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it's our business

newspad of the Employee Share Ownership Centre

EXCLUSIVE: New court battle looms over Roadchef

The Roadchef Esop participants may have to wait many months, or even *years* longer, before they see a penny of their High Court awarded compensation for their employee shares, which were wrongly transferred into another trust, *newspad* can reveal.

This sickening news was delivered to the few hundred surviving ex Roadchef motorway service chain employee Esop participants and others in an update letter by the Roadchef EBT1 trustee, Christopher Winston Smith, of the law firm Reed Smith. In it, Mr Smith blamed HMRC for the new delay, accusing the tax authority of mistakenly insisting on taxing all the compensation payments.

The ex Roadchef Esop participants are furious over the contents of the trustee's letter, because the trustee has told them that he will go back to the High Court, on their behalf, if HMRC does not give up its claim to levy tax on the compensation pots. However, some of the former motorway service station Esop participants, now in retirement, want to be paid now, despite that tax threat. One told newspad: *"We're so depressed that we are starting to think that we'll never be paid."* She added: *"We have been let down again and want to appeal to other shareholders up and down the country to get in touch with us to see if we can put a stop to this." They are especially upset because they were told by the trustee last year that hopes were high that the long-awaited payouts would be made in summer* ***this*** *year.*

Mr Smith told the beneficiaries: "It is only HMRC that is preventing distribution now.

HMRC are nervous about setting a precedent and opening the floodgates to other claims, but we have the benefit of strong legal advice that no tax should be paid by the Trust or its beneficiaries on the receipt or distribution of that which the trust has recovered.

"We also believe that HMRC sat on the trust's funds for far too long when [Tim] Ingram-Hill paid it to them and that this should translate into more money for our beneficiaries. We are confident that we can help HMRC reach the right decision, but we share your frustrations with the time it is taking.

"***After fighting many years to recover sums for the beneficiaries, we cannot allow HMRC to take it away under circumstances where we have been advised that they have no right to do so. This would be morally and legally wrong,"*** added the trustee.

He characterised HMRC's attempt to levy a tax settlement on the trust after 20 years as "an abuse" which, had the trustee not fought back, "**they** [HMRC] **would have got away with."**

Then came the bombshell: **"If HMRC will not settle this matter soon, we will need the [High] Court to**

From the chairman

I make no apology for spotlighting again the plight of the Roadchef beneficiaries. The trustee is now challenging HMRC on their behalf but HMRC is by no means the sole contributor to their misery. There are reasons why and why not; but the sidelining of compassion is unforgivable.

With Jesse Norman at the Treasury some shift may be possible. Generally we have a time of opportunity as Brexit plays out. Esop fan Jo Swinson is the leading LibDem contender and her members will be significant in the larger Liberal (ALDE +) group in the European Parliament. The Centre enjoys good Corbyn links. Michael Fallon is joining us for a high table dinner. Leadership contender Graham Brady has Roadchef beneficiaries in his constituency.

We can have results during the virtual interregnum, especially as we can benefit as much from nudge as from tax breaks. BT's new broom chief, Philip Jansen, has taken the lead and personally followed the new international path of ensuring all employees get shares without putting tax efficiency first and making it clear the move is a personal as well as corporate initiative. Let's see how quickly he is followed.

I have no insight into the Esop policy of the Brexit party (prudently kept under wraps like all other policies.) But with any luck it will reflect US practice where the wages of capital make a serious difference to many more people. No political party in the UK can easily ignore that truth.

Malcolm Hurlston CBE

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decide who is right and who is wrong."

An **HMRC** spokesperson said: "Due to taxpayer confidentiality, we cannot comment on the specifics of the case. This is a complex issue involving the tax liabilities of separate entities and persons who are all entitled to their individual confidentiality.

"We continue to engage with the trustees to resolve the taxation position of the various entities and persons involved and are committed to doing this as soon as possible."

The total compensation is estimated by some to be in the region of **£25+m**, though heavy legal and case financing fees will reduce the total pot by at least **£3.5m**. Under an arranged formula, the original Esop participants are collectively to get 61 percent of the pot; their colleagues at the time of the scheme who didn't qualify as participants are to get nine percent and those who later worked for Roadchef - up until 1998 - are to get the remaining 30 percent.

Mr Winston Smith advised the beneficiaries to keep urging their MPs to put pressure on the government to force HMRC to back off from its tax claim.

It was almost five and a half years ago (January 2014) that Mrs Justice Proudman ordered compensation to be paid to the trust beneficiaries because, she ruled, their Esop shares should not have been transferred from one EBT to another and subsequently sold by Mr Ingram Hill, together with his own shares, to a Japanese investor, the Nikko company in 1998.

Centre to push next Tory cabinet for an Eso agenda

The Centre hopes that employee share ownership is about to get a boost from whoever becomes Tory leader and PM after the resignation of Mrs Theresa May who, frankly, did little to advance the cause, despite early promise. Her proposed corporate governance reforms were watered down.

Newspad believes that employee share ownership is in urgent need of a comprehensive boost if it is not to stagnate in the UK. Some of the ideas which the ministers in the next Tory government should look at are:

- Offer *companies* – not just employees - tax incentives for operating an employee share plan or profit-sharing plan
- Why not make SAYE plans (the most popular share plan for employees) 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.
- Similar to pension auto-enrolment, should employees be forced to opt out if they did not wish to participate in Eso plans?
- 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.
- 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.
- Give employees the legal 'right to request' that an employee share plan should be established

Shadow chancellor **John McDonnell MP** is convinced of the merits of employees owning shares in the companies they work for. He wants to make UK companies employing *250 people* or more hand over one percent of their shares annually, up to a total of 10 percent, to a trust for employees. Employees would then share the dividends produced by these shares to a maximum payout of £500 each. That way everyone would get "a greater say, and a greater stake in the rewards of their labour," said McDonnell, though his plan has been severely criticised by business.

Home secretary Sajid Javid MP, when, during the Coalition government, he was **business secretary,** overruled officials by awarding an extra one percent of the **Royal Mail**'s equity to its postal employees – taking their stake in the privatised business up to 12.5 percent at the time. Now Sajid is among the more fancied runners and riders for the Tory crown.

However front-runner **Boris Johnson MP** is not known for political enthusiasm in our direction though it was to him, when foreign secretary, that the European Commission's decision to allow a five year extension to the tax-approved **Enterprise Management Incentive** was sent. Rival **Michael Gove MP** seems to be not much bothered about employee share ownership either, judging by his pronouncements to date. The other front runner, **Dominic Raab MP,** was embarrassed by the disclosure that when he was **Brexit secretary,** he wanted to negotiate possible UK opt-outs from EU rules limiting the number of working hours and guaranteeing time off from work.

Better news was the promotion of **Mel Stride MP**, ex **Treasury financial secretary** and **paymaster general** to **leader of the House of Commons**, with Cabinet rank, after the resignation of the previous incumbent, Andrea Leadsom MP. For Mr Stride's successor as Treasury financial secretary and thus the unofficial *'minister for employee share ownership'* is **Jesse Norman MP**, the former minister of state for Transport. Members may remember the inquiry Mr Norman conducted, when he chaired the *parliamentary committee on employee ownership*, into the role for employee ownership in the public sector, through the creation of employee-owned mutuals and share ownership in the Royal Mail.

He said recently: 'Our open market capitalist system is not working well and it needs a vigorous reboot.'

Mr Norman was a director of **Barclays** before leaving the City to research and teach at **University College London**.

Centre chairman **Malcolm Hurlston CBE and Graeme Nuttall OBE** are seeking an early meeting with Mr Norman to go beyond the Nuttall Review and push employee financial participation higher onto the government's action list. Mr Hurlston told *newspad: 'The next government must get out of its Brexit trench and engage with the population on economic & social policy, which should include an overhaul of employee share ownership incentives.''*

There were two other items helpful to Eso: first, an article in *The Telegraph* by former Defence Secretary and Centre ally, **Sir Michael Fallon MP,** calling for the next government to make capitalism more inclusive. He wrote: "Brexit should be the gateway to a bigger future. It's a chance to rethink capitalism and make it more inclusive. Julian Richer has just handed over 60 percent of his company, *Richer Sounds*, to his employees. ***Why aren't we incentivising more employee share ownership?"*** Secondly, another former Tory Cabinet minister, **John Redwood MP,** reminisced in parliament's *House* magazine that Mrs Thatcher, when PM, had liked the slogan he had put to her: '***Everyone an owner.'*** While he was her chief policy adviser, Redwood had worked up ways to advocate "*small business ownership, share participation in larger companies, employee share schemes, popular shareholdings from nationalised industry sales, more identification of an individual with their pension or insurance savings, portable pension plans and strengthened shareholder democracy."*

Channel Islands need not fear *no-deal* Brexit

The Institute held its annual Jersey share schemes and trustees seminar, jointly organised with the **Society of Trust & Estate Practitioners (STEP),** at the Pomme d'Or Hotel in St Helier last month. The meeting started with a tribute to **Colin Powell CBE** who had turned Jersey into a financial powerhouse and with thanks to **Rosemary Marr** of **STEP** who had made this and other trustee events popular.

Centre founder & chairman, **Malcolm Hurlston CBE,** opened with a message of optimism despite the Brexit mayhem currently engulfing the UK government. He explained: "The Channel Islands are valued members of the British family and cooperative good neighbours to the EU. They facilitate billions of Euros of inward investment into European economies, supporting jobs, growth and prosperity." He noted Jersey's strong position: largely focused on financial services and with a stable third country status under EU equivalence, Jersey need not fear the supply chain disruption of a no-deal Brexit. Beyond that Jersey was moving fast to develop wealth management services worldwide both for successful employees and other people of high net worth. He shared the view that all employees in esops needed mutual support or professional advice. Quoting the poet and educationalist Arthur Hugh Clough, Mr Hurlston recommended the optimist mantra: 'If hopes are dupes, fears may be liars'. Keynote speaker **Geoff Cook**, former ceo of **Jersey Finance**, who had done so much to help Jersey overtake the mainland shared his thoughts on Brexit and the Channel Islands' future prospects. Mr Cook highlighted Jersey's post-crash growth and strong compliance record as indicative of the island's resilience. He forecast an acceleration of anti-globalisation movements, but suggested that Jersey's expertise and unique global position remain attractive to concerned investors.

David Craddock, founder of **David Craddock Consultancy Services**, emphasised the importance of communicating with employees at times of uncertainty, such as now. Mr Craddock demonstrated how the breakdown of centrism had led to share price volatility. But employers should demonstrate investment in employees through both the financial and the cultural rewards of share schemes. The Craddock paper will be added to the resources on the Centre website.

Stephen Woodhouse, partner at **Pett Franklin**, revealed the factors which can compromise tax advantaged **Enterprise Management Incentive (EMI)** share options. They were significant enough for trustees to take their time when reviewing due diligence reports. Trustees may want to seek independent advice to avoid overlooking the more stringent rules.

The UK's first Esop barrister, **David Pett** of **Temple Tax Chambers**, put the spotlight on tricky recent cases, including the controversial Lorraine Kelly case. The FTT held that there was a contract for services and therefore no tax or NICs due under PAYE (*see full story in this issue*).

Paul Malin of **Haines Watts** asked "*Is HMRC watching your client*?" He distributed and interpreted a new standard letter from HMRC, which had made use of information gained worldwide through the ***Common Reporting Standard***. A person or company (or trustee) who 'enables' offshore UK tax evasion can be penalised. It is a criminal offence if a business fails to prevent its employees or any person associated with it from facilitating tax evasion by third parties. He went on to show how clients may unwittingly fall into non-compliance. It was noted that the Centre is a member of the Business Advisory Group to OECD, the international organisation which produced and monitors the efficacy of the Common Reporting Standard.

Graham Muir of **CMS** presented a fresh review of entrepreneurs' relief following the introduction of the economic ownership tests. The new legislation took effect in April. Graham Muir is leading the Centre's initiative to create a model to help companies report on broad-based participation in their share schemes. He told trustees it was likely to be tabled at the next steering committee. Graham had helped an employee shareholder who had come for guidance to the association of employee shareholders.

As the news of Theresa May's resignation arrived, Malcolm Hurlston passed on the tip from Annabelle Dickson in that day's *politico* - Boris Johnson was the front runner (some groans).

Rough Esop ride for continental SMEs

The problems facing north European SMEs wanting to introduce employee share ownership into their businesses were all too clear in two case histories during a Round Table in **Frankfurt** organised by Centre partner, the Paris based **International Association for Financial Participation (IAFP).**

The Centre's **Fred Hackworth** told delegates that the adoption of Esop-type arrangements by SMEs in the UK had been revolutionised by two tax-approved schemes, the selective share options based **Enterprise Management Incentive (EMI)** and by the **Employee Ownership Trust (EOT),** which permitted tax efficient transfers of company ownership from founders/owners to their workforce. Nevertheless, there were still large numbers of smaller quoted and privately-held companies which, sadly, had not so far adopted any employee share ownership plans.

Dr Heinrich Bayer, md of the Kassel based **ArbeitGemeinschaft Partnership (AGP -** *literal translation* - working community partnership**),** admitted that the transfer of employee financial participation (Eso) into Germany had not been working well. "There are on-going discussions at government level about how to make a better framework for EFP in Germany," he said. "Something must happen, because the level of asset formation is too low and German politicians sense that something is wrong. We could encourage EFP as a means of improving living standards for workers in a robot age."

Dr Bayer introduced **Ilka Schulze** of the German based exhibition kiosks manufacturer **Holtmann,** which has 145 employees and a turnover of €35m. There was no EBT, so the company held annual contributions made by employees to the share scheme, which had a 40 percent participation rate. Employees who bought three company shares got a discount of €135. Employees could cash in every five years and leavers got their subscriptions back. Interestingly, participation rates depended more on education levels than the age group of the employees, said Ilka. Their plan, launched in the year 2000, was easy to operate and not very expensive (since she did most of the admin work herself). As part of a retirement plan launched some years back, every employee had received a Holtmann share certificate worth €250, but problems emerged later when some employees forgot all about their certificates and didn't know where they were. "I have to promote our EFP plan throughout the year to keep interest and participation up," added Ilke.

The second case study was a **Belgian** construction company, **Van Roey**, which had introduced a tailor made plan for its 750 employees. **Nancy Vervoort** is the cfo of the company which had celebrated 275 years of family ownership, with 90 percent of the shares in family hands. The group itself owned almost eight percent and the employees two percent, she said. Owing to the strict Belgian share option grant tax regime, *employee share ownership was restricted to the managerial group of about 55 senior employees.* All blue collar and some white collar employees had a part safety record related cash bonus scheme which was tax and NI free, though they had to pay a social contribution charge of 13 percent. When the company did well, participation rates in the management options scheme was high, but it fell away when times were tough, said Nancy. For every €100 paid per share option, 11 percent had to be paid by the recipient immediately. When the options vested, the managers could sell the shares back to the company, but the family wanted its senior employees to own 15 percent of the equity, said Nancy. The options scheme participation rate varied as the company share price went up and down. In 2014, 84 percent of the options offered had been taken up, but last year that fell to just 25 percent, she added. Her introducer, **Gert Janssens** from the employer organisation **ETION,** explained**: "**We don't have an EFP culture in Belgium." For the trade unions and blue-collar workers in general EFP was a risk area. Some companies however got round the problems by creating virtual ESOPs in which participants used their dividends to pay for the employer's shares which they had bought.

Dr Bayer estimated that in Germany, one million employees were participants in EFP plans in 3,200 SME companies. A further 1.2m employees participated in Eso type plans in 700 larger mostly quoted companies. EFP was doing better in fintech companies like Stuttgart based data analytics business intelligence company **Oraylis,** where the employee plan participation rate was 76 percent!

He complained about the very low level (€360 per annum) of fiscal incentives the government offered to encourage employees to participate in employer plans.

IAFP interim president **David Hildebrandt** said that devising a best practice list for SMEs was not easy due to the differing tax regimes in various countries. In the US, there were many tax advantages for company owners to sell their businesses to Esops, but if there was a downturn and the company went belly up, it would be the employees who would have to pay off the Esop acquisition debt. Income tax deferral was popular with many US share plan employee participants, but longer term they had to be careful because interest rates could go up suddenly.

The round table was hosted by Centre member **White & Case,** whose UK share schemes partner **Nicholas Greenacre** said that in the UK, the **Esop Centre** was trying to encourage more SMEs to use tax approved EFP plans like the Share Incentive Plan (SIP). The keys to successful SME Eso plans were: liquidity, clarity and plan structure. He warned that a lot of entrepreneurs were over-optimistic about the chances of an IPO flotation. It was most important that employees understood what they had been given because many EFP/Eso plans were 'too complex.' Another problem was the some plans were not well drafted and didn't qualify for any tax advantage as a result.

EVENTS

Centre BI Symposium 2020

Senior legal member **Linklaters** will host the Centre's fourth British Isles share plans Symposium at its Silk Street, London EC2, headquarters on Thursday **March 26** next year. The Centre's principal contact at Linklaters, **Alexandra Beidas**, partner in the Incentives division, told *newspad* that Linklaters is delighted to host the all-day event in its auditorium. Those Centre members who wish to participate actively in this key event – either by co-sponsoring our e-brochure and/or by delivering a topic presentation- should contact Fred Hackworth by email at: fhackworth@hurlstons.com or Juliet Wigzell by phone at Centre HQ: **020 7239 4906.**

UK CORNER

BT's Jansen takes the fast track

***BT** is to give its 100,000 employees £50m in shares each year as part of a new scheme to boost morale and rebuild the telecom's image. BT's new ceo, Philip Jansen, who took over from Gavin Patterson in February, said the "*yourshare*" scheme forms part of his plans to create a "new, re-energised" BT that includes changing the logo. "I'm asking our colleagues for their commitment to making BT a national champion," said Jansen. "*I want to give them ownership in our company and a share in our success. I want to make BT a company that exceeds our customers' expectations and does a brilliant job for the country. To achieve that, I'm going to start with our colleagues."* BT said the new scheme, which will start in July 2020, will equate to an initial award value of **£500** per employee. Staff will have to hold the shares for a minimum of three years. Tax protected free shares are most commonly delivered via the **Share Incentive Plan (SIP).** "*BT's move towards employee ownership is very welcome, giving employees a stronger voice, which has been shown to foster productivity, growth and inclusivity in the workplace*," said Carolyn Fairbairn, director general of the CBI. BT already has a scheme, called *saveshare*, (a Sharesave scheme) that allows staff to make monthly savings from their pay to then buy BT shares at a discount. Tens of thousands of staff who have taken part have shared billions when the schemes vested over the years. Individual payouts ranged from £4,400 to up to £89,000. But Philip Jansen's move takes the fast track, bypassing the 20th century share schemes and aligning him with major multinational leaders who lead from the top such as Pony Ma of China's Tencent and Pete Stavros of KKR from the US.

*Glasgow based engineer **Weir Group** will step forward and give shares to its employees free of charge. The vast majority of its 15,000 strong workforce in 53 countries are eligible for ***share gifts*** *worth c. £600* per person. "They range from the 750 UK employees to our 3,500 colleagues in the UAE and our one employee in Burkina Faso. Considering that the GDP per head there is around $650 [£500] pa, I expect him to be particularly happy today," said **Jon Stanton** ceo of the Weir Group**.** He added: '*We need to turn the vision of inclusive capitalism into reality. These days the outside world expects more than warm words from business and rightly so. It's something we've been thinking about long and hard. I firmly believe that if our employees do a good job for the business and deliver good results, they should share in that success. In turn, if every employee is a shareholder in the business, they have a powerful incentive to play their part in increasing the share price."* He launched the *Weir Share-Builder*, which he calls one of the world's most comprehensive employee share plans. All qualified colleagues receive **£300** of shares which will vest in three tranches over the next three years. Next year they will receive another **£300** in free shares. From 2021 there will be a matched share plan for all employees. The move will cost Weir about £10m over the next two years, and more over time – not insignificant sums. ***"It has been fiendishly complex to set up, given the different regulations and tax structures of the 53 markets concerned'*** added Mr Stanton. "*The board is clear, however, that it is the right thing to do and so are our shareholders, 99.74 percent of* *whom supported the measure at the agm. If we want to reinforce a culture of ownership and customer focus right across Weir, I can think of no better way of doing it. Inclusive capitalism and employee ownership are rising fast up the agenda here in the UK. This is an area where the UK is a world leader. We always expected a positive reaction to the scheme internally, but I've been overwhelmed by the number of colleagues who have taken the time to engage with me on it. No-one's going to complain about free money – but neither we nor our employees see this in purely financial terms: the conversations I've been having have been more focused on what this says about our values as a business.* ***It's not something we had to do, it's something we chose to do because we feel it is right.*** *Some people will sell their shares and put it towards a nice holiday, but I hope the vast majority will choose to be engaged shareholders, actively participating in the future of what is now, truly, their company."*

ALERT – share plans filing deadline next month

HMRC's submission deadline for annual return filings of employee equity plan transactions for the 2018/19 tax year is midnight on **July 6**, Centre member **Abbiss Cadres** reminded *newspad* readers. All reporting must be done via the HMRC **Employment Related Securities (ERS) online service**. In order to submit returns, companies must have ***registered*** to use the service, registered each employment related securities scheme or arrangement (*which can take up to 10 days*) and self-certified any tax advantaged plans. The ERS reporting requirements apply to any share options, shares and other types of security that are acquired by UK employees through their employment. They can apply to share options and other share incentives granted by non-UK companies to UK based employees. Reporting may be required too for non-UK resident employees who carry out work duties in the UK. Each ERS plan or arrangement should be registered online, however *non-tax advantaged* plans or arrangements do not need to be registered until there is a reportable event. Companies that operate tax advantaged ERS plans, such as Share Incentive Plans (SIPs), Savings Related Share option plans (SAYE), Company Share Option Plans (CSOPs) and Enterprise Management Incentives (EMI) ***must self-certify online*** that the plan complies with the relevant statutory code. The company secretary (or the employer on their behalf) should complete an online form declaring certain requirements have been met at the date of registration or from when the first option or award was granted. **An online return must be completed for *each* registered ERS plan or arrangement by July 6** following the end of the tax year. The returns will contain details of share options that have been granted and exercised, as well as any other reportable events concerning employee equity. **If returns are filed after the deadline, penalties may be imposed, and any tax advantages from a tax-advantaged plan for employers and employees may be lost.** It is vital to ensure annual returns compliance. Further information on the registration and annual returns process, together with the templates to be completed and submitted with the annual returns, is available on the ERS online service. There are separate templates to use for each type of tax-advantaged plan and the "Other" template should be used for arrangements which are not tax-advantaged**.** ***If there has been no activity for a registered scheme in respect of the tax year then a nil-return should be filed; and it is important to take screenshots of the information uploaded to HMRC, for the company's records.***

Conn trick?

Investors vented their anger at the agm of British Gas owner **Centrica** over the £776,000 bonus which ceo Iain Conn collared last year. Almost **15 percent** of voting shareholders registered their opposition to the directors' annual remuneration report. Conn's reward grew with the help of two bonuses, each worth £388,000. British boards which have faced shareholder rebellions over the 2019 agm season, include **Barclays**, engineering business **John Wood, Ocado** and shipping services company **Clarkson**. London-based bank **Standard Chartered** suffered a **36 percent vote** against its own pay policy a few weeks ago. The pressure has been building thanks to the help of trade body the **Investment Association**, whose 250 members manage about £7.7tn in assets. The association has urged companies to close the gap between contributions made to directors' pensions and those offered to staff, saying that otherwise it looks like higher payments are just a "mechanism for increasing total remuneration."

*The ceo of a company making a potentially life-saving cystic fibrosis drug that the **NHS** says is unaffordable was paid £14.4m in cash and shares last year, said the *Guardian*. Jeff Leiden's reward was 81 times more than the median **Vertex** employee was paid and an increase on last year's $17.2m deal. Separate stock market announcements show that he has sold more than $70m of company stock over the past two years, some or all of it handed to him as part of his pay deals. His personal remuneration in 2018 is enough to fund a one-year course of its cystic fibrosis drug Orkambi for 137 patients. Vertex is asking £105,000 per patient per year for the drug, which the NHS insists is not value for money. There are 10,400 children and young adults with cystic fibrosis in the UK, 40 percent of whom could benefit from Orkambi. The NHS last July offered Vertex £500m over five years, with the potential to extend to 10 years and £1bn, for access to Orkambi and other drugs in the pipeline for the disease. Vertex said *No.* Seven of Vertex's top executives shared $48.2m between them, enough to supply the drug to 369 patients, or nearly nine percent of all British cystic fibrosis sufferers who, it is thought, could benefit from Orkambi. The scale of payouts at Vertex, which trimmed its compensation scheme after Leiden was paid $36.6m in 2014, triggered concern among investors.

*Shareholder adviser **Institutional Shareholder Services (ISS)** criticised the bonus structure provided for David Ledwidge, cfo of **Irish Continental Group (ICG).** The ferry group said the bonus, which amounted to €170,000 last year, was attributable to "his contribution to investment appraisal and the conclusion of financing arrangements to support the longer term development of the group". ISS, however, said this "*reads like a description of his day-to-day role*". ISS and fellow adviser Glass Lewis urged shareholders to vote against ICG's remuneration report at its agm. Both alluded to the *absence of a cap on bonuses* to the ceo Eamonn Rothwell, who received more than €2.1m last year, including a €1.6m bonus.

*Measures introduced by the Conservative-Liberal Democrat coalition government giving shareholders the power to tackle excessive executive pay have flopped, claimed the left-leaning **High Pay Centre (HPC).** So-called *say on pay* reforms gave shareholders new powers to veto pay policies in votes at company agms. However, an HPC analysis found that between 2014 and 2018 — the first five full years of *say on pay* — *every* FTSE 100 company pay policy put to agms was approved by shareholders. The research found that: among 700 pay-related resolutions voted on at agms over the same period, the average level of shareholder dissent was just 8.8 percent; only 11 percent of pay-related resolutions attracted "significant" dissent levels of over 20 percent and only **six** advisory votes on the pay packages awarded in previous years were defeated over the period, barely one percent of the total. The average level of dissent was 9.3 percent. However, the High Pay Centre found that 13 companies experienced significant dissent more than once over the period, suggesting that significant dissent does ***not*** prompt companies to change their approach to top pay. The 13 included BP, Burberry, Carnival, Experian, GlaxoSmithKline, Old Mutual, Pearson, Reckitt Benckiser, Sky and Wm Morrison. There were five significant dissent votes at advertising group WPP, usually relating to the remuneration package of former ceo Sir Martin Sorrell. In addition, there were three such votes at both industrial equipment rental group Ashtead and drugs group Astra Zeneca. Median levels of ceo pay reached **£3.9m** in 2017 (*the most recent year for which full figures are available*), an increase of 11 percent. This is 137 times the annual salary of the typical UK employee. There were multiple reasons why shareholders were failing to hold companies to account: conflicts of interest or subconscious bias in favour of highly-paid executives, on the basis that investment managers themselves tend to benefit from a culture of very high pay. Secondly, the HPC cited risk aversion, for fear of the sudden exit of a ceo if their pay demands were not being met:
http://highpaycentre.org/files/myth_of_shareholder_stewardship.pdf

*With the company reporting season in full flow, the number of the £1m-a-year or more remuneration packages given to top executives at FTSE 350 companies grows apace. A further 40 top executives joined the pay elite and the total remuneration bill for them came to £82.52m, reported *Fact Service,* published by the *Labour Research Department.* That works out at an average package of **£2.06m** or £1.91m if the median (midpoint) is used. The top earner in this list was André Lacroix, ceo of product testing group **Intertek**, who had a total remuneration package last year of **£6.23m**. On a weekly basis that comes to £119,730. The average annual salary of a full-time UK employee was just over £29,000 in 2018. Official data showed average weekly earnings in the UK economy were rising by just 1.8 percent at that time. Promotion to the ceo's post at energy group **Drax** gave Will Gardiner top spot in the pay rise league. His package grew by 142 percent in 2018 to £1.91m or £36,770 a week. Simon Boddie became cfo at **Coats** in June 2016 and a 140 percent increase in his package in 2018 took him to £2.02m or £38,840 a week. The next two spots went to the main executive directors at marine engineering services group **James Fisher**. Ceo Nick Henry received an 85 percent hike in his 2018 package taking him to £1.9m a year or £36,520 a week, while a 79 percent hike for fd Stuart Kilpatrick took him to £1.24m a year or £23,770 a week.

*New data collected by **HMRC** and released alongside the chancellor's *spring statement* showed pay for the highest earners rose by almost **six percent** between April and September last year, compared to 3.7 percent for the rest of the workforce. The **Institute for Fiscal Studies (IFS)** said the pay disparity would exacerbate inequality. Paul Johnson, director of the IFS, said the full reasons for fast-rising executive pay were unclear but *"maybe that's returning to where they were pre-crisis."* There are 31,000 people in the top 0.1 percent income bracket in Britain, with pay levels running into seven figures or more. This group accounted for **eight percent** of all PAYE income tax and national insurance receipts in 2017-18, according to documents prepared by the **Office for Budget Responsibility (OBR),** the government's independent economic forecaster. More than 3,500 bankers in the UK are paid more than €1m (£850,000) a year, with total income of almost €10bn between them, according to figures released by the **European Banking Authority**. Their average pay was €2m (£1.7m).

HMRC spotlights remuneration tax avoidance

Centre member **Deloitte** reported two recent **HMRC** commentaries on disguised remuneration as the pressure on both scheme users and promoters hotted up. **Spotlight 51** covered tax avoidance using loans or fiduciary receipts in remuneration trusts, with trustees based offshore. HMRC said that typically, such trusts were set up in an allegedly contrived manner and claimed to provide benefits to individuals (beneficiaries), other than the scheme user. Such schemes were often marketed as a *wealth management strategy*, it said. The alleged beneficiaries were in fact individuals employed in lending money. *The trustees take no action to identify or reward the alleged beneficiaries, because the trust contributions are always intended to be used by the scheme user.* As part of the scheme arrangements a personal management company is set up and controlled either by the scheme user or a connected party. The money contributed to the remuneration trust is actually paid - often minus the 10 percent scheme fee - to the personal management company. This allows the scheme user full access to the funds. The user accesses the contribution to the remuneration trust through unsecured loans or fiduciary receipts from the personal management company. It is claimed to be tax free and on terms not available from high street lenders. Interest and capital repayments on the loans are rarely made.

HMRC's view is that the claims made by scheme promoters about the tax savings are not credible or genuine. Users may find that: *Corporation Tax, PAYE tax, NICs and Inheritance Tax are all chargeable for company and company director users; Deductions claimed by self-employed individuals and partnerships are not allowable expenses, and Inheritance Tax is chargeable. Users will be charged interest on any tax paid after the statutory due date, and may face penalty charges.

HMRC said it would use its powers under the **Promoters of Tax Avoidance Schemes** regime against those who continued to promote tax avoidance schemes. "HMRC strongly advises those using such schemes to withdraw from them and settle their tax affairs, to avoid the costs of investigation and litigation; minimise interest and, where they apply, penalty charges on the tax which should have been paid. HMRC is considering whether the **General Anti Abuse Rule** may apply to this scheme. Transactions after September 14 2016, where the GAAR applies, will be subject to a 60 percent GAAR penalty." It warned.

Spotlight 52 highlighted two cases in which the First -Tier Tribunal decided that the disguised remuneration arrangements being promoted were notifiable under the Disclosure of Tax Avoidance Schemes (DOTAS) legislation. In both cases, the arrangements, which used offshore trusts, were designed to disguise income for which tax and NICs would be due. HMRC said that these decisions confirmed their view that contrived arrangements involving employment income related loans were notifiable under DOTAS. It warned: "Following a DOTAS notification, HMRC is considering issuing **Accelerated Payment Notices** to bring in immediately disputed tax and NICs that are due. The loan charge applies to all DR loans made since April 6 1999 if they were still outstanding on April 5 2019, and anyone with an outstanding loan now has to report and account for their loan charge. See https://deloi.tt/2HsfEQx

Directors pay rules change

The **European Council** agreement to postpone Brexit for up to six months, followed by Mrs May's resignation, made a 'no-deal' Brexit before June 10 this year impossible, thus ushering in changes to directors' pay rules – '*say on directors' pay'* - said **Linklaters.** The government published draft rules which will come into force on that day. The changes will apply to (i) policies presented for a vote and taking effect after June 10 and (ii) implementation reports on financial years beginning on or after June 10. So calendar year-end companies will need to comply for policies adopted from 2020 and when reporting on their 2020 financial years (annual reports published in 2021):

The changes: The current website disclosure requirement for the remuneration report is extended to 10 years. • Remuneration policy voting results should be on the website for as long as the policy applies. • If a remuneration policy resolution is not passed, companies will need to present a new/revised policy for approval by or at their next agm. • Policies should explain the decision-making process for determining, implementing and reviewing the policy, the role of the remuneration committee, and for avoiding conflicts of interest. *This is similar to the 2018 Corporate Governance Code requirements.* • The policy must expressly include information on vesting, deferral and holding periods (not just performance measures and malus/clawback provisions, as currently provided). • Policies must include duration of service contracts/ letters of appointments. Information about unexpired terms is detailed in the implementation report, under listing rules requirements. • Revised policies must describe and explain all significant revisions. In addition, the chair's statement must include any substantial changes made to directors' remuneration during the year.

• The single figure table must include two new total columns: fixed pay (salary/benefits/pensions) and variable pay (bonus and long-term incentives).

• The annual change in ceo pay (salary, benefits and bonus) compared to average employee pay (or a suitable comparator group) is being replaced. Companies will need instead to show the annual change in each director's pay compared to the average change in employees' pay (excluding directors), building up to five years from when the new requirement applies. This is a wider and potentially narrower requirement: it applies to all directors and there's no "comparator group" option, but it only covers employees of the ***quoted*** company. So where the company has few or no employees, the disclosure may not be meaningful. In addition, remuneration of the ceo (and deputy) will be within the directors' pay rules even if those people are not on the board.

Entrepreneurs' relief: definition of 'personal company'

Before **Judge Anne Redston**, the **First-tier Tribunal** upheld a decision regarding one of the key tests for **Entrepreneurs' Relief (ER).** At the time of this claim, ER secured a 10 percent Capital Gains Tax (CGT) rate for an individual on a sale on £10m worth of lifetime gains where the individual was an officer or employee who had held five percent of the votes and five percent of the issued share capital of the company in which he was selling the shares for a period of at least one year. Where all those conditions were not met, the individual paid a 20 percent CGT rate. Both sides agreed that the appellant met the employment test and held five percent of the *voting rights* for the relevant period prior to a sale of those shares. However, Mr Hunt had been denied an ER claim on his personal tax return following an enquiry, as he did not hold five percent of the *issued share capital*". Although he did not hold five percent of the issued nominal share capital, his representative argued that the purpose of the ER provisions was to deliver a lower rate of tax to those who had made a genuine and material commitment to a business and simply to refuse to grant ER on the basis of the nominal value of the share classes held could not be right, and that the Tribunal should take a "purposive, multi-factorial approach". However, the Tribunal decided that the case of **Canada Safeway** had set a clear legal precedent that referred to the 'issued nominal share capital' not issued shares, and that *as the ER legislation was prescriptive, a multi-factorial approach was not appropriate*. The law was clear and those hoping to qualify for a 10 percent CGT rate should get tax advice to ensure that they did not

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fall foul of these provisions. For ER claims on or after October 29 last year, the officer or employee must have a right to five percent of distributable profits and five percent of the assets available to equity shareholders on a winding-up, or five percent of the proceeds if the whole of the ords capital of the company were sold for its market value**. In addition, from April 6 all those five percent tests had to be met for two complete years prior to a disposal and a claim for relief.** The five percent tests are not relevant where shares are acquired by an employee via an **Enterprise Management Incentive (EMI)** plan. An employee must hold their qualifying EMI option for two years prior to exercise and sale to qualify for ER.

*The First-tier Tribunal gave a decision on the meaning of '*personal company*' as defined by TCGA s 169S(3). The issue was whether preference shares disposed of by the taxpayer in 2013 were 'ordinary share capital' as defined by ITA s 989. If so, the company concerned would have been his 'personal company' and the taxpayer would be entitled to **ER** on the disposal of his shares. It was accepted that the shares gave a right to a dividend and that there were no other rights to share in the profits, so it was only necessary to consider whether the preference shares had a right to dividends at a fixed rate. The preference shares were cumulative and compounding; if there were insufficient reserves to pay the dividends from those shares in a particular year, payment was deferred to a subsequent year, and the rate at which the dividend would be paid (10 percent) would be calculated on an increased amount (ie the aggregate of the subscription price and the aggregate unpaid dividends). **Judge John Brooks** agreed with the taxpayer that, because the rate of dividend was calculated by reference to any previous unpaid dividends, the preference shares did not have a right to a dividend at a fixed rate, and therefore qualified as ordinary share capital, meaning that entrepreneurs' relief was available. See https://deloi.tt/2LhGpfG

*The First-tier Tax Tribunal held that the factual arrangements by which an individual delivered presenting services through her personal services company (PSC) did not engage the UK's intermediaries legislation (IR35), which would have obliged that PSC to deduct and account to HMRC for employment taxes and national insurance notwithstanding her label as an independent consultant. In this case, a well-known TV personality had provided presenting services to **ITV** on a consultancy basis through her PSC for many years, reported Centre member **Bird & Bird**. HMRC claimed that a hypothetical, direct contract between ITV and the individual would, in reality, constitute a contract of employment (rather than of genuine independent consultancy) and so the IR35 regime should apply to the relationship. On that basis, HMRC began proceedings to recover the £1.2m worth of outstanding income tax and NICs which they alleged the PSC should have deducted at source from her fees, as if it were her employment salary. Taking the reality and all of the facts of the arrangement into account, the Tribunal decided that a hypothetical contract between the individual and ITV would not have constituted an employment contract and that, as a result, *the IR35 regime would not apply*. HMRC had pointed to many factors which they felt made this an employment relationship in all but name, including: (i) an obligation on the individual to perform services personally at ITV's request; (ii) some control over the content of her shows; (iii) the existence of guaranteed minimum payments; and (iv) the existence of specific holiday allowances. She contended that she was not obliged to provide services to ITV exclusively, carried out a wide variety of work for other clients in practice and had significant control over the content of her own shows. While the tribunal considered that the irreducible minimum of an employment relationship was evidenced by the arrangements in practice, this was not sufficient to engage the IR35 regime due to other factors which were inconsistent with hypothetical employment status. It considered that ITV had minimal or no supervision over the presenter's activities and the ultimate running of the show; it was instead contracting for the services of the individual's brand and personality which were provided by someone who was genuinely in business on their own account and therefore entitled to use the label of independent contractor. This outcome showed the legitimate use of PSCs in the context of genuine consultancy arrangements, but it highlighted HMRC's increasingly active stance in challenging arrangements where it had doubts as to this label. The lessons from this decision will be of greater significance to private sector end-users of services provided through PSCs (subject to a yet-to-be-defined threshold based on employer size), to whom revised IR35 rules will apply from April 2020, requiring them to ensure the correct tax treatment of payments to any PSC service providers they engage.

State sector troughing curbed

The **TaxPayers' Alliance** is celebrating a policy victory, with the government apparently ready to implement a ***£95,000*** cap on leaving pay-outs in the public sector, a measure that was promised by ex chancellor George Osborne three years ago. The Alliance has long campaigned for curbs on *golden goodbyes* in the public sector. About 1,600 public sector workers received pay-offs of more than £100,000 each in just one year. **Treasury chief secretary Liz Truss** is consulting over her plans to stop the costly exit packages spiralling out of control. Health and police chiefs, school super heads and council top executives will be stopped from walking away from their jobs with massive sums. The government legislated for a cap in the Enterprise Act 2016 but to bring in the changes extra regulations are needed. Ms Truss said: "I fully support the intention to limit exit payments across the public sector." In 2016/17 taxpayer-funded payouts totalled £1.2 bn and between 2011 and 2014 the bill came to £6.5 bn. *Individual payouts have topped £450,000 in the civil service and £500,000 in the NHS in recent years*. However, there could well be a last minute rush of retiring town hall grandees, anxious to bank their six figure exit packages before the doors finally close. The *Town Hall Rich List* revealed there were at least **2,454** council employees who received total remuneration in excess of £100,000 in 2017-18. *That's 148 more than in the year before.*

Valuation warning

HMRC is rejecting DIY valuation submissions regarding proposed EMI awards, Centre member **RM2 Partnership** warned in a blog. It had heard from a couple of companies that carried out their own valuation submissions, which HMRC had studied, rejecting both. RM2 said: *"One explanation for this is that HM Treasury is now starting to view the tax relief obtained in relation to EMI options as expensive and has tasked HMRC with examining valuation requests with more of a fine-tooth comb.* However, the explanation that RM2 prefers is that a DIY application was not the way forward. If the requisite level of care is not taken, HMRC may be less obliging, potentially resulting in the loss of a considerable amount of tax relief for the submitting company. RM2 had seen EMI valuations being rejected where there was an "offer to buy" the company lurking in the background. "This is like Kryptonite to any value that a company may have been hoping to agree. HMRC will smell blood in the water and if very careful consideration is not given justifying why the value is in fact lower (and it can be argued thus) than the price being offered, then once again potentially a considerable amount of tax relief will effectively be lost."

Brexit corner

The **EU Council of Ministers** is due to review progress towards ratification of the draft *Withdrawal Agreement* between the EU and the UK at its next meeting in **June 20-21,** reported Jonathan Rush of Centre member **Travers Smith**. If the political situation in the UK continues to appear deadlocked, this meeting may provide some clue as to whether a further extension beyond October could be on the cards – and if so, what the conditions for that extension might be, *but the resignation of Mrs May as PM may have upset that apple cart*. The EU might want to see the UK government committing to a more specific and credible plan to resolve the current political impasse. Alternatively, the EU may signal that its patience is running out and that unless there is substantial progress by October, the UK will have to leave without a deal.

EMPLOYEE OWNERSHIP CORNER

Staff to get control of Richer Sounds

The founder of **Richer Sounds** is handing control of the hi-fi and TV retail chain to staff, in a move that will see employees receive large bonuses. **Julian Richer** has transferred 60 percent of his shares into an Employee Ownership Trust (EOT). Richer, who recently turned 60, said the "time was right" to pass the baton to the chain's 531 employees: "My father dropped down dead at 60 so I am very keen for this to happen in my lifetime," explained Richer. "*I felt the time was right, rather than leaving it until I'm not around, to ensure the transition goes smoothly and I can be part of it. I still really, really care but it is time for the next generation."* The company will pay Richer an initial £9.2m for the stake but the businessman is giving **£3.5m** of that back to staff, who will receive £1,000 for every year they have worked for the retailer. The average payout will be £8,000 but 39 employees with more than 20 years' service will receive substantial windfalls. The company's nine directors, who Richer said earn six-figure salaries, are not included in the bonus pool. With annual sales of nearly £200m, Richer will stay on as md for the time being. Richer and the retailer's chairman David Robinson are two of four trustees of the newly established ***Richer Sounds Trust***, which will operate according to principles designed to ensure it continues to follow the course set by Richer over the past 40 years. A colleague advisory council will be established to represent the interests of employees and shape the company's future. Other recent converts include **Riverford**, the organic vegetable box company and **Aardman**, the Bristol-based animation studio behind Wallace & Gromit.

Print world EOTs

Employee ownership schemes, which take the form of trusts, share programmes and co-operative structures could help address two issues frequently faced by smaller businesses: staff motivation and succession planning, said an article in **Print Week** by Rhys Handley. Organisations with wide-ranging influence are working to encourage their adoption. At the very top, the **Department for Business, Energy & Industrial Strategy (BEIS)** introduced new laws at the start of this year compelling larger companies to be more transparent about how directors take employees' interests into account in decision making. This cultivates an attitude of inclusivity and equality among the biggest businesses – of employees gaining a voice in their companies. This could more feasibly translate into ownership and shares at the SME level. A BEIS spokesperson said: "Government recognises the benefits of employee ownership and it is a choice that businesses are free to make. Our tax system has a number of schemes within it that help incentivise this type of ownership."

Under business law, when more than half of a company is sold into an **Employee Ownership Trust (EOT)**, the transaction is tax-free. Scottish Enterprise and its campaigning organisation Co-operative Development Scotland (CDS) hope that this incentive is one way to speed up businesses' transition into full employee ownership, where moves made so far have been tentative and slow. CDS director Sarah Deas said: "The main reason businesses do not consider employee ownership is a lack of understanding. In Scotland, the rate of transition to the model currently stands at one a month, but we hope that with our awareness campaigns and lobbying that can increase to two or three." As part of its mission, CDS set off on a road show around the Scottish regions to promote the EOT model to legal professionals and accountants, so that they become aware of the viability of this option when discussing business sales with owners and directors. Potential benefits for business owners when they sell their companies to EOTs and co-ops are significant: greater employee motivation perhaps leading to increased productivity, tax incentives and assurance that one's legacy can remain intact. Employees stand to benefit by keeping companies in the hands of those who understand them, rather than serial acquirers and asset-strippers.

*Trade union **Unite** backed employee ownership with a motion at its 2018 national policy conference signalling its belief that workers should have the first option when a business goes up for sale.* National officer Louisa Bull said: "Employee ownership can mean many different things, from an employee share scheme to electing workers to boardrooms, or a full workers' buy-out plan, whereby employees take full control of a workplace. *Examples from the UK, US and Europe show that employee ownership brings gains to both productivity and efficiency, with some academic research showing productivity advantages of between six and 14 percent.* The immediate benefit of employee ownership, much like collective bargaining more generally, is the stability that comes with workers having their own voice."

Calverts in London has been an employee-run co-operative since its inception, and the transitions are creeping in; Glasgow-based **Novograf** took the leap in December 2016, **Mail Solutions Group** in November 2017, and **Direct Solutions** in Clacton-on-Sea began its journey at the end of last year. There have been failures: Colchester Print Group and Anton Group, both EOTs, subsequently shut down. However, those with oversight point to lack of awareness as a key stumbling block for success, as well as ill-suited motivations. Sidney Bobb, **British Association for Print and Communication** chair, said: "If a print owner is thinking of passing on their business, there are not that many buyers that would know how to handle that business as well as their employees. Employee ownership gives the possibility of longevity for their baby and it is an easy way to sell if you are willing to do so gradually. It is not for everyone – I think you need to have a bit of a socialistic view in terms of business, but it is a good opportunity that can allow employees to own a business without needing the capital to acquire it and it means they can share responsibility with their contemporaries and run a business for the good of its community." **Arthur Stitt,** sales director**, Calverts** said**:** "We were established as a worker's co-operative in 1977 when the print department of an arts organisation set up alone when it was to be made redundant. The company was set up under the rule of 'one man, one vote' and everyone is equal. We have non-hierarchical management, and everyone is paid the same. It gives us freedom to innovate, too. We are positive proof that the model does work." **John Clark,** chairman, **Novograf** said**:** "When you are looking to exit your business there are only a few avenues open: trade sale; family succession, or an MBO, though that means the business could be sold on again down the line. Through Scottish Enterprise, I came across employee ownership and by December 2016, Novograf was 80 percent trust-owned and 20 percent employee shares. *It has been a learning experience, but the benefits come from employees owning what they do. Equality and inclusiveness are* *prominent issues, and this is a very good option for growing businesses that recognise that*.” **Allistair Hunter,** md**, Direct Solutions** said**:** “We are in our second year of moving towards an employee-ownership trust. It currently stands at 15 percent and will be 20 percent next year. Our first year was great, though a lot of cultural changes had to happen as employees’ mindsets had to change. Our profits increased last year and I made sure 50 percent of that went into benefiting their pay and now you can see how people don’t have to be asked to put in an extra hour, stay on late or work through lunch – there’s now that little bit of extra care to make sure everything is hunky dory.”

COMPANIES

***BAE Systems**’ decision to award executives bonuses based partly on the company’s safety record is being questioned after the death of an employee at an ammunition plant run by the defence giant. Shareholder advisory firm Glass Lewis said paying safety incentives after a fire at the company’s Radford plant in the US killed one worker and seriously injured two others “may be considered a serious breach of moral and ethical code by many investors”. Ahead of BAE’s agm *on Thursday*, Glass Lewis said it was “especially troubled” by payment of the safety bonuses in a year when a fatality occurred.

*Almost **30 percent** of investors’ votes (3.65bn votes against) were cast against **Barclays**’s 2018 remuneration report, following calls for ceo Jes Staley’s pay to be docked following the whistle-blowing scandal. This substantial adverse vote against the board dumped Barclays into the **Investment Association**’s ‘*Sin Bin’* which requires Barclays to seek and reflect carefully on feedback from shareholders in order to understand more fully their reasons for opposing the executive reward report. ISS had recommended shareholders vote against it as the measures taken by the remuneration committee did not go far enough after regulatory investigations and a $15m (£11.5m) fine by US authorities over his attempt to unmask the whistle-blower. Mr Staley was personally fined £642,000 by UK watchdogs, while the bank clawed back £500,000 of previous bonuses following investigations into the affair. The group reduced its overall bonus pool by £290m to £1.6bn for 2018 due to conduct charges, although it was higher than the £1.5bn shared out among staff for 2017. The bank’s annual report revealed that Mr Staley was still paid a total of £3.4m for 2018, down from £3.9m in 2017, while he received an annual bonus of £1.1m for last year.

*Former **BT** Group ceo Gavin Patterson gave up half of his £1m annual bonus for his final year at the company. BT’s annual report showed that Patterson chose to waive £500,000 of his bonus following talks with the board. Unnamed sources told *Sky News* that his voluntary decision to accept the bonus cut had been in response to growing shareholder hostility towards City executive bonuses. Patterson’s total reward for the 10 months he worked at BT last year was around £1.7m, including the bonus.

***Capita** promoted two employees - Lyndsay Browne and Joseph Murphy - into the boardroom, where they will earn £64,500 a year on top of their salaries. The pair beat competition from 400 other internal candidates. Ms Browne, a finance manager who has been at Capita since 2003 and Mr Murphy, a project manager in its real estate division, will continue in their current roles. Capita said it would make time allowances for the pair to fulfil their responsibilities as directors.

***Ceres Power Holdings** announced the grant of options on April 29 under the Ceres Power approved all-employee SAYE-Sharesave scheme, introduced to encourage wider employee share ownership of the company. Options to purchase a total of 581,543 ords of 10 pence have been granted, exercisable between June 1 2022 and November 30 2022 at 126.6p per share.

*The **Concentric** agm approved the transfer up to 120,200 shares to an **Employee Share Ownership Trust (ESOT)** as a part of a **Joint Share Ownership Plan (JSOP**) under LTI 2019. Concentric therefore on April 18 transferred 112,680 shares to the ESOT free of charge. Simultaneously as the ESOT acquired the main ownership rights in the shares, the participants in the JSOP acquired a lesser beneficial ownership right in each share for the right’s market value, resulting in the participants becoming co-owners of the shares. The reason for the agm’s resolution to transfer the company’s own shares with deviation from the shareholders’ preferential rights was to enable a tax efficient delivery of shares under LTI 2019 to certain UK based participants.

*A Dundee University professor could be in for a **£400m** windfall as one of Britain’s brightest biotech companies weighs a possible stock market listing. **Exscientia**, which uses artificial intelligence to help find blockbuster pharma drugs, is considering an initial public offering, and will be ready to float by next May. A float would trigger a substantial pay out for senior management led by ceo and founder **Professor Andrew Hopkins**, a former **Pfizer** executive who spun the company out of Dundee University (itself a spin-off from St Andrews) in 2012. Prof Hopkins owns the largest stake in the company, with 43 percent of the shares. Other senior management own a further seven percent of the biotech firm. Its technology is capable of dramatically cutting down the time and money spent in the development of new drugs. It automatically analyses patients’ genetic data and finds molecules that could be used in new medication. Exscientia is considering a number of strategic options, having recently batted off approaches from major drug companies over a takeover, and has not yet nailed down which stock exchange it would list on. Allenby Capital, which acts as a broker for shareholder Frontier IP, thinks the company's valuation could be as much as £1bn. It is working with **Evotec, Sanofi** and **GSK**, as well as **Roche** on deals could be worth more than £760m in milestone and royalty payments. If Exscientia does decide to float, the move would likely prove highly fruitful for management, who are understood to own around 50 percent of the shares in the company. Hopkins said there had been an "absolute sea-change in interest from the pharmaceutical industry, helped in part by the fact that there are now real-life examples of advances being made by artificial intelligence".

***GVC**, the owner of bookmakers **Ladbrokes** and **Coral**, came under fire for paying its ceo almost £20m last year, risking another investor rebellion. Kenny Alexander took home £19.1m in 2018 after being paid £18.3m the year before. His 2018 pay packet included £16.4m in "legacy awards" relating to the company's acquisition of European online betting firm **Bwin** in 2016, according to figures in GVC's annual report. The figures sparked criticism from Luke Hildyard of the High Pay Centre: "These are extraordinarily large sums of money, even by the standards of big business."

*Investors in **Hammerson,** one of the UK's largest shopping centre owners, revolted against its decision to hand top executives hundreds of thousands of shares despite sinking to a loss last year. Around 30 percent of voted shareholdings at its agm went against the company's pay report after it was criticised by shareholder advisory group ISS for failing to take account of its plunging stock price when handing out shares through its long-term incentive plan. Ceo David Atkins and cfo Timon Drakesmith had their overall payouts slashed last year after missing bonus targets. But the overall number of shares they were awarded grew because their value slumped by around 40 percent in 12 months. ISS said earlier this month: "A reduction in share price of such magnitude as in 2018 is expected to be considered when granting share-based awards." It criticised payouts to two departing executives. Hammerson said: "The board understands the concerns of some investors but notes that the reward structure is in line with the remuneration policy and recent previous practice."

*Aberdeen-based UK broadband and telecoms provider **Internet for Business (IFB)** confirmed that a partial MBO had taken place from its founder and chairman, John Michie, resulting in a restructuring of share ownership. The details of this move are still unclear, although the restructure sees an investment in the business coming from IFB's ceo, **Graeme Gordon**, and its non-executive director, **Jane Stewart**, as well as the creation of an ***Eso scheme***. Gordon, said: "*We believe the new ownership structure creates a fantastic opportunity as one team to accelerate our strategic plans*."

***John Lewis Partnership (JLP)** is saving around £80m a year by scrapping its defined benefit pension scheme in a tough retailing market. The owner of department stores and **Waitrose** implemented instead a group-wide defined contribution scheme. The group will match contributions of up to eight percent of pay and an additional four percent after three years' service, regardless of whether staff pay into the scheme. ***Morrisons** ceo David Potts surrendered almost £600,000 in bonuses after admitting his business could have done better. His total reward for 2018 came to £4.6m, the same amount as the Tesco ceo, a business three times the size of Morrisons. Potts was in line for a £1.635m bonus, equivalent to almost double his basic salary, after meeting sales, profit and personal targets. Instead he accepted an annual bonus of £1m on top of his £850,000 basic salary and almost £2.5m in long-term share bonuses. That compares to a £1.2m basic salary for Tesco ceo, Dave Lewis, who received a £1.6m cash bonus as well as £1.3m from share plans and £300,000 pension payments last year. His pay packet fell from £5.1m a year before. Together with director Trevor Strain, Potts handed back part of his annual bonus related to personal targets including launching new premium products and opening stores. They said they had decided to waive the pay out after "*taking into consideration the overall performance of the group*". The pair turned down a fifth of the main part of their bonuses linked to financial performance too.

Marks & Spencer's annual report revealed that no annual bonuses were paid for the last fiscal year to its boardroom executives, including ceo Steve Rowe. His total package still rose to £1.7m from £1.1m because a long-term incentive deal paid out. M & S's pre-tax profit was £523.2m and the report said this was "*below the threshold set to trigger payments under either the corporate element or the individual element of the [bonus] scheme. Therefore, no bonuses under the 2018/19 annual bonus scheme will be paid to anyone in the organisation, including executive directors*." The retailer's ratio of ceo to the full-time equivalent total pay of those colleagues whose pay is ranked at the 25th percentile, medium and 75th percentile in the UK workforce was **92 to one**, then 88 to one and 79 to one respectively.

*Despite strong disapproval from a quarter of **Ocado**'s shareholders at the agm, ceo **Tim Steiner** could be on course to make a **£100m** incentive bonus over the next five years if he delivers 25 percent per annum growth in share price in the Value Creation Plan when it vests by May 2024. Shareholders heard that Steiner 49, a former **Goldman Sachs** bond trader, had been awarded 2.2m shares already worth £29m, taking his total holding in the company to nearly **£340m**. Steiner has an interest in 25.7m Ocado shares so far, which have soared in value from less than 400p at the end of 2017 to the recent closing price of 1319.5p. The rise from 790p at the beginning of this year has added around £1.4m to his fortune each day. Ocado shares are on course to double for the second year running, making it one of Britain's most successful start up companies. He added a 'golden handcuff', which he was given after Ocado floated, to his share pot in August and it is now worth £109m. Investors were unimpressed and Ocado dropped into the Investment Association's *Sin Bin* after **24.3** and **25.38 percent** respectively of voting shareholders' holdings were cast against first the directors' Remuneration *Policy* and then the directors' Remuneration *Report*. Ocado co-founder Steiner will receive £100 m if he can triple the company's share price over the next five years. That does not include separate incentive bonuses and pay. The Centre is adding a link on its website to the IA sin bin.

*Jameson owner **Pernod Ricard** launched an employee share ownership scheme, allowing 75 percent of its workforce in 18 countries to invest in the business. The scheme, called Accelerate, is part of the French firm's three-year strategic plan. Eligible employees will be able to buy Pernod Ricard shares under favourable terms – a 20 percent discount - as part of a group savings plan. The price for each share will be set on June 13. The shares sold to employees will come either from treasury shares or from the implementation of a share buyback programme decided by the board in November last year. Alexandre Ricard, chairman and ceo of Pernod Ricard, said: "*Our ambitions cannot be achieved without fully associating our employees, as they are the driving force behind this growth. 50 years ago our founder, Paul Ricard, was a pioneer in the field, offering Ricard employees innovative* ***profit sharing*** *and* ***company savings plans.*** *We are delighted to maintain this culture, which places the concept of sharing at the heart of our model and our performance."* Earlier this year, Pernod Ricard announced that its 2018/19 nine -month sales climbed 6.3 percent to €7.18 bn, driven by *Martell* Cognac and *Jameson* Irish whiskey.

***Share**, the parent company for certain stockbrokers including **The Share Centre**, said that it had received a potential offer from **Interactive Investor Services**. But Interactive Investor Services said it was not intending to make an offer. Share's shares rose more than 16 percent after the announcement.

*French bank **Société Générale** announced an offer of more than 12m shares under its group Esop programme. The shares are priced at €21.69 each, equal to average quoted prices of the Société Générale share on Euronext during the 20 trading sessions preceding May 21, minus a 20 percent discount. The subscription period will start on June 3 and will end on June 17. The first two tranches will be subscribed through a collective employee shareholding fund (*Fonds Commun de Placement d'Entreprise*, as part of group savings plans. But the third tranche can be purchased directly by the employees as part of Soc Gen's international group savings plan.

***Solium** is now **Shareworks** by **Morgan Stanley,** which has completed the acquisition of Solium, announced **Martin Osborne-Shaw.** For more detail, go to: https://www.morganstanley.com/press-releases/morgan-stanley-completes-acquisition-of-solium

*The insurer **Standard Life Aberdeen** suffered a large shareholder revolt over plans to offer its incoming chief financial officer a *Golden Hello* - free shares worth up to £750,000 in one of the biggest executive pay revolts at a FTSE 100 company this year. More than **42 percent** of voting investors at its agm went against its remuneration report after shareholder advisory firms Glass Lewis and Institutional Shareholder Services (ISS) raised concerns about the reward package of Stephanie Bruce, who became new cfo at the insurance and asset management firm on June 1. She joined from the accounting firm **PricewaterhouseCoopers,** replacing Bill Rattray, who is retiring after more than 30 years at Standard Life. Stephanie will receive an annual salary of £525,000, which is 17.65 percent more than the £450,000 her predecessor was paid and will get an annual payment equivalent to 20 percent of salary in lieu of a pension. She is entitled to performance share awards up to 350 percent of salary under the executive incentive plan. Glass Lewis said it viewed high fixed pay raises with scepticism because remuneration is "*not directly linked to performance and may serve as a crutch when performance has fallen below expectations*". ISS criticised the performance conditions for not being "sufficiently stretching". Standard Life said it would continue to talk to investors about their concerns and would publish an update on these discussions within six months. It will seek approval from shareholders for a new pay policy at its 2021 meeting.

WORLD NEWSPAD

Income "insufficiency", not inequality, is to blame for the widening gap between rich and poor, said private equity titan Steve Schwarzman, becoming the latest billionaire to agonise about the issue. The ceo of **Blackstone** and former Trump adviser outlined what he called a Marshall plan for the middle class, referencing the US initiative that aided the rebuilding of western Europe after the second world war.

Schwarzman's plan would eliminate taxes for teachers, introduce a higher minimum wage and more technical training for people who don't go to college. But Schwarzman, who ***Forbes*** estimates to be worth $13.7bn, seemed keen to avoid the term income inequality, which has been growing markedly for more than 30 years. "What we have is less an issue of income inequality than income insufficiency for the bottom 50 percent of the society," he said on *CNBC's Squawk Box*. "I look at this as a systemic problem. This is not anecdotal," he said. "*Half of our society is severely disadvantaged. We can't allow that to continue, so that means you need policy solutions*." Schwarzman follows a bushel of billionaires who have begun to worry about the widening gap between rich and poor, often triggering widespread scepticism from people less well off. Jamie Dimon, the head of **JP Morgan**, wrote: "*It is absolutely obvious that a big chunk of [people] have been left behind. Forty percent of Americans make less than $15 an hour. Forty percent of Americans can't afford a $400 bill, whether it's medical or fixing their car. Fifteen percent of Americans make minimum wages, 70,000 die from opioids* [annually]." Schwarzman and Dimon's worries have been echoed by other billionaires including investment guru Warren Buffet and hedge fund billionaire Ray Dalio, who has called income inequality a "national emergency," pointing out that the percentage of children who grow up to earn more than their parents has fallen from 90 percent in 1970 to 50 percent today.

France- Europcar Mobility Group** announced the launch of its share ownership plan "*we share 2019*" reserved for employees of Europcar Group in 16 countries, including the UK. This offer is intended to give employees a new opportunity to become shareholders of their company under preferential conditions and to be involved more closely with the group's performance. The supervisory board authorised the set-up of an Esop for the benefit of the members of the Europcar Group savings plan and the Europcar international group savings plan. The ords will be newly issued. The maximum number of shares issued as part of the offer should be capped at 4,800,000 shares, including a maximum of 2,700,000 shares for the leveraged formula. The qualification for subscription is at least three months' service. The Offer comprises two subscription formulas: a leveraged formula guaranteeing the initial investment of the subscriber and a classic formula, under which the initial investment follows the share price, should the latter increase or decrease. Employees may elect to subscribe either to the leveraged or classic formulae, or to both. Subscription will be through the Europcar Mobility Group FCPE (French employee mutual fund, i.e. a *Fonds Commun de Placement d'Entreprise*) or through direct investment. In some countries, employees will receive instead a Stock Appreciation Right, the pay out of which will be indexed by applying a comparable formula to of the one offered in the Leveraged Formula. Employees participating in the plan will benefit from a **matching contribution.** The subscription price for the shares will be equal to an average price of the Europcar Mobility Group shares on the Euronext Paris market during the twenty trading days prior to this decision with a 15 percent discount. Beneficiaries cannot invest more than a quarter of their annual gross income for the year 2019. When the voting rights are registered, they will be exercised individually by the employees involved. The beneficiaries subscribing to the offer will have to hold either all shares directly or hold the corresponding FCPE units, during a ***five-year period, except for the early release cases itemised in article R. 3324-22 of the French Labour code.

*The **Insurance Regulatory and Development Authority** of **India** (Irdai) asked insurance companies in India to link variable pay of top executives like ceos, mds and executive directors with their performance vis-a-vis that of the industry. The insurance regulator instructed insurers to fix an upper cap for bonuses paid to top executives so that the board don't give hefty bonuses to these executives, the *Economic Times* reported. Irdai has refused to approve the bonus of some ceos in the life insurance sector, as the proposals did not quantify the maximum payable amount, making it difficult to evaluate between fixed and variable pay, a person with knowledge of the matter told *ET*. Earlier, the Reserve Bank of India had proposed a threshold for variable compensation for the ceos and directors of private and foreign banks. Irdai has sent a detailed note on how to compute bonuses and what factors need to be taken in before finalising the pay outs. The proposals to pay bonuses will have to clearly specify the fixed pay and variable components and the maximum variable pay. "While the proposals need to clearly specify the fixed pay and variable components as also the maximum variable pay, it is also necessary that the performance grid/parameters together with weights are clearly specified and mapping between the performance grid, achievement matrix and applicable percentage of variable pay component is given," Irdai said in its circular.

***Italy**'s transport minister criticised executives at infrastructure group **Atlantia** for taking big bonuses last year despite the collapse of a bridge operated by a unit of the group that killed 43 people. According to a report on pay published by the group, Atlantia ceo Giovanni Castellucci received €3.7m in bonuses and incentives last year and group chairman Fabio Cerchiai received €560,000 in variable non-equity premiums. Both Castellucci and Cerchiai served as ceo and chairman respectively of Atlantia's motorway unit **Autostrade per l'Italia** until the beginning of this year. Last August, a section of the 50-year-old Morandi bridge managed by Autostrade in Genoa collapsed, sending 43 people to their deaths in dozens of cars plunging to the ground. "*No comment is needed in front of millionaire bonuses paid out after the tragedy in Genoa. We need a revolution of the concession system. This is what we are doing,*" Transport Minister Danilo Toninelli wrote on Twitter.

*__Kenya: Equity Bank__'s employees missed out on a Sh8.4bn (£1 sterling = 133 shillings) share bonus after the lender dropped a resolution to allot stocks to an Esop at its agm. Outgoing chairman Peter Munga skipped the agenda which was set out in the company's annual report and was scheduled for a vote. The bank had said that subject to regulatory approval, they would establish the Esop of 205.7m shares amounting to five percent of the company's issued share capital at Sh40.90 (31p) a share. "The agenda has been withdrawn," Munga said when it flashed on the screens. Instead, Equity shareholders voted on a special resolution to pay Munga Sh50m (GBP 376,000) for long service to the bank.

Mortgage lender **HF**'s stock rout on the Nairobi Securities Exchange has dented its share-based compensation scheme which became unprofitable after the market price fell below the offer price. The adverse share price movement has seen employees shy away from participating in the lender's Esop. HF said that employees took up just 120,000 shares or 15 percent of the 775,000 units that were available to them in the year ended December, leaving the remainder (655,000) to lapse unexercised. HF offered its workers the Esop units at Sh10 apiece, with the stock last trading above the Sh10 level in May last year - with a 2018 high of Sh11.15. Following the limited uptake last year and lapse of the remaining units, HF has no outstanding Esop shares. The lender also did not grant any new units in the review period.

UBS** shareholders should oppose discharging the board and top management of Switzerland's biggest bank from liability after a guilty verdict in a French tax evasion case, proxy adviser **Institutional Shareholder Services (ISS)** said. "*A vote against the formal discharge of the board of directors and senior management is warranted on a precautionary basis, as the company was recently found guilty of illegal solicitation and laundering the proceeds of tax evasion by a French court,*" ISS said in a statement ahead of UBS's May 2 agm. This was the latest criticism from shareholder advisers ***after a French court in February found UBS guilty of illegally soliciting clients and laundering the proceeds of tax evasion, ordering it to pay €4.5 bn in penalties. UBS denies the charges and is appealing against the ruling it has called "incomprehensible". A UBS spokeswoman declined to comment on ISS's recommendations. **Ethos Foundation** recommended UBS shareholders reject all of the Swiss bank's executive and board pay proposals at the agm, including binding votes on bonuses and pay packages.

US: The SEC approved the creation of the **Long-Term Stock Exchange**, a Silicon Valley-based platform aimed at tech startups that want to go public while taking their time to develop products and services. The exchange will have rules to limit executive bonuses, require more disclosure for milestones and reward long-term shareholders with more voting power. The green light required revisions before the LTE could receive the SEC's blessing. Companies on the LTSE will be allowed to list stock on other exchanges. Several companies have signalled their intent to list on the exchange when it goes live, although LTSE creator Eric Ries has declined to name them. Many companies wait a decade or more (including Uber) before filing for an IPO, by which point their most dramatic growth is likely over. The LTSE could shorten that period and give tech companies both the money and time they need to bring their ideas to fruition. While this could lead to some high-risk companies going public, it could also help with promising concepts that would otherwise have to lean on private backers to stand a chance.

*Since becoming president and ceo of **Discovery** 12 years ago, David Zaslav has ranked near the top among highest-paid ceos in media and entertainment. In 2014 and again last year, he was the top-paid ceo of a public company in the US. His compensation package for 2018 was valued at **$129.5m,** an egregious amount when rising income inequality is gaining traction as a political issue and the decisions of corporate entities like Discovery are under increasing scrutiny from investors, regulators and legislators as well as the public, said Cynthia Littleton writing in the magazine *Variety.* As president and ceo, Zaslav has presided over a 15 percent rise in the compound annual growth rate of Discovery shares and the expansion of its market cap from $5bn to almost $22bn. For the year to date, Discovery shares are up nearly 30 percent as it harvests returns from its acquisition last year of Scripps Networks Interactive as well as the M&A buzz swirling around content-focused companies. The vast majority of Zaslav's 2018 pay package depends on how well Discovery stock performs in the coming years, which means there's no guarantee he will actually bank the $129.4m. *Companies are required to hold advisory, though non-binding, votes on ceo compensation every three years — the **Say on Pay** rule. As of 2017, large public companies have been required to disclose the ratio of ceo pay to that of the median compensation rate for all employees.* At Discovery, Zaslav's compensation was **1,511** times the average median compensation for employees, which stood at $85,704 last year at Discovery. If the value of long-term stock awards — which represented the bulk of Zaslav's $129.4m — were subtracted, his remaining compensation of about $35.5m would have been 414 times median compensation. Zaslav's nine-figure compensation haul was fuelled by almost $117m in stock options and awards granted through a new employment contract signed last July that will keep the ceo at the helm of Discovery until 2023. *In reality, Zaslav's take-home pay last year was nowhere near $129.4m. But per SEC rules, the stock options and awards he was granted in 2018 have to be accounted for in Discovery's annual corporate officer compensation disclosures as if they were valued in present-day dollars, even though the performance of those shares is unknown, since Zaslav won't be able to claim all of them until 2023.* Zaslav may make a fortune on those options, or he may not, depending on how high or low the stock goes relative to the various option prices he's been granted for shares that vest in years to come.

Corporate sustainability index published

Standard Ethics Ratings were issued to Europe's one hundred largest listed companies. These companies will be the components of the **SE European 100 Index**. The **SE European 100 Index** will be implemented after the close of business on Friday, September 20 2019 and be effective from **Monday September 23**. It will be reviewed on a semi-annual basis in June and December. Index constituents have been selected according to their dimension, in terms of market capitalisation. In the case of the last 10 components, whose size is similar, other factors were considered such as their floating share level, country of origin and industrial sector in order to ensure a well-balanced and representative index. The SE European 100 Index is a market cap-weighted index adjusted to each company's **Standard Ethics Rating.**

The **Standard Ethics Rating**® (SER) is designed to be standard and comparable and to provide an independent opinion on where the company under evaluation stands in relation to Sustainability indications and guidelines emanating from the EU, OECD and UN. The agency's methodology takes into account three 'laws' of Sustainability**:**

1.Sustainable development policies are about the generations of the future; they have taken on a global dimension and implemented on a voluntary basis. It is up to the main supranational organisations to establish the definitions, guidelines and strategies related to sustainable development through science.

2. Economic entities do not define the guidelines, goals and strategies on sustainability: they pursue them to the extent deemed possible.

3. Measuring the sustainability of economic entities means providing comparable and third-party data on their overall compliance with international guidelines. "*We are witnessing a situation where sustainability is confused with corporate social responsibility (CSR) and responsible finance (SRI, Socially Responsible Investment)*; two approaches – one for companies, one for investors – designed to offer freedom of choice in the selection of objectives and ethical solutions. This, however, means that there is no uniformity. Society is quickly realising that solutions need to come from global strategies. It is not for a bank, an investment fund, a company or a conglomerate – however important they may be – to decide what should be considered sustainable for the planet and for future generations. Yet this key point does not seem to have been understood by all." The objective of the **SE European 100 Index** is twofold: it wants to provide an overview of the average sustainability performance of Europe and it allows tracking of the financial performance of the largest European companies weighted according to their sustainability profile. It represents a sustainability benchmark for asset managers and financial institutions alike aiding them in the improvement of the ESG performance of their portfolios. Ratings table:

Excellent sustainability: Swiss Re CH GB and Vodafone Group GB

Very good sustainability: ABB CH, Air Liquide FR, ASML Holdings NL, BNP Paribas FR, Enel IT, ENI IT, SAP DE and UniCredit IT

V*ery low score:* Deutsche Bank DE, Glencore JE, Inditex ES, Orange FR, Royal Bank of Scotland and Volkswagen DE.

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