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it's our business

newspad of the Employee Share Ownership Centre

UK shareholders lose their voting rights

Ryanair, **easyJet** and **Wizz Air** are believed to have axed the voting rights of UK employee shareholders in order to protect their operating licences as majority EU-owned companies.

UK citizen and other non-EU investors, including employee shareholders, were set to lose their agm voting rights when new Brexit trading rules came into force on January 1. By EU law, airlines operating flights in the EU must be *majority* owned by citizens of the EU or other affiliated countries.

Although *newspad* asked leading employee share plan administrators to comment on the threat made by these airlines, they were unable to do so, due to client confidentiality.

Republic of Ireland based Ryanair, which employs about 4,500 staff in the UK, said it had banned UK citizen shareholders, including employee shareholders, from attending or taking part in its agms from now on. They can no longer vote on shareholder resolutions.

In addition, Ryanair ceo Michael O'Leary warned that unless Brussels solves the share ownership ratio problem soon, he may be forced to prevent UK citizens, including employee shareholders, from buying any more shares in the budget airline.

Hungarian based Wizz Air, which employs more than 400 in the UK, said that if it had not taken similar action, about 80 percent of its shares would now be held by non-EU nationals. It said about 60 percent of its shareholder base had been sent *restricted share* notices.

EasyJet stripped their British employee shareholders and UK private investors of their voting rights over the Xmas period. The airline excused its actions by revealing that only 47 percent of its equity was held by EU based nationals at that time.

All these airlines could have lost their operating licences if they had failed to comply.

BA employee shareholders face similar punishment as its Spanish registered owner **IAG**, which operates Iberia, Vueling and Aer Lingus, has a large UK shareholder base and a 25 percent equity stake held by Qatar Airways. Hence EU investors are in a substantial minority. BA's unions have been campaigning hard, though ultimately without success, for the airline's UK employees to be allowed to buy, or be granted, shares in BA itself, rather than in IAG.

A public outcry is now likely over the suppression of the basic rights of employee and other private shareholders in these companies. Well before the

From the chairman

If 2021 opens on a note of hope, it is a fragile one. Only continuing transfers from the relatively prosperous London and South East to the rest of the UK will keep the show on the road. But we need medium term planning and longer term perspective too.

Damian Carnell's retirement recalls the earliest days of the Centre when the late Laurie Brennan of New Bridge Street, for whom Damian then worked, brought high tech skills, a background of which Le Carré would have been proud and unconcern for the mighty to our armoury of ideas. We can look to Damian to contribute to the new future.

Employee financial participation is challenged by the new world of governance in which shareholders are challenged by other stakeholders, by corporate developments which make quoted company status less appealing and by the flimflammery at the edges of ESG. We need to rethink and reimagine.

At bottom our arguments are common sense - people who are part of the team and share rewards will be happier and work better. How do we now define the team and tackle the distribution of rewards?

Malcolm Hurlston CBE

Brexit transition period ended on New Year's eve, several City institutions had warned of the risk facing UK shareholders in EU member state owned airlines. Among them was **Royal London (RL)**, whose head of responsible investment, Ashley Hamilton Claxton, had said that as a UK-based shareholder, RL was "*vehemently against*" any changes to shareholder rights post-Brexit: "***One share, one vote' is a fundamental pillar of good governance that companies should uphold,"*** she said.

Ryanair told the London stock exchange: "*These resolutions will remain in place until the board determines that the ownership and control of the company is no longer such that there is any risk to the airline licences."* The airline said it would not require British citizens to sell their shares, but would ban them from attending, speaking at or voting at shareholder meetings.

*The ease (*or otherwise*) of data transmission from EU member states to UK based plan sponsors remained another big unknown for the employee share sector and may remain so for at least 18 months, according to a report in *The Guardian*.

As the political showboating, over the bare bones trade deal secured just days before Xmas, began to subside, commentators claimed that a number of UK financial services were reliant on Brussels' *goodwill* for granting them (*or not*) speedy ***equivalence*** status, to enable them to continue doing business with EU based counterparts. The concept of equivalence is based on the mutual recognition of regulatory standards by both sides.

The UK government said merely on this point: "*The agreement confirms strong data protection commitments by both the UK and the EU, protecting consumers and helping to promote trust in the digital economy."*

Data ***adequacy*** is a status granted by the European Commission to countries outside the European Economic Area, now including the UK. When a country has been awarded this status, information can pass freely between it and the EEA without further safeguards being required.

"*This will not be sorted out quickly. The quickest data adequacy agreement between the EU and another country – Argentina – took 18 months to finalise. So, there will be an interim solution under which the UK will suspend its own data protection rules. This solution will run for a maximum of six months, according to EU sources,*" added *The Guardian.*

Staunch Brexiteers argued that an equivalence judgment for the UK's financial regulatory system should be straightforward as the entirety of EU law, the *acquis communautaire*, had been transposed onto the UK statute book. However, the EU had only granted the UK two out of 39 key equivalence decisions to the UK by the end of 2020, with the European Commission insisting that it would take account of British plans to diverge from EU rules in the future. Even if the EU did grant equivalence to more UK financial services, Brussels would retain the power to withdraw this at short notice. "*Equivalence is a tool for the EU to gain greater oversight of cross-border financial services from third countries, but it is also fundamentally a political and international trade tool*," said PwC, the professional services provider.

Business groups had asked Cabinet minister Michael Gove to reach a deal with the EU on data protection transmission rules, regardless of whether there was a post Brexit trade deal or not. However, Brussels did not play ball. Instead, both the PM and his chancellor had to fall back on the vague phrases in the document talking about establishing a co-operative framework for future discussions on equivalence certificates.

Some observers think that Brussels views Brexit as an opportunity to drag business away from London and that withholding equivalence would accelerate that process.

This issue is key for the UK employee share schemes sector because transmission of data (*even down to new employee participants' names and addresses*) from European subsidiaries using UK based share schemes could be either delayed or even stopped altogether if relations between Brussels and London deteriorate in future.

Although UK based share plan sponsors can continue to install and/or extend employee equity arrangements in their EU subsidiaries, there was a question mark over how many would risk doing so until the data transmission issue was sorted.

The threat of data transmission disruption became real when the automatic passporting rights enjoyed by UK financial services firms in EU member states ceased on December 31. The Institute for Government said that volumes of data entering and leaving the UK had increased 28 times between 2005 and 2015, and three-quarters of these data transfers were with EU countries. Any restriction placed on data flows would act as a barrier to trade, putting UK businesses at a competitive disadvantage. Cecilia Bonefeld-Dahl, director general of Digitaleurope, which represents more than 35,000 businesses in Europe, said: "*The EU has yet to reach an adequacy decision regarding the UK – there is an urgent need to make progress here so that data can continue to flow between our economies and our businesses. Our recent study showed that six out of ten European companies transfer data between the EU and UK."*

TheCityUK, the lobby group for the FS industry, said that while banks had an agreement covering basic transactions, there were up to 40 treaties affecting cross-border activities in the financial services industry that needed to be renegotiated.

Business travel: the rules governing what activities Britons entering the EU are and which are not allowed to perform from now on are set out in the **Trade & Co-operation Agreement (TCA),** which permits (*at first reading)*:

*British short-term business visitors to enter the EU visa-free for 90 days in any given six-month period. However, there are restrictions on the activities they can perform.

*The list of permitted activities by UK citizens shows that attending meetings, trade exhibitions, fairs and conferences, consultations and research within the EU are included. *Training seminars, research and/or design, purchasing and after-sales service are included in visa-free categories too.

Nevertheless, there are subtle distinctions, such as – Centre member representatives can attend a conference in an EU member state without a visa, but cannot organise such events anymore. What happens if two UK residents from a UK based employee shares company arrive in Paris brandishing Irish passports-wanting to set up a conference or trade event – is unclear.

*Anything that involves **selling** goods or services **directly** to the public within any EU member states requires **a work visa**, but taking orders or negotiating sales is accepted, visa free. For example, a British fashion model can still go to Italy for meetings and to make connections, but if they want to take part in a paid fashion show or photo-shoot, they will need to obtain in advance an Italian work visa.

*Lots more red tape for UK-based events businesses is on the way - unless they staff their continental mainland conferences with EU citizens - meaning fewer opportunities for UK citizens.

*Business warned that a Brexit tidal wave of red tape was going to hit UK industry on January 1, notwithstanding the last minute trade deal. Confederation of British Industry deputy director general Josh Hardie pleaded with the UK and EU to redouble efforts to get businesses prepared, saying speed was now of the essence.

Centre warns against Budget CGT rises

The Centre is to warn chancellor Rishi Sunak that large rises in Capital Gains Tax (CGT) in his March Budget could backfire.

Concerned members seek a meeting with a Treasury minister to discuss the CGT threat to employee participants in tax-advantaged share schemes.

They have drafted a letter to the chancellor to advise that big rises in CGT would, over time, produce less, rather than more, revenue from share scheme sponsor companies and their participating employees.

Some Centre members went into top gear after a review, commissioned by the chancellor from the Office of Tax Simplification suggested doubling current CGT rates to bring them into line with Income Tax (IT) rates. Furthermore, the OTS urged him to reduce the CGT annual exemption allowance from its current level of £12,300 down to a mere £2,000-£4000. If enacted, it would bring c. 200,000 more share scheme participants into the CGT charging net.

If the chancellor is tempted by CGT rises, Centre members want a carve-out for all-employee share schemes - on the grounds that employee shareholders should be given tax preference over private investors.

MM & K however, which is close to the OTS, said that the measures were unlikely. Michael Landon of MM & K was previously seconded at the OTS at the Centre's suggestion.

Centre chairman, Malcolm Hurlston CBE, who was instrumental in the secondment, told *newspad:* "The chancellor is under pressure how to start paying for his pandemic loan schemes to stressed businesses and the costly jobs furlough scheme, which is protecting millions of jobs.

"However, a near doubling in CGT rates, coupled with slashing the annual CGT exemption allowance, would put at risk the '*Levelling Up'* which the prime minister promised the nation.

"Such measures, were they enacted, would make participation by rank-and-file employees in some tax-advantaged share schemes almost pointless. Faced with such heavy CGT penalties, employees would turn away from Eso en masse and key parts of our sector would become no longer viable."

Treasury officials were said to be drawing up plans for £30bn worth of tax rises on businesses, pensions and foreign aid in the Budget, to plug part of the huge hole in the nation's finances resulting from the Covid-19 crisis.

Mr Sunak's biggest revenue-raising problem was political because the Tory manifesto for the General Election last December promised that annual *state* pension increases would not be touched and that Income Tax and VAT rates would not be raised either.

Which explains why the chancellor is tempted to raise both CGT and Corporation Tax rates from the start of the new fiscal year in April, as no pledge was made about them. His other major potential Budget revenue-raiser was ending higher tax rate relief on occupational pension contributions.

As explained in the December issue of *newspad,* the two main OTS suggestions, if both adopted by the chancellor in his Budget, could have a devastating impact on employee participation in the tax-advantaged equity plans. Share scheme advisers calculated (*see below*) that SAYE-Sharesave, the

Enterprise Management Incentive (EMI) and Growth Share plans would be especially badly hit, were these proposals enacted. Doubling of the two key CGT rates to 20 percent and 40 percent for basic rate and higher rate taxpayers respectively probably would damage participation rates in the Company Share Option Plan (CSOP) and in the Share Incentive Plan (SIP) too.

*On a £10K gain from a three-year SAYE scheme at vesting, *were the CGT exemption allowance reduced to just £2K*, a basic rate taxpayer who is an Eso participant would face a CGT bill of £1600, *were the charge rate doubled to 20 percent*, as suggested by the OTS. Similarly, the high rate taxpayer would see his/her CGT soar from zero to **£3,200**.

*On a £20K gain from a five-year SAYE, assuming a doubling of the CGT tax rate *and* a reduction of the annual exemption to just £2K, the basic rate Esop participant would face a CGT tax bill of £3,600, whereas a higher rate taxpayer would face an astronomic CGT bill of **£7,200** (*on a new CGT rate of 40 percent).*

*These examples assume that the employee participant has no other capital gains from other sources in that tax year.

*Hundreds of beneficiaries of the **Roadchef** motorway services chain **Esop** fear that their long-awaited compensation pots could be hammered by raised CGT charges too unless, finally, they are paid their court-ordered compensation before the end of the current fiscal year in early April. Newspad understands that, were their compensation pots subjected to increased CGT rates from April, beneficiaries would consider launching legal action against the trustee and its legal advisers for recovery of additional CGT losses which, collectively, would run to several million pounds. There are c.4,000 beneficiaries in all, of whom perhaps 400 or so former employees are traceable and still living members of the ex Roadchef Esop. However, the trustee and HMRC remain locked in mortal combat over whether or not the beneficiaries should pay any tax at all on their compensation gains. The trustee argues that the defunct Roadchef Esop should be reclassified as a tax-advantaged scheme, thus avoiding Income Tax and NICs on compensation payments, but the relevance, or not, of CGT charges on them remained a disputed zone, despite the High Court judge implying in her ruling that CGT **would** be charged.*

The OTS review identified two zones where the boundary between CGT and IT was under pressure: *share-based remuneration; and *retained earnings in smaller owner-managed companies. The pressure in these two zones could be reduced if the tax rates were more closely aligned. On share-based remuneration, the OTS recognised the desirability of certain employee share schemes, but drew attention to growth shares, where any profit on the sale of the shares was subject to CGT, rather than income tax, whereas profits from other conceptually similar arrangements such as share options were taxed as income. The report recommended the government consider whether the boundary was currently in the right place.

On retained earnings in companies, the OTS pointed to the different tax outcomes between: *realising those earnings on sale or liquidation - charged to CGT, subject to certain anti-avoidance rules; and *withdrawing profits as dividends or salary - charged to IT. The thesis was that, for SME owner-managed companies, all profits relate to the individual's labour and so should, in principle, be subject to IT. The OTS recommended that the government consider whether this inconsistency could be justified. The review recommended too that business asset disposal relief (BADR) (*the new name for entrepreneurs' relief*) and investors' relief both be abolished.

What Centre members said about CGT rate rises:

*Remuneration consultants **MM & K** said: "*It should be noted that OTS does not formally represent government policy. It is difficult to predict at this stage which of the recommendations will be acceptable to the government. Following the economic downturn due to the pandemic, the government will probably be looking at increasing tax revenue. While on the one hand, increasing the CGT rate is likely to bring in some revenue, it could slow down transactions, which, in turn, could hinder growth and recovery. Perhaps the government will balance these two factors and consider a modest increase in the rates of CGT.* So far as share-based incentives are concerned, in our view, it is unlikely that there would be any changes to all-employee share plans. While a rise in CGT rates may have an impact on EMI schemes, it is unlikely to affect CSOPs significantly. However, there may be a risk that growth share schemes may come under more scrutiny by HMRC.

"The report discussed growth share plans, where shares are issued to employees when the value is low but when the shares are sold on exit at a later date, the gain is taxed under CGT, at a much lower rate than income tax. It gave an example, which demonstrates how a taxpayer, who is awarded growth shares, is subject to CGT on disposal of the shares and pays significantly less tax than the taxpayer in another case study, who is subject to IT and NICs liabilities on the exercise of an unapproved option. The report considered that the growth share plan is conceptually similar to unapproved share options, although a huge disparity exists in the way the rewards are taxed. The OTS recommendation is that share based rewards from such arrangements should be treated as rewards from employment and should be taxed as income rather than gains."

***"**We share the concerns about the OTS report recommendations," said **YBS Share Plans**' future planning manager Peter Smith. "From a high-level assessment of our own data, we believe that a large proportion of Sharesave participants do not currently exceed the annual allowance. While a full carve out would be welcome, our main concern is preserving the annual CGT allowance at something close to its current level. '*We believe that the proposed reduction in allowance is likely to deliver only a minor uplift in revenue for HM Treasury but could result in a lot of employees who are unfamiliar with the self-assessment process having to fill in tax returns and even deter some from participating in plans altogether.* We're keen to discuss this matter further and would support any proposals to protect hard-working employees, many of whom are on lower incomes, or are key workers in retail outlets and factory floors. With the current economic downturn, uncertainty from the ongoing pandemic and the end of the EU withdrawal agreement, UK businesses need the engagement and motivation that comes from Eso more than ever. "*In addition, we fully support any efforts to update share plans to the modern workforce and move back towards the original principles that all employee means all workers,"* added Mr Smith.

***Nick Chinn ceo Cytec Solutions**: "*Speaking as a plan issuer (albeit a small one!), a continuation of moves by the government to restrict the amount of tax relief that is available on employee share plans, or to tax any benefit received at higher rates, certainly makes the use of share plans far less attractive from both the company's and employee's perspective. The reduction of entrepreneurs' relief lifetime allowance from £10m to £1m has already had a significant impact (and I anticipate this relief may soon be abolished entirely). Further erosion of tax benefits of share plans are likely to make them unattractive, particularly when considering the legal, administrative and compliance burden of operating them.* So any such move is likely to adversely impact all employee share plans and other more widely-based plans, to the significant detriment of employees and businesses alike. In time, the impact of this will no doubt filter through to the wider economy in terms of lower growth and to the exchequer in terms of reduced general tax receipts. *Unless there are compensating measures, I would confidently predict that the long term impact on tax receipts will be negative, and the policy self-defeating*," warned Mr Chin. "Speaking too as a provider of software for administering employee share plans and provider of related services, removal of CGT benefits from employee share plans would no doubt have an adverse impact on our business and to the sector more generally. *If it proceeds, then it will almost certainly impact our business plan for the coming years, put our 2021 recruitment plans on hold and potentially put at risk jobs in our share plan support team,"* he added.

*"*I agree that without the sizeable annual exemption and lower CGT rates the tax reliefs for EMI and SAYE would be rendered pointless*," said **Colin Kendon,** head of employee incentives & benefits at **Bird & Bird** "I think there is a serious risk the rates will be aligned without proper consideration of the consequences. *In the venture capital space, the key policy objective should be to have a system of tax incentives in place that encourage investment in more high risk enterprises and encourage talented employees to move to the new enterprises of the future (often at the expense of giving up relatively safer jobs). Without the attraction of EMI and entrepreneurs' relief (or an equivalent) it will be much more difficult to achieve that and, in my view, the cost would exceed the tax savings.* There needs to be an Asda checkout style campaign for SAYE and separately a pro-enterprise/risk taking campaign. *On the latter subject, Gordon Brown used to champion this as chancellor and I don't see why it is suddenly unnecessary to encourage risk-taking through tax incentives just because the government is short of money,"* added Mr Kendon.

*To impose CGT increases on such a scale would send a terrible message to investors at a time when, faced by the end of the Brexit transition period, we are trying to convince the world that the UK is still a great place to do and set up business, said **Jeremy Edwards**, partner and head of the employee benefits group at Centre member **Baker McKenzie**.

EVENTS

Share plans online symposium

The Centre's fourth British Isles share plans symposium will be held online over three days on **March 23, 24 & 25**, this year. 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 the day 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, Pett Franklin, Travers Smith, Computershare & EQ

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

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

Programme segments will refer to the impact of the pandemic on employee share plans and on executive remuneration trends. *Further details to be announced*.

Willis Towers Watson is among the speaker firms in the Executive Reward segment of the programme on: *Top pay, incentives and the pressing environmental, social and the corporate governance (ESG) agenda.* A major employee share plan case study, promoted by Centre member plan administrator **Computershare** will be introduced by Centre conference speaker Stuart Bailey. **Travers Smith's** incentives & remuneration team will examine the question of which elements contribute most to effective global equity plans and **Linklaters** will be represented by speaker Harry Meek, whose theme is: The changing landscape of investor and corporate governance expectations regarding executive equity reward. Harry 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**, who heads his eponymously named worldwide share schemes consultancy, will explain how SME companies are valued, so that employee shares can be issued. David is technical secretary to the ground-breaking Worked Examples Group which the Centre administers. **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 address a key question: 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 **Clayton Doyle**, 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.

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 with Juliet Wigzell. Prices for all other delegates are reduced to reflect the change in format: An **early-bird*** rate is offered to delegates who have already booked or who book by **January 22 2021**: Practitioners: members **£200***, non-members £350*. Trustees: members **£175***, non-members £295*.

Thereafter, 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

Get your submissions in **now** 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. You will be in distinguished company as an entrant. Companies can nominate themselves or advisers can make submissions on behalf of clients. *Company share plans can be nominated for more than one category.*

The **deadline** for all nominations is 17:00 on **Friday January 15**. Results will be announced at the British Isles Share Plan 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** www.esopcentre.com

Webinar - January 11 2021 11:00am GMT

*The Share Valuation Worked Examples Group in the changing valuation landscape***.** The aim of the Share Valuation Worked Examples Group (WEG), a joint initiative with HMRC, is to improve understanding and reduce uncertainty for share valuations for employee share schemes. It follows the withdrawal of the HMRC non-statutory ITEPA Best Estimate and Post Transaction Valuation Check (PTVC) procedures by creating more Share Valuation Worked Examples for general guidance.

An initiative by William Franklin of Pett Franklin with guidance from the Esop Centre, the Worked Examples Group (WEG) was formed with expert members nominated by the leading share scheme bodies: Esop Centre; ProShare; Employee Ownership Association; Share Plans Lawyers Group. In this webinar, William explains the role of the WEG and its place in the changing tax valuation landscape.

Webinar – February 3 2021 11:00am GMT

Esop sofa: Hot topics – newspad review

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*.

Webinar report:
Moving beyond Brexit in FS regulation

UK companies *will* still be able to launch new employee equity plans into EU jurisdictions this year, despite the transition period having expired on New Year's Eve, revealed leading law firm and Centre member Baker McKenzie. Jeremy Edwards and Mark Simpson reassured their audience on this key point during the Centre's latest webinar.

Jeremy explained that the EU's Prospectus Regulation would allow UK based companies to launch or expand employee share schemes on the Continent and vice versa, even without a final post transition trade deal. However, the ability of UK based companies to retrieve key data from operations within the EU from January this year was in doubt, he said, unless Brussels granted UK companies equivalence status very soon. "*We are going to have a few limited areas for data transmission from the EU into the UK, as the EU will regard our data security system as too vulnerable. We are not in a great position on this issue,"* he added.

However, the EU recognised that in most member states there was a poor level of share ownership and employee share ownership, as compared to the US, said Jeremy. Brussels thought that the success of Eso would be very helpful to levels of financial education within the workforce and so the Commission had established a fund to help spread the message more widely. In addition, several member states had put in place recently tax incentives to encourage more businesses and their employees to establish and expand employee share schemes. On a wider level, it had been noticed that some administrators had pulled out their operations in the Irish Republic and some banks had stopped funding schemes there too, said Jeremy.

The speakers discussed the evolution of the post Brexit financial services (FS) regulatory landscape, focusing on what firms should expect this year from regulatory policy developments and they highlighted remuneration issues too. Mr Simpson said that UK financial services had planned extensively for the new UK-EU business landscape as of this month. The negotiated three-year 'temporary permissions' regime, now covering more than 1,000 firms, would help hold the fort, allowing them to continue to work normally. As for future developments in UK regulation, the systems would be principles based, rather than law based, he added.

The webinar was chaired by **Michael Mainelli**, executive chairman of the **Z/Yen Group**, which operates the Esop Centre. Jeremy Edwards is a leading share plan and corporate lawyer at Baker McKenzie and Mark Simpson is a partner in BM's FS & Regulatory Group, where he focuses on financial regulation, financial crime, and regulatory investigations.

MOVERS & SHAKERS

*Centre mainstay **Damian Carnell** has left **Willis Towers Watson,** where he was a senior director, specialising in executive compensation & climate change human capital after 22 years' service. Damian is joining **Chapter Zero,** the non-executive directors' Not For Profit with awareness raising and board action on climate change. Chapter Zero is a home for non-executive directors (NEDs) who wish to engage in a strategic debate in the boardroom about the impacts of climate change on their businesses and the role they play in reaching the government's target of net-zero emissions by 2050. Its motto is: ***Growth that doesn't cost the earth.*** At the same time, he is framing advisory services in connection with corporate growth and corporate transition to net zero. Damian, who will maintain his very close association with the Centre, said: "*Almost 50 percent of the FTSE100 have a NED who is a member of Chapter Zero and we now aim to have two members on the board of every company in the FTSE350 Index.*" His contact address is Damian.Carnell@corpgro.com.

*Centre friend and conference speaker **Mike Pewton** launched ***ShareReporter**,* a company offering a fresh approach to global compliance for employee share plans. Ceo Mike, based in Spain and London, worked at **Linklaters, Deloitte, Global Share Plans, Solium** and *Morgan Stanley*. He has teamed up with Centre member, legal law firm **CMS** to set it up. The first user-friendly app covers key global legal compliance issues. CMS provides the legal and tax content via its global network. Visit https://sharereporter.com

*Members **Pinsent Masons** bagged a £500,000, 18-and-a-half month contract to advise the government's vaccine task force. The contract, awarded by the Department for Business, Energy and Industrial Strategy and revealed in new transparency documents, covers "advice, support and drafting" on "procurement of vaccine, procurement of virus swab and antibody tests, procurement of manufacturing services" and more.

*Please send news of your share plan launches/ fresh invitations/vestings and/or changes in your key personnel to *newspad* editor fred_hackworth@zyen.com.

UK CORNER

Share options for all at furniture retailer

Online furniture retailer **MADE** is giving share options worth more than £10,000 to all 650 staff after the company benefited from new shopping habits forged during the lockdown. Pandemic restrictions, coupled with the shift to working from home, proved the catalyst for a boom in home furnishings sales, as consumer cash usually spent on foreign holidays and socialising was funnelled instead into interior makeovers, sofas and desks. Sales were "extremely strong" last year, said ceo Philippe Chainieux and the decision to give shares to all its staff was recognition that it would have been impossible without them. Chainieux said: "*The business has faced a lot of uncertainties this year, but it has been a positive one for us, and that's really thanks to the contribution of staff - the people on the frontline in our stores, factories and warehouses. Without them we would not have been in a position to continue trading during the lockdowns.*"

All MADE.com employees, except senior management, receive the *same* number of share options, which vest in equal tranches over the next three years. They are estimated to be worth the equivalent of six months' salary. Employees will be able to sell their shares at the same time as other investors in the private equity-backed company. Chainieux said the three-year scheme suggested a possible future financial transaction, for example a sale. The company raised £40m in 2018 from its backers, which include the French investment firm Partech. The ten-year-old company was co-founded by Ning Li and serial entrepreneur Brent Hoberman, who co-founded *lastminute.com* with Cross Bench Peer, Dame Martha Lane Fox.

Use EOT model to save SMEs, Treasury urged

The Treasury should give further help to the UK's employee-ownership revolution, to prevent the recovery being undermined by a multibillion-pound debt burden, a major employer group urged. In its latest policy report entitled *'A Fighting Chance,'* the **Federation of Small Businesses (FSB)** warned the government that a surge in borrowing meant that many companies were taking "unmanageable debt levels" into 2021 and that urgent action was needed to protect otherwise viable businesses from being undermined.

The FSB report said: "*The UK government must not lose sight of the objective of making investor tax relief, like the Enterprise Investment Scheme (EIS) and the Seed Enterprise Investment Scheme (SEIS), more effective post Brexit, particularly for innovative businesses.*

"As the Job Retention Scheme ends, government must explore innovative solutions geared towards job retention, such as Employee Ownership Trusts, which provide a neat option to reduce debt and provide scope for productive investment.

"The EOT model ensures that business owners who sell their shares in a firm to a new-style EOT, as part of an employee ownership conversion, are exempt from Capital Gains Tax. It also provides the means to give income tax free bonuses to employees.

"Government should consider how EOT structures may be adapted for Covid-related loans. Such loans could be assigned to a new EOT in consideration for the EOT receiving preference shares in the company of the same value, plus an option to acquire ten percent of the firm when there is a future change of control.

"With the government guarantee already in place, the bank does not need an additional guarantee from the firm, thereby creating new borrowing capacity in the company if needed.

"Importantly, the bank loan is taken off the firm's balance sheet. In such a scenario, the flow of payments to the bank would be the same as for a standard EOT transaction, including contributions to the EOT that are profit related and a ten-year sunset clause. When the loan has been repaid, the EOT would have an unencumbered shareholding in the company, for the benefit of its employees.

"In practice, it is unlikely that this would be distributed to beneficiaries until an exit event. The EOT is the natural exit route for the company's shareholders when they are ready to sell."

The FSB, which has 160,000 members, proposed immediate support measures, such as an extension of the ability to defer VAT payments and allowing companies to defer paying back debt accrued under the *Bounce Back* loan scheme, the biggest emergency credit initiative, until March 2021.

Top pay ratios stabilise

Ceos at the largest companies earn a hundred times more, on average, than their lowest paid employees. A report by the left-leaning *High Pay Centre* showed that FTSE100 ceos earn 73 times more, on average, than the typical employee and 109 times more than their lowest paid staff. Across the FTSE 350, the ceo to median employee pay ratio was considerably less -53:1, while the ceos earn 71 times more, on average, than their *lowest* paid employees. However, the headline figures mask huge variations. *Ocado* had a 2,605:1 reward ratio between its ceo and the average employee and 2,820:1 compared to its lowest paid employees, largely due to enormous equity performance-linked pay-outs.

The Bank of England said it was lifting a temporary ban on shareholder payouts, but warned that dividends distributed for full-year 2020 should be capped, and that cash bonuses for bankers would be closely scrutinised in light of continued uncertainty.

The banking regulator, the Prudential Regulation Authority, gave its green light for big lenders to resume paying dividends to their shareholders, but it warned them against paying big bonuses in cash. They had to exercise a high degree of caution and prudence when determining whether senior bankers qualified for cash bonuses, said the PRA. Most major banks stopped paying dividends last March and £8bn worth of bank dividend payments were cancelled. HSBC and NatWest, among others, are keen to resume dividend payments. JPMorgan said trading and investment banking revenues are up about 20 percent in fourth quarter, while investment banker Numis reported record annual revenues from IPOs and capital raising in the year to September. Revenues from floats and equity raising almost doubled over the same period in the previous year. Brokers' revenues per head jumped by more than a third to £550,000 and so very healthy bonuses are expected. Likely flotations next year already include: Deliveroo, Darktrace, MusicMagpie and Trustpilot.

*Executives at the **Financial Conduct Authority (FCA)** will lose £205,000 in bonuses after a highly critical report on the regulator's handling of the London Capital & Finance scandal, but bonus rewards for previous years will not be returned. Bonuses for the eight members of the executive committee for the 2019-20 financial year had been deferred pending the outcome of Dame Elizabeth Gloster's damning report and will now not be paid. However, FCA chairman, Charles Randell, said that the group *did not have any arrangements in place* to allow it to claw back earlier payouts that had been handed to top staff. This was despite Dame Elizabeth's report finding failings at the organisation that stretch back years.

***Transport for London (TfL)** came under fire for paying staff £6m worth of bonuses in the current fiscal year and planning to do the same next year, while receiving £3bn in pandemic related bail-outs from the government. The TfL bonuses are being paid to staff earning *up to* £69,500 pa.

*The government was urged to launch a one-off wealth tax on households to raise up to £260bn in response to the pandemic, as the crisis damaged the UK's public finances and worsened inequality. The Wealth Tax Commission – leading tax experts and economists - said targeting the richest in society would be the fairest and most efficient way to raise taxes in response to the pandemic. The group said its proposals would be preferable to a broad-based tax raid on employees' incomes and consumer spending. The Commission's report said a wealth tax could raise £260bn over five years if the threshold were set at £1m per household, with a levy of one percent payable on the value of their assets above this level. This would be equivalent to raising VAT payable on goods and services by 6p, or by adding 9p to the basic rate of income tax for the same period, the commission said. The tax would apply to a person's total wealth – including their home and other properties, pension pots, business and financial wealth. Any debts, such as mortgages, would be deducted. At thresholds of £500,000, £1m and £2m per person, a wealth tax would respectively cover 17 percent, six percent, and one percent of the adult population.

Supermarkets repay £2bn in taxpayer support

Sainsbury's, **Asda, B&M**, **Lidl** and **Aldi** agreed to join rivals **Tesco** and **Morrisons** in repaying emergency taxpayer support, taking the total being handed back to the Treasury by major supermarket groups to more than ***£2bn***. **B&Q** owner **Kingfisher** said it would return £130m in business rates relief it received from the government during the pandemic. Kingfisher said since reopening its shops in April and May during the first lockdown, sales had been "strong". It said business has been driven by higher demand for home improvement. However, the supermarket groups will first have to liaise with local authorities who collect business rates, before sending half the proceeds to the Treasury. The DIY group suspended its dividend because of *continuing uncertainty* linked to the pandemic.

Some retailers classed as *essential* have been criticised for taking government support while remaining open and announcing dividend payments to shareholders.

Sainsbury's pledged to repay £440m, Pets At Home £29m, Lidl and Aldi £100m each and B & M £80m. They all pledged to repay their pandemic *business rates relief* to the Treasury because they made very substantial profits by keeping their stores open during confinement. They followed the example set by Tesco and Morrisons, who earlier had promised to repay £854m (Tesco £585m) between them. Supermarkets have been fiercely criticised for taking government support while paying dividends to shareholders. Tesco, Sainsbury's, B&M and Morrisons all paid dividends to shareholders despite the pandemic. Tesco was criticised when it said it would pay £315m in dividends to investors after reporting that pandemic trading had been buoyant. Both Sainsbury's and Aldi said the decision reflected the fact they had been allowed to stay open in lockdown. Despite incurring 'significant costs' in the crisis, Sainsbury's said its sales and profits had been "stronger than originally expected". Ceo Simon Roberts said: "*With regional restrictions likely to remain in place for some time, we believe it is now fair and right to forgo the business rates relief that we have been given on all Sainsbury's stores. We are very mindful that non-essential retailers and many other businesses have been forced to close again in the second lockdown and we hope that this goes some way towards helping them.*"

Tesco said the help to retailers had been a *game-changer* and hugely important at the time. Its business had proven resilient and so it was returning the money in full. Business rates relief was extended to all retailers and hospitality companies as part of a package of measures announced in March, as one of the government's key tactics to keep alive companies most affected by pandemic closures, but the rates relief went to some retailers who stayed open throughout. Asda, which is being sold by the US chain **Walmart** to a consortium led by petrol station tycoons the Issa brothers, said it would pay its £340m business rates bill in full. Asda ceo Roger Burnley said that during the pandemic the supermarket had *"always sought to do the right thing*", adding: "We recognise that there are other businesses for whom the effects of Covid-19 will be much more long lasting and whose survival is essential to thousands of jobs." The discount home stores group B&M, which raised eyebrows with a special dividend of £250m in November, said it would now forgo £80m of rates relief. Ceo Simon Arora and his brother Bobby, who own 15 percent of the business, received £37m from the extra dividend. However, the **John Lewis Partnership** (*which includes Waitrose)* and **Marks & Spencer** said they would not return the rates relief, despite benefiting from strong food sales during the pandemic. They said the government support had helped counteract the devastating impact of the pandemic on their respective clothing arms. In November M&S reported its first-ever loss, while John Lewis, which has cancelled the 2021 annual staff bonus, is headed for a full-year loss.

*Accountant **BDO** succumbed to pressure of public opinion by announcing that it *would* pay back £4.1m of furlough money after uproar over big pay-outs to its partners. BDO did a U-Turn after first refusing to repay taxpayers' cash which it took during the first lockdown. There was anger after it emerged that it had taken the money while handing profits averaging more than £500,000 each to its 264 partners. Repayment of the furlough cash will cost on average each partner £15,000 on top of a 14 percent cut in pay due to reduced revenue. Managing partner Paul Eagland said the board had a change of heart after seeing the reaction. "*I don't want this to fester*," he said. "The money will go back to HMRC by Christmas." BDO took the furlough cash, arguing that the hand-out had helped save 700 jobs.

*Wealth manager **St James's Place** scrapped annual bonuses for bosses and all staff after it fell short of its targets because of the pandemic. The FTSE 100 company told its 2,537 employees that it would not pay cash or share-based bonuses for 2020. The group's executive directors too will go empty-handed in March, when the awards are usually paid. Ceo Andrew Croft won't be getting his bonus, which, had performance targets been met, would have been worth £850,000.

*One of the UK's most successful investment institutions said that asset valuations were "extremely stretched" and likened the wave of blank-cheque companies launched in recent months to the South Sea Bubble. The **Wellcome Trust**, a medical endowment with assets of £29bn, said that the unprecedented amounts of money created by the world's central banks had pushed up the prices of most assets and helped deliver a 12.3 percent boost to its portfolio in the year to

September. It warned of "highly speculative activity" in share markets, singling out special-purpose acquisition companies (SPACs) as a sign of frothiness in the markets, said a report in *The Times.*

Retail jobs massacre

UK employers shed a record 370,000 jobs in the three months ending last October, said the Office for National Statistics. The national unemployment rate rose to 4.9 percent, the highest for four years. However, a large number of employees were made redundant before the chancellor announced the first extension of his jobs furlough scheme, which now has been re-extended until the end of April. **Debenhams** took £40.5m of taxpayers' cash via the furlough scheme, it emerged as the departmental store group, now in liquidation, wound down its business, planning to close all 124 outlets after **JD Sports** ended discussions over a rescue deal. Debenhams was entitled to the cash because it furloughed thousands of employees between April and October. In addition, the retail chain owed up to £230m to trade creditors. All 12,000 employees were likely to lose their jobs unless a new buyer was found. The stores remained open, selling off remaining stock. Mike Ashley's Frasers Group later confirmed attempting a last-minute rescue of Debenhams, having reportedly offered c £200m to acquire the majority of its stores. It owed £100m when it was taken private but, by the time it returned to the stock market in 2006, that debt had swollen to more than £1bn. Talks with JD Sports ended after Debenhams' major supplier **Arcadia** went into administration. Sir Philip Green's retail empire collapsed, after his Arcadia Group failed to find any last-minute rescue deal. The company, which includes *Topshop, Burton* and *Dorothy Perkins* put ***13,000 jobs*** and 550 stores at risk, though administrators said there were no plans for immediate redundancies. Suppliers were owed £250m. Clothing chain **Next** and a US investment firm were later reportedly in talks to launch a joint bid to takeover Arcadia and other investors were weighing up interventions too.

Adding to the uncertainty was a £300m+ hole in the company's pension funds, on which 9,500 pension holders rely. Sir Philip previously did a deal with the pension regulator to reduce his annual contribution to the Arcadia pension funds from £50m to £25m in order to keep the business going. That sum was guaranteed by the ultimate owner, his wife, Lady Tina, so the Greens are not obliged to fill the pension funds black hole. She announced however that she was speeding up payment of the remaining £50m owed to the pension fund trustee under a previously promised agreement.

Some categories of company pension holders in failed companies go into the Pension Protection Fund (PPF) rescue scheme. It takes on board pensioners who are already receiving their company pension and protects those who have yet to reach pension age. The PPF gets involved with so-called defined benefit pensions - *when the employer gives a pension promise about how much employees will receive at retirement,* which is often based on final salary, or an average of career salary. The PPF makes payments to its members. Arcadia's two defined benefit pension schemes were expected to go into the PPF, after assessors have gone through the books of the schemes. There are current and former employees with defined benefit pensions from Arcadia - the majority in the Arcadia Group pension scheme and the rest in the group senior executive pension scheme. In recent years, these defined benefit schemes were *closed to new members* of staff who work for Arcadia's brands such as Topshop, Dorothy Perkins and Burton, so most of those affected are more long-serving employees or people who have left, or already retired. However, its separate senior executive pension fund has been paying former executives up to £500,000 a year, including increases for annual price inflation, *The Mail on Sunday* revealed.

For people yet to receive their pension because they are too young, or those who have retired early, the PPF only pays 90 percent of their pension promise when they hit pension age and there is a c. £40,000 a year cap on how much someone can receive each year from the age of 65. Anyone with a defined contribution pension has built up their own pension pot which is often managed through a separate investment company and which will ***not*** go to the PPF. The individual can decide how it is invested and what to do with it when they reach retirement.

***Lloyds** is redeploying 700 staff into full-time home-working roles from 2021, in the latest sign that big banks have embraced remote working, even as the imminence of vaccines suggested that the end of Covid restrictions was in sight. Lloyds is among the 75 percent of City firms reviewing their real estate footprints after the boom in home-working during the pandemic. **Barclays** confirmed last summer that it was reviewing the amount of office space it uses after seeing how 30,000 of its

50,000 UK staff had been able to work from home effectively during the crisis. **NatWest** told employees that 50,000 of its 60,000 staff would continue working from home until at least April, when it plans to allow for more flexible working. **Goldman Sachs** and **Deutsche Bank** told their City based staff (5,000 and 8,000 respectively) not to come back to their offices in view of the second national pandemic lockdown. **UBS** and **JP Morgan** followed suit. **Standard Life Aberdeen** told its staff months ago to work from home until at least the New Year. London-headquartered lender Standard Chartered is shifting to flexible working on a permanent basis too. Big banks such as JP Morgan – which has 19,000 employees in the UK – raised concerns about the impact of home-working, including the lack of mentoring for young staff, and a small drop in productivity on Mondays and Fridays. However, the Wall Street lender is still expecting up to 30 percent of its 257,000 global employees to work remotely in future, at least part of the time.

*Companies furloughed 15 percent of their staff between November 2 and 15, a nine percent increase since the second half of October, said the Office for National Statistics (ONS). This was during the second lockdown of pubs, restaurants and non-essential retailers.

*Women's fashion chain **Bonmarché** fell into administration, putting more than 1,500 jobs at risk. Bonmarché, which has 225 stores around the country, was owned by retail tycoon Philip Day. His other chains - Edinburgh Woollen Mill, Peacocks and Ponden Home stores - collapsed into administration in November. Administrators said the stores would continue to trade while options for the business were explored.

Josh Lowes, an e-commerce manager at Peacocks, backed by an investor, submitted an MBO bid to the administrator to acquire Peacocks, which has 47 shops and stores and 4,900 employees.

*Families have built up £100bn of *'excess savings'* during lockdown and have started spending it, a senior Bank of England official claimed. A spending spree could help the economy to recover more quickly than forecasters have predicted, the Bank's chief economist Andy Haldane said in an interview with *The Mail*. Employee share scheme practitioners hoped that holders of this stockpiled money would be tempted to plough some of it into their company share schemes. Mr Haldane said there was huge 'pent-up demand' following the Covid lockdowns. Between April and June, the Office for National Statistics' savings ratio – which measures how much of UK disposable incomes were set aside – rose to 29 percent. The equivalent figure was just 6.8 percent for the same period last year. The new ratio is more than twice as high as the previous record of 14.4 percent, set 27 years ago.

City investor warns on executive reward

Executive share awards should be reduced in quoted companies whose share price has fallen by more than 20 percent, leading City investment fund **Legal & General Investment Management (LGIM)** said in its UK Principles of Executive Pay. Major changes from the previous year's guidance included: *Requiring existing directors' pension contributions to be aligned with the majority of the workforce by 2023. LGIM will vote against the remuneration policy where there are no proposals to address this issue. *Any retrospective changes made to performance targets for LTIP awards should be the subject of shareholder consultation if these changes result in a beneficial outcome for directors. *Changes around performance measures and targets, including where personal performance measures are used, should be aligned to strategic targets, be meaningful and quantifiable. LGIM may vote against the remuneration report if the weighting for personal performance is high and measures not clear. *LGIM expects that where there has been a significant decrease in share price (>20 percent), the size of share awards should be reduced and they will vote against the remuneration report where this does not happen. *A threshold level of financial performance should be achieved for any bonus to be made. *ESG performance targets should not be used to provide additional reward but to modify outcomes. *Post-employment Shareholding requirements should be set at no less than 80 percent of the in-post requirement.

Sweat equity

In the context of start-ups, sweat equity has come to mean payment for services with shares, which do not drain cash reserves in the way salary payments do, wrote Kim Whitaker of Centre member **Gannons.** Another idea is that sweat equity incentivises those working in the business and gets them invested into the future of the company and the achievement of management's goals, usually an exit, by way of a sale or listing when the shareholders will receive cash. In the UK and elsewhere sweat equity is seen as a way of developing the business at a time when there is not the money around to pay wages. If the recipient is a director or employee, the sweat equity shares will be regarded as *employment related securities* and the recipient will pay IT on the value of the shares as if they were receiving salary. This may not be too much of a problem if the company is in the start-up phase and the shares have a low value. But the value of the shares will be an issue if the company has already built up value, as the tax bill will be greater. Where this is the case, one possibility may be to give the recipient *growth shares,* which have a low value on a grant, because they only see benefit where there is an exit at a value over a specified period. If shares are used as a form of sweat equity, it is important to note: • Drawing up a share dilution table is a good way to gain oversight on who will benefit from the equity and by how much. It focuses the mind on planned future events and helps to stop eager founders giving too much away. • The recipients will have rights as shareholders so, depending on the rights attaching to the shares, they may have rights to attend meetings, vote and share in dividends etc. Different rights can be created for different people and shareholders' agreement is usually needed. What happens when a shareholder leaves–will he or she be forced to transfer their shares? • There is tax reporting required to HMRC and elections needed to preserve the tax liability for the recipient. Depending on the role of the recipient within the organisation, most boards ensure the recipient has some *skin in the game*, in which case, the shares would not be given away. The directors can set any purchase price they see fit and it can be higher or lower than market value. Remember that shares once given away, there is no giving them back unless agreed. If the desired recipient should not be categorised as a shareholder, or would dilute other shareholdings now, *options* instead may be the answer.

COMPANIES

***Amazon** spent hundreds of millions of dollars on bonuses for Christmas staff after sales at the online giant soared during the pandemic. Full-time warehouse workers in the UK and the US will receive £300 or $300, with £150 or $150 for part-time staff. The money, $500m in total, will go to staff who worked between December 1-31. Amazon, run by Jeff Bezos, the world's richest man, praised staff for serving customers' essential needs during the pandemic. Dave Clark, senior vp of Amazon Worldwide ops, wrote: "*I'm grateful to our teams who continue to play a vital role serving their communities. We want to share our appreciation through another special recognition bonus, totalling more than $500m for our front-line employees."* It has had to create thousands of extra UK jobs to cope with demand. Had Mr Bezos given each of his 876,000 employees a $105,000 bonus last September, he would have still had roughly as much wealth as he had in mid-March, at the start of the pandemic. So claimed a report from **Oxfam,** which condemned *windfall* profits flowing to a small number of very large businesses whose products and services are in high demand in the pandemic era, reported *The Washington Post.* In the decade ending 2019, companies listed in the *Standard & Poor's* 500-stock index spent $9.1trn on dividends to shareholders, equivalent to more than 90 percent of their profits over the same period, the report said. "*Several companies not only paid out all of their profits to shareholders, they sometimes went into debt or used reserves to pay their rich investors*," it said. Amazon is under scrutiny for working practices in its warehouses during the pandemic. US activists called on big retailers like Amazon and Walmart to do more to protect employees as surging Covid-19 cases coincided with the Xmas shopping rush. They called for hazard pay, paid sick leave and better communication about outbreaks.

***Balfour Beatty** said that it had made enough money during the pandemic to enable it to pay a full-year dividend and return £50m to shareholders through a *share buy-back* scheme. The UK's largest construction group's order book, with wind power infrastructure and rail electrification jobs, had risen £17bn from £14.3bn a year ago. It said that this year's revenues would match last year's £8.4bn.

***Facebook** used accounting deductions of £6.5m for its employee share schemes to reduce its UK Corporation Tax liability from £40m to £33.5m, reported *The Telegraph.* Facebook's operating profit from its UK operation was £122m, from gross revenues of £2.2bn from advertisers during the year.

***Frasers Group** shareholders at the recent agm backed overwhelmingly a share bonus scheme, which ceo Mike Ashley calls *The Fearless 1000*, which could pay out £100m in shares if the group's share price reaches £10 any time over the next four years. Not so far fetched, because between that agm and now, the share price has leapt by more than 100p to c.470p. However, the share price must stay above £10 for 30 consecutive trading days to trigger pay-out of the awards at the end of the vesting period, which could see *ten* employees receiving shares worth £1m. Mr Ashley said: "*One thousand of our Fearless workers, who live and breathe our values, thinking without limits, not hesitating and owning it, will be eligible to receive share bonuses ranging from £50k right up to £1m if the share price is at £10 at the vesting dates."*

*Bus & trains company **Go-Ahead** announced that it was reinstating dividend payments as of next year. **HSBC's** share price surged by up to eight percent on optimism that it too might soon resume dividend payments.

*Director-part owners of the firm whose flammable insulation was fitted on Grenfell Tower have sold company shares worth £123m since the inferno, the *Daily Mail* revealed. Directors at **Kingspan** sold three million of their company shares before the business was accused of selling hazardous building products at the disaster inquiry. Survivors and bereaved relatives labelled the profits 'disgraceful and disgusting.' The Irish company made the Kooltherm-K15 foam boards used on the council block where a fire killed 72 people in 2017 Chairman and founder Eugene Murtagh made £76m from the share sales, while his son Gene, the ceo, almost £22m. Kingspan is worth £11bn. Four other executives made a combined £25m through the sale of shares. Separately, Gene Murtagh and executive directors Gilbert McCarthy and Peter Wilson cashed in £6m worth of share options in the weeks *before* allegations against Kingspan were aired at the inquiry. These options were the backbone of bonus schemes, allowing the directors to buy Kingspan shares for just €13 cents and to sell them at the full share price, which at the time was more than €76. Kingspan declined to comment on the reason for the share sales, which were first reported by *Inside Housing*. After the inquiry heard evidence, alleging that Kingspan and other companies had "*pushed hazardous products into the marketplace and sought to market them dishonestly,*" its share price fell by 12 percent. Nabil Choucair, who lost six members of his family in the blaze, which claimed 72 lives, said: "*The profits they are making are disgraceful and disgusting. It's all about profits.*"

*__Lloyds Banking Group__'s outgoing ceo António Horta-Osório will walk into a new job as chairman of **Credit Suisse**. The appointment means that Mr H-O will leave Lloyds in April, earlier than expected, and will move to Zurich, to become the first non-Swiss chairman of the bank. His successor, Charlie Nunn, could receive a maximum £5.6m in annual pay and bonuses if he hits his performance targets. Mr Nunn will be paid 20 percent less than his predecessor. The sum includes a £1.13m salary, a fixed bonus of £1.05m and longer-term bonuses and pension payments. News leaked that Mr Nunn would be given a *golden hello* in the form of extra compensation for the various bonuses he was expecting to be paid, had he remained at HSBC, where he headed the bank's wealth division and high street banking. He may not be able to join Lloyds as early as April, as Horta-Osorio's job move took everyone by surprise. Nunn has a six months' notice period to work out and months of job restrictions. If there is an inter-regnum, William Chalmers, the bank's cfo, will take charge on a temporary basis. Predictably, Lloyds did not disclose the extra sum which it felt forced to pay for Mr Nunn's services, but it runs into millions of pounds. Horta-Osorio was paid £4.73m last year - down on the £6.54m a year earlier, but still 128 times more than the average annual pay received by his employees. Furthermore, he has earned around ***£60m*** over the past decade, though Lloyds' share price is now about half where it was when he became ceo.

*Meanwhile, Lloyds told its staff by memo that it was scrapping more than £300m worth of planned group performance and other bonuses this year, due to the financial uncertainties created by the continuing pandemic. It had already warned last year that bonuses would not be paid if overall profits were 20 percent or more below target. However, lower-paid staff would get above inflation rate pay rises.

*Manchester based **The Hut Group (THG)** shook off its critics, post September's part flotation, by announcing that it expected full year sales to rise by almost 40 percent year on year. Discount events have helped the online nutrition and beauty products retailer attract hundreds of thousands of new online customers, so it increased its payroll headcount by 3,000 to almost 10,000 to cope with the extra demand. Founder Matt Moulding has gifted employee shares to 430 staff, including drivers and warehouse sorters, over the past decade. He estimated that his business so far has created 74 millionaires after gifting £1bn worth of shares to employees all told. Moulding, THG's chairman and ceo, told *Mail Online* that he had put aside a further £175m to distribute to employees in the form of free shares. His 25 percent stake in The Hut Group is believed to be worth c £1.6bn and he is due to receive a staggering £830m worth of shares as a reward for hitting share price targets.

*Since the Iraqi-born architect Dame Zaha Hadid died in March 2016, a dispute has raged between the executors of her estate, with claims and counterclaims filed over the interpretation of her wishes and the future of her architecture practice. At last, the long-running feud has been settled in a virtual court hearing, conducted via Skype. After years of heated negotiations, the four executors of Hadid's will trust reached an agreement over the distribution of her estate, which is valued at £100m – bar one detail. The bulk of Hadid's assets go to the Zaha Hadid Foundation, a charitable body, with plans to establish a museum and award scholarships, focused on supporting the architectural education of Arab women in particular. Meanwhile, shares in the architecture practice, **Zaha Hadid Ltd (ZHL),** are to be transferred to a tax-efficient *employee benefit trust*, chaired by her long-term collaborator and practice principal, Patrik Schumacher. But the executors remained in deadlock over the EBT's board structure, the resolution of which was surrendered to the court to decide.

WORLD NEWSPAD

*__BioNTech__ (*Pfizer's Covid vaccine partner company*) is a success for Europe, but the fact that the company looked elsewhere for funding, and was listed on the Nasdaq, highlights what policymakers have said about the need for more funding if the Continent really wants to rival Silicon Valley. European tech start-ups attracted $34bn in investment last year, which was well below the $117bn invested in the US and $63bn in Asia. Governments are unveiling plans to try to tackle the difference and the European Commission has said it'll invest **€3.5-4bn** into start -ups between 2021 and 2027.

*__Chinese chequers__:

China escalated its campaign to rein in the vast tech empire controlled by Jack Ma, the co-founder of **Alibaba**. Authorities in Beijing, who had on Christmas Eve ordered an investigation into allegations of "monopolistic practices" by Ma's online retail giant, then ordered his financial technology company **Ant Group** to scale back its operations. Regulators had warned Alibaba about forcing merchants to sign exclusive deals which prevent them from offering products on rival platforms.

China's mailed fist approach to the Jack Ma empire dealt a crushing blow to his estimated 90,000 employee shareholders. The latest salvo in Beijing's battle against Ma, who had been feted as China's greatest modern-day entrepreneur, wiped a quarter off the value of Alibaba's share price from October 24, the day when Ma accused China's financial regulators and state-owned banks of operating a *pawnshop* mentality at a high-profile summit in Shanghai.

Chinese officials earlier accused Ma's companies of breaching various regulations and intervened to block the $37bn (£27bn) flotation of Ant Group just two days before dealing was due to begin in Shanghai and Hong Kong. Employee participants in his Ant Group witnessed the prospect of substantial gains, from their equity stakes in the aborted partial flotation, disappear into thin air.

Investors both in China and worldwide took fright and dumped huge amounts of stock in the top four Chinese internet giants Alibaba, Tencent, Metuan and JD.com, wiping £150bn off their collective value. The crackdown on Ma's business activities wiped more than $10bn (£7.4bn) from his personal fortune. The wealthiest person in China is now Pony Ma (no relation), chairman and ceo of rival tech firm, Tencent.

Pan Gongsheng, a deputy governor of China's central bank, said Ant's corporate governance was "not sound" and ordered it to "return to its origins" as a payment services provider, reported *The Guardian.* Pan, who had summoned Ant representatives to a meeting with regulators in Beijing, said Ant must "strictly rectify illegal credit, insurance and wealth management financial activities". Ant divisions offering those services are the business's fastest-growing and most profitable operations, analysts said. Ant Group said it would establish a working group and "fully implement requirements" sought by the regulator.

Zhang Zihua of the asset manager Beijing Yunyi Asset said investors were concerned that Beijing's campaign against Ma's companies could continue even if they implemented all the changes required. "*The antitrust investigation into Alibaba has yet to specify the penalties, which is worrying investors a lot*," he said. Li Chengdong, a Beijing-based technology analyst, said the action against Ant was weighing heavily on other Chinese tech companies. "*The new regulations are hurting big internet platforms, so Tencent and other tech companies are also seeing their share prices going down,"* Li said. "*Alibaba now is the target of the regulators so the reaction is stronger."* An editorial in the *People's Daily* state mouthpiece said efforts to prevent monopoly and anti-competitive practices were "requirements for improving the socialist market economy system and promoting high-quality development: "This investigation does not mean that the country's attitude towards the encouragement and support of the platform economy has changed."

"*The party has once again reminded all private entrepreneurs that no matter how rich and successful you are it can pull the rug out from under your feet at any time*," wrote Bill Bishop, author of the newsletter *Sinocism*.

France: While the French have accumulated more than €80bn in savings since the first confinement and 2018/2019 have been record years in terms of subscriptions to employee share plans, the government wants to give a more important place to employees in sharing added value and financially supporting companies during the pandemic crisis, reported *Squire Patton Boggs* Thus, two amendments to the Finance Bill for 2021 were adopted on November 14: *An amendment allowing an exemption from the social lump sum (ten percent), in 2021 and 2022, of employer contributions, supplementing the voluntary contributions of employees and former employees to a PEE; *An amendment which permits extending to SMEs (employing between 250 and 5,000 employees) the exemption applicable to very small businesses from specific employer contribution of 20 percent due the month following the date of acquisition of free shares and calculated on the basis of acquisition gain. With these new measures, the government intends to bolster its policy of developing employee shareholding and employee savings plans. Last October, the Economy ministry launched a website dedicated to the planderelance.gouv.fr recovery plan. The Ministry of Labour said that only 4.5 percent of employees in companies employing less than 50 employees would have benefited from a profit-sharing agreement in 2018 and only 10.5 percent from a profit-sharing agreement. Similarly, in the employee shareholding sector (stock options and free shares), only 3.5m French people would benefit. The Ministry of Labour therefore proposed ways of working for a more balanced sharing of added value through: *the creation of simplified collective variable remuneration schemes for very small businesses, *the creation of incentives for the allocation of free shares for participation in or investment of employee savings in employee shareholding funds, *the publication of pay gaps and the creation of a new indicator presenting the proportion of women among senior executives. Consultation is underway between the Ministries of Labour, the Economy and the unions to move forward on these subjects (source *Les Echos*).

India: Several bids have been put forward for India's loss-making national carrier, including one on behalf of its employees. This bid was from US-based investment firm, *Interups*, which proposed that it should hold 49 percent of Air India while a controlling stake of 51 percent would be held by its employees. "We are giving an open offer to employees of Air India to substantially own the airline," Interups chairman Laxmi Prasad told the BBC. "Our group will invest the entire monies required for the airline, with *no capital requirement from employees to contribute into the acquisition effort*." Calling them the backbone to run the airline, Mr Prasad added that the 51 percent stake would be "*in exchange for the deep intangible contribution you all would be making for the airline. No-one knows Air India better than its employees and management."* The Indian government had tried to offload its stake in Air India in 2018 but failed to attract a single bid. Another bid is reported to have been put forward by the Tata Group, which owns Jaguar Land Rover and which sold its Air India stake to the government in the 1950s. The airline has many assets, including prized slots at London's Heathrow airport, a fleet of more than 100 planes and thousands of trained pilots and crew.

***Korea: early vesting cautionary tale:** About 40 former employees at **SK Biopharmaceuticals** – one fifth of its workforce - quit their jobs with more than 1.6bn *Korean won* ($1.35m) in windfall gains after the newly listed firm's stock value quadrupled in one month. They were among the total 207 employees at the bio subsidiary of SK Group, the second-largest conglomerate in Korea (*by market cap*), who were given an average of 11,820 shares each as part of an Esop in the IPO. Some mid-level managers received more than 20,000 shares each. The share price set for the IPO last July was 49,000 won, but it quickly jumped to 191,000 won, meaning their initial investment, collectively worth 579m won, soon spiked at around 2bn won. The exodus picked up speed after the shares slowly headed south, making employees anxious about a possible dent in their gains in a highly volatile equity market. The Esop participants then demanded that the firm process their requests for termination and severance pay more speedily, in order to cash out their stocks faster. Stocks given via Esops can be transferred to individual accounts from the Korea Securities Depository (KSD), *but only if employees quit the firm*. By law, the KSD is required to hold the Esop-managed stocks for at least a year, but employees who quit can have the stocks transferred a month after termination. The firm initially sought to give severance pay to the leavers within four weeks after their date of termination. But it retracted that decision and said the money would be paid in full within 14 days of termination, following protests from the leavers. The stock price soared to as high as 269,500 won July 7, but later stabilised in a range of 170,000-200,000 won *and 181,000 won in late December*. About 20 other firms in this sector sought public listings between August and December, adding to eight bio firms listed between January and July. Korea Pharma was listed at a price of 9,000 won in August and *stood at almost 21,000 won in late December*. The competition rate to subscribe was 2,035 to 1 in a company that reported an annual sale of 66.1bn won and a net profit of 5.5bn won in 2019.

***Luxembourg** plans to introduce a new profit-sharing scheme (PSS) to encourage employees confronted by the pandemic to stay in their posts, reported *DLA Piper*. The ministry of finance announced that the PSS would feature in its Budget Bill which, subject to amendment, would come into force from the New Year. Eligibility criteria for the PSS include: participants must be employees of a Luxembourg firm and pay local taxes; the total value of all awards must not exceed five percent of the employer's profits for the financial year immediately preceding the year in which the award is granted (*note, for foreign owned companies, the* *five percent maximum must be calculated by reference to their local entity’s profits, not the profits of the global group);* and upon grant, a filing is required with the local tax withholding office to confirm details of the PSS. Participants will receive a 50 percent reduction in their income tax liability for those amounts paid under the PSS not exceeding 25 percent of their ordinary annual gross remuneration (i.e. their salary excluding any cash or other bonuses, premiums etc.); The award will be tax deductible for the local employer; the PSS is available for both cash or share awards (subject to further clarifications); and *employers can choose which of their local employees will participate*. The 2017 circular which dealt with valuation methods for stock options and warrants will be abolished. This means that a lump-sum valuation method cannot be used to calculate taxable gains on any options or warrants granted from January 1 2021. The new valuation method to determine fair market value is likely to result in higher valuations. The Bill would improve the treatment of individuals relocating to Luxembourg. Its key benefits are: bonuses given to individuals will qualify for a 50 percent tax exemption (up from 30 percent); minimum salaries to rely on this regime will be decreased from €100,000 to €50,000; companies will no longer need to have at least 20 employees on the local payroll to obtain the tax benefits; and the regime will be available for nine years from the year of the individual’s arrival instead of six years, as at present.

***US**: Shares in Airbnb more than doubled when the company started trading on the Nasdaq, a price which valued the short-term lettings company at almost $100bn. The sale created billions for its founders - Joe Gebbia, Brian Chesky and Nathan Blecharczyz - and allowed staff to sell up to 15 percent of their shares after the listing creating more millionaires, instead of waiting for the usual share trade lock-up period to expire. The share sale came as US stock markets soared to record highs as investors demanded new issues. More money was raised from share sales in 2020 than in 1999, the height of the dotcom boom. Airbnb was founded in 2008 after the co-founders had the idea of renting air mattresses in their San Francisco apartments. Airbnb now has more than seven million short-term listings worldwide and at $100bn was twice the value of **Marriott**, the largest hotel operator. The shares were priced originally at $68 a share but the company started trading at more than $150 a share amid fierce bidding and closed its first day at $144.70.

*2020 was an IPO gravy train that allowed tech unicorns to raise billions of dollars, but many of their employees have yet to exercise billions of dollars in stock options, according to a new analysis, reported ***yahoo finance***. Employees of tech start-ups who went public last year left an estimated **$4.9bn** worth of unexercised pre-IPO shares on the table, financial start-up **Secfi** said in its report. More than $18.7 bn was raised in IPOs from the 25 largest venture-backed companies who went public in the US in 2020, according to PitchBook data. ***The amount of company shares set aside for employee stock remains around 15 percent and is likely to remain at that level in years to come,*** according to San Francisco-based *J.Thelander Consulting*, a compensation-focused firm. Employees may opt not to exercise in advance of listings for various strategic reasons, but many don’t exercise options because they lack the funds up front to take ownership of the shares and hold them long-term. By the time of the IPO or later, employees may discover, too late, high costs around the exercise and taxes on gains, according to Secfi, which is a venture-backed start-up that provides tech employees with equity financing. Through its financing to help unlock the options’ value, Secfi is making a co-investment that is a bet that the start-up’s valuation will grow and pay off in the future. Its report underlines the importance of employees educating themselves and planning equity financing options well ahead of their company’s IPO, added Secfi. The report showed that the average cost per employee of exercising options at companies like Snowflake, Airbnb and DoorDash was c.$500,000—at least twice high -tech employees’ average household income. Huge sums in unexercised options emerged at companies leading last year’s IPO bonanza. At cloud-data specialist *Snowflake* alone, more than $1.2 bn in options went unexercised, according to Secfi’s estimate, which was based on 1,000 individuals working at 69 tech unicorns in California. Airbnb’s total of unexercised options was estimated at $966m, while it was $954m at DoorDash and $321m at Unity Software, which went public in a $1.3bn deal last September.

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