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it's our business

newspad of the Employee Share Ownership Centre

Chancellor urged not to punish employee shareholders

The Esop Centre urged chancellor Rishi Sunak not to punish employee shareholders in his March Budget by slashing the Capital Gains Tax (CGT) exemption allowance and raising charge bands towards Income Tax levels.

A letter, supported by many Centre practitioners, is now on the Chancellor's desk, setting out why targeting CGT would be damaging indeed for employee share ownership plans, especially for SAYE Sharesave and discretionary schemes, like Enterprise Management Incentive (EMI) and Growth Shares.

Members responded positively to the draft letter which the Centre circulated, prior to it being sent to the chancellor. Many said either they would sign it, or they would have done, had not corporate policy prevented such public backing for it.

The Centre told Mr Sunak in the letter that share scheme practitioners' client data suggested that 98 percent of Sharesave participants currently pay no CGT.

The letter pointed out that entrepreneurs who made use of EMI and Growth Shares, to incentivise key staff, were usually risking their own hard-earned capital in launching start-ups and who therefore badly needed their current low-taxed regimes in order to encourage highly skilled employees to join them. Some EMIs never enjoy an exit and the founder and key employee options can be lost.

Evidence grew of a fierce tug of war inside the Treasury over potential wider tax rises being sought by hawks, who want Mr Sunak to start refilling the government's pandemic borrowing hole, which could exceed *£400bn* by the end of the fiscal year in early April. Forced jobs and business subsidies on a scale not seen since the Second World War are still protecting millions of UK jobs this month. Total government debt is now more than £2 trillion, which is more than annual GDP.

The media was being led a merry dance by the Treasury as stories appeared weekly claiming that either Mr Sunak was going for big Budget tax rises, to partly balance his books…or he wasn't, because the economy couldn't take it if the pandemic were not tamed by April. There was even a hint in the Tory Party *house* newspaper, *The Telegraph,* suggesting that the chancellor could deliver his 2021 Budget in two instalments, the first in March, mostly to launch more pandemic job protection measures and the second, in the autumn, to announce a raft of tax increases, assuming the lockdowns were over by then.

From the chairman

When I made money as a lobbyist, I learned that conviction politicians (Margaret Thatcher, Gordon Brown) didn't need supportive screeds. Most other politicians asked to see the research. Often I would drop the approach at that stage: they would be out of office before we got anywhere.

But when officials are involved too, as with HMRC staff and Treasury ministers, it can be worth ploughing on - even if most research is of the "feel the width" variety in that it was written by fans whose livelihood was bound up with the subject. This applies even to the excellent people at Rutgers Institute for the Study of Employee Ownership & Profit Sharing. UK and US Esops are clean different, as we said when the Centre imported the idea of employee share ownership. Of course as a good lobbyist, I let people believe what they wanted at the time.

The Office of Tax Simplification was not making recommendations for immediate action last November and its report included several excellent medium term suggestions. Many Centre members appreciated this.

The real debate is about the dangers and advantages of bringing the different tax rates closer together. Overall there is probably a strong case in favour of change—though the exemption allowance should still protect rank-and-file employees—but the OTS report, as cited by the Telegraph, provides a political opportunity to showcase the downside.

Malcolm Hurlston CBE

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Were the chancellor to follow the advice, the worst hit among the four tax-advantaged employee equity schemes would be SAYE-Sharesave which shields participants from Income Tax (IT) and NICs charges when plans vest, but not from CGT. By contrast, the other all-employee scheme, the Share Incentive Plan (SIP) **is** protected at vesting from CGT, as well as IT and NI, provided the scheme rules are met. In the discretionary equity plans sector, both the Company Share Option Plan (CSOP) and EMI, which incentivises key employees, are subject to CGT charges when, after the options are exercised, the shares are sold. EMI option holders often used Entrepreneurs' Relief *(now called Business Asset Disposal Relief*) to keep their CGT charges down to ten percent, but the review proposes scrapping it. Growth Shares participants would end up more or less in the same boat.

Few rank-and-file employee SAYE participants currently pay any CGT when they cash in their vested shares, but only because they seldom gain as much in a tax year as the exemption allowance maximum.

Entrepreneurs, by contrast, often do pay CGT when they sell a stake in their business to expand it, or pass it on to new owners. It is charged on profits of more than £12,300 at ten percent or 20 percent depending on the seller's overall income, but they get more tax relief if they sell control of their businesses into the hands of their employees via an Employee Ownership Trust (EOT).

As the chancellor came under pressure to extend the Stamp Duty holiday on property purchases and to extend his jobs furlough scheme beyond April, other politically possible tax-raising options came into focus, namely:

*A rise in the rate of Corporation Tax from its current level of 19 percent looked odds-on, as it is well below the OECD average of 23.5 percent.

*Cutting occupational pension contributions tax relief for high income earners.

*Raising NI contribution rates, but *only* for the self-employed, to equalise them with those paid by company employees, a move supported by the Institute For Fiscal Studies, which said that the number of UK self-employed had risen to five million and the number of owner-managers to two million in recent years. *By levelling up self-employed NI contributions, Mr Sunak would avoid a full breach of a General Election promise*.

*Increasing fuel tax and/or introducing a digital sales tax.

However, there were dissenting voices from some Centre members who claim that were the chancellor to reduce the annual CGT exemption allowance substantially, such a measure would increase long-term share ownership because it would deter employee participants from selling their shares.

One such is David Isaacs, corporate markets associate director at Link Group, who told newspad:

"The CGT proposals are interesting. As it stands, there are c. 50,000 UK individuals who report gains of close to the annual exempt allowance, which means if they were holding shares and the allowance were reduced, they would retain the remainder, thus increasing share ownership. Taking this into consideration, if 400,000 individuals per annum were to fall into this bracket (I doubt that is the case) and the purpose of the Centre is to support Share Ownership, a reduction of the threshold has the potential to do just that.

"Assuming those 400,000 individuals have the same advice as the senior management, who not only use their own allowance but their spouse's allowance too, whilst the government has proposed a reduction to between £2,000 and £4,000, if you include the spouse's allowance the lowest paid would have an allowance of between £4,000 and £8,000. In addition to this, if you marry CGT with the annual ISA allowance of £20,000, a participant would have between £24,000 and £28,000 per annum in allowable gains tax free," added Mr Isaacs.

BA to regain its independence?

IAG, the Spanish registered owner of **BA**, could be forced to hive off the UK side of its business if it cannot agree a long-term aviation deal with the EU, investors are warning. IAG, which also owns Iberia and Aer Lingus, is under intense pressure to act because Brussels insists that airlines which operate within EU member state territories must be majority EU shareholder owned. The recent post transition trade deal allows these airlines to keep flying over EU territory temporarily, while the UK tries to negotiate a settlement with the EU under the latter's so-called '*equivalence*' rules regime. Meanwhile, Ryanair, easyJet and Hungarian owned Wizz Air have all been forced to strip UK investors, including employee shareholders, of their voting rights at agms etc in order to comply with the EU rule, leaving UK shareholders as second class citizens. FTSE100 company AIG, which has the Qatari state as its biggest investor - holding 25 percent of its equity – will find it very difficult to reduce UK and other foreign ownership of its shares below the 50 percent mark to satisfy Brussels. Were BA to be hived off, or even sold, to help IAG comply with the Brussels' rules, hope would be revived that separate shares in BA could be traded, allowing employee shareholders to invest in them, as has been long demanded by BA staff unions.

EVENTS

Online symposium: March 23-25

The Centre's fourth British Isles share plans symposium will be held online over three days on **March 23, 24 & 25.** The online format will comprise three, hour-long, live webclaves with the speakers forming a panel discussing the topic of the day with delegates able to interact live. Supporting material for each webclave - the speakers' pre-recorded presentations - will be released one week before the relevant live panel session. The revised outline programme looks like this:

Day 1 All-employee share plans and share plan regulation. Speakers: Baker McKenzie, Computershare, EQ and Pett Franklin.

Day 2 - Executive equity incentives. Speakers: Deloitte, Linklaters & Willis Towers Watson.

Day 3 Eso opportunities for SME companies. Speakers; Bird & Bird, David Craddock Consultancy, Doyle Clayton & Rm2 Partnership.

Programme segments will refer to the impact of the pandemic on all-employee share plans and on executive remuneration trends.

Willis Towers Watson is among the speaker firms in the Executive Reward segment of the programme. Managing director of executive compensation services, John Pymm will speak on: *Executive Pay – looking for leadership in a time of uncertainty*. A major employee share plan case study, promoted by Centre member plan administrator Computershare will be introduced by Centre conference speaker Stuart Bailey. Linklaters will be represented by speaker Harry Meek, whose theme is: *The changing landscape of investor and corporate governance expectations regarding executive equity reward*. He will focus on: *Regulatory developments impacting remuneration in the FS sector; *Listed company investors and corporate governance expectations are catching up, as concepts the FS sector has been dealing with come to the fore and *What listed companies can learn from the challenges and developments faced by the FS sector in share plan design and operation.

The event will be chaired and introduced by Centre founder and chairman Malcolm Hurlston CBE, who will ask delegates: *How could all-employee share plan schemes be re-set to make them more popular with companies and employees?* Other speakers at the symposium include: Colin Kendon, partner (employee incentives) at Bird & Bird, who will deliver a frank review of the popular Executive Management Incentive (EMI) share options based approved scheme being operated by more than 11,000 UK SMEs. During his tour of the 'ins and outs' of the HMRC tax-advantaged scheme, Colin will talk anecdotally about the use of 'Exit Only' EMIs. David Craddock will explain how SME companies are valued, so that employee shares can be issued. He represents the Centre and is technical secretary to the ground-breaking Share Valuations Worked Examples Group. Deloitte's Liz Pierson will ask whether recent changes in the UK corporate governance code go far enough on the executive reward front; Baker McKenzie's Jeremy Edwards will examine the practicalities of easing a cashflow crisis by paying employees in shares rather than cash; Jennifer Rudman and Graham Bull of EQ, formerly Equiniti, will ask: *How do you ensure that all employee plans (Sharesave and SIP) continue to be relevant and provide benefits for today's workforce?* Garry Karch, of Doyle Clayton, a leading Esop banker in the UK, will explain How Employee Ownership Trusts (EOTs) are structured and financed. Jane Jevon of Pett Franklin takes the dust covers off the Company Share Option Plan (CSOP), the forgotten share scheme; unlocking its potential and avoiding its hidden pitfalls. Robin Hartley, a senior associate of RM2, will discuss how best to structure and install growth shares in companies. The programme can be viewed on the events page at www.esopcentre.com. The main event co-sponsor is **Ocorian**, the independent Channel Islands based provider of corporate and fiduciary services, which offers share plan sponsors expert guidance on installing and operating employee equity schemes for companies of all sizes.

Attendance Prices: Delegates from share plan issuer companies, large or small, are welcome to attend free of charge, though each must register their planned attendance in advance.

Prices for all other delegates are reduced to reflect the change in format: Practitioners: members will pay £250 and non-member practitioners £425. Trustees: members will pay £225 and non-member trustees £395. Speakers needing to update their presentations should inform Fred Hackworth at: **fred_hackworth@zyen.com**. For all other enquiries about this event, including attendance logistics and reservations, contact **juliet_wigzell@zyen.com** or call +44 (0)20 7562 0586. 2020

***Newspad* Awards** There is still time (just) in which to get your submissions in for the 2020 newspad all-employee share plan awards, which recognise the achievements of companies who offer employee share plans and hold up best practice models for other companies to follow. The awards reflect the challenging circumstances with a new category focussing on how share plans are adapting to the Covid crisis. All-employee share plans can play a key part in rising to such challenges by contributing to employees' savings, morale and engagement. **Google, Nokia, Telefónica, easyJet, Unilever, BP, BAE Systems, Reckitt Benckiser, Tesco, Marks & Spencer** and **Dixons Carphone** are all recent award winners. Companies can nominate themselves or advisers can make submissions on behalf of clients. Company share plans can be nominated for more than one category. We have received a good number for entries so far. Thank you to all those who have already submitted their entries.

Results will be announced at the online Share Plans Symposium in March. The award categories are: Best international all-employee share plan (more than 2,500 employees); Best UK all-employee share plan (fewer than 2,500 employees); Best executive/managerial equity reward plan (involving more than 100 employees); Best start-up equity incentive plan; Best share plan communications; Best use of technology, AI or behavioural science in employee share plans; Best share plan adaptation to the Covid crisis; Best HR director/head of reward/ company secretary/share plan manager; Outstanding company leader (i.e. chairman or ceo personally associated with company plans); Company whose employee share ownership is most impactful on company success. Entry rules and submission forms are published on the Centre's website http://www.esopcentre.com/about/awards.

WEBINARS

Esop sofa: Hot topics – *newspad* review
February 3 2021 11:00am GMT
In this webinar, YBS Share Plans' Darren Smith and an employee share plan expert panel discuss articles of interest featured in recent editions of *newspad*. Tune in to have your say. Registration is free, from EsopCentre Events - FSClub (zyen.com)

Beyond Brexit - Social Security Contribution Rules
February 24 2021 11:00am GMT
The EU-UK Trade and Cooperation Agreement contains a framework agreement for the future treatment of workers through a Protocol on Social Security. The Protocol puts in place measures so that social security benefits are coordinated and protects individuals (and their employers) against double social security contributions. That being said, employers sending employees from the UK to the EU and the EU to the UK still face more difficulties than existed under the EU regulatory framework (which ceased to apply from December 31 2020). Jeremy Edwards and Don-Tobias Jol of Baker McKenzie explore the implications from both a UK and Dutch perspective.

Reports
*An Esop Centre members' webclave featuring **Supporting Workplace Culture** or '*The way things are done around here*' and **Displaced workers and share plans** was led by Claire Matthews of **Linklaters,** who is currently based in Singapore and by Paula Lancaster, associate director of Tax at **Deloitte**.

Claire set out workplace culture best practice, including transparency, collaboration, diversity and inclusion; sustainable long-term performance, behavioural risk and ESG metrics; malus & claw-back, conflict of interest and how employee share plans can support a good workplace culture.

Paula said that against the Covid backcloth, there were lots of employees who had been forced to send more than 180 days in an overseas jurisdiction, raising significant tax issues. The upcoming season of vestings and of equity awards was with us, raising other issues. It would be as well if plan sponsoring companies made sure they knew who was responsible for employee share plans within their organisations, because it was not always clear.

There were two lively breakout sessions covering several issues, notably employee engagement. Regrettably, not many employee shareholders use their voting rights, some unconvinced that their votes would mean anything. Damian Carnell, of **CORPGRO** '*Growth that doesn't cost the Earth'* and Centre steering committee member, sought a requirement that large listed companies should record separately in their annual reports, employee shareholder agm votes and those of private investors, so that all could see what, in general terms, the mood of the workforce really was.

Newspad editor **Fred Hackworth** said that lots of insecure employees, whether working from home or in corporate premises, would welcome contact from HR, inviting them to participate in the annual share scheme invitation, or new plan launch. Such contact tended to reassure worried staff that the company had a future, despite Covid, and that they too were still wanted as individuals, he added.

The webclave was chaired by **Professor Michael Mainelli**, executive chairman of the **Z/Yen Group**, which operates the Esop Centre.

***Webinars: William Franklin,** share schemes partner and co-founder of Centre member **Pett Franklin**, delivered an online resume of the Share Valuation Worked Examples Group. The recording of January's webinar is available from our library in EsopCentre Events - FSClub (zyen.com).

MOVERS AND SHAKERS

Farah Ballands is stepping down as ceo of Centre co-sponsor **Ocorian,** on March 31. She will be replaced by **Frederik van Tuyll**, as ceo, in addition to being chairman of the Channel Islands based international trust company. Van Tuyll was appointed as chairman of Ocorian in 2019 and has worked closely with Farah for the past year. He said "*Farah has done an outstanding job and will be sorely missed. She has been incredibly ambitious and achieved a remarkable amount: firstly, for Estera and most recently, of course, for Ocorian. Under her stewardship we have successfully brought everyone together so that we are now operating more collaboratively and as one unified business. Her agility, hard work and effort has built a solid foundation for our business. I am extremely grateful to her and, given the personally challenging year she and her family have had, I fully understand her decision.*"

Farah moved to Jersey when she was just two, after her father was appointed as a consultant psychiatrist on the island. "*I had joined what we now know as Appleby as a partner in 2003 – when it was still Bailhache Labesse – and was soon* *asked to lead its trust company*," said Farah. "*Although I was a lawyer by profession, my interest in that area had been stirred when I was at Mourant. I had seen the trust side of the business in action and it was like a light went on for me. I found it fascinating, but it wasn't as satisfying for me as running a business. I love the engagement you get with different people when doing that. I love juggling lots of different issues and spinning various plates."* When the merger with Bailhache Labesse took place in 2006, Farah asked to lead all of Appleby's non-legal parts, becoming global head of fiduciary. In 2015, when Appleby sold the trust company, she led its MBO, which was backed by *Bridgepoint* and which became Estera. That saw the creation of a separate, stand-alone and independent business. Last year, Estera was acquired by Ocorian and, as part of that transaction, as ceo, Farah was asked to lead the combined business, which is backed by *Inflexion Private Equity*. Frederik Van Tuyll built a significant owner managed business across the Asia Pacific region, before joining *Equity Trust* as Head of Asia and then ceo of the group. Following the merger of Equity Trust and TMF Group, he was appointed coo of the combined business before taking over as ceo.

***EQ Group** announced the appointment of **Paul Lynam** as ceo from April 1. Mr Lynam will succeed Guy Wakeley who has been ceo since 2014. Mr Lynam joins from Secure Trust Bank where he has been ceo since 2010. Philip Yea, chairman of EQ, said "I am very pleased that Paul has agreed to join EQ as ceo. Prior to Secure Trust Bank he led diverse businesses including Lombard asset finance and the SME banking business of NatWest in the UK". Cheryl Millington, currently an independent non-executive director at EQ, has assumed the role of interim ceo until Paul takes up his new post.

*The completion of the £20m sale of **RBC's Corporate, Employee and Executive Services (CEES)** employee benefits business to **JTC plc** (first announced last December) is expected on April 6, subject to regulatory approvals."*We anticipate little change for our clients, as all CEES employees and some support staff – a total of about 180 employees - will be moving to JTC,"* said **Mark Le Saint,** director, trustee & client relationships at RBC Wealth Management, RBC CEES, which has more than 890 plans under management. JTC Group is a listed Channel Islands based FTSE250 company, specialising in funds, bespoke administration services and private client work. Its ceo and executive director is **Nigel Le Quesne**, who said: "*CEES is an established leader in the employee benefits market with a blue-chip client base and excellent people. The fit with our ICS Division offering is exceptional and I am delighted that its core service offering is so closely aligned with JTC's strong shared ownership culture, which has been one of our key differentiators for 22 years. We can see that demand for employee ownership solutions is growing globally and as well as achieving enhanced financial performance over the medium term once integrated onto the JTC platform, we see medium and long-term opportunities for good organic growth."*

*Ashley Price,** director of partnerships at **YBS Share Plans** will leave in May, as his post is being abolished, revealed **Louise Drake**, YBS Share Plans national sales manager. All savings activities within the group are being centralised in one team, led by **Tina Hughes**, as director of savings. *"Ashley has led YBS Share Plans for the last seven years and has been instrumental in our growth agenda which has included entering the discretionary share plans and workplace savings markets*," added Louise. Business relationships will remain the same with Darren, Michelle, Peter, Bryony, Dean, Greta and Beverley.

***Sir Geoffrey Vos, QC,** began his appointment as **Master of the Rolls** and Head of Civil Justice. He took over from his predecessor, Sir Terence Etherton, PC, QC, now a Cross-Bench Peer, in January. Sir Geoffrey became a Lord Justice of Appeal in 2013 and Chancellor of the High Court of England and Wales in October 2016. Between 2005 and 2009, he was a Judge of the Courts of Appeal of Jersey and Guernsey and a Judge of the Court of Appeal of the Cayman Islands between 2008 and 2009. As President of the Court of Appeal's civil division, the Master of the Rolls organises the work of the judges of the division and presides in its courts.

Sir Julian Flaux replaces Sir Geoffrey as the new Chancellor of the High Court (CHC) from February 3. The CHC holds day-to-day responsibility for the operation of the Business & Property Courts (B&PCs), in consultation with the President of the Queen's Bench Division. The B&PCs resolve business disputes and hear complex and high-profile domestic and international specialist civil claims. The CHC is responsible for the Chancery lists of the B&PCs, which includes the Business List, the Insolvency and Companies List, the Intellectual Property List, the Property Trusts and Probate List, the Competition List, the Financial List (jointly with the Commercial Court) and the Revenue List.

*Please send your employee share scheme news and details of key new appointments to *newspad,* co/o editor Fred Hackworth at: **fred_hackworth@zyen.com**.

UK CORNER

New share compliance app

International law firm and Centre member **CMS** announced the launch of *Share Compliance*, an app that helps companies with legal and tax compliance regarding their global employee share plans. The app, said to be unique in the market, has been developed by *ShareReporter*, a new tech start-up established through a joint venture between CMS and the ShareReporter management team, which has plans to create other technology solutions for the global share plan industry. CMS harnessed its global expertise to provide the legal and tax guidance that underpins share compliance and ensures that all content in the app is accurate and up-to-date. "*When it comes to global employee share plans, many businesses spend considerable resources keeping track of compliance actions and fulfilling them*," said Andrew Quayle, partner in the employee incentives team at CMS. "*The Share Compliance app is an innovative tool that offers all share plan professionals comprehensive legal and tax guidance through a single interface and at a competitive price. It will enable companies to stay ahead of critical actions, to manage or drive down their compliance costs and to stay on top of changes in law,"* he added.

The legal and tax compliance information contained within the app will cover more than 80 jurisdictions globally and can be tailored to each individual company's share plan requirements. The app's smart features and functionality include: *NB issues that must be resolved in each phase of the share plan journey (grant, exercise, sale) clearly identified and flagged, while all minor issues are clearly explained *Personal Actions Statement shows the actions that need to be done for grant, vesting and sale, with costs and timings *Dynamic 'heat map' view identifies jurisdictions with essential filings and other important legal issues and *Headline tax information. Share Compliance can be accessed via the desktop as well as mobile and tablet devices.

Jobless under-counted says Gordon Brown

*The true scale of the UK's jobless crisis is being underestimated because hundreds of thousands of people are being missed by official unemployment figures, former PM Gordon Brown warned. At least 300,000 out-of-work people are being missed by official figures, according to a study backed by the former prime minister. He warned that chancellor Rishi Sunak was at risk of drawing up a financial rescue package that failed to address the impact of the pandemic's economic fallout. Analysis by the Alliance for Full Employment called for an urgent review of official measures of employment and unemployment.

The number of UK unemployed continued to rise, with those aged 25 to 34 facing the biggest risk of losing their jobs, said the Office for National Statistics (ONS). In the three months ending November, that age group had a redundancy rate of 16.2 per 1,000, a *fivefold increase* on the same period a year earlier.

Official unemployment rose to five percent from 4.9 percent as Covid continued to hit the jobs market. Some 1.72 million were jobless, the highest level in five years. That was 418,000 more than in the same period the previous year. However, analysts said that other data sources, such as tax records, the benefit claimant count and business surveys, suggested unemployment was already more than two million and likely to rise to 3.5m later this year. Furthermore, ONS deputy ceo, Sam Beckett, told the **BBC**: "We've got more than 4.5m people on the furlough scheme, so that does complicate the picture when you're trying to interpret what's going on in the labour market." She said that the number of payroll employees had fallen by more than ***828,000*** since the pandemic began. The UK had not seen such rises in unemployment since the global financial crisis, she added.

*The Citizens Advice Bureau reported that 600,000 more people were falling into heavy debt, unable to pay their energy bills. Individual voluntary arrangements (IVAs) are up, but only marginally, rising around three percent compared to with last year. CAB said that Covid had driven people into the red on energy bills and seven million households were worrying about how they are going to pay their heating bills. *People who were trapped in poverty before the pandemic have suffered the most financial damage during the crisis, according to a report warning that more support was needed to help hard-pressed families. The **Joseph Rowntree Foundation (JRF)** said those who had been struggling to make ends meet before March last year were more likely to work in precarious jobs or sectors of the economy that had been hardest hit by lockdowns. Calling on the government to make permanent a £20 per week rise in universal credit benefit payments – which was due to be cut from the end of March – it said that many families had been pushed to the brink during the latest lockdown and had few resources left. In its annual poverty report, the charity said that employees on the lowest incomes experienced on average the largest cut in hours at the start of the pandemic, with 81 percent of people working in retail and leisure

accommodation recording a drop in income. More than a third of single parents working in hospitality and more than a quarter of those in retail were already living in poverty before their sectors were severely hit by restrictions. The foundation said that four in ten employees on the minimum wage faced a high risk of losing their jobs, compared to just one percent of colleagues earning more than £41,500 a year.
*However, the UK Insolvency Service revealed that individual bankruptcies and 'debt relief orders' fell during the last year and dramatically so. The number of personal bankruptcies during a period of forced business closures, furloughs, rising unemployment – *dropped* to the lowest level for a decade. They are running at just one-sixth the level experienced in 2010.

REWARD

*Ceos of the UK's biggest companies earned more in the first three working days of the New Year than the average employee's annual wage, new research claimed. By January 6, the salary of FTSE 100 ceos overtook the £31,461 annual median wage for full time employees, said the left-leaning High Pay Centre (HPC). Understandably, ceo total reward was flat last year, while average wages generally rose slightly. That meant that FTSE ceos had to work 34 hours to beat median annual pay, one hour more than in 2020. The HPC think-tank based its annual calculations on analysis of disclosures in companies' annual reports, combined with government statistics. HPC director Luke Hildyard said ceo reward is about 120 times that of the typical UK employee, up significantly from two decades ago: "*Estimates suggest it was around 50 times at the turn of the millennium or 20 times in the early 1980s*," he said. "Factors such as the increasing role played by the finance industry in the economy, the outsourcing of low-paid work and the decline of trade union membership have widened the gap between those at the top and everybody else over recent decades." Median FTSE 100 ceo reward was £3.61m in 2019, said the HPC, whose analysis was based on ceos' average working day being 12 hours. However, critics said such analysis fuelled the politics of envy without looking at why ceos matter and the contribution they make. Daniel Pryor, head of programmes at the Adam Smith Institute, said: "*Good management is more important than ever in a globalised world and small differences in top talent make a big impact on a business' bottom line, which makes a big difference to employees across the UK, anyone with a private pension, and shareholders.*"
***Executive bonuses to be reined in:** Proxy advisers and investment funds are teaming up to demand that executives and managers share the pain of the pandemic in their pay packets this year. Specifically, they will insist that companies which have laid off many staff and/or have benefited from taxpayer support must not propose big staff bonuses, nor large dividend payments this year. Any FTSE100 or 250 companies who ignore the warning will face real trouble at their agms, warned fund manager Federated Hermes, reported *The Telegraph.*
*Companies face additional problems over executive reward packages this year because performance target schemes have been wrecked by the impact of the pandemic on corporate sales and profits. Long-Tern Incentive Plans (LTIPs) are in the spotlight because meaningful targets can no longer be set for them until the pandemic ends. Hence a cluster of top UK companies are switching the emphasis of their reward incentives towards Restricted Stock Units (RSUs) in which executives are awarded a fixed but smaller number of shares, explained Royal London Asset Management. Executives are promised a guaranteed pay-out, hence the maximum awards are smaller than is the case with LTIPs.
More than a third of top UK companies cut their executive pay temporarily during the pandemic last year, typically by 20 percent, but many are back on full pay and incentive rewards (*see story below*). Furthermore, traders at City banks were pocketing bonuses of between ten and 20 percent, as investment banking revenues rose sharply last year. High street lenders had a much tougher time, so their staff bonuses will be few and far between, though pay rises are expected to be a tad more generous. Top UK banker salaries have been dropping in recent years amid sluggish share price performance, low profitability and shareholder unease.
***Smaller quoteds too warned on executive reward:** A proxy voting adviser warned that shareholders would be advised to vote against any FTSE350 company executive reward deal which was out of line with average employee percentage pay rises. Centre member **EQ** (formerly Equniti) summarised the latest **Glass Lewis** UK Voting Guidelines for 2021, in which the main changes are:
**Reward*: Remuneration committees should retain discretion to ensure that outcomes for executive directors align with company performance, as well as shareholder and employee experiences. If there is substantial misalignment, a recommendation to vote against the remuneration *report* may be given. A recommendation to vote against the remuneration *policy* may be given where executive fixed pay and/ or total opportunity increases are *substantially* outpacing employee pay rises.
**Board Diversity*: FTSE 350 companies should disclose performance against the Parker Review board ethnic diversity targets **Gender Diversity*: A recommendation to vote against the chair of the nomination committee will generally be given if a FTSE 350 board has failed to meet the 33 percent

board gender diversity target in the Hampton-Alexander review or, in the case of other LSE main market companies, where the board comprises one gender only. *Workforce Diversity*: Where boards have failed to respond to concerns regarding a company's workforce diversity policies, practices and disclosures, a recommendation to vote against the chair of the committee tasked with oversight of the company's governance practices or chair of the board, may be given. **Human Capital*: A recommendation against the chair of the committee tasked with oversight of the company's governance practices, or chair of the board may be given where the board has failed to respond to concerns over a company's human capital management practices.

**ESG*: The guidelines on environmental, governance and social initiatives have been clarified.

**Virtual agms:* Glass Lewis supports companies facilitating virtual participation of shareholders in agms but clear procedures should be set and disclosed to ensure shareholders can effectively participate in virtual-only meetings and communicate with management and directors.

**Smaller Premium Listed* companies: From 2021, boards of all premium-listed UK companies should be at least 50 percent independent, and annual director elections should be held.

*The UK's largest listed financial firms have handed their board members an almost 80 percent pay rise since 2009, prompting shareholder advisers and high pay campaigners to call for greater transparency on director fees. Data gathered by *The Guardian* shows median pay for the three highest earning non-executive directors (NEDs) in each of the FTSE 100's 17 financial firms surged from £90,700 in 2009 to £162,000 in 2019. Board members overseeing the UK's largest banks, insurance and investment firms are earning 79 percent more than they did a decade earlier, despite being in part-time roles. The largest increases have been at Lloyds Banking Group, where top NEDs are earning *257 percent* more than in 2009; the London Stock Exchange Group, where there has been a 219 percent rise; and investment platform Hargreaves Lansdown, where fees have jumped 170 percent. Head-hunters said the rise was partly due to strict regulations introduced after the financial crisis, which meant NEDs had to keep closer tabs on operations, and take greater responsibility when things went wrong. However, there is no precedent for UK NEDs having their pay docked for company misconduct. The insurance company Aviva is considering clawing back director pay after a row over how it announced a plan to cancel its preference shares in 2018, but blame for corporate failures has historically been laid at the feet of company executives.

*Dozens of **university vice-chancellors** (VCs) have taken **no** pay cut since the pandemic struck despite students suffering huge disruption, a *Daily Mail* analysis revealed. At least 46 VCs still have the same salaries they received before the pandemic led to months of lost learning for many students. Another eight who had agreed to reduce salaries in the spring, as staff were furloughed and lectures cancelled, have returned to full pay status. Only 22 colleagues at other universities are taking home smaller salaries as a result of the pandemic. The revelation came after UK universities asked the government for a £2bn bailout and a survey of 100,000 students found 65 percent had had no face-to-face teaching in November.

VC reward troughing is a slap in the face for ministers who have appealed repeatedly for pay restraint in the higher education sector.

Those back on full salary include Imperial College London's Alice Gast, who gets more than £500,000 a year and who recently apologised for bullying a colleague. Louise Richardson, VC at Oxford University, has not taken a salary cut. Her basic salary was £374,000 in 2019-20, but her total package was worth £457,000. Colin Bailey, of Queen Mary, London University, continued to take home £300,000 while David Green, of Worcester University, kept his £325,227 salary. At Northumbria University, where 770 students tested positive for Covid last October, VC Andrew Wathey stayed on £255,000 but was not given a bonus. A shining exception was at Derby University, where VC Kathryn Mitchell offered to cut her £244,036 salary – ***but the remuneration committee rejected her gesture***.

Other universities whose VCs did *not* take pay cuts include Bath, Chester, Greenwich, Huddersfield, Leicester, Reading, South Wales, West London and Winchester, according to data obtained under the Freedom of Information Act. Many VCs of the 24-strong Russell Group of universities *did* take a salary cut, but have since gone back to full salaries. Imperial College said of Professor Gast: '*The president took a 20 percent voluntary salary reduction for six months from May 2020, but she is now back on full salary. In the year to July she received **£527,000**. The £17,800 saved by her temporary cut went to 'staff and students experiencing extreme financial hardship'*. Only 22 VCs were still receiving less salary than before the pandemic struck, including those at Cambridge, York, Nottingham and the Royal Academy of Music.

PENSIONS

Contributions fall: Payments by employees and employers into defined occupational contribution pension schemes fell by 11 percent overall between the first and second quarters of last year as the first wave of the pandemic took hold. Employees' contributions fell by £200m to £1.6bn, while employers' contributions dropped by £200m to £3.7bn in the second quarter, as some cash-strapped employers delayed passing on deductions, revealed data from the Office for National Statistics. The Pensions Regulator eased pressure on employers by allowing pension platforms not to report late payment of contributions to employee accounts.

Clever stealth tax on pensions: More than 10m people could lose an average of £73,000 in long-term retirement pension payments after chancellor Rishi Sunak followed advice from the UK Statistics Authority about changing the way in which price inflation is calculated. Ian Mills of pensions consultancy Barnett Waddingham said "*The chancellor has introduced exponential decay into the pensions system. This is arguably the biggest and cleverest stealth tax of all time, with Mr Sunak managing to trump even Gordon Brown's 1997 raid on pension funds.*" The government plans to change the methodology by which it is calculated in 2030, which experts say will typically reduce it by 0.8 to one percentage point. Mr Sunak is ditching the RPI in favour of a consumer price index known as CPIH, which includes owners' housing costs. Private sector defined benefit scheme pensions will suffer lower annual increases from 2030, he admitted. Nationwide, up to ten million people could lose an average £73,000 during their retirement, if their pension increases are linked to retail price index movements. Consultancy LCP estimates that a typical 65 year old woman will see her overall pension end up 15 percent lower than it would have done, had RPI been retained. For a man, the overall loss would be 14 percent, it added. The ceo of one of Britain's biggest traditional pension funds warned that tens of thousands of its members will be £34,000 worse off on average as a result of planned changes to the retail prices index (RPI).

Morten Nilsson, head of the **BT Pension Scheme**, condemned the move as "*a massive transfer of wealth*" from defined benefit scheme members to the government and accused ministers of backtracking on earlier statements. The RPI is used by many traditional schemes to upgrade pension payments each year, to ensure members are not slowly impoverished by price inflation.

***State pension increases:** The new flat-rate state pension (for those who reached state pension age after April 2016) will go up in April by 2.5 percent - £4.40 a week - from £175.20 to £179.60 a week. The old basic state pension (*for those who reached state pension age before April 2016*) should go up by £3.35 a week from £134.25 a week to £137.60 a week next April. The government will increase the 2021-22 Income Tax personal allowance and higher rate threshold in line with the September CPI figure, which will be used as the basis for setting all NI limits and thresholds, and the rates of Class 2 & 3 NICs.

*Pensioners are set to receive a bumper 4.1 percent rise in the state pension in April 2022, an official forecast predicted, unless the chancellor intervenes. In its official forecast for the following year, the Office for Budget Responsibility (OBR) said it expected the state pension to go up by 4.1 percent, a rise of about £7 a week, though the UK state pension remains one of the less generous in Europe. The annual increases are in line with either the rising cost of living seen in the Consumer Prices Index (CPI) measure of inflation, rising average wages, or 2.5 percent, whichever is the highest. Maintenance of what is known as the *triple lock* is a Tory manifesto promise until 2024.

*The **Financial Reporting Council (FRC**) published a discussion paper in which it questioned whether the traditional annual report remained fit for purpose. Arguably, such reports are too long, impenetrable and fragmented, said lawyers *Squire Patton Boggs*. In looking at the future of corporate reporting, the challenge is how to balance the need for more concise reporting against demands for more transparency. The FRC proposes to un-bundle existing reporting by creating a network of interconnected reports centred around a stakeholder -neutral *Business Report* which would set out how the company creates long-term value in accordance with its stated purpose. Alongside this, there would be a new public interest report, the full financial statements and additional standalone 'network reports' and disclosures (financial and non-financial, mandatory and voluntary). Ultimately, the model should be capable of evolving over time reflecting changes in circumstances. The multi-report model is based on three broad themes: *The FRC believes that the objective of an individual network report should drive its content; *Communication-focused reports should create an active dialogue between a company and its stakeholders about issues that matter to them; *One common set of principles can establish coherence across all company reporting. To that end, the FRC proposed four key attributes should apply to the system as a whole, namely accessibility, connectivity, consistency and transparency. On non -financial reporting, the FRC supports the development of a single set of global standards to increase the comparability of such information. It encouraged a move away from an annual paper-based report by using technology and innovation to achieve more dynamic production, distribution and consumption of corporate reporting. The deadline for responses is February 5.

London flotations boom

No fewer than 27 companies floated their shares on the LSE in the last quarter of 2020, raising £3.6bn from investors, more three times as many companies as did the same in the last Q of 2019. London accounted for more than 40 percent of all funds raised by listings in Europe last year. In order to attract more business, the LSE suggested that companies with premium listings should be allowed to use dual class share structures, enabling companies to give more voting rights to some shares, helping founders and other key shareholders to retain power.

COMPANIES

*Bolton based **AO World,** the online fridges, laptops and TV supplier, operates a staff bonus scheme which starts to pay out when the share price reaches 520p. From record post flotation lows of around 50p, the booming company's shares are now trading at around 350p, so there is still a way to go.

*Sir Philip Green's **Arcadia** retail empire collapsed with £750m debts, revealed reports compiled by **Deloitte**, the administrator. Although Arcadia's pension schemes trustees were granted security in 2019 over £210m worth of the group's assets, doubts persisted over the future funding of the pension scheme covering 9,000 present and former employees. **Asos** was in exclusive talks to buy Topshop, Miss Selfridge and other Arcadia brands, it does not want any of the stores and shops, putting the jobs of the group's 13,000 workforce at risk. Similarly, online retailer **Boohoo** bought the Debenhams brand, but none of its stores, leaving 10,000 more retail employees at great risk of imminent redundancy. **Bonmarché,** the women's fashion chain, was sold back to former owner Philip Day by the administrator RSM, saving 531 jobs and 72 stores, but the future of the remaining 148 stores remained uncertain. Almost 1,500 other retail jobs were saved earlier after the sale of **Edinburgh Woollen Mill,** in a similar deal, to a consortium of international investors backing secured creditor **Pureplay Retail**, owned by Mr Day's EWM Group, which will operate 246 stores under the Edinburgh Woollen Mill and Ponden Home brands and will buy the remaining stock. Administrators from FRP said that 1,347 store staff would transfer to the new owners, along with 72 head-office employees and 34 distribution staff. The remaining 85 Edinburgh Woollen Mill stores and 34 Ponden Home stores have been permanently closed. About 500 employees at those stores have been made redundant.

*Hundreds of senior BBC employees beat the government's public sector £95,000 severance payment cap by taking redundancy pay-outs of up to £150,000, during the eight months before the cap came into force last November. £26.6m was spent by the broadcaster making *310* employees redundant over that period, figures obtained by *The Times* revealed. Julian Knight, MP, Tory chairman of the Commons digital, culture, media and sport committee, told *The Times*: *'This is an egregious waste of licence fee money. Redundancy payouts in excess of £100,000 on average are a slap in the face for all those over 75s whom the BBC is forcing to pay their licence fees.*' The millions spent on the severance payments in the period from April to November last year were equivalent to 168,000 TV licences. *The Times* revealed that several employees took home redundancy payments of £150,000, the BBC's previous upper limit. Tim Davie, the BBC director-general who took over in September, said he planned to cut senior managers from the broadcaster's 19,500 staff.

*Investors in the UK's largest cinema chain approved a turbo-charged LTIP incentive scheme that could result in senior executives collectively being awarded more than ***£200m*** in shares, even though 30 percent of those shareholders who voted rejected its new remuneration policy. **Cineworld,** which closed its 127 sites in the UK and Ireland and furloughed (*using taxpayer support*) its 5,500 UK staff indefinitely last October due to the pandemic, held a vote on a new pay policy and long -term incentive plan at an egm. ISS and Glass Lewis, two investor advisory services, had recommended rejecting the policies, branding them as unjustifiably excessive. Investors accounting for 67 percent of Cineworld's total shares voted. Of those, 30 percent voted to reject the policies. The LTIP, which required only 50 percent shareholder vote approval to be implemented, was never in any doubt because the Greidinger family control 20 percent of Cineworld. However, the chain goes onto the Investment Association's *Sin Bin* because the adverse shareholder votes exceeded 20 percent. If the share price hits successive targets, the ceo, Mooky Greidinger and his brother and deputy, Israel, will receive share awards worth between ***£33m*** and ***£65m*** each, depending upon how high it goes. The LTIP will vest if Cineworld's share price bounces back to 190p within three years. If it reaches the upper cap of 380p, executive directors would between them be awarded shares worth £208m. *"We are pleased that the plan has been supported by a wide range of our shareholders,"* said Alicja Kornasiewicz, chair of Cineworld. "*We acknowledge that there were a significant number of votes cast against it and the board will continue to engage with shareholders on remuneration matters in the coming months in light of the consultation feedback."* Shares were recently trading at 64p. There has been a round of voluntary and compulsory redundancies since the shutdown.

*Britain's biggest estate agency group agreed to a takeover proposal after a smaller rival raised its offer for a second time. **Countrywide** accepted a £134m buyout offer from **Connells,** following an earlier offer of £82m. The bid gives Countrywide, which employs 10,000 people, an enterprise value of £223m. Countrywide, which owns the 850 branches of the Hamptons, Dixons and Bairstow Eves chains, has debts of £92 m. Alchemy Partners, a private equity firm which had fought to gain control of Countrywide, finally walked away.

*Former **Credit Suisse** ceo **Tidjane Thiam**, who was ousted over an internal corporate spying scandal, is teaming up with **JP Morgan** to raise $250m to set up a special purpose acquisition company (SPAC) to buy into financial service companies.

SPACs are often bad news for employee share ownership because ownership of the acquired companies is kept in just a few hands.

*London based Will Shu, the former investment banker who founded **Deliveroo** in 2013, could receive a payout of more than $500m when the company completes its IPO, expected as soon as April. Shu owns a 6.8 percent stake in Deliveroo, the company confirmed to FT supported website Sifted. Deliveroo hit a $7bn valuation last month after raising $180m in its latest funding round, valuing Shu's stake at $476m. The company said: "*The investment comes ahead of a potential IPO and reflects strong demand from existing shareholders to invest in the company*." It was the first time it had confirmed its anticipated IPO, after longstanding rumours. It comes amid a spate of IPOs in Europe, with **Auto1, Trustpilot** and **Huuuge Games** among those coming up. Deliveroo's other shareholders include Amazon, which owns a 16 percent stake after leading a $575m round in Deliveroo last year.

*Boot-maker **Dr Martens** was set to launch a £3.5bn stock market float that would shower multimillion-pound windfalls on senior staff — including £58m for its ceo, who joined less than three years ago. Dr Martens, popular with skinheads, punks and now fashionistas, was expected to say it had secured core investors as it published the prospectus for a share sale this month. Since it was bought by private equity house Permira in 2013, sales of its distinctive footwear have multiplied almost six-fold to £672m. Bankers at Goldman Sachs and Morgan Stanley have indicated that Dr Martens will be valued in the region of £3.5bn. Ceo Kenny Wilson was in line for a £58m windfall from the float. Twenty-two senior staff would share £350m. A group of former employees hope to be allocated shares worth £150m, plus cash bonuses spread across the 2,200 workforce.

***Ferguson** abandoned plans to float **Wolseley,** its venerable UK division, and is instead selling it to a US buyout firm. The £308m deal means that instead of getting shares in Wolseley UK, investors in the FTSE 100 plumbing and heating company will be receiving an as yet un-quantified special dividend from the proceeds. One analyst said he believed the buyer, the private equity house *Clayton Dubilier & Rice (CD&R*), had got itself a bargain, acquiring Wolseley UK at a fraction of its potential true value. Ferguson is a mainly US company, which changed its name from Wolseley to better reflect its trading operations there. It decided to de-merge its UK operation.

*The former editor of the ***Financial Times*** was criticised over a parting £1.9m severance package, including a £500,000 one-off payment. The National Union of Journalists (NUJ) called a halt to pay negotiations with the FT after details of for Lionel Barber's package emerged. It included £1.4m in pay and £502,000 in lieu of notice. Mr Barber, 65, declined to comment, despite the backlash. The NUJ Chapel called the payments "*excessive*", the *Sunday Telegraph* reported. "*For one individual to leave the organisation with £1.92m, more than 70 times', the level of a trainee salary is deplorable,"* the union said.

***Future**, the publisher of *Marie Claire* and *Country Life*, faced a shareholder rebellion at its agm this month after proxy adviser *Glass Lewis* (GL) urged them to vote against its remuneration *policy*. It claimed that Future's value creation plan could lead to excessive executive payouts if the share price exceeded relatively modest targets. Although total return for shareholders must top ten percent, GL said that this could be achieved by market moves and not necessarily by board inspired measures. Ceo Zillah Byng-Thorne's salary would rise by more than 20 percent to £575,000 under the new policy and her total reward could hit £3.3m via the bonus scheme. GL wants Future's remuneration *report* voted down too, alleging that the company had not responded adequately to shareholders' pay concerns last year. Finally, GL called for the removal of Future's remuneration committee chairman Hugh Drayton.

*Shareholders at **Informa** staged a major revolt over a new executive pay plan that has less onerous targets. The FTSE 100 company said in a stock market statement that a resolution to adopt the share award scheme had passed, but that **40.6** percent of the votes had been cast against it. Informa, the world's largest exhibitions group, arranges more than 500 events a year, including the Monaco Yacht Show. It owns Taylor & Francis, the academic publisher, and the *Lloyd's List* shipping news service. The narrow majority vote allows the board to scrap its long-term executive share award

plan and replace it with a scheme that gives senior staff lower payments but with less onerous targets. Executives will be handed a set number of shares under a restricted stock (shares) units plan.

*Jamie Dimon, the billionaire ceo of **JP Morgan** who warned that income inequality had "*bifurcated the economy*" in the US, was paid $31.5m in 2020, the bank revealed. The news cast a spotlight on the top banker who has opined about the need for a more caring and equitable capitalism, yet appears to have vastly increased his own fortune at a time when the pandemic has seen millions of people plunged into poverty and homelessness, reported *The Guardian*. JP Morgan paid Dimon a salary of $1.5m, plus a $5m cash bonus and $25m of restricted stock tied to performance, according to regulatory filings. His total reward was the same as last year, though JP Morgan enjoyed a record fourth quarter for trading last year, which boosted the bank's revenues to $30.16bn. Dimon, who *Forbes* estimates has a personal fortune of $1.7bn, is among a group of billionaires who warn that the excesses of capitalism are threatening the foundation of society. He told CBS's *60 Minutes* that income inequality is a "huge problem" – but dodged questions about his own salary.

*Almost 30 percent of voting shareholders at the agm of car dealer **Lookers** gave the thumbs down to the company remuneration report after confirmation that ceo Mark Raban was awarded a £150,000 pay rise when promoted to the top job last February.

*More than 20 percent of **M & C Saatchi's** voting shareholders went against its pay report amid disquiet over a performance free potential LTIP £1.9m bonus for its fd Micky Kalifa. Shareholder advisory group ISS had called, in advance of the agm, for a negative vote, claiming that such a pay-out would be against corporate governance practice. The M & C Saatchi LTIP would allow Mr Kalifa to a maximum 200 percent of his annual £243,000 salary for four successive years, without any performance conditions. Normally, UK directors only get such bonus pay-outs if they have met tough targets during at least 2-3 years. A company spokesman said that the LTIP was part of an old pay policy, which was in the process of being changed under new ceo Moray MacLennan.

***Tesco** was *named and shamed* by the Department for Business as the UK's worst offender for underpaying employees. The supermarket group underpaid 78,000 employees by more than £5m between 2016-18, with Pizza Hut UK the second worst offender, underpaying almost 11,000 staff by £846,000, said the report. Tesco blamed the under-payment on a technical glitch and said that the employees concerned were paid the full amount immediately after it had been brought to its attention.

*ShareSoc**, a not-for-profit group which represents individual investors, is demanding that insurer **Aviva** claw-back bonuses awarded to directors after it was censured by the Financial Conduct Authority for having misled the market by threatening to cancel its high yield preference shares. Cliff Weight of Sharesoc said that if the bonuses for 2018 cannot be recovered from the Aviva executive directors, then the company should ask them to return the bonuses voluntarily.

*Manchester based **The** Hut Group **(THG)**, the controversial online retail company run by billionaire Matthew Moulding, upgraded its profit forecasts after strong sales at its beauty and sports nutrition brands during the pandemic. THG's shares rose by a quarter on its London stock market debut last September and co-founder Matthew Moulding, a former pub bottle washer, pocketed one of the biggest payouts in UK corporate history – an ***£830m*** share award - as a result. Sales rose 51 percent to £558.7m during its fourth quarter, beating previous expectations. THG, which runs the websites Lookfantastic, Glossybox and Zavvi as well as beauty brands such as Espa and Illamasqua, said sales had benefited from strong demand for beauty products including self-tanning kits, vitamin tablets, Myvegan supplements and hand sanitiser during the Covid-19 pandemic. Mr Moulding is executive chairman and ceo, a dual role situation frowned on by corporate governance experts. The company has hired 3,000 people, largely within the UK, taking its global workforce to 10,000.

EU to add Channel Islands to 'tax havens' blacklist?

The European Parliament pushed for Jersey, Guernsey and UK overseas territories including the British Virgin Islands to be added to an EU tax havens blacklist, post the end of the Brexit transition period. Sending a signal that tougher action on tax avoidance was required in response to the pandemic, MEPs voted overwhelmingly in favour of adding more nations and territories to the list of allegedly non-cooperative jurisdictions. The resolution, passed by a vote of 587 to 50, included measures calling for the automatic inclusion on the blacklist of countries which use a zero percent tax regime. Among these are the UK overseas territories and Gibraltar's tax arrangements are now similarly under attack by the Euro parliament. Jurisdictions have been on and off the list since it was launched in 2017. However, those linked to EU member states have usually avoided inclusion and the UK lobbied to protect its overseas territories from such a measure. Any decision to expand the blacklist would now rest with the 27 member states on the EU's economic and financial affairs council. While arguing for the inclusion of EU territories such as the Netherlands, Ireland and Malta, MEPs said that post Brexit, UK territories lacked a layer of protection from inclusion on the blacklist. The approved motion mentioned the conclusion of the post transition trade deal, saying that the Crown Dependencies and UK overseas territories should now be screened for potential inclusion on the list and that, in Brussels' mind, the trade deal was based on "*mutual values and geared towards common prosperity, which automatically excludes aggressive tax competition*".

***Equivalence status for UK FS a mirage**: Hopes in the UK's FS sector that shortly Brussels would grant it 'equivalence' status, to enable financial trading, insurance, two-way data transmission, mutual recognition of professional qualifications and new share scheme work to continue seamlessly have been dashed. Two key developments last month soured the atmosphere and raised fears that Brussels would refuse to grant post Brexit UK any more equivalence rulings before the summer, implying a possible adverse impact on some UK businesses, including those UK share scheme sponsor companies who wish to continue and/or expand employee equity schemes in EU based subsidiaries and who are not represented by EU based agents.

Firstly, the EU Commissioner for Financial Services, Mairead McGuinness, said that the UK FS sector would not be given access to the Single Market unless UK rules on de-regulation were sufficiently robust. She said that she would not grant equivalence to 28 sectors until the UK gave details on how it planned to diverge from current EU rules. Brussels was very concerned about what the phrase *'light touch financial regulation'* would mean, given the disaster that had led to in the financial crash of 2008-9. She said she had read in the UK popular media about plans to make a bonfire of EU regulations. The Commission then stated that more work was required before it was in a position to finalise its assessment of the UK's replies to the Commission's equivalence questionnaires in 28 areas, reported lawyers *Matheson.* The Commission stated that it had taken note of the UK's equivalence decisions announced last November, adopted in the UK's interest. ***"Similarly, the EU will consider equivalence when they are in the EU's interest,"*** it warned. *These words were fully aligned with the EU's position since the beginning of the process that it would not be pressurised into making decisions on equivalence and indeed would only grant equivalence determinations in those areas where it was clearly in the interest of the EU, its financial stability and its investors and consumers.*

Secondly, on January 13, the **European Securities and Markets Authority (ESMA)** was the first of the EU supervisory authorities to issue a public statement on activities of UK firms within Europe, post the expiration of the transition period. In the statement, ESMA reminded impacted firms of the Mifid II rules on reverse solicitation, noting that it had observed "*some questionable practices by firms around reverse solicitation"* This statement reminded UK firms, in explicit terms, of what ESMA deems as *unacceptable actions* in this space. *"Given the tenor of the recent comments by both parties, it is difficult to see how reaching an agreement, even on a direction of travel, can be achieved by the March deadline,"* added Matheson.

*UK SMEs exporting to the EU were struggling to navigate a new VAT regime, with one tax advisory firm receiving up to 200 calls a week from worried companies. The Federation of Small Businesses said its members were facing "significant issues" as a result of leaving the EU VAT area. "*Businesses just did not have enough time to prepare for this,"* said Selwyn Stein, managing director of VAT IT, a firm that helps reclaim the sales tax. "*They're being hit by a rulebook from 27 separate countries, when they are used to dealing with the EU as a single bloc. They are calling us in a panic because their goods have been stopped and they don't know what to do,"* he said. *"They have become fearful about trading so are stopping shipments until they have a resolution."* David Lee, md of engineers *Torqueflow-Sydex*, said it is now charged VAT at 22 percent on goods manufactured by its Italian sister company, which are then sold to another EU country, because it is a UK entity. "*This is adding 22 percent to our costs, which in a competitive market is an absolute killer,"* said Lee. His company's options include directing shipments via the UK or registering as a tax entity in every EU country it trades with. Up to half of all trucks returning to the EU via Dover are carrying nothing but air, because border chaos is making companies unable or unwilling to maintain their usual export consignments, said the Road Haulage Association. Ceo Richard Burnett said "Between 40 and 50 percent of trucks crossing via Dover are carrying nothing but fresh air, when normally that percentage would be between 18 and 20 percent." Some EU hauliers have raised their transport rates from €1.50 per km to €10 due to the perceived increased risk of delays, fines or potential confiscation of goods for alleged non-compliance.

*The mound of post-Brexit bureaucracy facing Britain's services sector may be equivalent to imposing a tariff of as much as 26 percent, claimed UBS investment bank. The additional red tape blocking trade with EU member states could create "non-tariff barriers" equivalent to imposing levies of between six and 26 percent, it said. The services industry accounted for 80 per cent of economic output in 2019 and about a large proportion of jobs. Boris Johnson's last-minute Brexit agreement provided for zero-tariff trade with the EU *but did not exempt British companies from customs controls, paperwork and other red tape.* Services companies face new restrictions depending on the type of service they provide. The trade deal announced on Christmas Eve looked similar to a no-deal in so far as financial services are concerned, said Dublin lawyers *McCann FitzGerald*.

Michel Barnier, the EU's Brexit negotiator, is advising Commission President Ursula von der Leyen on the implementation of the Withdrawal Agreement and the ratification of the UK post transition deal.

*More than €6bn worth of EU share trading migrated to continental exchanges on January 4 following the end of the Brexit transition period. Trading in shares like Santander, Deutsche Bank and Ryanair moved to Frankfurt or Paris. The shift was a direct consequence of EU financial regulations that stipulate that trading in EU companies (such as Volkswagen, Airbus and BNP Paribas) when it is carried out by EU firms, *must* be transacted within the bloc. **Aquis,** a pan-European exchange where EU equities are traded, saw almost all the trading business flip from its London platform to its Paris base. Aquis' ceo, Alasdair Haynes, told *Bloomberg TV* that the shift – brought about by Brexit – was a "*spectacular own goal*" for the UK. Under EU law, equivalence can be unilaterally withdrawn by Continental regulators with just 30 days' notice. For instance, Brussels, after a spat, cancelled equivalence for Swiss FS operations, preventing EU firms trading on the Zurich stock exchange. British financial firms warned this threat was like a "*Sword of Damocles"* permanently hanging over them, which would deter investment and hiring in the UK. "*EU concerns about the UK loosening regulations to its competitive advantage [might] result in the EU seeing the prospect of a unilateral withdrawal of equivalency decisions as an effective method of keeping the UK harmonised with the EU legal and regulatory framework*," said law firm DLA Piper. The EU last year granted temporary equivalence for the UK to continue servicing EU firms post-Brexit in two areas - derivatives clearing and central securities depositories - in which it does rely on London and which it could not take over in the near term. Yet analysts warn that, in the longer term, the EU could build up its capacity in these areas and poach lucrative business from the City in a piecemeal fashion.

*Wall Street is enjoying a big rise in derivatives trading after the UK's departure from the EU forced asset managers and banks to look beyond the City. UK calls for London's trading platforms to be permitted European market access fell on deaf ears, putting the Square Mile's share of the multi-trilliondollar international derivatives market at risk. European market users are now required to trade popular derivatives — contracts between institutions that enable them to bet on and hedge against movements in interest rates, asset prices and currencies — inside the EU or on a swap execution facility within the US, which has been granted access. Euro-denominated interest rate swaps have doubled on US platforms since January 1, according to data compiled by IHS Markit.

*Certain city asset managers gave London-based staff EU registered mobile phones and ***.eu*** email addresses to pretend to EU based clients that they are operating from EU member states, reported *The Telegraph.* Other city bankers forced annoyed UK based executives to hand over management of their EU-based clients to colleagues who work in Amsterdam, Frankfurt or Paris, the newspaper added. Insiders blamed the situation on the lack of detail to date of the present and future conduct of FS services between the EU and the UK.

*Paul Matthews, ceo of **EQ Boardroom**, implied that so far, employee share schemes had not been unduly affected by the final cutting of the umbilical cord between London and Brussels. He said: "*At present, we do not foresee that any changes will be required to the operation of either our corporate sponsored nominee or Dividend Reinvestment Programme (DRIP) regulated products, and we will carry on administering them in their current format alongside current T&Cs.*"

*As a result of Brexit and irrespective of a deal on the future relationship with the EU, European Works Councils (**EWCs**) raced to find new abodes by the year-end. EWCs are governed by UK law either because their headquarters (or central management) is located there or because a third-country (e.g. US, Japan.) headquartered group chose the UK (as its agent) and hence UK law to apply to the agreement and the functioning of the EWC. Since the UK ceased to be an EU member state, such EWCs need to move elsewhere, to an EU member state, said Centre member **Bird & Bird**. Such choice is discretionary for central management (whether that is UK based or third country), so not to be negotiated, as long as there is a corporate presence of any kind in such other EU member state. The default option is to have the laws of the member state with the highest headcount govern the EWC. Ireland is a very popular destination as the new home for EWCs. Several formerly UK-law-governed EWCs moved to **Ireland** in the meantime.

WORLD NEWSPAD

***China:** Chinese billionaire **Jack Ma** made his first public appearance since Beijing began a crackdown on his business empire. Ma, one of the richest people in China, had not spoken publicly since regulators blocked the flotation of **Ant Group**, the financial payment company he controls. His absence had fuelled speculation that he may have fled China. Ma, a former English teacher, participated in an online ceremony for 100 rural teachers and was shown in a video touring a primary school in his home town of Hangzhou. According to the Tianmu News, a news service run by the official Zhejiang Daily Group, Ma said in the stage-managed video: "*My colleagues and I have been studying and thinking, and we have become more determined to devote ourselves to education and public welfare. Working hard for rural revitalisation and common prosperity is the responsibility for our generation of businessmen*." It was Ma's first public appearance since October 24, when he accused China's financial regulators and state-owned banks of operating a "pawnshop" mentality at a high-profile summit in Shanghai. That set him on a collision course with officials and led to the suspension of a £27bn IPO for Ant Group, which is an affiliate of Ma's e-commerce giant Alibaba. Authorities in Beijing ordered an investigation into allegations of "monopolistic practices" at Alibaba and later ordered Ant Group to scale back its operations. Shares in Alibaba, which tumbled after the Chinese regulators' actions, rose by 8.5 percent on the back of reports of Ma's reappearance. Ant Group confirmed the authenticity of the video, but declined to comment further.

*The **European Commission** made its first direct equity investment into start-ups—backing 42 companies from within the EU—in an attempt to plug the funding gap and boost innovation on the continent. Under the new ***European Innovation Council Fund***, each of the companies will receive between €500,000 and €15m, with €178m invested overall. The companies span several sectors, including health, circular economy and advanced manufacturing. This is the first time the Commission has made direct equity investments—with ownership stakes expected to range from ten to 25 percent. A senior Commission official told reporters that the move marks a "paradigm shift" for EU funding, away from grants, and is aimed at helping companies compete with their US and Asian counterparts. Europe generates an impressive number of start-ups, he explained, something that's exemplified through the research output of universities and the number of Nobel prizes awarded to European research. However, the number of European unicorns is limited and the VC market is three to four times smaller than in the US, the official said, demonstrating the need to boost the funding landscape within the EU. "*Europe has many innovative, talented start-ups, but too often these companies remain small or relocate elsewhere,*" said Mariya Gabriel, commissioner for innovation, research, culture, education and youth. French company CorWave, which works on patient care for people with heart problems, was the first to receive this investment - €15m from the EIC fund and has gone on to raise €35m by combining the funding with private investment. The case demonstrates the Commission's aim to encourage private investment into companies alongside public European funding, a senior official explained. The aim of the funding is to encourage private investors to join them in backing companies by de-risking investments, particularly for deep-tech companies where returns are on a longer term basis than other start-ups. Among other companies to receive EU investment are Hiber, a Dutch company building international satellite and communication systems, French company Xsun, which designs energy-independent drones to be fully autonomous so they can operate without any human intervention and Irish start-up Geowox that provides automated property valuations. There are now 117 companies in the pipeline to receive direct equity investment, subject to the due diligence process.

US: Esop companies outperform during pandemic: Esops have outperformed non-employee-owned companies during the pandemic and are more optimistic generally that they will return to normal business activity, concluded a new study, conducted by Rutgers University and the SSRS survey firm. The report, based on data until last September, echoed similar findings about the performance and behaviour of employee-owned companies during the 2008-2010 recession, said an article in Forbes magazine. Specifically, the study concluded that Esop firms:

*Drastically outperformed other firms at retaining jobs by a four-to-one rate.

*Maintained standard hours and salaries at significantly higher rates than other firms.

*Only 27 percent of Esops cut pay vs. 57 percent at other firms.

*16.4 percent of Esop workers had hours pared vs. 26 percent at other companies.

*Were more likely to provide protective measures for employees

*85 percent of Esops sent employees home to work vs. 67 percent of non-Esops and *More Esops provided employee personal protective measures, such as masks and gloves and ordered additional sanitizing and professional cleaning.

In addition, the Rutgers/SSRS study suggests that when deciding to retain staff, Esops ascribe higher levels of importance of preserving valued employee skills, ties to customers and clients, a culture of teamwork, and a sense of ownership.

The study found that long-term public policy encouraging employee ownership produces greater job stability during a crisis than emergency government spending. In particular, Esops were almost six times more likely to anticipate their business would return to its previous level of performance than non-Esops.

Esops' resilience versus other companies ties into the nexus on the merger/acquisition front that occurred between employee ownership and private equity in 2020. This action has picked up steam steadily over the past decade and became mainstream last year, added Forbes.

Private equity's interest in employee ownership now goes well beyond traditional leveraged Esops. It builds on the momentum generated by global investment giant **KKR** and Centre member **Pete Stavros**, co-head of the firm's **Americas Private Equity**, who pioneered an inventive employee engagement and ownership model for hourly wage workers across its large portfolio of US manufacturers. Other companies have adopted the model successfully and Mr Stavros has said he believes KKR has a deal-sourcing advantage because, as he has put it, "*Ceos often have a different view when they learn more about our employee-ownership model*." He notes the keen interest in the intersection of the tax and cultural benefits of employee ownership combined with cash and talent benefits of private equity. Encouraged by that outlook, Esops and other companies with meaningful employee stakes are likely to further benefit from their inherent resilience, which is reinforced by the increased interest of private equity firms in investing in their companies.

Goldman Sachs' ceo David Solomon will get a $10m pay cut for the bank's involvement in the 1MDB corruption scandal. 1MDB was an investment fund set up by the Malaysian government that lost billions due to fraudulent activity. The global web of fraud and corruption led to a 12-year jail term for Malaysia's ex-prime minister Najib Razak, which he is appealing against. Goldman Sachs admitted its involvement in the scandal an "institutional failure" for having helped to raise $6.5bn for 1MDB by selling bonds to investors, the proceeds of which were largely stolen. Prosecutors alleged that senior Goldman executives ignored warning signs of fraud in their dealings with 1MDB and Jho Low, an adviser to the fund. Two Goldman bankers have been charged with criminal behaviour. Mr Solomon's pay would have been $10m higher but for the actions its directors took in response to the 1MDB saga, said Goldman Sachs.

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