

# it's our business

newspad of the Employee Share Ownership Centre

## Top UK companies forced to plan for climate change

Post COP26, there is a new emphasis on ESG- Environmental, Social and Governance - factors in UK executive compensation strategy and bonus structures are increasingly reflecting this re-focus.

To ram home the message, the Investment Association (IA) said that remuneration committees “should” consider ESG and non-financial strategic measures, alongside their conventional financial results, when fixing new executive incentive rates. ESG pointers, like climate change, feature in the Association’s updated principles of remuneration for 2022 guidance to remuneration committee chairs. ESG factors can no longer be ignored, warned the IA, which speaks for the bulk of City institutional investment funds.

Where ESG is already in corporate long-term strategy, but not in executive compensation, the IA expects companies to explain how ESG will be reflected in executive compensation in future. It added: “Companies are on a journey to incorporate material ESG risks into their strategy and therefore their remuneration structure.”

ESG is now in the pipeline overall, but if ESG is in corporate strategy, though not top pay, then it is fair to ask: “How and when will the reward structure follow?” demanded a Centre member who is a leading governance expert. Damian Carnell, founder director of CORPGRO, a corporate remuneration consultancy, said:

*“ESG has been growing strongly within executive compensation in recent times. Environmental factors, particularly climate and work justice factors like diversity and inclusion and fair pay have been driving the change. This is not just a UK thing; we see the same in Europe, North America and elsewhere.”*

Following COP 26 in Glasgow, many companies will now be looking again at their climate profile, particularly with new climate disclosure due in early 2022 for UK premium listed companies, said Mr Carnell. Most big UK companies and financial institutions will be forced to show how they intend

### *From the chairman*

*Nearly half of the companies surveyed in the Bank of America 2021 Workplace Benefits Report are now offering financial wellness to their share plan participants. The numbers are up from the previous year and 95 percent of companies now feel responsible for employees' financial wellness.*

*Significant numbers of employees say they have been stressed by debt problems, women much more than men and BofA concludes that financial wellness should be on all employers' agendas.*

*Another more surprising move in the US this year is that crypto currency is now a forward looking way of rewarding employees, according to Sinead Kelly of Centre member Baker McKenzie. “Companies not in the crypto industry are finding that the candidates they are hiring want cryptocurrency, and the younger generations are focused on it.”*

*Centre speaker Fred Whittlesey, founder of Compensation Venture Group confirms that crypto currency is now sometimes replacing equity compensation.*

*Both trends are worth serious consideration in the UK too. The Esop itself came from across the pond. Focus on financial wellness makes sense for all. Crypto may well have a place in the reward tool box.*

**Malcolm Hurlston CBE**

to hit climate change targets, under proposed Treasury rules. By 2023, they will have to set out detailed public plans annually showing how they will move to a low-carbon future - in line with the UK’s 2050 net-zero target. An expert panel will set the standards the plans need to meet to ensure they are not just spin. Any commitments will not be mandatory, but Green groups say that this is not enough. *Net zero is when a business or a country*

achieves an overall balance between the amount of carbon it is emitting and the carbon that it's removing from the atmosphere. Firms and their shareholders will be left to decide how their businesses adapt to this transition, including how they intend to de-carbonise.

Although top companies will have to publish their plans, the government said "the aim is to increase transparency and accountability" and that the UK was not "making firm-level net-zero commitments mandatory". The market would decide whether firms' plans are credible, the Treasury explained.

Speaking at the COP26 summit, chancellor Rishi Sunak claimed the UK was leading the world in becoming the "first-ever net zero aligned global financial centre". He said the changes would mean: "Better and more consistent climate data; sovereign green bonds; mandatory sustainability disclosures; proper climate risk surveillance; and proper global reporting standards."

About 450 firms controlling 40 percent of global financial assets, equivalent to £95tn, had agreed to commit to limit global warming to 1.5C above pre-industrial levels. However, campaign group *Global Witness* said that without regulation, the pledges were doomed to fail. In a more nuanced reaction, Mark Campanale, founder and executive at *Carbon Tracker Initiative*, praised the ambition of the plans, but said details of how it would all work were still unclear. "None of the financial assets announced are currently aligned with net-zero and no group of companies can say they are meeting the Paris target by continuing to invest in fossil fuels, so that needs to change considerably before London can be lauded as the world's first net-zero financial centre and a model for the world," he said. Shaun Spiers, director of environmental think tank *Green Alliance*, said that more UK public sector funding was needed. "Private sector investment is vital, but it will be much easier to achieve on the back of serious investment by the chancellor," he said.

However, a coalition of finance groups led by former Bank of England governor Mark Carney claimed that there was already sufficient finance committed to keep global warming to a +1.5C limit. This assertion was challenged by banking columnist Chris Skinner, who wrote: "The agenda for sustainability has risen to the fore and the customer wants banks to behave responsibly. Green-washing and errant behaviour investing in fossil fuels and fracking the world are no longer acceptable. Greta Thunberg, David Attenborough, Extinction Rebellion and more have made this clear. However, the hidden jewel maybe is the **activist investor**. Pension funds and institutional investors are increasingly worried about financial

market activities and how they encourage shareholder return at the expense of communities and, potentially, the planet. Therefore, activist investors are encouraging **stakeholder capitalism**, and placing climate at the head of that agenda. Between activist consumers and activist investors, ESG topics are front and centre. I'm not sure the banks realise this. Mark Carney can claim \$130tr of assets being directed towards climate protection, but that's all double counting and the usual cooking of the books" he said.

### **Big UK executive bonuses in the pipeline**

Efforts to curb UK executive reward have stalled as companies prepared to hand out turbo-charged bonuses next year to reward their top brass. Legal & General Investment Management acknowledged defeat when it said that it would stop giving company boards feedback about proposed hikes in pay and incentives, because too many companies were flouting its comments and advice. Instead, LGIM said it would concentrate on educating companies about income inequality and climate change.

\*More than three-quarters of executive LTIPs paid out last year, despite institutional advice to go easy on the reward front, in the midst of the pandemic lockdown. Millions of shareholders saw the value of their stakes in UK companies slide in 2020, with the FTSE 100 ending the year down 15 percent. Investors endured cuts to dividends as well, to help businesses weather the pandemic. However, not everyone felt the financial pain. During the same year, 77 percent of long-term incentive plans (LTIPs) paid out to FTSE executives, according to research by the left-leaning High Pay Centre. Its analysis of LTIPs revealed that these supposedly performance-related schemes in fact paid out to almost all the executives to whom they were awarded. Only 15 percent of nearly 750 LTIPs over a ten-year period examined by the think tank did not pay anything. One in three of the sample paid out 90 percent or more of the potential maximum achievable via their scheme, added the High Pay Centre.

## **EVENTS**

### **Webinar: Employee voice - share plan votes**

Friday December 10 2021 10:45-11:30 GMT. *The case for transparency on employee shareholder votes*: The idea came from early days of employee share ownership (Eso) when there was much enthusiasm for both employee financial and management participation; companies were listening to the employee voice, respecting the employer-employee relationship.

In the 1980s the aim was to spread the word of employee share ownership. Now employee share plans have become part of the corporate background and the early messages have been lost along the way. Recently there have been questions about whether it is now time to re-think capitalism. Should we then be thinking differently about Eso? How should we move the purpose of employee share ownership forward?

A forgotten benefit of employee share ownership plans is the vote. The problem is that the Eso vote in the register is a very small percentage, so employee shareholders do not have much say. Could we though listen to the employee vote as a separate category and feed the outcome back to the board to compare with votes over time and with institutional investor votes? This could be a source of participation and information for the company. In time, good practice will expand to public disclosure.

In this webinar Jost Meye, HR director group rewards at Amadeus, and Damian Carnell, founder director of CORPGRO will open out the topic to public debate. Registration is now open.

### Share plan symposium 2022 -Call for speakers

Centre members are invited to submit draft speaker slot titles with bullet points for the fifth *newspad* British Isles share plans symposium which, subject to Covid, will take place in the London offices of senior member **Baker McKenzie** at New Bridge Street EC4 on the afternoon of **Wednesday April 6** next year. The date of this hybrid *part live* event has been moved back by a week owing to renewed fears about Covid infection rates. **Jeremy Edwards**, partner and head of Baker McKenzie's employee benefits group, is assisting the Centre in the preparation of the event. Members who have a clear slot presentation in mind should contact the Centre asap at the co-ordinates listed below to register their interest in speaking at this event. Speakers who deliver a plan case study can invite client *plan issuers* to share their slot, as issuers will be admitted free of charge. The Centre will pre-record at least ten topic presentations and distribute them, plus other background material, to registered participants about a week before the in-the-flesh event takes place. Then the presentations will be debated by a speaker panel before being thrown open to further discussion by delegates. Suggested draft panel topics for the symposium are:

#### **Panel One: Key factors in devising/operating effective employee share schemes**

- ◆ Global and international share plans
- ◆ Share plans for SMEs

- ◆ Employee Benefit Trusts and share plan administration
- ◆ Plan communications and take-up levels

#### **Panel Two: The impact of regulation and governance on all-employee share plans**

- ◆ ESG issues - climate change, governance, local job preservation
- ◆ Why Employee Share Ownership Matters - an ESG Perspective *A discussion based on issues raised by the recent Centre booklet*
- ◆ Regulatory regimes in the UK, EU and globally
- ◆ The UK's 'gig' economy – how can we bring the millions of gig employees into shared ownership?

#### **Panel Three: The new executive remuneration landscape:**

- ◆ Performance awards
- ◆ Quantum – the future of LTIPs
- ◆ Remuneration committee decisions+shareholder reactions
- ◆ Shaping executive plans: share and/or share option awards?
- ◆ Taxation of plans - employers & employees - mobile employees

Centre conferences are celebrated for their level of speaker expertise and equally for the quality of their networking opportunities. The 2021 symposium last March, our first to be hosted online, was a great success, drawing many compliments from participants.

**Admission prices:** Speakers from practitioner members: **£250**; *Speakers from plan issuer companies will be admitted free of charge.*

Delegates: Members **£395** Non-member **£595**

*\*All prices are subject to UK standard rate VAT*

The symposium will start at 13:30 concluding at 17:15 when participants will be invited to a drinks reception following the symposium. To register as a speaker and to suggest a presentation topic, email Fred Hackworth: [fred\\_hackworth@zyen.com](mailto:fred_hackworth@zyen.com) (cc [juliet\\_wigzell@zyen.com](mailto:juliet_wigzell@zyen.com)) or phone the team at Centre HQ on +44(0) 207 562 0586



### **Newspad 2021 awards**

Get your entries in now for the 2021 *newspad* all-employee share plan awards. These annual awards recognise the achievements of companies which offer all-employee share plans and hold up best practice models for other companies to follow. Companies can nominate themselves or advisers can make submissions on behalf of clients. The deadline for all nominations is 5:00pm on **Friday January 14 2022.**

The award categories this year are:

1. Best international all-employee share plan (more than 2,500 employees)
2. Best UK all-employee share plan in a mid range company (500-2500 employees)
3. Best all-employee share plan in an SME (fewer than 500 employees)
4. Best executive/managerial equity reward plan (involving more than 100 employees)
5. Best share plan communications
6. Best use of technology, AI or behavioural science in share plans
7. Best HR director/ head of reward/company secretary/employee share plan manager
8. Outstanding company leader

*What is the focus of each category award?*

**Best international all-employee share plan\*** An all-employee share plan can be a particularly effective way for a multinational company to bring together a diverse global workforce to help achieve key corporate goals. Applications to this award category will be judged on how successfully the share plan meets the company's objectives in light of the complexities of cross-border arrangements.

\* In a company with more than 2,500 employees and participants in at least three countries.

**Best UK all-employee share plan in a mid-range company †** All-employee share plans help spread the wages of capital and boost company productivity. This award category highlights how share schemes can be used to benefit employee and business alike. † In a company with between 500 and 2,501 employees and participants in no more than two countries.

**Best all-employee share plan in an SME ‡** Employee engagement can be vital to a small or fledgling business and employee share plans give employees a stake in the company. This award category, too, highlights how share schemes can be used to benefit employee and business alike. ‡ In a company with fewer than 500 employees.

**Best executive/managerial equity reward plan:** An executive or managerial equity reward plan is useful for companies to engage and retain key staff by giving them a stake in the business. This award category is designed to show us why the issue of share options or deferred shares was the best solution in the circumstances. The submitted incentive plan must cover more than 100 executive and/or managerial employees.

**Best share plan communications:** Communication can be decisive as to the success or failure of an all-employee share scheme. This award category highlights the need for communications programmes that are sensitive to the circumstances

of an individual company and the make up of its workforce.

**Best use of technology, AI or behavioural science:** Without effective technological solutions, all-employee share plans would be prohibitively expensive and time consuming for many companies. This award category recognises innovative uses of technology to manage, communicate and administer share schemes in a fast changing world.

**Best HR director/head of reward/company secretary/employee share plan manager:** The success of an all-employee share plan can sometimes depend on the enthusiasm of the project or team leader personally involved in promotion of the plan. This award is designed to recognise a great senior officer who motivates staff to participate by taking a keen interest in the installation and monitoring of all-employee equity plans in the business.

**Outstanding company leader:** The success of an all-employee share plan can depend on the support of company leaders. This award is designed to recognise a motivational chairman or ceo who effectively promotes all-employee equity with enthusiasm.

The winners will be decided by two impartial judges, experts in the use of employee equities, plus Malcolm Hurlston CBE, founder of the Esop Centre. The *finalists* will be announced in *newspad* and award certificates will be presented during the Centre's British Isles share plans symposium, hosted by senior Centre member Baker McKenzie, on April 6 2022.

Review the simplified **entry rules** at: [www.esopcentre.com/about/awards](http://www.esopcentre.com/about/awards)

For other questions, contact us at: [esop@esopcentre.com](mailto:esop@esopcentre.com) Tel: +44 (0)20 7562 0586.

### **Report: Esop sofa-newspad review webinar**

Panellists comprising Lyn Colloff, Company Secretary at **Wincanton**; Colin Kendon, Partner and head of European Incentives at **Bird & Bird** and Charlotte Fleck of **Deloitte** discussed the latest issues in employee share ownership, as recounted in the September, October and November editions of *newspad*. Lyn is a Chartered Secretary and worked exclusively in the financial services sector before joining Cobham from the Financial Services Authority (now the Financial Conduct Authority), where she performed the role of Deputy Company Secretary. **Global Shares'** Darren Smith chaired the sofa discussion on topics such as concern over claims that the Employee Ownership Trust is being promoted as a tax avoidance vehicle and asking

whether private equity (PE) is killing off UK share schemes.

Lyn said that listed logistics company Wincanton employed 19,000 people in the UK and Ireland, had a transport fleet of 3,400 vehicles, based at more than 200 sites and was reliant on its shareholders, including employee shareholders. During lockdown it had been *business as usual*, as it continued to supply large customers such as **Sainsbury's** and **B & Q**. Lyn said that the company was looking at its employee share plans again under her guidance. Wincanton, whose share price has jumped by more than 60 percent within the past year, had moved its share registry this year and felt that its SIP plan, which had a 'disappointing' ten percent take-up, had not been launched properly, despite offering participants a free share for every four purchased by employees. The fact that a chunk of its employees were drivers meant that face-to-face communications with them regarding participation in Eso schemes was very difficult, she said. Not all Wincanton's warehouse staff were financially aware of the possibilities offered by share schemes, so there was a job for management to do – they had to work to make their employees more socially responsible. Aware of how difficult it was for lower-paid employees to participate in some share schemes, Wincanton planned to launch an SAYE next year because it was easy to explain and participation did not put at risk employee savings. A SIP re-launch too was in the air, but it was 'very important to have the right share plan provider behind you,' she added. Wincanton had just acquired a company from private equity ownership, thus reversing the current trend. "We are very keen to offer these employees the SIP and hope to do this quite quickly," she added.

Colin homed in on the predicament facing the many **Morrisons** employee shareholders who would cash in big profits shortly on their SAYEs, once the sale of their employer to a private equity company had gone through. "*The acquirers won't be able to offer Morrisons employees any tax-advantaged employee share scheme, which is very frustrating,*" he said. Colin had acted on behalf of

companies which had not been PE owned before and problems had arisen, such as suddenly they didn't do the tax returns. "*In the end, you get a cash bonus plan installed in these companies, which is much more expensive,*" he added.

Colin revealed that some clients had panicked before the recent Budget, believing that their Enterprise Management Incentive (EMI) tax advantages were about to be removed by the chancellor. They had feared that the share options based scheme for SMEs with less than 250 employees and a gross asset value of less than £30m would suffer a marked increase in Capital Gains Tax and a dismantling of the annual individual exemption allowance. In the event, Mr Sunak had not touched the EMI tax advantages in his Budget, despite suggestions from the Office of Tax Simplification. Had he done so, both the SAYE and EMI schemes would have suffered '*devastating consequences*' warned Mr Kendon. So EMI continued to offer 'fantastic' value to SMEs who lacked the cash to properly compensate key employees and not every EMI scheme had to be on '*Exit Only*' terms, he added. It was no surprise that EMI had outstripped all the other tax-advantaged share schemes in terms of annual tax relief income lost to the Treasury.

Darren said that the share plans sector was being helped by the rise in *global inclusivity* regarding employee equity plans. Bigger companies were more determined to include in their Eso plans even small numbers of employees in far-flung overseas sites. In addition, many emerging companies were installing Enterprise Management Incentive (EMI) plans, so there was plenty going on despite the pandemic, he said.

Darren worked with YBS Share Plans for more than 20 years until it announced that YBS was pulling out of share scheme administration.

## MOVERS & SHAKERS

\*Centre member **Global Shares** was crowned Technology Ireland's company of the year. The Digital Technology Company Of The Year Award celebrates companies that have achieved exceptional success, developed innovative technologies and partnerships and achieved significant sales results over the past year.

\*Centre member **Ocorian** announced the appointment of **Michelle Merola** as Business Development Director to drive the growth and delivery of its employee incentive services. Michelle is part of the team that reports to chief commercial officer, Simon Behan, and she will work closely with Ocorian's employee incentive





plan clients and will proactively develop its client book within private equity. Michelle will further extend Ocorian's influence with private companies concerning employee benefit trusts. Ocorian Jersey's md **Brendan Dowling**, who is head of employee incentive services said: "*We are delighted to have Michelle onboard to further develop our employee share trust and share plan administration services. Such a senior appointment reflects our commitment to delivering service excellence to our clients and in continuing the significant growth we have seen in this area in recent years.*"

\*The **British Virgin Islands** plans a referendum on whether its 30,000 population should remove the Queen as head of state and become a republic. BVI is the target of a UK Commission of Inquiry into whether officials on the islands pocketed UK taxpayers' cash meant to support BVI after they were struck by several hurricanes. Former UK attorney-general, Sir Geoffrey Cox, has been advising BVI on how it should respond. In addition, BVI is resisting new UK legislation demanding publicly accessible registers naming the real owners of more than 400,000 mostly *brass plate* companies registered in BVI, especially in the financial services sector, attracted by its low tax regimes. **Barbados**, plus **Trinidad & Tobago** are already republics

## COMPANIES

\*Ministers ordered a full-blown investigation into the sale of Cambridge-based **ARM**, the UK's biggest technology company, in a move that threatened to scupper the controversial £30bn deal. Nadine Dorries, digital and culture secretary, ordered a *Phase 2* probe into US chip giant **Nvidia**'s acquisition of the semi-conductor design company from Japan's SoftBank. The Competition & Markets Authority will carry out an in-depth inquiry into antitrust concerns, as well as scrutinise national security fears raised by the takeover, which was agreed more than a year ago. The competition watchdog said it had "*serious competition concerns*" after delivering its findings from the *Phase 1* probe last July to Ms Dorries' predecessor, Oliver Dowden. Officials suggested that the deal could see a "*potential reduction of the UK's autonomy to develop, operate or support defence and security systems that utilise Arm IP intellectual property.*" This was a major *volte face* from the government's previous '*Open all hours*' approach to takeovers of UK high-tech companies by foreign (usually US) owned companies. Respected *Telegraph* commentator Ben Marlow wrote: "For too long Britain had adopted a naïve

and unquestioning help yourself approach to foreign takeovers...but perhaps the penny has dropped in Westminster, where the business secretary is now investigating the proposed takeovers of defence suppliers **Ultra Electronics** and **Meggitt** (*see recent newspaper issues*) by US competitors. Hoisting a giant '*For Sale*' sign over your best and brightest companies is not sound industrial policy, it is an act of national self-harm."

\*Robotics software company **Blue Prism** agreed to a £1.22bn final takeover offer from US private equity firm **Vista Equity**, topping an enhanced rival bid from **SS&C Technologies**. The increased 1,250 pence-per-share cash offer from Bali Bidco, a firm indirectly owned by Vista, came amid objections from activist investor Coast Capital, which had supported US-based SS&C's takeover proposal. Blue Prism directors unanimously recommended shareholders to vote in favour of the Vista deal at an EGM scheduled for December 9. SS&C recently made a £1.16bn takeover approach to the UK software firm. Blue Prism, which counts auto-maker Daimler, eBay and the NHS among its customers, initially agreed to be taken over by Vista last September for £1.09bn. However, US-based Coast Capital, which holds a 2.8 percent stake in Blue Prism, objected to Vista's proposal, claiming that the sale process was flawed, but Blue Prism's board defended the deal, saying it was better than continuing as a standalone firm. Blue Prism employee shareholders (*see previous newspads*) had hoped that if SS&C had won the bidding war, they could have participated in employee equity plans operated by the latter. The planned Vista takeover needed at least 75 percent approval by Blue Prism shareholders, including employee shareholders. If Vista wins, it plans to merge Blue Prism with its own California based company, Tibco, before selling it on, after first slimming down the combined workforce. The Takeover Panel later announced that it would give SS&C until 1700 hours on December 2 to announce whether it would make an increased bid for Blue Prism, or whether it would walk away.

\*The Rothermere family offered to take the publisher of the **Daily Mail**, **i** and **Metro** private in a £3.1bn deal, in a move that would end a 90-year run as a publicly listed company. The family tabled a 255p per share offer valuing the newspaper business at £850m, including debt. During the lockdown last year, the Esop Centre praised the *Daily Mail & General Trust* for its imaginative and innovatory *Shares for Salary* scheme, in which many journalists and supporting staff accepted, as an alternative to redundancies, pay cuts of between ten and 30 percent in return for DMGT shares, which subsequently increased in value. The Rothermere's Jersey-registered

holding company Rothermere Continuation Ltd bid for the 64 percent of DMGT it did not already control, provided several preconditions were met. The first was selling insurance risk business RMS to the credit rating agency Moody's for £1.4bn. The second precondition was cleared when the online used car seller **Cazoo** made its \$6bn stock market debut in New York. DMGT owns a 17 percent stake in Cazoo, worth about £745m. The third precondition was reaching agreement with DMGT's pension trustees which resulted in a £412m payment into its three main schemes. DMGT then said that shareholders would receive a 568p a share special dividend, a 17.3p a share final dividend and 0.58 shares in Cazoo, worth a total £2.28bn. Combined with the 255p a share offer, the overall deal to take DMGT private was £3.1bn. However, JO Hambro Capital Management, which manages 3.3 percent of DMGT 'A' shares and acts as adviser for a further 2.6 percent, said that "*we are not minded to accept the offer on its current terms*". DMGT runs an events business and invests in digital start-ups, as well as publishing newspapers. Under Lord Rothermere's plan, shareholders would receive the proceeds from previous disposals and some of its cash pile.

\*US listed global communications company **Viasat** and the UK's largest satellite group, **Inmarsat**, agreed that Viasat will takeover Inmarsat in a transaction valued at \$7.3bn, comprising \$850m in cash, 46.4m Viasat shares valued at \$3.1bn and the assumption of \$3.4bn of net debt. Inmarsat is changing hands for the second time in less than two years, generating a big profit for its four private equity backers, who will end up with a combined 37.5 percent of the enlarged group. However, the value of their equity fell when Viasat stock tumbled 12 percent in response to the deal. Inmarsat became the latest company which works with national security services to be acquired by an external buyer. The original not-for-profit entity was the *International Maritime Satellite Organization*, established to build and operate an international satellite network for the maritime community. The company was listed on the LSE until it was acquired by Connect Bidco, a consortium comprising **Apax Partners**, **Warburg Pincus**, **CPP Investment Board** and the **Ontario Teachers' Pension Plan**, in December 2019 for \$3.4bn. Inmarsat then de-listed. Earlier, the board had approved the implementation of a new all employee participation share plan under which all employees would receive participation units for each year they had been employed. On an 'exit event of the existing investors' each share unit would be converted into a one-off cash bonus

based on the rise in its share price. Alongside the all-employee participation plan, the board had approved an additional incentive plan for *senior leaders*. The board said: "*the opportunity for employees to participate in the future success of the group would align the interests, culture and values of employees with investor stakeholders and deliver overall improved value to its partners, customers and suppliers.*" How hollow those words ring now. The Business Department then stepped in, demanding a binding commitment from Viasat to support Inmarsat's UK operations, especially its national security work, before the planned takeover could take place.

\*The board of life insurer **LV** faced mounting criticism over its decision to sell the mutual insurer to a US private equity firm, after it emerged that most of its 1.2m members stood to receive only £100 each from the £530m deal. The customer-owned mutual, formerly the *Liverpool Victoria*, detailed its plan to sell itself to **Bain Capital**, after first accepting the takeover project, in principle, last December. Members were being asked to vote on the deal on December 10. If at least 75 percent of voters are in favour, another vote would follow on whether the business is fully transferred to Bain Capital, or if the US firm can carry out business under the LV brand. Tempers frayed further when Bain Capital accused rival suitor **Royal London** of having thrown a "*hand grenade*" to try to disrupt the former's planned acquisition of LV, which would see LV lose its mutual status. Royal London said it could keep LV as a mutual, but the board of LV disputed this claim. Royal London boss Barry O'Dwyer told the *BBC Today* programme that the proposed deal had met with "near universal dismay", and that "there is a significant risk that members won't support that proposal. *We think that hundreds of thousands of people invested their life savings with LV partly because it was a mutual and therefore we think that they should do everything possible to retain that status. If there is an option available to them to join forces with another mutual to preserve that heritage and to make sure that those customers continue to get what they bought, then they should explore that fully,*" he said. "*It's really difficult for LV members and observers to believe that a US private equity company is going to safeguard member benefits and UK jobs more than a UK mutual does,*" he said. "*I just don't believe that's credible.*" Cross-party politicians and some LV members raised concerns about selling the company to a US private equity firm, as well as the size of the payout to members if the deal goes through. A minority of members with *with-profits* policies, who legally own the group, are set to receive not only the £100, but an increase in their

exit bonuses, worth an extra 0.1 percent for every year that they have been members.

\***Metro Bank** shares slumped after the US private equity firm **Carlyle Group** said it had ended its interest in buying the UK challenger bank. Carlyle said it had agreed *“to terminate discussions regarding a possible offer”*. The report of a possible takeover had offered Metro Bank shareholders some hope after a torrid three-and-a-half years in which its market value plummeted from more than £3.6bn in March 2018 to less than £200m, a shadow of what it was when Metro Bank floated five years ago. At that time, about 2,000 customer-facing staff shared £10m worth of share options - an average of £5,000 per employee. Those working at the bank since its launch in 2011 received the biggest awards. The shares had risen from 103p before the talks were revealed to 133p, their highest since February. However, they fell by 18 percent to 109p after the challenger bank was jilted at the altar. The bank burst on to the UK high street in 2010 after the financial crisis. It soared in value as it grew rapidly, with a focus on customer services while using bank branches in prominent locations even as rivals cut back. Yet in 2019 it was hit by an accounting scandal that involved mis-reported loans, and its shares plunged as its founder, Vernon Hill, and its then ceo were forced out.

\*Oil giant **Royal Dutch Shell** sparked a political battle over the location of its HQ after announcing it would relocate to London and lose *“Royal Dutch”* from its name amid a corporate overhaul that angered the Netherlands. In a move seized on by the UK government as a post-Brexit vote of confidence in the City, Europe’s largest oil firm said it would drop a complex dual share structure and move its HQ and tax residence to the UK. However, the plans were greeted with outrage in the Netherlands, where politicians said they were *“unpleasantly surprised”* by the firm’s decision to abandon its The Hague HQ – a move that would come at a heavy cost to Dutch taxpayers. Shell will no longer meet the Dutch conditions to qualify for its *“royal”* designation for the first time in more than 130 years, a change that will be put to a shareholder vote next month alongside broader plans to simplify its ownership structure. With a Dutch government yet to be formed after elections earlier this year, politicians from several parties were in frantic talks about how to change Shell’s mind. Prime minister, Mark Rutte, who is expected to extend his 11-year tenure, is exploring proposals to scrap a 15 percent dividend tax that Shell has cited as one of its reasons for leaving. Rutte’s previous coalition government tried in 2017 to scrap the tax, long a source of frustration for Shell and the fellow Anglo-Dutch company **Unilever**. However, the plan was then dropped after a political backlash and because Unilever decided

anyway to move its HQ from Rotterdam to London. Fresh talks to abolish the dividend tax were accelerated by a feeling that something had to be done now to appease Shell, even if it meant acting before a new government could be formed. Shell wants to do away with its dual share structure in favour of just one class of shares to boost the speed and flexibility of shareholder payouts. Ceo Ben van Beurden will relocate to the UK, as will eight other senior employees, including cfo Jessica Uhl. However, later it was forced to state that: *“Shell is proud of its Anglo-Dutch heritage and will continue to be a significant employer with a major presence in the Netherlands. Our projects and technology division, global upstream and integrated gas businesses and renewable energies hub will remain located in The Hague.”*

\***Royal Mail (RM)** is handing over £400m to shareholders after its parcel delivery business benefited from the greater shift to online spending during the Covid pandemic. RM shares which, only a year ago, were struggling to re-reach 300p, rocketed to just shy of 500p each, an annual increase of almost **68 percent**, which together with the promised pay-outs must have pleased the very large number of postal employees who are still SIP shareholders in their company. However, the long-term intentions of RM’s largest shareholder, Czech tycoon Daniel Kretinsky, are still unknown. In mid September, he and associate Patrik Tkac used their investment vehicle **Vesa Equity** again to increase their stake in RM from 16 to 17 percent. RM employees collectively own about 11.5 percent of the equity. RM achieved a £311m pre-tax profit in the six months to September 26, after barely scraping a profit last year, thanks to an accelerated trend to more parcels, which it described as a permanent shift. Revenues rose by seven percent year-on-year to £6.1bn. RM will return £400m via a £200m share buyback, starting immediately and pay a £200m special dividend on top of an £67m interim dividend too.

\***Ryanair** will de-list its shares from the London Stock Exchange on December 20 at 0800hrs because of Brexit, as the airline made a quarterly profit for the first time since 2019. The Irish carrier already has removed voting rights from non-EU shareholders because of foreign ownership and control rules and said it needed to deter UK investors. Ceo Michael O’Leary, said planes were *“full to the gills with families”* in October half-term, boosted by Covid passes smoothing intra-EU travel. O’Leary told BBC Radio 4’s *Today* programme that the airline would need to de-list from London under foreign ownership rules. He said: *“We’ve removed voting rights from all non-EU shareholders post-Brexit, so we’re 100 percent*



*EU-controlled. About 45 percent of our shares are held in the US. We need to ensure the balance is held by EU nationals – that means, unfortunately, discouraging UK shareholders. Part of that process will be inevitably delisting from the London Stock Exchange.”* Its shares will be traded as before in Dublin (primary listing) and Brussels.

\*Junior Environment minister Rebecca Pow MP ruffled the feathers of English water & sewerage companies by telling them that they should pay *‘more on improving their pipes and pumping infrastructure and less on pay-outs to shareholders.’* Probably all the nation’s water & sewerage companies are pumping illegal levels of waste into the rivers, the Environment Agency believes. It is probing the scale of the waste water pollution in each area, with a view to imposing huge fines on the worst offenders. Meanwhile, the regulator **Ofwat** is asking the water companies to justify their executive bonus and dividend payments and to prove they have met their environmental obligations. **Southern Water** was fined £90m earlier this year for thousands of illegal discharges of sewage into rivers and coastal waters of three counties. Yet its ceo Ian McAuley received £1m in ‘compensation’ last year, of which £550,000 came in the guise of a *‘bonus’*. Top of the water industry reward league however was **United Utilities**, whose ceo Steve Mogford received £2.9m, *of which more than £2m was paid in annual bonuses and incentives.*

\*Matt Moulding, ceo and chairman of **The Hut Group** (THG) said that he regretted floating the fashion & beauty technology group in London, while hinting that he could take the business private if its share price did not recover and compared short-sellers to bank robbers. THG’s shares were trading at around 180p each in mid November, not even half the 500p level they were priced at when the company floated last year. Manchester based Moulding said that he wished he had floated THG in New York and that listing in London has *“just sucked from start to finish”*. Asked whether he would float THG if he had the chance to do it again, he said: *“No, I wouldn’t.”* Moulding, who owns 14 percent of the company, added: *“I should have IPO’d in America. That’s obvious. I didn’t do it because I wanted to do everything in Britain.”* THG, an e-commerce platform which operates more than 100 websites for retailers, sells everything from mascara to vegan protein bars. In better times, it shared a pre-float £21m windfall among shareholding staff, which made 74 of them, including Moulding’s own PA, millionaires. More than 400 staff have received free shares from Mr Moulding over the past decade. He explained at that time: *“No one in*

## Join the Esop Centre

The Centre offers many benefits to members, whose support and professional activities are essential to the development of broad-based employee share ownership plans. Members include listed and private companies, as well professional experts providing share plan services covering accountancy, administration, design, finance, law and trusteeship.

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**How to join:** contact the Centre at [esop@esopcentre.com](mailto:esop@esopcentre.com) or call the team on +44 (0)20 7562 0586.

*the scheme received less than a couple of hundred grand. The equity scheme was put in place when THG was a private company, and we are delighted that more than 200 THG staff have already shared in the scheme.”* Employees are incentivised by being given share options. At maturity when shares are sold, THG issues new ones.

### **New employee ownership trusts**

\*Three of Nottingham based construction contractor **Clegg Group**’s main shareholders sold a 51 percent stake in the business, which employs more than 100, to an EOT. \*The owner of Leeds-based **JF Plastics** transferred the majority of his shares to an EOT, allowing its 17 strong workforce to have a direct stake in its success. \*Scottish accountancy firm **Reid and Fraser** established an EOT as a means of keeping its 17 employees based in the region, instead of being dispersed after a merger or trade sale. \*West Midlands-based **Talbots Law**, which employs 274, became the latest law firm to become employee owned after setting up an EOT. \*Edinburgh based Print and design firm **Wee Blue Co**, which employs 30, became employee owned too.

### **Barclays ex-CEO in line for shares bonanza**

Jes Staley, who stood down as **Barclays** CEO over his links to the convicted sex offender Jeffrey Epstein, could receive up to £22.5m from his performance share awards. Staley, 64, who had run Barclays since 2015, looked to be in line for up to 11.4m more shares, worth £22.5m, subject to the bank achieving various performance targets during the next few years. In addition to these huge potential pay-outs, Mr Staley already owns 5.7m shares in Barclays with a value of around £11.4m, based on the current share price. The decision to step down was jointly agreed after City regulators issued initial conclusions from a 20-month investigation into contact between the two men. Barclays said that *“no decisions have yet been made in respect of any further remuneration payments to be made to Mr Staley”*.

City regulators have been investigating whether his links with the dead financier were closer than first thought. Barclays, which employs 80,000 worldwide, said it had been made aware of the conclusions of the probe and *“Mr Staley’s intention to contest them”*. He receives a 12 months’ pay-off, totalling £2.5m, as well as his pension allowance of £120,000 for the year and other benefits, which means that Barclays was treating him as a *‘good leaver.’* In addition, Barclays is to pay his relocation costs to the US, according to *The Telegraph*.

## WHITE & CASE

Regulators obtained a cache of emails between the men from Mr Staley’s former employer, US bank JP Morgan, where Epstein, who took his own life in 2019 while in prison, was already a client. Epstein, who had been convicted of trafficking a minor for prostitution in 2008 and who served 13 months in custody, cultivated the rich and powerful, including former US presidents Bill Clinton and Donald Trump. Microsoft billionaire Bill Gates spoke of his *“huge mistake”* in spending time with Epstein. Although Mr Staley characterised his relationship with Epstein as professional, with contact starting to *“taper off”* from about 2013, regulators examined whether the emails hinted otherwise. Staley and his wife had a four hour lunch with Epstein, on the latter’s private Caribbean island a few months before his appointment to the top job at Barclays, it emerged. Last year, the Financial Conduct Authority (FCA) and the Bank of England’s Prudential Regulation Authority (PRA) announced an investigation into Mr Staley’s *“characterisation to the company of his relationship”* with Epstein.

In 2018, Staley was fined £642,000 and Barclays £15m after he instructed the bank’s own security unit to track down a whistleblower who had raised concerns about the appointment of a former colleague of Mr Staley’s. That could have been a red card but he escaped with a yellow on that occasion, said the BBC’s business editor, *Simon Jack*. Staley’s successor is CS Venkatakrishnan, known as Venkat, previously the head of Barclays’ global markets division and risk management specialist, who holds a PhD from MIT. His reward could exceed £9m per year, comprising a base salary of £2.7m and assorted bonus plans worth up to a maximum £6.4m per year.

### **Give tech start-up employees more equity pay**

The boom in technology companies and their valuations over the past 15 years has created incredible wealth for founders and their financiers. In the US, a large chunk of that wealth has gone to the employees as well, but not in Europe so far, wrote Finn Murphy, partner at **Frontline Ventures**. In 2007, it was estimated that more than 1,000 Google employees had made more than \$5m each from their stock options. Facebook minted more than 1000 millionaires when the company

went public in 2012. As European tech companies scale to even bigger and bigger outcomes, are we seeing the same story play out?

Not really, said Mr Murphy, writing for the FT website *Sifted*, *“If founders and investors want Europe to emerge as a global hub for technology talent we must make sure that everyone, particularly the people doing the actual work get to share in the spoils. Europe has a strange relationship with employee equity. Employees’ rights and protections are generally high in comparison to the US. On the flip side, we’ve never had a culture of employee ownership,”* he claimed. *“Many companies and venture firms will point to challenging tax regimes and bureaucracy being a big inhibitor of encouraging more employee ownership in Europe. Yes, the fact that many countries tax stock options as income is flawed because options are often illiquid and their value can collapse. But policy changes will take time. That’s not the real problem in Europe. The problem is cultural.*

*“We’re just not as generous with our equity as they are in the US. Maybe it is because people didn’t get good grants themselves when they’re an employee, so feel no need to pay it forward when they’re in the founder seat? If European companies can be as big as their US counterparts, then why should employees get a smaller slice of the outcome? Or maybe it’s because employees don’t see the value of these options, given Europe hasn’t yet produced as many tech companies on the scale of their American peers? They don’t know anyone who’s become rich from equity, so they don’t see it being possible for them. A calculator from *Index Ventures* fairly points out that Europeans are usually less willing to compromise on salary than their American counterparts, but we shouldn’t just accept that and move on. If European companies can be as big as their US counterparts, then why should the employees get a smaller slice of the outcome? There are more and more US SaaS (software as a service – i.e. software licensing) companies setting up shop in Europe. All their early hires here will walk away millionaires if the companies succeed. When these stories spread, who do you think the best engineers and head-hunters are going to want to work for? Your Nordic fintech offering a few basis points or a Bay Area monster with something meaningful on the table? - European tech companies need to step up. He warned: **“One of the biggest challenges to building this culture of ownership in Europe is the lack of knowledge and the many misconceptions about options and equity grants.** It’s in everyone’s interest long term to put this knowledge into the ecosystem, especially founders*

*and boards; if founders spend time sharpening their pitch for investors, they should be able to effectively pitch the value of their equity to employees too. On the other hand, talent should be wary of any company that’s not straightforward about this stuff.*

*“Stock options should always vest over four years with a one-year cliff — meaning employees will have access to the full amount of their options after four years, but will not receive anything if they quit within the first year. This incentivises people to stay and commit. If a start-up is alive and successful in four years and employees are still there, then trust me, they will have earned those options.*

*“When it comes to bad behaviour some of the worst is around vested but unexercised stock — employees who still haven’t used their options to buy stock. This is why it’s so important for employees to understand their exercise rights. Giving employees part of the upside is key to continuing the flywheel of European tech; the operators of today are the founders and angel investors of tomorrow. **I know multiple cases of boards and founders cancelling all vested but unexercised shares in merger or acquisition deals.** In many other cases, I’ve seen friends have to leave options on the table when they’re fully vested, but can’t afford to buy all the options and pay the tax bill.*

*“Technology companies can create huge economic prosperity by making sure that the wealth they create is shared fairly amongst those who helped build that success. Giving employees a part of the upside is key to continuing the flywheel of success in European tech; the operators of today are the founders and angel investors of tomorrow, helping seed the next generation of companies.*

*“If we’re going to compete with Silicon Valley and the US in general then we need to start acting more like them and that means founders and VCs need to share the wealth,”* added Mr Murphy.

## UK CORNER

### **EOT tax relief abuse claim provokes debate**

The Chartered Institute of Taxation (CIOT)’s allegation about the tax abuse of Employee Ownership Trusts (EOTs) provoked debate among Centre members. CIOT suggested that a few EOTs are being established by ‘*Jack the Lad*’ business owners purely as a tax-saving solution, as reported in the November edition of *newspad*. These owners sell their company to an EOT, pay no Capital Gains Tax (CGT) and without any genuine intention for the company to be owned and ultimately controlled by its employees, said CIOT.



The **RM2 Partnership** admitted that “Where there is a tax saving to be had, advisers and business owners will do their best to obtain that tax saving and it was inevitable that the EOT’s generous tax breaks would eventually attract some less scrupulous individuals with little or no interest in the concept of employee ownership.

“It would however be tragic if the concept of the EOT was negatively impacted or watered down because of this, just at the time when the EOT is starting to become recognised as a genuine solution to ownership succession for private companies.”

Nevertheless, RM2 accused *newspad* of having painted a ‘slightly sensationalised’ picture of CIOT’s views. Although RM2 backed the Institute’s view that, on balance, EOTs should not be based offshore, other members pointed out that the Channel Islands host a huge amount of expertise about trusts of all kinds and how they should operate. Banning offshore EOTs would be like throwing out the baby along with the bathwater, they warned. There was mitigated support for CIOT’s view that the majority of trustees should not be connected with vendors. RM2 added: “We are inclined to agree that the EOT legislation, which has been in place for more than five years, has been tested reasonably fully and some improvements and additions might be considered.”

Charlotte Fleck of **Deloitte** told an **Esop Centre-FS Club** webinar (*see report in this edition*) that CIOT’s allegation was true – there was indeed a ‘small minority’ of SME owners who, once advised of the 100 percent CGT relief from selling their business into an EOT, were asking: *When do I sign up?* They planned to wait two years for the claw-back charges to fall away before selling it on – effectively flipping the company, she told the online webinar audience last month. However, such business owners should bear in mind that it was quite hard to sell the company out of an EOT – the accompanying tax charges were a nasty sting in the tail.

However, Charlotte said that although CIOT had urged the government to prevent vendors from dominating the trustee board, there were vendor companies who felt genuinely that their employees did not have the necessary expertise to serve as trustees – so professionals should be brought in.

### **More public sector pay troughing**

Eight NHS ambulance service senior executives were awarded taxpayer-funded bonuses worth up to £20,000 each recently, revealed *MailOnline*, amid pleas for ministers to call in the Army to



tackle the service’s current crisis which has seen patients die in hospital car parks. Heart attack and stroke sufferers now have to wait almost an hour for an ambulance to arrive, which medics say is due to unprecedented demand triggering a record number of 999 calls and a lack of space in hospitals forcing vehicles to be parked outside because of handover delays. However, senior executives at three trusts were given bonuses and pay rises during the last year. West Midlands Ambulance Service’s ceo Professor Anthony Marsh saw his salary increase by £50,000 to £235,000 in the year ending March. He received a bonus of between £15,000 and £20,000 on top, despite not getting any add-ons before the pandemic. The service met NHS targets during the 2020 to 2021 period but has since seen standards drop, with waiting times for serious calls nearly three times higher than the safety target in October. Five directors took home bonuses totalling up to £60,000 at South Central Ambulance Service in the same year, while North East Ambulance Service’s ceo was awarded a more than £15,000 bonus. Daniel Boxall of the TaxPayer’s Alliance, told *MailOnline*: “We keep hearing the health service is facing a cash crisis, and it’s little wonder when ambulance trusts give out generous pay packages like these. Not only is this an insult to taxpayers, but it’s even worse for the patients who have suffered because of mismanagement. Taxpayers’ hard-earned money should go towards treating the sick, not feathering the nests of the top brass.”

\*More than 6,000 UK university staff now earn more than £100,000 per year, a rise of more than 600 whose pay is now in six figures, revealed the Office for Students (OfS). Its analysis concluded that the best remunerated – pay and other benefits – head of UNIs (usually the vice chancellor) in 2019-20 was at Exeter University (£584,000), with the head of Imperial College, London second on £527,000 and the LSE head third on £507,000. Total remuneration paid to university and other higher education heads in fiscal year 2019-20 rose in 93 institutions, fell in 60 others and remained the same in 12 providers, added the OfS. The TaxPayers’ Alliance said that university leaders had to do a lot more to improve the *value for money* experience of their students, especially during the pandemic.

\*The draft of a **Financial Conduct Authority (FCA)** pay and working conditions consultation allegedly includes a tacit acceptance that even if a bonus scheme is stated to be discretionary, employees can argue that they have an *implied contractual right* by reason of custom and practice to such a bonus, as it has been paid on a regular basis, a lawyer claimed. This followed staff uproar after a statement by their boss - FCA ceo Nikhil Rathi - that no more bonus payments to staff could be justified, for the time being, in light of serious recent regulatory failures by the organisation. The FCA published more widely its controversial consultation document, originally aimed solely at its employees. The proposal contains several fundamental changes to the terms and conditions of employment, to be implemented by April 2022.

*“As these changes relate to pay and benefits, including a contentious discretionary bonus, the FCA needs its employees’ consent to the changes, failing which they will have to impose them,”* wrote Tim Tyndall employment partner at *Keystone Law*.

*“To have any chance of defending any such imposition, the FCA must show that it consulted with employees meaningfully and effectively. The consultation ends on December 20. In the absence of consent to change, there is the prospect of what is now coined a fire and rehire scenario, whereby employment is terminated on the current terms but simultaneously re-offered on the new terms. FCA employees are perfectly entitled to resist the changes and seek union support though it is unlikely that any union will be in a position to be recognised for collective bargaining purposes within the timescale proposed.”*

\***Sensyne Health**, the healthcare technology company led by Lord Drayson, the former business and science minister, was fined and censured by the LSE for “serious failures” relating to the secret payment of £1m in executive bonuses, including to the peer, reported *The Times*. An investigation by the Exchange found that Sensyne Health misled *Peel Hunt*, the company’s nominated adviser, over cash bonuses of £850,000 to Drayson, founder, ceo and largest shareholder, and £200,000 to Lorimer Headley, its cfo at the time.

## **Financial services threat to City**

The European Commission put forward draft legislation which would require non-EU firms to establish a branch in the EU before starting to provide *banking services*, warned leading lawyers **Linklaters** in a client briefing note. The proposal is part of the EU’s Banking Package 2021. Unclear drafting leaves open the possibility that the requirement to provide these services from an authorised branch could apply to *not only banks but other types of financial institution as well*, such as payment services, including electronic money, portfolio management, investment advice, custody and credit reference services. In any case, it seems that the proposals would end national cross-border licences and exemptions which enable cross-border services into EU member states. They could require firms to set up authorised branches to provide some services, such as spot FX and wholesale lending, even in member states where they are not licensable activities. The EU legislative process on this key financial services issue is likely to take up to 18 months to complete, followed by a transition period of the same length before all member states have to integrate the EU measure into national law.

\*A group of 30 UK multi-millionaires urged the chancellor to tax them and other rich people more because they could afford to help pay the cost of recovery and because the bill should not fall on the young, or on those with lower incomes. In an open letter before the recent Budget, the multi-millionaires urged Mr Sunak to introduce a wealth tax on the nation’s richest people to help pay for the recovery and tackle the yawning inequality gap. They told him: *“We understand the immense pressure on the Treasury to deal with crises both present and future – from inequality, to Covid, to climate change.”* they said. *“We know where you can find that money - tax wealth holders like us. We can afford to contribute more, and we want to invest in repairing and improving our shared services. We are proud to pay our taxes to reduce inequality, support stronger social care and the NHS, and to ensure that we’re building a more just and green society.”* The multi-millionaire signatories, who cover many industries and backgrounds, said they wanted Mr Sunak to *“address the economic imbalance of the current tax system which places a deeply unequal burden on working people”*. The planned 1.25 percentage point increase in NICs from next April would *“hit working people hardest”*, so taxes on the wealthiest in society should be increased instead. The group called on the government to look at any policy that taxes wealth *as a priority*, ranging from the equalisation of CGT with income tax, a review of property tax, to the introduction of a net wealth

**TRIVERS SMITH**

tax. “There are many of us – people with wealth – who will support a more progressive system of taxation, and we urge you to do the same,” said the group, part of the Patriotic Millionaires movement. “When deciding on how to meet the financial gap, look to us. Repairing our country is more valuable than growing our wealth.” However, their pleas for higher personal tax rates were ignored.

### ESG Corner

\*Hundreds of corporate chiefs, influencers and political leaders flew into Glasgow on private jets to take part in COP26 and are refusing to give them up, despite being told at the conference that private jets emit ten times more greenhouse gases than ordinary scheduled flights. Climate activists claim that COP26 emitted as much carbon dioxide as 4,200 UK citizens do in a year!

\*Investors in bundled leveraged debt are increasingly avoiding arms and oil companies, making it harder for the latter to raise debt, as the boom in ethical investing gathers pace. Almost all deals so far this year for packages of riskier debt have excluded such industries on environmental, societal and/or governance (ESG) grounds, claimed a report in *The Telegraph*. Half of such deals this year have avoided oil, fracking and gas companies and Arctic drilling concerns. **White & Case** lawyer Chris McGarry told the newspaper that companies which did not align with ESG demands would find it progressively harder and harder to raise money.

\***Linklaters** wrote in a recent client bulletin: “The Financial Conduct Authority made clear that the remuneration committee chair (RCC) is ‘crucial’ to ensuring a firm’s remuneration policy supports and connects remuneration outcomes to the firm’s strategic priorities, purpose and values. These views were echoed in the recent discussion paper, where the regulators stated that RCCs should be responsible for ensuring committees adequately consider diversity and inclusion. The FCA expects RCCs of regulated firms to summarise in their remuneration policy statements how they have assured themselves that the *firm’s overall remuneration policies drive behaviour that reduces potential harm*. This includes how firm’s remuneration policies promote equality of opportunity and ensure diversity and how inclusion is embedded within a firm’s approach to rewarding individuals. The FCA wrote again to the RCCs last Summer- this time expressly encouraging them to review pay data in light of diversity and inclusion and to address any disparities. The FCA said it expected to see more firms using non-financial measures to support

ESG factors and expressly called for non-financial performance metrics, including diversity and inclusion, to be linked to remuneration.”

### Surging inflation to dominate UK pay rise talks

The annualised cost of living surged by 4.2 percent in October - the highest rate in almost a decade, making an increase in bank base interest rates at least an evens bet. The larger than expected increase in retail prices will affect pay negotiations in a wide range of commerce and industries. Supermarket chain **Lidl** announced pay rises from March 2022, which will benefit more than 21,000 staff. Equating to a wage increase of more than *six percent* for some, minimum pay for UK employees will climb to £10.10 an hour from £9.50, with rates of £10.85 to £11.30 for those in London. In addition, some staff will earn up to £11.40 and £12.25 hourly, depending on the length of their service. Nottinghamshire bus company **Trentbarton** announced that it will be giving its 1,000 staff an extra pay rise on top of their annual raise. The additional wage increase will take effect from the end of January and will result in most drivers receiving an hourly rate of between £12 and £12.60. Currently, newly recruited bus drivers earn around £10.34 an hour. Ballooning retail price inflation was due to rising fuel and energy costs, said the *Office for National Statistics*. The consumer price index measure of inflation is now more than double the Bank of England’s target. The costs of transport, gas and electricity bills and second hand cars have all climbed since the economy reopened after the Covid lockdown. Gas bills rose by 28 percent in the year to October, while electricity climbed by almost 19. Used car prices are up by 27.4 percent since April this year. October’s reading was far higher than the annualised 3.1 percent rise recorded in September and much more than economists’ forecasts.

\*More than 300,000 UK employees received a pay rise as the charity behind the voluntary *real living wage* raised the minimum hourly rate amid growing fears of a squeeze on household incomes this winter. Set by the *Living Wage Foundation*, the nationwide “*real living wage*” will rise by 40p to £9.90 per hour, while employees in London will see their pay boosted by 20p to £11.05. The changes apply to employees at 9,000 living wage employers who adopt the voluntary pay measure. However, the charity warned that five million employees earn less than these amounts, putting them at risk of hardship from rising energy bills and mounting inflation across the UK this winter. Following the changes, the real living wage – which is used on a voluntary basis by employers including Taylor Wimpey, Aviva and Everton



football club – will be almost £1 higher than the government’s national minimum. The legal pay floor stands at £8.91 for employees aged 23 and over, although it is due to rise to £9.50 next April in a move announced by the chancellor in his recent Budget.

## WORLD NEWSPAD

**\*China:** The chair of **TikTok**’s owner, *ByteDance*, stepped down, as the Chinese government tightened its control of China’s tech sector and maintained pressure on the industry’s domestic entrepreneurs. Zhang Yiming had announced in May that he would step down as ceo of the tech company he co-founded and now he has relinquished his chair title, with *ByteDance*’s English-language website no longer featuring a page that mentioned his formal board role. Instead, there was a photo of Zhang under the heading of “leadership” with no title underneath. *ByteDance* declined to comment. Last May the company had said he would move to a “key strategy” position at the end of the year. At the time, Zhang said he was leaving the role because he lacked managerial skills and preferred “reading and daydreaming” to running the tech group. *ByteDance* is one of Chinese tech’s biggest global success stories thanks to **TikTok**, the short-video platform that has amassed more than a billion users worldwide and has become a competitive threat to rival US tech firms such as Facebook, Snapchat and Google-owned YouTube. *ByteDance* was valued at \$140bn (£102bn) in a fundraising round last year. It also owns Douyin, a video platform for its domestic market, and other interests that span education, gaming and business software. Foreign tech firms are retreating from China, with Yahoo announcing that it was quitting the country because of the “*increasingly challenging business and legal environment in China*”. The timing of the withdrawal coincided with China’s new data protection law coming into effect. It limits the conditions under which companies can gather personal information and sets rules for how it is used.

**\*French** multinational **Thales** which designs and builds electrical systems and provides services for the aerospace, defence, transportation and security markets launched its 2021 employee shareholding plan. This offer was available to the employees of the group in 36 countries and covered most of the **Thales** 80,000-strong workforce and its retirees. The purpose of this plan is to strengthen the relationship between **Thales** and its employees by allowing them to be involved in the Group’s future objectives, performance and successes. The

offer covered a maximum 600,000 **Thales** shares, currently trading at around €80 each. The French state has a 25.7 percent stake in **Thales**, while **Dassault Aviation** owns 24.6 percent of the company. The offer’s acquisition price of **€66.46** was equal to 80 percent of the reference price. For the offer made in the UK, the acquisition price was determined in accordance with the rules applicable to the Share Incentive Plan (SIP). The beneficiaries of the offer were employees of companies within the scope of consolidation who had joined the group’s savings plan, *regardless of the nature of their employment contract (fixed-term or permanent, full-time or part-time)* and who had at least three months of employment. Retirees and early retirees of the Group’s French companies who joined the savings plan before they ceased to operate were allowed to participate, provided they had retained assets in the Group’s savings plan since their retirement or early retirement. In the UK, the **Thales** shareholding plan was implemented as part of a SIP.

Employees acquired **Thales** shares within the framework of a classic subscription formula. They will receive a matching contribution from their employer corresponding to one free share for every four shares acquired, up to a maximum of ten matching shares for 40 shares acquired. Voting rights attached to the shares will be exercised by the supervisory board of the shareholding fund (FCPE) and directly by the employees when the shares are held directly. Under the SIP, the voting rights attached to the shares may be exercised by the beneficiaries. Those participating in the offer must keep their FCPE units or shares held directly for a period of five years, unless an early exit event occurs as provided for in the Labour Code or by local regulations. Regarding vested shares in the SIP in the UK, the retention terms depend on the nature of the share (partnership share or matching share). The subscription period ended on November 24 and share settlement of the offer was scheduled for December 16.

**\*US** listed global investment company **KKR**, bid £9bn for Italy’s **Telecom Italia** and offered to assume most of the latter’s £19bn debt. The prize being sought was control over the nation’s phone network in order to expand massively Italian broadband connectivity, but the biggest obstacle to the takeover could be the Italian government. **KKR** partner and Centre member **Pete Stavros** and his wife plan to contribute \$10m to the establishment of the US based *Center for Shared Ownership*. Stavros has structured a number of **KKR** deals so that employees get individual equity grants as part of the transaction. When the companies then go public or are sold again, the employees can cash in their awards. Typically,

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employees have ended up with about ten percent of the equity value, a stake that has translated into tens of thousands of dollars per person. When KKR took Gardner Denver public in 2017, \$100m was granted to employees (about 40 percent of one year's pay). Other companies where KKR has used this model include CHI Overhead Doors, Flow Controls, and Hyperion.

**\*Sweden:** Not only **Klarna Bank's** investors and founders are profiting from the Stockholm based online fintech's success; its employees are cashing in too. At least 75 past and present employees own shares in Klarna worth seven figures, according to a *Sifted* analysis of its shareholder register. A handful of staff hold more than \$10m worth of shares. That includes its departing deputy ceo, who has been at the firm since 2012, as well as its first head of IT, who left in 2010. Klarna is a 'Buy Now, Pay Later' (BNPL) service provider, offering customers instalment credit on their purchases as part of the checkout process. *Citizens Advice* warned that one in ten UK Xmas shoppers are relying on BNPL providers to cover the cost of their presents and that the exploding sector should be regulated immediately. Klarna's share price soared after it secured a \$45.6bn valuation last June, propped up by investors like SoftBank. Following the valuation, employees who owned only a tiny slice of the company became paper millionaires. This employee pool has benefited from generous equity packages over Klarna's 15-year history. In 2020, according to *Di Digital*, staff who had been at the company for four years or longer were reportedly invited to buy shares at a heavily discounted price. With Klarna hinting at a public listing within the next year, employees could have the opportunity to cash in very soon. An IPO would create a huge payday for Klarna's founders. Ceo Sebastian Siemiatkowski owns about seven percent of the company, worth more than \$3.1bn. That's trumped only by co-founder Victor Jacobsson, who left the company in 2012 and who owns almost ten percent of Klarna, which employs 4000 people worldwide. It declined to comment. While 75 confirmed employee-millionaires is a feat, dozens more could soon join the ranks. Klarna's shareholder records, available upon request in **Sweden**, only list individuals who have already exercised their options into real shares. Its millionaire staff pool could therefore be far larger when accounting for those with large unexercised equity packages. According to Klarna's last annual report, there were 434,000 employee stock options still

outstanding. At the most recent valuation, the option pool amounted to **\$762m**. Staff at other large fintechs are profiting from the sector's success too. British fintech **Revolut** has banked at least 76 employee-millionaires, according to a recent *Sifted* analysis. Its last filings show that its outstanding staff options pool is worth around **\$1.54bn** — double that of Klarna's.

**US:** **Elon Musk** initially knocked almost five percent off the value of **Tesla** shares after promising to sell one tenth of his personal holding in the company. The ceo did so after inviting his Twitter followers to vote on whether or not he should sell about \$20bn worth of stock in order to pay his tax bill. More than 3.5m of them voted – splitting 58 percent in favour of his proposed stock sale and 42 percent against selling. Mr Musk's trust then sold a cumulative **\$7.8 bn** worth of Tesla stock during six trading days and not all of the sales cited tax withholding requirements. This extraordinary tactic enabled Mr Musk to reduce his tax bill by \$2bn because his Twitter appeal manoeuvre reduced his taxable gains – after the stock price fell - and hence the final amount that he has to pay to the IRS. He has until next April to exercise almost 23m stock options for just \$6.24 each, with Tesla's share price standing at c. \$1,200 recently. Mr Musk, reputedly the world's richest man, worth an estimated **\$299bn**, justified his promise by pointing out that he receives no salary from heading the electric carmaker, because he is paid entirely in Tesla stock.



● **Seasons Greetings:** All at the Centre –  
● chairman Malcolm Hurlston CBE;  
● Professor Michael Mainelli, executive  
● chairman of the Z/Yen Group; Juliet  
● Wigzell and *newspad* editor Fred  
● Hackworth wish members and friends the  
● best of health and happiness in 2022. A  
● very joyful New Year to you all!

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