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it's our business

newspad of the Employee Share Ownership Centre

Buoyant profits keep shareholder anger at bay

Only relatively buoyant profits and mostly reasonable share prices so far this year are saving FTSE100 companies from annual general meeting (agm) maulings over allegedly egregious executive equity incentive rewards.

Recriminations are being stoked up by investor advisory agencies, such as Glass Lewis and ISS, over recent huge equity payouts to top UK executives from maturing Long Term Incentive Plans (LTIPs).

A head-on attack by one of the richest women in the US on the "***insane***" level of total compensation - **$65.6m** - dished out to **Disney** ceo Bob Iger brought the corrosive issue of excessive executive reward back onto the front pages of the media. **Abigail Disney**, an Emmy award-winning film-maker, granddaughter of the company's co-founder Roy Disney and herself a Disney shareholder, said it was *outrageous* that Iger was paid **1,424** times more than the $49,127 median pay for a Disney employee last year. (*full story in this issue*). Iger's 2018 reward comprised $39.3m in annual compensation, with restricted stock awards tied to the acquisition of **21st Century Fox** assets making up the balance.

Meanwhile, in the UK, egregious equity incentive scheme pay-outs are being scrutinised by baleful eyes as never before. The building industry is still reeling from the effect of **Persimmon's** uncapped £110m LTIP ceo bonus scandal. Trade union ire has been aroused at **Centrica**, where its ceo received a **44** percent rise in total compensation last year. **Unison** urged employee shareholders to vote down the ceo's reward package at the agm. **Micro Focus** is giving top executives more time than planned to reach potentially £270m worth of bonus targets, despite a negative shareholder vote; **HSBC** was questioned over its guaranteed bonus plan, despite scant information on its performance conditions. Shareholders voiced fierce criticisms about executive payouts too at **BAT (British American Tobacco)** and **BP.** Spanish based bank **Santander** tried to downplay a £40m cash reserve pot for buying out the lost bonuses from old incentive schemes of incoming top executives and, as we report, large UK corporates rushed to slash their executive pension plan contributions (mostly cash) to below 25 percent of base salary after the Investment Association went on the warpath.

From the chairman

Inequality and social cohesion are two sides of the same coin, just like bread and circuses. The Piketty witch got everyone in a fluster proposing cures which are worse than the problem. There is no disputing that the fat cats have got the cream, as much of the content of this newspad shows, and some will have to be disgorged. But there is wide acceptance at the same time that real stars whether in sport or in business deserve their eye-watering rewards and there is tolerance when change takes place against a background of better circuses. Prof Doug McWilliams (see lead story) puts the paradox into Piketty and he too can now take the further step and recognise that employee share schemes, nationally and internationally, can make a massive difference - because they offer hope and aspiration as well the additional wages of capital.

Malcolm Hurlston CBE

Another US eyebrow raiser came from **General Electric (GE),** which reported that the pay ratio of its ceo, H Laurence Culp Jnr, compared to the median level of annual compensation for its 264,000 employees was **345 times** greater.

The *average* total annual compensation of a ceo of a UK FTSE100 company is around **£4.3m** and rising, according to Equilar. The average pay ratio between FTSE 100 ceos and their staff went from 20:1 in the 1980s to **129:1** in 2016.

Parliament's Business Select Committee (BEIS) said in a recent report that remuneration committees should place an "***absolute cap on total remuneration for executives in any year"*** then publish and explain it. Centre member **Lynette Jacobs** at **Pinsent Masons** approved the idea of capping variable pay more widely, as applies already in the UK financial services sector – where it is a maximum *100 percent of total fixed pay* or, with shareholder approval, *200 percent of total fixed pay* - with malus and claw-back and long share retention periods thrown into the mix.

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Other proposed remedies include:

- Labour's plan to transfer one percent of larger companies' equity every year for a decade to the workforce, via a trust structure
- A much tougher corporate governance code, including new laws to outlaw uncapped executive equity incentive schemes and to make **all** negative executive remuneration votes at agms enforceable, compelling companies to draw up fresh pay proposals.

Critics conveniently forget that big bonuses are taxed quite heavily in the UK – 45 percent on every pound earned *above* £150,000, plus up to 14 percent NICs for high earners. Nevertheless, the widespread perception is that senior executives have too much jam on their bread and that, as a result, it is spread too thinly elsewhere. Alarm is spreading about the threat that rising income inequality could present to the future of capitalism. Significantly **Prof Doug McWilliams'** new book *The Inequality Paradox* was published first in the United States. He attributes rising inequality more to technology and globalisation than to Piketty's conspiracy of the rich and notes that at the same time poverty has dropped worldwide.

Blackstone ceo **Steve Schwarzman** urged a course correction for capitalism. "*Half of our society is severely disadvantaged. We can't allow that to continue, so that means you need policy solutions,"* he told CNBC.

Centre chairman, Malcolm Hurlston CBE said: "It is regrettable that the good name of employee share plans can be tarnished by the unbridled pursuit of pelf. We need links to ensure that plans effectively benefit employees who are just about managing. At the same time, a return to measures of 'felt fairness' can ensure the real stars are not impeded from receiving the rewards nobody begrudges them".

Philip Baxendale dies

Employee Ownership Trust forerunner Philip Baxendale who sold his large Lancashire based boiler company to his workforce – one of the UK's first examples of employee ownership - has died aged 92. Philip was the great-grandson of Richard Baxendale, whose foundry grew into one of the leading names in domestic and commercial heating. Philip joined as general manager in 1955 and under his leadership, increased the workforce from 55 to almost 1,000. He revolutionised the way the company ran and even inspired an Act of Parliament, after his decision to sell the company to its employees.

His daughter Jennifer Ouvaroff told *The Lancashire Post*: "He was way ahead of his time in his views on industrial relations, and in order to benefit the workforce, instigated initiatives such as profit sharing, job rotation and a single-status canteen. He valued every member of the company. Consequently he believed that he had no right to sell the business to the highest bidder as it belonged as much to the workers and was not solely his to sell."

In 1983, Mr Baxendale and his cousin Joan Caselton turned down offers of £50m for the company and instead allowed staff to buy a majority shareholding for a much reduced price. Jennifer added: "*It was his proudest moment. He worked long and hard to achieve this and even had an Act of Parliament, The Baxi Act. The Act benefited many companies afterwards who turned to the employee share ownership model*."

Mr Baxendale was awarded an OBE "for services to industry in the North West, particularly in employee ownership in Lancashire". He was a keen sailor and golfer, and helped many good causes. He leaves his widow Florence and four children. The first product bearing the trade name Baxi was an underfloor draught system for solid fuel heating. The workforce grew from 200 to 800 within a decade due to the popularity of the Baxi Bermuda, a boiler system fitted behind a fireplace. In the 1990s Baxi bought several high-profile European companies, including the Blue Circle Cement heating interests. However, the acquisition spree saddled it with mounting debts and it was forced into a deal with rival Newmond. This required collective employee authorisation which they gave, many reluctantly, in November 2000. Today the name Baxi survives as the lead brand of BDR Thermea, one of the largest boiler manufacturers in Europe.

Symposium co-hosting offer

Practitioner members of the Centre may co-host the **fourth British Isles share plans symposium,** which is scheduled to take place in London in **March** next year. To ensure a level playing field, members have an equal opportunity to step up to the plate, on a first-come-first-served basis.

The programme focus of the symposium is the effective partnership of the UK and the Crown Dependencies in supporting both larger quoted *and* also privately held companies. The recent third symposium, co-hosted by legal member **Travers Smith** was a great success, with well over 50 registered participants. It included the *newspad stars* awards ceremony, the main feature of the late afternoon drinks reception, at which company representatives and their advisers could choose to receive framed certificates from Paul Jackson of the Investors Chronicle.

Typically, the full day programme topics include: share plan communications and employee commitment; expanding share ownership plans globally; executive equity reward schemes; tax advantages; regulation and employee data protection; trustee issues; all-employee plan choices – shares and/ or share options with case studies and share plan administration. Speakers can suggest their own topic slots, subject to compatibility. They can choose solo speaker slots, or get together with clients to present share plan case histories. These annual gatherings of share plan professionals and share plan issuers have proved uniquely popular, with strong *vox pop* from the last occasion, including “best ever industry event”.

To facilitate the symposium, the co-host is expected to offer modern conference facilities for a maximum 60 people, and provide a buffet luncheon and drinks for the close-of-play awards reception.

In return, the co-host gets free name recognition advertising for a year in *newspad,* monthly free publicity in Centre publications – newsbrief and *newspad* – and on the Centre website during the long run-up to the event. In addition, the co-host is awarded up to two free speaker slots, with the right to register up to three other colleagues or clients free of charge to the symposium as delegates. Furthermore, the host gets exclusive early access to the attendance list, as well as liaison with the Centre over programme choices.

If you would like to put in a co-hosting bid now, email Fred Hackworth fhackworth@esopcentre.com **asap**, **to register your offer.** Co-hosts must be Centre members. However, non members could qualify if they joined the Centre before the symposium takes place. **Juliet Wigzell**, at Centre HQ - Tel +44 (0) 207 239 4906 and email jwigzell@esopcentre.com - has all the membership details.

Employee ownership – China style

Fresh questions hovered over **Huawei**’s links to China’s central government after new research from the United States rubbished the telecoms giant’s claim to be owned and controlled by its employees, calling it “*misleading*” and “*a myth*”. Huawei has long maintained that it is owned by its workers, even showing off a set of printed books in a glass case which supposedly hold their names and ID numbers. However, the study by two US academics, Christopher Balding and Donald Clarke, said that this was a “Potemkin”-style fiction draped over a complex and opaque ownership structure which may leave ultimate control in the hands of the Chinese state. The claims over Huawei’s ownership structure emerged amid a growing row between China and the West after US accusations that its 5G equipment could be used for espionage. It comes in the midst of continued controversy over Huawei’s connection to the ruling Communist party, with US officials arguing that Western countries should not use its equipment because it might pose a security threat.

“Although we may not know exactly who does own Huawei in a realistic sense, we can be pretty sure the employees do not,”* the American authors wrote. *“Huawei is neither employee-owned nor employee-governed, and the question remains as to who actually does govern or control [it].”

The UK government reportedly has decided to limit the extent of Huawei equipment usage in the roll-out of next generation 5G telecom gear. Australia, the US and New Zealand have already blocked it from the process. The study focuses on Huawei’s holding company, which is one percent owned by Huawei’s founder Ren Zhengfei and 99 percent owned by the “Huawei Holding trade union committee,” through which Huawei’s employees supposedly exercise their control. The problem, the authors claim, is that there is little public information about how that committee is governed or even if it is actually a trade union committee. Even if it is, Chinese trade union officials are ultimately accountable to the party-aligned trade union federation. Additionally, the authors said, Huawei’s employees only own “*virtual stock*”, which gives them limited voting rights.

A Huawei spokesman said: “*Huawei is a private company wholly owned by its employees. Through the [trade union committee], we implement an employee share-holding scheme that involves 96,768 employee shareholders. No government agency or outside organisation holds shares.”*

Employee shareholder rebellion at Centrica

An employee shareholder rebellion was brewing over the revelation that **British Gas** owner **Centrica’s** ceo Iain Conn received a 44 percent annual reward rise to £2.42m last year, including a cash bonus of £388,000. The disclosure came only days after an average ten percent gas price rise came into effect for four million customers. Trade union **Unison** called on Centrica’s shareholders to block Conn’s controversial pay rise at May’s agm. Unison urged Centrica employees, who have stakes in the company though the firm’s SAYE-Sharesave scheme to reject Conn’s remuneration package. In addition, the **GMB** Union warned that ongoing pay negotiations with Centrica would now be “highly charged.” Mr Conn’s reward package was up from £1.68m the year before when he missed bonus targets after poor financial results. Just weeks ago he had sounded the alarm on shareholder dividends, sending Centrica’s share price crashing to 20-year lows. Remuneration figures published in Centrica’s annual report showed Conn was paid 72 times as much as a typical employee in the lower quartile of the company’s salary range - a smart energy expert paid £33,718. However, the ceo’s reward still fell well short of the £4m he received in 2016. British Gas shed 742,000 customer accounts during the year in which it twice hiked price tariffs. Profits for Centrica’s UK home energy supply division, which includes British Gas, fell by 19 percent to £466m, though the group’s operating profit rose 12 percent to £1.39bn. Centrica said: *“The ceo base pay level is benchmarked against the FTSE, and 80 percent of total compensation is performance related. In 2017 the bonus received was zero, whereas in 2018 the company’s total shareholder return was in the top FTSE quartile. Centrica’s performance in 2018 was materially above 2017.”* Its remuneration committee praised Conn for showing “exceptional leadership” in the face of rising energy market competition and a government clampdown on energy bills. “*However, delivery has been behind the expectations of the market,*” the committee admitted. Unison’s national officer for energy, Matt Lay said the pay rise was "obscene" and showed a "total lack of empathy" for the situation many employees found themselves in, as 500 more Centrica jobs, especially in Scotland, are at risk.

Islands fight UK legal power grab attempt

A possible constitutional crisis looms over an attempt by MPs to force the Crown Dependencies to make company ownership registers open to public inspection by the end of next year. **Jersey, Guernsey** and the **Isle of Man** are neither part of the United Kingdom nor represented in the House of Commons, yet MPs are being asked to change the islands' laws, according to a *BBC News* online article. Can Westminster MPs actually force such laws - making company ownership information public - on the Crown dependencies? Guernsey's chief minister, **Gavin St Pier,** said emphatically "no". Gavin, a former member of the Esop Centre's steering committee, is leading efforts to convince MPs not to back an amendment to the **Financial Services Bill,** forcing greater transparency on the islands' financial services sectors: "*We have no ambiguity in our view that the UK - that the Westminster parliament - cannot legislate for us on domestic matters without our consent,"* said Deputy St Pier.

However, the amendment moved by Tory MP Andrew Mitchell and Labour's Margaret Hodge has been backed by 80 MPs, including 24 Tories. The pair succeeded in getting **Britain's Overseas Territories (BOTs)**, such as Bermuda, Anguilla and the Cayman Islands, to promise to establish public registers of ultimate business owners, although there is scepticism as to whether the public in overseas territories such as Bermuda really will be able to study such registers on demand. Nevertheless, the MPs are calling for **the Crown Dependencies** to follow suit - demanding that Jersey, Guernsey, and the Isle of Man have registers in place by the end of 2020, rather than by 2023. They argue greater transparency over company ownership is an important tool in tackling money laundering, tax avoidance and tax evasion. MPs are yet to vote on their amendment, after the government, fearing defeat, pulled the Bill's Report stage and Third Reading which had been due to take place on March 4, almost two months ago. Hodge and Mitchell then set out their argument for forcing the law change in a strongly-worded letter to island ministers. In it, they cite a 1973 report which suggested parliament could intervene to ensure good government in the islands. The MPs suggested that, because alleged money laundering in the islands threatened Britain's national security, the UK was compelled to act.

In 1204, when King John lost mainland Normandy to the French, the islands decided to remain loyal to the English Crown, and in return were allowed to continue to be governed by their own laws. That agreement has been re-affirmed ever since, with both Jersey and Guernsey developing their own democratically-elected parliaments, with their laws approved by the Queen, as head of state. The Isle of Man's parliament, the Tynwald, is one of the oldest parliaments in the world. It too was granted full autonomy, and since 1866 has steadily advanced to full democracy.

Not being part of the United Kingdom the crown dependencies have no MPs. The UK government is responsible for their defence and international relations of the islands. It is the Crown, acting through the Privy Council, which is ultimately responsible for good government. Barrister **Jolyon Maugham QC**, who has advised both the Labour Party and Conservative government, claims the UK *does* have the right to intervene: "*If you approach it as a lawyer, I don't think there is any real doubt that the UK can, if it wants to, legislate for the Crown dependencies without their consent,*" he said. Maugham described the relationship as one shaped by parliament, citing the recent Supreme Court ruling on Article 50, which said there was no legally binding obligation on London to consult the Crown Dependencies before passing laws which affect them. MPs will debate the Hodge-Mitchell amendment when the Brexit-related legislation, in the Bill, returns to parliament.

Despite accusations of constitutional meddling, **Speaker John Bercow** told MPs the amendment was legitimate and would be debated and voted on. The amendment calls for a draft Order in Council - requiring the government of any British overseas territory and Crown dependency to *implement* public register of company ownership inspection facilities three years earlier than planned. Such an order would have to go through the Privy Council, which lawyer Gordon Dawes said could be challenged. *"Even if it cleared the hurdles of a challenge in London, there's a question of whether it would be respected and enforced in the islands. So, there are many hurdles for any such legislation to clear. Obviously the hope is that we don't find ourselves in that position."* The order would have to be registered in the islands' respective courts - something Mr St Pier said would be ineffective, forcing an "unhelpful" shift in the relationship with the UK. Guernsey is resisting such a move, with local politicians approving an emergency measure giving them the final say on whether UK laws are registered locally, similar to a procedure already in place in Jersey. Some have suggested that the islands could petition the Queen, as head of State, to intervene, or seek independence as a last resort.

EVENTS

Jersey share schemes and trustees seminar

Former Jersey Finance chief executive, Geoff Cook, who was influential in developing the islands' direct relations with the EU, will give the keynote speech at the next STEP/ Institute share schemes and trustees seminar on **Friday May 17.** The joint Esop Institute/ Society of Trust & Estate Practitioners (STEP) event will be at the **Pomme d'Or** hotel in **St Helier**. Don't miss this great opportunity to update your knowledge on the key issues.

Geoff's speech will be on Brexit and the Channel Islands' future prospects, a topic he has written about recently. You can get a flavour of Geoff's thinking from his blog at https://geoffcookadvisory.com. Other topic presentations will cover: Is HMRC watching your client?; Share scheme and EBT issues on transactions; Entrepreneurs' Relief – a review following the introduction of the economic ownership test; Communications in troubled times; and an update on developments in UK employment taxes. The presentations will run from 9:00 am to 1:00 pm (approx.) followed by lunch for delegates and speakers. Ticket prices: Esop Centre/STEP members: **£375**; Non-members: **£480**. Reserve your place by emailing events@esopcentre.com or call **Juliet Wigzell** at the Centre on +44 (0)20 7239 4971.

MOVERS AND SHAKERS

***Brendan Dowling** is now md of Centre member **Estera** in Jersey. He oversees the Jersey team that work closely with corporate clients, tax and legal specialists and trust beneficiaries, developing relationships and ensuring that corporate structures, which include real estate, employee share trusts and funds, are set up and administered effectively. Brendan was appointed to the board of Estera Trust (Jersey) in April 2015 and has more than 20 years' experience of acting as a trustee and corporate director.

***Kevin Lim** has joined **Investec** as business development manager, working with its share schemes services team. Previously, Kevin was UK relationship manager with **Solium Capital** and prior to that an associate director with **RBC.**

***HMRC's** submission deadline for annual return filings of all employee share plan transactions for the 2018/19 tax year is midnight on **July 6**, Centre member **Abbiss Cadres** reminds *newspad* readers. All reporting must be done via the HMRC **Employment Related Securities (ERS) online service**

UK CORNER

Employee Eso bonanza in sight

Scientists and support staff at **Oxford Nanopore** are sitting on shares collectively worth at least £100m as the biotech pioneer considers a possible stock market debut. All 450 employees are eligible for its employee share scheme, which has granted options with a total *fair value* of more than £10m. The Oxford University spin-off was valued at £1.5bn last year following a cash injection from Singapore sovereign wealth fund **GIC, China Construction Bank** and Australian fund

Hostplus. Alan Au, md of **GT Healthcare** and a leading Oxford Nanopore shareholder, said that it was on track to becoming a public company, perhaps this year. He said: "The market will decide our returns but we are confident in that." Based on Oxford Nanopore's most recent valuation, ceo Dr Gordon Sanghera, said the company could crystallise £35m in a listing, while the share holdings of two other co-founders, Dr Spike Willcocks and Prof Hagan Bayley, could be worth £20m and £15m respectively, based on **Companies House** filings.

Roadchef

Anger is rising among the surviving Roadchef Esop ex-participants over what they allege is lack of regular communication from the EBT trustee and its lawyers about when they will be paid their court-ordered compensation.

As deaths of former Roadchef motorway service station employees eat into their ranks, the beneficiaries are wondering why it is taking so long for the trustee, Reed Smith, and HMRC to resolve the on-going dispute over how much tax they should be forced to pay on their compensation payments. "*The treatment we get as beneficiaries is shocking and we are not happy in the least,*" one former Roadchef service station employee told *newspad*. "*We were told in a letter ages ago by the trustee that we could expect our compensation to be paid out this summer, but there is no sign of that happening. We are not getting the up to date information we need,*" she added.

SNP Neil Gray MP, who has backed the long-suffering beneficiaries, came fourth among MPs taking part in the London Marathon. Frontrunners were three Tories.

Employee shareholders

***Contact sought: Robert Scallon** of **Thales** writes: "*Employee share schemes are usually created to be tax-efficient, but outside the host country that is not always possible. They impact on both the employer and the employee, but any costs should be tax-deductible for the employer. The employee may be faced with income and capital gain taxes and other negative features such as exchange rate volatility and the costs of holding and/or selling the shares. I have some experience of these disincentives over twenty years and would like to compare notes with a French ex-employee shareholder involved with share schemes* *implemented by a global group with HQ in UK."* Contact Robert at: scallonrobert3@gmail.com or tel: **+44 (0)20 8741 2970**

*****Private equity management platform and new Centre member **Capdesk** has received backing from London-based VC fund **Fuel Ventures**. The fund has invested £1m in Capdesk, which has been designed to digitise and provide liquidity for the billions of pounds worth of *employee shares* in unlisted European companies. The funding is said to allow the company to expand its team and develop its technology. Founded by Christian Gabriel and Casper Arboll, Capdesk was created as a response to a new trend of fast-growing companies staying private, and increasingly using employee shares to compensate staff. Christian, Capdesk's ceo, said: *"Private companies are not equipped to handle employee share plans with hundreds of participants - the administrative burden is simply enormous. More importantly however, these employee shares are worthless without a liquid market. Capdesk helps companies manage option plans and liquidity events, saving time, money and rooting around by compiling all the necessary data on one easy-to-use platform. We are on a mission to democratise wealth in private companies by empowering companies to share ownership with employees."* While working in alternative finance, the pair discovered a gap in the market for a platform to digitise and offer liquidity for the billions of pounds' worth of employee shares in unlisted European companies. Since its launch in 2015, the company has expanded into the UK and opened a second office in London. Capdesk plans to use the funds from Fuel Ventures, along with a further £500k investment, to expand its sales and technology teams and to develop its software.

Corporation tax deduction for pre-2013 lapsed options

The Upper Tribunal dismissed HMRC's appeal in **NCL Investments Ltd** and another v HMRC, which concerns the corporation tax deductibility of accounting debits arising under IFRS2 in respect of the grant of share options to employees. The issue is the availability of a 'general principles' deduction for the accounting cost associated with employee equity awards in cases where a statutory deduction was not available. These deductions were claimed prior to an amendment to Part 12 of CTA 2009 in March 2013 which was introduced to prevent any further deductions being claimed on this basis. The cases involved deductions claimed under *five different share plans*, as well as the use of an Employee Benefit Trust to grant and settle the awards and recharge agreements for the subsidiaries to pay the IFRS2 cost to the parent. The Upper Tribunal has agreed with the First-tier Tribunal that the accounting debit arising under IFRS2 was deductible as a trading expense of the employing companies, and that the debit was not capital. It also agreed that the rules which grant deductions for exercised options did not prevent a deduction from being available where the option was not exercised. See https://deloi.tt/2Ks9d4Q

More disguised remuneration loan schemes misery

HMRC is seeking £40m more in back tax after winning a legal case against the promoter of a tax avoidance loan scheme, which used two trusts – one onshore - to receive payments. The First Tier Tribunal ordered **Hyrax Resourcing,** to disclose the details of the scheme to HMRC, along with the names and addresses of 1,180 high earners who used it. The tribunal ruled that Hyrax Resourcing Ltd had not complied with the **Disclosure of Tax Avoidance Schemes (DOTAS)** rules, which requires promoters of such schemes to reveal them to HMRC. The tax department said the Hyrax scheme was a successor to the K2 arrangements, widely reported in 2012 for having had comedian Jimmy Carr as a member.

"It operated through UK earners 'quitting' their jobs then signing a new contract with a UK trust, whose trustees would rehire their new employee to their previous employers or previous customers but take their earnings and an 18 percent fee," reported the online magazine *Wealth Manager*. *"From the remaining 82 percent of earnings, trustees would pay the national minimum wage with the rest paid as 'loans', the rights of which the trustee would transfer to an offshore trust in Jersey with the intention they would never be repaid."* The amounts loaned were not declared as income on the employees' tax returns, in an attempt to avoid paying income tax and NICs, concluded the tribunal. Hyrax could face a penalty of up to £6m, as well as £5,000 per day for not fully disclosing the scheme. HMRC publicised the successful application it had made for an order that the Hyrax contractor loan scheme ***was*** a notifiable scheme and that the three respondents named by HMRC as respondents were promoters of the scheme. Hyrax Resourcing accepted applications from users, created employment contracts, signed service contracts, paid employees and transferred loan agreements to *offshore trusts*, said Centre member **Deloitte**. Judge Barbara Mosedale in the First-tier Tribunal agreed with HMRC that the scheme should have been disclosed. HMRC had to satisfy Judge Mosedale that at least one of the named respondents was a promoter under the DOTAS rules; she found that Hyrax Resourcing was a promoter, but the other two respondents were not.

Financial secretary to the Treasury, Mel Stride, said: *"HMRC is cracking down on the promoters who* *sell these highly contrived tax avoidance loan schemes. Promoters need to take note of this decision and make sure they contact HMRC urgently about schemes they haven't yet disclosed."* There is no right of appeal against the tribunal decision, though Hyrax can seek a judicial review. HMRC has investigated more than 100 promoters and others involved in tax avoidance in recent years. Under rules introduced in 2017 it can issue penalties up to 100 percent of the fees earned to anybody who designs, sells or enables the use of a tax avoidance scheme. Similar cases await tribunal rulings. *Newspad* reported a month ago that just over half the 50,000 so far caught up in the *Disguised Remuneration* Loan Charges investigation had settled with HMRC for more than £1bn in total. Ministers have refused requests for a temporary halt to enforcement action. HMRC said originally that the loan charge policy was expected to bring in **£3.2bn** in backdated revenue and it is estimated that 75 percent of this would come from employers, and 25 percent from individuals. Already HMRC has agreed settlements on disguised remuneration schemes with employers and individuals worth more than £1bn. Around 85 percent of this amount was collected from employers, with less than 15 percent from individuals, many of whom are still holding out against payment. It is believed that **£2bn** in extra Loan Charge tax bills remained outstanding on the April 5 settlement deadline.

*A man who committed suicide after receiving a £50,000 back-dated Loan Charges tax bill could not face the stigma of being branded a "tax avoider", his family claimed. The man, in his late 60s, was found dead late last year and left a note saying he could not accept the shame of being targeted by the loan charge – a punitive measure against tax avoidance – his daughter said. She told *The Daily Telegraph* how her father had become increasingly withdrawn as the deadline approached and had asked his children whether he would go to prison. The loan charge, which came into force on April 6, targets people who used 'disguised remuneration' schemes, effectively to avoid tax, as far back as 1999. The schemes were widely accepted as legal by many financial advisers, though crucially not by HMRC.

*Actors are being unfairly pursued by **HMRC**, **Equity** claimed, after a **BBC** star lost his tax case and may have to sell or remortgage his home. The showbiz union claimed its members were being singled out in a coordinated attack by tax authorities after Robert Glenister revealed he must pay a £150,000 bill for unpaid National Insurance Contributions. Glenister's case centred around a company he operated called *Big Bad Wolff*, which was registered as a private services company (PSC) to offer "services to clients" in 2004. PSCs can enable people to be classed as "off-payroll" workers, paying fewer tax and national insurance contributions than those who are employees. HMRC has begun cracking down on such schemes, labelling them as 'disguised remuneration.'

Executive pensions

The **Investment Association** warned that company contributions to their executive pension schemes should not be more than 25 percent of their salary and that it would recommend members to vote down pay policies that breach the limit during this year's agm season. More than half the FTSE 100 companies pay more than 25 percent of salary into executive pension schemes, the worst offender being **Tui**, whose ceo Friedrich Joussen receives contribution worth 51 percent of his salary. The Anglo-German travel operator is not planning to lower the figure as high pension payments are fairly common in Germany.

Some boards stand accused of making 'smoke and mirror' changes to pensions. **Lloyds** boss António Horta-Osório came under attack after he agreed to cap his final salary pension while still pocketing a 33 percent contribution. **Standard Chartered** then faced investor anger after it emerged a new pension policy for its boss Bill Winters will still land him £474,000 annually. In a letter sent to Lloyds' staff union Affinity, the *IA reiterated that it will not accept any tactics that involve lowering pension pay but then increasing compensation elsewhere*. Former pensions minister Steve Webb said: "Millions of workers have seen the generosity of workplace pensions reduced in recent years." **HSBC, BT Group**, **WPP, Aviva** and **Segro** have pushed through changes to executive pension contributions in recent months so that they are in line with the IA's guidelines. **Ashtead** – whose outgoing ceo Geoff Drabble receives a pension contribution equivalent to 40 percent of his basic pay, or an extra £315,000 – is likely to change its policy once he has stepped down. Meanwhile, **Intertek** announced that new executives will receive the same pension contribution as the wider workforce, at ***five percent*** of salary, but has stopped short of slashing ceo André Lacroix's 30 percent payment. These cash handouts are now the focus of shareholder anger, *as investors increasingly question why the best-paid top executives get far higher pension contributions than rank and file employees*. The yawning gap is one of the key issues of this year's agm season, when shareholders are getting the chance to question pay policies – and vote against those they think are too generous. British Gas owner **Centrica** is to cut its executive pension contributions by half, to 15 percent.

*Powerful asset managers can't be trusted to vote down exorbitant pension payments to the directors of companies where they hold shares – because they hand lavish deals to their own top brass, MPs warned. The large retirement perks pocketed by company directors emerged as a key issue for investors voting on executive pay at this year's agm season. Asset management firms – who hold key voting rights at agms – have been urged to vote down pension payments to directors worth more than 25 percent of their salaries after *the Mail on Sunday* revealed that one in ten FTSE 100 ceos were given pension cash each year worth at least 40 percent of their basic pay. Some of the largest institutional shareholders are handing huge pension perks to their own executives. In one case, a fund management chief is in line for nearly £24m in total retirement benefits. The directors behind major shareholders in UK companies – including **Columbia Threadneedle, Deutsche Bank, Sun Life Financial** and **State Street** – all benefit from huge retirement packages, the analysis showed. Rachel Reeves MP, chairman of parliament's influential Business committee, claimed that major investors were 'not up to the task' of restraining firms on excessive pension payments.

Brexit corner

*Chartered accountant **William Franklin**, partner at **Pett Franklin**, was asked by *Lexis Nexis*, the computer assisted legal & business research group for comments on Brexit implications for share-based payment accounting. He told them: "The EU mandates the use of **International Accounting Standards** for the group accounts of quoted companies within the EU; and this underpins the widespread use of International Standards in Europe and the rest of the world (outside US and China who have their own standards) and in part because of this UK domestic accounting standards tend to track international standards. There is a view that (along with many other non-accounting matters) Brexit 'freedom' from such EU constraints could allow the UK's own accounting standards to diverge from international standards and that in the arena of share based accounting may allow the UK domestic accounting standard setters to relax the scope of share based payment accounting particularly on smaller companies – where, ironically, the scope of share based payment accounting for smaller companies has been voluntarily extended by UK domestic accounting standards. This issue is an example of the wider debate that is emerging over the potential benefits of Brexit and whether (regardless of whether the UK is still within the EU) *the need for cross-border business efficiency and integration with other advanced economies will simply force UK standards to be in alignment with the standards of other countries.* Who can assume that leaving the EU will in practice result in real freedom for the UK to diverge and allow a more relaxed application of share -based accounting for smaller companies?"

*Brexit has pushed seven large banks and 17 smaller ones, and **£1.2 trillion** of assets to move to the EU single currency area, said the **European Central Bank**'s head of banking supervision. More assets are likely to be shifted in the coming months, according to research by New Financial, a think tank, which has identified 275 firms that have moved or are moving some of their business, staff, assets or company residence from the UK to the EU in preparation for Brexit. "This is not *Project Fear*; this has already happened," said William Wright, md of New Financial and one of the authors of the report. "It has been apparent to everyone in the City ever since the referendum that they needed to prepare for a hard Brexit. They've done so." Of the assets already shifted, around £800bn have been moved by banks and investment banks, £65bn in funds have been relocated by asset managers and £65bn in assets have been shifted by insurance companies. "The top-line figure almost certainly understates the extent of the Brexodus," said Mr Wright. "We are only looking at companies that have said publicly what they are doing or have set up a new entity in the last 18 months. There are likely to be lots of companies that already had operations in other EU countries and will have moved assets or parts of their business under the radar." Dublin is the biggest beneficiary, with 100 firms relocating to the Irish capital, followed by Luxembourg with 60, Paris (41), Frankfurt (40) and Amsterdam (32). More than 40 firms are moving staff or business to more than one EU financial centre.

*The latest Brexit tracker report by EY estimates that London is on track to lose about 7,000 jobs to the EU "in the near future", while about 2,000 roles are being created on the continent and Ireland in response to Brexit. ***All-employee and executive equity plan providers are wondering how long they will be able to retain client accounts whose plan participants are now migrating.*** The US bank Morgan Stanley is transferring 150 UK staff to EU offices, including Frankfurt, Paris and Dublin, while Bank of America was ready to relocate nearly 200 front-office roles to Paris from regional offices including the UK. About 200 of its back-office roles will move to Paris in the longer term, with 100 UK jobs already transferred to Dublin.

Cap on variable reward should be extended, say MPs

FTSE 100 ceos' earnings have increased ***four times*** as much as national average earnings over the past decade, according to government estimates. On average, they earn around **£4m** per year, compared to the national average of less than £30,000. A Commons **Business, Energy and Industrial Strategy** (BEIS) select committee recently set out reforms, including a cap on sky-high salaries, to tackle what it described as "corporate greed." In the report, MPs urged companies to move away from "unjustified" pay in order to deliver "fairer" rewards for all employees. They called for a powerful, new regulator to "step in and get tough" on businesses.

BEIS raised its concern that executive greed had been "baked into the remuneration system", and that this had spawned a public perception of "institutional unfairness" that could develop to "undermine social cohesion and support for the current economic model". Remuneration and incentives expert Lynette Jacobs of Centre member Pinsent Masons, said: "*Excessive remuneration has had a negative impression on the public's perception of executive remuneration, and it is no surprise to see the Committee urge simplification of executive pay and for it to be 'more obviously geared to promoting* *companies' long-term objectives, and be linked more closely to that of the workforce as a whole'."*

New legislation requiring UK quoted companies with more than 250 UK-based employees to be more open about their remuneration of boardroom executives came into force earlier this year. The reforms oblige these companies, among other things, to set out how the pay awarded to their ceo compares to that of representative UK employees, with related explanations and disclosures.

*Specifically, the pay ratio regulations require the companies to disclose and explain the ratio of their ceo's total pay over a financial year to the median and 25 percent and 75 percent inter-quartile threshold total pay of the company's UK employees for the same financial year.

*The same companies need to show what effect a substantial increase in share prices over the vesting period would have on the value that executives could realise from any new long-term incentive awards.

*Along with many other large UK companies, they will need to report on how their directors took into account employee and other stakeholder interests when making decisions during the relevant financial year.

The BEIS committee said that while it welcomed the corporate governance reforms, for which statutory disclosures must be made in companies' directors' remuneration reports, its view is that, on their own, they are "unlikely to be an effective driver of change." The scope of the pay ratio reporting requirements should be extended to cover ***all employers with over 250 employees*** and not just quoted companies and that the figures should show a comparison between the ceo's pay and those in the lowest pay band. *"There is no reason why companies, including major legal partnerships, that can readily calculate these pay ratios should not report them first in their 2019 annual reports and we recommend that they do so,"* the BEIS committee said. A new "***more empowered, aggressive and proactive regulator***" was needed on issues of executive pay. The new regulator should engage in closer monitoring of "how remuneration reports and better reporting … meet the aims of increased transparency and alignment of pay with objectives", and said companies which ignore shareholder concerns on executive reward should *face "more effective sanctions than a letter from the Investment Association"*. The Investment Association's Principles of Remuneration set out investor expectations and best practice on how FTSE companies should pay their top executives in line with the revised Corporate Governance Code and other legal requirements. The committee spelled out what simplification of executive pay should look like in its report. "***We favour a simple structure based on fixed basic salary plus deferred shares, vesting over a long period, but subject to conditions to avoid 'rewarding failure',"*** the committee said. "***Care needs to be***

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taken to ensure that reforms are coherent as a package and do not permit gaming. We support too the greater use of profit sharing or other schemes designed to share profits more evenly. Over time, the proportion of variable pay (including bonuses, share options and profit sharing) should be reduced substantially. The increase in certainty associated with proportionately more fixed pay should, if well managed, lead to a reduction in total remuneration awarded," it said.

"We believe that the performance measures governing the payment of annual bonuses should be aimed at encouraging and rewarding increased productivity and support the company's wider responsibilities under section 172 of the Companies Act ***to have regard to the interests of its customers, suppliers and workforce***," the committee said, calling for new guidance to be developed by the new regulator on bonuses "to ensure that they are genuinely stretching and a reward only for exceptional performance".

Action for remuneration committees should include placing an "***absolute cap on total remuneration for executives in any year"*** and publishing and explaining it, the committee said. This would reinforce its view that adequate provisions in contracts for the capping of pay-outs could have prevented the **Persimmon** LTIP scandal. The report concluded that there was a strong case for the imposition of a cap on variable pay, as applies in financial services sector, whereby 'variable pay' was capped at ***100 percent of total fixed pay*** or, with shareholder approval, ***200 percent of total fixed pay,*** would if adopted, be in line with the application of other remuneration requirements implemented in financial services, such as malus and claw-back and retention periods, to remuneration across other sectors.

WORLD NEWSPAD

Disney ceo 1424:1 pay ratio "insane" says heiress

An heir to the Walt Disney fortune described the **$65.6m (£50.5m)** paid to the company's ceo, Bob Iger, last year as "insane." **Abigail Disney**, an Emmy award-winning film-maker and a granddaughter of the company's co-founder Roy Disney, said it was ***outrageous*** that Iger was paid **1,424** times more than the average pay for a Disney employee. Iger's 2018 total reward package increased by **80 percent** from $36.3m in 2017. "Let me be very clear. I like Bob Iger," said Abigail Disney in a series of 22 tweets. "I do NOT speak for my family but only for myself. Other than owning shares (not that many) I have no more say in what happens there than anyone else. **But by any objective measure, a pay ratio over a thousand is insane."** These tweets followed up a "humane capitalism" speech she gave recently in which she said Iger was a "good man" who had

performed well at Disney and deserved a bonus, but such huge pay deals "*had a corrosive effect on society.*"

*"When he got his bonus last year, I did the math and I figured out that he could have given personally a 15 percent raise to everyone who worked at **Disneyland**, and still walked away with $10m,"* she said at a **Fast Company** event in New York. *"So there's a point at which there's just too much going around the top of the system into this class of people who – I'm sorry this is radical – have too much money. There is such a thing."* **Abigail said, after speaking to Disneyland employees, that it was clear to her they deserved and needed a rise. She said many were struggling to pay for essentials such as medicine.**

She said later that Disney should put aside half of the bonuses its executives earn, distributing that to the bottom ten percent of Disney's 200,000 employees. **Six** of Disney's top executives, including Iger, received stock awards and options worth a combined **$62m** last year. That doesn't include the additional bonuses — and potentially millions of dollars more — earned by lower-tier executives at the media and theme park conglomerate. Even leaving the latter aside, $31m divided among Disney's lowest paid 20,000 employees would give each a bonus of **$1550**.

A Disney spokesman told *The Guardian*: "Disney has made historic investments to expand the earning potential and upward mobility of our workers, implementing a starting hourly wage of $15 at Disneyland that's double the federal minimum wage, and committing up to $150m for a groundbreaking education initiative that gives our hourly employees the opportunity to obtain a college or vocational degree completely free of charge." The company said the increase in Iger's 2018 reward was due to share grants connected with Disney's acquisition of 21st Century Fox.

Abigail argued it was not enough for the company to commit to paying double the minimum wage. "***We all know the federal minimum is too low to live on,"* she said. *"So why must we, at a company that's more profitable than it's ever been, be paying anything so close to the least the law allows?"***

She said Walt Disney was not doing enough to reward those who kept it running every day. Specifically, she called on corporate executives to give employees pay rises, rather than one-off bonuses. A rise, she said, would dramatically improve the living standards of workers while having little to no impact on top earners. Her comments came after a report from the executive data firm **Equilar** noted Iger's pay was about 1,424 times that of the median pay for a Disney employee, at $59,434. Abigail Disney is a member of the activist organisation ***Patriotic Millionaires,*** which is calling for higher taxes on the wealthy. She has said she has given away **$70m** since she turned 21. Abigail Disney told New York magazine's *The Cut* that if it were up to her, "I would pass a law against private jets, because they enable you to get around a certain reality".

Financial participation in Europe: opportunities and risks for employees

Profit sharing is far more common than share ownership within EU member states because the set-up and admin costs of profit sharing are lower and regulatory requirements are less demanding, said a new **European Trade Union Institute (ETUI)** policy brief. In Europe, profit sharing is found in 30 percent of establishments with ***ten or more*** employees, compared to only five percent for share ownership schemes, it claimed. In the UK, the respective percentage numbers were 26 percent and nine percent in 2013. Profit sharing tends to be most widespread in Central and Eastern Europe, plus Scandinavian countries. The UK is often seen as an exemplar for employee share ownership because of the longevity and extent of regulatory support for broad-based plans. *In terms of coverage, profit sharing is more likely to be broad-based than share ownership schemes*. The European Working Conditions Survey 2015 showed that 13 percent of European employees receive income from some form of profit sharing and just four percent from company shares, a slight increase since 2005. Financial participation is more prevalent in larger companies and establishments. Share ownership schemes tend to be primarily found amongst listed companies, where shares can be readily traded, said ETUI policy brief author **Prof. Andrew Pendleton,** head of the school of management, University of New South Wales Business School and visiting professor at the **University of Paris II**. Pendleton echoed the Centre in bemoaning the lack of engagement by many trade unions in employee financial participation. He said: "*Unions could attempt to influence financial participation to ensure that worker interests, such as protection from undue risk, are built into scheme design. On the whole, they have not sought much involvement in the introduction of share ownership schemes (the main exceptions being some occupational and white-collar unions). The introduction of financial participation is rarely required by law to be subject to collective agreement, though Belgium is a significant exception. There are myriad reasons for the lack of involvement of unions in the introduction of financial participation - especially share ownership - schemes: these include a belief that statutory frameworks preclude the opportunity to shape scheme characteristics, a lack of expertise and resources to fully engage with them, and in some cases hostility to the principle of financial participation. Where unions and employees are involved in the design and implementation of schemes, they have a positive effect on the coverage of profit sharing and share purchase plans*."

The **European Trades Union Confederation** said that financial participation is likely to be more effective when it is operated in tandem with employee involvement in company decision-making. However, that claim needed further research, he wrote. Prof Pendleton found that employee financial participation tends to be most widespread in financial services and least evident in transport and construction. His ETUI report recommended that:

- Policy options for financial participation should be re-examined in the light of the recent call by the European Parliament to promote financial participation
- Financial participation schemes should be designed so that all types of employee can benefit from them
- Schemes should include design features to limit risk exposure and income substitution
- Trade unions and works councils should seek active involvement in the introduction of financial participation schemes to ensure safeguards are built in and workforce objectives are achieved.

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COMPANIES

***Airbus** found itself in a political storm in **France** after it emerged that Thomas Enders, its departing ceo, was due to receive a *golden handshake* worth **€36.8m**. Enders, 60, who retired at the group's agm after six years as its head and nearly two decades in its top management, will receive €26.3m as capital for his retirement. He will be given performance-related shares worth €7.3m and €3.2m for a one-year commitment not to work for a rival, according to **Proxinvest**, a French corporate governance adviser. The French government plans to cap executive golden handshakes, finance minister Bruno Le Maire said, calling the multi-million-euro exit package planned for Enders excessive. "I will limit the amount of bosses' golden handshakes to 30 percent of their salary," Le Maire told the *BFM* news channel.

*A shareholder row loomed over the £7.5m departure package of **British American Tobacco (BAT)** ceo

Nicandro Durante, who has earned more than £50m while in the job from 2011. Durante is due to receive a £3.6m deferred share bonus and shares worth £3m under a 2016 long-term incentive plan (LTIP), which vests in 2021. Almost £60bn was wiped off the value of the Dunhill and Lucky Strike owner last year. Shares halved as US regulators discussed restrictions on menthol cigarettes and vaping. BAT is particularly exposed to the US market by virtue of its £37.4bn takeover of Reynolds, an acquisition Mr Durante spearheaded in late 2017. The company was bruised at last year's agm after a quarter of shareholders voted against executive pay packets. More trouble was forecast at this year's agm. Mr Durante announced he will leave BAT in September. His premature exit has been widely seen as a concession to investor pressure. One significant investor said Durante should be held to account: "*He led such a catastrophic acquisition. It is odd they haven't done anything about pay. He doubled down on the US market. Yet the level of pay is pretty much close to the peak he has been paid in his entire tenure*." A BAT spokesman said: "Under Nicandro's leadership, the group delivered another strong performance in 2018 and his remuneration is reflective of that." BAT said it "fully appreciated investor concerns" but Mr Durante's previously agreed pay targets had been exceeded across a number of metrics.

***BP** ceo Bob Dudley took home £11.2m in reward last year after the energy giant more than doubled its profits to $12.7bn on the back of rising oil prices. The group's annual report shows Mr Dudley in 2018 was paid a £1.4m salary, an annual bonus of £646,000 and £8.4m in performance shares. However, his total take home pay could have been £2m higher had BP's remuneration committee not used its discretion to apply a more demanding new policy to his share award. In addition, Mr Dudley requested that he receive a reduced payout under BP's LTIP. His total reward in 2018 was down slightly on the £11.6m he eventually received in 2017; an amount revised upwards due to changes in BP's share price. Dudley faced a shareholder revolt in 2016 when in a non-binding vote 59 percent rejected a 20 percent pay rise which took his earnings to £14m. The oil giant was then forced to propose a new *simpler and more transparent* pay deal that would mean "lower levels of reward" as it looked to fend off further investor revolts.

****Financial Times*** ceo, John Ridding, accepted a million-pound pay cut after disclosures by *The Daily Telegraph* triggered a newsroom rebellion. Ridding's pay for last year was between £1.6m and £1.7m, staff were told. It compares to a package worth £2.6m in 2017. His take-home pay in 2018 was further reduced by half a million pounds to between £1.1m and £1.2m after he agreed to repay part of what he said was an "anomalous" total in the prior year. The funds were due to be channelled into initiatives to support female staff. Ridding's pay rose sharply after the takeover of the FT by the Japanese publisher **Nikkei.** FT journalists protested and passed a motion of no confidence in their ceo. In a memo they were told that his pay is now "equivalent in real terms to his 2015 earnings," when the FT was owned by the education giant **Pearson.** Ridding, 53, is himself a former FT journalist.

***General Electric (GE)** reported in a regulatory filing that its ceo's annual compensation will be **345 times** greater than the median pay of its 264,000 employees. The **$20,086,327** annual reward listed for H Lawrence Culp Jr was compared to $58,204 in total compensation paid to a Louisiana-based employee. The key distinction was that the median employee got all of that money in 2018. Culp will get most of his millions in the future, but only if GE's stock price surges above its current level. Details of Culp's compensation package were disclosed when he became chairman and ceo in autumn last year. The unnamed employee with the median salary works for Baker Hughes, a GE company. *General Electric looked at about 95 percent of its 264,000-strong workforce (excluding workers at recently acquired companies and in certain foreign countries and excluding Culp) and determined who was between the 48th and 52nd percentile.*

*In an exchange on **Capitol Hill** between New York Democrat Nydia Velázquez and **Citigroup** ceo Michael Corbat, Velázquez asked Corbat to defend the fact that his $24.2m total reward package for 2018 was **486 times** his own company's median worker salary at $49,466. "*I don't think that's fair for me to judge*," Corbat said. "*I completely acknowledge that I'm very fortunate.*"

***GlaxoSmithKline (GSK)** came under fire from shareholders over the "excessive" travel expenses of its chief scientist. Hal Barron, the drugs giant's highest -paid executive, claimed *$807,000* for flights and hotels last year. One major investor said that they were taken aback by the "monumentally high" expenses - ahead of the company's agm. Dr Barron, a high profile pharmacologist, last year racked up $464,000 worth of flights between his San Francisco home and GSK's main research hubs in Philadelphia and Stevenage. He also spent $294,000 on accommodation in the UK last year, bringing his total benefits package to $807,000. The row followed shareholder unrest at GSK over high executive compensation levels last year, along with growing political concern over boardroom pay and benefits across FTSE companies. Almost one in ten votes were cast against the remuneration report at the drug maker's 2018 agm. Ms Walmsley, the highest-paid female ceo of a FTSE 100 company, saw her total reward jump 20 percent to £5.9m last year, while Dr Barron earned £6.6m.

*In March, outsourcing giant **Interserve** collapsed and went into administration, little more than a year after fellow outsourcing services provider **Carillion** crashed too. Interserve had an annual turnover of £3.2bn, around 70 percent of which came from government contracts. The *FT* said that the company had been funnelling millions into the pockets of its top management in the year before it went under. Two senior executives at Interserve received substantial bonuses in 2018/19, adding up to more than half of their annual salaries. Ceo Debbie White, received total reward of £1.26m, including £404,420 in bonuses. Interserve's fd Mark Whiteling made £735,849, of which his total bonus was £251,991. Interserve described these payouts as "determined against rigorous criteria set by the remuneration committee".

*Turnaround firm **Melrose Industries** came under pressure to cut back its long-term bonus scheme (an LTIP), which paid out £167m to its four most senior executives last time round. The company, whose £8.1bn hostile takeover of **GKN** pushed it into the blue-chip index, has one of the most generous incentive schemes among UK plcs. Melrose executive directors Simon Peckham, Chris Miller, David Roper and Geoff Martin each received £42m last year when their five-year LTIP vested in 2017. It paid out in shares – worth an index-adjusted 7.5 percent of the value they added to Melrose over the period as they bought allegedly underperforming engineering businesses, improved them and sold them on. Melrose's current LTIP, on the same terms, is not due to pay out until 2020. At the company's last agm, 22 percent of shareholder votes went against the scheme, though the result was non-binding. **Aviva,** one of the UK's most powerful managers, wrote to FTSE 100 firms demanding a "*fundamental rethink*" on remuneration as concerns over inequality grow, and there have been similar moves to trim executives' gold-plated retirement schemes. To head off criticism, Melrose was under pressure to cap payouts. However, there was concern that a cap could hold back performance of the business, damaging returns for shareholders: "A cap would alter management behaviour," said one company source. "Once they hit the level where the cap kicks in, there's no incentive to drive further performance." A Melrose spokesman said: "*Melrose ticks the boxes in terms of recent corporate governance best practice recommendations and the management team are remunerated solely by virtue of value creation.*"

*Software giant **Micro Focus** pushed ahead with plans to give senior executives more time to win ***£270m*** in bonuses, despite the proposal having been shot down by investors. At the company's agm, shareholders rejected the remuneration report by a slim margin, with **50.4 percent** voting against. However, as it was only an advisory vote, Micro Focus was expected to continue with the changes. The plans allow more than 30 senior executives a further year, to September 2020, to get the company's share price up to £34 from its current price of £19.88 (*see April issue of newspad*) Executive chairman Kevin Loosemore alone could stand to take home up to £37.4m in bonuses if the company hits its new, extended targets. Ceo Stephen Murdoch, would make £32.2m, while Mike Phillips, director of mergers and acquisitions, would get £23m. Micro Focus said it needed the extra time after admitting its troubled £6.6bn merger with Hewlett Packard Enterprise's software division was a year behind schedule. It said it "wanted to ensure that executives remained incentivised to deliver significant value from the HPE Software transaction and align reward to the delivery of the 2020 business plan". After the agm vote, Amanda Brown, chairman of the remuneration committee, said: "*We acknowledge and respect the concerns of our shareholders*." She said the firm had already committed to "a thorough review of our reward strategy" with the aim of having a new policy in place for the 2020 agm.

*Rakesh Kapoor is set to leave **Reckitt Benckiser** on the back of another pay row. The marketing expert will depart from the consumer goods giant at the end of the year having ranked among the UK's most well paid executives during almost a decade at the helm. Kapoor will take home another **£15m** for 2018 which, when added to his pay for this year, will leave total earnings nearing the **£150m** mark. Kapoor has transformed the *Cillit Bang* and *Nurofen*-maker into a behemoth, generating impressive returns for investors through a combination of cutting edge marketing and shrewd deal-making. Yet how innovative can a company be that sells toilet cleaner, condoms and headache tablets? The high watermark came in 2015 when Kapoor was awarded a staggering **£25.5m**, but recent years were tainted by a succession of scandals, including a humidifier disinfectant which it sold in South Korea, *which caused 92 deaths* and a major cyber attack that left a £100m dent in sales. Kapoor's pay was cut in half the following year, but his total reward of £14.6m in 2016, £9m in 2017 and £15m last year, has left Reckitt looking exposed as the focus on executive pay intensified. On top of a base salary of £945,000, £375,000 in benefits and pension contributions and an annual bonus of £3.4m, Kapoor was able to earn a further £10.5m from a LTIP based on earnings per share growth and share price appreciation. ***Measuring performance solely on the share price growth can encourage damaging short-term behaviour such as a reliance on deals that inflate returns.*** Reckitt flouted new guidelines on executive pensions with a cash contribution for Kapoor of £281,163, or 30 percent of base salary.

***RM2,** the employee share schemes and Employee Ownership Trust consulting business, converted to full employee ownership on its 25th birthday, as the owners transferred their entire shareholding to an EOT. In converting to employee ownership, RM2 is practising what it preaches. Ex-md Nigel Mason will be stepping back from the business temporarily to take a career break, but will remain a senior associate of the firm. **Sarah Anderson,** a share schemes solicitor who has been with RM2 since 2011 has succeeded Nigel as md.

*Spanish bank **Santander** asked shareholders to approve a €40m reserve pot – in an agm resolution buried on page 91 of its 94-page circular to investors – which would allow it to cover the cost of hiring top people who might be forfeiting incentive scheme shares and future bonuses at their previous employer. The bank insisted the pot was *'selectively available'* to pay to executives and other employees in a single year. However, it might, in theory, be used to provide a signing on fee to just one executive. Bruce Carnegie -Brown chairman of Santander's remuneration and nomination committee was at the centre of a plan to hire investment banker Andrea Orcel to run Santander. However, the offer was withdrawn in January after the bank deemed Orcel's *'golden hello'* – meant to cover his about-to-be-lost incentive shares, worth more than €40m, unacceptable. Corporate governance watchdogs advised shareholders to vote against his re-appointment at Santander's agm.

*__Segro__ became the latest company to suffer a high pay row after investors rebelled against plans to boost the salary of the FTSE 100 warehouse giant's boss. About **47 percent of shareholders** voted against its pay report after advisory groups ISS and Glass Lewis raised concerns about the increase, which will boost chief David Sleath's base salary by more than £100,000 over two years. A binding vote on the company's pay policy passed but faced opposition from 17 percent of shareholders. Mr Sleath was paid £3.6m last year, including his £633,000 salary, £845,000 bonus and £1.9m through a long-term incentive scheme. A spokesman said Segro would "continue to engage with shareholders to ensure their views are fully understood and considered".

***Smith & Nephew** too faced turmoil over booming executive pay after an influential shareholder advisory group urged its members to vote down remuneration at the medical devices manufacturer. Glass Lewis hit out at the FTSE 100 hip replacement maker's decision to hand incoming ceo Namal Nawana a starting salary of £1.15m, *nine* percent higher than that of predecessor Olivier Bohuon. In a report to its members, which include a number of major institutional investors, the group said it *"viewed very high fixed pay rises with scepticism, as such remuneration is not directly linked to performance and may serve as a crutch when performance has fallen."*

***SSQ Group** has added 20 new employee shareholders to its ownership structure. Gareth Quarry and Jill Whitehouse became the majority shareholders in the legal group and took over the management reins last April following the sudden departure of the previous ceo. One of their first big projects has been to implement wider employee share ownership, taking a significant cut in their own holding and funding the transaction personally. "*We didn't think it was healthy for such a large shareholding to be concentrated in our hands*," said Quarry. "*We wanted to create a more collegiate organisation where the people who contribute most to the business's success also share in it. The legal market is changing dramatically and we are determined to be at the forefront of this change. To do this, it is vital we have a committed team of imaginative and entrepreneurial individuals who share a common vision. And this is just the start of the process of increased equity participation – we hope able people will want to join us and participate."*

Standard Life Aberdeen** (**SLA**) faced an employee revolt after the struggling funds and insurance giant slashed bonuses for many staff and even gave some a zero "*doughnut*" payout. Bonuses across the company plummeted after it leaked more than £40bn worth of investor funds outflows in 2018. "People are not happy," one insider said. "Some wanted as much as previous years, but that was never going to happen." A senior source said he was prepared for a cut in total reward, but was shocked that the final figure was so low. SLA said that ceo Keith Skeoch's pay had dropped 64 percent to just over £1m. Martin Gilbert, who stood down as co-ceo to focus on networking with clients, took home 23 percent less and agreed to drop his maximum bonus from ***600 percent of salary to 350 percent. A spokesman said: "Bonuses are down, in general, across the industry." The anger over bonuses coincided with further redundancies at SLA, which warned in 2017 that the Standard Life and Aberdeen Asset Management merger would result in 800 job losses.

*The founder of Chinese smartphone-maker **Xiaomi** has been given a shares bonus worth more than **£735m**. The payment was confirmed in the firm's 2018 annual report. The company had previously said it intended to make the payment to **Lei Jun** in recognition of his eight years of "devotion" to the company. Lei in turn has promised to donate the sum to charitable purposes once taxes have been deducted from the compensation package. The 636.6m shares involved were worth 7.54bn Hong Kong dollars (£735.6m) based on their closing price recently. The amount is not far behind the 8.6bn yuan (£980m) figure declared as Xiaomi's adjusted net profit for the year. The share transfer is in addition to other payments the company made to Lei including a salary and dividends, for which an exact sum was not given. The payment follows the flotation of the company's stock in Hong Kong in July. Beijing-based Xiaomi was the world's fourth biggest smartphone maker in 2018, according to the market research firm IDC, after Samsung, Apple and Huawei.

***Germany:** The remuneration of ceos of Germany's largest companies increased by 3.6 percent to an average €7.5m in 2018, the German consulting agency **hkp** group announced. This 'moderate' development of the managers' remuneration was similar to the development of average earnings in Germany's largest companies, said Regine Siepmann, head of board services at hkp group. "With declining annual bonuses, we simultaneously see further increases in long-term remuneration," added Siepmann. Hkp analysed the annual financial reports of 28 of the 30 largest German companies, which are listed on the DAX, the German stock index. Stefan Heidenreich, former ceo of German personal care company **Beiersdorf**, was the top earner among the ceos of Germany's DAX listed companies with an annual income of **€23.45m** last year. Heidenreich's high earnings were a result of the "cumulative payment of variable remuneration over several years," according to hkp. Based on preliminary calculations, Heidenreich would be the top earner in a European comparison. In second place among Germany's highest earning ceos was Oliver Baete of German insurer **Allianz** with €10.33m, followed by Bill McDermott, ceo of software company **SAP**, with €9.97m. In 2017, McDermott had set the previous remuneration record with €21.1m. The decline in remuneration among the automobile manufacturers' ceos was particularly marked. The ceos of Daimler and BMW ranked sixth and 17th with salaries amounting to €8.26m and €5.80m, respectively.

***Germany 2: Deutsche Bank** ceo Christian Sewing waited five years for the last part of his 2014 bonus to vest, but he and other senior executives were unhappy with their resulting bonus pots. Sewing, head of group audit at the time, got €145,272 worth of shares, but five years ago, when he was awarded the package, it would have been worth four times as much. Competitive pay has become an important issue for Deutsche Bank – now in merger talks with **Commerzbank** - as it tried to balance stringent cost reduction targets with the need to attract and retain top staff. The bank planned to cut the global bonus pool for last year to below €2bn as it skewed discretionary pay more toward top performers. In 2014, the pool was €4.3bn. The share price worries staff at the bank because of its impact on bonuses. Deutsche Bank in 2017 gave retention awards to about 5,500 employees but the payouts take as long as six years to vest and half are in the form of equity that will be withheld if the stock misses an undisclosed target.

*__Oz__: Banks are likely to lose the power to set executive pay, given their failure to address endemic problems, according to the financial sector's key regulator**. Australian Prudential Regulation Authority (APRA)** chairman Wayne Byres said attempts to change the culture around incentives and remuneration had not been successful and regulatory intervention seemed inevitable. *"I think it fair to say that attempts to move away from the conventional model of executive remuneration have not been wholly welcomed,"* Mr Byres told a banking summit in Sydney. "Boards have struggled to gain acceptance that new approaches are needed." The banking royal commission's final report was scathing of the banks' executive pay structures and instructed APRA to develop more intense supervision and a stronger regulatory framework to bring it in line with community expectations. Byres said the current system, which relies on financial targets — where short-term bonuses are largely related to shareholder returns — would have to change. "From APRA's perspective, we want to see remuneration based on a genuine and even balance of financial and non-financial considerations," he said. "We have yet to reach a view as to the right mix, but an obvious question for boards is to ask themselves why 50:50 wouldn't be a good starting point?" The banks' unwillingness to do anything but the bare minimum on clawing back bonuses after poor behaviour and performance is discovered was highlighted in Byres's speech. The Banking Executive Accountability Regime (BEAR), announced in the federal budget two years ago, required 60 percent of ceo bonuses and 40 percent of other senior executive bonuses to be deferred for a minimum of four years.

*__Kenya:__ Tier-One lender **Equity Bank** asked its shareholders to approve an Esop at the next agm. The bank wants to allot its workers 205.7 million ords which are worth c. Sh8.6bn. The shares are also equivalent to five percent of the issued share capital of the company, but the allotment will be subject to approval by the Capital Markets Authority. If approved it will become the 15th Esop among Kenya's listed companies. The last firm to have its employee share plan approved by the CMA was **Britam**.

*__Singapore:__ The revelation that the ceo of Hyflux (together with other top executives) continued to make millions while the troubled water treatment firm was drowning in debt sent shock waves of disbelief across **Singapore** even as investors brace for the fall-out. With anger mounting as shareholders grapple with the fact that their investments - for some, their retirement savings - in the beleaguered water treatment firm have evaporated, the issue of ceo reward is dragged once again into the spotlight, reported *The Business Times*. According to a *Korn Ferry Hay Group* study in 2017, the median total pay for ceos at Singapore-listed companies was constant at S$625,000 per annum in financial year 2016. While ceos of large companies had a median remuneration of S$3.41m in 2016, medium-sized company ceos were paid S$1.25m. The median total pay for small company ceos was S$599,640, and for Catalist company ceos, S$375,000. In a report by Centre member **Willis Towers Watson** in December 2018, it was found that the total value of rewards awarded to ceos has increased by 20 percent over the past five years on a nominal basis. However, the value of the base salary and take-home total compensation has stayed flat, if not lower, said Shai Ganu, managing director, talents & rewards, South

Asia, at Willis Towers Watson. In the study, only 48 percent of the performance share plans granted three years ago met threshold performance conditions - in other words, more than half of awards expired worthless. Overall, for every S$100 worth of reported LTI granted in Singapore over the past five years under performance share plans, executives took home only S$25. Thus, while annual report disclosures suggest that ceo pay levels are going up and may seem misaligned with company performance, this is actually misleading, added Mr Ganu. "The link between pay and performance is reasonably strong - particularly when you consider take-home pay, or realised pay." *One in five (21 percent) Singapore-listed firms in FY2016 paid bonuses to their ceo despite incurring a loss, according to a separate 2017 study by Korn Ferry. Some 32 per cent paid higher bonuses to their ceos, despite lower profitability.* The report came from data of ceos from 541 listed companies on the Singapore Exchange that filed their annual reports between May 1 2016 and April 30 2017. Mr Ganu said that in FY2016, companies might have experienced the impact from the slump in oil prices which had muted company performance.

***South Africa**: The Competition Tribunal approved **Glencore**'s $1bn acquisition of the **Chevron SA** assets, subject to conditions. Notably, Glencore will have to beef up black ownership of the business to 35 percent. The resources giant must use its global footprint to give SA-manufactured goods access to overseas markets. The assets, in which Glencore will acquire a 75 percent stake, span SA and Botswana and include a 110,000-barrel-per-day (bpd) refinery, a lubricants plant, 820 petrol stations and oil storage facilities. The conditional approval is the third the tribunal has awarded regarding Chevron SA's assets in the past year. A year ago, the tribunal conditionally approved the acquisition of Chevron SA by Sinopec, a Hong Kong-based oil company. However, Glencore bankrolled **Off The Shelf Investments** - Chevron SA's empowerment partner with a 23 percent stake - to exercise its right of first refusal of the deal. With a $1bn loan from Glencore, and another conditional approval from the tribunal, Off The Shelf went on to acquire Chevron SA. Although the intention was always that it would later transfer the controlling stake to Glencore. The requirement for the Sinopec deal was 29 percent. According to the merging parties, as represented at a tribunal hearing on the proposed merger earlier this week, Off The Shelf will have the option to increase its minority shareholding from 23 to 30 percent, and an Esop will increase from a two percent stake to five percent.

***Switzerland**: **Credit Suisse** investors should reject the bank's compensation report after an "unjustified" boost to ceo Tidjane Thiam's pay, shareholder adviser Glass Lewis said. The firm questioned both the way the pay rise was made public as well as the rationale behind it. Thiam, who delivered Credit Suisse's first annual profit in four years, saw his 2018 compensation last year rise almost **30 percent** to CHF12.7m, largely to make up for earlier reductions to his long-term bonuses in response to shareholder discontent. The firm recommended shareholders vote in favour of his short-term incentive, though cautioned on other aspects of his pay including a high fixed salary. "This resolution appears of a particularly sensitive nature at this time, following the past expressions of criticism on the board's poor exercise of discretion," said Glass Lewis. Previous conflicts between the bank and its shareholders over pay had subsided after the executive board took a voluntary pay cut last year. However, ISS said investors should approve the proposals because the bank had justified them and "uses repurchased shares to settle equity awards." In addition, the company had implemented positive improvements over the past years and the compensation framework as a whole remains broadly in line with market practice." Credit Suisse posted three consecutive annual losses before returning to profit last year following a sweeping restructuring programme led by Thiam, who turned the bank to wealth management, cut costs and raised more than CHF10bn in fresh equity to fund the restructuring. While acknowledging the net profit posted in 2018, Glass Lewis said some key indicators "performed below the median of country and industry peers." The share price had declined during the period and Thiam's base salary "is already significantly above peers," it added. Outside Switzerland, banking ceos generally earn much less. **Société Générale** paid Frederic Oudea about €2.4m last year.

US: FedEx plans to scrap annual incentive bonuses this year, an austerity move that would cost some employees thousands of dollars depending on their pay grades. The annual incentive compensation (AIC) programme, which bases year-end bonuses on percentages of employee pay, is expected to be one casualty of a ***$1.5bn*** shortfall in revenue in the fiscal year ending May 31. "The international macroeconomic weakness and resulting revenue shortfall no longer support AIC funding, and our expectation is that there will be no AIC payout this year," FedEx executive vice president and cfo Alan B Graf said in a note to employees.

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