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it's our business

newspad of the Employee Share Ownership Centre

Red lights flash on all-employee schemes

A rise in the take-up by SMEs of the hugely popular share options based Enterprise Management Incentive (EMI) disguised a growing malaise in most of the UK employee share scheme sector, new HMRC statistics reveal.

While the overall number of companies operating tax -advantaged employee share schemes rose by six percent to 15,340 in the tax year ended April 2020, a record **13,970** of these were EMIs – i.e. ***91 percent*** of all the companies using any Eso scheme - its tables showed. EMI's upward march, adding an additional 1,120 SME companies during the 2019-20 tax year, meant that its usage in the UK had doubled in a decade.

Meanwhile, the warning lights flashed as company usage of the three other tax-advantaged share schemes – SAYE-Sharesave, the Share Incentive Plan (SIP) and the Company Share Option Plan (CSOP), declined by a further three percent overall last year, said HMRC.

In detail, the number of live CSOPs declined slightly, from 1310 to 1290; SAYE schemes fell from 570 to 550 live schemes and the number of SIPs went down very slightly too – from 850 to 840, the statistics revealed.

Worse still, the number of UK companies using these three schemes declined by 17 percent – almost one fifth - during the past decade, warned HMRC pointedly.

The totals for each tax-advantaged share scheme add up to more than 15,340 in total because many companies operate SAYE and SIP schemes - and even CSOPs too - simultaneously. It is misleading to add up employee users of each scheme as (a) some employees are members of two schemes and (b) many SIP participants buy their partnership shares monthly, instead of yearly.

Although the number of key employees granted EMI options is still relatively small – 156,000 during the fiscal years 2015-20, including some executives being awarded options in successive years, it is expanding rapidly. However, as many EMIs are Exit-Only, not even half this total is ever likely to be able to cash in their options, unless the young companies achieve a trade sale, an IPO or a takeover.

Just a decade ago, there were still almost 2,000 CSOPs in being, while the number of SAYE schemes has slumped from about 700 over the same period. Only the SIP has held on relatively well, losing only five percent of its company usage in ten years.

Furthermore, these latest official statistics only cover the period up to April 6 last year and therefore do not take account of recent adverse effects of the pandemic on either employee share scheme invitations or participation rates.

On top of all that, the tidal wave of private equity houses acquiring British quoted companies threatens the existence of numerous employee share schemes, which may not be replaced by their new owners. (*see private equity invasion further down).*

The Centre is urging the chancellor to give fusty all-employee share scheme rules a major shake-up to make employee participation much more attractive and relevant to changing employment and work patterns.

From the chairman

There is a dysfunction at the heart of share plans for the UK which is now a growing threat to national well-being. It is exemplified by the annual statistics from HMRC, which can only be understood by HMRC and on which ministers avoid comment. UK has international as well as national interests and the former predominate so we lack national champions. The country is at risk from the incursion of private equity. The number of employees in the private sector plummets and there is no thought for how the business benefits of employee share ownership can be spread across the changing economy. If there is hope anywhere, it is from the return to government of Sajid Javid. He is not an essay-writer but a person of conviction. As EQ ceases to be UK owned and the doors appear to open at Sanne, we need a champion with convictions.

Malcolm Hurlston CBE

Centre founder Malcolm Hurlston CBE, said: "*The current share scheme rules reflect the time of their inception far more than the needs and circumstances of today and tomorrow. It's time for a leap forward, not for more tinkering merely to shore up the existing system.*"

These are the main changes which the Centre urges the government to implement as a matter of urgency:

*Offer *companies* – not just employees - tax incentives for operating an employee share plan.

*Make SAYE-Sharesave plans completely exempt from Capital Gains Tax.

*Allow Share Incentive Plan (SIP) participants to cash in full tax protected value from their holdings after **three years**, instead of the current five, to reflect the fact that people change jobs more frequently these days.

*Double the Company Share Option Plan (CSOP) maximum tax protected investment limit to **£60K**, in order to increase its appeal to all levels of employees.

*Increase the Enterprise Management Incentive (EMI) gross asset value qualifying limit from its current £30m to at least **£50m,** which would merely put it back to its inflation adjusted level of 20 years ago.

*Suggest to employers that their employees should be forced to opt out if they do not want to participate in Eso plans, similar to the workplace pension auto-enrolment process.

*Make it much easier for mobile employees to transfer the *value* of their employee shareholdings – into another Eso plan - when they resign in order to start new jobs.

*On the corporate governance front, compel listed companies to include in their annual reports a free-standing section explaining what their Eso policies are and listing the various employee share scheme they operate and how many participants there are in each.

*Give employees the legal 'right to request' that an employee share plan should be established.

In the fiscal year ended April 2020, 99 percent of companies operating EMI did **not** operate any other tax advantaged scheme, said HMRC.

Perhaps the most worrying new statistic was that the number of employees granted CSOP options in 2019-20 fell to just 25,000 compared to an already severely reduced 40,000 a decade ago. In addition, the number of employees granted SAYE options in 2019-20 was down to 310,000 from more than 400,000 a decade ago.

Employees received an estimated £530m in Income Tax (IT) relief and £340m in NICs relief in the 2019-20 fiscal year from tax-advantaged employee share schemes (ESS), but the total cost to taxpayers was well beneath the level seen a few years ago.

The share options based Enterprise Management Incentive (EMI) was the largest beneficiary of IT + NICs tax relief – worth £360m in that year. *However, there is an additional cost to taxpayers, especially in EMI's case, because HMRC does not collect statistics on Capital Gains Tax exemptions and/or lower charge rate incentives when users cash in their options.*

Share options granted under SAYE had the largest aggregate value in that tax year, possibly due to the scheme being available to all employees, said HMRC.

EVENTS

Webinar - Esop Sofa: *newspad* review

We hope you will join us **Thursday August 12 at 11:00am** for our regular panel discussion when guests, Lyn Colloff, company secretary at Wincanton, Colin Kendon, partner at Bird & Bird and a share schemes expert from Clifford Chance chew over the pick of issues raised in this and next month's editions of *newspad - it's our business.* The discussion highlights the Centre's response to the Treasury's *Call for Evidence*, on whether and how more UK companies should be able to access EMI schemes. The Centre's evidence urged chancellor Rishi Sunak to reboot EMI by tearing up its archaic and increasingly irrelevant rule book.

Webinar reports:

All-employee share plans just the ticket for TTP

Employee shareholders at Royston, Cambridge-based **TTP Group (**The Technology Partnership), have helped the leading independent technology and product development company to hit the heights, an online audience heard at a webinar held jointly by the **Institute of Directors** and the Esop Centre.

For TTP, last year began with a technology advisory partnership with *Cancer Research UK,* which invited TTP to apply its technology design and development expertise and insight in the healthcare sector, to assess discoveries made by the charity's academic researchers. TTP is evaluating the clinical and commercial applications of emerging technologies, to support Cancer Research UK's pioneering work in the prevention, diagnosis and treatment of cancer.

An online panel discussion highlighted examples of engaging with staff via employee share ownership in order to *Build Back Better* post Covid. TTP was a well-chosen medium-sized company to deliver its Eso case history because it is around 90 percent owned by its employees, but is without an EOT because it much prefers direct all-employee share ownership.

Keith Haddow, group fd at Centre member TTP,

The Esop Centre and the pandemic

The Centre has responded to the pandemic by widening and increasing its range of activities, to meet members' extended needs.

Symposium and *newspad* awards: We re-imagined the 2020 symposium as a series of live on-line discussions. We made the 11 presentations available to participants, as video recordings, in advance. The 'Symposium On-line' live events were spread over three days in March 2021 and included the announcement and presentation of certificates to the winning and commended *newspad all-employee share plan awards 2020* entries.

Webinar programme: With physical events on hold, the Centre embarked on a programme of webinars, starting with chairman Malcolm Hurlston CBE recounting the origins and inspiration for the Centre, in April 2020. We have since broadcast a further 27 webinars with topics ranging from Beyond Brexit to Valuation - Communication strategies to Salary replacement. The Esop Centre webinars now benefit from being part of the wider FS Club webinar programme - it included around 300 broadcasts between March 2020 and July 2021.

Webclaves: In place of last year's Jersey conference, we invited the speakers to lead discussions in our first members' webclave (online conclave: a private, invitation-only meeting, which brings Centre members together to discuss areas of common interest) in September, to which we invited all who had registered their interest in coming to the event. Headlining it was "Letter from London" by former Foreign Office minister Mark Field. It was so well received that we followed up with a further two webclaves, on "The role of share plans in supporting a good workplace culture" / "Displaced Workers and share plans" in January and "Achieving what we value" in June of this year. (A report of June's webclave can be read in this edition of *newspad*).

year	Physical events	Virtual events	+FS Club virtual events
2017	9	-	n/a
2018	6	-	n/a
2019	5	-	n/a
2020	1	22	180
2021 (to July)	-	12	98

Though we have run fewer physical events, we have stepped up content and have been happy to bring you 300 events over the past 18 months.

We shall resume face-to-face events as soon as practicable and, in addition, keep up an on-line programme in line with predicted trends for the return, or partial return to the workplace. We look forward to offering more opportunities to join the conversation with a wider programme of events.

said that almost all its 350 scientists and engineers were employee shareowners, so much so that the company now has around 1,100 employee and former employee shareholders. The company, founded in 1987, had embraced profit-sharing enthusiastically by awarding an equal number of shares to employees annually, until HMRC axed its tax-advantaged status in 2001 in favour of the Share Incentive Plan (SIP), which was the *new kid on the block* at that time, said Keith. In addition, the company already had started an Esop in 1991. "We use A Class shares for Partnership Shares, which are bought usually on a one-for-one matching basis," added Keith. Incredibly, he and his fellow TTP share scheme aficionados then created their own '*home grown'* Eso plan as well.

He explained how TTP had created an internal share market, using an employee loans system which allowed employees to buy shares from each other and from leavers. Although there were usually only ten to 12 internal share trades per month, often tens of thousands of TTP shares were bought and sold in this way.

Keith stressed that for TTP, employee share ownership was not just an *add-on.* "Eso is a necessary and obvious feature of how we conduct ourselves," he said. "We have a partnership ethos and so we have expectations that our people will challenge company decisions and that these employees expect to be properly heard. Direct share ownership has worked well for us, but we do face challenges on how best to get shares from ex-employees to current employees," he added.

A key issue was how Eso could be used to build better relationships with employees – how it could help meet Covid challenges by contributing to employees' savings, morale and engagement.

Another businessman who shared his employee equity experience with the webinar audience was David Clarke, founder director of Employee Ownership Trust (EOT) owned **DBS Internet Marketing**. Mr Clarke had founded DBS in California in 1986 as a print advertising company (DBS stands for *Directory Business Services*). David transitioned DBS from its original focus of print advertising to a company which specialises almost entirely in web design and internet marketing. DBS became Lincolnshire's first 100 percent employee owned company two years ago. He explained that after running the company for so many years and owning all its shares, he did not want to become known by his employees as *Doddery Dave,* so he had wanted to step back, without hurting his business. He had been very cautious about the future, asking his advisers every question under the sun before enacting the EOT 18 months later, via a ten year loan deal, which involves employees paying the sale price back to him bit by bit. Dave described how difficult it was for him to invert the decision-making pyramid and then to flatten it – i.e. to stop taking the key decisions himself. He was staying on at the company as a director until the loan was fully repaid.

The panel was asked whether Eso could help improve the UK's relatively poor productivity record vis-à-vis other developed nations. Mr Clarke replied that after the EOT at DBS Internet Marketing, he had noticed that, instead of telling callers, as they had done previously, that "*So and So* was away but could they leave a message," staff were now telling callers that "although *So and So* was away, they'd be delighted to fix up the caller with a scheduled interview next week," or whenever.

The final panellist was **Graham Muir,** a partner in the **CMS** employee incentives team with a 25 year record of specialisation in this sector. Graham is co-chair of the tax committee of the Share Plan Lawyers Group. He said that it would be unwise for newcomer companies to *go it alone* over the installation and operation of employee share schemes, because there was a range of legal issues they needed to get right in order to avoid trouble with HMRC and/or others. EMI, which was supposed to be simple to understand and use, had in fact the most pitfalls – the most traps for the unwary - among the tax-advantaged share schemes. If the company concerned was privately-held, the services of professional share valuer would be needed. Operational costs were usually relatively limited but there were the accounting costs of such schemes and when a corporate event occurred, such as a company sale, extra costs were involved, not least if there were many employee share holders who needed sorting out, in accordance with company law. **Professor Michael Mainelli**, executive chairman of the **Z/Yen Group**, which operates the Centre, chaired the panel.

EOTs – the credible alternative to succession

Employee Ownership Trusts are a popular means of safeguarding succession in privately-held SMEs, employee share schemes expert, **David Craddock**, told another Centre webinar audience. The Employee Ownership Trust (EOT) structure had been the most significant legislative triumph for the employee ownership sector during the former Coalition government, opined Mr Craddock. Its structure was currently unique in the developed world. "*The EOT is indirect collective employee ownership, in which the shares are held in a discretionary trust for the long-term benefit of the workforce,"* said the owner-founder of his eponymous consultancy. Majority owners of SMEs could sell between 51 and 100 percent of their shares into an EOT entirely free of any CGT charge. There was no need for a third party in the transaction, as there was in a trade sale, he added. A big advantage for the employees in an EOT was that the new company could pay out up to £3,600 per tax year to the employees as bonuses which were exempt from Income Tax charges. However, the biggest advantage of all for the employees was that the structure of the EOT tended to safeguard jobs in local communities. By contrast, in trade sales redundancies were more likely to occur, Mr Craddock maintained. Adopting an EOT did not necessarily mean the end of direct employee share ownership because the structure could be adapted to allow the introduction of both EMI and Share Incentive Plan (SIP) schemes and he usually advised clients to consider issuing new shares, worth (say) ten percent of the total equity, for this purpose, although this was slightly dilutive of overall control.

So how was the purchase of a controlling interest in the company financed? - Normally, it was the company itself which funded the transfer, via a non -binding agreement (*to keep for the regular payment of voluntary contributions tax-free*). The valuation of the company was key because the participants in the EOT – the owner, the employees and the trustee needed to have confidence in the level of proceeds involved in the transaction. Often, the owner-seller stayed around for an agreed period after the EOT was established to ensure the vital 'succession' of management skills and to help keep the company on an even keel. The whole transfer to EOT status takes between four and six weeks, added David, who is the author of Tolley's share schemes guide.

The use of EOTs by private companies rose considerably last year and this trend was expected to continue. About 400 UK companies now have the EOT structure and J&L Elevator Components is one of the most recent to join them. It is believed that there are another 100 or so companies with a different form of employee ownership. The business ethos that lay at the heart of the EOT was that it was set up to hold shares on behalf of *all the employees* of the company. In turn, a more engaged and more secure workforce could lead to higher productivity and profitability. The most tax-efficient and motivation-maximising EOT required a structure that allowed the EOT to work alongside tax-advantaged tax approved employee share schemes, possibly with linkage to meaningful and measurable performance conditions. Other headline advantages of the EOT for Exit included: *Establishing the independence of the company in perpetuity; *Security of employment for the employees and *flexibility to work alongside traditional employee share schemes.

Achieving what we value - webclave

The webclave keynote address *measuring what we value: looking beyond GDP to build back better* was given by Matt Whittaker, ceo, **Pro Bono Economics (PBE)** and former Hurlstons staff member, when Hurlstons staffed the Centre. PBE provides pro bono economic support to other charities – helping them understand the impact of what they do. His key point was that GDP (gross domestic product), the total of all value added created in an economy, didn't really measure what we value as human beings. John Kennedy had famously said that GDP measured everything except the things that made life worthwhile. We did not have a good handle on the real value of the work that charities do, said Matt. The output of civil society was not separately identified in the UK's national accounts. Yet there were 170,000 registered UK charities, employing 870,000 people –equivalent to three percent of the UK workforce and producing an official £18bn in gross value added, but this ignored formal volunteering, which was seen on a substantial scale in the UK, adding at least another £6bn to this number. Informal volunteering was not captured by the official statistics, nor were spill-over benefits, such as savings on policing and NHS costs by taking homeless people off the streets, for which – all told - an extra £61bn should be added and so on. Yet political policy seemed to neglect civil society and charities had been the poor relation in terms of Covid support from government, said Matt. *Levelling Up* was all very well, but the cash was focussed on renewing/improving physical infrastructure. The link between rival GDP scores in various local authorities and a sense of well-being was tenuous. The bottom line must measure social value. Different forms of corporate ownership, like employee share ownership, took us beyond the bottom line. "*We value what we measure and we measure what we value – the more we can start to get a good handle on these metrics, the more government and others will start to focus on them as things that they want to change in their policy,"* he added.

Climate change will have a significant impact on both executive equity remuneration and all-employee share schemes, forecast remuneration expert Damian Carnell, founder director of **CORPGRO.** The share plan industry can no longer rely on *business as usual* because many companies would be forced to shake-up their reward strategies in light of the severe challenges posed by climate change. Mr Carnell, a member of the Centre steering committee, examined links between *climate change and the future of share plans.* From now on, premium listed companies were obliged under the UK listing and reporting rules to comply or explain exactly what they were doing to help meet the climate crisis challenge. The task force on climate related financial disclosures (TCFD) had asked: *What will be the impact of climate change on your organisation?* This question and how to respond was much bigger than other elements in the ESG (*Environmental, Social and Governance*) lexicon, he said. There were two types of risk to examine – that of climate change itself, for example water supply and its security, and transition risk in moving towards a low carbon or carbon neutral economy: e.g. what would happen if companies did not engage with these issues and change their business models? On a basic level, did every company know whether any of its factories or warehouses were located close to the sea or large rivers, or in flood zones?

Was it governments or companies who were responsible for action, or lack of it, on the climate change front? Under the strategy head were the issues of the risks and opportunities; then there was risk management and finally the metrics and ensuing targets – what should be tracked and reported? Damian revealed that the subject of corporate climate change had been tabled by the Financial Stability Council in 2015 at the request of institutional investors.

So what did this have to do with all-employee and executive equity plans, he asked rhetorically. Well, in the years ahead there would be changes in company profit and loss profiles and time horizons, which would affect share prices and there would be a case for some companies to issue climate change based share options. Furthermore, performance metrics in equity plans might become too difficult to assess in some companies, inviting the question of whether restricted shares for executives would make a comeback. As for broad-based Eso plans, the next ten years looked like bringing with them big climatic changes, which would put some question marks around employee contributory plans - for example, would it make sense any longer in a high-risk world to offer a 15 percent discount to the share market price as an incentive to employee participation? Should the sector consider changing the nature of existing share plan types? Should they focus more on longer-term participation arrangements? Perhaps more CSOP style plans (Company Share Option Plan) would become more appropriate, he added.

Andrew Patterson, partner, incentives division at **Clifford Chance** asked *"How can share plans support a company's ESG strategy*?" Businesses were expected to consider their role in wider society these days and couldn't only look at the value they gave to shareholders, but at many other aspects, said Andrew. Failure to do so would lead to significant investor exits as well as wider criticism from stakeholders and others. Reporting requirements at international, EU and domestic levels, regarding sustainability and ESG reporting, had made this a complex area for businesses to navigate. Executive pay remained a very hot topic, at the forefront of corporate governance and disclosure issues. Links between executive reward packages and stand-alone ESG material norms were on the rise for both bonus calculations and LTIPs. Companies were being forced to step up to the plate by having their executives and senior management held more accountable for what they did. Half of FTSE top 100 companies now had ESG targets and many more planned to do so. The nature of those targets was evolving. There was an increase in climate change measures across all sectors, financial services in particular. So companies had to avoid a *tick box* attitude to ESG tasks. Proxy advisers were evolving their guidance in this area, suggesting to *remcoms* that ESG should be incorporated into executive pay structures, but were conscious of the challenges when attempting to link pay to ESG performance. For example, what happened when there was conflict between value creation in a company and ESG targets and might there be other ways to align ESG risks to executive pay that are more effective than targets, he asked?

Key questions for the future were: *Did ESG measures always need to align with shareholder value creation? Could attaching ESG to executive reward genuinely affect climate change, or was it just a temporary fad?* Lively breakout discussion groups followed. The webclave was chaired by Prof Michael Mainelli.

MOVERS & SHAKERS

Share plans industry stalwart **Darren Smith** is joining the **Global Shares** team later this month as business development director for the UK. Darren worked with **YBS Share Plans** for more than 20 years as share plans consultant, client relationship manager and most recently as national sales manager, until it announced that it was pulling out of share scheme administration. Darren is a well-known and regular industry host, speaking on topics including share plans and financial wellbeing, bringing fun and an engaging style to events. **Martin Osborne-Shaw**, Global Shares' head of UK & EU sales, said: "*Darren's drive and enthusiasm for share plans are infectious and he will feel at home at Global Shares. His nationwide reach and track record in this business will be a huge asset in establishing Global Shares as a go-to share plan provider in the UK at a time of great change in the marketplace."* On the back of its UK expansion, Ireland's Global Shares announced that it will open a new office in Leeds later this year, where an additional 30+ people will join the GS team, in addition to its offices in central London. Darren will join Global Shares on July 26. In the meantime, he can be contacted via mobile**+44 773 655 1270** or via LinkedIn.

*The Centre welcomed back to the Cabinet employee share ownership friend **Sajid Javid,** who replaced Matt Hancock as secretary of state for health. When he was business secretary some years back, Mr Javid defied his senior civil servant to ensure that almost 150,000 postal employees received a further one percent of **Royal Mail**'s equity in the form of free shares, then worth £50m, during the last stage of its privatisation. His generous inclusive act gave the *posties* collectively more than 12 percent of the company via the UK's largest employee share ownership scheme – a five-year SIP. Political heavyweight Sajid was manoeuvred out of his former job as chancellor of the exchequer when he refused a demand from Dominic Cummings to replace his top advisers with others nominated by No 10. Bo Jo greatly respected Sajid for the latter's quiet loyalty during his period in the wilderness.

*Centre member **Ocorian** announced that it was acquiring **Nordic Trustee (NT),** the leading provider of trustee and agency services for bonds and direct lending in the Nordic region, subject to regulatory approval. NT has been an integral part the Nordic bond market supporting borrowers and lenders with advice through more than 400 bond restructurings and 2,000 bondholder meetings.

Nordic Trustee is the largest independent loan agent in the growing Nordic private credit market and supports various stakeholders in the bond and private loan markets with digital solutions. Nordic Trustee currently handles more than 3,000 active assignments in the non-bank lending sector for more than 850 issuers/borrowers from 30 countries. Nordic Trustee, which has offices in Oslo, Stockholm, Copenhagen and Helsinki, is led by ceo Cato Holmsen and an experienced management team. This acquisition is a geographic complement to Ocorian's existing network of 16 offices, spanning the world's financial hubs.

*Don't forget – the **deadline for filing** *all* share plan annual returns for the 2020-21 fiscal year is **July 6.** There are automatic fines for late filings.

Reportable events include the following: *grant of options *the exercise of options *certain lapses of options *the acquisition of shares *events under the restricted shares legislation and anti-avoidance rules. Register all new employee share plans and arrangements online. Self-certify that any new tax-advantaged share plans (EMI, CSOP, SIP and SAYE) meet certain requirements. NB: If a plan has been registered already, but no reportable events for the 2020/2021 tax year have occurred, submit a "nil return" to avoid automatic penalties arising for non-filing.

Take screenshots at all stages of your end of year reporting, and for all other activity on the HMRC online site (e.g. the notification of EMI option grants), for your records.

Ensure that EMI option agreements include details of any restrictions attaching to the shares subject to the option. If you have changed your articles of association/shareholders resolution or constitution as part of a funding round, the summary of restrictions will need to be updated for new EMI options, said lawyers *Taylor Wessing.*

UK CORNER

Channel 4 sell-off may include employee shares

A mutual ownership model could feature in a government sell-off of **Channel 4**, now expected as early as next year. Culture secretary, Oliver Dowden is expected to launch a formal consultation within weeks in order to decide how best to sell-off the state-owned TV channel, in order to "*provide a sustainable future for the broadcaster*."

Its privatisation could spark off a sell-off of other state-owned companies.

The consultation will be led by media minister John Whittingdale, who first advocated a privatisation of Channel 4 in 1996 and explored the possibility of a private sale in 2016 when he was culture secretary. A Cabinet decision on the sale logistics is expected before the end of this year, followed by legislation to enable Channel 4's sale to be introduced next year.

Whitehall insiders suggested that Channel 4 could either be auctioned off, or partially/fully floated on the stock exchange, or switched to a *mutual ownership model,* according to the *Financial Times.*

Although the TV channel is state-owned, it receives no taxpayer support and is funded entirely from advertising revenue. It has 903 employees.

Channel 4 took in almost £1bn in revenue in 2019, but registered a pre-tax £26m loss, mainly due to costs associated with the opening its new HQ in Leeds and new creative hubs in Bristol and Glasgow. Streaming has hit its markets but it still reported an operating surplus of £71m, so there are potential buyers.

Channel 4 refused to comment on the speculation. The channel has been a launch pad for UK talent, giving early breaks to Sacha Baron Cohen and Oscar-winning directors Steve McQueen and Danny Boyle.

A buffeted share schemes sector will be wondering whether such a sale could create a boost for employee share ownership, as The Treasury is keen to rebuild its shattered reserves after its hugely expensive Covid jobs protection programme.

Other candidates for UK state business sales to the private sector include NatWest Group *(still 55 percent taxpayer owned*) the Nuclear Decommissioning Authority, Highways England, the Land Registry, Ordnance Survey, the Post Office, UK Asset Resolution, Bradford & Bingley and Urenco**,** which operates uranium enrichment plants.

Less likely state-owned candidates for disposal include: the Civil Aviation Authority, UK Export Finance, London & Continental Railways, the National Physical Laboratory, Network Rail, the Pension Protection Fund and the Royal Mint.

*The great 1980s share ownership drive ('*people's capitalism'*) might never have happened, but for Cabinet fears prior to the **BT** privatisation that City institutions would be unable to swallow such a huge share offering by itself in one go. The story is told by Charles Moore in his biography of Margaret Thatcher. Her Cabinet feared a political and public relations disaster if a large chunk of BT shares were left unsold in their hands in the IPO. So they decided, with the PM's agreement, that BT shares should be offered to the public too and that employees should be given priority in the sale. In the event, employees bought 3.8 percent of the offered BT equity, a staggering number of shares. It was not until the following privatisation – that of British Gas – that the '*Tell Sid'* campaign was born, a marketing triumph as millions of individuals came onside as shareholders for the first time in their lives.

Treasury minister acknowledges Centre lobbying

Treasury economic secretary Jesse Norman MP wrote to Z/Yen executive chairman, Professor Michael Mainelli, thanking him for sending the Centre's representations on Capital *Gains* Tax (CGT) and employee share ownership. Mr Norman, the minister responsible for the UK tax system, said that the government fully understood the importance of enabling employees to share in the fruits of a company's success and of supporting businesses seeking to reward and retain employees effectively.

"*This is why the government continues to offer a range of tax-advantaged employee share schemes through Income Tax (IT) and CGT reliefs on qualifying shares, and for employee ownership trusts, an IT exemption on bonus payments*," said Mr Norman. "*As you may be aware, at Budget 2021, the government published a call for evidence on whether and how more UK companies should be able to access Enterprise Management Incentives to help them to recruit and retain the talent they need to scale up. I would encourage you to respond to the consultation"*– which the Centre has done (*see June issue).*

"*You mentioned recommendations included in the recent Office of Tax Simplification (OTS) CGT report. As you know, last year the chancellor commissioned the OTS to examine areas where the present rules on CGT can distort behaviour or do not meet their policy intent. The OTS has a statutory role to advise the government on how to make the tax system simple. The government will respond to the OTS report in due course. The Treasury keeps the UK tax system under constant review to ensure it is fair for all taxpayers*," he added. This wording could be read as a hint that chancellor Rishi Sunak is not keen on raising CGT rates any time soon.

The Centre was earlier thanked by members for its robust defence, made in Prof Mainelli's letter to Mr Sunak, of the current CGT rules relating to tax-advantaged employee share schemes. In particular, the Centre warned him that the drastic cut in the £12,200 annual CGT exemption, as proposed *inter alia* by the OTS, would seriously damage some Eso schemes, especially SAYE-Sharesave. The Centre lobbied too for CGT rates to stay as they are. In addition, members called for a shake-up of the tax-advantaged all-employee share schemes which, it said, needed reforms to align them more with new working practices.

EQ agrees to US private equity group takeover

Equiniti Group *(renamed **EQ**)* has agreed to a £673m takeover by Earth Private Holdings, a new company owned by funds managed or advised by US private equity investor, **Siris Capital Group**, subject to regulatory approvals**.** Shareholders of the UK outsourcer of financial and administration services would get 180p per share in cash, which was a 31 percent premium to Equiniti's closing price of 138p on April 16, the day before Siris confirmed an approach. Sirus' fifth offer of 170p in April was rejected, but not the latest bid. "*The EQ board believes that the offer from Siris represents an attractive and certain value in cash today for EQ's shareholders, reflecting the strength of EQ's high-quality business and its future prospects in a still uncertain environment*," said chairman Philip Yea.

EQ manages more than a million employee accounts for businesses of all sizes, from 30 employees to 300,000 with, in total, £3bn worth of plan assets under management. It acts as shares registrar to more than 500 companies, including many of the FTSE top 100, as well as investment trusts. Equiniti grew out of the share registration business of Lloyds TSB, which was bought out from Lloyds by private equity firm **Advent International**, in 2007. The company was partially re-listed via an IPO in October 2015. Based in Worthing, Equiniti employs around 5,000 staff and re-branded as EQ in July last year. It administers employee share schemes, pensions and other back-office services for FTSE 100 companies, but had a tough last year, with the business recording reduced revenue, EBITDA and profit in its annual results.

Private equity takeovers threaten share schemes

Private equity firms are splashing cash on company acquisitions like there's no tomorrow. European private equity houses alone have $400bn (£287bn) to invest in UK and Continental companies and US private equity too has major takeover ambitions in Europe, warned data company Preqin.

However, private equity, with a few exceptions – notably Centre member **KKR** – is not usually a friend of employee share ownership, because Eso dilutes its ownership of the company.

The FTSE 250 aerospace group **Senior** revealed it had become the latest to receive a bid from Texas based private equity firm **Lone Star Global**, in the same week when the inhaler maker **Ventura** joined a growing list of UK companies targeted by the secretive sector. Sky News reported that **Carlyle** was in talks about an investment into the listed exhibitions group **Hyve.** Bids are being made at a furious pace - the infrastructure investor **John Laing**, industrial property developer **St Modwen** and **UDG Healthcare** have had recent takeover offers. Another US firm, **Bridgepoint**, said it would take a minority stake in **Itsu**, the Asian-inspired food chain.

The Competition & Markets Authority (CMA) confirmed the Issa brothers' £6.8bn debt-fuelled takeover of **Asda** supermarket group after accepting their offer to sell off 27 petrol stations to ease competition fears. Up to 25,000 Asda employees held shares or options in US parent Walmart through their employee share schemes, but these are set to disappear, as their new owners exercise their right to call in outstanding employee shares and share options, under the Companies Act and offer participating employees cash bonuses instead of any new share schemes. The brothers and **TDR Capital**, a UK private equity house, own the acquirer, the **EG Group,** which operates 395 petrol stations in the UK, while Asda owns 323 sites.

The long-term future of another major employee share ownership plan looked uncertain after supermarket chain **Morrisons** rejected a £5.5bn bid from US buyout firm **Clayton, Dubilier & Rice**. A bidding war over Morrisons between private equity houses and possibly Amazon too seemed on the cards. Administration of the Morrisons SAYE-Sharesave scheme was transferred to EQ by YBS Share Plans after the latter announced that it was pulling out of the employee share schemes market. As Morrisons owns most of its sites, an obvious strategy for a private equity acquirer would be to sell the store freeholds and then lease them back, in order to recoup a chunk of its outlay. This would make it harder for Morrisons to make good profits in future as it would be paying heavy leasehold charges and that in turn would impact adversely on the success of any surviving share schemes. A group of MPs said they would write to the CMA, requesting guarantees to be imposed on Morrisons' eventual acquirer, preventing hundreds of its employees from being dismissed.

Private equity firms have *announced 113 deals for UK companies (both takeovers and minority stakes) with a combined value of £23.3bn* ***so far*** *in 2021, according to data company Dealogic. That is the fastest pace of deal-making since 2007, just before the financial crisis*, it said.

Another factor whetting the appetite of private equity firms for UK businesses is that the government has failed to close Capital Gains Tax loopholes which mean private equity earnings – *carried interest*– are taxed at a significantly lower rate than normal income.

Centre member **Sanne Group,** the Jersey based FTSE250 provider of administration services for employee share schemes and specialist fund managers agreed to talk to its private equity suitor after four previous takeover overtures were rejected. Sanne Group said that it had agreed to enter into discussions with Cinven after the latter raised its indicative offer to 875p, valuing the business at £1.4bn. It had refused to talk to Cinven after earlier indicative offers, including one pitched at 830p and another at 850p, dismissing them as opportunistic and not reflecting the value of its business. Shares in Sanne, a member of the FTSE 250 index, rose by 68p, or 8.8 percent, to 840p. The agreement to talk was expected to entice Sanne to open its books, but Sanne said there was no guarantee that a formal offer would be made by Cinven at this level.

COMPANIES

More than **70 percent** of **Morrisons** (*see takeover bid story above)* shareholders rebelled against a bonus award for the supermarket chain's ceo in one of the biggest agm revolts on record. Shareholders voted overwhelmingly against the award of millions of pounds in bonuses to executives who missed profit targets during the pandemic. *However, their vote was not binding, and the executive team intended to collect their awards in full.* Votes on remuneration ***reports*** are advisory, meaning executives can keep their reward increases, but next year's agm vote on Morrisons' new remuneration ***policy*** will be binding. Ceo David Potts and his two most senior executives will receive £9m in pay and bonuses, despite a year in which the company fell out of the FTSE 100 and profits more than halved because of extra pandemic costs. Potts will collect his full £1.7m shares bonus, bringing his total reward to £4.2m, a five percent increase compared to the year before. Coo Trevor Strain received total reward of £3.2m, including an annual bonus of £1.3m, up nine percent year on year, while the grocer's new cfo, Michael Gleeson, was given £1.7m, including a bonus of almost £1m. Morrisons' remuneration committee, chaired by Kevin Havelock, used its *"discretion"* and adjusted its calculations to ignore pandemic costs of £290m. Investor advisory firms including ISS and the IA had recommended that shareholders vote against Morrisons' remuneration report after opposing the supermarket's decision to strip out pandemic costs when making its directors' bonus calculations. Shareholders took issue with these "adjustments" and 70.12 percent of agm voters went against the pay resolution. The vote was a slap in the face for the Bradford based supermarket chain and the second biggest shareholder revolt on executive pay since the Investment Association (IA) started tracking shareholder votes in 2017. Yet Morrisons said the committee would continue to use its discretion "*in a genuinely exceptional year which produced a genuinely exceptional performance from the executive leadership. Our executives were widely recognised for their leadership, clarity, decisiveness, compassion and speed of decision-making and execution,"* it added in eulogistic terms.

Global events organiser **Informa** suffered a large executive pay revolt as almost two in three shareholders who voted at the agm rejected a new bonus scheme. Sixty-two per cent of investors in the FTSE 100 group voted against the scheme, which offers senior staff lower payouts but which has far less onerous performance targets than the previous scheme. Under the new plan, ceo Lord Carter would not have to clear high performance hurdles to pocket his bonuses. Stephen Davidson, remuneration committee chairman of the publishing -to-exhibitions group, was almost ejected from the

board by angry shareholders. Only 53 percent of voting investors were in favour of his re-election as a director, highlighting their frustration with his handling of boardroom reward. Although the vote was advisory, Informa said that it would present a revised executive reward plan at next year's agm after initiating consultations with shareholders. Last December, Informa seemingly side-stepped a clear warning of the coming debacle when more than 40 percent of its voting shareholders opposed its pay policy plan to axe its LTIP in favour of a new scheme offering lower pay-outs with less demanding targets. Proxy advisor Institutional Shareholder Services (ISS) said Informa should not have changed its 2018 long-term bonus plan because awards were later made, when the original options should have lapsed. ISS urged investors to vote against both the pay report and the re-election of remuneration committee chairman Stephen Davidson. Another proxy advisor, Glass Lewis, said it had 'severe' reservations about Informa's remuneration report due to adjustments of bonuses and insufficient response to investor concerns.

*Discount retail chain **B & M** is boosting senior management reward after its sales soared during the pandemic. Ceo Simon Arora's maximum bonus is being raised from 150 percent to 200 percent of salary, while cfo Alex Russo's maximum bonus goes up from 125 percent to 150 percent of salary. Mr Arora could achieve a £1.6m bonus for the year, subject to performance, on an £800,000 a year base salary. Last year he received total reward of £3.6m, half of it coming from the vesting of an LTIP. Pre-tax profits more than doubled to £525m as B & M's 700 stores were allowed to stay open during lockdown, as they sell food and essential hardware.

*Two shareholder advisory companies, Glass Lewis and ISS, urged investors to block the re-appointment of **Boohoo** co-founder Carol Kane as a director at the agm. In addition, ISS advised them to vote down a controversial *£150m* bonus scheme for top managers which would pay out £50m to Ms Kane, if Boohoo's £4bn market valuation reached £7.5bn by June 2023. Boohoo is linking the bonus scheme to improvements in working conditions at the factories it uses. The company said that the board would have the power to reduce the pay of up to 15 key managers, including co-founders Carol Kane and Mahmud Kamani, if the group's *Agenda for Change* programme was not implemented in full. The changes include establishing a whistleblowing system and responsible sourcing plan, as well as publishing the names of all factories used by Boohoo worldwide. It admitted that it had been wrong to implement the expensive bonus scheme last year without seeking approval from shareholders, a move which broke the UK corporate governance code. While there was no legal requirement to seek approval, the remuneration committee said: "*With hindsight, we recognise that it would have been more consistent with our philosophy of transparency and shareholder openness to seek shareholder approval before implementing the plan.*" There is a separate bonus scheme for the ceo John Lyttle, under which he will receive a £50m bonus if the company's market value reaches £6bn by 2024.

*Marco Gobbetti who quit as ceo of the luxury British fashion brand **Burberry,** will lose all his unvested share awards, which will lapse in full when he leaves at the end of the year. The 62-year-old, who earned £4m in shares as part of a golden handshake when joining the business, was paid £180,000 through Burberry's employee share plan last year. It took his total reward to £2.3m, even after giving up 20 percent of his salary for three months at the height of the Covid-19 crisis last year. In his five years at the helm, Gobbetti took Burberry's share price up by 35 percent. He has accepted a new job in Italy – as ceo at **Salvatore Ferragamo**, famous for making shoes worn by Hollywood stars such as Audrey Hepburn – in order to allow him to be closer to his family.

*Manchester based creative communications and digital agency **C21** established an employee ownership trust (EOT) for its 20 staff members on *Employee Ownership Day,* which was June 25.

***Exxon Mobil** was forced to take new directors on board after activist investor Engine No 1, a hedge fund, forced its hand via an agm vote. The new board members are likely to push the energy giant away from oil and gas towards renewables. Engine No 1, which has only a tiny stake on Exxon Mobil, secured the backing of **BlackRock** to push home its attack on Exxon's energy development policies.

***JD Sports** faced a shareholder revolt over paying bonuses to executive chairman Peter Cowgill, despite accepting more than £100m in taxpayer support during the first and second waves of the pandemic. The advisory firm Glass Lewis recommended that shareholders vote against the sport store chain's "inappropriate" pay policy. It advised shareholders to oppose Mr Cowgill's re-election as chairman on the basis of inadequate succession planning and a lack of progress on boardroom gender diversity. Cowgill pocketed £4.3m in bonuses last year, taking his total pay to £5m— even after a voluntary 75 percent salary cut. JD Sports defended the bonus however, saying it reflected the group's "*sustained outstanding performance. The posting of exceptional results during such a challenging climate demonstrates that the remuneration approach and steps taken throughout the pandemic continue to support and drive this performance,"* it said. JD Sports tapped the furlough scheme for £86m and benefited from about £38m in business rates relief. It was offered £300m via the Bank of England's emergency liquidity programme, although this financial facility has not been used by the company.

***Playtech** suffered its fifth protest vote in a row after shareholders took issue with governance issues including the lack of female directors and boardroom pay. The gambling technology company secured less than 80 percent of votes cast for 11 of the 15 resolutions at the agm, with the remuneration report backed by only 69 percent of votes. All non-executive directors faced big votes against their re-election over the issue of female representation, board independence and holding the agm behind closed doors. Glass Lewis, the proxy agency, had recommended that investors vote against the re-election of Claire Milne, one of two women on the board, even though she was due to step down as interim chairwoman.

***Rolls Royce** appointed its first female chairman – Anita Frew - in its history. Ms Frew, chairman of FTSE100 company **Croda**, will join the Rolls Royce board this month, prior to becoming chairman in October. She will be paid £490,000 pa as chairman, in addition to her non-executive director fee of £70,000.

***Royal Mail (RM)** blocked planned senior executive bonus and share awards worth £1.4m, as a result of its Xmas service collapse, which resulted in thousands of undelivered presents. RM said it had acted after considering the impact of service failures and its "*slower than planned*" modernisation. RM's service went into meltdown in many areas last December, as parcels piled up in depots, prompting weeks of delays. Accordingly, RM said its former interim ceo Stuart Simpson will not collect expected rewards worth £1m. He was expecting to receive a bonus of up to £570,000 and will not receive shares worth £450,000. Mick Jeavons, who was interim finance chief before being made group cfo in January, will not receive a £141,000 bonus for last year. He will not receive shares worth up to £260,000 under Royal Mail's 2018 SIP. Pay campaigners welcomed the news. Remuneration committees and shareholders are often accused of waving through large bonuses to executives regardless of a company's performance. Andrew Speke of the left-leaning High Pay Centre said: "*Royal Mail's decision not to award bonuses to its directors should be welcomed, to the extent that it shows the board are considering factors beyond profit margins when assessing performance such as customer experience.*" RM's pre-tax profit quadrupled to £702m in the year to April 2021, aided by the online boom, while government contracts to deliver and collect Covid testing kits and vaccination letters boosted revenues. Despite not receiving his bonus, Simpson received £462,000 during his last year with the firm, RM's annual report showed. He will still be paid £375,000 in this calendar year as part of his termination agreement and retains share awards originally worth £1.2m. A spokeswoman for RM said: "*We paid no 2020-21 annual bonuses to executive board members and other senior managers. This decision took several factors into account, including the pace of transformation at Royal Mail being slower than planned and quality of service.* We are however making one-off recognition payments to frontline managers and other colleagues totalling £25m to recognise their exceptional contribution over the year."

*The new ceo of supermarket chain **J Sainsbury** was paid a £583,000 bonus in his first nine months in the job despite the company posting a full-year loss of £261m. Simon Roberts, who took over from Mike Coupe last June, announced at the interim results in November that he would be waiving his annual bonus this year. That sacrifice cost him £1.04m, the annual report revealed yesterday. "*Simon's decision is a personal one and another example of his integrity as a leader,*" it said. However, a second bonus scheme, known internally as *Future Builder*, paid out for Roberts, 50, who is a former executive at Marks & Spencer and Boots. His total pay came to £1.32 million in the year to March 6.

Institutional pay troughing

*More than 270 UK based charities are paying their leaders more than the Prime Minister, revealed an investigation by *The Telegraph.* Collectively, these charities employ more than 2,500 staff on salaries of more than £100,000 pa, it reported. A charities *rich list* showed that the ceos of 35 of these charities earn more than *£300,000* per year, twice the salary of PM Boris Johnson. The newspaper pointed the finger at several, including Caudwell Children, which has an income of just £6.4m and about 200 staff, whose ceo Trudi Beswick got a £50,000 pay rise, taking her salary into the £350,000 a year range. The Thrombosis Research Institute, which had an income of only £6.9m in the year ended July 2020, paid its highest paid staff

member around £415,000. There was uproar when it emerged that Simon Cooke, ceo of birth control charity Marie Stopes, had earned £430,000, including bonus, in one year. The Charity Commission pledged it would investigate executive reward, but more than two years later, nothing much has happened. The charity, now renamed MSI Reproductive Choices (*formerly Marie Stopes International*), has cut Mr Cooke's bonus in half, but he still earns almost £350,000 a year. The highest paid charity ceo in 2019 was Steve Gray who pocketed £935,000 for running Nuffield Health.

*The **Bank of England** covered the *£114,000* cost of relocating its then governor, Mark Carney and his family to Canada after he stepped down from his role last year, its annual report revealed. The BoE had paid for Mr Carney and family to come to the UK in 2013 after he was appointed governor and felt obliged to do the same on his departure. The report stated that Carney, 56, received *£443,965* in pay, benefits and pension contributions *despite having worked only from March 1 to March 15.* Under the terms of his contract, Carney was paid for the six months during which he was restricted from taking another job.

*There was discontent among staff at the **Financial Conduct Authority (FCA)** after the regulator announced that only 25 percent of them would be getting a bonus in the current fiscal year, compared to almost 90 percent who qualified in the year ended last April. Ceo Nikhil Rathi told staff that some companies supervised by the FCA were failing, making it difficult to collect its normal level of fees. The regulator had already announced that it was scrapping permanently bonuses for top executives.

Taxpayer jobs furlough support pared back

Businesses whose re-opening has been delayed by the government's U-Turn on ending lockdown restrictions will not be getting any additional taxpayer support, other than that which is already available, said The Treasury.

At the end of April 3.4m people were still on job furlough, but this had shrunk to just **1.8m**, or *seven percent* of the UK workforce by the end of May, revealed the Office of National Statistics (ONS).

Until the end of June, employees could collect 80 percent of normal pay (*up to a limit of £2,500 per* *month*) for doing nothing, without their employer necessarily having to pay a penny, said *The Telegraph* – as employers are not *obliged* to fund the missing 20 percent of furloughed employees' pay packets. Some companies are experimenting with a smaller workforce, by tweaking hours and workflows to maintain output, but at taxpayers' expense*,* it claimed.

However from this month on, the taxpayer jobs subsidy is pared back, with employers being invited to pay 30 percent of their employees' normal pay. So taxpayer support for hours not worked has fallen to a maximum £2,187 per month and it will fall again next month to 60 percent support – a maximum of only £1,875 per month. Taxpayer job support has been extended until September 30 this year, but whether it will end thereafter may depend upon whether the entertainment and hospitality sectors can re-open fully.

During the fiscal year 2020/21 just ended, the UK government raised £791bn in income and spent £1,094bn (£1.1 trillion). Net borrowing was, therefore, **£303bn**, or 14.5 percent of GDP – a peacetime record. However, the national deficit shrank in May to £24.3bn, way down from £29bn in April and almost £44bn in March last year.

*Meanwhile, average pay so far this year has risen by 18 percent in the hospitality and catering sectors, by ten percent in retail, claimed the recruitment firm *Reed.* Another recruiter, *Manpower,* said that skilled labour shortages had helped push up pay by an average 13 percent this year across many sectors, compared to last year. Companies keen on re-hiring staff and Brexit-related emigration by young Europeans from London, Birmingham, Leeds and Manchester are the main reasons for this pay explosion, say employment experts. Those accepting new jobs in the pharma and life sciences sectors are receiving salaries on average 38 percent higher than those taking these roles a year ago and similar rises in the media, marketing and comms sectors, it added. Even new HR staff are netting pay packets an average five percent higher than at the same time last year. In addition, there are vacancies for up to 80,000 goods vehicle drivers, as demand for online purchases continues to explode.

*UK price inflation jumped to 2.1 percent in the year to May, as the opening up of the economy from lockdown sparked a rise in consumer spending. The government should prepare for a jump in inflation this year that will eat into household living standards and force more low-income families into poverty, warned the *Resolution Foundation*. Inflation may rise above *four percent* in the next few months as the economy opens up and consumers spend some of the savings they have built up over the past 16 months, the think-tank forecast. Rising prices will squeeze average household incomes by £700 by the start of next year with low-income families among the worst affected, it predicted. The rise in prices triggered a debate about whether interest rates should go up. May's reading was above most economists' forecasts of an increase of 1.8 percent, and means inflation is now above the Bank of England's two percent target.

EU to UK Share scheme data transfers ratified

Centre member **Pinsent Masons** helped end concerns over whether or not UK based employee share scheme sponsor companies could continue to transfer data from their EU subsidiaries to the UK after June 30 without running the risk of being fined by Brussels. **Jonathan Kirsop,** partner at Pinsent Masons, pointed *newspad* to a decision by Brussels which clarifies the post June 30 regime in favour of share scheme data transfers from the EU to the UK. The Commission adopted two adequacy decisions for the UK - one under the General Data Protection Regulation (GDPR) and the other for the Law Enforcement Directive. Personal data can now flow freely from the EU to the UK where it benefits from an essentially equivalent level of protection to that guaranteed under EU law, said the European Commission. Both adequacy decisions include strong safeguards in case of future divergence such as (*for the first time*) a 'sunset clause', which limits the duration of adequacy to four years. The Commission warned: "*This means that the decisions will automatically expire four years after their entry into force. After that period, the adequacy findings might be renewed, however, only if the UK continues to ensure an adequate level of data protection.* ***During these four years, the Commission will continue to monitor the legal situation in the UK and could intervene at any point, if the UK deviates from the level of protection currently in place****. Should the Commission decide to renew the adequacy finding, the adoption process would start again.*"

Mr Kirsop explained: "*This is different to equivalence in the context of financial services and concerns purely as to whether the EC has determined another country's data protection laws as ensuring the same level of protection as the GDPR.*

"*For transfers of data to the UK (as may be required in the context of the plans of UK based companies with respect to EU employees), a draft adequacy decision has been issued which was ratified on June 28. This validates a bridging mechanism that has been in place since January 1 and enables personal data to continue to flow freely.*

"From a data protection perspective, we do not consider there to be issues with cross-border share plan arrangements (though there may, of course, be FS regulatory issues)," he added.

ESG Corner

Employee-owned businesses should prioritise the fulfilment of environmental, social and governance (ESG) obligations, said Graeme Nuttall OBE, a partner at European law firm and Centre member **Fieldfisher.** The Japanese Employee Ownership Association and the Southern Africa Employee Ownership Association announced their support for this aim, agreeing that employee-owned companies should be an exemplar for reducing inequality, tackling climate change and sustainability, especially in the context of the ongoing challenges of the pandemic. They joined UK based EO associations, the Irish ProShare Association and Employee Ownership Australia in asking every employee-owned company to make an overall positive contribution to society and the environment, as part of promoting the success of the business, and to encourage them to make this a strong commitment. Co-Operative Development Scotland said employee ownership was key to a stronger, more resilient, productive and fairer economy.

Mr Nuttall, an expert on the employee ownership and author of the *Nuttall Review of Employee Ownership*, first called for employee owned companies to fulfil environmental, social and governance (ESG) obligations in his 2020 Gandhi Foundation annual lecture.

Art Hosokawa, chair of the Japan EOA said: "*Ownership culture, being the qualitative essence of employee ownership, directly works as the driving force of all caring stakeholders. Taking positive actions for society and the environment is in the blood of employee-owned companies*." Tendani Nelwamondo, founding director of Southern Africa EOA, said: "*We join the many organisations encouraging employee-owned companies to make a positive contribution to society and the environment and to commit to this aim in the strongest possible terms. Increasing employee ownership of enterprises makes an important contribution to reducing inequality and broadening employees' sense of inclusion in the economy. 'EO' has huge potential as part of a wide range of strategies that benefit society and the environment including Covid-19 economic recovery plans, saving jobs in company reconstructions, addressing economic challenges like renewable energy generation and as an option for a business owner struggling to find a suitable buyer for their business. Furthermore, these values can be promoted throughout a company's value chain*."

*__Shell__ was ordered by a Dutch court to slash its carbon emissions by 45 percent by 2030, after the case was brought by Friends of the Earth and by 17,000 Dutch citizens. Shell said it planned to appeal against the 'disappointing' ruling, which was the first time a corporation had been found liable by a judge of having caused dangerous climate change, by contravening the Paris Agreement. The Anglo-Dutch company has set out plans to cut the carbon intensity of its products by 2030, but the court said the policy was not firm enough and full of caveats. Judge Larisa Alwin ruled that Shell was contributing to the '*dire consequence of climate change for the population'* and ruled against it for allegedly violating articles 2 and 8 of the European Convention on Human Rights, which includes the right to life and family life.

*__Switzerland'__s policy on fighting climate change was derailed after voters rejected proposed key measures in a popular vote. In a national referendum, voters narrowly rejected the government's plans for a car fuel levy and a tax on air tickets. The measures were designed to help Switzerland meet targets under the Paris Agreement on climate change. Many voters appear to have worried about the impact on the economy as the country tries to recover from Covid-19. Opponents pointed out that Switzerland is responsible for only 0.1 percent of global emissions and expressed doubts that such policies would help the environment. The vote, under Switzerland's system of direct democracy, went 51 percent against, 49 percent in favour. Two more national votes on environmental issues were defeated, though the results were expected in those cases. Climate change shareholder activists may now exert pressure on UK fund managers to reduce their dealings with Swiss based banks and funds, as a result of this anti-ESG stance by the Swiss. The Swiss government had said it wanted to bring emissions down to half of 1990 levels by 2030.

WORLD NEWSPAD

Blitz on tax-shifting to threaten Channel Islands

British Overseas Territories, including the Channel Islands, could be among the biggest losers from the planned crackdown on multinationals who sidestep tax on their profits. Some UK-linked low tax jurisdictions could lose revenues and/or the benefit of playing host to the accounting, law and finance firms who base themselves there, claimed a report in *The Times.*

While the Corporation Tax deal outlined by G7 finance ministers seemed to be good news for national treasuries, it looked potentially bad news for those overseas territories through which multinationals book their profits, claimed George Dibb, of the *Institute for Public Policy Research* (IPPR) He said that British overseas territories could lose business as a result.

The G7 group of advanced economies agreed to force multinational companies to pay more tax. Finance ministers will fight tax avoidance by making companies pay more in the countries where they do business. In addition, ministers agreed in principle to a global minimum Corporation Tax rate of 15 percent, to avoid countries undercutting each other. Tech giants Amazon and Facebook are among those likely to be most affected. The deal between the US, the UK, France, Germany, Canada, Italy and Japan, plus the EU, could see billions of dollars flow to governments to help pay off debts incurred during the Covid crisis.

An egregious example of what they are struggling aganist surfaced in the Irish Republic where the Irish subsidiary of **Microsoft** made a profit of $315bn **(£222bn)** last year but paid no Corporation Tax, as it is tax resident in Bermuda. *The profit generated by Microsoft Round Island One is equal to almost three-quarters of Ireland's gross domestic product, even though the company has no employees*. The subsidiary, which collects licence fees for the use of copyrighted Microsoft software around the world, recorded an annual profit of $314.7bn in the year ended June 2020, according to accounts filed at the Irish Companies Registration Office. The company's profits jumped exponentially from just under $10bn in the previous year.

The impetus for tax change came from the *Organisation for Economic Co-operation and Development (OECD)*, when it proposed an overhaul of the international tax system as part of its '*base erosion and profit shifting'* project. This aims to rein in companies unfairly declaring profits in other countries (*in which they've not sold very much*) in order to pay less tax. The key elements of the clampdown comprise: pillar one – expanding the taxation rights of countries where the business activity actually takes place and pillar two- preventing profits moving to lower-tax jurisdictions by imposing measures such as a minimum global tax rate.

The EU finally supported the move by deciding to force multinational companies to publish a breakdown of the tax they pay in each of the bloc's member states and in tax havens such as Seychelles, piling pressure on the UK government to follow suit. Country-by-country reporting is designed to shine a light on how the likes of Google, Amazon, Facebook and Apple (GAFA), avoid paying an estimated *£358bn* a year in taxes by shifting their profits from higher-tax countries such as the UK, France and Germany to zero-tax or low-tax jurisdictions including Ireland, Luxembourg and Malta. A majority of EU member states backed legislation last February, five years after the regulation was first proposed. Negotiations will open with the European parliament, which wants to broaden the scope of the regulation. MEPs want multinationals to make public their profits and tax paid in any country, rather than in just member states, or in the blacklist of tax havens, as the *quid pro quo* for operating within the bloc.

The EU Commission warned in its *Communication on Business Taxation for the 21st Century* paper that jurisdictions could be added to its blacklist of non-co-operative countries for tax purposes if they do not sign up to pillar two. '*The Commission will propose to introduce pillar two in the criteria used for assessing third countries in the EU listing process, so as to incentivise them to join the international agreement*,' it said. The agreement, negotiated over many years, will put pressure on other countries to follow suit, including the G20 nations, including China, Russia and Brazil, who meet in Venice this month, to hammer out the key details.

*Rishi Sunak can exercise powers under the Finance Act 2016 to make multinationals' country-by-country reporting data public in the UK but the government said it would only do so *if* there was an international agreement on the issue. "*This is the breakthrough for fair corporate taxation everywhere in Europe,*" said Greens MEP Sven Giegold. "*Public country-by-country reporting is a minimum transparency requirement for companies with maximum effect for the common good. If large companies have to disclose their profits and taxes paid per country, tax trickery is hardly possible any more. This is a strong barrier against tax avoidance. This is a real test case for the new EU-UK cooperation agreement, where both sides agreed to work together on tax matters*" The support given to the measure by a qualified majority of member states followed years of wrangling. At the ministers' meeting, Germany, Ireland, Luxembourg, Malta, Sweden, Czech Republic, Hungary and Cyprus again sought to block the proposal, by voting against it or abstaining. A breakthrough was achieved, however, when Slovenia and Austria joined Finland, Greece, Denmark, Estonia, Romania, Poland, Netherlands, Italy, Spain, France, Bulgaria and Belgium in supporting it. Concerns remain, however, over a six-year reporting exemption for "*commercially sensitive information*" in the proposal backed by the member states. The regulation would apply only to companies with an annual consolidated turnover above €750m (£650m), excluding nine in every ten multinationals, Oxfam said.

*The UK is seeking to exclude the City of London's financial services companies from the G7 global tax overhaul targeting the world's most profitable businesses, reported *The Guardian.* The chancellor is concerned that under a version of the plan put forward by President Joe Biden – which involves redistributing the profits of the world's 100 largest businesses – digital businesses such as Google, Amazon and Facebook will be joined by banks who already pay their fair share of tax. The impact of Mr Biden's proposal could prove to be a deterrent to banks running many of their operations from London, compounding the impact of Brexit. It is unclear whether all forms of financial services – ranging from banks to investment funds, insurers and hedge funds – would be excluded in a process still to be negotiated. Chris Sanger, EY's global government and risk-tax leader, said: "*There is an assumption by various countries that there would be an exception for financial services. The question is now how you manage these exceptions without all the complexities they bring*."

Mr Sunak said that the G7 agreement would force "*the largest multinational tech giants to pay their fair share of tax in the UK*".

The final changes will then be negotiated between 139 countries in a process overseen by the OECD, with the aim of reaching a final agreement by October. Its blueprint included a carve-out for banks, insurance companies and investment funds as well as extractive industries, including mining and oil and gas companies, from pillar one. It did include plans to target digital firms and consumer-facing businesses.

Washington is pushing in the negotiations for countries, including the UK, to scrap digital services taxes they introduced as a temporary measure until a global tax overhaul could be agreed. Research from the campaign group TaxWatch suggests the UK would lose at least £230m by abolishing the stop-gap tax and replacing it with pillar one. However, the Treasury will reap far more from a global minimum CT rate. The Institute for Public Policy Research think-tank estimates about £7bn a year in extra tax from the minimum 15 percent tax rate, far outweighing pillar one.

"The historic global tax agreement backed by G7 finance ministers reforms the global tax system to make it fit for the global digital age, achieving a level playing field for all types of companies. The deal makes sure that the system is fair, so that the right companies pay the right tax in the right places," a Treasury spokesman said.

*__France__'s second biggest telecoms group, **Altice,** acquired a 12 percent stake in **BT,** provoking speculation as to its long-term intentions. Altice is owned by French telecoms tycoon Patrick Drahi who owns Sothebys and businesses in the US, Israel and Portugal. Mr Drahi wants to work closely with BT but let it be known that he does not intend to make a bid for the company. Altice notified the *Takeover Panel* about Mr Drahi's allegedly peaceful intervention and that notice is binding for six months.

A French banker to whom judges awarded a £1.1m compensation payout by his former employer four years ago after he walked out, is now being forced to repay most of his award and an extra payment because he refused to work his three month notice period. Laurent Azout, who worked for **Mediabanca**'s Messier Maris & Associates, was told by a Paris Appeals court that whatever his employer's breaches of employee relations, they were not sufficiently serious to prevent his job contract from being carried out and ruled that his guaranteed bonus should be phased out. In addition, Mr Azout was ordered to pay €55,000 to Messier Maris for failing to work out his notice.

*__Germany:__ The former ceo of **Volkswagen** during the *Dieselgate* scandal is to pay the German carmaker €11.2m in malus reparations. After years of wrangling, Martin Winterkorn, 74, who resigned only days after VW was caught cheating regulators in 2015 over the level of emissions of its diesel cars in the US, has come to a €11.2m settlement. The company is clawing back a further €6.6m from other executives. Rupert Stadler, head at the time of the VW subsidiary Audi, has agreed to pay €4.1m. Other group executives who have settled include Wolfgang Hatz, a director of Porsche, and Stefan Knirsch, a former Audi director. Dieselgate was a defining moment in the history of the automotive industry.

***US:** cinema chain **AMC** warned smaller investors, as it launched a new share sale, that they should not buy its shares "*unless you are prepared to incur the risk of losing all or a substantial portion of your investment*." On June 3 it unveiled plans to sell up to 11.6m shares off the back of surging prices in the "meme" stock popularised on social media. AMC stock was lower by more than 20 percent at the end of the day's trading. It came a day after the company updated its offer for retail investors, who can now claim a tub of free popcorn if they sign up to a regular newsletter. Wall Street analysts had claimed that AMC was already heavily overvalued and many institutional traders said they were steering clear of the stock, the latest target of a number of small-time traders organised on *Reddit* and other social media. The cinema chain operator said it believed current prices reflected "market and trading dynamics unrelated to our underlying business". In the year to date, shares in AMC had soared *2,421* percent - despite its cinemas being largely shut during the pandemic. It was the latest example of small investors trying to seize power from Wall Street giants. Major hedge funds bet billions of dollars that **GameStop** and AMC's shares would fall. They have since faced huge losses after amateurs, swapping tips on social media sites like Reddit or Twitter, drove prices up in so-called "meme" stocks.