



A STORY OF TRUST

There are lessons for employee share ownership in the travails of the John Lewis Partnership. One is that the myth of employee ownership (it is not employee-owned but trust-owned) cannot be sustained in hard times. It is fortunate to have a highly competent leader in its current chairman Dame Sharon White who will take the steps necessary for survival even to the extent of bringing in outside capital. Another is that giving employees a sense of ownership works well when it is well done. Those companies with esops who just go through the motions and enjoy the financial advantages will not get commensurate benefit.

EVENTS

Symposium – Thursday March 30

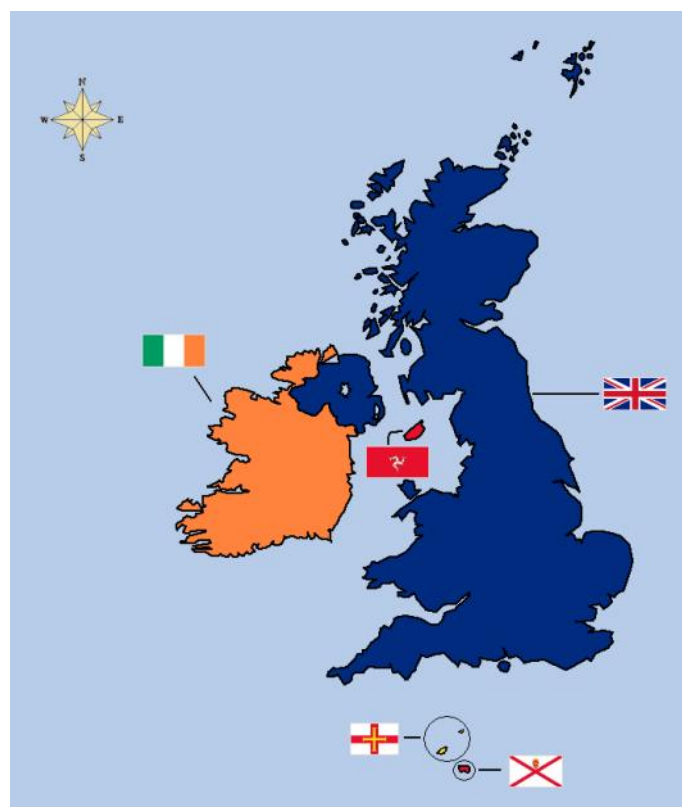
It's time to book your place at the Centre's annual **British Isles Share Plans Symposium** on Thursday March 30 2023 at **Macfarlanes'** central London offices.

Speakers' presentations will be available for you to absorb in advance before an afternoon of interactive panel debates, ending on a high note with a networking reception at which the 2022 *newspad* awards will be presented.

It will be an in-person event with essential online content, so speakers won't need to repeat material from their presentations.

In a keynote speech, Investec Bank economist Ellie Henderson will set the scene with an overview of the current domestic and global economy.

The three panels that follow are on **global economics and share plans; regulation & governance; and the future of all-employee share ownership plans and share plans in SMEs** Panellists will discuss share plans and inflation; Global share plans and whether US Esop transactions can be adapted for use in



the UK; Global and UK updates on regulation and market developments; Private company governance with EMI and CSOPs (including recent HMRC guidance on Board discretion); the future of SAYE, including maturing Covid plans and how CGT affects them (with a case study of Drax Group's maturing plans);

Incentive arrangements for smaller/private companies and the use of EMI in conjunction with an EOT; and the potential for employee share plan reform.

Panel four will be dedicated to a **plan issuer case study** looking at post-IPO plan launches including UK SIP, ESPP and approved & unapproved executive option plans; how they launched, how they're performing, what the future looks like for the company's equity compensation.

The symposium will hear from speakers representing Achilles Therapeutics; Baker McKenzie; CMS; Computershare; David Craddock; Doyle Clayton; Drax Group; Equiniti; Investec Bank; Sixti and symposium host Macfarlanes.

Admission rates:

Practitioners:

Members: £425 Non-members: £625

Trustees:

Members: £360 Non-members: £560

Multi booking offer: 50% off third delegate place

*Delegates from plan issuer companies will be **admitted free of charge**.*

*All prices are subject to UK standard rate VAT

(The prices reflect the generosity of our host Macfarlanes).

There will be opportunity to take part remotely should you not be able to travel to London.

Please contact events@esopcentre.com to reserve a delegate place, or phone the team on +44 (0)207 562 0586

Esop Centre High Table – April 11

The Centre is resuming its programme of High Table events, dinner debates where members can put their questions to a special guest in an informal atmosphere. Our guest of honour on the evening of Tuesday April 11 will be former Treasury minister Mark Hoban.

After his parliamentary career, which included posts as Financial Secretary to the Treasury, City Minister and Minister of State for Employment, Mark took high level business roles. He chairs Flood Re, which was set up to improve the affordability and availability of flood cover for homeowners. In 2020, he was appointed chairman of the Jersey Financial Services Commission, and later that year, chairman of Pay.UK. In addition, he is a member of PwC's Advisory Council. Mark chairs the Financial Services Skills Commission, a new initiative to address the skills challenges the financial sector faces.

The dinner will be in the Aldermen's dining room at the Guildhall, City of London, from 18:30-21:30. Tickets are £150 + vat each. Please email esop@esopcentre.com if you would like to join us. Space is limited, so don't delay.

Webinar

The Centre's next Esop Sofa-Newspad Review panel discussion will be at 11:00am on Thursday, April 27. Join our panel of share schemes experts for in depth discussion of their pick of articles featured in recent editions of "It's Our Business", newspad of the Esop Centre. **Registration is open**

LIBRARY OF WEBINAR BROADCASTS:

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 – Newspaper 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 – Newspaper 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 - Newspaper Review ; Beyond Brexit: EU-UK Social Security Contribution Rules; Esop Sofa: Hot Topics – newspaper 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>

CENTRE & MEMBERS' NEWS

Pete Stavros airs his thoughts

Pete Stavros, KKR's co-head of Global Private Equity, joined The Conscious Capitalists Podcast to explain the impact of broad-based shared ownership on employee engagement, retention and returns. Listen to Episode #64: “Private Equity leading the way on employee ownership!? You heard that right!”.

Executive compensation and a challenging agm season

In a blog for PwC, Caroline Alhadeff shared shareholders' views following an executive compensation roundtable table discussion with investors.

As we move into the 2023 agm season, companies will be reporting on a difficult period. This challenging external

environment has framed many of the decisions made by companies' Remuneration Committees, which they will shortly be disclosing in their 2022 Directors' Remuneration Reports (DRRs).

As in all years, but perhaps more so than ever, these decisions will be subject to scrutiny from a wide range of stakeholders, none more so than companies' shareholders. So where do we expect investors to focus their attention when casting their vote at 2023 agms?

Three key areas of focus were:

1. Overall levels of pay, particularly in relation to incentive outcomes for 2022 and salary decisions for 2023.

Investors' primary concern is the juxtaposition of high executive pay outcomes with the recent experience of stakeholders, especially less-well paid employees.

It is clear that investors are expecting companies to show restraint, with a potentially heavy price to be paid for not doing so: big headlines in the media or significant shareholder votes against.

The narrative put forward by companies in their DRR will be closely scrutinised. Investors are looking for companies to explain why incentive payouts and salary increases are appropriate in the contexts of business performance and stakeholder experience. But some participants also made it clear that, no matter how well-articulated the rationale, some pay numbers will be simply too big to justify in the current environment.

2. Windfall gains under Long Term Incentive Plans (LTIPs) vesting this year.

Here, investors' concern is that executives might gain unduly from LTIPs vesting this year that were granted when share prices were at their lowest at the start of the pandemic, so more shares were granted to executives than otherwise would have.

Again, there was very clear consensus that restraint should be shown, and a feeling that companies and executives should take a long-term view.

Interestingly, and perhaps helpfully, none of the participants had a predetermined formula for how they will make their assessment. So companies will need to explain the process they went through and the rationale for their decision. In return companies can expect a fair and consistent hearing from investors.

Companies who suffer falls in share price in the future may consider scaling back awards at grant, or address windfall gains at vesting. Many felt that adjusting at grant remained preferable, accepting that any adjustment at that point would likely be arbitrary but nonetheless easier than unpicking whether or not there had been a windfall gain at vesting. That said, these investors admitted to keeping an open mind.

3. ESG measures in incentives.

Some 87 percent of FTSE 100 companies now use ESG measures in at least one of their incentives. So discussion focused on whether, given the rapid adoption of ESG measures in recent years, investors have an 'end state' in mind - for example an expectation that all companies, or companies in certain sectors, incorporate ESG measures by a certain date.

Unsurprisingly shareholders reiterated that they only support ESG measures where these link to a clear corporate ESG strategy. Some criticised companies for telling their shareholders that part of their rationale for including an ESG measure was "it's what shareholders told us to do".

There was also scepticism about whether companies are choosing the right metrics. One example given was of companies including Scope 1 and 2 emissions goals in their incentives when these only made up to one to two percent of their footprint.

Market practice will evolve. For example, an approach preferred by one participant was for such measures to be used as underpins, on the principle that progress should be part of the day-job, not something that should be rewarded on top.

Most companies, certainly those with December year-ends, will have already decided on their approaches for 2022. Therefore the test will be how can Remuneration Committees write these up in the DRR so that all stakeholders, not just shareholders, understand the facts and circumstances surrounding the decisions made, against this challenging backdrop. Companies will be wise to maintain dialogue with shareholders up to the agm if they want to ensure the rationale is understood.

Tapestry's Certificate in Employee Share Plans 2023: last chance to book

The certificate course is split into two parts and each part will be taught over five short days on Zoom, finishing around lunchtime. The course will run with interactive teaching sessions and combine virtual learning with in-person networking events. Registration for the course will be closing soon.

2023 course dates

Part 1: Course dates: May 15-19 2023; Exam: Monday July 3 2023

Part 2: Course dates: September 18-22 2023; Exam: Monday November 6 2023

Learn more on the [Tapestry course website](#).

ALERT: Upcoming changes to the process to grant EMI options

Following the Budget on March 15, CMS employee incentives team reported that from April 6 2023, the companies will no longer be required:

- to set out the details of any restrictions applying to the shares to be acquired under the EMI option; and
- to declare that an employee has signed a working time declaration when they are issued an EMI option (this does not remove the working time requirement itself).

From April 6 2024, the deadline for notifying

the grant of an EMI option will be extended from 92 days to the July 6 following the end of the tax year in which the EMI option was granted. This much needed simplification will ease the administrative burden on companies operating EMI plans.

Graham Muir noted “The changes in relation to the notification of restrictions and working time declarations also apply to EMI options granted before April 6 2023 that have not been exercised (presumably by April 6 2023). This will result in a lot of time being saved in due diligence exercises on the acquisitions of companies with outstanding EMI options.”

Incorporating ESG KPIs into directors' remuneration

The urgent need to place sustainability at the heart of company strategy is inextricably linked to incentives provided to its directors and employees. This *Expert Guide from CMS* aims to provide practical insights into key market practices and trends aimed at incorporating sustainability and/or Environmental, Social and Governance (“ESG”) KPIs into directors' remuneration.

The regulations and recommendations on ESG-related remuneration vary considerably from sector to sector and from country to country. The trend is, however, undoubtedly towards providing directors (and in some cases senior/mid-level managers) with an incentive to commit to ESG objectives designed to support and promote effective management of sustainability risks.

Congratulations!

Ogier has been named Best Law Firm – Fund Domicile at the *Private Equity Wire European Awards* 2023, taking home the award for the second consecutive year. The awards recognise excellence among service providers in Europe's private equity industry.

UK NEWS

Spring Budget

Chancellor Jeremy Hunt unveiled his Budget on March 15. Announced against a backdrop of high inflation, a cost-of-living crisis and mass industrial action, the Chancellor confirmed that his primary aim was to boost growth, particularly by encouraging people back to work. Key measures affecting tax-advantaged share schemes:

Share Incentive Plan (SIP) and Save As You Earn (SAYE) schemes. A call for evidence will be launched on SIP and SAYE schemes to consider opportunities to improve and simplify them. Judging by a September 2022 [parliamentary debate on potential reforms of employee share ownership schemes](#), the types of suggestions the government might be considering include: allowing SAYE schemes to have a one-year savings period in addition to the current three or five years; reducing the SIP holding period from five to three years; allowing awards of free shares targeted at lower-income employees; and developing a new type of scheme to allow participation of workers in the gig economy by not requiring regular monthly contributions.

Enterprise Management Incentive (EMI) schemes. The Spring Budget document also confirms that the government will simplify the process to grant options under EMI schemes. From April 2023, the requirement for a company to set out details of share restrictions within the option agreement and the requirement for a company to declare an employee has signed a working time declaration will be removed. From April 2024, the government will extend the deadline for a company to notify HMRC of the grant of an EMI option from 92 days following grant to the July 6 following the end of the tax year. As part of this, the government published a [call for evidence summary of responses](#).

Cost of Living Share Plan?

Former Minister, and MP for Huntingdon, Jonathan Djanogly, called on the Chancellor to introduce what he and a group of Conservative colleagues term the *Cost of Living Share Plan* in the Spring Budget.

He said that with inflation still running at over 10 percent, the majority of employers want to be able to support their staff. But offering pay rises of this magnitude is clearly a challenge. However, there are innovative ways in which we can use the tax system to support people in work more efficiently and target those more likely to be facing financial difficulties.

“Many progressive companies already offer their staff the chance to invest in employee share ownership plans, and around a quarter of those companies already offer employees free shares in their company.

“However, these schemes tend to be for the long term and aren’t designed to support employees to get through the financial hardships many are currently facing, since money is typically locked up for years before the full tax advantages can be realised.

It’s a simple idea that would allow companies to offer employees on lower incomes free shares in the company they work for – up to an agreed amount – and on which the employee would not pay any Income Tax or National Insurance if they hold the shares for an agreed (and, crucially, short) period of time – we suggest 12 months.

“Tax-advantaged share schemes already exist and operate quite successfully, but as currently designed, they lack the flexibility to target the least well off. Two million employees currently invest, or save, in the UK’s two most popular plans, the Share Incentive Plan (SIP) and the Save As You Earn (SAYE).

“The Cost of Living Share Plan would be modelled on the existing Share Incentive Plan (SIP), but with some crucial differences which take into account the financial challenges many families are facing. First, staff eligibility would be based on a predetermined income threshold. It would allow employers to focus free share issues exclusively on their lower-income workers who would benefit the most.

“Secondly, the free shares would become fully tax efficient within a year from the award of shares, rather than the current five years. This way, participants would be able to access the value of their share capital by selling and converting it into cash, with no tax penalties much sooner than they are currently able to.

“Thirdly, this scheme could be a short-term measure only, designed to support staff through a difficult period over the next two or three years.

Aside from benefiting the people who need it the most, employers would take on the

majority of the financial burden – not the taxpayer. The tax reliefs offered by the government are already relatively small compared with the cost borne by the employer.

“Furthermore, the new plan would likely be revenue-neutral for the Treasury – it’s unlikely that companies would issue more share capital in total than they do already, rather they would use it to target those on lower incomes.

“Any employees who required instant access to the shares would be able to do so, albeit forfeiting the tax benefits gained from holding the shares for 12 months. Modelling the new plan on the SIP would allow the 840 firms who already offer a SIP to offer this new plan more quickly and easily than were they to have to sign up for a new scheme.

“The Cost of Living Share Plan is a practical solution to help people in work as the value of the pound in their pocket falls. I hope the Chancellor gives this idea serious consideration as he prepares his spending plans.”

EOT Round-up

- ◆ Bakery and butchers **Watkin's**
- ◆ The publisher behind *Recruiter* **Redactive Media Group**
- ◆ Digital recruitment firm **We Are Adam**
- ◆ Product design, engineering and development specialist **eg technology**
- ◆ Vehicle rental firm **The Herd Group**
- ◆ Apprenticeship provider **Talk Training**
- ◆ Independent financial planning business **Cheetham Jackson**
- ◆ worktop and decorative surface distributor **Blackheath Products**
- ◆ Children's nursery **Abigail's Day Nursery**
- ◆ Invasive plant specialist **Environet**
- ◆ Provider of marketing and logistics **Granby Marketing**
- ◆ National training provider **HIT Training**

BOOKS

Mass investment culture in Britain

In his review of *Are We Rich Yet? The Rise of Mass Investment Culture in Contemporary Britain*, Ben Jackson, professor of modern history at Oxford, in the *London Review of Books*, tells how the author, Amy Edwards, lecturer in Modern British History at the University of Bristol, casts doubt on the familiar top-down story of 1980s finance; arguing that our focus on the political history of the 1980s has come at the expense of understanding economic and social change.

Discussing share ownership, he said “In the 1950s, the Tory prime ministers Anthony Eden and Harold Macmillan championed home ownership, and politicians and financiers became keener on the idea of enabling the working class to own shares. The Wider Share Ownership Council, founded in 1958, promoted schemes such as employee share ownership. In the 1960s newspapers introduced ‘money pages’, which provided jargon-free advice on where to invest.

“Although many of the preconditions were in place, share ownership didn’t become widespread until the mid-1980s: only three or four percent of the population owned any shares before the privatisations of the Thatcher era. By the late 1980s, that proportion had risen to 21 percent, though it dropped back to 15 percent by 2009. The privatisation of nationalised industries was crucial: both directly, through the buying and selling of shares in the newly private businesses, and indirectly, by sparking a wider fascination with financial markets. Edwards recognises this, but argues that the neoliberals’ ideological goals were impeded by certain structural features of modern capitalism.”

WORLD NEWS

Employee ownership is key for European start-ups’ success

In Silicon Valley, employee ownership has long been recognised as a vital tool for attracting talent, but across the Atlantic, adoption has been slow to pick up. Now research suggests that Europe is finally starting to embrace stock options for employees. According to Index Ventures-led campaign *Not Optional*, which is calling for new rules encouraging the use of employee stock options, average employee ownership at late-stage start-ups has risen from 12 percent in 2017 to 16 percent this year.

In an *interview with PitchBook*, Dominic Jacquesson explains how employee ownership can benefit Europe’s start-up ecosystem.

La Redoute employee makes small fortune

Last month, *The Sun* reported that a woman who invested £100 in the company she worked for made a small fortune when it was taken over. The lady, only known as Isabelle, worked for the French fashion company La Redoute and stumped up the money in 2014 to benefit from the company’s share ownership scheme.

She told *Le Parisien*: “I said to myself, if it goes well, so much the better and if it breaks, too bad.”

It certainly went well for her and she pocketed a sizeable €80,000 (£71,000) in December last year when the company was bought by *Galleries Lafayette (now reported to be in financial difficulty itself)*.

Some 1,500 La Redoute employees had become shareholders in the company and

they benefitted, collectively, to the tune of €100m (£88.8m).

That's a return of roughly a thousand times their initial investment.

As reported in [L'Echo on March 11](#); unwittingly, the French groups La Redoute and Galeries Lafayette have just carried out a formidable promotional campaign in favour of employee share ownership.

In 2014, when the Roubaix mail-order specialist was close to bankruptcy, it was taken over by two of its managers and a thousand of its employees; the latter had subscribed 16 percent of the capital of La Redoute for a total of 100,000 euros. The safer incentive might be to structure employee share ownership collectively, as in Anglo-Saxon countries.

The Swedish model is insufficient when it comes to old-age provision in Germany

Scientific Advisory Board Report for the Federal Ministry of Finance

Andreas Wimmer, a member of the Board of Allianz SE, writes about the evolution of old-age provision in Germany and why an equity pension system - [the so-called Swedish model](#) - might fall short of what is really needed.

The report is a good starting point for the much-needed debate on a crucial future topic-the evolution of old-age provision. Based on (a) the proposals on further development of statutory pensions set out in the coalition agreement, and (b) the test mandate for private pension provision, the Scientific Advisory Council of the German

Federal Ministry of Finance outlined core elements of a potential evolution of funded pensions.

Does the report lay out a completely new approach? Essentially, the authors appear to favour a mandatory supplementary system consisting of a state and private "standard offering" without committing themselves to a specific model.

Retirement provision always has a bearing on the future of the economy. More discussion is needed on how retirement provision can be linked to other pressing issues. Investments in infrastructure, for example, could be an excellent link.

Surprisingly, some argue that mandatory standard products would promote the investment and equity culture in Germany and contribute to financial education and wealth accumulation. However, strengthening financial education through a compulsory system does not appear to be the best route. There are more effective approaches to tackling financial education and investment promotion in Germany. One example is the promotion of employee share ownership in companies, which builds up assets in the long term and strengthens employee loyalty.

South Africa: 26% stake in 4Racing transferred to Grooms and Employees' Trust

Horse racing operator [4Racing said on March 14](#), as part of a Broad-Based Black Economic Empowerment (B-BBEE) initiative it would transfer a 26 percent stake in the company to a Grooms and Employees' Trust.

In December 2022, the Competition Commission approved the implementation of the 4Racing Transformation Initiative, which would see a 26 percent shareholding of the company apportioned between a Broad-Based Black Economic Empowerment Trust (BBOS), the beneficiaries of which would be grooms and stable hands, and an Employee Share Ownership Programme (Esop) being established for 4Racing employees, it said.

The grooms and stable hands' benefits had been driven by a collaboration between 4Racing, trainers and owners, and the Racehorse Owners' Association (ROA), which has committed considerable funding in support of the grooms' initiatives.

ROA ceo Natalie Turner said partnering with 4Racing on the grooms' welfare initiatives was absolutely critical.

"We are mindful that we need to strike a balance between stakes maximisation for owners, and playing a meaningful role in bringing about change and transformation in the industry. In this particular case, improving the welfare of grooms and stable hands is a key and critical element," she said.

Canada's employee ownership trust model should waive capital gains tax

Canadian senator Tony Loffreda appealed to the government **to include CGT exemption** in its trust model, He said: "Seventy-six percent. That's the number of Canadian business owners who anticipate retiring in the next decade and must now explore what's next for their company.

"With the federal budget just around the corner, the government is in a unique position to help these owners protect their businesses, look after their workers and preserve their legacies with the implementation of employee ownership trusts, in which businesses are essentially sold to staff.

"I understand the government may be finalising regulations and amendments needed to enact these trusts, fulfilling a commitment made in the 2022 budget. As a supporter of the newly formed Canadian Employee Ownership Coalition, and in light of the proven benefits to society of employee ownership, I urge the government to seriously consider including a capital gains tax exemption for business owners in its trust model.

"This would remove a significant barrier to the creation of the trusts. It also reflects the results of the government's recent consultations with stakeholders."



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ABOUT NEWSBRIEF

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