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it's our business

newspad of the Employee Share Ownership Centre

Roadchef Esop participants being held hostage, claim

The attitude of **HMRC** came under fire as it was revealed that hundreds of former **Roadchef** motorway services chain employee shareholders were effectively being held hostage by its refusal to allow unconditional payment of court ordered tax-free compensation payments.

The Roadchef Employee Benefit Trustee is furious over an alleged HMRC demand that, in return for allowing payment, the Roadchef employees should abandon a separate claim for restitution of the multi-million pound tax bill paid by former Roadchef chief Tim Ingram Hill when he sold the employees' shares to Japanese company Nikko almost 20 years ago.

HMRC's bargaining ploy with the mainly low-paid Roadchef cleaners and kitchen staff was revealed in a confidential letter sent from the trustee to the employee beneficiaries, explaining why the compensation for their shareholdings has still not been paid three years after an out of court settlement with Mr Ingram Hill.

The Roadchef Esop compensation scandal was discussed in depth during the Centre's second British Isles employee equity symposium, held in Centre member White & Case's City office (*read full report below). Newspad* editor Fred Hackworth read out brief extracts from the trustee's letter, but did not discuss the detail of the out-of-court settlement between the trustee and Mr Ingram Hill, which is subject to court-ordered confidentiality.

The trustee has been advised that it has a strong claim against HMRC for the return of money which Timothy Ingram Hill had paid to it in 2000 as part of the proceeds from the shares he had removed from the trust. This was a claim for the return of trust money, wrote the Roadchef EBT director, Christopher Winston Smith in the letter to beneficiaries:

"HMRC have agreed to a tax-free distribution of the monies we recovered from Tim Ingram Hill provided that we give up the above-mentioned claim against them. By imposing this condition, HMRC are effectively preventing us from making a distribution of the TIH settlement cash. We refuse to give up the claim against HMRC because it is a strong one and it involves a considerable sum of money which could substantially benefit our beneficiaries. It is worth fighting for."

The trustee has been advised that it was wrong for HMRC to link the Ingram Hill settlement cash with the claim against them. They are entirely separate issues and HMRC should allow the trustee to make a tax-free distribution to beneficiaries now, the trustee believes. The trustee thinks that it is not only legally wrong, but morally wrong, for HMRC to benefit from money received from a third party and which is not tax in the legal sense of the word. "This is the Trust's money," added Mr Winston Smith.

The trustee has asked HMRC for another meeting – to see whether a swift conclusion can be found - but warned that further action was likely unless the compensation payments were authorised shortly.

Centre chairman Malcolm Hurlston CBE, said: "This appalling case has gone on so long that some of the employee shareholder beneficiaries are starting to die off without seeing a penny of the court awarded compensation.

"Retaining a robust tax base is essential to the UK's economic health, but this case screams out for

From St Paul

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compassion – through speedy settlement by HMRC of the employee beneficiaries' final tax bill (if any) on the compensation payments," he added.

The Centre asked HMRC to comment on the trustee's assertion that the beneficiaries had been offered a quid pro quo deal on the tax front – '*drop your back tax claim and we'll pay out the compensation tax-free'* - but it declined to do so on confidentiality grounds.

Mr Hackworth said that a key message for trustees from the case was that those who drew up EBT deeds had to be very careful indeed about how the term 'beneficiary' (of the employee share scheme) was defined. In the Roadchef case, they were defined as those employed by the company ***from time to time*** and this definition caused huge problems in court. However, in the advisers' defence, it had to be borne in mind that the Roadchef Esop was very much a pathfinder in the mid 1980s and few people were entirely sure about what the Esop trust deed should say and how the trust should best be structured, added Mr Hackworth.

Newspad readers are familiar with the basic facts: *Out of more than 600 original Roadchef employees, the 350 or so who participated in the company Esop are set to share 61 percent of the compensation pot because the court ruled that their shares should not have been moved from one EBT to another with the backing of the then trustee and subsequently sold to Nikko in 1998. Nine percent of the pot will be shared by the 270 or so original employees who either did not qualify for, or refused to join the Esop scheme. Bizarrely however, the remaining 30 percent is to be shared by the more than 3,000 others who had worked for Roadchef over subsequent years, up until when, in November 2014, the settlement with the former Roadchef boss was made. Mr Ingram Hill, who had planned to appeal against the High Court ruling, has always maintained that he did nothing illegal.*

It took the Roadchef employees almost 15 years to get to court to fight for compensation because their trustee didn't have the money to mount a legal challenge until a change in the law allowed it to bring in a litigation funding company. It is estimated that the case and compensation battle has cost at least £3m to date.

The final division of the compensation was agreed much later in the High Court after a loose definition of the term 'beneficiary' in the original EBT trust deed ***forced the trustee to fight to get the employee shareholders even included in the compensation distribution formula.*** *Three different judges were involved in the case – one for the original judgement against TIH; another to decide what the term 'beneficiary' meant in this case and another to ratify the settlement, including widening the parameters to include the original Esop shareholders. To his great credit, Mr Ingram Hill forced the High Court to prioritise the original employee shareholders in the compensation scheme by saying that he would pay nothing unless the former Esop participants got the lion's share of the money.*

The symposium celebrated the combined contribution of the UK and its Crown Dependencies to spreading employee ownership to much of western Europe and worldwide. When chairman, **Malcolm Hurlston,** created the British Esop in 1986 after a visit to the US with Lord Thomas of Macclesfield - md of the trade union bank - their first port of call for establishing the twin trust structure created by David Reid of Clifford Turner - was Jersey.

"Springing from those efforts just over 30 years ago we now have the vast share schemes industry you see today," Mr Hurlston told his audience: "Firms have grown large on it, the executive suite extracted untold riches and some has trickled down to the employees who were first in our minds. If I say it is time for a re-set I am not referring to the Paradise islands who do a complex job well and whose trust arrangements are superior to those on the mainland but the focus of our work.

"We burrow away in a functional and efficient way but where is the vision? Where is the leadership? Where is the focus on inequality? Populism was at the roots of our inspiration. Governor Huey Long of Louisiana was elected on the slogan '*Every man a king'*. That is what we are about.

"In these Lilliputian times when not a single ceo springs to mind on the whole FTSE who is an inspirational supporter of our mission, let me look wider for our great men, both from unexpected quarters. First there is Pony Ma from China who runs Tencent, a modest sounding name but it is one of the ten biggest companies in the world. He gave shares to all his employees last year and, what is more, he gave them not from Tencent but from his personal holding."

The chairman added: "Come on you FTSE fat cats let's see some of your equity on the table. I am going to show you the video made by Pete Stavros of KKR (Kohlberg Kravis Roberts) for US engineering company **Gardner Denver's** English subsidiary, based in Redditch. Now that was an inspiration. First because it was the chief Pete Stavros doing it - we need leadership from the top; secondly because of the production values more reminiscent of the times when firms made industrial movies with real professionals and thirdly we have in the audience today one of the stars of the film, Colin Mander and a potential member of our new **Association of Employee Shareholders."**

Mr Hurlston said that KKR the giant global investment fund which owned part of Gardner Denver, had once starred in the book and movie '*Barbarians at the Gates,'* but here it was, sponsoring a stock plan which had given GD employees an award worth around 40 percent of their base salaries. Mr Stavros had told him that it had given stock to employees in other companies – "We have transformed how employees think – more as business owners, than just wage workers," he had told Mr Hurlston.

"How do we reset and find our own way of following Pony Ma and Pete Stavros? Note that neither of them were grubbing for tax breaks; KKR used restricted stock units. They did what they thought was right.

"No UK employee share schemes should offer tax breaks unless there is a substantial all employee element; let's have every man a king not prancing emperors in the ceo suite. Let us all too lift our eyes from tax breaks. The tax breaks positively evaluated by HMRC are there to benefit the government not you. Do what you think is best and use schemes only if they fit." said Mr Hurlston.

Louise Jenkins of **FTI Consulting** examined whether employee share plans were worth the time and effort put in by plan sponsor companies. The objectives behind such plans could vary considerably between a multinational company and a start-up. Senior executives, incentivised with equity packages, could influence productivity much more than ordinary employees who participated in Eso plans, she said. Similarly, the installation of Eso in smaller companies often had a bigger impact on productivity than in larger ones. Companies who installed Eso plans had to refresh them frequently in order to maintain the momentum.

Improved company loyalty was one of the biggest advantages of having an Eso plan, said Louise. Research had shown that employees were less likely to take unplanned absence from work and to join in a more collaborative workforce if they were share plan participants. However, it was not all plain sailing – about half the UK workforce would be millennials by 2020 and slightly more than half of them were likely to change jobs within two years. What relevance did Eso have for them given that many share plans had minimum three year operating periods? Sadly, it now cost companies £25K on average to replace a qualified employee, so it would pay off to encourage employees to stick around longer.

Louise concluded by discussing the new law which had changed the tax rules applying to internationally mobile employees (IMEs). Now there was apportionment of tax demands depending upon split residency and many companies were getting it wrong. You might have a US executive who pays tax on all income to the US under FATCA but who might be liable to pay some UK tax too for time spent working in the UK, she said.

David Craddock, founder of his eponymously named share scheme consultancy, made the philosophical and enlightened self-interest case for Esop. "The employee communication strategy, coupled with effective human resources management and strong administrative structures, is the lubricant that connects the employee workforce to the employee share scheme," he told his audience. "At root the success of the scheme initiative depends upon the human response from the employees. The key question, therefore, is: *How does the human brain think and the human heart beat in response to the employee share ownership initiative?"*

Supporters of Eso often heard the phrase '*The Wages of Capital'* but what did it mean? Answer: The focus of the incentive of variable return on the basis that the greater the employee work contribution, the greater the returns from the labour through extending employee return from just wages/salaries to include dividends and capital gains too, said David. Another key was the release of entrepreneurial spirit which Eso had often brought to businesses.

The 'golden era' for Eso in the UK had been during the Coalition government from 2010-15, which had seen the birth of the EOT; the raising of the investment limits in the SAYE and in the SIP; a significant array of exemptions in Finance Act 2011 for the use of employee benefit trusts for employee share scheme purposes and the improvement of tax reliefs in various enterprise and entrepreneurial investment schemes, added Mr Craddock.

Garry Karch of **RM2** explained what the UK and its Dependencies could learn from the development of Esops in the US, which were somewhat equivalent to the UK Employee Ownership Trust (EOT), except that in the US, the definition of an Esop company applied to companies with more than 30 percent control, as opposed to more than 50 percent in the UK. There had been 150 EOT transactions in the UK in the three years since it had been set up. There could have been far more, but for the chronic lack of funding for such schemes in the UK. As British banks were not really helping in this sector, the UK needed a government backed scheme which would guarantee say 75 percent of Esop loans to SMEs – as in the US. Nevertheless, the UK EOTs were cementing jobs in local communities, often because the founder owner sold the equity to employees to avoid the break up of the company and loss of local jobs. Of course, the CGT relief was proving to be a very significant factor in owners' decisions to sell company control into an EOT, said Garry.

William Franklin, of **Pett Franklin**, the employer share ownership lawyers, linked the Employee Ownership Trust (EOT) with entrepreneurs in his presentation. Many older business founders seeking an exit found the MBO route difficult because it was difficult for them to get loans with which to buy the company shares, William explained. There had been too many pointless liquidations before the arrival of the EOT, which offered owners an "incredibly efficient tax structure for cashing out," he said. "The owner must cede control because EOT inverts the capitalist model. It works best where the banks' role is quite minor and gradually more and more companies are using it." Pett Franklin had helped £14m worth of EOT deals go through to date and three more were in the pipeline. The UK did not have the *Mittelstand* structure which helped SMEs so much in Germany, which was one reason why the UK had such a massive trade deficit. "Our financial services industry is so geared to sales, churning etc that they have difficulty in getting their heads around this EOT structure," added William.

Next, **Tim Hickman** and **Helen Levendi** of symposium hosts **White & Case** pinpointed data privacy issues in employee equity plan administration. Tim said that Brexit would not save the UK from red tape legislation and regulation because all the relevant EU laws would flow down automatically into UK law at midnight on March 28 2019. 'Personal data' was any information relating to an identified or identifiable natural person (e.g., customers, suppliers, employees), fully anonymous data is not in scope. 'Processing' was any operation performed upon personal data, such as collection, storage, use or making available (includes use of IP addresses, cookies, RFID identifiers) and that employee equity plans, and the parties offering and administering them, are subject to and must comply with data privacy laws globally.

The EU's General Data Protection Regulation (GDPR) had come into force on May 24 2016, but enforcement would not begin until **May 25** next year and that was what everyone had to focus on because from that date, serious infringements could result in fines of up to €20m or four percent of worldwide turnover. However, the regulator has said that fines on this level would be "a weapon of last resort," said Tim. So many companies would aim not to end up 'worst in the class' for data protection. "The data protection law can only get more complicated, so companies will have to organise internal staff training. DP is already being used as a weapon in litigation by current and former employees", he added.

Helen said that White & Case would provide a free information handbook on personal data to share scheme sponsors. "One hundred percent compliance may not be realistic, but you should identify areas of significant risk – e.g. *do you need to appoint a compliance officer?* Write out your compliance measures now – e.g. the 'easy wins' like your corporate privacy policy." GDPR was a "massive hassle" for the financial services world, she conceded in the Q & A. Companies had to identify all their personal data, say where and how it was being stored, whether a third party was involved (including service providers) and who was the data being transferred to. An additional complication was that employees had to **agree** to all this personal data being held on file. It applied to *all* registered companies, not just the quoted ones, Helen added.

Next up were **John Hunter** of the **UK Shareholders' Association** and **Mick McAteer** of the **European Commission's Financial Services User Group**, who led a panel which discussed democratic rights for employee shareholders. John reminded delegates of *Cedric The Pig* who was ceremonially introduced by trade union shareholders into the agm of the then British Gas after its ceo (still a civil servant at that time) was awarded a huge pay rise – up from £250,000 a year to £475,000 (*worth £800,000 today – after price inflation)* in the privatisation process. Currently, its ceo earns £5m a year in total reward. UKSA was born out of the inability of individuals, especially shareholders, to influence executive policy on pay, he said. The Prime Minister had chosen corporate governance as one of her key themes in office, but we needed to see more action arising from the various consultation papers.

UK employees' share of net national income had fallen by seven percent over the last 45 years ending 2015, said Mr McAteer. "We need to redistribute long term capital, which is probably one of the root causes the UK's low productivity. UK employees have collectively lost £100bn over this period and it has taken us ten years to get back up to pre financial crisis levels of real incomes," explained Mick.

The average share in the UK was held for only six months. Privately held companies meanwhile preferred investing in processes. "We are nowhere near realising the idea of participating in an engaged workplace."

John said that the share industry's '*dirty little secret'* was that certain brokers were allowed to lie about pooled nominee accounts giving holders the same rights as ordinary shareholders. Private shareholders were emasculated, though the EU's Shareholders' Rights Directive would come into play from next year. The Esop Centre had been right to raise the issue of employee shareholder rights, but needed to add the obligations of ownership too – 'your job is to ensure that the large majority of companies create more wealth,' he told delegates. In answer to Qs, Mr Hunter said that the corporate nominees' voting rights concept had disappeared and that it would take a generation to get it back.

Jennifer Rudman of **Equiniti** explained with great clarity how to stay compliant as Mifid II, the EU's Markets in Financial Instruments Directive, was due to land in January next year. As Equiniti was a major share plan administrator, a trustee and a broker (acting as a nominee) Equiniti had been enacting the Mifid II reporting requirements for a long time already, said Jennifer. "Mifid II extends what we have to do – basically we will have to collect more information about all our share scheme participants and our own employees. In addition, every transaction has to be checked and rechecked". But would all share plan participants agree to have additional info about themselves recorded and filed under Mifid II?

The major debate of the second day was about 'Top Pay' as the Centre wanted to present various seldom raised arguments as to why top pay was, on the whole, a good thing for the UK economy. The panel was packed with experts, led by **Professor Len Shackleton** of the **Institute of Economic Affairs**. He said that two issues were being confused in the debate about top executive rewards: first, did we really think that chief executives (ceos) were being overpaid and secondly whether the UK government should do anything about it. "I believe that the government is in danger of legislating over some reactions which are based on prejudice," said Prof Shackleton. "You have to have convincing evidence that the market is not working properly and I'm not convinced that this is the case, although there may be elements of cronyism here and there."

Much focus was now on the corporate governance code, but it was not clear whether institutional pressures were all that effective. Despite Germany having its social democratic ideal, top ceo pay there was at least as high as in the UK. It was worth remembering too that 75 percent of ceo remuneration was in some way performance-linked, half of that in Long-Term Incentive Plans (LTIPs), even if some performance conditions were a bit opaque, or so it was argued, he said. Years ago, colleagues had warned about the *Frankenstein monster* which would be created if executive reward were too closely tied to performance. There was a tendency now to maximise performance in the remuneration matrix and to ignore other areas, added Prof Shackleton. Ceos worked very hard indeed and their influence on business had grown considerably. When it was announced that Tidjane Thiam was leaving the **Prudential** to take the top job at **Credit Suisse** in June 2015, the Pru's share price fell sharply, while that of Credit Suisse had risen by more than seven percent, he said. Furthermore, ceos had suffered from a markedly increased rate of *defenestration* in the UK these days. When ceos failed, big pay offs were often necessary to prevent damaging litigation.

Government interfered too much over pay increases – there were five minimum wage rates and restrictions on zero hours workers plus increasing pressure over gender pay gaps. As for controls on executive pay, there were no obvious beneficiaries, he said. What did it really matter if a £10m reward package to an executive in a big company was reduced to £2m by controls, he asked?

Nor did Prof Shackleton buy into the inequality argument. Some politicians had convinced themselves that more radical moves were necessary – e.g. publishing the ceo v average worker pay ratio or employee representatives on the board, but they should bear in mind that the **High Pay Centre,** according to the professor, was a 'propaganda unit.' Mr Corbyn had floated the idea of restrictions on ceo pay ratios and has said that a Labour government would set up a commission to come forward with new proposals which would penalise others, rather than ceos. He warned that too much interference over top pay in UK companies would make multinationals wary of listing on the LSE.

Damian Carnell, of **Willis Towers Watson**, said that social justice cried out at the injustice of some top pay awards, but we were all stuck in a capitalist world and had been for centuries. The rich comprised five main groups: those who inherited wealth and who passed on wealth to the next generation; entertainers like Madonna, Maradona, JK Rowling and Ronaldo; the entrepreneurs, many of whom had resigned from a safe job to commit themselves to a business idea – and we only heard about the successful ones, not the many who had lost their money: the fourth group were lottery winners and finally the ceos – the top talented employees, who often had taken 15-20 years to get to the top, said Damian. Not many people knew that most ceos were paid considerably less than fund managers. Executive pay was not simple at all and many executives didn't know how much they would get at the end of the year. Admittedly, payment for failure was an unhelpful flaw in the system which should be improved, said Damian. Some awards could taper down after 3-5 years via a 'sunset clause' he explained. Target setting was difficult too – Diageo didn't pay out on an LTIP for three consecutive years and selecting the wrong metrics for an incentive scheme could be dysfunctional.

Damien Knight, of remuneration consultants **MM & K,** told the symposium that the executive reward world had been plagued by 'lazy' newspaper copy from journalists and had been taken over by political considerations. A number of myths, such as '*executive pay is out of control* - had been brought about by fundamentally flawed analysis, said Damien. To illustrate this, he quoted results from 2010 in which 88 out of the FTSE100 ceos increased their total realised reward by an average eight percent, although an increase of only two percent had been granted initially. However, in the other 12 companies, the executive directors' total reward had risen by an average 390 percent, because no LTIPs or Esos had vested in the previous year. Again, in 1983 most companies did not offer LTIPs, nor bonuses, but they did have final salary pension schemes. Total executive reward had jumped massively during the 1990's said Damien. In recent years, remuneration of FTSE100 ceos had been "entirely under control" - £2.5m in 2008, £3m in 2011 and £3m again in 2014/15, he said. He believed that a new Manifest survey showed that total ceo remuneration had dropped on average by 15 percent, though within the same figures base salaries had risen by six percent. Several commentators had published what he termed 'seriously flawed analysis' with 'incorrect conclusions' on movements in executive reward. He criticised those journalists who demanded reform of allegedly high top pay because "their poor analysis is damaging to social cohesion and perhaps to capitalism itself."

Next up was **Paul Jackson**, a remuneration specialist who used to run the HSBC employee share plans and who writes the monthly *No Free Lunch* column in the *Investors' Chronicle*. He suggested that those who criticise high pay in companies often duck this question: "If high pay is too high, then how high should high pay be?" The belief that there is a fundamental misalignment between pay and performance, is often based on a lack of understanding of how the *single figure of total remuneration* is compiled. Critics then go on to say that high pay and therefore corporate governance is out of control and that a self-perpetuating group of executives run the show.

However, the controls on companies have tightened every two or three years for the past 25 years – for example, the 2006 Companies Act had 1,300 clauses and took more than three years to get into law, said Paul. The greater part of executive pay has for some time been held back for three years, but now this is being stretched to five years.

He said that the LTIP could be renamed a Long-Term **Investment** Plan, because in his view it does not incentivise executives, but instead serves to focus priorities and to allocate resources to executives in alignment with shareholders. Furthermore, these 'incentives' are not wholly pay. Part is in fact an investment element forced on executives to put more 'skin in the game'.

Mr Jackson suggested that the High Pay Centre (HPC) has given a misleading impression of executive reward rises. One should use median comparisons rather than averages and ignore 'outriders' like Martin Sorrell's £40m pay cheque last year from WPP. He claimed that because there is no uniform definition of employee pay, the HPC had admitted that its ceo to average worker pay ratio of 129:1 was a bit 'dodgy'. He suggested that it should include employee share scheme holdings. Post-tax the 129:1 ratio shrank to 87:1 and lower still if 'forced investment' by executives in their employer was stripped out. If the concern is the UK pay gap, he suggested that the comparison should be with the head of the UK business of a multinational rather than the global ceo. The Government is committed to this ratio, but if these sorts of issues are not resolved, wrong conclusions might be drawn, leading to inappropriate legislation.

He noted that the government's latest white paper on top pay left out privately held companies, and if the concern is pay inequality the focus on high pay should encompass all sectors of the economy, including mutual organisations, universities, celebrities and top sports people. Similarly, what concerns most people is what they receive, so why focus on gross pay when it is net pay that matters?

Andrew Ninian, director of stewardship & corporate governance at the **Investment Association**, whose members speak for 34 percent of holdings in the UK stock market, said that the binding shareholder vote over policy for future executive remuneration had helped to push back over-ambitious executives. There was increasing investor interest in executive reward and the IA had initiated a debate about how the pay market could be made to work better, he said. "Should there be a binding vote over actual executive payment levels," he asked? Excessive remuneration undermined the efficient operation of companies and sent an adverse message to the rest of the workforce. There was reputational risk too for such companies when remuneration was no longer aligned to shareholders' interests, he said. Already, the IA had seen a slowing down in top executive relocation awards. More negative shareholder votes on executive pay were being seen in the FTSE 250 company sector than among the FTSE100 companies, so there was a gradual 'drip, drip' effect, added Andrew. "Benchmarking is important – we ask companies why they are increasing executive remuneration and we are supportive of pay ratios, even if they are crude." A lot of his member City institutions were "outraged" by whacking pension contributions paid out by companies to their executives, he said. "Why should they get any more in pension contributions than any other employee," he demanded. Some thought that restricted share awards were better than LTIPs, but others were asking whether the more widespread use of restricted shares might bring back *payment for failure*, said Mr Ninian (*see separate story further on about the IA's latest update of its 'Principles of Remuneration'.)*

He concluded by confirming that the IA would publish a public register of companies, nicknamed the 'Sin Bin,' where more than 20 percent of shareholders had voted at their agms against **any** resolution and not just on pay. "We will be asking those companies concerned to produce statements about what they are doing by way of reply to such shareholder discontent," he said.

From the floor William Franklin questioned why so many executives received such high levels of increased reward because in many companies other employees were 'crowded out,' as there was not much left for them. He later told newspad: "If the company has 10000 employees, switching £10m from the ceo & directors group to the rest creates £1000 per head. After years of sub-inflation pay rises for the working population, who generally had no savings, that bit extra would make a big difference. If executive retirement savings took a slightly smaller share of the spoils as well then there would be even more for the workers and the impact would be even greater. That would be fair too given the inter-generational inequality that has been allowed to develop".

The final debate of the symposium concerned British Isles based EBT trustees and their post Brexit futures. Some delegates were surprised to learn that the Channel Islands do not expect any change whatsoever in its regulatory financial services relationship with the EU in the context of the UK's impending Brexit, even if it were the 'hard' version. Leading for the Channel Islands on the panel was **Bill McGilivray** from **Jersey Finance**, accompanied by **Katherine Neal**, a partner at Centre member **Ogier. Malcolm Hurlston** held the ring.

"We expect that our relationship with the EU will remain exactly as it is now after Brexit," said Mr McGilivray. "So passporting of financial services between Guernsey/Jersey and the EU will continue completely unchanged after the UK exits." Jersey has a special relationship with the EU – it is treated as part of the EU for

The Employee Share Ownership Centre has assumed a new logo to mark its new era.

The logo retains the essential theme of red and gold, which stand for employees and for wealth. According to the Centre's aims employees should enjoy the wages of capital in addition to the wages of their labour. The flow of capital to employees, earned by their efforts, combats inequality.

The tones of red and yellow have been sharpened and the former block style logo, emphasising words, replaced by cleaner lines: a gold circle pierced by a line of red, employees gaining access to wealth and well-being. Neither the circle nor the line are complete: there is still work for us to do.

The new logo was crowdsourced by the Centre's Linda Wilbert LLM. As St Paul phrased it* "Come over from Macedonia and help us" and the successful entry duly came from Vasil Pujovski, a Ph.D in Graphic Arts, Faculty of Computer Science and Engineering, Macedonia, who was "efficient and friendly to work with as well as creative and comprehending."

The new logo was unveiled at the Centre's British Isles symposium, held in London on November 16 in front of an audience of prominent guests and members from the UK, Europe and the Crown Dependencies.

Malcolm Hurlston said: "As members rally to the new future, we hope they will use the logo too to make it clear they too stand for the more equal world which is the aim and purpose of employees owning shares."

* through the hands of divers translaters.

free trade in goods and financial services, but otherwise is not part of the EU, he said. The formal relationship was defined in Protocol 3 of the UK's 1972 Accession Treaty. There were only a few things entangled with the UK and a separate treaty for Channel Islands' financial services with the EU would resolve that. One of the key issues was equivalency and when it came to regulation, standards in the Channel Islands were higher than in the EU, he said. "Our standards are higher than those in most of the G20 countries – for example we have operated transparently for several years."

The publication of the so-called 'Paradise Papers' about the use of offshore trusts by sports stars and others had been a bit of a damp squib, the panel agreed. Katherine said that friends and acquaintances had even mocked the BBC Panorama programme 'expose' – by saying that it had confirmed that – yes – people were protecting their investments, but paying taxes and acting entirely within the law – big deal.

On the **Roadchef** issue, she pointed out that in Jersey, lawyers acting for trustees could go to court beforehand to get guidance on how things were likely to turn out, before deciding whether an expensive trustee beneficiary compensation case was worth taking through full court hearings.

*Some of the Centre symposium slide sets will be made available on demand to Centre members. Contact the Centre team at esop@esopcentre.com if you want to access them.

CENTRE NEWS

Centre's leading role in HMRC valuation group

Four leading UK employee share plan bodies have formed an expert group, which will work with HMRC to publish examples of share valuations over a wide range of employee share ownership and employee ownership arrangements.

The group, called WEG, (Employee Shares Worked Examples Group), will review and agree additional example valuations suitable for publication online as illustrative case studies either by HMRC or by WEG and member organisations.

HMRC Shares and Assets Valuation (SAV) currently publishes only a limited number of worked examples of share plan valuations.

The formation of the group was announced by Tony Spindler of SAV, HMRC at its annual *Fiscal Forum* meeting. The aim of the joint initiative is to create better understanding and reduce uncertainty for practitioners following the withdrawal of the HMRC post valuation transaction check procedure.

Share plan practitioners are invited to submit worked examples for assessment, agreement with HMRC and online publication to:

weg@esopcentre.com.

Centre chairman Malcolm Hurlston said: "The Employee Ownership Association, the Esop Centre, ProShare and the Share Plan Lawyers Group have formed WEG as a body of experts, with HMRC, so that efficient access to current valuation practice can help promote employee share ownership."

Launching the new service, William Franklin, WEG chairman and partner at Pett Franklin said: "WEG was born from a joint desire to work with SAV and create guidance in the form of worked examples to mitigate uncertainty."

Tony Spindler, SAV, HMRC said: "HMRC welcomes this share scheme industry initiative and the opportunity it provides for constructive dialogue. The WEG will provide a framework that assists compliant customers to get things right, allowing HMRC to concentrate on the minority that seek to test the boundaries."

Graeme Nuttall OBE, partner at **Fieldfisher** and Employee Ownership Association Specialist Adviser said on behalf of the EOA: "Valuing shares is a key part of moving to employee ownership as well as maintaining employee ownership business models. We welcome the opportunity to share best practice to help the continued growth of the sector." **Gabbi Stopp**, on behalf of *ProShare* said "Business owners, leaders and employee share plan participants require certainty on share valuations." **Graham Muir**, partner at **CMS,** said on behalf of the *Share Plan Lawyers Group:* "HMRC has for many years been proactive in supporting employee share plans and we look forward to share plan practitioners putting forward for publication a range of worked examples of general application in the employee share plan space." The Centre is providing the secretariat to WEG, with David Craddock as technical secretary.

MOVERS & SHAKERS

Capita Asset Services, part of Centre member **Capita plc**, has been sold for £888m to **Link Administration Services**, an Australian quoted company, which operates in the same sector in Oz and in South Africa. Capita, which issued a series of profit warnings towards the end of last year, said the proceeds of the sale would be used to "reduce indebtedness, including the company's receivables financing facility." As a result, David Kilmartin moves across from Capita Asset Services to become director at Link Market Services, part of Link Asset Services, Justin Cooper too now flies under the Link Market Services banner as ceo and David Isaacs is head of registration and employee share plans development. Similarly, Jill Underwood has transferred – as Jersey based senior manager - to Link Asset Services from Capita Fiduciary Group.

Eso lawyers **Pett Franklin** announced the recruitment of two new members of staff - **Jennifer Harris** in January 2018 and **Alun Reed** who joined last August, initially on a temporary basis. William Franklin, Partner at Pett Franklin said: "This signals a period of growth for Pett Franklin which will allow us to better service our clients throughout the UK. With the prospect of Brexit on the minds of many business owners, we remain committed to growing our consultancy and legal business, investing in our people and continuing to provide an excellent service for our clients".

Aynsley Vaughan was appointed business development consultant at Centre member **Zedra** Group.

UK CORNER

Eso Budget notes:

The Chancellor used his Budget to extend the SAYE contributions 'holiday' period from six months to one year, as from April 2018, as requested by ProShare. This will help Sharesave participants who either go on maternity leave or long term leave for other reasons and who would otherwise risk losing their share options for failing to make more contributions after a six-month gap.

Former Defence Secretary **Sir Michael Fallon** used his first speech in the Commons since his resignation last month to propose tax incentives to promote employee share ownership. Intervening during the post-Budget debate, he recalled his role in privatising Royal Mail, when at the Department for Business, in which 99 percent of the 150,000 postal employees took up the offer of free shares. "Employee-owned companies are more productive, they are more profitable, and isn't higher productivity, isn't that the golden fleece for which Conservatives keep searching?" he said.

"We need not just one John Lewis Partnership, we need 1,000 John Lewis Partnerships across our economy.

"Let us incentivise our companies with a lower tax rate to offer free shares to all of their employees." He concluded: "A fairer economy, much wider employee share ownership, exporting at the heart of every Government industrial programme: these are some of the necessary steps towards our new economic future".

The Finance (No 2) Bill, arising out of the recent Budget, will be published on **Friday December 1** 2017, together with a number of consultation documents, including that on the new royalties withholding tax. This will be the second Finance Bill of the current parliamentary session; it will have its Second Reading on December 11. Selected parts of the Bill will be considered by a Committee of the Whole House on December 18 & 19. The remainder will then go to a Public Bill Committee for detailed examination.

Rethinking Capitalism

Gavin Oldham of Share Centre and Esop Centre chairman Malcolm Hurlston both contributed to the forum on Rethinking Capitalism hosted by the Centre for the Study of Financial Innovation on November 21.

Investors demand cutbacks in executive LTIPs

The **Investment Association (IA)** published its annual letter to remuneration committee chairs and updated its *Principles of Remuneration*, as many companies need to take action before their 2018 agms. The IA is encouraging voluntary disclosure of ceo pay ratios in next year's directors' remuneration reports, has introduced a new requirement to defer bonuses in excess of 100 percent of salary and is keeping up the pressure on overall levels of reward. The other changes to the Principles are limited, and mainly reflect the continued focus on pay restraint and transparency. The foreword mentioned that the Principles were relevant to AIM listed companies too, said US lawyers *Squire Patton Boggs.*

The push on voluntarily disclosure of the ratio of ceo to employee pay is in advance of this being required by law. The government previously indicated that draft ceo pay ratio legislation would be published this year. The Principles advise remuneration committees to explain why this figure, and any similar information (e.g. as part of Gender Pay Gap Reporting), is appropriate and to explain those figures in the context of the company's business.

A new requirement to defer any bonus opportunity in excess of 100 percent has been included, which is likely to have a broad impact as most companies outside the banking sector allow bigger bonuses. Companies will consider how to comply with this requirement in practice. It may be possible to grant deferred awards under existing incentive plans, or they may decide to put in place a specific bonus deferral plan, as these awards are unlikely to be subject to further performance targets.

Introducing bonus deferral may be a change to a company's remuneration policy. This change should not benefit executive directors and is being made to reflect shareholder guidelines. Following the approach taken by many companies when introducing claw-back, companies may decide they can implement this change without further shareholder approval, but its full impact will not be visible until 2019 at the earliest, as 2018 annual reports will cover bonuses already paid during the 2017 financial year.

Levels of remuneration remain a focus. Companies are encouraged to consider whether remuneration potential should be decreased, *to consider the impact of automatic inflationary salary increases and to take into account the broader social context when setting pay, rather than relying solely on benchmarking.*

Pension contributions continue to be watched. The IA believes contributions for executive directors should be at the same level as those for the general workforce and has updated the Principles accordingly.

Finally, the requirement that payments should not be made where there has been an exceptional negative event (even if some targets have been met) has been extended. Previously this applied to annual bonuses only but it now applies to variable remuneration generally.

The IA reported concern that some companies are setting performance targets for executive pay that are different to headline key performance indicators (KPIs) or figures reported elsewhere. If so, the IA requires that the remuneration report explain why this is appropriate and how the target has been adjusted.

Where payments are made for achieving personal or strategic performance targets, the rationale for this must be explained, rather than the target simply being described. The IA warned that its members would carefully scrutinise the rationale for such payments to ensure they are warranted and companies which fail to provide sufficient information will receive an *Amber Top* warning from IVIS.

Bonus targets which are not disclosed due to commercial sensitivity must be disclosed within 12 months of the bonus payment. This reflects a further tightening on annual bonus disclosure; the previous version of the Principles recommended disclosure within 12 months but would allow a delay of up to two years.

A new requirement to disclose *Relocation benefits* at the time of appointment has been included. The Principles state that such benefits should be in place for a limited time and each element, including its duration, must be disclosed to shareholders. Annual reports published in 2018 should include details of relocation benefits provided to new directors during 2017. Features such as ongoing (rather than one-off) relocation assistance are likely to be challenged by shareholders.

Proposals about changing remuneration structures include a suggestion to move away completely from using long term incentive plans (LTIPs). The IA has amended the Principles to make clear it does not promote any single remuneration structure but rather encourages companies to choose the remuneration structure which is most appropriate for their business strategy and their company.

Restricted share plans have recently grown in popularity, even though few companies have actually adopted them. The IA has made clear that, in the right circumstances, its members will support restricted share plans but are concerned that in some cases these structures have been proposed because existing remuneration structures have failed to pay out.

When consulting investors, companies will in future be asked to provide details of their whole remuneration structure and not just proposed changes, otherwise investors would be asked to make a decision in isolation. The Principles require the remuneration committee to undertake a final review of any proposed changes to consider whether they are still appropriate in light of any events that take place after consultation ends but before implementation.

As several companies have withdrawn remuneration resolutions prior to an agm *(presumably because the company did not believe they would be approved)* the letter makes clear that, in these cases, companies should consider *all* shareholder feedback and consult further before resubmitting the remuneration policy to shareholder vote.

It sets out some of the circumstances in which investors will vote against the reelection of a remuneration committee chair – e.g. where an investor has voted against the remuneration resolution in two successive years, or at the next agm following a company failing to get majority support for a remuneration resolution. Although companies will welcome clarity on this issue, it is likely to remain an area of concern for the chairs of remuneration committees, said *Squire Patton Boggs.*

It expects the 2018 agm season to be fairly quiet, as fewer companies put their remuneration policy to shareholders for approval, but significant changes are on the horizon. The IA's focus on the 2018 agm season reflects this: few changes have been made to the Principles and those which have are in line with the prevailing approach to executive remuneration and the changes to come.

Andrew Ninian, director of stewardship and corporate governance at the Investment Association, said: "This year's agm season saw investors flex their muscles and hold big business to account. A majority of FTSE350 companies sought shareholder approval for their new pay policies and many of the UK's top-20 companies have started to address investors' concerns on executive pay levels. We expect this trend to be extended across the wider FTSE, with more companies showing restraint on bonuses, long-term incentives and overall executive pay levels."

Announcements under the MAR, Disclosure, Guidance & Transparency Rules

*The trustee of the **British American Tobacco (BAT)** Share Incentive Plan (SIP) told the company that on November 1, seven executive directors and other executives each purchased three 25p BAT ords at £48.87 per share, by way of the 'partnership share scheme.'

***Prime People plc** announced that, under the authority granted to it at the most recent agm, it has acquired in the market ords of 10 pence each in the company equity. These shares will be held in treasury and will be utilised to meet current and future obligations arising from share incentive arrangements with employees. Prime People will make market purchases of up to 300,000 ords, providing it can achieve this at a price or prices that it believes will be good value for shareholders. The purchase price to be offered will conform with the restrictions set out in the agm resolution, under which the minimum price which may be paid by the company is 10 pence per ord and the maximum price which may be paid by Prime People shall not be more than five percent above the average of the middle market quotations for an ord as derived from the **London Stock Exchange** for the five business days immediately preceding the date on which the shares are purchased. Executive chairman **Robert Macdonald** said: "*The Board believes employee share ownership is a dynamic, positive and particularly valuable aspect of the company's* *arrangements with its staff. Given our strong cash position, purchasing shares into treasury allows non-dilutive satisfaction of share incentives and an efficient use of a small part of our cash resources."*

***ReNeuron Group** plc, a UK-based global leader in the development of cell-based therapeutics, announced that share option grants had been made to senior executives under the Company's Long Term Incentive Plan (LTIP) The awards were granted at nominal value and are subject to a three-year holding period, exercisable from the third anniversary of the award. The options are exercisable subject to the achievement of the following performance conditions: When the first patient is administered with a ReNeuron cell therapy in an eighth clinical trial, one third of the options will vest. When the sixth clinical trial of a ReNeuron cell therapy completes, one third of the options will vest. If the Total Shareholder Return (TSR) of the Company meets or exceeds that of the FTSE AIM Healthcare Index in any given three year period from the date of grant, one third of the options will vest.

*French based **Sopra Steria Group** transferred 52 shares under its Share Incentive Plan (SIP), the aim of which is to award free Sopra Steria shares to UK employees participating in the SIP in a ratio of one free share per share subscribed for.

***SSE** plc was notified on November 6 by **Computershare Investor Services**, the provider of the company all employee SIP, that it had purchased 33 ords of 50p each in the capital of the company at a price of £13.76p and had awarded 11 matching shares collectively to three directors and one other executive.

*The trustee of the **Synectics** plc's HMRC approved Employee Share Acquisition Plan (ESAP) purchased 7,823 ords of 20p each in the company on behalf of all ESAP participants. The shares were purchased on October 27 at 260 pence each, as part of the six month accumulation period ended on September 30. Under the terms of the ESAP, participating members, including employees and certain directors, contribute a fixed amount to the trustee on a monthly basis. The trustee acquires a number of Synectics' shares at the end of the six month accumulation period, based upon the contributions made in the period and determined by the lowest share price at either the beginning of the period or on the date of purchase. In this instance the share price used for the allocation of the number of shares for ESAP purposes was the price per share at the beginning of the period (210 pence) As a result of these purchases, Paul Webb and Mike Stilwell, directors and PDMRs, each acquired an interest in 429 shares and that Greg Alcorn, a PDMR, acquired an interest in 428 shares. Following the share purchase in relation to the ESAP, ceo Paul Webb, has 300,000 shares in trust, and 10,000 ords, representing in total 1.75 percent of Synectics' issued share capital

*AIM-listed **Thor Mining**'s agm was held on November 29 at the London offices of Grant Thornton UK. Shareholders were asked to consider various special resolutions, one of which concerned the *adoption of an Esop which allows eligible persons (employees and directors of Thor) to be offered the opportunity to receive options in order to assist in the attraction, retention and motivation of employees*. "The Directors consider that options are a cost effective and efficient means of incentivising employees," said the company. Its directors recommended that shareholders vote in favour of the resolutions, as they intended to do for their own holdings of 60m ords, representing 13.24 percent of the issued share capital. Thor Mining said it had raised a total of £235,789, before expenses, through the placing of almost 30m of its ords of 0.01 pence each at a price of £0.008 each, with the ords issued on November 3. Under the Tranche 1 Placing and Subscription, subscribers for the ords were be granted one free attaching warrant for each one subscribed, which entitles the holder to subscribe for further ords at a price of £0.012 each, valid for one year from the date of issue. The company agreed to issue a further 35m ords raising £280,211 before expenses on the same terms. Under the Tranche 2 placing and subscription, subscribers will be granted one free attaching warrant for every ord subscribed for, which entitles the holder to subscribe for further ords at a price of £0.012 each. The issue is subject to shareholder approval, which was sought at the agm. Resolution 11 sought approval for the issue and allotment of up to 3,531,250 warrants to the company's joint sponsoring broker **SI Capital Ltd** as *remuneration in lieu of commissions and fees* relating to the placings and subscriptions. The company's website is at:www.thormining.com.

HMRC successfully appeals meaning of ordinary share capital

The Upper Tribunal deemed that, in the case of *McQuillan v HMRC*, shares which carry no right to a dividend should be treated as "ordinary share capital". This follows an appeal from HMRC of the First-tier Tribunal's decision that instead shares without the right to a dividend should be regarded as having a right to a dividend at a fixed rate of zero percent; "ordinary share capital" entails not having a fixed dividend rate.

The new ruling, which has implications for share schemes, is viewed as more in line with HMRC public guidance and other past related tax cases. *Source*: https://postlethwaiteco.com/when-is-share-capital-not-share-capital/

NICs changes delayed for one year

The Government announced that it will introduce the National Insurance Contributions (NICs) Bill in 2018, and the changes it will implement will now take effect one year later, from April 2019. This includes the abolition of Class 2 NICs, reforms to the NICs treatment of termination payments, and changes to the NICs treatment of sporting testimonials. The Government said that the delay was to help find a solution for those with very low earnings who would have suffered a five-fold increase in NICs in order to continue to be entitled to the state pension. See http://deloi.tt/2ha7WkS

WORLD NEWSPAD

France: French multinational **Bouygues** launched a leveraged employee share ownership plan, involving a capital increase of €150m (inclusive of share premium) reserved for employees of French companies belonging to the Group, to be implemented via a dedicated **mutual fund** (FCPE), the units in which are subject to a lock-up period of five years except where early release is allowed by law. The effect will be the issue of up to 4,725,897 new Bouygues shares at a subscription price of €31.74 each. *The FCPE will exercise the voting rights attached to the newly issued shares*. In accordance with provisions of the French Labour Code, the subscription price is equal to 80 percent of the average opening quoted market prices of the share on the twenty trading days preceding the date of the decision setting the opening date of the subscription period. The subscription period runs from November 13 to December 3 inclusive. The new Bouygues shares to be issued will rank for dividend from January 1. They will be admitted for trading on the Euronext Paris market (on the same line as existing Bouygues shares) as soon as possible after completion of the capital increase, which is scheduled for December 27. *This plan gives Bouygues employees an economic if not a democratic stake in the Group's development and performance over the long term, and demonstrates commitment to employee share ownership, which is a core component of the Group's culture and values.* Bouygues is a diversified industrial group with a strong corporate culture whose businesses are organised around three sectors: Construction (building & civil works and energies & services), Bouygues Immobilier (property development) and Colas (roads); Telecoms, with Bouygues Telecom, and Media, with TF1.

France: Finance Bill 2018

The National Assembly is discussing the proposed changes to the tax system:

- Wealth Tax will be abolished for movable properties (i.e. shares) with effect from January 1 2018.
- A new investment income rate of 12.8 percent will be introduced with respect to dividends, capital gains and interest received after January 1 2018. Taxation of dividends will be either (i) 12.8 percent income tax rate plus 17.2 percent social taxes (due to an increase of 1.7 percent for CSG), hence in total 30 percent taxes or (ii) 45 percent progressive income tax rates of up to 45 percent (plus CSG/CRDS). Where a taxpayer opts to apply progressive tax rates, this will allow a deduction of up to 40 percent on dividends as well as other possible deductions depending how long the shares are held for.
- Non-residents withholding rate: The current withholding rate of 20 percent for individuals will decrease to 12.8 percent from 2018.
- Free Share Awards: For qualified RSU regimes the gain below an annual threshold of €300,000 will be subject to a specific 50 percent rebate (regardless of the holding period).

USA: The US Republican tax plan proposes to eliminate a decades-old rule blamed for fuelling the meteoric rise of executive compensation at US companies, and could upend popular retirement-savings programmes used by scores of high-placed corporate leaders. Under current law, businesses can write off up to $1m in compensation expenses for ceos and four other top -paid bosses, plus any amount beyond that if it's tied to performance targets. The Republican proposal would keep the $1m threshold but eliminate the exemption for performance pay, denying companies the option to write off large equity awards. A repeal of the exemption for performance-linked pay would tweak former President Bill Clinton's attempt to curb spiralling executive reward through legislation, often blamed for having the opposite effect. While paying top bosses would get more expensive, the change likely will have minimal to zero effect on compensation levels, said observers. Lawmakers estimate that it would boost government revenue by $9.3bn over a decade.

Businesses can deduct employee compensation expenses from their taxable income. The Clinton administration's rule, enacted in 1993 and tucked into Section 162(m) of the US tax code, set the write-off threshold. The exception was made for pay tied to performance, based on the idea that leaders should be rewarded only if their companies and shareholders do well. The rule had unintended consequences. It established a salary of at least $1m as a benchmark for ceos at major public companies and prompted boards to make stock options and restricted shares key ingredients of executive pay. About 57 percent of S&P 500 ceos have salaries of more than $1m, according to data compiled by Bloomberg. Average reported compensation for ceos in the index rose to $9.1m from $3.7m in the first decade after the law was passed, according to a Harvard Law School study. In 2016, the average had risen to $14.6m, according to the Bloomberg Pay Index, which values compensation as of a company's fiscal year-end, not the day it's granted.

The Republican plan could drastically change the use of so-called non-qualified deferred compensation plans, which function as super-sized 401(k) plans for executives at hundreds of US companies. Under current law, participants can contribute salary and other awards to the plans free of taxes, invest the money and defer tax payments until years later when it's withdrawn. The bill calls for contributions to be taxed as soon as the money is at "no substantial risk of forfeiture," potentially meaning as soon as any vesting restrictions lapse. Salaries and bonuses that come without vesting hurdles will therefore get taxed right away. That leaves executives without the benefit of being taxed later in life, when they're likely past their top-earning years and would fall in a lower tax bracket.

The change could eliminate all voluntary contributions by executives to deferred compensation plans, said Heidi O'Brien, a partner in the consulting firm *Mercer*. It would raise c. $16.2 bn over a decade. It'll apply to new amounts earned and deferred after 2017, while existing balances will be subject to the new rule by 2026. Many companies will start phasing out their plans before then, according to Mike Francese, partner in the employee benefits and executive compensation group at Centre member **Covington & Burling.** About 360 companies in the S&P 500 have such plans in place for executives, according to data from Equilar Inc. They provide leaders another option to save for retirement, which might encourage them to remain in the job. Some believe they help executives keep a long-term focus since the plans are unfunded and payouts come straight from the company's coffers.

India: A spurt in funding and large acquisitions in **India**'s consumer internet space over the past year has led to employees of these firms cashing out their stock options and making huge returns, said the *Business Standard*. According to a report in the *Economic Times*, the Flipkart board approved a $100m buyback of employee stock options. The move, which could benefit as many as 6,000 current and former employees, comes soon after Flipkart raised close to $4bn from investors this year. Flipkart isn't alone in celebrating its success with employees. Paytm, the country's largest mobile payments firm, gave employees a chance to cash in on their stock options earlier this year, soon after Chinese internet giant Alibaba invested $250m in the firm. Around four percent of Paytm is held by its employees. Soon after the funding round in March, 50 employees sold shares worth Rs 100 crore (£1 = 86 rupees) to internal and external investors. Buying shares from employees allowed investors such as Alibaba and promoter Vijay Shekhar Sharma increase their shareholding in the company. Fundraising wasn't the only instrument that helped Indian Internet firms generate liquidity for their employees. Large acquisitions such as that of PayU's acquisition of smaller rival Citrus Pay for Rs 860 crore last year, saw five percent of the transaction value going towards buying out employee stock options. Around 50 employees of Citrus Pay benefited from the acquisition, getting paid a cumulative of around Rs 43 crore. While there have been some success stories for employees of large Internet companies in India, such transactions are still few and far between. Last year, when India's start-up space saw a trend of companies being robbed of their soaring valuations, employees of several firms questioned how valuable Esops really were. An example of things gone wrong was Snapdeal. The company, which was once India's second most valuable startup, is struggling for survival.

The Employee Share Ownership Centre is a membership organisation which lobbies, informs and researches on behalf of employee share ownership.