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it's our business

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Scrap executive share options, says Labour report

The future of the UK executive reward consulting industry has been put at risk by a report, commissioned by Labour's high command, which recommends scrapping executive share options.

The report, commissioned by shadow chancellor John McDonnell and shadow business secretary Rebecca Long-Bailey, proposed scrapping all forms of executive share options so that once Labour is back in power executives would be paid only in cash and there would be a total ban on golden handshakes.

In addition, customers of the UK's 7,000 biggest companies would be given the right to vote on the pay of company executives under plans for a boardroom pay clampdown under a Labour government.

The report, drawn up by a team led by Prem Sikka, professor of accountancy and finance at Sheffield University, has been warmly received by Labour's top brass.

As the PM fights for her political life, this will be seen as an early warning of what is to come if Labour won a snap General Election, were the government to fall.

The Guardian newspaper, which has seen the report, said that Long-Bailey and McDonnell are enthusiastic about five key reforms proposed by Sikka

- *That executive remuneration contracts in large companies be made publicly available*
- *That executive remuneration should be delivered in cash, because rewards in share options, shares and perks invited abuses.*
- *That pay differentials between executives and employees analysed by gender and ethnicity be published*
- *The remuneration of each executive at large companies be subject to an annual binding vote by a range of stakeholders.*
- *Company law be amended to give all stakeholders - shareholders, long-term customers and employees - the right to propose a cap on executive pay and bonus package.*

These five reforms stand a good chance of being included in Labour's next election manifesto. Were

From the chairman

Shadow chancellor John McDonnell likes to test the waters before he finalises his input into Labour's next General Election manifesto. A storm of protest duly arrived from UK businesses when he flagged up a plan to compel UK companies to create a permanent employee share pool, equivalent to one per cent of their equity per year over ten years, in order to allow employees to receive up to £500 worth of dividends annually, when Labour next assumes power. Under the scheme, every private sector company with 250 or more employees would be required to create an inclusive ownership fund (IOF) making employees part-owners of their companies.

Now, apparently, he has approved a report commissioned by him and his shadow business secretary, Rebecca Long-Bailey, recommending that all executive share option schemes should be scrapped and replaced by cash payments.

Furthermore, customers of the UK's 7,000 biggest companies would be given the right to vote on the annual reward packages proposed for senior executives.

The first of these plans would, at a stroke, over-turn the 40 year old consensus that participation in employee share schemes should be voluntary - for both employers, as well as employees - rather than compulsory. The second begs many questions, not least - Would rank and file employees still be entitled to participate in all-employee share option schemes, if a Labour government legislated along these lines? Has Mr McDonnell not been told that the share options based Enterprise Management Incentive (EMI) - open to key employees as well as executives - is the most popular UK tax approved Eso scheme ever? Who introduced EMI? - step forward ex Labour chancellor and subsequently PM, Gordon Brown.

While the Centre agrees that too many LTIP incentive schemes have been gamed by greedy executives, abolishing executive share option awards would risk tipping out the baby along with the proverbial bathwater although there is a case for seeing all employees get a share of the cake.

Malcolm Hurlston CBE

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they to be installed in law and/or regulation by the next Labour government, redundancies in executive remuneration consultancies would be inevitable.

Other report proposals being mulled over by Labour include:

- ♦ All UK companies with more than 250 staff would have to reveal the names of employees paid more than £150,000 a year.
- ♦ Punitive fines for company directors who often fail to pay their employees the minimum wage.

Labour believes that plans to curb boardroom pay are justified by the lack of restraint shown by company boards and by the failure of voluntary codes to have much impact on executive remuneration. Recent corporate scandals, such as the £110m uncapped LTIP shares bonus 'won' by former Persimmon ceo Jeff Fairburn (*see inside pages*) have hardly helped.

Prof Sikka's proposed reforms would apply to the 7,000 companies in the UK that have 250 or more employees, accounting for more than 10m employees. The report said its 20 recommendations were necessary to "curb undeserved executive pay and to create mechanisms for better distribution of income."

Centre chairman, Malcolm Hurlston CBE said: "The tax benefits of share schemes are failing to reach the mass of employees. Theresa May spotted the danger, now Labour is coming up with increasingly viable alternatives".

Long-Bailey said: "Whilst many of our businesses work hard to ensure that rewards and prosperity are fairly shared across their workforce, a pernicious corporate culture continues in some firms that many across Britain would view as immoral. It cannot be right that in just three working days, the UK's top bosses will have made more money than the typical full-time worker will earn in the entire year. Labour will look closely at the recommendations of this report as we seek to build on our existing policy of tackling pay inequality."

Labour believes it can tap into rising public anger fanned by the weakest decade for employee pay since the 19th century. Whereas a typical ceo of a FTSE 100 company earned around 20 times the wages of the average British worker in the 1980s, this ratio rose to 70 times by the early 2000s and to 150 times by the mid 2010s.

The report suggests employees and other stakeholders should have a say in setting boardroom pay in order to "exert pressure for better distribution of income and improved quality of service for consumers".

The report added it would be simple to identify the customers of utility companies but that loyalty schemes made it possible to take account of customers' views of other big firms as well. Thus, consumers in many industries can be identified with certainty and must be empowered to vote on executive pay. This would help to check profiteering, mis-selling of products, poor services and abuse of customers."

"If company directors think that they deserve more then they must seek approval from all stakeholders, which is unlikely to be granted unless there is a corresponding improvement in benefits for them all," the report said.

McDonnell said: "Coming on the heels of the International Labour Organisation's report, the scale of bonuses and the opaque way they are paid should be a source of shame to those running our economy. The government has shown no interest in tackling the causes of inequality in our society and we are grateful to Prof Sikka and his team for shining a light on the problem."

Big rise in HMRC late filing penalties

The number of financial penalties issued to companies who failed to file proper Employment Related Securities 2017-8 returns before the July deadline this year rose to **9,253** - a hefty 30 percent increase**,** HMRC revealed in its latest ERS bulletin.

Though the first penalty for missing the deadline, or not filing properly, is only £100, the second penalty level – for being more than three months late in filing - rises to £300 and that caught **6,014** employee share scheme returns for the year ended April 5.

The number of first penalty notices issued rose by more than 2,100, compared to the previous fiscal year of 2016-7 and the number of second penalty notices rose by more than 1,400 over the same period.

A number of returns are *still* outstanding from the 2016-17 fiscal year, even after the issue of *third* penalty notices, which attract a penalty of **£10 per day.**

One thousand penalty appeals had been received by the end of October alone and the final number of appeals looks set to exceed 2,000. Some argue that the registration rules are too complex.

One of the commonest errors on the part of those tasked with making the required reports on Eso transactions during the year is failing to file the relevant share scheme reference number. Another is the failure by share scheme reporting staff to realise that they *must* file a return even if there have been no Eso awards or transactions during the relevant fiscal year.

Yet another is filling in the wrong box in the online window, resulting in duplication and a penalty notice. In addition, certain companies using the Enterprise Management Incentive (EMI) fail to notify HMRC within the statutory 92 days of any

EMI options awarded to key employees.

HMRC in its latest ERS bulletin reminded share scheme sponsoring companies and their advisers that they should check whether they have filed a return by July (*following the end of the previous tax year*) and that their address, and contact details are correct. It said: "The most common return errors are:

- using drag and drop to fill in the return templates like the PAYE reference column where Excel then applies an auto increment
- entering outdated or incorrect PAYE reference numbers
- not using pounds currency in the return template so the price paid to acquire the shares is an inflated value

"Make sure you include the relevant *share scheme reference number* if you have one when contacting share schemes. We may have to return your post if the share scheme reference has not been provided.

"See ERS Bulletin 25 on how to identify your share scheme reference number. More information about common ERS issues and top things to remember can be found in ERS Bulletin 26 (March 2018).

"Some customers select 'register a scheme or arrangement' instead of '***view schemes or arrangements'***. This causes duplication of the same scheme and often penalties are charged unnecessarily. If you only have one scheme that has already been registered you do not need to register it again. You'll be able to see the scheme registered and upload and submit returns by selecting 'View scheme and arrangement'. Scroll down the screen to make this selection.

Failure to submit your return by the July 6 deadline will result in penalties being issued. A nil return is also required if there has been no reportable event.

Customers registering an EMI scheme will receive an acknowledgment receipt, but it can take HMRC up to ten days to approve a scheme registration. It's the company responsibility to check back via the ERS online service, under 'view schemes and arrangements' for their scheme reference number. Registration is only the first step in ERS online for new EMI schemes. Once the scheme reference number appears in 'view schemes and arrangements' notification of the options is then required.

"Currently the system will **not** allow you to notify the options if the 92 day deadline has been missed," warned HMRC.

Another more general error is what HMRC calls 'misunderstanding of admin responsibility,' for the onus is on the employer to fulfil ERS obligations: "*HMRC accepts this responsibility can be passed to representative bodies once registration has been undertaken but HMRC's view is that the legislation is clear on the employer's responsibility."*

HMRC warned that the template should not be altered in any way. This includes deleting tabs or columns, altering the format or changing the name of the template.

It acknowledged that the current templates display a non-current year but they should continue to be used and unchanged until amendments are made by HMRC.

HMRC does not issue share plan sponsors with reminders to file their annual returns. This is the responsibility of employers. Users will not be sent an email, fax or letter. They must check for the reference number in 'view schemes and arrangements.'

Only once the unique scheme reference number has been issued can companies then submit EMI notifications of the grant of EMI options and submit annual returns. The checking service in 'view scheme and arrangements' will only work once a scheme has been registered and allocated with a unique scheme reference number.

To submit a nil return users do not need to upload a blank annual return template.

If a scheme is registered in error, users will need to cease the duplicated record by recording a 'final event date' and submit a nil return. Companies must remember to file a return for the original registered scheme to avoid late filing penalties being issued.

The registration of a new EMI scheme is only the first step in the process. This is not the notification to HMRC of the grant of EMI options. Users need to notify this separately after the scheme has been registered and allocated a unique scheme reference number. All annual returns for ERS have to be submitted online by July 6. All *new* schemes established during 2018 to 2019 should be registered by July 6, next year. For new Company Share Option Plan (CSOP), Share Incentive Plan (SIP) and SAYE schemes established during 2018 to 2019 - *these schemes cannot be registered once the July 6 deadline has passed and companies will be prevented from submitting an annual return*.

A company/person may appeal against being charged a penalty as well as the amount of penalty payable under section 421JC or JD within 30 days. The tribunal may affirm the penalty or the amount of the penalty decided, or substitute another amount for that amount. If schemes have been opened in error the only way to close it is to enter a 'final event' date, this should be the first day of the tax year in which it was opened. Nil returns must still be submitted if the scheme is open, but plan sponsors think that further shares may be issued in the future. Penalties may be appealed in writing to: Employment Related Securities, Room G46, 100 Parliament Street, London SW1A 2BQ or by email to: shareschemes@hmrc.gsi.gov.uk.

EMI safe from international standards

The Financial Reporting Council has confirmed to the Centre that there is no present danger of the principles of international standard IFRS16 being incorporated into the UK's FRS102. Under IFRS16 operating leases need to be capitalised which could take a company's gross assets over the qualifying ceiling of £30m.

FRC will monitor the implementation of IFRS16 once it is being applied and that won't start until 2020. After that it will seek input and consult before considering whether or not a similar model should be developed for the UK.

EVENTS

Centre share plans Symposium: March 7

A plan case history, featuring online bank **Coconut,** which is using the options-based Enterprise Management Incentive (EMI) to help motivate its employees, will be a highlight of the Centre's third **British Isles share schemes Symposium,** which takes place in London on **Thursday March 7 2019.** This case history will be led by **Nigel Mason** of Centre member **The RM2 Partnership** and Coconut's founder & ceo, **Sam O'Connor,** during the full-day event, hosted by **Travers Smith** at its London EC1 offices.

The speakers are: **Colin Kendon** of **Bird & Bird**; **David Craddock** of his eponymously named **Consultancy Services**; **Bill Cohen** and **Martin MacLeod** of **Deloitte**; **Jennifer Rudman** of **Equiniti**; **William Franklin** and **Eva Simpson-Fryer** of **Pett Franklin**; **Sue Wilson** and **Elizabeth Bowdler** of **PwC**; **Nigel Mason** and **Robin Hartley** of the **RM2 Partnership; Nicholas Greenacre** of **White & Case; Damian Carnell** of **Willis Towers Watson**; **Elaine Graham** of Guernsey based trustee **Zedra** and **Elissavet Grout** of event sponsor **Travers Smith. Zedra** is logo co-sponsoring the e-brochure.

Centre chairman and founder**, Malcolm Hurlston** will welcome delegates and introduce the programme, which includes:

- Employee equity plan case histories
- Going global with your employee share plans
- EMI and its *El Dorado* level almost tax-free rewards for key employees in SMEs - How best can EMI be improved? - Exit-only EMIs.
- Alternatives for SMEs who cannot qualify for EMI tax-approved options.
- Employee Ownership Trusts - What kind of businesses are using EOT and why?
- Hybrid EOTs: the new way to structure MBOs & employee ownership
- The employee shareholder experience – the UK and France compared
- Share plans in volatile markets
- Impacts of Brexit on employee share schemes
- Q & A on regulatory & compliance issues - GDPR and Mifid II
- Executive equity reward packages: new design parameters, performance share plans & shareholder activism; Executive share plans and the UK corporate governance code
- Employee equity trustee concerns
- Re-energising other tax-approved share plans - the Company Share Option Plan (CSOP); SAYE -Sharesave and the Share Incentive Plan (SIP).

Tickets: There is a **£395** admission charge for member practitioner (service provider) delegates. Non-member practitioner delegates pay **£595** for a seat. *Speakers and delegates from plan issuer companies come **free of charge***. All fees are subject to VAT.

Book your place now by emailing events@esopcentre.com or call the team on +44 (0) 207 239 4971. Our host, **Travers Smith,** offers a buffet lunch and there will be an end of day reception with invited guests.

Symposium co-sponsorship packages are available: please contact the Centre.

Guernsey 2018

The 2018 Guernsey seminar, produced by the Esop Institute with STEP Guernsey, was an outstanding success. The full presentation deck will shortly be on sale. Meanwhile, David Craddock's new paper on the general economic environment with a focus on the Channel Islands has been published on the Centre website. You can download it at www.esopcentre.com/library. Full report in January.

newspad Awards 2018

Judging was taking place of the **2018 *newspad* Awards** entries as this issue went to Press. Stars were awarded to easyJet, BP, Rolls-Royce, Landsec, Xtrac, Smiths Group, Micro Focus, FirstGroup, Non-Standard Finance, Unilever, Paddy Power Betfair, BAE Systems and Investigo, with a number of special commendations, which will be announced in the next edition of newspad along with the names of the winners. In line with the international reach of newspad there is a growing trend towards self nomination by major world companies.

UK CORNER

EBT share transfer raised in High Court

Stobart chairman Iain Ferguson rejected allegations of "*brazen rigging of a shareholder vote*" as he faced the company's former ceo Andrew Tinkler in a High Court case, triggered by a bitter power struggle at London Southend Airport. The court heard claims that Mr Ferguson had manipulated a staff employee share scheme to defeat an attempt by Mr Tinkler to vote him off the board. The **Guernsey**-registered transport and energy company was suing its former ceo Mr Tinkler, who was fired in June after ten years service. Leading Stobart's legal team, Richard Leiper QC accused him of only having "his own interests at heart." Multi-millionaire Mr Tinkler orchestrated a "significant campaign" to oust Mr Ferguson, the court was told. He was accused of putting £5m worth of expenses – such as helicopter flights and corporate entertainment – improperly on company accounts, but lawyers for Mr Tinkler said there was "no basis at all" to the allegations. The expenses case "should never have been brought," his barrister John Taylor QC said.

Mr Ferguson took the witness box stand after opening arguments were presented. Mr Taylor grilled the Stobart chairman on the ***movement of shares into an employee benefit trust (EBT) in the run-up to a crunch vote on Mr Ferguson's re -election***, which he won by a whisker, taking 51.21 percent of shareholder votes.

Mr Ferguson said *the transferring of non-voting treasury shares into the company EBT had partly been in order to "return a stable board." In addition, the share re-allocation was to facilitate substantial payments of long-term incentive plans (LTIPs) that were due to vest in the next two years*. Ferguson said actions had been taken *"because we firmly believed that that was in the best interests of the company and all shareholders***.***"* He repeatedly stressed that, after the shares had been moved, *the decision - as to which way to vote the employee shares - was taken by* ***"an independent trustee."***

The Stobart chairman, who plans to step down before next summer, said *Project Shelly* – a special committee set up after Mr Tinkler made a requisition to remove Mr Ferguson – was necessary "to defend the good governance of the company. Mr Tinkler had issued a direct challenge against me," he said. "Mr Tinkler had chosen to direct his ire at me." The trial, heard before Mr Justice Russen, continues. Stobart was suing Mr Tinkler for alleged breach of his fiduciary duties as a company director, alleged breach of contract and allegedly using unlawful means in his effort to oust Mr Ferguson. Mr Tinkler denied wrongdoing and claimed he was unlawfully sacked. He has alleged defamation against five Stobart directors.

Doubts over Roadchef beneficiaries' tax

Doubts remain over whether the original Roadchef Esop employee participants will have to pay tax on their varying compensation amounts now expected to be paid by next summer.

SNP MP Neil Gray confirmed the accuracy of *newspad*'s disclosure last month that HMRC had sent a *substantial* sum of money to the Roadchef EBT1 trustee in recognition of the fact that 'tax' paid by former Roadchef ceo and chairman Tim Ingram-Hill (TIH) in reality belonged to former Roadchef employees. This is so in law after the High Court ruling almost five years ago that the transfer of employee shares from EBT1 to a second EBT by TIH – in preparation for the company's sale - was void: **ergo** - ***share sale not valid, no tax due***.

The trustee refused to comment on *newspad's* statement that the long-suffering Roadchef Esop participants should receive their compensation by next summer, though it is believed that beneficiaries have been told this.

HMRC's decision to hand over the employee shareholders' cash followed a long campaign by both the trustee and the Esop Centre. HMRC fought to hang on to the entire sum which Ingram-Hill was forced to pay in tax after he sold Roadchef's shares – including those of the Roadchef EBT - to Nikko for an estimated £28m profit in 1998. It has not been made public whether HMRC returned the entire 'tax' payment to the trustee, or a large percentage of it.

Mr Gray told *The Association of Pensions & Benefits Claimants*: "I am absolutely thrilled that the campaign to see monies returned has been won, but work continues to ensure HMRC honours its commitment regarding tax implications going forward.

"The trust has previously received confirmation from HMRC that payments to both the trust and the beneficiaries would be tax-free, but as time ticks on, nervousness is setting in that they may not honour this assurance. *HMRC should now confirm quickly that they will not pursue trustees or beneficiaries for tax. The Treasury Select Committee is looking at this matter and there will be serious questions to answer if this isn't the case. HMRC has it in their power to bring a conclusion to this struggle and the time is right to seize that* *opportunity and let thousands of people move on with the lives they should have led decades ago."*

He added: "I've been campaigning on behalf of my constituents who've been caught up in a battle they didn't choose to receive money rightfully owed to them from their time working at Roadchef. This marks a significant milestone in what has been a 20 year battle for the Roadchef EBT trustees with confirmation that an undisclosed sum in the millions has been returned to the trust. It follows a wrongful payment from the former ceo of Roadchef amounting to over £10m back in 2000. I argued in Parliament that this sum of money belonged to around 4,000 former and current Roadchef employees and I took that campaign from debates to direct questions to the Chancellor and even the PM. I am pleased that HMRC has acted as a result and thank them for that on behalf of my constituents, but questions remain about the way this has been handled and what happens next."

Margaret Gibson, 64, a former catering supervisor at Harthill services, said: "I am really pleased that we have now come to the conclusion that we are going to get some money back. We are not sure how much it is going to be but thankfully there is going to be an end to this." The fight by former employees to secure compensation stems back to a promise made by former md Patrick Gee in 1986. He reserved 20 percent of the motorway service station firm's shares for employees, but died before the scheme was completed.

Following the High Court ruling lawyers and the court agreed that 61 percent of the court-ordered compensation (thought to be c £20m) fund should be awarded to the 350 original Roadchef Esop ex-employees, nine percent to other original employees who did not participate in the Esop and the final 30 percent to more recent employees who joined the company ***after*** the Esop was shut by Roadchef's new Japanese owners in 1998-9. So the bogus tax payment now returned to the trustee will be paid to the beneficiaries on top of their share of the compensation pot.

An HMRC spokesperson said: "We review the taxation affairs of Employee Benefit Trusts to ensure that tax rules are being followed correctly. Due to taxpayer confidentiality, we cannot comment on the specifics of this case. We continue to engage with Roadchef employee benefits trustees to resolve the taxation position."

Two Early Day Motions have been tabled in the Commons by MPs concerned at the long delay over resolving the Roadchef Esop scandal. One has attracted 16 MP signatories to date and the other 15.

EDM 200 is supported by SNP MPs: Alan Brown, Martyn Day, Neil Gray, Chris Law, David Linden, Stuart McDonald and Christopher Stephens, Labour's Stephen Doughty, Paul Farrelly, Frank Field and Stephen Kinnock, Jonathan Edwards of Plaid Cymru and Jim Shannon of the DUP. Amendment 200A1 is supported by Conservative MPs: Graham Brady, Fiona Bruce and Jeremy Lefroy.

EDM 693 is supported by SNP MPs: Hannah Bardell, Kirsty Blackman, Alan Brown, Ronnie Cowan, Martyn Day, Neil Gray, Drew Hendry, Chris Law, David Linden, John McNally, Christopher Stephens and Alison Thewliss, Labour's Jim Cunningham, Jonathan Edwards of Plaid Cymru and Jim Shannon of the DUP.

UKSA condemned Persimmon LTIP in 2012

Centre member the **UK Shareholders' Association** exposed housebuilder **Persimmon**'s long-term incentive scheme (LTIP) as being excessively generous more than six years ago, it emerged. Controversy rages on after ex ceo Jeff Fairburn was finally forced to resign after initially pocketing a **£110m** bonus. Writing in *The Telegraph* newspaper, columnist Ben Wright said: "It's not true that nobody foresaw any problems with the Persimmon LTIP - 15 percent of shareholders spotted that something might be amiss and voted against the remuneration package in 2012. The UK Shareholders' Association, which represents small investors, said the LTIP wasn't really an incentive programme but '*a staged and accelerating compensation arrangement structured and presented in a way that conceals its quantum.'* Was this 20:20 hindsight perhaps? No," said Mr Wright. "The UKSA came to this conclusion in 2012, which leads us neatly on to the other 85 percent of shareholders who either decided that the 2012 LTIP was fine or, far more likely, didn't even spare it a glance. In 2012 when Persimmon's LTIP was conceived the shares were worth 530p but then nearly quadrupled to around 2,000p by the end of 2015, the first measurement date for the LTIP scheme. Will any lessons be learnt from the scandal? *One has to assume it signals the end of uncapped bonuses. That's not even the worst of it. The LTIP was actually based on the level of dividends the company issued – something that could have been gamed by borrowing to fund the* *payouts*. In the event, that wasn't necessary but it demonstrates how ill-conceived the scheme was.''

A large proportion of Fairburn's bonus has vested but cannot be cashed in until 2021, but about a third has already been cashed in. Apparently, Fairburn was offered a chance to stay if he agreed to forgo a portion of the £50m of the bonus yet to be exercised, but he declined. Persimmon confirmed that Fairburn would keep a set of restricted shares that would vest in 2021, but he would have a reduced notice period of two months, meaning it would not have to pay his salary for another full year***. The company admitted that because it had asked Fairburn to leave, it was legally prevented from asking for him to return any of his huge bonus.*** A spokesman conceded that had Fairburn left the firm of his own accord, he would have had to hand back **£9.7m.** "*As Jeff is leaving at the company's request, legal advice has confirmed that the company does not have any discretion to withhold or seek forfeiture of the bonus shares*," the house-builder said. This revelation sparked fresh political anger. Labour MP Rachel Reeves, who chairs the business, energy and industrial strategy select committee, said it was "Right that he's going, but wrong that he walks away with so much money. This hugely excessive payout is not a reflection of his personal performance, it is a reflection of the government's help-to-buy scheme which has fuelled the housing market." The UK's most egregious LTIP equity incentive scheme ever, paid out around **£500m** worth of shares to 150 senior staff. Fairburn had been in line for a £110m payout before it was scaled back in the face of political and public outrage. The vast bonuses resulted from an uncapped LTIP linked to the house-builder's share price, which soared thanks to the taxpayer-backed *Help-To-Buy* scheme. About half of Persimmon's homes are bought with the assistance of the scheme. Persimmon asked Mr Fairburn to leave following mounting criticism of his record-beating package, which it described as a "*distraction*".

The chairman and chairman of the remuneration committee had already resigned, having failed to place a cap on the LTIP, the pay-out of which was linked to Persimmon's share price. Fairburn initially rejected suggestions that he should forfeit any of his bonus, before later agreeing to give away an undisclosed sum to charity and accepting a reduced £75m payout in February.

"*What was the right amount? Who knows; but it wasn't £75m. This represents, as one fund manager put it to me, 'dynastic wealth.' Dare we hope it might result in shareholders putting companies under a bit more scrutiny and in boards holding their executives to account?"* added Mr Wright.

Workers on the board

Labour's ambition, that one third of boards of companies with more than 250 employees should comprise **elected employees** and ditto for their remuneration committees, was attacked by industry as naïve and allegedly certain to make companies uncompetitive. Labour leader Jeremy Corbyn had told Labour's annual conference: "Labour believes a worker's position is on the board. That's why we're proposing to give the workforce of all large UK businesses the ***right to elect a third of the seats on the board, giving employees a genuine voice and a stake,*** shifting the balance at work in favour of the wealth creators, improving both decision-making and productivity in the process. Decisions taken in boardrooms affect people's pay, their jobs and their pensions. Workers deserve a real say in those decisions. That's nothing for businesses to be afraid of. They should welcome the expertise and understanding that workers will bring to the company board."

Theresa May was told the same when, before she lost her parliamentary majority, she enthused about having rank-and-file employees on boards. The PM's idea was stifled by the corporate lobby, to be replaced by a limp proposal to give one non-executive director the additional role of looking after workers' interests. Employee board representation is commonplace within the EU. In 13 European countries, including Germany, France, the Netherlands and Ireland, employees have significant rights of representation in the private sector.

The idea that a company owes its only true allegiance to its shareholders doesn't reflect the relative risks. Shareholders, especially when they are really fund managers, have differing objectives and no fear of bankruptcy. Employees, by contrast, have their livelihoods at stake and, usually, a longer relationship with the company, say supporters of 'workers' on the board. A governance model that tries to balance the various interests looks fundamentally fairer. Opponents of worker-directors argue that the UK's tradition of unitary boards makes reform impossible. That technical objection should be surmountable by tweaking the Companies Act, to redefine a company's responsibilities beyond the promotion of shareholders' interests, say others.

Labour's plans to shake up boardrooms echo Germany's system of co-determination. Its two-tier board system attempts to hand power to workers and ease communication between the boardroom and the factory floor. Employee representatives in Germany make up half of a large company's supervisory board, which oversees and appoints the executive board. Labour's plans are more radical, proposing that a third of the top management team must be workforce representatives. Evidence suggests workers "want to contribute more" when they are included in decision-making in their workplace, said Dr Ewan McGaughey, of King's College London. He said the system developed in Germany was designed to ensure less industrial conflict. Co-determination has not necessarily led to a pay boom in Germany, argued Claus Vistesen, eurozone economist at **Pantheon Macro**. The country's wage growth is "not nearly as strong as you would expect" and pay is "still challenged by the same structural problems" such as automation.

Roger Barker, at the **Institute of Directors**, said the UK's corporate governance system emphasised the independence of boardrooms to ensure they were acting in the best interests of the company. The "tough decisions to lay off workers" for the best interests of the company would be problematic when worker directors "clearly do have a conflict of interest," he said. He questioned whether they would have the skills and experience for a "very distinct professional role". The UK is dipping its toe in the waters of co-determination from January next year. Revamped corporate governance rules aim to give employees a voice by requiring companies to adopt one of three options, including appointing a director from the workforce.

Enterprise Management Incentive (EMI) share options granted between April 6 2018 and May 15 2018, before state aid approval was renewed, will continue to benefit from tax advantages, HMRC confirmed. The notice, published in HMRC's latest share plans bulletin, addressed uncertainty relating to the temporary lapse in EMI state aid approval, according to share plans and incentives partner **Lynette Jacobs** of Centre member **Pinsent Masons**. The bulletin confirmed that HMRC will disapply the usual three-year EMI option statutory individual limit where it would prevent companies from reissuing EMI options to replace any EMI options granted between April 6 and May 15 last year and subsequently cancelled. The three-year rule prevents companies from granting employees options over shares with an unrestricted market value of more than £250,000 in any three-year period.

"Note, however, that the expected extension of the qualifying share ownership period for entrepreneurs' relief from April 6 2019 from one year to two years might now be something that companies want to factor into any decision about whether to cancel and re-grant EMI options because of state aid-related concerns, particularly if a transaction is in contemplation and/or is a shorter term ambition for the business," Ms Jacobs said.

EMI options were introduced by the 2000 Finance Act. They are intended to help gazelle type smaller companies to recruit and retain the best employees, and offer generous tax advantages to employees of qualifying companies.

Unlike the other three UK tax-advantaged employee share schemes, EMI options involve the provision of **state aid** by the UK to companies granting them. This is because the benefits of EMI options are restricted to companies with certain business activities. The Commission granted state aid approval to EMI options on July 9 2009, but that approval expired at 11pm on April 6 2018. It was not restored until six weeks later. The renewed state aid approval decision came with additional disclosure requirements in connection with EMI options - that where more than €500,000 was provided in 'aid,' the relevant company must be named and other details disclosed. **Fleur Benns** of Pinsent Masons said that although HMRC's latest bulletin had clarified the tax advantaged status of EMI options issued while state aid approval had lapsed, it was not clear how many companies granting EMI options after April 6 2018 might be required to make new state aid transparency disclosures about those options. "The deadline for any such disclosure related to tax relief will fall one year after receipt of a qualifying value of (aggregated) state aid by the relevant business," she said. "In the case of EMI options, the deadline for a particular company could not fall earlier than April 7 2019. Few, if any, companies are expected to exceed the state aid value threshold and be required to make disclosures related to EMI options, and any that do may not do so for some time. It is difficult to be certain of this, however, in the absence of detailed guidance from HMRC or HM Treasury as to how to compute the value of EMI option-related state aid, which is treated as being given at the time of grant of EMI options," she added.

Reporting & agms under the 2018/2019 Code

Companies will need to start to comply with some of the reforms introduced by the updated UK Corporate Governance Code and new executive pay disclosure obligations, said Centre member **Linklaters.** Key areas to consider are: **Remuneration policy** – companies putting a new policy to a shareholder vote in 2019 will need to disclose how share price appreciation may impact on what directors could receive. These new figures are in addition to the maximum potential pay figures already required to be included in the remuneration policy. The disclosure must show, for any performance targets or measures exceeding one financial year, the impact of a 50 percent increase in share price. Companies will have to explain the basis of this share price calculation.

Significant dissent against pay resolutions – The FRC expects companies to begin to apply the strengthened provisions for reacting to significant shareholder dissent at meetings held in 2019 (see agm business and procedures below).

Remuneration-related resolutions tend to attract media attention and heightened investor scrutiny, and 2018 agms were no exception to this. Companies should carefully consider their position and engage in advance with shareholders on pay issues. The **FRC**'s annual review of corporate governance and reporting 2017/18, said that of the ten FTSE 350 resolutions which failed to be approved in 2018, six were remuneration proposals.

Ceo: employee pay ratio – While pay ratio disclosures only become mandatory for the 2019 reporting year, companies should consider how they can collate data to produce these numbers. They will need to give the ratio of total ceo pay to the median UK employee's pay and to the 25th and 75th percentile employees' pay. To do this, they will need to decide which method of calculation to use. Importantly, companies will have to consider how to explain the figures in the context of their business. Companies may choose to pre-comply with the new reporting requirements by publishing some of this information for 2018, as investors have been calling for this for some time. The FRC's annual review notes that, to date, only ***seven percent*** of FTSE 350 companies voluntarily report a ceo:employee pay ratio.

Code pre-compliance – To meet investor expectations, companies should consider whether to pre-comply with other recommendations in the 2018 Code. In particular, shareholders have been asking for evidence of the exercise of discretion over unforeseen pay outcomes. A new provision for reporting by remuneration committees in the 2018 Code specifically seeks information about discretion exercised and about the broader workforce experience and how simplicity, transparency and risk mitigation have been addressed in designing pay policies.

Quality of reporting – The FRC concluded that there has been no real change in the quality of reporting on pay in 2017/2018. It hopes that the 2018 Code and reporting regulations will help to deliver more meaningful and insightful information. In particular, the standard of reporting on the relationship between directors' remuneration and employee pay, and the successful achievement of company strategy, is considered poor.

Pay fairness – As in previous years, companies are encouraged to show restraint on total executive pay amounts and to consider these with regard to the wider workforce and the social context. Executive directors' pension contribution rates should be aligned with the levels awarded to the rest of the workforce.

Investment Association (IA) guidance – Companies should look out for the IA's updates to its existing remuneration guidance. These are expected to be published by the end of this year and will, no doubt, support the recommendations of the new Code.

The standard agm business is unlikely to change in 2019, although the FRC hopes that companies experiencing a high level of "no" votes against agm resolutions will react more energetically and openly to this. The following developments and reminders are relevant to companies thinking about their next agm:

Significant shareholder dissent – The IA's Public Register (*'Sin Bin'*) has been running for nearly a year and lists resolutions of FTSE All-Share companies which were voted against by 20 percent or more of shareholders. The FRC expects companies to follow the strengthened provisions on dissent in the new UK Corporate Governance, added Linklaters.

Code at AGMs in 2019: All votes of 20 percent or more against a board-recommended resolution require **to be identified and commented on**, whether or not the company considers that the vote is significant. Further, while companies are still expected to comment at the time the results of the vote are announced, they will now have to give an update within six months and a final summary in the next annual report or meeting circular. The FRC hopes the new provisions will lead to significant change in 2019. The Centre will join UKSA at a meeting with FRC on December 3.

Pre-emption disapplications – Earlier this year, issuers were reminded to comply with the Pre-Emption Group overall annual limit of ten percent when placing shares for cash. The Pre-Emption

Group said it intended to monitor the use of pre-emption authorities. At 2018 agms so far, 18 FTSE All-Share resolutions for the disapplication of pre-emption rights were voted against by more than 20 percent of the shareholders and eight were not passed.

Director elections – At 2018 agms, votes against resolutions to elect or re-elect directors continued to attract the greatest level of dissent. There were 79 FTSE director election resolutions with significant votes against, up from 57 in 2017. The IA said that the increase in shareholder concerns over director accountability was linked to concerns over executive pay awards.

Remuneration voting – In 2018, 15 binding remuneration policy resolutions of FTSE companies were opposed by more than 20 percent of the shareholders (22 in 2017). Only one failed to secure enough votes to be passed. As always, far more dissatisfaction was shown in the advisory vote on the remuneration report. In total, 46 FTSE resolutions to approve the remuneration report were voted against by at least a fifth of the shareholders (up from 42 in 2017). Five of these were not passed.

Articles changes – This year saw companies making routine changes to articles to allow for administrative updates and higher levels of directors' fees. The opposition of investors to shareholder meetings held entirely by electronic means has meant that companies introducing provisions to allow for electronic agms have avoided "virtual-only" options.

BREXIT CORNER

EU data base access ends post Brexit transition

Post the Brexit transition period, the UK government may have to police domestic access to any and all databases established by the EU, according to Article 8 of the UK– EU negotiators' draft agreement on their future relationship.

This, if extended to the corporate sector, could have a crippling effect on the ability of UK law and accountancy practices to act in European commercial disputes, or to steer deals between the UK and EU member states from 2021.

Article 8 said: "***Unless otherwise provided in this Agreement, at the end of the transition period the UK shall cease to be entitled to access any network, any information system and any database established on the basis of Union law. The UK shall take appropriate measures to ensure that it does not access a network, information system or database which it is no longer entitled to access.***"

At issue here is whether Article 8 would apply solely to UK government offices or more widely, for example to NGOs too.

On financial services the draft Agreement said: "*The Parties should conclude ambitious, comprehensive and balanced arrangements on trade in services and investment in services and non-services sectors, respecting each Party's right to regulate…[aiming] to deliver a level of liberalisation in trade in services well beyond the Parties' World Trade Organisation (WTO) commitments and building on recent European Union Free Trade Agreements (FTAs).*" It's a commitment to a comprehensive deal on services, but the financial services provisions do not go as far as the City had hoped in winning special treatment on so-called "**equivalence**" – the way in which the EU checks non-EU country standards. Instead, the UK still faces the risk of its "equivalence" status being unilaterally withdrawn with just 30 days' notice, should UK regulation or activities be found problematic by the EU. Each party can use "their ability to take equivalence decisions in their own interest" and the withdrawal of approval from both sides would be subject to "appropriate consultation". The detail of that process is crucial in terms of working out how secure the UK's access to the EU market might be. Mutual recognition of professional qualifications is laid out. Having it "baked in" rather than as a separate framework potentially takes the agreement beyond the EU-Canada deal. There are some broad -brush plans for collaboration between regulators, and a deal on data sharing too. However, there are no promises to improve, broaden or make the EU equivalence regime more predictable, although both sides will aim to do assessments by 2020.

The EU grants equivalence to other states if it can be persuaded that its rules are the same as the ones set by Brussels. Equivalence, and the trading rights that come with it, can be withdrawn at any time. When City law firm *Hogan Lovells* was asked to look at equivalence by **City UK**, the trade body for the Square Mile, its conclusion was that it did **not** "provide a long-term sustainable solution." Many global banks have reorganised UK operations ahead of Brexit, setting up new European hubs and are beginning to move staff and operations to ensure they can continue to serve continental clients if the UK leaves without a deal. Brussels has ruled out maintaining the existing *passporting* regime but indicated that the EU would accept that the UK has *equivalent* regulations to the EU, and UK financial services companies will be allowed to operate as they now do in Europe.

The *Times* claimed that a final deal would mean that after Brexit, UK financial services companies would be able to operate within the EU as they do now. It said the EU would accept that the UK had "equivalent" regulations to Brussels and would therefore be allowed market access, but there has been no official confirmation of this. The *FT* reported that the UK and EU had made significant progress on the text on an equivalence deal for financial services to be included in a potential statement about future relations. It expressed surprise from the EU's side that an area which was expected to be highly contentious had proved to be relatively straightforward with Theresa May ***"scaling back her ambitions"*** for access to the EU's financial services market being credited for the swift progress. The UK has sought assurances about how this system would work in the UK's unique situation and is requesting equivalence to be automatically granted in all areas that are currently covered by the EU's equivalence regime and assessments in areas that are not such as commercial banking and corporate lending. There is little indication that the UK's requests will be granted, with the *FT* noting that there was significant opposition from both France and Michel Barnier to the extension of the equivalence regime the UK requests.

Attention switched to the December 11 House of Commons vote on the UK-EU withdrawal deal. "*There is little indication as to what would occur if there is no withdrawal agreement between the EU and the UK. In any event, an equivalence deal would not provide the UK the same access as it currently enjoys as a member of the single market,*" said Paul Ellison of **Macfarlanes**. 'This is because, whilst equivalence permits third country passporting rights to be switched on under key European financial services legislation, including Mifid II, those rights fall significantly short of the passporting rights that the UK currently benefits from as a full EU member state. Financial services firms should therefore continue their Brexit planning and implementation work."

*Article Three confirms that the Agreement would apply to the **Channel Islands** and the Isle of Man, *to the extent that EU law was applicable to them before the date of entry into force of this Agreement.*

*The **Irish ProShare Association** warned that the employee share ownership sector in Ireland was facing crisis because of government inaction to address the Brexit threat. More than 12,000 Irish employees may be hit by increased tax bills and loss of benefits because their Revenue-approved SAYE scheme savings accounts are held in the UK -licensed banks **Barclays** and **Yorkshire Building Society (YBS)**. This banking service will end if the UK crashes out of the EU with no Brexit deal to continue EU financial passporting. The accounts – with a combined value of around €12m – will either have to be dissolved or [if permitted] transferred to the only Irish-licensed bank offering these services, **Ulster Bank**. In both scenarios, affected employees will be hit by loss of benefits and negative tax consequences. IPSA ceo Gill Brennan said: "If nothing is done then 12,000 Irish employees are going to be facing big tax bills on money they have saved under a Revenue approved scheme. Finance minister Paschal Donohoe could end the uncertainty by issuing a ministerial order to approve other banks in Ireland as carriers for SAYE purposes."

COMPANIES

*The UK's best-paid owner, **Denise Coates**, co-founder of online gambling firm **Bet365,** received a **£48m** pay rise last year. The firm's accounts show compensation, for the firm's highest paid director rising to **£265m**, including dividends. However the industry faces criticism for not doing enough to deal with problem gambling and addiction. The privately held company is owned jointly by Ms Coates and other family members. Last year Ms Coates' pay and dividends were reported to total £217m. In the year to the end of March her basic pay rose from £199m to £220m. The firm paid out £90m in dividends, half of which are thought to have gone to Ms Coates, as the owner of half of Bet365's shares. She earned a first class degree in econometrics - the application of statistical methods to economic data - from Sheffield University before joining the high street betting firm, run by her father. Ms Coates, 51, lives in Cheshire with her husband, Richard Smith, who is the firm's property director, and their children. The group owns Stoke City Football Club and in 2017 the group paid £75m into its charitable fund, set up in her name.

*****Consulting and digital transformation giant **Capgemini** announced an oversubscription of its fifth Esop, which amounted to 2.5m shares, representing 1.5 percent of the group's share capital. This will not have a dilutive impact on existing shareholders as Capgemini bought back the same number of shares for cancellation. The plan, aimed at associating employees with the development and performance of the group, offered the shares at euros 92 each and attracted a subscription rate of 191 percent. 33,600 employees in 24 countries signed up. This new Esop will help maintain employee share ownership above five percent of the total equity. Paul Hermelin, chairman and ceo of Capgemini Group said: "*With an almost twofold oversubscription and a 17 percent increase in the number of subscribers, our employees demonstrate once again their confidence in the Group's strategy and development prospects.*"

*Employee share plan provider **Computershare** completed the acquisition of Zurich-based **Equatex** from **Montagu Private Equity**, following regulatory approval. Equatex, which has 220 employees, provides employee share plan administration and deferred equity compensation plan services for more than 160 clients, administering £31.1bn in assets. It covers 1.1m plan participants. Computershare has 16,000 plus employees worldwide and specialises in transfer agency and share registration, employee equity plans, proxy solicitation and stakeholder communications.

Debenhams** said that it would cut costs by closing up to 50 stores – putting up to 4,000 jobs at risk**.** Will ceo Sergio Bucher be tightening his own belt? In the 2017 fiscal year, Bucher earned £1.34m from Debenhams for six months work. What he earned in his first full year in the job has yet to be announced, but it could make upsetting reading for Debenhams employees. In the same year, 16 senior 'Debs' executives were paid collectively £6.1m by the company, while the share price slid from £80 to £55 per share. Meanwhile, Debenhams **27,000** employees took home just £408m between them. This is an average of just **£15k** each in a year – although it does include 19,000 part-time employees. According to the left-leaning High Pay Centre, such huge pay for ceos is not unusual. In the last 25 years, executive pay has ***quadrupled while workforce wages have barely kept up with inflation. The HPC proposes putting workers on company boards, paying executives in cash rather than shares and bonuses and insisting on a **40:1** pay ratio between the highest-paid worker and the average employee. The current average pay ratio for FTSE 100 companies is **150:1** while some companies like John Lewis and TSB have a **70:1** policy. Jeremy Corbyn has gone further, proposing a **twenty-to-one** pay ratio between the highest-paid employee and the average paid. Former PM David Cameron suggested this – although he never followed through. In Debenham's case, a 20:1 ratio would mean the average employee getting £70,000 or Bucher would have to be paid less.

Galliford Try**'s shareholders were advised to vote against the contractor's remuneration report after the firm relaxed rules around performance targets for directors. In the event, **14 percent** (10.5m voted shares) of the company's equity at the agm was voted against the directors' remuneration report, the only resolution which attracted a significant rebellion. However, this was not enough to put Galliford Try in the corporate *Sin Bin*. In a letter to shareholders, **Glass Lewis**, which advises major institutional investors, had accused the contractor of failing to adequately explain why it was reducing the threshold at which top executives qualified for bonuses. Galliford had been working with collapsed construction giant ***Carillion on the troubled Aberdeen bypass project and was forced to raise £144m through a rights issue to cover cost overruns and charges linked with its rival's demise. That bolstered its balance sheet, but made it more difficult to hit targets as the 28m new shares issued diluted its earnings per share and the extra cash disrupted its return on net assets. In its summary, Glass Lewis said: "Given our concerns regarding the adjustment to performance criteria, we cannot recommend that shareholders support this [remuneration] proposal at this time." It noted that Galliford Try had lowered the threshold at which targets – *return on net assets (RoNA)* targets – for bonuses in 2018/19 would be met from 31-34 percent down to 24.5-27 percent, which it said would make it easier for the top directors to achieve their targets. RoNA is used as a key performance target by Galliford Try's remuneration committee to calculate bonus awards. The Glass Lewis report accused the firm of failing to explain the changes: "We remain concerned with the extent of the discretion utilised by the committee in adjusting targets for awards granted in previous years.'' Major shareholders in Galliford Try include **BlackRock**, which owns 12.6 percent of the company, **Standard Life** (6.2 percent) and **Brewin Dolphin** (5.5 percent). Galliford Try's remuneration report puts ceo Peter Truscott in line for a £689,000 bonus on top of his £530,000 salary, with total pay including bonuses standing at £1.48m. The firm's cfo Graham Perthero would receive a bonus of £344,000, sending his total remuneration to £921,000, assuming the revised targets are met.

***Global Shares** – *Deloitte 'FinTech Company of the Year'* – and leading provider of equity compensation management solutions for global corporations, is forming a strategic partnership with **Huanying International** – one of the top online brokerage firms in Hong Kong and mainland China, to provide Esop administration, share dealing, global compliance, financial reporting, and asset management services to high tech companies. The partnership, combining Huanying's 20+m registered users with Global Shares' state-of-the-art Esop administration software will set a new benchmark for plan administration in the Asian region. Huanying International will share its current client portfolio with Global Shares and direct clients' Esop services to the Global Shares' platform. Together they will serve more than 200 corporate clients with 300,000 participants and manage more than $30bn worth of shares. The deal will be worth more than $15m in revenue to Global Shares over the next five years. Centre member Global Shares announced further expansion in Asia with the opening of a new office in Beijing, following the launch of its Hong Kong office earlier this year. Global Shares' Asia team will grow from six to 20+ employees within 12 months to support its rapidly growing operation. Total employee numbers have risen from 68 in 2015, to 200 today and a projected 450+ within five years.

Patisserie Valerie** shareholders voted for a fundraising package needed to rescue the business, after a £40m black hole was uncovered in its accounts. With its shares suspended, the firm's finance chief, Chris Marsh quit having initially been removed temporarily from office. Ceo Paul May later resigned too. Further questions were raised about Patisserie Valerie's corporate governance after it admitted to having awarded ***three times as many share options to Marsh and May than had been disclosed. Patisserie Valerie has 200 outlets and employs 3,000 people.

***Sky** revealed that ceo Jeremy Darroch received almost £5m in pay and bonuses for the past year, just weeks after he scooped a near-£40m windfall following the **Comcast** takeover. The pay TV giant's annual report shows its ceo was paid £4.96m, including a 2.5 percent salary rise to £1.07m for the year to the end of June, which has since been hiked again to £1.1m His pay package included a £1.9m annual bonus on top of pensions and benefits, as well as £1.8m worth of shares under the group's co-investment plan. Darroch said he intended to 'stick around' at Sky after the Comcast takeover. Those shares made up part of Mr Darroch's bumper payout following the £30bn takeover of Sky by US cable giant Comcast. Excluding this, fixed pay, benefits and annual bonus stood at £3.2m for the year to June 30. He received a mammoth £38.3m for his Sky shares, which included payouts for LTIP awards that were due to vest next July. Darroch's tax bill alone on the share sale bonanza was £11.7m

WORLD NEWSPAD

Income disparity

Too much attention is being paid to income disparities worldwide and not nearly enough to the disparities in wealth among the top ten percent of the population as compared to the rest, claimed Joseph Blasi and Maureen Conway in the latest issue of ***Politico*** magazine.

One answer to this, they suggest, would be for governments to introduce new policy initiatives designed to make employee share ownership and SME employee ownership much more prevalent than they are today.

"While income inequality is staggering and growing, wealth inequality in the US is even worse, by orders of magnitude," said **Blasi,** director of Rutgers' Institute for the Study of Employee Ownership and Profit Sharing and **Maureen Conway** VP for policy programmes at the Aspen Institute. "Inequality scholars Thomas Piketty, Emmanuel Saez and Gabriel Zucman, have produced data showing that **75 percent** of household wealth and **97 percent** of capital income—the kind of income generated by wealth, such as dividends, interest and capital gains—is concentrated in the **top ten percent of US households**. The idea of expanding access to ownership already has shown bipartisan appeal in the US. A measure to help the Small Business Administration promote more employee stock ownership passed both houses of Congress earlier this year and was signed into law by President Donald Trump in August. There's more we can do along those lines. Here are three policy options that could help more working Americans build wealth."

***US: Reward businesses that offer profit and equity shares.** Congress could use its purchasing power to buy goods and services from businesses that expand employees' assets. The federal government spends over a half a trillion dollars a year on contracts for goods and services, and may be considering a major infrastructure investment in the future. Congress could bring an asset-broadening approach to these investments by giving a preference to businesses that offer meaningful profit sharing or some form of broad-based equity participation to their employees. Such requirements should not be seen as too onerous—already about 7,500 corporations provide some meaningful equity participation to their employees, and many stock market companies and startups sponsor equity participation or profit-sharing plans. According to the General Social Survey, the top quartile of employees with equity participation plans held about $175,000 in ownership assets in 2014. These businesses see shares as an important part of their approach to building a successful business, and indeed firms with shares and supportive corporate cultures tend to have better performance. In addition to better business performance, companies with Eso together with high engagement strategies tend to provide jobs with better pay and benefits than jobs at industry peers without shared ownership. In this way, broad asset ownership as a general policy might be able to reduce reliance on government. *These measures echo steps taken by the Greater London Council under John McDonnell's influence.*

***US: Incentivise retirees to sell businesses to employees.** In our economy, there is a tsunami of aging baby boomers that includes entrepreneurs, small business people and family farmers who built tens of thousands of companies and agricultural businesses over the past half-century. These owners have most of their wealth tied up in their businesses and many will need to sell them to support a comfortable retirement. Many of these businesses will not be taken over by family members. Some may be bought by investors or competitors who plan to liquidate them, leaving communities struggling with a loss of jobs and wealth. *A significant number of middle-market companies are now being taken over by private equity on a model that often concentrates ownership even further among the few.* But what if government policy provided even stronger incentives for these business owners to sell their businesses to their employees and managers instead? What if private equity also developed models to participate in this economic inclusion?

"Iowa provides a successful state-level example of such a policy. A few years ago, Iowa worked cross parties to pass legislation that reduced the state's corporate income taxes for retiring business owners when they sold to the employees and managers through an Esop. The Iowa effort mirrored an existing tax incentive at the federal level. It offered modest funds for feasibility studies to help the business owner and the employees work out the details. Versions of this policy are now under consideration with support from both Democrats and Republicans in New Jersey and several other states.

***US: Promote public-private citizens trusts**. These trusts, similar to the Alaska Permanent Fund that now pays annual dividends to every Alaska citizen, could be established in every state. These trusts would acquire income-producing assets and use the income stream from these assets to pay a dividend to citizens of that state. In contrast to Alaska's fund, the trusts could establish universal asset accounts for every citizen. Like Alaska's fund, they could pay significant dividends that would function as a *second income* for citizens and help build their wealth. This could make more citizens capitalists. With a sensible use of credit, these trusts would acquire assets the way investors do, using the income on that capital to pay back the loans used to acquire them," they said. Alaska funded its Permanent Fund with income shares and royalties from mineral and oil exploration. The fund was designed by that state's Republicans decades ago to invest profit sharing from the state's mineral and oil industries in assets that fund a significant annual dividend for every woman, man and child in Alaska. For example, States that give tax abatements for energy or other projects could require a percent of profits be paid into a state permanent fund in which all citizens own shares. Other large public assets with future income streams, including ownership stakes in major infrastructure projects, could contribute to these funds, underscoring citizens' ownership interest in these public assets.

***Australia:** Small businesses will be more easily able to offer employee share schemes under changes proposed by the federal government, as the current rules have been found to be too complex and discourage such schemes being set up. Treasurer Josh Frydenberg said a key change was increasing the value limit of eligible financial products that can be offered in a 12 month period from $5000 per employee to $10,000 per employee. As well, contribution plans would be allowed, and scheme operators would not have to disclose commercially sensitive financial information, unless they are otherwise obliged to do.

*Amendments to **China**'s company law focus on adding to and retooling share buy-back rules were explained by Liu Zhanchao, writing in ***Yicai Global***. The amendment to the Company Law of the People's Republic by the **China Securities Regulatory Commission (CSRC),** Ministry of Justice and other departments was submitted to the Standing Committee of the **National People's Congress** for consideration. Share repurchase programmes are often used for corporate restructuring, mergers and acquisitions, which stabilise stock prices and optimise management structures. A buy-back is voluntary, whereas redemption is compulsory. Chinese company law, enacted in 1993, carved out only two exceptions where it allowed share repurchases, including a company cancelling its shares to reduce capital or merging with another firm that holds its stock. A 2005 amendment added two more exceptions, allowing buy-back of share issues awarded to employees and those to shareholders who demand a company buy back their shares out of opposition to a company merger or spin-off resolution the shareholders' meeting approves. It tacked on other provisions and requirements about the quantity of share repurchases and the corresponding decision-making process.

The amendment to the company law changes “awarding shares to company employees” in existing law to “***using the shares for employee share ownership plans or as equity incentives”*** and adds two additional exceptions of “using the shares for converting bonds issued by listed companies to convert them to stocks” and includes “*necessary acts by listed companies to avert large losses and protect these companies*’ value while safeguarding shareholder interests.” Complex procedures that fail to satisfy the demands of long-term equity incentives and stabilise stock prices and fulfil other requirements still persist in the provisions on stock buy-backs in current law. Both the quantity and the amount of money Shanghai and Shenzhen listed companies spent this year on stock buy-backs exceeded those of all previous years, per relevant statistics. By mid October, 733 companies listed in the A-share market had released their repurchase plans; 508 of these had already concluded buybacks, an annual growth rate of 90 percent. The amount of money spent retrieving shares this year reached US$4.3 bn in an almost six-fold annual rise.

***Ireland:** Bankers’ bonuses should only be considered once public confidence in banks has been restored and ordinary staff should be rewarded ahead of high-flying executives, the **Financial Services Union (FSU)** said. The bank officials’ union expressed serious reservations about a possible removal of restrictions on pay levels and bonuses, with acting secretary general Gareth Murphy saying an ongoing review of remuneration levels at Irish banks should look beyond bonuses. Pressure on the Government to remove restrictions on salaries and bonuses has increased after **AIB** ceo Bernard Byrne announced that he was leaving the bank to take a job with stockbroker Davy. Byrne’s announcement came just months after chief financial officer, Mark Bourke, said he was leaving AIB to head up the finance function at Portuguese lender Novo Banco. Minister for Finance Paschal Donohoe has hired headhunters Korn Ferry to assess remuneration across bailed-out lenders, which is expected to recommend a return to bonuses.

South Africa**: Trade union **Solidarity** said **Discovery** had rejected its plea to reconsider its ten percent share allocation to ***exclusively black people in the new bank launched by the health and financial services giant. Solidarity said it met Discovery ceo Adrian Gore to raise its concerns about the “racially exclusive scheme”. Gore announced during the launch of Discovery Bank that ten percent of the company’s innovative tech-led bank would be owned by black depositors, a move welcomed by industry bodies. “We requested a meeting with Discovery following a huge outcry from our members over the scheme. Unfortunately, Discovery has insisted that it would maintain the scheme,” said Connie Mulder, head of Solidarity Research Institute. “We are disappointed, but can’t say it was unexpected.” The union said it urged Discovery to reconsider its position on the share scheme and adopt an inclusive metric which would not discriminate against people based on the colour of their skin. The union, whose members are mainly white, said it would not prevent its white members who are already Discovery clients from leaving the company in protest against the scheme. It said it had launched an online petition against the scheme. “South Africa already has enough similar schemes which are exclusively for black people… we can’t let this happen,” said Mulder.

Solidarity, which has 180,000 members, launched a strike at **Sasol** over its broad-based *Black Economic Empowerment* share scheme known as Sasol Khanyisa phase 2. The company maintained that its system was not exclusionary, describing it as an “important business, social and moral imperative” for the company, boosting share ownership in Sasol SA among previously disadvantaged groups. Sasol said last year it would raise its black ownership levels to at least 25 percent by offering shares to black workers in a R21bn ($1.5bn) deal. The energy company said that it implemented the scheme in line with South African laws which require companies to meet quotas on black ownership, employment and procurement as part of a drive to reverse decades of exclusion under apartheid.

Solidarity criticised a SA disadvantaged youth programme too: *“It is astonishing that government and the companies that associate themselves with the programme believe it is acceptable to discriminate against the poor in society, simply because the colour of their skin is not right,”* said Paul Maritz, the coordinator of Solidarity Youth. The union said it would take legal action on behalf of one of its jobless members, Danie van der Merwe, who is excluded from this programme because of his skin colour.

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