own personal risk and reward balance. This strategy is hardly without risk. If the options go underwater, your employees have less incentive to stick around. You need to give away more shares, or change the vesting period. There are levers you can pull.

"While founders putting Esops in place now often have to give away more equity to secure the same response from employees, now is the time to act. If anything, Australia is still lagging the US when it comes to employee share ownership. Early-stage startups in Australia often target a post-option Esop pool of 10-15 percent, whereas in the US it's closer to 15-20 percent.

*"Meanwhile, early-stage Australian founders are putting in place their own Esops at an accelerated rate in the hope of making their employees rich too, one day. The process has been critical to the Silicon Valley company and wealth creation complex. This is one **part of American technology culture we ought to emulate.**"*

WORLD NEWS

Australia: Canva can claw back staff shares

Graphic design company Canva can reclaim share rights from employees who publicly criticise the company even after they have left the job.

The policy mirrors one that *OpenAI* was recently criticised for, which ceo Sam Altman ultimately apologised for and discontinued.

Documents seen by *The Australian Financial Review* reveal Canva's contracts with employees include non-disparagement clauses and non-compete provisions, as well as rules barring the use of confidential information post employment.

Employers can validly use non-disparagement and non-compete agreements to safeguard their operations from imitators and disgruntled ex-employees. However, Lucy Wark, an entrepreneur who is also involved in anti-harassment group Grapevine, said they could be used to control former staff and limit their ability to talk about major problems: *"I have directly seen equity clawbacks and non-disparagement clauses used many times to silence victims and bystanders alike, who have too much at stake to risk going public or pursuing a more formal complaint process."*

Canada: Banxa launches employee share purchase plan and completes sale of non-core asset

Banxa Holdings Inc announced the launch of an Employee Share Purchase Plan, allowing **employees to purchase shares in Banxa** on the TSX Venture Exchange in July 2024 for Australian, US, Europe and UK based employees.

France: Veolia offers new Esop to nearly 190,000 group employees

Last month, Veolia Environnement announced the launch of a new employee shareholding operation. This offer aims to involve the Group's 190,000 employees more effectively in Veolia's development and performance. The settlement and delivery of the new shares to be issued is expected to take place on September 13 2024.

With this operation, which offers the **possibility of subscribing directly or indirectly to Veolia Environnement shares**, Veolia wishes to involve its employees even more closely not only in the Group's development, but in particular in the implementation of its new GreenUp strategic plan, which aims to speed up the deployment of solutions in favour of decarbonisation, depollution and regeneration of resources.



What private equity gets right, and wrong, about employee ownership

“Lately, there has been a flood of new information concerning private equity firms’ interest in employee ownership, specifically by Pete Stavros and KKR, one of the largest PE firms.”

In a blog for the ESOP Association, president and ceo James Bonham explained that Pete had been in communication with the Association, expressing an interest in finding ways to work with the existing Esop community. He and others have recently launched a coalition called **Expanding ESOPs**, which is seeking federal legislative and regulatory changes that would provide incentives for PE firms to offer equity stakes in more of their acquisitions, especially larger companies.

Bonham said *“Stavros’ idea, on its face, does make a few compelling arguments. He and his coalition argue it can be too complicated to form an Esop, that the threat of post-transaction government meddling and second-guessing in Esop transactions is too large, and that for most large businesses the existing Esop structure is impractical and a likely magnet for nuisance lawsuits.*

“Sadly, the evidence is that Stavros is likely correct. For decades the employee ownership community has allowed seemingly small, but collectively consequential, issues to accumulate while nearly singularly focusing on protecting the S-Corp benefit, which has in reality only faced minimal, if any, genuine threat in nearly three decades of existence. In their totality these multitudes of issues have

created barriers both real and perceived to more Esops and employee ownership. Without revisiting current laws and regulations, and addressing emerging issues like nuisance lawsuits, it requires true faith to see how employee ownership can reach the kind of growth rate necessary to be impactful at scale and help reverse a decades-long trend of income disparity and wealth inequality.

*“However, there is genuine and legitimate cause for concern with some of the proposed ideas being advanced by the Expanding ESOPs coalition. First, their new version of “Esops” is not employee ownership, no matter how much they may want to ride on our coattails. It’s more like profit sharing, and it’s conditional on the business being sold for a large enough profit and on employees working for the company at the time of sale. By its very nature it is temporary, in contrast to real Esops and employee-owned businesses, which are designed to be more permanent, even multigenerational. Real employee-owned businesses are meant to span decades, not just a few years, in order to benefit the employees rather than seek a very specific near-term profit-taking. The goal of the Stavros model is to take profit within a short time window and share a portion of that profit with the employees. That is a laudable goal, but what is shared with the employees to get more out of them should come from the investors, not taxpayers. “Second and more importantly, the policy changes required would be **an extremely tough sell to Congress.**”*



WORLD NEWS

USA

Lawmakers should give worker-owned cooperatives a boost

Massachusetts publication *CommonWealth Beacon* reported that the state's business landscape is in the midst of a metamorphosis. Esops and worker-owned cooperatives are emerging as a powerful force.

In Massachusetts, half the small businesses are owned by people aged 55 and older. This translates to 68,000 companies, with more than 775,000 employees and \$162 billion in annual revenue, who are **in the realm of succession planning** today.

These companies embrace independence with employee ownership

More than 10 million US workers own a piece of their employers. Employee-owned companies paid out more than \$175 billion to their teams in 2021, the most recent year for which data is available.

Sometimes tagged "*not quite capitalism*," employee stock ownership plans are picking up steam as a way to focus companies on core values and worker wellbeing, rather than the pressure of external stakeholders.

Triple Pundit saluted just a few of the employee-owned companies that took a chance on independence and reaped the rewards, including **WinCo Foods; Black & Veatch, King Arthur Baking; Recology; and Bob's Red Mill.**

California business conglomerate pays \$1.25m deal to end Esop lawsuit

A holding company has agreed to settle a lawsuit that alleged fiduciaries of its Esop plan **enriched themselves and shortchanged participants**. Mary Nguyen and others brought the suit against Westlake Services Holding Co.

The rise of employee stock ownership plans in healthcare — a new path for physician practice ownership

According to Adam Brown, a doctor and healthcare professional writing in *Medpage Today*, US healthcare is undergoing a seismic shift, with massive consolidation reshaping the industry. Provider consolidation reduces competition -- and leads to higher prices, limited patient choice and access to care. Hospital-owned practices, and certainly those owned by private equity companies, do not improve care in the community.

The regulatory and compliance burdens, tax and payroll headaches, and fights with insurers make it difficult to operate a practice, and are enough to make anyone shout "Yes!" when a buyer comes calling, even if it means losing autonomy and ownership.

But what if physicians could preserve the independence that comes with practice ownership while reducing the most significant burdens? **Employee stock ownership plans could be the answer.**

EMPLOYEE OWNERSHIP NEWS

Turnover soars past £400m at employee-owned firm

Manchester-based Sapphire Group, a contracting and accounting firm, grown rapidly **since becoming an employee-owned business** in 2021, with latest account records reporting turnover rising from £361.6m to £444.6m.

Mark Connor, managing director of Sapphire, attributed this success to the EOT structure which has improved employee engagement, increasing productivity and staff loyalty: employees are entitled to 74 percent of company profits.

Insurance and wealth management firm posts turnover growth in “historic” year

Thomas Carroll Group, a Welsh insurance, risk and wealth management provider, established an EOT in 2023 and has since reported a pre-tax profit of £935,862 and a two percent growth in turnover.

The EOT was established to support succession planning and independence, and **resulted in a streamlined board** as well as additional one-off expenses that are reflected in its financial performance.



EOT round-up

- ◆ Planning and architectural consultancy **Spawforths**
- ◆ Independent car dealer group **The Glyn Hopkin Group**
- ◆ PR agency **W Communications**
- ◆ Bakery and confectionery ingredients supplier **R&W Scott**
- ◆ Hi-fi and home cinema retailer **Sevenoaks Sound and Vision**
- ◆ PR Agency **Brazen**
- ◆ Specialist copywriting company **A Thousand Monkeys**

LIBRARY OF WEBINAR BROADCASTS:

The Role Of Direct Employee Share Ownership In Market Economics; Esop Sofa: Hot Topics In Employee Share Ownership – Newspad Review VIII ; Esop Centre *newspad* Online Round-table; Esop Sofa: Esop Round-Table *newspad* Review VII; Esop Sofa: Hot Topics In Employee Share Ownership – *newspad* Review VI; Employee Share Plans & The Benefits For SMEs; Employee Share Schemes, Levelling-Up & Social Mobility; Why Employee Share Ownership Matters; International Share Schemes: Exporting the Vision; Esop Sofa: Hot Topics In Employee Share Ownership – *newspad* Review V; Share Schemes And The Impact Of Inflation; The Future of Gig Working As A Dynamic Economic Alternative; The Employee Voice: Share Plan Votes ; Esop Sofa: Hot Topics In Employee Share Ownership – *newspad* Review IV; Innovative Tax Techniques For Employee Share Schemes; Share Schemes For Non-Employees & The Gig Economy; Esop Sofa: Hot Topics In Employee Share Ownership; Building Back Better With Your Employees Through Shared Ownership ; EOTs: The Credible Alternative To Succession; The Role of Employee Share Schemes In Achieving The UN Sustainable Development Goals; Esop Sofa: Hot Topics In Employee Share Ownership - *newspad* Review ; Beyond Brexit: EU-UK Social Security Contribution Rules; Esop Sofa: Hot Topics – *newspad* Review; The Share Valuation Worked Examples Group In The Changing Valuation Landscape ; Looking Ahead To 2021: Moving Beyond Brexit In Financial Services Regulation; Insights Into Share Valuation for Employee Share Schemes: Revealed Through Dynamic Case Studies;

Lessons From Lockdown: Re-Assessing How You Manage Share Plans In A Digital Way; Employee Share Schemes: Innovative Communication Strategies Guaranteed To Increase Employee Take-Up ; Selling Your Company To An EOT - How It Differs From An MBO; Institutional Investors' Views On The Use Of Share Plans; Esop Sofa – Hot Topics; Employment-Related Securities: The Complexity Unravelling Into Practical Application; Employee Ownership & The Future Of Capitalism; Could Equity Be Used To Replace A Portion Of An Employee's Salary?; The Case For Employee Share Ownership: The Heart Of The Matter Revealed; Esop Sofa Lockdown Stories; Share Valuation: The Wisdom On Price-Setting For Your Employee Share Schemes; Tools Of Engagement: The Power Of All-Employee Plans; 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 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>



Z/Yen Group Limited t/a The Esop Centre. Registered office:
1 King William Street, London EC4N 7AF. Company number
2965552 England

+44 (0)20 7562 0586 | esop@esopcentre.com |
www.esopcentre.com

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