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it's our business

newspad of the Employee Share Ownership Centre

PM's 'name & shame' plan to curb executive reward

The Government confirmed in its response to its green paper on corporate governance reform that it it is to water down previous plans to curb excessive executive reward, Prime Minister Theresa May is proposing instead a novel plan to 'name and shame' those large public companies whose shareholders object to big executive reward rises when discussed and voted at their agms.

The response paper, published by Business & Energy Secretary Greg Clark, said that the Investment Association (IA) will be asked to draw up a register of those public companies where at least 20 percent of their shareholders vote against 'excessive' executive reward packages at agms. Ministers claim that it will be the world's first public register of companies perceived as either having paid, or planning to pay, their executives 'too much.' Such companies, whose names appear year after year on the register, will be asked what they intend to do in order to rein in their executive reward schemes.

At least 900 of the UK's largest quoted companies will be covered by the new register, but unquoted, privately-held companies will be exempt from register coverage, unless they volunteer to be included.

One little-noticed proposal in the government's response paper is to "Extend the recommended minimum vesting and post-vesting holding period for executive share awards from three to five years to encourage companies to focus on longer-term outcomes."

This will have repercussions on how the executive remuneration industry draws up future reward schemes, though Sonia Gilbert, partner at Centre member **Clifford Chance,** said**:**

"Given that many quoted companies have already moved to a five-year share awards (three year vesting + two year holding), this should not make too much difference to quoted companies in practice."

As predicted, the government response said that listed

From the Chairman

As readers of newspad, you will know about the tortuous fate of the 600 Roadchef Esop beneficiaries, whose employee shares were transferred out of the original EBT without their knowledge. You will be one of the few. Over two years ago it was widely reported they were in for a payout at last (after 17 years). They have still received nothing and the mainstream media have forgotten them.

Newspad's campaign will crescendo at the Centre's British Isles event on November 16-17, when Fred Hackworth will give you chapter and verse. Meanwhile I shall be writing to the dramatis personae, some of whom stand between the beneficiaries and their payout. I shall read out their replies - although they will be equally welcome to join the hearing. I shall be asking members for help in raising the silence following the High Court ruling (and gagging orders) of Mrs Justice Proudman and I shall be asking beneficiaries to let us ask questions directly on their behalf. Enough is enough.

Malcolm Hurlston CBE

READERS' SPECIAL OFFER

Share schemes for SMEs: Thursday September 14

Newspad readers can pay only member rates to be part of the next SME employee share schemes conference, jointly organised by the **Esop Centre** and the **Institute of Directors**.

Email events@esopcentre.com, quoting *newspad.*

This event is being held at the offices of **Travers Smith** in London on **Thursday September 14** 2017.The conference is designed for small businesses and their advisers who are considering introducing an employee share scheme, or who want to develop existing plans and attracts at the same time people in the industry who want to be updated on a fast growing sector.The event will be chaired by Centre chairman **Malcolm Hurlston** who last week recommended a *Midlands Mittelstand* to ex-John Lewis Andy Street, new Conservative mayor of the West Midlands Combined Authority. Members interested in attending this conference should contact Daniel Helen at events@esopcentre.com or call 020 7239 4971.

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companies will be required to publish at least once a year the ratio between its top executive total earnings and those of line or office workers.

These reforms will take time will take time and the current intention is that they will only apply for reporting years starting on or after **June 2018.**

Last year, the then new PM had intended to give shareholders more powers to challenge boards in order to 'restore trust in business, but a proposal for more binding votes on remuneration led to rows among senior ministers. The investor institutions had wanted a 25 percent or more protest over executive reward at an agm to trigger a **binding vote** on a company's underlying remuneration policy. Under the existing system, listed companies have to subject their pay policy to a binding vote only once every three years and resolutions on pay are passed on the basis of a simple majority vote. However, that change would have required primary legislation and has been shelved as Mrs May's minority Tory Government faces struggles in Parliament over its legislative programme.

The government's response, entitled 'Corporate Governance Reform' said: "We intend to:

(1) Invite the **Financial Reporting Council (FRC)** to revise the UK Corporate Governance Code (the "Code") to: Be more specific about the steps that premium listed companies should take when they encounter significant shareholder opposition to executive pay policies and awards (and other matters); Give remuneration committees a broader responsibility for overseeing pay and incentives across their company and require them to engage with the wider workforce to explain how executive remuneration aligns with wider company pay policy (using pay ratios to help explain the approach where appropriate); extend the recommended minimum vesting and post-vesting holding period for executive share awards from three to five years to encourage companies to focus on longer-term outcomes.

(2) Introduce secondary legislation to require quoted companies to: Report annually the ratio of ceo pay to the average pay of their UK workforce, along with a narrative explaining changes to that ratio from year to year and setting the ratio in the context of pay and conditions across the wider workforce; *provide a clearer explanation in remuneration policies of a range of potential outcomes from complex, share-based incentive schemes.*

(3) Invite the Investment Association to implement a proposal it made in its response to the green paper to maintain a public register of listed companies encountering shareholder opposition to pay awards of 20 percent or more, along with a record of what these companies say they are doing to address shareholder concerns.

Ms Gilbert added: "Proposals from the green paper and the BEIS report which are not being taken forward (at least not for the time being) include:

*No change to frequency of votes There will be no annual binding vote on executive pay (or parts of variable pay) and no requirement for approval of a directors' remuneration policy more frequently than every 3 years.

*No cap on pay There will be no cap placed on total executive pay. The Government will, however, announce details shortly of a review to examine the use of share buy- backs to ensure they cannot be used to artificially meet performance targets and inflate executive pay.

*No additional bonus disclosure Despite the criticism of the disclosure around executive bonuses, particularly the level of disclosure on performance targets, no additional bonus disclosure is being recommended for the time being.

Chris Cummings, IA ceo, said that its members, who manage the pensions of 75 percent of UK households, believe that not all company boards that receive big shareholder dissent are currently doing enough to address investor concerns. He said: "This public register will help sharpen the focus on those who must do more, enabling our members to hold the country's biggest businesses to account and leading to better-run companies."

The average FTSE 100 ceo receives an annual pay package of £4.5m. While this represents a 17 percent drop from £5.4m in 2015, it would still take the average UK full-time worker on a salary of £28,000 (median full-time earnings) 160 years to earn what an average FTSE 100 ceo is paid in just one year. Last year, the pay ratio between FTSE 100 ceos and the average pay package of their employees was **129:1**.

Mrs May had already backtracked on plans to put employees on company boards, following protests from business leaders. Instead, ministers will encourage companies either to select at least one senior executive to have regular meetings with employees to test the temperature in the workplace and report back to the board, or nominate a director from the workforce or create an employee advisory council.

Her ministers claim that more red tape on executive pay is unnecessary. Recent statistics compiled by Centre member **Deloitte** reveal that median pay for FTSE 100 ceos fell by almost 20 percent from £4.3m in 2016 to £3.5m this year. "The fall in executive pay demonstrates that remuneration committees are making a real effort to address shareholder concerns", said Stephen Cahill, vice chairman at the Big Four audit firm. "This is the first cycle where the legislation introduced in 2013 and primarily voted on during the 2014 agms will have taken effect. It seems to show that the current legislation is working", Mr Cahill added.

However, these headline numbers ignore cases in which major companies, including BP and Deutsche Bank have in the past defied adverse 'advisory' shareholder agm votes on executive reward and have either confirmed recent equity award schemes or gone

ahead with proposed new reward schemes anyway.
Deloitte's statistics show that for the ceos of the very largest companies, bonus awards had fallen from 400 percent to 365 percent. Its remuneration report said there had been a reduction in bonuses and pension allowances for new appointees. In an effort to link to executive pay to long-term company success, more than half of FTSE 100 companies have, in the last four years, increased the number of shares they expect directors to hold. Ceos are now typically expected to hold two and a half times their salaries in shares, but around half of FTSE 100 ceos hold shares worth more than 500 percent of their salaries. In four out of five FTSE 100 companies, bonuses are paid in shares which are typically not released for three years, said Deloitte.
The left-leaning **High Pay Centre** said that the fall in average ceo total reward last year was welcome but "limited and very late." Its director, Stefan Stern, said: "We have finally seen a fall in executive pay this year, in the context of political pressure and in the spotlight of hostile public opinion." However, he added it was "so far, a one-off". Mr Stern said large cuts in the salaries of some high-profile executives had contributed to the fall, skewing the results. The head of advertising giant **WPP**, Sir Martin Sorrell, took a £22m pay cut in 2016, as did **Reckitt Benckiser** ceo Rakesh Kapoor, whose pay dropped by more than a third to £14.6m. "There were as many rises as fallers and yes, those big number falls have hit the average," he added. The study found that, in contrast to the generous reward packages awarded at the higher levels, only a quarter of top companies signed up to the *voluntary living wage*, which is higher than the *national minimum wage*.
The research, carried out jointly with the **Chartered Institute of Personnel and Development (CIPD),** showed there were just six women among the top 100 ceos, and they were paid on average £2.6m last year. Edwin Morgan of the **Institute of Directors** said the gender pay gap was indicative of problems surrounding the promotion of women to senior levels. "There's headhunters not putting enough women forward for the most senior jobs, there's not enough women in the pipeline right at the top, that's why they're under-represented as a whole. There's unconscious bias too. It is a big systemic problem."
*Recent statistics compiled by Centre member **PwC** revealed a similar, albeit lower, trend of falling senior executive reward. It found that the *median* **total** reward figure for FTSE 100 ceos, including bonuses, dropped this year by £200,000 to £4.1m, a fall of almost five percent. The overall packages of ceos are largely made up of short-term and long-term incentive plans, with only 20 percent of total remuneration represented by base salary. Long-term incentive plans represent around 48 percent of total pay, while a quarter is made up of bonuses or short-term incentives. Almost all FTSE 100 companies awarded bonuses or short-term incentive plans (STIPs) in 2016, paying out a total of £112.5m.

Centre Awards 2017 – Last Call
It's your last chance to nominate your clients for the World Centre for Employee Ownership Awards 2017 before the deadline of **Friday afternoon, September 1**.
The awards recognise the achievements of companies which offer broad-based employee share plans and hold up best practice models for other companies to follow.
Applications will be reviewed by a panel of three impartial judges, all experts in the use of employee equity: Damian Carnell of **Willis Towers Watson**, Anna Watch of **BT** and Stuart Bailey of **White Oak Consulting**.
Centre chairman **Malcolm Hurlston** told members via *newspad*: "I hope you, your colleagues and clients will join us for the black-tie gala dinner at the **Reform Club** in London on **Tuesday October 31**, where the winners will be announced." More information about the Awards is contained further on in this issue. *In extremis, you can confirm your entry category(ies) by email to the Centre on Friday September 1, then send your supporting documentation by the end of the following week.*

EVENTS

Guernsey share schemes and trustees seminar: Friday October 6
The annual Guernsey share schemes and trustees seminar, organised by the **Esop Centre** and the **Society of Trust & Estate Practitioners (STEP)**, will be held at the St Pierre Park Hotel in St Peter Port on **Friday October 6** 2017. The annual half-day seminar is an industry-leading networking and learning opportunity for all those interested in employee share schemes and EBT/EOT/Esop trusteeship. The Guernsey government is being represented and speakers include: Alison MacKrill, **STEP/Appleby**; David Craddock, **David Craddock Consultancy Services**; Elaine Graham, **Zedra**; Paul Malin, **Haines Watts** and Graham Muir, **CMS**. Prices: Centre / STEP members: **£375**, Non-members: **£480.** To register, please email the name and email addresses of your delegate(s) to events@esopcentre.com or call 020 7239 4971.

World Centre Awards 2017: Tuesday October 31
The World Centre for Employee Ownership's sixteenth awards reception and dinner will be held at the **Reform Club**, in London's Pall Mall, on **Tuesday October 31** 2017. This annual stylish black-tie event brings together members and guests – representing UK and international plan issuer companies and their expert advisers – to recognise the best in employee share ownership. Attendance is the perfect way to celebrate the year with clients, colleagues and peers. Both individual and group tickets are available. **Table of ten*: £1,800** + VAT; **Member: £195** + VAT**; Non-member: £270** + VAT. *Tables of ten can only be

purchased by Centre members. To buy your tickets, email: events@esopcentre.com or call 020 7239 4971. These awards recognise the achievements of companies which offer broad-based employee share plans and hold up best practice models for other companies to follow.
The awards will be presented to the winning teams in each of the categories:
*Best all-employee international share plan^
*Best all-employee share plan+
*Best financial education of employees
*Best share plan communications
*Best use of video communication
*Best use of technology
*Most creative solution
Visit the World Centre Awards 2017 webpage for further details, including descriptions of each award category at: www.esopcentre.com/event/awards-2017. ^In a company with participants in at least three countries. +In a company with participants in no more than two countries. Entries should be made using the Centre's secure online application form.

***British Isles share schemes Symposium: Thursday-Friday, November 16 & 17**

Leading Centre member **Solium** will deliver a three-hander presentation on the taxation of international employee share schemes during the Centre's second British Isles employee share schemes symposium at **White & Case**'s offices in **Old Broad Street London EC2** on **November 16 & 17.**
Solium's speakers will be **Mike Pewton**, who is based in Barcelona, and **Jaume Guix.** Sharing the podium with them will be **Kelly Smith,** compensation director at **Merlin Entertainments,** the UK based company with a £1.5bn a year turnover, which operates 127 attractions, 19 hotels and seven holiday villages in 24 countries.
Centre chairman, **Malcolm Hurlston** will welcome delegates and deliver the opening address: *Whither Eso schemes?* Other confirmed speakers include: **Professor Len Shackleton**, the editorial director of **Institute of Economic Affairs**; **Colin Powell CBE**, adviser to the **Government of Jersey** on Brexit, with panel support from trustee **Estera; Damien Knight, MM & K**; **William Franklin, Pett Franklin; Garry Karch, RM2; John Hunter, UK Shareholders Association**, **Mick McAteer** of the European Commission's Financial Services User Group (which represents employee shareholders to the Commission), **Paul Jackson** of *Investors Chronicle* and **Nicholas Greenacre,** supported by **Tom Hickman** and **Helen Levendi, White & Case.**
The Centre thanks global lawyers **White & Case** for hosting the event and symposium e-brochure logo sponsors, Channel Islands based trustees, **Intertrust.**
*__Intertrust__ is a leading provider of corporate, fund, capital market, private wealth and employee benefit services, with c. 2,500 specialists located throughout a network of 41 offices in 30 jurisdictions. Intertrust's share plan team provides trustee and plan administration services across a wide range of share plans to a global client base. The team has extensive experience of managing plans and particular expertise in corporate actions and the role of the trustee. The Firm's team of technical experts are professionally qualified and have a wealth of practical experience. Intertrust's clients include FTSE, AIM and internationally listed companies, private companies and private equity backed ventures across a range of industries and global locations. Its market-leading share plan administration and reporting system enables it to provide bespoke solutions for clients and offers participants and company co-ordinators access and control. Contact: Shane Hugill Tel: +44 (0) 1534 673786 shane.hugill@intertrustgroup.com
The symposium programme will include:
*Are all-employee share schemes worth the effort?
*SAYE v SIP v CSOP: *which of these tax-advantaged all-employee schemes is most suitable for quoted companies?*
*All-employee share plan design & case histories; how can companies improve take-up rates?
*Executive compensation – *the case in favour (and the facts)?*
*Corporate governance – *an idea out of control?*
*Data privacy in employee share plans
*Employee Share Plans & Investment;
*Accounting for share schemes
*Taxation of international employee equity schemes
*The Employee Ownership Trust – *how far can it go?*
*Crown dependencies and Brexit; what's to fear? What can we learn?
Delegate **Robert Scallon,** director of trade & finance at **Thales (UK)**, the French multinational electrical systems and defence company, will speak during the open debate on behalf of non-French employee shareholders, who stand to lose their holdings if their French accounts have been inactive for ten years or more. The *Eckert Law* strengthens the property rights of savers, but defines when the state can seize inactive bank and other investment accounts. Mr Scallon confided to *newspad*: "I am concerned about the impact of the Loi Eckert on non-French employee shareholders. After ten years of 'dormancy' the shares are sold and funds transferred to the *Caisse des Dépôts et Consignations* (CDC), the investment arm of the French state. The custodian of the shares (not options) is required to send an annual communication to the last known address in years 5–10. The company may be indifferent, as the *dormants* are ex-employees and pensioners and the contract is between the ex-employee/pensioner and the custodian. The ex-employees have changed address/ company/country/ spouse and then forgotten or lost their UserID and Password to access their online share accounts." **FONDACT**, the Centre's Eso partner in France, believes that there are 450,000 such accounts holding

€900m worth of shares, a fair proportion of which may be in the UK.

Practitioner **speakers** pay **£290** for admission to the symposium, which includes a buffet lunch and a drinks reception. Trustee speakers will pay **£230**, while plan issuer *speakers* will not be charged, so that advisers can bring clients to make joint presentations.

Speaker roles are still available. Tackle one of the issues stated above, or choose your own topic, but act now, as slots are filling up fast. You may present a paper, or use slides. Presentations should include opportunity for interaction within the time slot. Please send your speaker proposal asap to Fred Hackworth at: fhackworth@esopcentre.com.

A programme outline can be downloaded from: www.esopcentre.com

Delegate prices: member plan issuer **Free** (subject to £50 admin charge) member practitioner: **£415** non-member practitioner: **£625** member trustee: **£330** non -member trustee: **£500** non-member plan issuer: **£75**.

All attendance fees are subject to standard VAT.

You can register as a **delegate** by email: britishisles@esopcentre.com.

MOVERS AND SHAKERS

On the move

Share schemes expert **David Pett** *- a leading member of the Centre's steering committee, is now a working barrister, listed as a specialist adviser on tax, remuneration and employee share schemes, at* **Temple Tax** *Chambers in London***.**

On March 31 this year, Centre member **Zedra** acquired **Barclays UK Trust** business, which is trustee of 4,500 trusts, some dating back almost 100 years. The acquisition increased Zedra's size by a quarter and underlined Zedra's commitment to rapid growth. Zedra, which now operates from 14 worldwide offices, has more than 500 staff and is well on its way to achieving its aim of doubling its size in less than three years. "We're constantly looking at ways of expanding our UK business and are going to be offering more corporate back office services to meet the increasing demand for onshore structures," said group ceo Niels Nielsen. 'Having such a strong onshore proposition is important because the UK has such a dynamic corporate and private wealth market, therefore international clients increasingly want to use highly reputable jurisdictions". **Barclays** continues to hold a minority stake in Zedra. "This demonstrates Barclays' interest in the ongoing success of this business and its commitment to supporting continuing relationships with clients and the advisory community," said Akshaya Bhargava, ceo, **Barclays Wealth,** Entrepreneurs and Business Banking**.**

Angela Gibson left **Computershare** and is now a consultant, working with **Eximia.**

Sophie Altaf joined **Equatex** as global marketing

manager. **Mia Claselius**, head of global marketing at Equatex said "We are delighted to have Sophie on board. She joins us with 12 years' experience in the share plans sector, and with marketing expertise built up over the years from some major industry players we are excited to have her in the team, where she will focus on all our key global events." London based Ms Altaf said "It is an exciting opportunity to join a fresh new place like Equatex. The technology is impressive and the team is very enthusiastic and welcoming. I look forward to working together with them and share all the innovative advances of this fast growing company." Sophie can be contacted at +44 (0)7834 910 031, or sophie.altaf@equatex.com

New member

The Centre welcomes new member **Accuro Trust (Jersey) Ltd,** which is an independent trust and service provider, regulated by the Jersey Financial Services Commission. As a group, Accuro Fiduciary employs approximately 110 professionals across three jurisdictions, Jersey, Switzerland (Geneva) and Mauritius. In addition to its private client and family office services, Accuro Trust is an experienced provider of trustee and administration services in employee equity, with a client book comprising listed and private companies from sectors, including energy, retail, wealth management, finance, engineering and infrastructure support, with these clients based throughout the UK, Europe and the Middle East. Accuro Trust works closely with clients to ensure the smooth operation of all employee equity plans so the full benefits are shared by both them and their respective employees. Accuro Trust's highly personalised services incorporate a flair for entrepreneurial decision-making with a clear understanding of client needs. Contact: Scott Nelson, email: s.nelson@accurofiduciary.com, phone +44 (0) 1534 512512. Website: www.accurofiduciary.com

UK CORNER

Free shares boost at insurance giant

More than 9,000 staff at insurance company **Admiral** will each get £1,800 in free shares under the group's employee share scheme. This award was triggered after Admiral reported an increase in pre-tax profits of two percent to £193m for the first half of this calendar year. Employees receive up to £3,600 a year in free

shares that can be cashed in after staying with the firm for three years.

Admiral's Chicago-born former ceo **Henry Engelhardt,** who retired last year, built the company up from a start-up in 1991 to a £5bn+ turnover giant today. He not only loved the concept of Eso, but started internally Admiral's *'Ministry of Fun,'* which stages regular events to keep staff happy and involved. On his last day at work, Henry told staff: "*The people I work with bring with them a rare desire to improve and succeed, as the economist Joseph Schumpeter put it long ago: 'there is the will to conquer, the impulse to fight, to prove oneself superior to others, to succeed for the sake, not of the fruits of success, but of success itself.'*

The Cardiff-based insurance group reported a 15 percent rise in turnover to £1.45bn for the six months to June 30. The profit rise was helped by an increase in charges for drivers as the company sought to reduce the impact of a change in the way personal injury claims are calculated. Admiral employs more than 6,000 people in Wales.

Belt-tightening at EO company

Employee-owned grocery wholesale giant **Palmer & Harvey** plans to slash costs in an attempt to secure a £100m cash lifeline from investors. Palmer and Harvey is one of the largest privately owned companies in the UK, wholly owned by its current and former employees. Customer engagement, productivity and profitability have been improved as employees have shared in the company's previous success. Employee ownership underpins Palmer and Harvey's culture and has played a key role in company growth. It has a turnover of £4.5bn and **4,000** employees, but is struggling under the weight of debts and the threat of a supermarket onslaught in its market. Palmer & Harvey made a pre-tax loss of £56m last year and expects to lose more than £27m in 2018. The company appealed to turnaround specialists to inject £100m to help it re-ignite growth. Palmer & Harvey has pledged to make deep cuts in a bid to win investment. It has until the end of September before its lenders step in, and must repay further debts to cigarette giants **Imperial Tobacco** and **Japan Tobacco** next year. The wholesaler plans to cut £8.2m of costs from its operations this year. It pledged to slash 15 percent of head office overheads, including jobs, and to drop more than 3,000 product lines in order to simplify its warehouses.

New HMRC victory in EBT–based job 'loans' case

The **First-tier Tribunal** dismissed taxpayers' appeals from **Oco Ltd** and **Toughglaze (UK) Ltd**, lead cases involving arrangements designed to provide benefits to key employees without incurring PAYE or National Insurance Contributions (NICs) liabilities. Several hundred other appeals involving the same scheme stand behind these cases, said Centre member

Deloitte. HMRC is preparing to issue hundreds more APNs (advanced payment notices), collectively worth many millions, to companies who used an employee benefit trust (EBT) to provide employee benefits – subject to whether or not Oco and Toughglaze appeal against the tribunal's ruling.

In a separate initiative, HMRC announced that, following the decision of the Supreme Court in the **Rangers EBT** case, it will be inviting participants in 'disguised remuneration schemes' to *register an interest* in settling the tax liabilities arising from the use of these arrangements. HMRC said that the Rangers ruling, which forces former club owners Murray Group Holdings to pay taxes on loans to players, affects a range of earnings-related tax avoidance schemes including EBTs, employer-funded retirement benefit schemes, contractor loans schemes and self-employed benefit schemes. HMRC has faced pressure from accountants worried that clients will be unable to pay their APN demands. It will publish more details about the proposed new tax liability registration scheme shortly. *See* http://deloi.tt/2uMAgzl.

In the Oco and Toughglaze cases, their scheme involved setting up EBTs and the subsequent creation of sub-funds for the benefit of particular employees and their families. The benefits were provided mainly by the trustees advancing interest free loans to the employees. The taxpayer appeals were against Regulation 80 determinations about underpaid PAYE and decisions under the relevant NICs legislation, which HMRC argued arose on the payments the EBT made to the sub-trusts. There were appeals too against closure notices and related amendments to corporation tax self-assessment returns denying a deduction in respect of EBT contributions. The Tribunal held that the planning failed on *Ramsay* grounds.

*In its publication *Spotlight 39*, HMRC warned accountants and their clients that a new scheme to avoid tax on employment-related payment loans would not work. In '*Disguised remuneration: re-describing loans*,' HMRC said it was aware of a scheme to avoid the 2019 loan charge on disguised remuneration. It was announced in Budget 2016 that there would be a charge on loans paid through disguised remuneration schemes which have not been taxed and are still outstanding on April 5 2019. The charge is intended to apply to loans made after April 5 1999. The legislation to implement the charge was included in the Finance Bill published last March, but was one of the measures excluded from Finance Act 2017 because of the June General Election. Revised

draft legislation was published in July 2017. See http://deloi.tt/2v1ynde. **Deloitte** said "Spotlight 39 states that the scheme in question involves users signing documents saying that the sums received from their disguised remuneration scheme under loan agreements are not in fact loans at all, but are sums merely held by them in a '*fiduciary capacity'*, i.e. for the benefit of someone else. HMRC said that the scheme did not work; renaming something now did not change what happened in the past. See http:// deloi.tt/2vLBQyL."

Mandarins' 'crazy pay' must be capped, call

The 'crazy' salaries of some Whitehall mandarins should be capped because they are "out of step with public opinion", said **Priti Patel,** the **International Development Secretary.** She believes the pay packages of around 150 senior civil servants earning up to £300,000 should be restrained. More than 400 civil servants, officials and "quangocrats" earn more than the Prime Minister's £150,000, according to the latest Cabinet Office data. Ms Patel said that the Cabinet Office must get a "grip" on senior pay. A source close to Ms Patel said: "Some director generals [in the Civil Service] are paid almost twice as much as cabinet ministers to do their job, and yet they do not take full responsibility for their actions and screw ups." She thinks that the PM has rightly capped ministerial pay, yet director generals last year were paid in the region of £180,000 and received bonuses on top – so at that level they should be subject to restraint. High pay and bonuses come on top of their enormous pension pots and it's not as if they are either going to go on strike or walk into better paid jobs in the real world," the source added. According to the Cabinet Office, the number of those earning above £150,000 in government had fallen by 26 percent (or 95 staff) since 2010.

Have ceos really taken a pay hit?

Several reports claimed recently that chief executive reward levels in the UK had fallen by an average 17 percent in the past year, but a *Daily Mail* investigation suggested that they are hardly suffering. It revealed that, largely unseen, many top ceos are getting huge extra perks, such as six figure home relocation payments, private health care, chauffeur-driven cars, school fees paid for their children, life insurance and even many hours of private jet flights. For example, said the *Daily Mail,* **Tesco** ceo, Dave Lewis, was given £142,000 to help him move 35 miles from London to nearer the company's head office in Welwyn Garden City – even though the commute is barely an hour, houses are a quarter of the price and Mr Lewis, 52, earned £4.2m last year. **Argos** ceo, John Rogers, who received £1.6m last year, got an extra £42,647 in accommodation costs and a £6,500 travel allowance because he frequently had to visit Milton Keynes from his home in Surrey. Meanwhile, **National Grid** ceo John Pettigrew was given £497,000 of benefits as part of his £4.7m pay packet – the bulk of which was to help him move 90 miles from Warwick to London. More generous still is the annual allowance of up to £155,000 given to the ceo of **Carnival**, which owns **P&O Cruises**, to use the company's Gulfstream G650 private jet as he wishes. Arnold Donald can use the jet for up to 30 hours a year and last year racked up a bill of £76,000. Mr Donald received £7.4m in reward last year. Other perks include the £1.2m given to insurer **Prudential**'s ceo Mike Wells, to cover taxes and mortgage interest he was forced to pay when he moved from the US to England to take the job – on top of his £5.7m 'normal' reward. Banker Stuart Gulliver, ceo of **HSBC**, stayed in properties owned by the lender which would otherwise have cost him £263,000. He earned £5.7m last year.

Details of their perks are buried in the small print of the annual reports. It is normal for ceos to claim costs for business travel. These are not taxable and therefore not included in the company reports, but other perks are taxable.

*Shareholder anger over executive pay has switched from FTSE 100 to FTSE 250 companies during the agm season, as large investors protested with greater force over individual pay packages and company remuneration policies, said the *Financial Times*. A report to be published by the **Investment Association**, the trade body representing UK asset managers, found a doubling to 29 in the number of FTSE 250 companies that had 20 percent or more votes cast against remuneration policies. That number excludes the five FTSE 250 companies – engineering software maker **Aveva,** power generation hire group **Aggreko**, defence group **Chemring**, oil-well engineer **Hunting** and storage provider **Safestore** – who withdrew remuneration reports, after pressure from institutions, before their agms. Many of those companies faced binding votes on their remuneration policies. FTSE 100 tobacco group **Imperial Brands** withdrew its report too. After investor rebellions during last year's agm season, there was less dissent this time over reward at the UK's top 100 companies: reward resolutions that received more than 20 percent votes against them fell 35 percent. Andrew Ninian, the IA's governance head, said many FTSE 100 companies were nervous ahead of shareholder meetings, after more than half of shareholders last year voted against the pay packages of the **BP** and **Smith & Nephew** ceos. As a result, most companies submitted more conservative policies on executive pay that were more in line with shareholder expectations. "That message was not heard in the FTSE 250 companies where there was much less restraint so there were higher levels of dissent," said Mr Ninian. The average UK wage is less than £30,000 a year. Shareholders targeted individuals, with votes of 20 per cent or more against directors up from four last year to 21. The IA's published data on shareholder voting pattern does not include abstentions.

*The ceo's annual reward at **Diageo,** the world's largest premium alcohol company rose by 1.5 percent to £1.2m in the financial year to the end of June while his short-term performance bonus rose from $1.96m in 2016 to $2.1m. However, **Ivan Menezes** failed to hit certain long-term targets and so missed out on parts of his performance-related bonus, so his total reward dropped almost 35 percent to $4.31m for the year. Menezes is paid in dollars because he is employed on a US contract. As part of Diageo's 2014 long-term incentive plan, Menezes was awarded shares which were due to pay out this year if certain performance criteria were met. That reward scheme was formulated just as the global market, especially in North America, Diageo's biggest selling region and largest profits generator, turned sticky. The long-term bonus plan was linked to factors such as the compound annual growth in earnings per share with different levels of reward depending on how much the target was beaten by. But difficult market conditions precluded that and so the annual report says*: "Accordingly, the 2014 long-term incentive plan award has not met the threshold under the performance condition and the options under the award will lapse."* Menezes has spent the past three years reorganising Diageo and implementing a cost savings programme that created performance well ahead of market expectations in the latest results.

*Planned rises to the **National Living Wage (NLW)** may need to be delayed because of uncertain growth in the economy, small businesses say. The NLW is currently scheduled to rise to £8.75 an hour by 2020, but the **Federation of Small Businesses (FSB)** said that target may have to be reconsidered, following a string of poor economic data. The FSB said real incomes, productivity and GDP growth were all falling, with only employment levels improving. As a result, it said the NLW should rise from £7.50 an hour to no more than £7.85 next year. "It's vital that the NLW is set at a level that the economy can afford, without job losses or harming job creation," said Mike Cherry, the FSB's national chairman. "Cost pressures on small businesses are building and with most recent economic indicators underperforming, we are now facing the reality that the NLW target may need to be delayed beyond 2020."

*Large investors fear FTSE 100 companies are using clever accounting techniques to trigger high executive bonuses and mask poor financial performance, said the *Financial Times*. The concerns come as research shows the difference between stated and adjusted operating profits for the UK's top-100 quoted companies is at 51 percent – the widest gap in a decade. In 2007 the divergence was just 15 percent. Russ Mould, investment director at AJ Bell, the investment company that carried out the research, said the figures suggested equity markets could be nearing.. "the top of a cycle. As growth gets harder to generate, there is a temptation to employ different financial tactics to generate it, either to appease return-hungry shareholders or hit bonus triggers," he said. "If a share price suddenly turns and the economic cycle turns with it, investors [will be left] wondering why something that looked like a sound investment on paper is now a terrible one in reality."

Companies adjust profit figures to take into account one-off expenses such as acquisitions, restructuring costs or fines. The revised figures are typically higher than actual profits booked, and are an important metric when determining executive bonuses. The growing use of revised profit figures have made shareholders and analysts increasingly wary of these numbers, according to Andrew Millington, head of UK equities at **Standard Life Investments**, one of the UK's largest investor funds. "This is on our radar, and it is a concern," he said. "There is a real danger if you are investing without actually going back to the accounts." The FTSE 100 companies that posted the biggest gap between stated and adjusted profits over the past 10 years were mining group **Glencore**, builder **Taylor Wimpey** and **Lloyds Bank**. Glencore said its profit gap was large due to the near $11bn of write-offs the company took on completing its acquisition of **Xstrata** in May 2013. Mr Millington blamed the growth in the use of adjusted profits on pay for management teams increasingly being linked to revised earnings and low interest rates supporting an M&A boom. "We would hope to see the gap [between stated and adjusted profits] start to close for the market as a whole. In the meantime, investors have to be sceptical of using adjusted numbers," he said. Companies that substantially adjust profits over extended periods have frequently underperformed for shareholders, the research showed. The five FTSE 100 companies that generated the worst total shareholder returns over the past decade had large net profit gaps of between 58 percent and 1,000 percent over that period. They include supermarket chain **Tesco;** UK banks **Barclays, RBS** and **Lloyds**; and mining group **Anglo-American**. By contrast four of the best five in terms of total shareholder return over the period – **Ashstead, Hargreaves Lansdown, Croda** and **Randgold Resources** – had small net profit gaps of less than ten percent. Manager pay is increasingly being linked to earnings-based measures, so there is added motivation to boost returns in those measures.

All shall have bonuses

*Andrew Bailey, ceo of the **Financial Conduct Authority,** was awarded a £65,000 bonus for his first part-year running the regulator, more than twice what the average employee can expect to take home in a whole year, wrote **Tony Hazell** in *FT Adviser.* "Of course this sum pales against the bonuses handed out in the banking and investment world, so it is perhaps a little mean to single him out. But it does illustrate why I and many others are so uncomfortable with the bonus culture. *What is the point of bonuses at organisations such as the FCA? Is it for doing a better job than expected? If Mr Bailey has exceeded expectations by so much already then George Osborne made a*

remarkable appointment. Other senior FCA staff were awarded bonuses (performance related pay), presumably for performing well in their jobs – which is why they were recruited and what they are paid to do in the first place. *Bonuses come as part and parcel with certain jobs. Investment managers are paid massive sums and then can get a massive bonus on top, just for doing their jobs.*

"I can understand sales people being awarded commission and bonuses for great performance. Some people need the motivation of extra cash to make them function at the top of their game, but when you are already well rewarded in terms of pay and pension, and when you are supposed to be the crème de la crème, surely picking up an extra reward via a bonus is just a little bit sleazy?" said Mr Hazell.

*Senior executives at **Safestore Holdings** were rocked by a backlash over 'fat-cat' reward. Almost half its shareholders voted to reject the FTSE 250 storage firm's annual accounts and remuneration report. Investors rebelled over an award scheme set to hand executive directors millions of pounds – with ceo Frederic Vecchioli in line to receive shares worth £8.4m at current prices. Safestore had unsuccessfully tried to force through the plans earlier this year and only narrowly succeeded last month, in carrying its resolutions – on the remuneration report and future pay policy – with just 50.8 percent and 51.3 percent of votes cast in favour. Its current pay policy expires in October, so it needed to secure approval for a new arrangement before then. Two investment adviser firms told shareholders to reject the plan. One of them, **ISS,** expressed concern about the scale of the executive awards and told clients the 'underlying rationale remained not particularly compelling'. Meanwhile the voting arm of the **Investment Association** issued a warning about the scheme too. Safestore chairman Alan Lewis said the company recognised its proposals had 'divided opinion'. ISS said that votes against Safestore's pay policy and the long-term reward scheme were justified. Its report to clients said: "Despite a reduction in quantum as compared to the original proposals, the new framework will nonetheless provide a significant (up to 1.6 percent of the issued share capital) reward opportunity to the executive directors, for which the underlying rationale remains not particularly compelling. In parallel, there is an increase in annual bonus award opportunity. Altogether, the new remuneration policy will significantly enhance the total potential remuneration package." Safestore said: "We have engaged extensively with shareholders, listened to their concerns and revised our proposed remuneration policy accordingly. The new proposed five-year LTIP (long-term incentive plan) is structured to reward success, extending beyond the board to the wider management team."

*****Announcements under the MAR and Disclosure, Guidance & Transparency Rules:

The trustee of the **British American Tobacco** (**BAT**) all-employee share ownership plan (SIP) said that on August 2 several executive directors and others discharging managerial responsibilities purchased 25p ords in BAT by way of the partnership share scheme. They bought either three or four shares each at a price of £48.15 per share. **Chapel Down** announced that following the exercise of share options under the company's employee share option scheme, 10,000 new ords of five pence each were admitted to the NEX Exchange. Following admission of the new ords, Chapel Down has 101,003,948 ords in issue with each share carrying the right to one vote. **Headlam Group** announced that share options granted under the Headlam Group 2012 SAYE scheme in May 2012 at an option price of £2.38 per share and in May 2014 at an option price of £3.81 per share were exercised on reaching maturity. In all, 5,385 ords were transferred from treasury stock for the purposes of employee share scheme allotments, comprising 3,024 ords at 238p per share and 2,361 ords at 381p per share. Following the above transfer of treasury stock, Headlam held 537,636 ords as treasury shares. The total number of ords in issue (excluding shares held as treasury shares) was almost 85m. Energy provider **SSE** was notified on August 4 by Computershare Investor Services, the provider of SSE's SIP, that it had purchased 50p ords in the company's capital – at a price of £14.05 each – on behalf of five executives, including two directors, and awarded matching shares. In all, 54 shares were bought or awarded as matching shares. **Smith & Nephew** bought 309,247 of its ords through *Merrill Lynch International*, at an average price of £13.20 each in accordance with the authority granted by shareholders at the company's agm last April. These shares were issued to cover employee share schemes in Quarter 2, and have been purchased as part of a programme to reduce the company's share capital, in order to keep it broadly constant. Smith & Nephew intends to hold these shares in Treasury. Following the purchase, it holds 15,898,225 of its shares in Treasury.

Fancy that! - Former ceo of **Lloyds Bank, Eric Daniels**, who was in the chair when it was bailed out with £20bn of taxpayers' money during the 2008 financial crisis, is suing the bank for hundreds of thousands of pounds in disputed bonuses. Daniels, who was heavily criticised during his tenure at Lloyds, has filed a legal claim to try to collect some of his bonus payments that were withheld by the bank. He is

thought to be suing Lloyds, which he left in 2011 with a *£5m* pension pot, for up to £500,000 in unpaid bonuses due in 2012. Daniels, a 66-year-old American, has already had millions of pounds of bonuses clawed back owing to the bank's mis-selling of payment protection insurance (PPI). During his tenure Lloyds was the biggest seller of PPI, and the scandal has so far cost the bank £18bn. Daniels told MPs in 2013 he thought Lloyds was "*on the side of the angels*" on PPI and that most of the policies his bank sold to cover people during illness or unemployment were sold correctly. That year, the bank claimed back most of Daniels's £1.45m bonus for 2010, leaving him with £300,000, as the bill for PPI claims mounted. Daniels supervised **Lloyds TSB**'s rescue of fast-sinking **HBOS** to form Lloyds Banking Group and a government bailout that left taxpayers owning 43 percent of the company at the height of the financial crisis. *The Times*, which first reported Daniels' legal action, reported that, according to sources, the executive was taking legal action to claim performance-related bonuses that were not paid despite him hitting targets. Daniel's case against Lloyds was filed with the high court on August 14, but the legal papers are not yet publicly available.

Share buybacks in vogue

UK companies, both public and private, have increased their share buyback activity said an article by corporate lawyer Jeanette Meyer, of *Faegre Baker Daniels*, in *Financial Director.* Over the last few years**,** the **London Stock Exchange** has recorded more share buybacks than any other equity market, except the US, she wrote. "The recent announcement by **British Land** to allocate up to £300m of capital to a share buyback will be the first by a real estate investment trust company for almost a decade," said Ms Meyer. "By purchasing its own shares, a company returns cash to its shareholders and may allow them an exit from the company. This can be particularly important for shareholders of private companies that do not have a liquid market for their shares, but may be attractive too for institutional investors in public companies who are looking to realise a return before a full exit is otherwise available. At the same time, a share buyback reduces the number of shares in issue, which, if the same level of profitability is maintained, should lead to an increase in Earnings Per Share (EPS) – a key valuation measure for listed companies. *As EPS is often used as a metric to determine executive pay,* **some critics have interpreted the extensive use of share buybacks as a deliberate attempt by companies' management to increase executive pay.** *This is certainly something remuneration committees should bear in mind when assessing annual performance following a share buyback.*

"For the remaining shareholders of a company, the reduction in the number of shares means that they will end up with a greater percentage of ownership in the company. Usually, there will be a boost in share price (sometimes short-lived) due to a reduced supply of shares and an increased short-term demand. Any long-term impact on the share price is much less predictable. British Land's buyback programme in 2007, for example, did not achieve a lasting effect on its share price. Notwithstanding the uncertainty about any long-term impact on share price, one of the main reasons why companies pursue share buyback programmes is because they believe their shares are undervalued and wish to increase their price. Another reason may be to consolidate ownership in the company. This is usually less relevant for listed companies, given the free float requirement, but there has been a trend amongst technology companies to purchase their shares – *in order to consolidate ownership and offset the dilutive effect of employee share awards.*

Whilst there are benefits for shareholders, the negative aspects of share buybacks should not be ignored. It is relatively expensive for a company to purchase its own shares as it will be liable to pay stamp duty on the purchase price, although an exemption applies for shares in AIM companies. It is important that the company is in a healthy financial position and can sustain itself if it faces unforeseen difficulties after the share buyback. This is particularly relevant if the company funds the buyback with debt, which may be a drag on future profits." She added: "A share buyback sometimes may be viewed as a lack of innovation. Many companies believe that repurchasing their own shares demonstrates that they are doing well financially. *Such a move can be interpreted too as management acknowledging a lack of alternative investment opportunities, which if available would help strengthen the business going forward.* It is probably no coincidence that British Land announced its share buyback programme at a time when there is increasing uncertainty about the UK property sector, following the vote to leave the EU. The hype surrounding share buybacks is not always justified and management should not reach for the buyback option as an easy way to calm restless shareholders in tough times. *If the company genuinely has excess cash that can be returned to shareholders, a better and more cost-effective solution may be to simply declare a dividend. Even better, taking a longer-term view and putting the money to work by reinvestment in the business should be management's first option, for the benefit of all stakeholders*."

COMPANIES

*The former executive chairman of the **AA,** who was sacked after an altercation with a colleague, may lose his deferred performance shares, which could be worth almost **£100m**. Bob Mackenzie, 64, was in line for a huge payout if the AA hit a series of annual targets, but his dismissal for gross misconduct means it can strip him of the 33m performance-related shares he

was given when he floated the company on the stock exchange two years ago. Those shares could have been worth up to £95m if the AA's market value reached set levels over the next few years. Mr Mackenzie may now only receive a nominal 1p following his sacking. The "management value participation" shares were handed to several executives to give them an incentive to boost the AA's performance. His dismissal announcement resulted in £200m being wiped from the company's value. His son, Peter, said that his father had been "acutely ill" and was in hospital with an "extremely distressing mental health issue," He said his father had resigned after a clinical psychologist advised him he needed to take time off work. His departure followed what one family friend described as a '*Jeremy Clarkson moment*.' For Mr Mackenzie to have been eligible for the payout, he and other executives were required to generate a 12 percent annual return for investors over five years. However, a clause in the contract dealing with these special options says that the AA can "acquire all of his management value participation shares" if they become '*bad leavers*,' who are dismissed or who leave the company of their own accord. An AA spokesman refused to say whether Mr Mackenzie would be stripped of his 33m shares. According to the AA's latest annual report, he was paid £1.36 m a year, which included a basic salary of £750,000.

*Senior managers at **CH2M**, the engineer behind some of the UK's biggest infrastructure projects including the HS2 rail line, are poised to bag multimillion-dollar payouts after a takeover by rival **Jacobs Engineering**. Jacobs has bought rival consultant CH2M for £2.1bn. **CH2M Hill**, the UK branch, is a Centre member. The move creates a consulting powerhouse employing 74,000 people globally. Jacobs highlighted CH2M's expertise in major UK transport projects as a driver of the deal. Jacobs has already identified £113m of cost savings from combining the companies. CH2M is a key contractor on the multibillion-pound refurbishment of the Palace of Westminster. *Executives are in line for payouts because of change of control clauses in their contracts that will be triggered if Jacobs makes them redundant*. Five executives are in line for a combined $35m if they lose their jobs as a result of the deal. CH2M has c.20,000 staff, including 2,500 in the UK. *Although the engineer is privately owned by staff,* CH2M's *wide shareholder base requires it to publish financial results and its share price.* Its ownership structure relies on new staff buying into the company from older staff who are leaving or retiring. Jacobs stepped in with CH2M under pressure to find a buyer following a $300m investment by the private equity firm Apollo two years ago.

TRAVERS SMITH

***NATS,** the company which operates air traffic control at 14 UK airports, is five percent owned by an employee share trust, until recently chaired by **Baroness Brenda Dean of Poulton-Le-Fylde**. She had to battle hard three years ago to beat off the **Civil Aviation Authority**, which had wanted to close down the NATs all-employee share ownership plan on the grounds of cost. At the very least, NATS' BOGOF share offer to employees – (buy one and get one matching share free) should be stopped, the CAA had urged. Employees hold on average 1400 shares each in a five year SIP. The air traffic controller, ranked number two within the EU, said it provided services for 2.5m flights per year, but had faced "substantial and unforeseen" growth of traffic across the South East since early last year. NATS probably handled your holiday flights, including a record 8,800 on one day alone in late July. NATS is 49 percent owned by the Government with a 42 percent stake owned by The Airline Group – made up of seven airlines and tour operators including BA, easyJet and Tui. Heathrow owns the remaining four percent.

WORLD NEWSPAD

Jobs boost at Global Shares

Centre member **Global Shares** announced the creation of 80 jobs as a result of its rapid global expansion, bringing its employee total to 228. The new positions, some of which are supported by the **Department of Jobs, Enterprise and Innovation** through **Enterprise Ireland**, are across the business –IT, financial, multi-lingual share plan analysts, service desk, trading & legal. Recruitment has begun, with all positions to be filled within two years. Eighty percent of the new positions will be based in Ireland, primarily at its HQ in Clonakilty. The recruitment drive comes on the back of significant growth in Global Shares' client base in the past two years from 150 to 250, with participants in more than 100 countries globally. During this time Global Shares has signed contracts with six FTSE 100 companies and its client list includes GSK, Skanska, Sage, Irish Life, Legal & General, Generali and others. Tim Houstoun, ceo Global Shares, said, "*We have experienced stellar growth across every aspect of our business over the past two years and additionally became MiFID & FINRA/SEC regulated, meaning we can now offer clients a one-stop solution to manage every aspect of their employee share plan. We have undertaken significant restructuring in recent months to meet the changing needs of our business. This growth has led to the launch of a significant recruitment drive for high-skilled roles and we look forward to receiving*

applications from those who wish to be part of a cutting-edge global company." Global Shares supports the Irish government's initiative to introduce new share scheme legislation for SMEs in Budget 2018.

Dividends bonanza

Global dividends rose to $447.5 bn in the second quarter of this year, an all-time quarterly record, reported *Janus Henderson Global Dividend Index.* On a headline basis this represents an increase of 5.4 percent on the same period in 2016, though this increases to 7.2 percent once exchange rates, special dividends and other factors are taken into account. New quarterly records were set in many nations, including the US, Japan, Switzerland, the Netherlands and South Korea. The UK was the only region to see dividends fall over the period, though this was attributed to the effects of sterling's devaluation following the Brexit vote last year. The strong second quarter, and the improving shape of the global economy, has led Janus to increase its forecast for this year up by $50 bn from its preliminary forecast in January to a total of $1.208 trillion. This would represent a rise of 3.9 percent year-on-year in headline terms. The report followed research earlier this year from Centre member **Capita** which found that shareholders in firms listed on London's main market enjoyed record dividends during the second quarter of £33.3 bn. **Justin Cooper**, ceo of shareholder solutions at **Capita Asset Services**, said: "Shareholders can be thankful they had punchy special dividends and the weak pound in their corner, but improving profits have played their part. Exchange rate gains have come not only for big multinationals declaring dividends in foreign currencies, but for others with overseas operations, or export sales, supercharging their profits and so their dividends. The relative strength of the UK consumer, until recently at least, and surging economic growth abroad has supported stronger dividend growth than we have seen in some time. Even though the second half is going to be much quieter, investors can look forward to dividends hitting a new record this year."

However, questions are being asked as to whether the level of dividends investors are currently enjoying are truly sustainable. Research by Centre member **Share Centre** back in July looked at dividend cover, the ratio produced when dividing profits after tax by the dividends paid out to investors, a way of measuring how sustainable such payments are. It found that dividend cover has dropped by 18 percent over the last year, to the lowest level seen since 2009. Dividends have now exceeded profits for five consecutive quarters, it said. Helal Miah, investment analyst at the Share Centre, said: "Dividend cover is still weakening, and this will ring alarm bells for income investors, especially as the outlook for the UK economy is moderating. Consumer spending is down, manufacturing growth is slowing, and the housing market is slowing. For domestically orientated companies, especially those in the FTSE 250, this will impact sales and profits, and is likely to weigh on dividends. What's more, the Pensions Regulator is willing to intervene should companies with pension deficits prioritise returning capital to shareholders over plugging funding gaps. This may encourage a more conservative approach to payouts. Investors would clearly prefer to see cover improve due to rising profits, rather than falling dividends."

Country-by-country reporting

HMRC is building a portal to allow the electronic submission of country-by-country (CbC) reports, under the Global Transfer Pricing Alert 2017-033, said Centre member **Deloitte.** A prototype service and draft supporting guidance have been developed. These are being tested by a controlled group of users so that HMRC can refine them and make any improvements needed. The first CbC reporting notifications required to be made to the UK tax authorities are due by September 1, this year. This deadline applies to all reporting periods that end on or before September 1. Afterwards, the standard UK notification date is the end of the CbC reporting period. All multinational groups that meet the threshold for CbC reporting, which have a UK resident constituent company or a UK permanent establishment, will need to provide at least one notification. There is optional administrative simplification in cases when multiple notifications are due. UK notification obligations vary depending on the on the location of the ultimate parent entity. For UK-parented groups, the responsibility lies with the UK ultimate parent entity. For non UK-parented groups with a UK presence, the notification obligations fall on the top UK entities (or top entities with UK permanent establishments. There is no specific form for notifications, but the UK tax authorities have stated a preference for spreadsheet format. Notifications should be sent to the dedicated mailbox: notification.cbcrfiling@hmrc.gsi.gov.uk.

Oz: "We think there are more changes that are needed to encourage broad employee ownership and help employees save for retirement, said Angela Perry chair of **Employee Ownership Australia & New Zealand.** "One key measure would be removing tax at termination of employment, when an employee leaves. At present, when employees leave their jobs, they are taxed on shares accumulated through employee

ownership schemes, usually at their marginal rate. So workers often are forced to sell some or all of their shares when they leave a company. Australia is the only country that taxes employees on cessation of employment."

In Australia, tech success story Computershare offers its 16,000 employees two share ownership scheme options. In one scheme, each employee contributes a minimum of A$1500 (£926) and up to A$5000 (£3086) over 12 months in equal instalments, and Computershare matches that contribution dollar for dollar, up to $3000 a year, to buy shares. It offers another scheme where employees who elect to take part contribute $500 (£309) over 12 months in equal instalments and the company contributes $500 to buy shares. Computershare digital channels team leader Evan Giosis has built up a sizeable stake during his 17 years with the firm, which provides corporate trust, stock transfer and employee share plan services. Giosis said that he is more passionate than ever about the success of share schemes, "*not only because they pay me to do a job I love, but because I now own a part of the company*. The dividends come in very handy trying to keep up with the appetite of my three young boys." By removing tax at termination of employment, the federal government would help employees to own a stake in their company and save for their futures, added Angela, who is an English barrister and Australian solicitor.

***Commonwealth Bank of Australia** cut the pay of senior executives and non-executive directors in response to money laundering allegations, but CBA's board said it retained "full confidence" in ceo Ian Narev, amid calls from politicians and some investors for management change at the country's biggest bank. The board reduced to zero the short term variable incentives for Narev and top executives for the financial year ended June 2017. Non-executive director fees have been cut by 20 percent to reflect the board's "shared accountability" for an oversight failure that Australia's financial crime fighting agency alleges enabled drug dealers and other criminals to launder tens of millions of dollars. It was announced later that Narev would leave CBA before next June 30.

*Ceo salaries of £360,000 and above are viewed as unethical by the majority of **Australians**, according to a new survey that highlights the yawning gap between public expectations and reality on executive pay. It revealed that public concerns about ethical failings in finance have only marginally faded in the past year, despite banks' attempts to rebuild customer trust, and a series of government policy changes.

Politicians and some business leaders criticised the pay enjoyed by top executives in the past year, and a new survey sought the views of a broad spectrum of 1000 Australians on the issue, said the *Sydney Morning Herald.*

Austria: The Stock Exchange Act Amendment, which transposes the requirements of MiFID II in national law, was promulgated in the Official Gazette of Austria and is due to enter into force on January 3, next year. The amendment updates other capital markets legislation such as the provisions on employee share ownership schemes. The aim of the amendment is to increase transparency and improve investor protection, which concerns mainly investment firms. Vienna Stock Exchange ceo Christoph Boschan welcomed the Amendment: "When all market participants act in concert, it is possible to move things forward in this country – which in turn boosts the appeal of the capital market. Legislators made an effort to ensure that the EU requirements passed into Austrian capital market laws are as close to market practices as possible." Boschan added: "However, there is still a lot of room for further improvements, such as opening the SME segment on the Vienna Stock Exchange, as a matter of priority." Other relevant laws concerning the capital market were revised, along with the amendment to the Stock Exchange Act. A new form was created for private company foundations, specifically for foundations established as an employee share ownership scheme (*Mitarbeiterbeteiligungs-Stiftung*), which transfers company shares to employees. A tax-free allowance of €4,500 for employees was introduced for this purpose. The provisions in this context were completely revised and clarified. Employees' shares can be managed and held in custody by the employee foundation acting as a trustee. The *foundation* which, for example, holds the employees' 14.5 percent equity stake in **Voestalpine,** will facilitate the uniform exercise of voting rights to ensure its position as a core shareholder. "*Enabling share ownership for all employees through this type of foundation helps to create a strong Austrian core shareholder with an interest in keeping jobs in Austria and creating new ones. Stocks create jobs and added value for the economy – and employees benefit twice from this*," added Boschan.

South Africa: About 280 staff left the **University of Cape Town** due to austerity measures, through retrenchment, incentivised early retirement or voluntary separation package, the Employees Union (EU) said recently. Despite this, the university's top management paid themselves R2.8m (£160,000 – £1=17.5R) in performance bonuses for 2016, almost double the collective R1.5m bonus they received in 2015. UCT unions and lecturers reacted with outrage to the bonuses, saying they have been left demoralised by the the university's actions and there was "no justification for demanding that ordinary workers 'tighten their belts' while the executive stuff their pockets." The university, however, denied this. UCT spokesperson Elijah Moholola said the austerity project was part of an exercise to ensure the financial sustainability of UCT. "The austerity target for salary savings was four to five percent and this meant that in certain departments only about two or three staff

members would have left after voluntary severance packages were agreed upon," he said. As reflected in UCT's 2016 annual report, vice-chancellor Max Price was paid a performance bonus of R407,000 (£232,447). In addition, he received R716 724 for "other services", which includes a payment of R445 019 "being the deemed value of the house and vehicle provided to the vice-chancellor as part of his package". This was on top of a salary of R2.5m. Price, however, said he donated the full amount of the bonus to UCT – mostly to support financial aid. He said other senior leadership group members, like many staff at UCT, donate personally to the institution, many to student financial aid.

South Africa/Hong Kong: Africa's largest company Naspers was taken to task last week by investor Allan Gray for giving unearned equity rewards to its top management. Chairman Koos Becker had acquired a stake in world renowned Tencent (then a little known Chinese operation quoted in Hong Kong). Such was its success that the ZAR 1.3 tn market cap value of Naspers today is a third less than what its Tencent stake is worth! Managers were royally rewarded even though last year they lost on the non-Tencent part of the business.
Koos defended keeping the Tencent stake but failed to convince on management reward, gaining only 79 percent of the vote - despite holding special shares with close friends. Last year his ceo Bob van Dijk was awarded $10.4m in options, on top of $2.2m pay - even though Naspers lost $379m , stripping out the Tencent contribution.
Allan Gray and smaller shareholders (including your chairman) are unlikely to let matters rest.

Trinidad & Tobago: Opposition MP Dr Bhoe Tewarie called for the distribution of land, homes and shares in public and private sector companies as he spoke before a packed Yara auditorium at The University of the West Indies (UWI). An Esop for both the public and private sectors would empower the working class and reduce the gaps among members of T&T's social strata, Tewarie said.

USA: The company that led a failed effort to build two new nuclear reactors in South Carolina paid its executives millions in bonuses, some of it for work on the project, revealed a review of federal records. **Securities and Exchange Commission (SEC)** filings showed that **SCANA Corp**. paid executives more than $21m in performance bonuses over the past decade, including money for work on a nuclear power station north of Columbia, The State newspaper *The Post & Courier* reported. The filings do not reveal how much of the $21m was based on the failed project. SCANA's South Carolina Electric & Gas Co. and the state-owned utility Santee Cooper abandoned plans for new reactors, for which they already paid **$9 bn.** Much of that cost already has been paid back by customers. The utilities blamed construction delays and cost overruns. The problems came to a head when lead contractor **Westinghouse** filed for bankruptcy protection. A SCANA spokeswoman said the company doesn't talk about employees' pay. Last year, SCANA's top five executives received $3.3m in performance based pay, according to the federal filings. Nearly half of last year's performance pay went to SCANA president and ceo Kevin Marsh and represents about a quarter of his $6m total compensation. The filings said Marsh's $1.4m performance-based bonus for 2016 was paid, in part, because of his "oversight and support of our nuclear construction activities."
*Troubles continue at **Wells Fargo**, the US's third-largest bank whose roots hark back to the Gold Rush era when it provided financial services to miners in the Wild West. In July, the bank admitted that it took out auto insurance on behalf of 570,000 car loan customers without telling them, resulting in higher payments and vehicle repossessions. Its plan to reimburse customers would cost $80m, plus any fines. Wells Fargo disclosed in a **SEC** filing that it is expanding its probe of falsified and manipulated accounts and warned that there could be a "significant increase" in the number of compromised accounts. It agreed too to pay $108m to the government to settle a 2006 lawsuit alleging that it overcharged veterans in refinancing loans. Then, the bank faced new charges that it did not refund insurance premiums when consumers paid off their auto loans early, according to *The New York Times*. Multiple lawsuits were filed. Last autumn, Wells Fargo agreed to pay $185m to regulators to settle charges of manipulating and creating 2.1m false deposit and credit card accounts in its community banking division, so that staff could achieve bonus targets. It fired 5,300 employees, as well as the ceo and other executives. The bank said these scandals could cost the company **$3.3 bn** more than what it anticipated. Wells Fargo can afford to pay: It reported 2016 net revenue of $88.27 bn and net income of $20.4 bn or $3.99 per share, with nearly $2 trillion in assets.

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