Vol 34 No 4 September 2018

it's our business

newspad of the Employee Share Ownership Centre

EMI is executive El Dorado plan, HMRC statistics reveal

Almost 10,000 UK based SMEs are now using the **Enterprise Management Incentive (EMI)** stock options based HMRC approved scheme – a stunning 15 percent increase on the previous year.

The main reason they do so is that EMI is proving to be an *El Dorado* for the 27,000 employees selectively incentivised by it, as the ***average*** gain per employee taken out of the scheme in the 2016-7 fiscal year was an eye-watering **£88,260**.

This was revealed in the latest HMRC commentary on the annual share scheme statistics, published in late July. The average gain looks even more impressive when viewed against the **initial** value of the average EMI award per employee, which was a much more modest **£18,500.**

The number of small gazelle-type companies operating the EMI rose to a record **9,890** in the fiscal year 2016-17, compared to **8,610** who used it during 2015-16. SME companies are issuing EMI options to an average of eight key employees per qualifying company.

Furthermore, although the overall cost of approved share schemes Income Tax & NICs relief to the Treasury *in terms of lost revenue* fell to **£920m** in 2016-7, EMI took a large slice of that - **£280m –** almost twice as much as its £160m bill for tax and NICs relief in the previous fiscal year, when the number of EMI employee participants was 23,000 (4,000 less).

This means that the 27,000 EMI participants in 2016-7 (mostly executives and senior managers, chosen by the owners), who comprise around *one percent* of the total estimated number of UK Eso employee participants, collectively are receiving *30 percent* of the total annual UK share schemes income tax and NICs relief.

As key employees exercising their EMI options are subject only to Capital Gains Tax on their gains at a maximum 20 percent rate, *which is reduced to just **ten percent** if they qualify for **Entrepreneurs' Relief***, the Treasury is now taking a big revenue loss from the explosive popularity of EMI. HMRC acknowledged this in its commentary: "*When comparing the 2016-17 EMI figures with those from 2015-16, it can be seen that there is an increase across all the metrics for the scheme. This trend has been evident since 2009-10, but has been increasing more strongly between 2011-12 and 2016-17. EMI gains increased considerably in 2016-17, reflecting the growing nature of the small and medium enterprises (SMEs) at which it is aimed. EMI share prices often reflect changes in innovation and performance delivered by the companies, rather than share price changes on the main stock exchanges generally, as many companies with EMI schemes are relatively small and not listed. For this reason, the gains and associated value with EMI shares can be quite volatile over short periods.*"

Furthermore, the £88,260 **average** gain made by individuals cashing in EMI options in 2016-17, implies that many gains that year were already over the £100,000 mark.

Assuming the EMI participant who cashes in a £90,000 gain, has already used up in his/her annual

From the chairman

In yet another newspad scoop, editor Fred Hackworth reveals the truth behind the opaque HMRC stats: share schemes are benefiting the few more than the many. It will be a clarion call to the parties are working hard to reach those many who are "just about managing". No blame attaches to the HMRC statisticians who are unfailingly helpful. But they need guidance to produce the answers we need, especially about the numbers of people benefiting under each scheme. They need more ministerial interest too: perhaps a hotline to Business via an interdepartmental committee under Mel Stride. We must learn lessons too from the US, where President Trump has not hesitated to find legislative space for an important new bipartisan Esop initiative of just the kind we need here.

Malcolm Hurlston CBE

salary the universal income tax allowance, then the tax and NICs relief on this EMI gain will be c. **£40,000.** By contrast, CGT liability on such a gain could be as low as only **£3,935** if such a person has the additional benefit of **Entrepreneurs Relief.**

That a select group of high-achieving employee shareholders should be receiving such a big slice of total taxpayers' subsidy money allocated to share schemes, could soon attract political attention. ***If this trend continues, some may question whether EMI tax and NICs relief should be capped per participating individual and the surplus re-distributed among the other tax-approved schemes, or left as it is, in recognition of the success achieved by EMI companies****.*

Already, EMI has risen to second place among the four approved schemes in terms of tax and NICs relief – well ahead of both SAYE (£180m relief) and CSOPs (Company Share Option Plan - £50m relief) and moving up fast on the Share Incentive Plan (SIP - £410m relief). Both EMI and CSOP are discretionary approved schemes in which user companies do **not** have to offer the share options to all full-time employees.

This potentially uncomfortable statistic may be the reason why HMRC went out of its way in its statistical commentary to excuse the EMI's grand prix performance. It pointed out that EMI rules allow user companies to offer key employees share options worth up to £250,000 over a three year period – far more than in the other approved schemes. HMRC said: "*Because of restrictions on EMI schemes, fewer employees utilise them and as the maximum value of options that can be granted is £250,000 per employee, so the gain per employee can be much greater and it is therefore an attractive means of remuneration for employees in eligible companies*."

In defence of the huge EMI gains being made by key employees, three things need saying:

first, it is notoriously difficult to value accurately shares in start-up or very young companies – so although EMI options are granted at 'market value,' the price can look low in retrospect, *if* the company proves to be very successful;

secondly, these statistics inform us only about the *winners* – EMI companies who did well and whose employees cashed in their options, but not about those which failed, often leaving participants with worthless options;

finally, many EMI schemes set up in the high tech sector are 'exit only' – in which vesting has to be triggered by a seismic event, either the sale of the company or a change of control. Then key employees will exercise their options, buy their shares on the day that the company sale is completed and then sell them to the buyer, as do the rest of the shareholders. Normally, the buyer has to pay a healthy premium above the market price to acquire the company – and this is when fortunes can be made, though sometimes the company sale event never happens…

As Centre legal member **Bird & Bird** says in its EMI client briefing note: "*EMI tax relief is very generous: there is no income tax or social security on grant; no income tax or social security on exercise (assuming the option was not granted at a discount and is exercised within ten years of grant); Capital Gains Tax (CGT) at a top rate of 20 percent on the sale of the option shares with* ***no minimum holding period****. However, individual key employees who qualify for Entrepreneurs' Relief (ER) are subject to CGT at the rate of only* ***ten percent*** *on the first £10m of lifetime gains. The ER conditions have been relaxed for shares acquired during the exercise of EMI options. Option-holders qualify for ER on the sale of EMI option shares if the option was granted more than a year prior to disposal.*"

The enviable gains being made under EMI are only subject to CGT beyond the annual exemption level of £11,300 worth of gains. However, an individual may not hold unexercised qualifying options to acquire EMI shares worth more than £250,000 and gains cannot be transferred into ISAs – unlike the proceeds from SAYE or SIP schemes.

Qualifying companies will generally qualify for a **Corporation Tax** deduction equal to the spread for the accounting period in which the option is exercised (even if participants are exempt from income tax). Many SMEs however are currently barred from offering EMI to their key players if *for example* they have a gross asset value of more than £30m; as are companies with more than 250 employees, or companies 51 percent or more controlled by other companies and there are many disqualified trading activities, such as banking, insurance, leasing, property development, running a nursing home and so on.

Yet the runaway success of EMI supports the illusion in certain publications that UK employee share schemes are on the up, **when the reality is that all the other tax approved employee share schemes are either on a plateau, or sliding backwards.**

Thus the official statistical tables showed that the other tax approved share schemes – Company Share Option Plan (CSOP); SAYE-Sharesave and the Share Incentive Plan (SIP), each suffered minor declines in usage during the fiscal year ended April 6 2017, compared to the previous year. The number of companies operating SAYE fell slightly from 520 to **510**; companies operating CSOP fell slightly from 1,150 to **1,140** and companies operating the SIP declined from 800 to **780.**

The number of companies operating at least one of the other three schemes has declined by 1,740 since 2006-07, a **42 percent decrease**, with the majority of the decline attributable to the CSOP, said HMRC's commentary.

You have to look back to a decade ago (2006-7) to grasp the scale of the decline of all three schemes, compared to the phenomenal advance of EMI. The company usage numbers for each approved scheme ten years ago were: EMI 6,240; SAYE 780; CSOP 2450 and SIP 940. So, for example, during the past decade, the usage of CSOP has more than halved, while the take-up of EMI by SME companies climbed by more than 50 percent.

Centre chairman Malcolm Hurlston said "The share schemes are well intentioned but belong to the last century. our analysis of HMRC stats shows that the tax benefits intended for the many are being ladled out to the few."

The latest HMRC statistics show that in 2016-17, ***98 percent*** of companies using EMI did not operate other tax-advantaged schemes. Whilst the number of employees ***exercising*** their options in EMI schemes has remained relatively constant, there is an overall *decreasing trend* in both SAYE and CSOP.

The next highest by realised gain per employee (after the £88,260 average withdrawal value from EMI) was in the SIP, where the average realised employee gain withdrawn from the scheme was **£8,150.** In the CSOP, the average amount taken out of the scheme was **£7,970** per employee and just **£2,570** per employee in SAYE-Sharesave plans.

In the SIP, both the number of purchased partnership shares (down from 5.38m* in 2015-6 to 4.18m in 2016-7) and the number of matching shares awarded (down from 3.92m to 2.99m) fell *substantially* during 2016-7 from the previous year. The value of SIP free shares awarded decreased by 60 percent in 2015-16 and deteriorated further in 2016-17 with an additional fall from the previous year of 50 percent. The value of partnership and matching shares acquired have both decreased by 16 percent since 2015-16, though the value of dividend shares remain unchanged from 2015-16.

HMRC commented: "EMI is a scheme introduced in the Finance Act 2000 and has expanded to form ***83 percent*** of all companies offering tax-advantaged schemes." Finally, there is an overall limit of £3m on the total initial market value of shares in a company over which unexercised EMI options may be held by all employees, to prevent companies from handing out the share options like confetti.

***Statistical health warning**: the number of SIP partnership share awards itemised in HMRC's 2016 -7 share scheme statistics does **NOT** correspond to the actual number of employee participants because in many companies they have the option of either purchasing the shares every month, as well as yearly. Thus the statistics record the number of share purchase **transactions** made on behalf of employees.

The Centre would be happy to print the views of its members on whether or not the current levels of Income Tax and NICs relief available for using the approved EMI share option scheme should be left untouched, or capped. Please let us know what you think.

EVENTS

Guernsey seminar – November 30

This year's Guernsey seminar, held in partnership with the Guernsey branch of the **Society of Trust & Estate Practitioners (STEP),** will take place at the **Old Government House Hotel, St Peter Port**, on **Friday November 30.**

Given recent developments, such as the introduction of the UK Trusts Register and the growth in the establishment of employee ownership trusts (not to mention Brexit), it has never been more important for those interested in employee share schemes and trusteeship to stay informed about the latest expert views and enjoy the continuing education which our seminars offer.

The year's programme will include a talk on Joint Share Ownership Plans and the role of the trustee. The seminar will conclude with a networking lunch.

Expert speakers include: **Elaine Graham, Zedra; Alison MacKrill, STEP/Appleby; Graham Muir, CMS; Paul Malin, Haines Watts; David Pett, Temple Tax Chambers; David Craddock, David Craddock Consultancy Services** and **Charlotte Fleck, Pett Franklin**. The seminar will be chaired by **Malcolm Hurlston**, who founded the Esop Centre.

Attendance prices: Esop Centre/STEP members: **£375,** Non-members: **£480**

Book and pay before October 19 to qualify for one of the following early-bird discounts for this unique half-day event: **50 percent off a third delegate or ten percent off your total booking price.** *Only one early bird offer can be used for each organisation, whichever gives the larger discount*. To book email events@esopcentre.com or call the admin team on 020 7239 4971

Third British Isles symposium - March 7 2019

More **speaker** bids are invited from Centre members for the third **British Isles share schemes symposium,** which will take place on **Thursday March 7 2019.** The full-day event is being hosted by senior legal member **Travers Smith** at its London offices in Snow Hill, EC1. The programme will include talks and debates on:

- Employee equity plan case histories with focus on both large and SME UK companies
- Regulatory & compliance issues; GDPR and Mifid II
- EMI –Why is EMI such an *El Dorado* for key employees in SMEs?
- Case study of a tech company that used EMI share options creatively at the same time as attracting external investment
- How best could the government improve EMI? Exit-only EMIs.
- Employee Ownership Trusts - What kind of businesses are using EOT and why?
- Hybrid EOTs: the new way to structure MBOs & employee ownership
- Are EOTs really employee share plans?
- Latest developments in international share plans
- Interactive share plan communications – what works best?
- The likely impacts of Brexit on employee share schemes
- Are employee share schemes worth the effort and expense of setting up and operating?
- How to re-energise other tax-approved share plans - the Company Share Option Plan (CSOP); SAYE-Sharesave and the Share Incentive Plan (SIP).
- Executive equity reward packages: new design parameters, performance share plans & shareholder activism
- Employee equity trustee matters

Speaker slots will cost Centre members **£240** each, compared to a **£395** admission charge for member practitioner (service provider) delegates. Non-member service provider delegates will pay **£595** for admission. Speakers and delegates from *plan issuer companies* will be admitted free of charge.

Early speaker bids have been received from Centre members: **Pett Franklin**; share schemes adviser **The RM2 Partnership** and host **Travers Smith.** So, if you are a Centre member wanting to make a **topic presentation** and/or a **share plan case study**, **get your speaker bid in now**, in order to avoid disappointment. Please email Fred Hackworth at fhackworth@esopcentre.com or call the team on +44 (0)207 239 4971.

Partner **Mahesh Varia,** who is head of incentives and remuneration at **Travers Smith**, will help the Centre draw up the programme. Travers Smith is a member of the '*Silver Circle'* of leading UK law firms. The symposium, a highlight in the Centre's calendar, will include a buffet lunch and finish with an informal drinks reception in the late afternoon.

MOVERS AND SHAKERS

On the move

Centre member employee ownership law firm **Fieldfisher** plans to create 125 jobs in **Belfast** over next three years. The firm will recruit graduates for legal and risk-management roles.

Centre supporter **Veronique Japp** is joining **IHS Markit** this month as head of in-house global equity compensation, having taken a career break after **Equatex.**

Mitan Patel has moved from **Equatex Global** to **Fidelity Stock Plan Services,** where he has been appointed European regional lead, based in London.

Former **Esop Centre** director **David Poole** is now director of marketing at **Georgian Partners, Toronto, Canada.**

Centre member **Index Ventures** has produced an informative pocket-sized handbook on stock options for European entrepreneurs. Entitled '***Rewarding Talent'*** the handbook gives tech start-ups and others crucial advice on how to hire and retain the best employee talent available. **Dominic Jacquesson**, director of talent at Index Ventures, said: '*In order to create an effective option plan you need to know how much to award to each team member in your start-up. We compiled the largest ever set of benchmark data, comprising more than 4,000* *option grants from more than 200 startups across the US and Europe. We want to help you get this right.'* Delegates attending the Centre's recent conference in **Paris** almost fought for copies of the handbook, which highlights the importance of non-performance based stock option awards to key staff. Contact Dominic at Index Ventures for more info.

Centre trustee member **Ogier** succeeded in removing **Salamander Trust Company (Salamander)** as trustee of two Guernsey law trusts and the appointment of **Jupiter Trustees** in its place. Salamander had been trustee of two Guernsey law trusts since 2015. In spring this year, the beneficiaries' family learned that all the directors of Salamander had resigned following the arrest of at least one of the principals behind Salamander. The Trusts were effectively paralysed, with the trustee (Salamander) still in existence but unable to operate due to lack of directors. The provisions of the two trust instruments were such that it was impossible either to remove Salamander or to appoint a new trustee without the assistance of the Guernsey Court.

newspad awards 2018

Nominations are now open for the Centre's *newspad* 2018 Awards, for the best employee equity plans, either already operating, or about to launch. This annual competition presents an opportunity for friends, share plan advisers and their clients to show off their best all-employee equity plans to the rest of the industry.

Framed award certificates, kudos and publicity await the winners, ***so do ensure that you, and/or colleagues, submit at least one entry for a newspad award this year.***

This year's categories for which you can submit entries are:

- Best all-employee international share plan (companies with more than 5,000 employees)
- Best UK centred all-employee share plan (companies with fewer than 5,000 employees)
- Best employee financial education programme
- Best share plan communications
- Best use of video communication
- Best use of technology in employee share plans
- The most creative solutions to employee cultural, jurisdictional or social diversity issues when launching international all-employee share plans
- Laurie Brennan award for astounding achievement

You can enter share plans in more than one category.

Entries involving employee share plans in non-member companies will be accepted directly or through advisers, but advisers must be Esop Centre members in order to submit entries.

Entries involving executive/managerial equity reward schemes will be accepted at the editor's discretion, provided at least 250 executives/ managers participate.

For details how to enter see: www.esopcentre.com/ awards. The process is simple.

The judges of the 2018 *newspad* awards will be: **Damian Carnell**, director at Willis Towers Watson, specialist in executive reward and employee share plans; **Anna Watch**, head of executive share plans (governance & compliance) at member firm BT, **Robert Head,** director of Neo Reward and formerly head of global share plans at Pearson with **Malcolm Hurlston** chairing.

Winners and commentary will be published in a special edition of *newspad*.

Sponsorship opportunities: The *newspad* awards will be published in the journal, which has an influential audience worldwide. However, members are invited to propose a celebratory event to host the awards, in association with the Centre; contact Juliet Wigzell at Centre HQ. Email: jwigzell@esopcentre.com telephone: +44 (0)20 7239 4906.

UK CORNER

Smell the Eso beans…

Suffolk coffee firm **Paddy & Scott's** is launching an all-employee share scheme after diversifying from cafes to become the replacement for **Starbucks** in 31 branded coffee shops in **UK Marriott Hotels**. The company, which employs 27 staff in Suffolk, is branching out overseas, with interests in Hong Kong and Shanghai and plans to move into the UAE.

Paddy & Scott's ceo, Scott Russell, said that the decision to start a share scheme was taken in order "to attract, and retain high calibre talent, inspiring business growth and motivating our expanding team." The shares are being given to ten of Paddy & Scott's head office full time *Bean Barn* staff who have been with the company for more than a year, to thank them "for consistent and outstanding performance."

The Eso will enable staff to become equity partners, allowing them a share in the business profits, as well as taking a key role in the business strategy and development. The scheme is the brainchild of Paddy & Scott's brand director Jon Reed, who described the head office team as heroes: "They are very much part of the business, developing new product ranges, delivering exceptional customer service and playing a key part in the business," he said. "We're proudly investing in our team as a way of rewarding them for their commitment whilst fuelling ambition for the future."

Centre chairman Malcolm Hurlston, was quoted by the *East Anglian Daily Times* and by the *Ipswich Star*, giving his reaction to the new Eso: "*An employee share ownership plan is the best tonic for any company. Making everyone an owner is a brilliant move. Both customers and the bottom line will notice the difference*," said Mr Hurlston. However, he warned that Eso schemes were not a panacea. "*Share schemes are more complex to administer than cash incentive schemes and therefore more expensive to provide. As share prices can fall, the size of the reward is unpredictable, which is of special concern during times of economic uncertainty. For this reason companies often offer shares on favourable terms by, for example, offering free awards, discounts of matching share offers. However, share schemes are at worst almost invariably 'no-lose' for employees if the company fails to progress,*" added the Centre chairman.

Roller-coaster ride for RM employee shareholders

In just six weeks' time, **Royal Mail** Esop participants can start selling their free shares without incurring any Income Tax and NICs bills. Given the roller-coaster ride in the value of their Share Incentive Plan (SIP) employee shares, since the privatisation of Royal Mail (RM) five years ago, many posties will be wondering whether it would be best for them to hang on to most, if not all, of their employee shares, or sell them tax free at the first opportunity on the fifth anniversary of receiving them.

RM's flotation price was **330p** but rose 38 percent on the first day of trading to 455p, leading to criticism that it had been sold off too cheap. Its closing price on May 14 this year was ***614p*** - 86 percent higher than its float price - but by early June it had slipped back to 495p and then to 475p at the end of August.

However, on August 31, RM's huge army of employee shareholders received their final dividend of 16.3p for the 2017-8 fiscal year – a healthy 6.4 percent increase on the previous year.

As part of the privatisation of RM, the government announced that about 150,000 posties would each receive **725** free Share Incentive Plan (SIP) shares in two initial tranches, making it the UK's largest all -employee share ownership scheme. Two years later qualified postal workers got **70** more free shares each when the government sold off its last 14 percent equity chunk of the now completely privatised RM. In addition, postal employees have received occasionally small extra packets of free shares from those who left the company and who were forced to surrender their employee shareholdings. The maximum number of free shares being held now rose to **832** by the autumn of 2016.

At present, RM employees hold about 12 percent of the company's total equity, but that power base they have would be dented if postal workers ditched their shares en masse.

From October 15 2016, posties have had the option of selling their SIP shares (for the first time) and receiving a cash payment based on the RM share price. However, those who have already cashed their shares will have had to pay income tax and NICs on the proceeds. Basic rate taxpayers have had to pay 20 percent income tax and 12 percent NI while higher rate taxpayers have paid 40 percent income tax and two percent extra in NI (assuming the full amount of NI at 12 percent has already been paid). There was no mad rush to sell early. Fewer than one in five cashed in their shares with the remainder opting to hold onto their shares until at least mid-October this year.

Under the rules of the SIP, employees can keep their shares for as long as they like while they remain a Royal Mail employee. Those wishing to hold onto their shares need take no action - they will stay in the SIP and continue to receive any dividends while employed by RM.

*RM is trying to solve heavy future pension commitments in an original way. Usually, there is either the traditional defined-benefit scheme, where beneficiaries get a pension based on earnings, which companies complain is unaffordable or, the more modern defined-*contribution* scheme, where the pension level depends on how much is in each employee's personal pot and which workers complain make retirements unaffordable. Recently, RM has agreed with the **Communications Workers Union** to offer a hybrid solution – a ***collective defined contribution*** **(CDC)** scheme whereby the fund aims for, rather than promises, a certain payout. The idea is that all employees pay into a collective fund (like defined-benefit) and not a personal pot (as in defined-contribution). Investment returns can then be enhanced for everyone, as fund managers do not have to hedge bets as each person nears retirement. Meanwhile, employers reckon it's more affordable because the firm is not on the hook for a set payout, as it is in defined-benefit. CDC schemes don't yet exist in the UK and the law would need to be changed to allow them. Meanwhile, even Royal Mail admits that there's nothing else in the world that is comparable.

SHAREHOLDER CORNER

Question received from employee shareholder:

Currently I'm invested in the company I work for via a SIP. I have a batch of three-year-old free shares that I was hoping to sell to put towards a house deposit, but despite the documentation confirming I am free to dispose of the shares after three years the trustee of the scheme has said I cannot. Essentially, because the trust will not buy them or approve sale to a third party.

This came as a surprise (this was never mentioned in all the information we were provided about the SIP) and now I have a few questions: if I left the company, who would buy the shares? And how would the price be determined?

At the moment I'm concerned that what I see on my annual statement of holdings is misleading. I should say that I am aware of the implications of the 3/5 year points from a tax perspective. It's more about this seemingly grey area of sale and pricing, which I've not been able to find any information on.

Answer from employee shareholder panellist:

How do you value a private company?

This is an issue facing investors in private equity investor trusts and venture capital trusts. If a company is unquoted, there is no market for its shares, so no share price as such. What the trusts do is assess the net asset values (NAV) of each company they invest in (based on their balance sheets) and use those to declare their own NAV. Most VCTs offer shares at a premium to NAV (normally about five percent) and have a discretionary scheme to buy back shares at a discount to NAV (often five percent to ten percent).

There is a parallel with investing in a SIP in a private company in general, where monthly savings are used to buy the shares at an agreed period (monthly, or more likely quarterly, half yearly or annually). Whatever the frequency, the trustees must have a pricing mechanism to know how many shares contributions can buy.

Designing a share plan:

Exit routes are a major challenge in share plans and much time is spent on defining what constitutes a good as against a bad leaver. The rules for quoted companies concentrate on when a participant crosses the threshold into becoming a share owner - once they become a shareholder, there might be a holding period, otherwise they take on the risks of ownership and are free to dispose of their shares as they wish.

It's surprising that the trustees hadn't thought of this and it might simply be that nobody has wanted to sell their shares from the SIP before. Private companies often restrict share ownership to people actually working in the company - which means that shares can't be registered in the names of outsiders. But that suggests that there must be a mechanism for buying back the shares if somebody resigns. This might not always be available - they might have windows at certain times of the year (such as once the annual accounts are compiled and up-to-date NAV can be calculated) when shares can be purchased and sold. It seems odd that the same mechanism could not be used to buy back shares from those wishing to sell their shares from the SIP.

Suggestion:

It might be worth asking the company secretary about this. It might be that the trustee has no mandate to buy the company shares from individuals but that there is a mechanism operated by the company secretary for executives that could be made available to all employees.

Either way, it's worth making a fuss. I have always argued that participating in employee share plans brings similar benefits for the employer (in terms of increased commitment, engagement and focus on the company strategy) as actual share ownership. This would be undone if participants feel let down by the administration of the plan, and particularly if they are prevented from selling at a point when they always expected to be able to. It's in the company's best interests to sort this out!

Institute conclusion:

With our help one employee shareholder was able to guide another: "Hi Malcolm, Many thanks for that information. As the response says, I am the first employee to ask about withdrawing shares and yes I agree it is strange that they haven't thought this through. There is a share price agreed with HMRC (who validate the scheme) but there is no documentation stating that this price will be honoured. I would expect that to be the case but who knows. There are a lot of grey areas at present."

It seems employees are seen as patients rather than agents and are in need of prior guidance.

Many Royal Mail shareholders (see story above) will surely welcome guidance too. Employee shareholders with questions should write to aes@esopinstitute.com. Employee shareholders (and employee share plan professionals who wish to help anonymously) ready to join our guidance panel should write to guidance@esopinstitute.com.

UK CORNER (continued)

State loan guarantee sought for SME Esops

Centre chairman **Malcolm Hurlston** is urging new small businesses minister, **Kelly Tolhurst MP,** to set up an Esop loan guarantee scheme to help SME employees in the UK either to buy out their employer, or to share business ownership in the case of an owner exit. The lack of a UK state-backed loan guarantee scheme has become glaring since August 13 when, in a rare example of bipartisan cooperation, President Trump signed the **Main Street Employee Ownership Act** that allows the US Small Business Administration (SBA) to lend money direct to employee-owned businesses that wish to buy out retiring small-business owners, or to employees wanting to form an employee-owned business. For the first time, it permits SBA back-to-back loans to companies which lend to the Esop trust and now allows loans to owner sellers who want to remain as part-owners and/or executives/managers of the company. Loans can be given to fund the Esop transitional costs too.

At present in the UK, there are perhaps only half a dozen or so specialised finance houses which offer an Esop loan funding service and almost all of these are based in London. Which is why Mr Hurlston wants a meeting with the new minister in order to map out the nuts and bolts of how a similar UK state guarantee scheme might look.

Throughout the western world, as the *Baby Boomer* generation retires, millions of small privately-held businesses are in danger of folding, as it is difficult to find others, including siblings, to take over the reins. Trade sales often fail, or result in cherry-picking, where the best factories and plants are sold off as going concerns, but the rest closed down with much of the workforce thrown onto the scrapheap.

The alternative - selling the business to the workforce - keeps jobs and skills in the local community. US SMEs are sold to their managers or workers using one of three methods: an Esop, a worker cooperative or an employee trust. The Esop, created in 1956 by the political economist **Louis Kelso**, is the most common way to do this because it gives employees a way to buy companies and has meaningful federal tax incentives. This allows the new owners to set up a trust, which secures a loan that the company itself will pay back over several years. A key feature is that the company, not the employees, provides collateral for the loan, and as the loan is paid down, new shares are distributed to employees and managers. Employee trusts are a new form of ownership, similar to Esops in some ways. Their goal is to ensure a company remains employee-owned in perpetuity by keeping the shares within the trust itself.

Unions condemn ever larger ceo rewards

UK ceo total reward rose by 11 percent last year to almost £4m – more than five times faster than average rises for rank-and-file employees, said a new report from the **Chartered Institute of Personnel Development (CIPD).** The large rises – mainly via maturing executive equity incentive schemes - came amid criticism from investors and ministers about excessive executive reward.

The highest total payout last year was £47.1m for Jeff Fairburn, ceo of housebuilder **Persimmon**, who was forced to donate a substantial slice of his £100m+ equity bonus to charity, after it emerged that his Long-Term Incentive Plan (LTIP) scheme was not capped.

According to the CIPD, the median pay for FTSE 100 ceos was ***£3.93m*** last year, up from £3.53m in 2016. Rank-and-file UK employees received an average increase of only two percent. The HR industry group found that ceos were paid on average 145 times more than their employees – a ratio up from 128 times in 2016. The report revealed that an employee on a median salary of ***£23,474*** would have to work 167 years to make the same amount that a FTSE 100 boss on median pay makes in a year.

The GMB union, which took Cedric the pig to the agm of British Gas (now owned by **Centrica**) in order to protest over '*snouts in the trough*' executive pay greed 20 years ago, called the findings a "*badge of national shame*".

Almost a fifth of the UK's biggest companies appear on a *named and shamed* list of firms that pay their senior executives 'excessive' amounts despite shareholder rebellions. The number of FTSE top 100 companies placed on the government-backed public register rose from nine in 2017 to 18 in 2018. Their names are added to the list if their executive reward policies attract dissent from more than 20 percent of voting shareholders at their agms. Many of the agm rebellions are not so much about basic salary increases awarded to top executives, but to incentive package add-ons, such as Long Term Incentive Plans, which often double or triple basic salaries once they vest. Shareholder groups claim that in some cases the bonus targets for full pay-out of executive incentive schemes are too easily reached or gamed.

Chris Cummings, ceo of the **Investment Association**, which compiles the list, said the increase in the number of serious FTSE 100 pay rebellions was deeply disappointing: *"Shareholders clearly remain unimpressed with the approach to pay last year, and are frustrated the message is not getting through to some boardrooms. FTSE 100 companies must do more to ensure the reward packets of their top team align with company performance and remain at levels that shareholders find acceptable."* The biggest pay rebellions this year were at the Russian gold mining firm Petropavlovsk, Royal Mail, and the house-building company Persimmon.

PM Theresa May last year ordered the creation of the world's first public register of companies that ignored shareholder concerns and awarded "pay rises to bosses that far outstrip the company's performance". She said top executives collecting vast sums for mediocre performance risked damaging "the social fabric of our country", and that calling out firms publicly would help tackle the "abuses and excess in the boardroom.'' While shareholder anger at executive pay in the FTSE 100 increased, the number of rebellions across companies in the wider FTSE All-Share index fell from 68 to 61.

Meanwhile, in the **US**, the non-governmental **Economic Policy Institute (EPI)** said the average ceo reward, including salary, bonuses, restricted stock grants, long-term incentive payouts and stock options, in the biggest 350 companies was **$18.9m** in 2017, an **18 percent** increase over 2016. This produced a ceo-to-line worker ratio of **312-to-1**, one of the largest gaps on record. It was 20-to-1 in 1965, 58-to-1 in 1989 and 270-to-1 in 2016. Total ceo compensation had risen by almost **1,000 percent** (based on stock options granted) or **1,070 percent** (based on stock options realised) between 1978 and 2017, according to the EPI.

****Financial Times*** ceo John Ridding is to hand back his 2017 total reward rise of £510,000 after the paper's *National Union of Journalists* chapel wrote to FT staff saying John Ridding's £2.6m pay was absurdly high. The chapel called on him to hand some money back to help those employees paid much less. Mr Ridding said his salary was set by the FT's Japanese owners **Nikkei** and was independently assessed and "highly performance-related". He added: "While our performance has been strong, I recognise that the size of the consequent jump in my own total reward in 2017 feels anomalous and has created concerns," he wrote in an email to FT staff. "For now, I have decided to reinvest into the FT the increase awarded in 2017, which is £510,000 before tax."

New round of free shares for Admiral employees

Cardiff-based car insurer **Admiral** posted a rise in half-year profit as it saw strong growth in customer numbers, despite the 'Beast from the East' hitting its household arm. The group, which owns brands including Elephant and Confused.com, booked a nine percent rise in pre-tax profit to £211m in the six months to June 30. The results mean around 10,000 staff will each get £1,800 in free shares under Admiral's employee share scheme Admiral's motor insurance division was behind the rise with profits of £249.5m, up from £224.2m. Turnover grew 14 percent to £1.66 bn, while customer numbers were also up 14 percent to 6.23m.

Brexit

*Authorised Economic Operator (AEO) is a customs and supply chain certification which is getting a lot of attention in light of Brexit, reported Centre member **Deloitte**. It has consistently been mentioned by the UK Government as an important element of its customs policy, both in the context of the future trading relationship between the UK and the EU, and as a measure to reduce frictions for UK trade with the rest of the world. AEO was introduced by the EU in response to the WTO SAFE framework to improve the safety and security of the international supply chain after 9/11. AEO covers customs processes. AEO traders are subject to fewer physical checks on imports and exports and fewer post import clearance audits by HMRC, and benefit from reductions to the level of security required as part of customs comprehensive guarantee requirements. AEO is applied across the EU and is mutually recognised with similar initiatives globally, making it an attractive focal point of customs simplifications with the EU. It remains to be seen how the negotiations around the future relationship between the UK and EU develop, but it is likely that AEO will remain important and should be assessed as part of your organisation's Brexit readiness activities. Contact Scot McManus at Deloitte for further information.

*Many UK companies rely on EU Directives to eliminate withholding tax (WHT) on interest, royalties and dividend income from related companies in the EU. When the UK leaves the EU, the Directives will cease to apply, and UK companies will then revert to bilateral tax treaty rates which are not always zero – for example, the treaty with Italy does not eliminate WHT on interest, royalties and dividends flowing to the UK. This could happen on March 29, next year (*recent German clearances granted to eliminate dividend WHT currently assume this*), or from January 1 2021 if the draft Withdrawal Agreement is ratified, because the draft indicates that the Directives would continue to apply until the end of a transition period, if there is one. Repatriation programmes should be kept up to date to minimise any impact. This may not only affect UK-headed multinationals, as many foreign groups (for example US-parented groups) use the UK as an intermediate holding jurisdiction. Any new WHT burden could be an absolute cost. It may be possible to reorganise structures but it in many countries and/or treaties there are (or will be post-BEPS) anti treaty-shopping rules which can deny benefits. An early review is advisable. A further complexity arises for UK parented multinationals who have structures through which dividends, royalties or interest flow from their US operations into subsidiaries established in other member states. Currently having a listed parent company resident in a member state (i.e. the UK) typically means that other EU subsidiaries in the group are eligible to access tax treaties with the US. Once the parent company is not resident in a member state then in many cases the US tax treaties will no longer be accessible, resulting in potential increases to US withholding taxes (up to 30 percent). *It is hoped that the US may apply discretionary relief in those circumstances, but this is far from certain and is not a matter under the UK's control.* A review of US treaty applicability post Brexit is strongly recommended (**Deloitte** and **KPMG**)

*****The EU's investment arm has almost shut down funding to UK start-ups in a move that deprives young technology companies of a key source of financial support. The **European Investment Fund (EIF)** put just €61m (£53m) into UK-focused funds last year, a 91 percent drop from 2016, despite UK taxpayers continuing to fund the EIF, which is majority owned by the **European Investment Bank**. The fund has, at times, accounted for up to a third of all the investment in UK-based venture capital funds. The EIF, a partnership between the EIB and private investors, backs investment funds rather than companies directly. It has never said that it has cancelled investment in the UK, but technology investors claim that it effectively turned off the taps when Article 50 was triggered a year ago. The fund's annual report revealed that it had backed just three UK-focused investors, compared to 20 in 2016. The EIF's overall level of funding across Europe remained stable at €9.3bn but the amount committed to UK-focused investors dropped from €708.8m to €61.1m, less than one percent of its total investment. The figures do not include pan-European funds, some of which are based in the UK. However, UK technology start-ups attract more funding than any other EU country by a wide margin. Venture capital investors put £3bn into UK high tech in 2017, more than four times the next biggest market, Germany, according to *London & Partners*. The EIF denied it had formally stopped investment in Britain.

*The EU Council formally adopted the **tax intermediaries' directive** (originally proposed by the European Commission in June 2017) requiring mandatory reporting by tax intermediaries and the automatic exchange of information by the tax authorities of member states for certain cross-border arrangements concerning individuals and companies. If there is no intermediary, or all intermediaries are based outside the EU, or are covered by legal professional privilege, the requirement to report will fall on the *taxpayer*. Political agreement had already been reached earlier in the year. Member states will have until December 31 next year to transpose it into national laws and regulations. Arrangements implemented from the date the Directive enters into force (20 days after publication in the Official Journal) must be disclosed in August 2020. It is not known when publication will take place, said Centre member **Deloitte.** See https://deloi.tt/2J57rpf

High street retail woes and Eso

Hardly noticed in the share schemes community so far has been the torrent of jobs disappearing in the UK retail sector, which could have unpleasant implications for employee share ownership. Store closures, company restructuring and **Carillion**'s collapse resulted in one of the bleakest six months for retailers in post-war history.

Should the government stop raising the **National Living Wage (NLW)** by more than price inflation in order to prevent a further jobs massacre? This question was being asked by a desperate UK retail industry after **35,000** retail jobs were either axed, or put at risk, in the first half of the year. Store group victims included **M & S,** which announced the closure of 100 stores by 2022. **House of Fraser** had already threatened to close 31 of its 59 stores, affecting up to 6,000 jobs (including 4,000 who work for its in-store concessions), but went into administration before **Mike Ashley,** owner of **Sports Direct,** bought the group for £90m. Even he was forced to announce that at least 12 HoF stores would close. Ashley already owned 11 percent of HoF and has a 29 percent equity stake in **Debenhams** too, fuelling rumours of an eventual merger of the two store groups.

Meanwhile, the last **Poundworld** stores were disappearing from UK high streets last month with the further loss of 2,300 jobs.

There are Eso schemes at some of these retailers: Centre member **Equiniti** looks after the employee equity plans at HoF. **Tesco** is another major client.

Last October, **J. Sainsbury's** announced 2,000 store and back-office roles would go in a shake-up of its HR departments. That followed a head office cull in the summer, which eliminated 1,000 jobs. Sainsbury's then had more than 20,000 SAYE -Sharesave employee participants, but has rather less than that now.

In these and other cases, every extra job lost as a result of the cutbacks is either a share scheme participant lost, or a potential participant lost.

One of the chief culprits for this jobs massacre, claim retailers, is the National Living Wage, which rose again in April – by a daunting ***4.7 percent*** from *£7.50 to* ***£7.83 an hour*** for employees aged over 25. **£313** for a 40 hour week equates to **£16,276** gross per year. Employees *under* the age of 25 should qualify for the ***National Minimum Wage, (NMW)*** which is now £7.38 (up 4.7 percent) for those aged between 21-24 and £5.90 (up 5.3 percent) for those aged 18-20.

These inflation-busting pay rises are beginning to undermine the moral argument for installing the Company Share Option Plan (CSOP), which has proved very effective in supplementing the pay of some formerly very low-paid supermarket and other retail employees.

Tesco's annual wages bill was already around £4.5bn before April's NLW increase, meaning every one percent increase in pay costs the UK's biggest retailer around an extra £45m. The application of the NLW has meant a **15 percent increase** to its hourly wages. The retail sector as a whole has to find an extra £3bn to finance the cost of the living wage over the next two years, at a time when warehouse internet home deliveries, rising business rates and upward only rent reviews will be doing more damage to town and city centre departmental stores. No wonder many retailers will think twice, or even three times, before launching a new Eso plan in their businesses.

Since January **Toys R Us** and **Maplin** have filed for administration, while fashion retailers such as **New Look** and **Select** are closing stores too. Tesco announced it was stripping out a layer of management from stores, putting up to 1,700 jobs at risk, in a bid to cut costs by £1.5bn. More than 800 senior **Asda** shop-floor workers were facing a pay cut or redundancy after the chain embarked on a further cost-cutting drive. **Morrisons** too announced job cuts. Food retailers swung the axe on employees in head office, payroll and IT departments (*many of them Eso participants)* and on the shop floor – mostly full-time staff – where the biggest payroll savings can be made.

The collapse of construction outsourcing giant Carillion**,** with **£7bn** of liabilities and just £29m in cash, has resulted in the loss of **2,778 jobs** so far and up to 19,000 others *(in its supplier companies*) still face an uncertain future, though 13,516 other Carillion jobs have been saved, said The Official Receiver. The latest batch of Carillion redundancies included 340 construction industry apprentices, a move condemned by the union Unite as "an act of crass stupidity." Taxpayers are suffering huge losses and there is ***£2bn*** worth of unpaid bills to 15,000 suppliers and subcontractors – who stand to get nothing. The company's pension scheme, with its 27,000 members, has collapsed with an £800m deficit and has become the biggest ever scheme to be sheltered by the taxpayer-funded **Pension Protection Fund**.

About 600 restaurant employees stood to lose their jobs as troubled Italian chain **Prezzo** began closing 94 sites in an attempt to keep the company trading. The company will try to offer employees roles at other restaurants, in a bid to bring job losses down. **Jamie**'s **Italian, Byron** and **Strada** have all been forced to close sites and secure lower rents on other locations to avoid disappearing altogether. The **Gaucho Group** made 540 staff redundant at its 22 Argentine themed UK **Cau** restaurants, which shut after it collapsed into administration. Struggling **Carpetright** is closing 92 stores, with the loss of 300 more jobs, while **New Look**, the struggling fashion retailer, is to axe 60 stores, with the expected loss of 1,000 jobs. **Mothercare** began closing 60 of its 137 stores, with the loss of 900 jobs. **B & Q**'s troubles were matched by its major competitor **Homebase**, where sales slumped after a botched takeover. Up to 1,500 jobs were at risk at Homebase, as the DIY chain prepared to close 42 stores via a Company Voluntary Arrangement (CVA).

David Craddock and others have argued at recent Centre conferences that more all-employee share/ option awards would be better for companies and the economy than annually pumping up the national living wage to levels that some companies can no longer afford without sweeping payroll cuts. David says that Eso is a much more flexible tool for employers because if things go pear-shaped, then employee benefits like share schemes can be cut back much more easily and are far less costly than sacking or laying off hundreds of employees. SAYE-Sharesave schemes are most suitable in these situations because even if the firm goes bust, employee participants still get their monthly contracted SAYE contributions returned to them, plus any interest. In the event of liquidation, CSOP awards would simply lapse with employees losing nothing either.

Disguised remuneration

HMRC issued Spotlight 44 '*Disguised remuneration: schemes affected by the loan charge.'* Spotlight schemes are usually those about which HMRC think there is the greatest need to warn potential users. Spotlight 44 discusses schemes affected by the April 2019 disguised remuneration loan charge, how to settle before the loan charge arises, and what happens if taxpayers do not settle, said Centre member **Deloitte**. See https://deloi.tt/2n6XzxE

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

***Global worth Real Estate Investments** announced that 32,589 ords of nil par value, which had been held in treasury, have been utilised to satisfy awards made under the share award plan in place for employees of the company's subsidiaries, such shares having vested automatically in accordance with that plan. Global Real Estate Investments now holds 93,976 ords in treasury. The total number of ords in issue, excluding shares held as treasury shares, is 132.5m

*AIM-listed **Grafenia plc** announced that it had granted further options under the company's Save as You Earn share scheme for all employees. Its SAYE was launched in January 2017 and requires employees to commit to making a fixed regular payment of between £5 and £500 for 36 months. These instalments are paid into a savings account, operated by **RBS**, held independently from the company. Eligible employees were invited to subscribe for options over ords of a nominal one penny each with an exercise price of 11.5 pence per share. The options have a savings contract start date of September 1 2018 and are exercisable when all 36 payments have been made, between September 1 2021 and February 28 2022. A total 52 employees elected to participate in the SAYE and, therefore, a grant of 1,505,719 options over ords was made on August 14, equating to 1.96 percent of the total voting rights in the company. The number of shares now under option is 5.67m, equating to 7.39 percent of the total voting rights in Grafenia. Ceo Peter Gunning said: "*Last year we launched our SAYE. We thought that the best way to encourage our teams to think like owners, was to help them become owners - to give them a path to becoming shareholders. Since then, our team has grown. We've brought sign businesses into the Grafenia family. We decided to re-open the scheme again this year so that new members could join too. We're delighted so many did. Around half of our whole team is now participating in the SAYE."*

EMPLOYEE OWNERSHIP

More EO awareness called for

In the UK, around 325 employee-owned businesses employ 200,000 people. Deb Oxley, ceo of the **Employee Ownership Association (EOA),** said**:** "Hundreds more companies are in the pipeline waiting to convert…and the sector is forecast to double over the next decade." Accordingly, the EOA commissioned a study to outline sector challenges, as well as policy measures to confront them, as Joseph Lampel, a co-author of the study and **University of Manchester** business professor, explained in *Real Business.* The report, entitled *The Ownership Dividend* and authored by Lampel and two colleagues from the **Cass Business School**, Ajay Bhalla and Aneesh Banerjee, concluded that "employee ownership can provide the positive responses needed to many of the challenges currently facing the UK economy." Lampel said: "The employee-owned sector counts for over £30bn in annual revenue across the UK and is growing at a rate of ten percent a year." Employee ownership in the UK is seen as a path for preventing the loss of family-owned businesses as owners retire. However, only 42 percent of SMEs have ownership succession plans. The report claimed that the family business sector comprised 85,000 companies with £519bn in annual revenues, so a lot of potential business was at stake. "This threat of firms melting away presents serious concerns for the UK's growth prospects," noted Lampel and his co-authors. "Just as a business requires a talent pipeline to survive, the wider economy needs firms to rise in stature," the report authors added. In the UK, only 28 percent of employee-owned firms are similar to Esops in that worker ownership occurs through a pension-like trust mechanism, while eight percent involve direct employee share ownership (as worker cooperatives have), and 64 percent involve a mix of both features—a hybrid structure that barely exists in the US. The report set out three major blocks to EO growth in the UK: *1) a lack of awareness and understanding of the business ownership form among business advisors, 2) a need to develop sector -specific leadership capacity, and 3) a failure to include education about employee ownership in business schools.* In response, the report called on the "government to invest in ownership capacity building." He and his co-authors called for a new national strategy for business ownership. While EO businesses were growing, awareness and appreciation of the model was low in the very range of sectors, institutions and professions for which its relevance and value were high. Business owners who consider succession are rarely aware of an employee ownership sale option. In parallel, the sector's profile is low within financial services, business education, Westminster and Whitehall. Compounding that low profile was an absence of any national statistics on the sector's size, distribution and impact.

TRUSTEE NEWS

HMRC published the August edition of the *Trust and Estates Newsletter*, which reminded trustees who need to register using the **Trust Registration Service** re fiscal year 2017/18 that they should do so by January 31 2019, or, in practice, October 5, this year, if they have to notify an income or capital gains tax liability and an update on the EU's fifth Money Laundering Directive, which the UK must implement by 2020 and which will require a significantly increased number of trusts to register with HMRC, said Centre member **Deloitte.**

COMPANIES

Twenty executives at **Crossrail** collectively took home more than £800,000 in bonuses last year, despite the project running £590m over budget. Their bonuses were earned in the fiscal year 2016/17 and paid in 2017/18. The biggest beneficiary was former ceo Andrew Wolstenholme who left the project in March. He was paid a performance related bonus of £160,000 on top of his base salary of £476,772 and a further bonus of £97,734 as compensation for loss of employment. Wolstenholme took up his new role as as group md at the maritime and land division of **BAE Systems.**

Ryanair ceo Michael O'Leary waived his bonus for 2017-2018 following the flight cancellations crisis that gripped the Irish carrier last year. In the low-fares airline's annual report, Europe's largest low-cost carrier said that despite record profits in the last financial year, ceo O'Leary decided not to take the bonus he was entitled to. This can be worth as much as a year's salary – about €1m for O'Leary. In the previous financial year, his bonus was €950,000. In the year ended April 6, O'Leary was paid €1.06m and was given €1.25m worth of shares in the airline. Ryanair said O'Leary had waived his bonus due to the pilot scheduling mix-up in September 2017 that resulted in a serious labour dispute and 20,000 flight cancellations.

Sopra Steria, the French based information consultancy and services firm, reported €2.01bn revenues in the first half of 2018, an increase of 6.5 percent, and 5.3 percent on an organic basis. Profit from recurring operations came to €99.2m. That included a **€22.1m** expense related to employee share-based payments (€17m in the first half of 2017), as a result of the renewal of the '*We Share'* employee share ownership plan and of the long-term incentive plan set up for the group's key managers.

TUI Group: The board of TUI, based in Hanover and Berlin, bought-back 59,200 of its own shares under the German Joint Stock Corporation Act (Aktiengesetz - AktG). The Shares bought back were transferred to employees of TUI Group participating in the employee share participation plan '*oneShare'*. The shares purchased cost €1,015,211 without transaction costs) on the basis of share price of €17.15. These shares were being transferred to the employees participating in 'oneShare' immediately after the completion of the buyback.

WORLD NEWSPAD

Dividend bonanza for employee shareholders in US companies

Record US share prices are being fuelled by massive corporate buybacks of their own shares. In the second Q, the value of US share buy-backs was $433bn – almost double the $242bn spent on share buy-backs in the first Q.

Over the full year the final total value of US buy-backs is likely to exceed $1 trillion – equivalent to more than three percent of current total US stock market capitalisation.

Many UK employee shareholders who have rights to dividends from their US based employers are reaping the benefits in terms of bigger annual pay-outs and seeing the value of their employee share portfolios rocket.

Reduce the supply of shares and the share price tends to go up – as most market commentators and senior executives know. This is why Mrs May's government is currently studying whether some controls should be imposed on the ability of UK based companies to copy their US counterparts by buying back their own shares in the market. The fear is that some corporate chiefs on both sides of the pond are encouraging artificial share price rises – by ordering more share buy-backs - in time to ensure maximum level pay outs of their incentive equity plans.

Meanwhile, the number of listed companies on the NYSE or NASDAQ has almost halved to 4,000 from 7,400 in 1996. Many more companies than before go private, according to a report by private equity investor **Pantheon**. The number of US flotations fell from an annual c. 300 between 1980 and 1996 to just 140 in the years that followed. Since 1996, de-listings have exceeded new listings by more than 80 percent. A key difference in recent years has been the increasing availability of private funding. Being able to attract finance without all the headaches associated with a public quote has seen the average age of a company at flotation rise from eight years to 11 since the Nineties.

US: Symantec is cancelling an Employee Share Purchase (ESP) programme, after announcing 1,000 job cuts following disappointing sales. The firm has cancelled a discounted share purchase worker-loyalty programme too, as an additional cost-saving measure. The ditching of the ESP has knocked morale, according to an employee, who contacted *The Register*. The source suggested the move would encourage some of its top employees to leave: "Symantec cancelled the employee stock purchase plan when employees were about to buy in at a 52-week low. This will save the company money it had budgeted to sell the stock to employees at the agreed discount. It is anticipated top performers in the company will be fed up and will move on to other companies. That will reduce the headcount by the expected amount and Symantec will not have to pay any severance packages for redundancies," claimed the source. Symantec's ESPP offers a 15 percent discount off stock purchasable every six months on a limit of up to ten percent of gross salary. Usually, this is free money for employees, equating to around 1.5 percent of their salary but Symantec's declining share price makes it less attractive. Symantec is subject to an audit investigation into its accounting practices and executive commentary on historical financial results and has not filed its annual report on Form 10-K for fiscal year 2018. "The company's financial results and guidance may be subject to change based on the outcome of the audit committee investigation," Symantec said. "At this time, the company does not anticipate a material adverse impact on its historical financial statements for the third quarter of fiscal year 2018 and prior." Symantec won't be issuing shares to employees until it files its outstanding 10-K returns.

Oz: Around 400 Commonwealth Bank executives have taken a collective A$100m (GBP 57m) pay cut for their part in a series of financial scandals that have savaged the bank's reputation. Former ceo Ian Narev dropped almost A$14m in long term bonuses last year, while new ceo Matt Comyn lost A$1.9m. The bank's Annual Report details the impact of the board's decision to withhold bonuses over the past two years and said, "most senior leaders within the organisation [are] being held most accountable" for the failures of compliance and conduct. The bulk of the cuts — A$60m — (GBP34m) were made in 2017 when executive short term bonuses were cut to zero and non-executive directors had their fees cut by 20 percent. The chair of the bank's remuneration committee, Sir David Higgins, said the most senior executives — including former executives — have been held accountable. "Executives have been directly impacted by the AUSTRAC settlement and the findings of the Australian Prudential Regulation Authority's (APRA) Prudential Inquiry Report into CBA," Sir David said. "The Board has exercised its discretion to adjust downwards individual executive remuneration outcomes, having regard to other risk and reputation matters."

Oz: Ceo pay in Australia has hit record highs according to an analysis by the Australian Council of Superannuation Investors (ACSI). Reported pay for ASX (Australian Securities Exchange) 100 ceos is the highest for 17 years. Median realised pay for an ASX100 ceo rose 12.4 percent to A$4.36m (US$3.2m) and was up 22 percent to A$1.76m (US$1.3m) for ASX101-200 ceos. The ACSI said that persistent and increasing bonus payments to Australia's top ceos are driving remuneration to record levels. The analysis coincides with figures published by the Australian Bureau of Statistics which showed the annual Consumer Price Index (CPI) at 2.1 percent, wiping out Australia's near record low wage growth of 2.1 percent. This means that real wage growth is now zero. Employees in the private sector, who account for 85 percent of the workforce, are experiencing wages growth of 1.9 percent, which is well below the rate of inflation.

In the public sector, the average annual wages growth is 2.3percent.

Canada: The 2018 **Canadian Esop Association**'s recent Employee Ownership Conference welcomed 105 delegates to Edmonton, Alberta, its largest attendance to date.

The Association asked them to share the most powerful ideas or thoughts from the conference and this is how they replied:

- The need to communicate and celebrate the Esop with employees - highlight the ownership issue and not retirement - shares can be split any way that works for everyone
- Easily the most powerful is the use of symbols - allowing shareholders to state on their emails that they are a 'shareholder' or 'I am an owner'; and, jackets or rings etc
- The need to expand employee engagement but avoid the employee feeling of "entitlement"
- The need to market Esop better within own their organisation with continued efforts to build ownership culture
- An Esop for all employees - ensure that plans set -up are those that have the best tax advantage
- Each Esop is a customised solution - make it work for your company fit, what works for another may not always work for you. It must be able to evolve and morph with time
- The concept of a buyer corporation to repurchase shares from departing employees the idea that private equity companies might be willing to partner with employee groups to provide exit for owners
- Make everyone aware of the tax aspects – which can be non-standard, or involve different implementations
- Ideas for educating employees on Esop and keeping it front of mind
- The Esop programme can be flexible and can be custom made to suit both the current and potential owners
- The idea of where an Esop can help take a company after investing in the process over the long haul - the ability for a company to shape its Esop to help meet its vision and goals

China: Chinese ceos are starting to get ten-figure bonuses when their company goes public, said a report by *Bloomberg*. For example, the ceo of Shanghai-based **Pinduoduo** received at least $1bn of stock without any performance hurdles as his e-commerce company prepares for a US IPO. Colin Huang, the head of Pinduoduo, may soon have an $8.3bn fortune, based on his holdings in the e-commerce operator and the IPO bonus. That would make him among the 25 richest people in China, according to the *Bloomberg Billionaires Index*. Lei Jun, the head of Beijing-based smartphone maker **Xiaomi Corp**. enjoyed a $1.5bn payday, with no strings attached, when his company went public in July. When **JD.com** went public in 2014, it incurred $591m of costs from a stock grant to its chief. The concept of an IPO bonus that's not tied to future performance metrics is unusual because a public offering itself is a way of compensating ceos and their lieutenants. Founders like the heads of Pinduoduo, Xiaomi and JD already hold substantial stakes and would become billionaires even without the extra payout. *That raises concerns that such rich pay-days are coming at the expense of future shareholders, and could push start-ups to take on public investors even if they're not ready.*

"Generally we regard any pay package that doesn't align pay with performance as not in the best interest of shareholders," said Michael Cheng, vice president of ESG Research at MSCI Inc. "*Share awards that don't come with performance metrics defeat the whole purpose of equity retention policies, which are meant as incentives to executives to create value for the company and all shareholders.*" In April, Pinduoduo issued more than 250m shares, worth at least $1bn, to a company controlled by Mr Huang. While the filing doesn't specify any strings attached or performance metrics, it does say Huang plans to donate stock to two charitable foundations that he intends to establish. Pinduoduo, which is backed by **Tencent Holding**s and known as PDD, plans to go public in the US, offering 85.6m US Depository Shares at $16 to $19 apiece, according to a stock exchange filing. Huang will own 46.8 percent after the IPO, assuming an over-allotment option isn't exercised, while controlling the vast majority of its voting power.

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