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it’s our business

newspad of the Employee Share Ownership Centre

Share plan sponsors anxious over Hard Brexit threat

Share plan sponsor companies, their advisers and plan administrators alike are still waiting nervously – just two months before the October 31 deadline – for official clarity on how their operations would be affected by a *no deal* Brexit.

For while dozens of side agreements are/have been made about the continuity of movement of ***things*** – lorries, planes, fishing zones, currency contracts and so on – post a Hard Bexit, UK based financial services, including the employee equity incentive sector, remain largely in the dark as to whether they will continue to be able to operate almost seamlessly across the EU, in that scenario.

Continued data transfer from EU subsidiaries to UK share scheme promoters remains the biggest headache, with even the Treasury not entirely sure what would happen in the event of a *no deal* Brexit, but there are others. The UK’s double tax treaties with various countries (even EU members) do not cover social security contributions (e.g. UK National Insurance contributions). Following a no deal Brexit, the existing double tax treaties should reduce double payments of income tax, but employees linked through work to both the UK and an EU member state may have to pay social security contributions in **both** countries after a *no deal* Brexit, fear some practitioners.

One example of what could gum up the works in the event of a *no deal* Brexit would be the sudden dropping of mutual recognition of professional qualifications between the UK and EU27. That in itself would hamper the ability of UK service providers, *including share scheme practitioners*, to expand, or even maintain, their operations within the EU.

Passporting: The UK’s services sector had been reassured hitherto that under a *managed, negotiated* Brexit, a regional office (or similar) in a EU27 member state would allow UK based companies to continue to exercise ‘passporting’ (the right to offer/ market financial services) across the EU.

However, *under a no deal Brexit – for the UK, with its ‘third country’ status, all bets would be off*. The loss of passporting rights, currently enjoyed by around 5,500 UK based firms, who between them hold more than 330,000 outbound passports (given that many firms supply several types of financial services), would be devastating.

From the chairman

It is lamentable that with less than two months to the deadline, UK-based global employee share scheme promoters still do not know whether their global or subsidiary schemes in France, Germany, Holland, wherever, will be able to operate effectively within the EU, if we have a hard Brexit. The biggest spanner in the works is the continuity of personal data transfers to the UK parent, or its adviser, from its continental based share scheme participants. Quite simply, those data transfers from EU-based participants – essential to UK share scheme operators – could be deemed unlawful by Brussels and banned from November 1, once the UK becomes a third country in Brussels parlance.

It’s all very well for the Treasury to say in its latest guidance to financial institutions: “UK and EU organisations should take steps to mitigate impact by implementing alternative transfer mechanisms to send personal data from the EU to the UK,’’ but this is a bit like playing Pontius Pilate when we already know that Brussels will not co-operate with UK financial services, except in defined areas such as currency flows and key global financial instruments, if there is no deal.

Could it be that UK share scheme promoters will have to relocate some share scheme management functions to EU jurisdictions in that case, run up extra legal bills to maintain compliance or, worse still, decide that their continental share schemes should be wound up - as a game no longer worth the candle ?

After reading Fred Hackworth’s in-depth report of this fiendishly complex issue in newspad, you may be sufficiently moved to ask your MP and ministers exactly how your employer’s share plan services could be maintained within the EU in these circumstances. Share your concerns with me and I shall see they are passed on.

Malcolm Hurlston CBE

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Equivalence: Retention of '*Equivalence*' status – i.e. acceptance by Brussels of a suitable *third country* – (hopefully, the UK, post Brexit), confirms the right to carry out **certain** financial operations within the EU - as long as third country domestic regulatory regimes are deemed to be equivalent to EU standards. This is the comfort zone upon which many UK service sector companies have been relying. The UK banking, investment and insurance sectors, in particular, face a nerve-wracking future as the October 31 deadline approaches, because they are unlikely to qualify for equivalence status. Post no -deal Brexit, UK based retail and commercial banking services may not have market access across the EU, under the EU's Capital Requirements Directive (CRD IV) and Regulation (CRR). Similarly, investment services for retail customers (regulated by the EU's Markets in Financial Instruments Directive and Regulation (Mifid II and Mifir) would no longer have access to the EU market. The same is true for investment funds regulated by the EU's Undertakings for Collective Investment in Transferable Securities Directive 2009 (or UCITSD). Would the UK employee share plan sector be exempt under the equivalence rules?

A few EU member states like Luxembourg (*see below*) are prepared to grant UK financial services a year's grace, but only if they comply with a strict time limited registration procedure. How the other member states would react in the event of a no deal Brexit is, as yet, anyone's guess.

Data flow & GDPR: Future data flow between the EU and Brexit UK could prove severe threat to the continued operation of UK based international share schemes, it has emerged. For a Hard Brexit would seriously disrupt the free flow of commercially valuable **data** between the EU and the UK, leaving companies across the finance, hospitality, manufacturing and technology sectors facing "immense" extra costs, according to a study by **University College London.** The report said that potential problems post-Brexit with data transfers had received "minimal attention" in the debate over the UK's exit from the EU, but could turn out to be as threatening to the UK economy as cross-border trade issues. The study said that even if there were a Brexit deal, new rules on data transfers between organisations in the EU and the UK – currently governed by EU law – could prove hugely difficult to renegotiate bilaterally. Moreover, in the event of a no deal *Hard* Brexit, the study warned that there would be immediate and serious economic repercussions. "*No transitional period would entail significant legal, economic, political and social disruption in the UK," the report says. "The UK would immediately become a third country in EU law, and instant disruption to EU-UK data flows would ensue."*

This message was reinforced by an HM Treasury update (Aug 14) entitled *Information for financial institutions if there's no Brexit deal*, which stated: ***"Regardless of where your business or your customers are based, you should consider whether you transfer personal data from the EU to the UK. UK and EU organisations should take steps to mitigate impact by implementing alternative transfer mechanisms to send personal data from the EU to the UK.*** *Details of what the alternative transfer mechanisms available are and how to make use of them are set out in the ICO guidance and gov.uk guidance. It is important for organisations, as a priority, to review whether they would be affected and consider what action may be required. It is important to note that changes may take some time to implement."*

Adequacy: If the UK does not join/rejoin the **European Economic Area** (the so-called Norway option), post Brexit, major challenges would arise concerning the free flow of data *from* the EU into the UK. EU data protection law prohibits transfers to countries that do not provide an '**adequate**' level of protection for personal data. The key question is to what extent, if any, would the UK's operation of the **General Data Protection Regulation (GDPR)** protect it from any Brussels ruling of UK data privacy ***inadequacy*** in the event of a no deal hard Brexit.

A while back, Centre member **Clifford Chance** warned clients: "***Once Brexit is complete, this may be problematic for multinational employers wishing to send employee data to the UK from elsewhere in Europe if the UK is not on the list of approved countries; and it is thought that post Brexit the UK will not be regarded by the European Commission as an 'adequate' country.*** *Unless a special exception is agreed transfers of personal data from the EU to the UK will be prohibited unless standard form data transfer agreements or binding corporate rules are relied upon in such circumstances*." The worst case scenario would be that transfers of personal data between the EU and the UK could be judged **unlawful** and might only take place if certain derogations applied. EU businesses that normally transfer data to the UK - for example hotels and travel companies – would face a severe problem if the UK no longer had the necessary protections required by EU law. *The normal toolbox for such transfers would then need to be used in any period before any adequacy decision (about UK laws by the EU Commission) is made. These are the EU Standard Contractual Clauses (SCCs), Binding Corporate Rules, together with the various derogations for specific situations allowing data transfers (e.g. explicit consent, contract performance, the exercise of legal claims or for important reasons of public interest),* said Richard Eccles of Centre member **Bird & Bird**: ***"The EU Commission has made clear that it will not make an emergency or 'fast track' adequacy decision as part of the Commission's contingency planning."***

Consequent delays in data transfer would severely handicap UK based international share schemes which operate within EU member states. Arguably, UK based share plan sponsors and their advisers might stagger on briefly with the *existing* databases they held of (say) Dutch, French and German subsidiary company share plan employee participants, but this would be a *life in death* situation, in which those companies could no longer receive legally any data updates (e.g. change of address, details of new scheme participant, resignation from the share scheme through job move, etc) from the Continent. The inability of such UK based share plan sponsors to award *new* equity incentives to their EU employees would prove terminal.

Unless this issue is resolved very soon, share plan administrators may be tempted to relocate the management and operation of hitherto UK based international share schemes to EU member states such as **Holland,** the **Irish Republic**, or **France** in order to avoid major hassle over post Brexit data transmission alignment/compatibility. Another option for share plan promoters would be to appoint legal representatives in Brussels and/or Berlin, Dublin or Berlin to obtain adequacy status, but that would be costly. The UK government has stressed that it is keen to secure the unhindered flow of data between the EU and the UK post Brexit, but no-one knows whether the relevant senior trade or commerce official in Brussels would turn into ***Mr Nasty*** in the wake of a no deal Brexit.

The UK government has made clear its intention to permit data to flow between the UK and countries in the European Economic Area (EEA), *but transfers of personal information from the EEA to the UK will be affected until an actual agreement is put in place* and there's no sign of that happening any time soon**.** So Mr Nasty could stall for months over UK corporate applications for EU 'adequacy' status to be granted to UK-held databases. Without a special dispensation from the EU after Brexit, an ***adequacy agreement***, firms receiving data from the EU could find themselves facing huge extra legal bills to ensure compliance. The UCL study said: "*This requires companies to direct immense costs and resources towards enabling [previously unrestricted] data transfers.*" **The UCL experts said that it was far from certain that an adequacy agreement would be made because of concerns about a lack of data protection rights in the UK post-Brexit and the potential for "unprotected onward data transfers", particularly to the US.**

The UK has the largest data centre market in Europe. More than 75 percent of UK data transfers are with EU countries. Until the UK leaves the EU, data can flow freely to and from other member states and has been able to do so since the emergence of the internet/digital economy. The free flow of data within the EU is governed by harmonised data protection rules and common systems of regulatory enforcement. EU member states have shared arrangements for data flows with non-EU countries.

"*What happens to great tracts of the business landscape, including cross-border data flows and product certification, has yet to be determined,''* wrote *The Sunday Telegraph* business editor Jeremy Warner last week. "*It seems likely these matters will eventually be settled, if only because the harm to the EU of not doing so could be just as bad news as it would be for us, but there is no guarantee. Much depends on the degree of 'punishment',* pour encourager les autres, *the EU wants to inflict on the UK for daring to leave.* ***The EU, I suspect, is going to prove a jealous and vengeful god***.

"**In any case, no concessions will be forthcoming until the money is agreed.** Few any longer believe that a no-deal Brexit will be economically catastrophic, but what it will do is pile layer upon layer of legal and logistical complexity onto Britain's trading relationship with Europe."

*Many UK financial sector firms carry on cross-border services in **Luxembourg** by relying on an EU financial services passport e.g. under the Alternative Investment Fund Managers Directive (AIFMD) or the Markets in Financial Instruments Directive (Mifid). In the event of a *Hard Brexit* on October 31, UK firms would no longer be able to provide services in other EEA member states under the financial services passports, said US law firm *Proskauer Rose*. For example, a UK alternative investment fund manager (AIFM) would no longer be able to market its EEA alternative investment fund (AIF) in other EEA member states under the AIFMD marketing passport in the event of a Hard Brexit. To avoid such a high-edge scenario, Luxembourg has introduced a transitional regime which would allow UK firms operating in Luxembourg under the financial services passport to continue to do so for a one year transitional period. So a UK AIFM that currently markets its AIF in Luxembourg under the AIFMD marketing passport would be able to continue to do so under the transitional regime. **It should be noted that this transitional relief would only apply for Luxembourg; it is not EEA wide.** If a UK AIFM wished to continue to market its AIF in other EEA member states, it must consider what the Hard Brexit position would be in each member state. To benefit from the Luxembourg transitional regime, UK firms are ***required*** to notify the Luxembourg based **Commission de Surveillance du Secteur Financier (CSSF)** via a dedicated online portal on the CSSF website by **September 15 2019**.

Labour plans £300bn shares transfer to employees

A Labour government would transfer about **£300bn** worth of shares in 7,000 UK based large companies and hand them to employees in one of the biggest state confiscations from the private sector ever, according to a study by the *Financial Times* and Centre member **Clifford Chance.** Shadow chancellor John McDonnell plans to create *inclusive ownership funds* (IOF) that would receive one percent of a company's shares per year for ten years. The rules would apply to the 7,000 UK companies, both publicly quoted and privately held, which have more than 250 employees. Staff would be paid dividends of up to £500 per year, with the rest being handed over to the Treasury. The shares would be held and managed collectively by employees. The IOF would be managed by a board of trustees elected from the company's eligible employees. It would not be able to sell the shares, and the employees would not be able to sell their interest in the IOF. Labour suggests that the IOFs would receive £6bn of dividends each year, with £4bn of that being shared between employees, and the remaining £2bn to the government to fund public services.

His plan was first presented to the Labour Party conference a year ago, but what is new is the **£300bn** number, worked out by Clifford Chance (CC) and the FT. "There is no precedent for this," said Dan Neidle, a partner at CC: "We are in completely uncharted territory. He predicted litigation from companies and shareholders, challenges from other countries, including the US and China, potential World Trade Organisation complaints and perhaps "retaliation in kind".

Mr McDonnell said greater employee ownership increased a company's productivity and encouraged long-term thinking. "It's right that we all share in the benefits that investment produces," he said.

Trump plans to cut CGT on share sales

President Trump is seriously considering a presidential executive order which would require the **United States Treasury** to issue new regulations to index the capital gains cost basis for price inflation, according to media reports. That would result in a tax cut—but without the approval of Congress. Mr Trump has told his White House team that if he can get his legal counsel to give him a ruling that he has the right to make this change administratively, he will do exactly that, according to the *Washington Times*. Such a move could liberate potentially hundreds of billions of dollars for new capital investment in the US and elsewhere. It would boost the employee stock (share) owner sector too, especially at the lower and mid-management level, as well as in Silicon Valley type high tech start-ups, where bulky stock option awards are usually made to employees, in preference to high cash salaries.

The website *myStockOptions.com* said: "*A tax change by executive order, bypassing the power of the purse in Congress, would be constitutionally controversial. It would have a major impact on the federal budget and the legal challenges against it would be prolonged, complicating its implementation.*" The current preferential long-term CGT rates in the US are zero percent, 15 percent and 20 percent and a 24 percent top rate for assets held less than one year. Under the Trump plan, capital gains indexing would increase the cost basis of investments to account for inflation. With indexing, the cost basis would be floating and no longer a fixed number. Currently, the income trigger points for long-term CGT rates are indexed. If the base itself were indexed, investors would reduce the size of their taxable proceeds at sale, as only the inflation-adjusted capital gain would be taxed. Is the definition of *cost* in Internal Revenue Code Section 1012 vague enough to allow for interpretation through new Treasury rules without approval by Congress? Should the Treasury decide it has the authority to make this happen through executive order, it will require detailed regulations on actually how and when the indexing occurs, potentially disrupting many financial-planning and charitable-donation strategies based on its application to different assets.

However, *myStockOptions.com* added: "*In developing and updating tax-return-reporting guides for brokerage firms, indexing the cost basis will strain their administrative, reporting and IT systems. They report to the IRS and brokerage customers the cost basis and other purchase/sale information on Form 1099-B, which is hard enough to get right even when the basis is fixed.*"

Shareholders first principle axed?

One of the US's most powerful business groups has abandoned the shareholder-first idea that has driven capitalism for decades. **The Business Roundtable** said the pursuit of shareholder interests is no longer the central purpose of corporate US. This change of focus could open the door to more all-employee share ownership, especially in SMEs. Companies should focus on social responsibilities as well as profits, the Business Roundtable said.

The ceos of 180 US businesses changed the official definition of "the purpose of a corporation" from making the most money possible for shareholders to "*improving our society*" by considering employee interests, caring for the environment and dealing ethically. Entitled *Business Roundtable Redefines the Purpose of a Corporation to Promote - An Economy That Serves All Americans*", the document was signed by Business Roundtable member ceos from **Amazon, American Airlines**, and America's biggest bank, **JPMorgan Chase**. It was the first time the group had said shareholder value was **not** the top priority. Shareholder primacy was an ethos championed by Nobel Prize-winning economist Milton Friedman and has been the foundation of corporate purpose. Carys Roberts, of the Institute for **Public Policy Research (IPPR**) think tank, said: "Shareholder primacy is a worn-out theory that does not serve the long-term interests of firms, the economy, and the people an economy should work for. This is an important intervention from US business leaders in recognition of the failure of shareholder primacy: but the real test will be in deeds not words."

The five new principles are:

- Delivering value to our customers
- Investing in our employees by providing fair

wages and ***important benefits.*** This starts with compensating them fairly. We pledge to support communities where they operate; to foster diversity and inclusion, dignity and respect.

- Dealing fairly and ethically with our suppliers
- Protecting the environment by embracing sustainable practices
- Generating long-term value for shareholders eo

Companies are increasingly taking positions on issues outside the corporate sphere due to pressure from activists, amplified by social media and demands from their own employees. "The American dream is alive, but fraying," said Jamie Dimon, chairman and ceo of JPMorgan Chase, and chair of Business Roundtable: "*Major employers are investing in their workers and communities because they know it is the only way to be successful over the long term. These modernised principles reflect the business community's unwavering commitment to continue to push for an economy that serves all Americans.*" Other signatories included **General Motors'** boss Mary Barra, **Ford**'s Jim Hackett, and **Apple**'s Tim Cook. Leaders from tech companies including **Amazon, Salesforce, Oracle** and **Cisco** all signed the pledge. Others, though not part of the Business Roundtable - like **Google, Microsoft**, and **Intel** said they too supported this philosophy and carried it out by, for example, tying employee compensation to specific goals or releasing progress reports on environmental impact or social responsibility. The Business Roundtable agreement raised new questions about how companies will push the needle forward with the new commitment. For example, will they review all wage practices to ensure fair and balanced pay? Will they agree to stop using offshore bank accounts? Would they tie executive compensation to improvements in their carbon footprint? Might they opt for a product feature that will benefit consumers or society, even if it's not the best for the company's bottom line? Overall: Does this agreement mean businesses promise to be good corporate citizens, asked the US magazine *Fortune*? Some critics were sceptical, with Larry Summers, ex US Treasury secretary, saying there was no legal requirement on firms to change their approach. He told the *Financial Times*: "*I worry the Roundtable's rhetorical embrace of stakeholders is in part a strategy for holding off necessary tax and regulatory reform*."

Centre appeal for eso shake-up stimulates Oz debate

The Australian Employee Ownership Association (EOA) is studying the Centre's call, published in the August issue of *newspad*, for major share scheme reform in the light of declining or static UK use of the tax approved all-employee share schemes SAYE and SIP. Board members in Sydney were tipped off about the Centre article by Alan Greig of **Link.** "I thought you might be interested in the attached thought-provoking article published in the August edition of the enews of the UK Esop Centre (**All-employee schemes need radical overhaul** at www.esopcentre.com/news/newspad)" he told them.

"Based on data from the UK treasury, it is clear that the 'decline' in take up of 'all employee' share schemes there – first noted a few years ago – is gathering pace. The situation for each scheme is outlined in the article, a copy of which I have attached FYI. The reasons for the overall decline are numerous, but of late appears to result from rapidly changing 'patterns of work'. *Given the situation as outlined in the article, the Esop Centre is advocating for a 'refresh' of the whole employee share ownership field - encouraged especially by the recent appointment of some key employee ownership advocates to important positions in the new Boris Johnson Cabinet. The Esop Centre outlines a number of tasks/tax amendments needed to get the 'refresh' to boost both take-up and participation*. *Given the discussions at the last EOA Board meeting, I think this analysis is useful here.*"

David Isaacs, associate director of Centre member **Link Market Services (UK),** said: "I am sure you would like to know that the EOA Board which includes our Australian colleague Tom McCarty in Australia have received your Centre Report. I hope this creates a level of debate within our organisation."

Centre chairman Malcolm Hurlston said: "We have put our views directly to the chancellor, Sajid Javid and have detailed them to our High Table guest, former cabinet minister Sir Michael Fallon MP, who played a major role in the free shares scheme for Royal Mail employees."

HMRC win EBT loans case

The First-tier Tribunal gave its decision in a case concerning an IT consultant who in 2008/09 and 2009/10 was employed by an offshore company, which in turn made payments to an employee benefit trust (EBT), which lent money to the taxpayer. The taxpayer took little as earnings and much more as a loan from the EBT, thereby reducing the tax which he suffered, but the Tribunal accepted that he personally had no tax avoidance motive in accepting the arrangements. Moreover, he had not appreciated the saving that he might have expected to make, as various intermediaries had charged fees of between ten and 18 percent of his income. The taxpayer accepted that the payments made to the EBT were earnings. The Tribunal had to consider (1) whether HMRC were in a position to 'discover' a loss of tax, (2) whether HMRC had discretion to assess the taxpayer for PAYE and (3) whether the ***Transfer of Assets Abroad*** legislation could apply as an alternative. *The Tribunal held that discovery assessments had been validly made. It held that HMRC had exercised the wide discretion it possessed to dis-apply the Income Tax (PAYE) Regulations 2003 in circumstances where it considered it 'unnecessary or not appropriate' to pursue the employer; the Tribunal did not have jurisdiction to interfere with whether or not that discretion was properly exercised*. It was not necessary for the Tribunal to determine whether the Transfer of Assets Abroad legislation could apply, but in the Tribunal's view it potentially could. See https://deloi.tt/2L11Vlj

Newspad Awards 2019

The Centre is pleased to announce the opening of the **2019 *newspad* awards** to entries. Nominations are invited for the *newspad awards* in one or more of the revised award categories:

1. **Best all-employee international share plan (**more than 2,500 employees)
2. **Best UK all-employee share plan** (fewer than 2,501 employees)
3. **Best share plan communications**
4. **Best employee financial education programme**
5. **Best use of technology in employee share plans**
6. **Best creative solutions (**taking account of employee feedback, equality work, cultural and jurisdictional issues**)**
7. **Best executive/managerial equity reward plan (**involving more than 100 senior employees)
8. **Best employee share plan practitioner (**with examples of client work)
9. **Best start-up equity incentive plan**
10. **Best HR director (**for provision of employee equity**)**
11. **Company with highest percentage of employee shareholder votes at an agm**

The rules have been amended to take account of the new practitioner award category: A practitioner can nominate itself (for category eight) or a client company for an award. The practitioner **must** be a member of the Esop Centre but the nominated client may be a non-member. A share plan issuer (sponsor) company can nominate itself for an award, or it can be entered via an application from its practitioner advisor. Entrants must co-operate fully with the judges or their representatives, where necessary, in response to enquiries seeking additional information from short-listed entrants. The decision of the judges will be final. Commercial sensitivity will be respected. No charge is made for entries. The judging panel will be chaired by Centre founder, **Malcolm Hurlston**. Please submit your entry **as soon as possible** to **Juliet Wigzell** at the Centre. The entry process has been much simplified in recent years, so do not be deterred from putting forward your best share plans . To discuss your entry, contact Juliet at Centre HQ: **Tel +44 (0) 20 7239 4971,** or by email: **esop@esopcentre.com**

EVENTS

Guernsey 2019 – November 8

The next **Esop Institute**/**Society of Trust & Estate Practitioners (STEP)** Guernsey share schemes for trustees seminar will take place on **Friday November 8** at the Old Government House Hotel, St Peter Port. It is now more important than ever for employee share scheme specialists and trustees to stay informed, especially given recent developments, such as the Crown Dependencies' joint initiative and the growth in the establishment of employee ownership trusts (EOTs), not to mention Brexit. These seminars, held jointly with the **Society of Trust & Estate Practitioners (STEP),** offer expert views, the enjoyment of continuing education along with the opportunity to discuss and network. UK based speakers - **Pett Franklin, David Craddock Consultancy Services, CMS** and **Haines Watts** - will address key issues currently facing trustees and employee share scheme professionals. Hot topics will include:

- "Can HMRC ask for that?" Under CRS, Schedule 36 FA 2008 specific information and documentation from advisers is being sought. "How did we get to this position?", "What is *reasonably required*?" and "Does HMRC have jurisdictional rights over Jersey/Guernsey?" with actual examples showing how poorly drafted some Notices are, leaving the recipient having to guess what is being asked for
- Using EBTs as internal market makers for unquoted companies; managing trapped assets within EBTs
- Corporate governance changes around post employment share holding recommendations for listed companies
- UN Sustainable Development Goals 2030 and the role of employee share schemes
- and the latest on entrepreneurs' relief.

The extended half-day seminar will conclude with a networking lunch. Last year's event was an outstanding success, which we look to emulate, building on the achievements of this industry-leading networking and learning opportunity. Prices: **Esop Centre/STEP** members: **£375**; non-members: **£480.** Book and pay before September 20 2019 to choose one of the following early-bird discounts: 50 percent off a third delegate or ten percent off the total. Reserve your place now by emailing events@hurlstons.com or by calling us on 020 7239 4971.

Symposium March 26: speaker slots reserved

Speaker slots are being snapped up for the Centre's fourth British Isles share plans symposium, which will be hosted by senior legal member **Linklaters** at its **London** headquarters on **Thursday**, **March 26** next year. *Practitioner members and share plan issuer companies are advised to apply for speaker roles asap before they are all reserved.* Plan issuer company representatives who deliver an all-employee or executive equity incentive plan case study (*with or without an advisor*) will be admitted free of charge. **Jennifer Rudman** of **Equiniti** will be the speaker for the key slot: *How do you ensure that all employee plans (Sharesave and SIP) continue to be relevant and provide benefits for today's workforce?* **Colin Kendon**, partner, employee incentives, at **Bird & Bird,** will deliver a frank assessment of the hugely popular **Executive Management Incentive (EMI)** share options based approved scheme for selected employees; **David Craddock,** who heads his eponymously named share schemes consultancy will be a speaker, as will be **Jane Jevon** of **Pett Franklin**. Her topic will be: *Company Share Option Plan (CSOP), the forgotten share scheme; unlocking its potential and avoiding its hidden pitfalls.* **Garry Karch**, co-founder of **RM2 Corporate Finance** will discuss *How Employee Ownership Trusts (EOTs) are structured and financed.* **Harry Meek** from **Linklaters** will join the speaker line-up too. **Alexandra Beidas**, partner in its incentives division, told *newspad* that Linklaters was delighted to host the all-day event in its auditorium. The symposium will be introduced and chaired by **Malcolm Hurlston**. His opening topic will be: *How should all-employee share plan schemes re-set to make them more popular with companies and employees?* The practitioner member speaker rate is **£275** and member delegates will pay **£395.** Non-member practitioners will pay **£595** (all ticket prices are VAT-able). The draft programme to date can be accessed from the Centre website www.esopcentre.com.

Members who wish to participate – either by co-sponsoring our e-brochure and/or by delivering a presentation - should contact **Fred Hackworth** at: fhackworth@hurlstons.com or call the team on +44 (0)20 7239 4971.

MOVERS & SHAKERS

***Justin Cooper** has left **Link Market Services** (Link Asset Services), where he was ceo, and the employee share ownership world. Formerly, Justin was ceo, shareholder solutions, at Capita Asset Services, which Oz based Link acquired in June 2017 for £888m. Justin has been a key player at the Centre for many years. He is on gardening leave, but this autumn he is expected to be in the running for non-executive director roles. Justin told *newspad: "Enjoying the fine weather in Sussex and have done a few trips overseas. Am also doing the FT NED Diploma to keep the brain agile!"* Centre chairman **Malcolm Hurlston**, said: "Justin worked closely with us from the outset and supported our international events to the hilt. He will be much missed in the ESO world."

***Mike Landon** too**,** formerly share plans director at remuneration consultants **MM & K,** has left the share schemes world after 35 years of service. He wrote to the chairman to say that he is returning to university, the **LSE**, to research climate changes, in particular financing the transition to a low carbon economy. He told Malcolm: *'I have enjoyed working with the Esop Centre since soon after it was created and observed with interest the ups and downs of employee share ownership. I have been particularly impressed by all the Esop Centre has done to promote share schemes over the years"*

***Michael Sleet** is now head of equity solutions at **Dowgate Capital.**

UK CORNER

Small companies to de-list?

More smaller listed companies may go private because the collapse of Neil Woodford's Equity Income Fund has damaged investors' demand for less liquid stocks, claimed **Edison**, an independent investment research firm. It said that the fallout after the star stock-picker suspended redemptions on his main fund had led to increased scrutiny of the liquidity of companies worth up to £500m. Hundreds of companies could be affected and portfolio managers are urging AIM-listed companies in particular to beef up investor relations operations or employ a joint broker to improve trading volumes in the shares, reported *The Times.*

Troughing

***The banking industry's cheerleader, who was Gordon Brown's communications director when he vowed to put an end to *unacceptably* large bonuses, has earned almost £12m since leaving No 10. Simon Lewis was the then-PM's spokesman before he joined the **Association for Financial Markets in Europe,** a banking lobby group, in 2010. He was paid £1.7m last year and is believed to be in line for £2m in 2019 – almost as much as the base salary of **RBS** ceo Ross McEwan. It is estimated he will have earned £12m by the time he leaves AFME when his contract ends this autumn. In comparison, Chris Cummings, the boss of the **Investment Association**, was paid £666,000 last year...

*****Hundreds of **BBC** employees were given 20 percent pay rises, just as the corporation plans to strip free TV licences from millions of viewers aged over 75. Figures obtained by *The Times* show that 889 BBC staff received pay increases equivalent to between ***ten and 20 percent*** of their salaries last year. An additional 256 employees were given ***more*** than 20 percent. Across both groups the average rise was £6,980, costing licence fee payers an additional £7.9m, which would have been enough to maintain free TV licences for 51,000 pensioners.

*The disgraced former ceo of **Equifax**, the consumer credit reporting agency, which agreed to pay the US regulator **$700m** for claims tied to its massive data breach in 2017, is in line to receive up to ***$19.6m*** in stock bonuses after leaving the company, following disclosure of the consumer-data hack. That's 1,000 times the $20,000 maximum payout that any financially damaged customer can collect from Equifax as part of one of the largest cyber-security settlements worldwide. **Richard Smith**'s stock bonuses cover a period that includes the former ceo's performance in 2017, the year in which Equifax botched a software patch that allowed hackers to enter its databases and obtain the personal financial information of almost 150m Americans. *On top of the stock awards, Equifax agreed to cover Smith's medical bills for life, according to a company filing***.** He left with a ***$24m*** pension pot and $50,000 worth of tax and financial planning services. *What's more, none of Smith's pay is likely to be clawed back by the company, a rarely triggered compensation practice among large companies that is meant to hold top executives accountable if their actions later cause damage to their former employers.* Equifax's claw-back provision at the time covered accounting fraud, but **not** legal settlements like the $700m fine. Equifax has since altered its executive claw-back provisions to cover damages to the company's reputation as well (*locking the stable door after the horse has bolted*). It refused to comment. "Companies that profit from personal information have an extra responsibility to protect and secure that data," said Federal **Trade Commission** (**FTC)** Chairman Joe Simons. "*Equifax failed to take basic steps that may have prevented the breach that affected 147m consumers*."

National Grid** gave its ceo John Pettigrew a £1m pay rise last year. Pettigrew's reward package of **£4.6m** in the year to April, included £3.2m in bonuses, the annual report revealed. Anger mounted over his huge pay rise, in the wake of the recent power outages which left one million people in the dark. Pettigrew's, perks and pension package was branded a "*national disgrace*" after outage failings caused disruption across Britain. His total reward was up from £3.6m in the previous fiscal year. The National Grid's remuneration committee said Pettigrew '*continued to deliver strong performance in his third year in the role' and delivered 'value' to shareholders*. The hugely profitable utility giant promised to "learn lessons" to avoid any repeat. Generators at Little Barford and Hornsea Offshore Wind Farm failed within two minutes of each other. Passengers were stranded on trains, traffic lights failed and vast numbers of homes and businesses were blacked out. Critics claim that Pettigrew, 50, was effectively being rewarded for failure. Sparks flew after it emerged that, in addition, ***Pettigrew was given almost £500,000 to relocate just 96 miles to live in London, when he took over in 2016. The 50-year-old had lived with his wife Lesley and their two children in a £1.5m Victorian villa in Leamington Spa, close to the firm's Warwick headquarters He got a £497,000 relocation allowance to move to London. Shadow minister Rebecca Long-Bailey, MP, said: "*National Grid, which in May posted £1.8bn in profits and increased dividends, must provide a full account of what went wrong, and why.*" Phil Hewitt of EnAppSys, which provides energy systems to power providers, said the chaos was easily avoidable. He said: "They could have had more battery storage. It could have reacted instantly to the frequency dropping.''

Falling LTIP returns

Total annual reward for FTSE 100 ceos fell to a five-year low last year and could drop further as firms bow to investor anger over bumper pension payouts. Median total reward for ceos of the UK's largest listed firms stood at **£3.4m** in 2018, compared to **£4m** a year earlier, concluded research by Centre member **Deloitte**. It is the lowest level since 2014, when UK rules first required companies to report a single figure for ceo reward. This is a broadly similar finding of Centre member **Willis Towers Watson** which concluded recently that median *single figure* UK ceo reward had fallen from £4m last year to £3.6m in the year starting last September. The Deloitte report found that the median increase in base salary for FTSE 100 ceos stayed at only two percent, while nearly a third received no pay rise at all. Bonus payouts remained at similar levels of about 70 percent of the maximum allowed under each company's pay criteria. Median base salaries reached £868,600 while bonus payments – excluding long-term incentives – averaged £1m. However, a shift has taken place in cash payments in lieu of pension contributions – sums of up to 50 percent of basic salary have been given to ceos – with about one third of FTSE 100 companies cutting pension pay for new executives. Companies are grappling with new guidelines meant to bring these cash payments into line with those to other staff. The Investment Association shamed firms for failing to cut payments to less than 25 percent of existing director's base pay as a first step. Stephen Cahill, a vice-chairman at Deloitte, said: "We have seen many companies come forward as 'first movers' in response to new regulatory changes, with 29 companies reducing pensions for new hires. Executive pensions have been the hottest topic of 2019 and we expect this to continue, with a growing focus on incumbent executives receiving the highest pension rates." Among the worst pension contribution offenders was holiday operator **Tui** whose ceo Friedrich Joussen was given *51 percent* of his salary in pension contributions last year, and building materials supplier **CRH**'s Albert Manifold who got 47 percent. **Standard Chartered** ceo Bill Winters provoked outrage when he labelled shareholders who rebelled against his 40 percent pension cash contribution as ***"immature and unhelpful.***" He partially backtracked later saying: "I meant no disrespect to our shareholders at all. That was never my intent, and to the extent that any was caused, I'd be most happy to address that with them directly." Others, including **RSA**'s Stephen Hester and **Lloyds Banking Group** ceo Antonio Horta-Osorio have agreed to take pension contribution cuts worth up to 20 percent.

Deloitte said median pay for FTSE 100 chiefs had been depressed by rules that bar ceos from cashing in shares until long after they have left the company.

*Shareholder revolts at agms have little impact on restraining runaway executive pay, despite a fall in the average reward paid to ceos last year, according to another study of the FTSE100 leaders. Between 2014 and 2018, shareholders voting at agms approved every blue-chip formal pay *policy* presented, said the **Chartered Institute of Personnel and Development** and the left-leaning **High Pay Centre**. "Despite rhetoric about shareholder dissent, most remuneration packages in 2018 were voted through with levels of support of 90 percent or more," it said. However, the average reward earned by a ceo fell 13 percent to £3.46m last year, compared to just £29,574 for an average full-time employee, this study report claimed. Total reward, including pension contributions and other benefits, for FTSE 100 chiefs fell to £4.7m, a drop of 16 percent, it said. While falling total reward was a sign that some boards were "more mindful of wider stakeholder expectations" and that shareholder scrutiny was improving, it was too early to tell whether protest votes were meaningful, the report found. It noted that falling total ceo reward could be due to a cyclical drop in awards from long-term incentive plans (LTIPs), which tend to peak every four years. Complex LTIPs still made up the biggest share of ceo reward, it added. The highest-paid executive last year was ousted **Persimmon** boss Jeff Fairburn, who received £38.97m, equating to 1,318 times the median salary of a full-time UK employee. From 2020, large listed companies will have to report and explain the "pay ratio" of their chief executive to their median employee and illustrate how their boards take a full range of stakeholder interests into account.

New comparative guide to employee incentives

Centre member **Travers Smith** has created a practical advice guide on multi-jurisdictional laws and regulations surrounding employee incentives. **The Legal 500 (Legalease)** Employee Incentives Country Comparative Guide. The man behind the Q&A style template to fit 18 overseas jurisdictions is **Mahesh Varia**, head of incentives and remuneration at Travers Smith. Working alongside him in the UK part of the project was senior associate **Claire Prentice**. Access the full guide, available by download: **https://bit.ly/2Brhcbe** An accompanying article by **Claire Prentice**, 'Exercise of discretion in share plans: can discretion ever be absolute?' can be found via this link: **https://bit.ly/2H1Bjjg**

Peers join loan charge battle

Financial secretary, Jesse Norman MP, was quizzed about the *disguised remuneration* loan charge at a meeting of the House of Lords Economic Affairs committee, reported *Ross Martin* accountants The loan charge was introduced on April 5 2019 for all **extant** disguised remuneration loans from both employment based and self-employed contractor loan schemes. HMRC has to date recouped more than £1bn from £3.2bn, which it estimates is owed by the participants and/or promoters of such schemes *on the grounds that they are still 'open' in the sense that the 'loans' have not been repaid by those to whom they were awarded*. Typically, these schemes involved setting up one or more employee benefit trusts (EBTs) to administer the '*loan payments,'* which HMRC maintains were employment related and, as such, liable to Income Tax and NICs charges.

The Lords' questioning focussed on HMRC's application of the new rules to all disguised remuneration scheme users, whether they had intentionally participated in the schemes, or whether they were taxpayers who, allegedly, did not fully understand their tax affairs. The committee was concerned about reports of and from taxpayers who had apparently been told by their employers that unless they joined a disguised remuneration scheme they could lose their jobs and about the employment of workers under such schemes by local authorities, with specific reference being made to the NHS. Mr Norman, who reminded the committee he had only been in his current role for nine weeks, said that there was no evidence of the public sector pushing employees towards disguised remuneration schemes, but agreed he would look at ways to prevent such behaviour by local authorities in future. He confirmed that HMRC would: *shortly clarify as to how the charge works in practice which should settle some public concerns, *not apply the charge to a closed tax year, assuming full disclosure had been made, *not continue seeking payment of the charge where the taxpayer had no realistic chance of paying it. He denied the loan charge was retrospective, because it does not create any tax liability which did not exist at the time. He agreed that the charge was retroactive, but it was not, he said, the function of the tax system to discriminate between people who had sought to avoid tax.

Job-hopping will influence equity incentives

Job-hopping is back. After a decade of keeping their heads down, employees have a new confidence, according to an **Office for National Statistics (ONS)** report. Young employees are the most likely to change jobs: ***more than a quarter of 21 to 24-year old employees changed jobs last year.*** More than one in six 25 to 34-year-olds moved too. The proportion of job movers was still almost ten percent for those aged 35 to 49.

These statistics reinforce recent criticisms made by the Centre and leading members that the tax rules of approved all-employee schemes, notably the Share Incentive Plan (SIP), have not kept pace with rapidly changing employment patterns.

Unemployment is at its lowest level since the mid-Seventies. Job vacancies are near record levels. Pay is rising as companies compete for the best employees. Instead of accepting meagre pay rises by staying put, employees are taking matters into their own hands. Overall, more than one in ten people moved jobs in the past year. That is almost *double* the low point of just over one in 20 who moved from 2009 to 2010, according to the ONS and is above the level seen in the years before the financial crisis. Predictably, older employees are the least likely to up sticks: only one in 20 of those aged between 55 and 64 changed jobs last year, added the ONS. Pay growth is picking up only slowly for those who stay put in their job. The average growth last year hit three percent, which is well above the low point of 1.9 percent growth in 2013 and is the strongest growth since 2009. Yet it is still well below the four percent or more pay increases typically seen in the early 2000s. By contrast, job switchers get an average pay rise of more than seven percent. Companies report increasing difficulty finding staff to fill vacancies. Two thirds of private employers are raising starting salaries as a result, said the **Chartered Institute of Personnel and Development (CIPD).** However, the risks of changing jobs include disliking the new post, or being rejected by the new employer after a probationary period. Another is that regularly changing jobs looks bad on your CV. 'Job-hopper' is often used as a derogatory term, generally cast at young employees by their older colleagues or relatives who see a problem with a new generation of self-absorbed fusspots, afraid of hard work and incapable of commitment.

Executives do not manipulate buy-backs

There is no firm evidence that companies use share buy-backs systematically to help meet earnings per share (EPS) targets in directors' pay awards, said Centre member **Linklaters,** which commented on government commissioned research on *'Share purchases, executive pay and investment*.' The researchers considered share buybacks in FTSE 350 companies in 2007 – 2017, academic studies, interviews and surveys. There was no significant relationship between buy-backs and EPS conditions, they concluded. Key findings: The evidence did not suggest that buy-backs were being used systematically to artificially hit EPS targets. It was difficult to conclude that EPS targets motivate buybacks. Share price and good investment opportunities were cited as important motivators for buy-backs. **Shell, Anglo American, Stagecoach, Next, SSE, Sports Direct** and **Imperial Brands** are all (or have been) buying up their own shares. In some cases, these companies are in the process of reversing the dilution their shares have suffered in recent years through the repeated issue of high employee equity rewards, especially for senior executives.

There was no evidence that buy-backs displace corporate investment either, said Linklaters. This was consistent with survey results that decisions on these are taken independently of each other. The factors driving buy-backs (e.g. excess cash and undervalued equity) are mostly unrelated to investment opportunities. *There was some evidence that companies with EPS-based incentives invest less. But the research could not determine whether the pay structures encourage investment cuts, or whether EPS measures are more likely when there are cuts, to encourage profit discipline.*

Brexit (2):
Widened esops exemption from prospectus reqs

"Good news this summer. A widened employee share exemption from prospectus requirements is now in force in the UK," said Jeremy Edwards, share schemes partner at Centre member **Baker McKenzie**. "All companies (regardless as to where they are headquartered or listed) can rely on it when launching share plans. It is Brexit proof too. The key change impacting employee share plans is the introduction by the Prospectus Regulation of a new widened employee share exemption. This provides an exemption from EU prospectus requirements for any company offering shares or share awards to EU employees and directors in their group - regardless of where in the world the company is based and where (or whether) it is listed - provided it makes available to employee participants an information document which meets certain requirements." Previously, the employee share exemption under the Prospectus Directive was available only to companies which had their head office or registered office based in the EEA or which had securities traded on a regulated market in the EEA. In order to rely in the employee share exemption, companies must draw up and make available to their employees an information document that sets out the number and type of securities and the reasons for and details of the offer. The requirements applicable to the information document have not changed. The ESMA/CESR guidance published in March 2011 remains relevant to the preparation of the information document. As the New Employee Share Exemption was incorporated into UK law as of July 21 2019, Brexit will not impact the availability of the New Employee Share Exemption for companies looking to launch share plans into the UK. The delay of Brexit until October 31 2019, means that that there has been no gap in the availability of the exemption for UK companies looking to launch share plans into the EU. Other exemptions to prospectus requirements that may be available under the Prospectus Regulation to companies looking to launch their share plans into the EU/UK include: *the exemption for offers made to fewer than 150 employees per EEA state (other than qualified investors) (which will become a UK 150 person exemption in the event of a *No Deal* Brexit); and *the exemption for offers where the total value of the offer is less than €1m (calculated over a period of 12 months) reduced from €5m from July 21 2018, but some EEA Member States - including the UK - have increased this limit up to €8m.

*Changes to contractual documentation may be needed to reflect the UK's threatened no deal exit from the EU/EEA and to refer to on-shored legislation where appropriate, said Centre member **Linklaters.** Investment firms in the UK will lose the benefit of EU rules allowing them to work across the EEA and may need to use an affiliate to avoid breaching regulatory requirements. In order to ensure that the correct group legal entity can perform the transaction, the right to change entity may need to be provided for in engagement and/or underwriting agreements, particularly on transactions that may straddle exit day. The Association for Financial Markets in Europe has produced Q&A for issuers explaining why such clauses are required.

In planning for a no-deal Brexit, the UK government and **Financial Conduct Authority (FCA)** have aimed to ensure that the existing prospectus, transparency and market abuse regimes continue in the UK, with only such changes as are needed to adjust for the UK no longer being a member of the EU. Existing EU law as it applies at the date of exit

Linklaters

will be "on-shored" and become part of UK law, with appropriate amendments. The UK regime will be broadly unchanged but there will be some differences with practical implications. Which rules will apply going forward and where can we find them? Because the UK is on-shoring existing EU law as it applies on exit day, the UK will have its own versions of the EU prospectus, transparency and market abuse (MAR) regimes mirroring the EU versions. Which regime(s) will apply will depend on where an issuer is seeking a listing/ listed and where relevant activities take place. The on-shored EU law and UK domestic legislation implementing EU directives will be amended with effect from exit day to remove references to EU institutions and reciprocal arrangements with European Economic Area (EEA) member states. These amendments have generally been made by Statutory Instruments made under the European Union (Withdrawal) Act 2018.

*Many of London's biggest banks and financial institutions have held off on investing in the UK due to a lack of clarity surrounding its future relationship with the EU and access to the bloc's financial markets after Brexit. Financial services firms in the capital have disclosed £3.9bn in spending on relocations, legal advice and contingency plans since the referendum on EU membership in June 2016, **EY** research showed. This includes an outlay of £2.6bn on acquiring and expanding new non-UK headquarters. The true figure is likely to be even higher once undisclosed spending is accounted for. Almost 1,000 financial services jobs have already been moved out of the UK to cities across the EU, with 7,000 roles and £1tn in assets slated to be shifted before the UK's EU withdrawal. Dublin is the most popular city for relocations, with 29 firms to date considering or confirming job moves to the Irish capital, EY found. Barclays is among firms increasing their Irish presence, with plans to increase its headcount there by 150. Luxembourg, Frankfurt, Paris and Amsterdam were the next most popular destinations, with 102 firms committed or planning to move some operations or personnel to the five locations.

Beneficial ownership

The government gave its response to the draft legislation issued in 2018 for the creation, from 2021, of a register of beneficial owners of overseas entities owning UK property, reported Ross Martin. The draft bill was first scrutinised by a joint committee of MPs and Lords who made recommendations which the government via the BEIS have commented upon in the published response. The government has agreed to consider many of the joint committee recommendations, the key of which are: *A requirement to update the register before a transaction takes place to capture information at the point where any potential money laundering might occur *Asking money laundering regulated professionals to verify beneficial ownership information submitted to the Register. *Civil penalties alongside the criminal sanctions already proposed. The committee had serious concerns over the use of offshore trusts and the government has confirmed: trusts will not need to register twice, if they are on the trusts register (TRS) this will be sufficient, *the draft bill captures circumstances in which an overseas entity is being used by a trust to hold land in the UK. *The existing TRS will be expanded to include non-EEA trusts (including discretionary trusts) acquiring property in the EU as part of the Fifth Anti-Money Laundering Directive (5AMLD) which takes effect from April 2020. *They are considering introducing a requirement for overseas entities registering with Companies House to declare if they are representing a trust. One interesting point made in the report is that in 2018 the Financial Action Task Force (FATF) found that the UK has the strongest Anti Money Laundering regime of over 60 countries assessed to date and said the UK "is a global leader in promoting corporate transparency."

COMPANIES

*About 10,000 staff at Cardiff based car insurer **Admiral** are on course to receive free shares worth up to £1,800 each as group pre-tax profit in the interim 2019 period ending June 30 rose four percent to £220m, compared to the same period last year. US born **Henry Engelhardt** the retired founder of Admiral, who bowed out as ceo in 2016, remains a passionate believer in employee share ownership. Total share scheme accounting charges during the half year rose to £40.5m, compared to £33.8m for the same half year in 2018.

*Tim Cook looks set for a bumper share payout worth $114m **(£93m)** after **Apple**'s share price neared record highs, despite a slump in iPhone sales. The Apple ceo will be able to cash in a giant share award of more than half a million shares in the coming days. About 280,000 Apple shares awarded for remaining with the company will vest, along with another 280,000 linked to its performance. Mr Cook, 58, received a massive share bonus award in 2011 when he took over from founder Steve Jobs. Two years later he asked the board to link the payouts to the tech giant's share price performance. Apple stock must outperform two thirds of S&P 500 companies over the three years to August 2019 for Mr Cook to get his full award for the year.

*Ashtead, the FTSE 100 plant hire giant, slashed pension contributions worth up to 40 percent of its directors' salaries amid growing pressure from the City for companies to rein in excessive retirement packages. Annual pension cash/share payments for future executive directors will be capped at 15 percent. Ceo Brendan Horgan will remain a member of the staff pension scheme rather than receiving the 40 percent payout predecessor Geoff Drabble enjoyed. It follows a campaign by the **Investment Association,** the City adviser, for companies to limit directors' annual pension contributions to a maximum of 25 percent. The shareholders' proxy agency **Glass Lewis**, called for payouts to be limited to 16 percent.

*Many employee shareholders who work for **Aston Martin** feel distinctly cheesed off because its share price – a mere £4.75 in late August – is ***75 percent*** below the **£19** float price last October. A large £80m half-year loss wiped another 12 percent off Aston Martin's share price, just one week after a profit warning. Staff were encouraged to buy up to £10,000 worth of shares at the float and about 900 employees did so. Around 40 percent of its employee shareholders used their bonuses to buy shares in the float. Those who bought at the highest level are sitting on a £7,000 paper loss. Ceo Andy Palmer cashed in £35.6m worth of shares at the float price, while leading shareholders – Kuwaiti funds and Italian private equity firm Investindustrial – banked £1.2bn at flotation. Najeeb Al Humaidhi, a non-executive director, recently sold £29.5m worth of shares. A collapse in the quality of City analysis is partly to blame for the failure of blockbuster floats such as Aston Martin and **Funding Circle**, (float price 440p, now c 113p) according to the boss of broker **Peel Hunt**. Ceo Steven Fine said the disastrous stock market performance of both companies since their debuts was linked to a cull of sell-side equity research teams by big banks in the wake of the introduction of the EU financial services rule book **Mifid II**.

***Barclays** cut the amount it set aside for bonuses by 23 percent in the first half of the year as ceo Jes Staley exerted a tighter grip on reward.

*Berkeley Group drew up a new pay policy for directors including its founder Tony Pidgley after payouts worth tens of millions of pounds prompted public and shareholder outrage. The house-builder, which paid its three highest-paid executives a combined £21m last year, scrapped its annual bonus. Directors will have to keep shares earned through the company's long-term incentive scheme (LTIP) for an extra two years. Mr Pidgley, Berkeley's executive chairman and his fellow directors will have to re-earn any shares that have not vested through the scheme by 2021 over the following four years. Berkeley's remuneration committee said the new policy would encourage directors to focus on the company's long-term future, rather than annual financial performance. However, City adviser Glass Lewis called for the new pay policy to be voted down. Glass Lewis said that the house-builder's decision to do away with an annual bonus while extending the length of its LTIP could encourage executives to focus on returning cash to shareholders rather than investing. It raised concerns that targets, which paid out a combined £23m to seven executives last year, were not tough enough and over the decision to let shares banked by bosses vest over an extra two years. Investors will have a chance to block the new policy in a binding vote at Berkeley's agm in September. However, the Investment Association backed the company's proposals. Berkeley capped the maximum amount they could earn through the scheme in 2017 following an outcry over combined payouts to six top executives worth £92m – including £29m for Mr Pidgley. He still received £8.3m last year, putting him among the best-paid ceos in the FTSE 100.

*The slow-motion removal of **British Gas** ceo Iain Conn revolves around a board longer-term view of how he has managed holding company **Centrica** since joining in 2015. At that point, shares were worth 293p. Since then, they have plummeted to around 65p. The firm has made thousands of people redundant over the period. In early 2018, it said it would cut 4,000 jobs after a "*weak*" year. This June, it said it would axe a further 700 management jobs. Despite this, Conn has received millions of pounds worth of bonuses during his tenure and plans staying on until after the next agm in May 2020. He will earn £1.2m during his last months in charge, plus up to £2.8m in bonuses. That is on top of the £11.2m the former BP executive has made since 2015 and the £1.4m in shares which he owns.

***Hargreaves Lansdown**'s top executives will lose their bonuses this year post Neil Woodford's decision to lock in investors into his flagship fund, reported *Bloomberg*. Cfo Philip Johnson, research director Mark Dampier, chief investment officer Lee Gardhouse and ceo Chris Hill will not be receiving bonuses for 2019. Hill had already volunteered to give up his bonus while Woodford's fund remained frozen. Johnson was paid a bonus of almost £1m in 2018, while Hill received a bonus of £1.7m, revealed Hargreaves Lansdown's (HL's) annual report. A spokeswoman for HL declined to comment. More than 133,000 of Hargreaves' clients invested more than £1bn in the now-frozen **LF Woodford Equity Income Fund,** and the fund platform came under intense scrutiny for its longstanding backing for the once-feted stock-picker. Woodford's move to freeze his fund was intended to allow him to rotate out of smaller, illiquid companies and into large cap, more liquid companies.

*Robin Watson, ceo, **John Wood Group**, bought 1,441 shares in the company on August 15 – using its share trading plan - at a price of 433.00p each. This director now holds 279,143 shares.

*The incoming ceo of **Reckitt Benckiser** is in line to receive a *Golden Hello* of more than **£7.5m** as compensation for joining from **Pepsico**. Reckitt said that Laxman Narasimhan, 52, who is set to take up the ceo role shortly, had been granted ***lucrative replacement share and cash awards forfeited on leaving the US consumer goods group.*** The performance shares relate to three-year incentive awards granted to Mr Narasimhan in March 2017 and 2018, which are set to vest in March 2020 and 2021. Executive rewards at Reckitt have been contentious. Rakesh Kapoor, 61, Mr Narasimhan's predecessor, was among the ten highest-paid ceos and was paid total compensation of £15.2m last year.

***Ryanair** ceo Michael O'Leary agreed to take a 50 percent cut to his pay and maximum annual bonus – but would be in line for a near €100m (£92m) share windfall if he can significantly improve the airline's performance over the next five years. O'Leary, who in February agreed a new five-year contract, received salary, bonus and share-based payments totalling €3.37m last year. Under the terms of O'Leary's new deal his €1m annual salary will be halved and his maximum annual bonus, currently €1m, will top out at €500,000. In addition, he will no longer be part of Ryanair's long-term incentive share award plan (LTIP), from which he received €1.5m last year. However, O'Leary negotiated a deal to receive ten million shares, worth almost €90m at Ryanair's current share price of c. €8.72, if he can hit one of two stretching targets in the next five financial years. He is already Ryanair's fifth-biggest shareholder with a 3.9 percent stake (44m shares) currently worth €383m. O'Leary will receive the shares if he can boost annual net income to more than €2bn or if the airline's share price goes above €21 for 28 days at any point over the next five years. Ryanair's share price has not hit €21 since the late 1990s but managed to reach €19.61 in June 2017. The company said that the airline's senior management had agreed to accept a pay freeze for the year to the end of March 2020 "as part of the company's cost-saving initiatives and in recognition of the reduced profitability in fiscal year 2019". The Ryanair annual report showed that O'Leary received a bonus of €770,000 for his performance as he oversaw revenues increasing by six percent to €7.6bn. While passenger numbers climbed by nine percent, additional costs and cheaper fares contributed to pre-tax profits falling by 35 percent to €948m. The Ryanair boss missed almost €1m in bonus pay in 2017/18 after volunteering to waive all of his performance bonuses as a result of the pilot rostering failure at the airline. His total reward in the year was 46 percent up on the €2.3m package he received for the previous year.

*__Societe Generale__'s global employee share ownership programme (2019 edition) was launched in June in 47 countries at a subscription price of €21.69 per share, representing a 20 percent discount from the base price. More than 39,000 employees subscribed, with a participation rate of 41 **percent** in France and 16 percent abroad. The overall subscription rate was stable at 31 percent, amounting to a total employee subscription of €122m.

***Telstra** ceo Andy Penn's total compensation increased 34 percent to A$5m in the last financial year, despite sharp falls in profits and dividends at the nation's biggest mobile carrier. His major reward hike comes just a year after shareholders revolted over executive pay, handing the telco a 'first strike' vote over the bonuses paid to Mr Penn and his senior management team. Penn's overall remuneration, including bonuses and fixed pay, increased 33.6 percent to $5m following two years of pay cuts. Last year, Mr Penn received a total of $3.74m, down from $5.2m in 2017 and $6.76m in 2016. The figures emerged as Telstra published its 2018-9 annual results, revealing a sharp drop in operating earnings and a 40 percent slump in net profit, while warning shareholders to brace for an even bigger impact on its bottom line next year as a result of the National Broadband Network.

*__Uber__ recorded one of the largest losses suffered by a US company since the financial crisis after swallowing a huge charge for the taxi app's Wall Street listing in May. The company revealed that it lost $5.2bn (£4.3bn) in the three months to the end of June, largely due to a **$3.9bn charge** in stock-based compensation to staff. The figure means Uber has lost more than $14bn since it was founded a decade ago. Uber became a public company six weeks after **Lyft.** Both have struggled to maintain investor confidence since then, with Lyft shares failing to beat their opening price of $78. Its shares fell again after the company said that insiders would be able to sell their shares on Aug 19, more than a month ahead of the expected date. *Early investors, employees and founders were supposed to be able to sell their 250m shares from Sept 24 but this falls within Lyft's quarterly blackout period, prompting the change of plan, the company explained.* Uber was founded in 2009 as a high-end black car company, but has since grown to 110m users worldwide, embraced as a cheaper, more convenient alternative to traditional taxi companies.

*Fund manager Neil Woodford sold his 20 percent stake in hardware firm **Ultrahaptics** to private equity firm **Mayfair Equity Partners**. Bristol-based Ultrahaptics produces panels that use ultrasound waves to create the sensation of touch, with its products being used in the automotive, advertising and gaming industries. Mayfair led a £35m funding round in the firm last year. A secondary funding round allowed some Ultrahaptics employees to exercise their share options.

Mr Woodford had been reportedly in talks to sell his stake for £20m. Ultrahaptics would not confirm the price but said he "*exited at a considerable profit.*" The firm was valued at £150m after its 2018 funding. Christopher Olds, Ultrahaptics finance chief, said "it's a pity" Woodford was no longer an investor "but I understand the economics. It was a good deal for him and it was a good deal for other investors".

***Volex Group:** Daren Morris, executive director, registered 141,093 free shares in the company on July

31, as a deferred management bonus. He now holds 661,093 shares, which currently are worth c 90p each.
*Senior officials from the **Department of Work and Pensions (DWP)** were given bonuses worth as much as £17,500. The DWP is in charge of rolling out the controversial Universal Credit welfare system and 61 top civil servants received awards averaging £9,600 - while UC claimants are living on just under £4,000 a year.

WORLD NEWSPAD

Equity-based reward improves team spirit study
Hiring a diverse workforce enables companies to tap a larger pool of knowledge and perspectives, creating opportunities for significant growth, but it can lead to occasional conflict too, as employees from vastly different backgrounds must learn to coexist. Joo Hun Han, an assistant professor of human resource management at the **Rutgers School of Management and Labor Relations** (SMLR), is exploring how offering ***broad-based equity compensation*** – giving employees a stake in the company they work for – may help to get everyone on the same page more quickly. Examples of such compensation include restricted stock units, stock options and employee stock purchase plans. "*I suspect equity compensation instils a sense of shared ownership and responsibility, motivating employees to see past their differences and work together toward a shared goal,*" Han said. "*Such collaboration would contribute not only to improved company performance, but to higher levels of satisfaction and engagement in the workforce.*" Han is inaugural ***Computershare** Fellow in Equity Compensation*, one of 28 such fellows and faculty mentors appointed this year by the *Rutgers Institute for the Study of Employee Ownership and Profit Sharing* at SMLR. Professor Douglas Kruse, the institute's associate director and a former senior economist at the White House said: "*Research continues to show that financial participation by employees has good potential to improve outcomes for employees, firms and the economy as a whole.*" A recent Institute study found that employee stock ownership plans help low-income and moderate-income workers build significant wealth – narrowing the gender and racial wealth gaps. It played a key role in a recent national survey that found strong bipartisan support for employee ownership. Capital shares are becoming increasingly prominent in public policy discussions. The bipartisan **Main Street Employee Ownership Act** became law last year. Prof Joseph Blasi, the J Robert Beyster, director of the institute, said: "*If the goal is financial inclusion and an economy that builds the middle class, then encouraging serious research on both employee share ownership and profit sharing makes a lot of sense*." Han previously examined how profit sharing can make employees feel more valued at work, ultimately translating into stronger job performance. "*Employee ownership, profit sharing and equity compensation can fundamentally change the nature of the employment relationship into one that is characterised by mutual trust and support,*" he said. "I believe this kind of employment relationship benefits both employees and their companies."

*__USA__: Ceos at the **US**'s biggest companies received an ***average*** **$17.2m** in total compensation last year – **278 times** the salary of their average employee. While inflation-adjusted ceo compensation in the US's biggest 350 companies had risen **940 percent** since 1978 (*when assessing ceos who had cashed in their stock.)*, worker compensation in the same businesses had only increased by a measly 11.9 percent over the same period, the **Economics Policy Institute**'s **(EPI)** latest survey report said. The report's authors wrote: "*Ceos are getting more because of their power to set pay, not because they are increasing productivity or possess specific, high-demand skills. The economy would suffer no harm if ceos were paid less*."
Meanwhile, the S&P 500 index of top US companies grew 706 percent over that period. The analysis comes as some of the US's richest businessmen have publicly worried about growing income inequality. Ray Dalio, billionaire founder of **Bridgewater,** the world's biggest hedge fund, warned that the gap between rich and poor in the US was becoming a "national emergency." **JP Morgan's** ceo, Jamie Dimon, called for a 'Marshall plan' to address a systemic problem which had left half of society "severely disadvantaged". Ceo compensation rose by **7.1 percent in 2018** and by **9.2 percent in 2017**, according to EPI. The rise has been driven by increasingly large awards of stock in the companies they run. *On average, ceos received $7.5m in stock awards in 2018, accounting for close to half their compensation.* While wages have stagnated for most employees since the end of the recession, growing at just 1.6 percent during the last year when accounting for retail price inflation, the pay of the US's top executives has soared. Ceos who took advantage of the shares they were awarded have enjoyed a 52.6 percent reward rise since 2009. Those who were granted shares but have not yet cashed in saw their compensation rise by 29.4 percent. By contrast, typical employees in these large firms have seen their real annual compensation rise by just 5.3 percent over the course of the recovery and their wages actually fell by 0.2 percent between 2017 and 2018. Average ceo reward peaked at $21.5m (in 2018 dollars) in 2000, the height of the late-1990s tech-driven stock market bubble, but it fell when the bubble burst. It dipped again in 2008 and 2009 as the last recession took hold. Thereafter, ceo compensation has grown steadily. The gap between the pay of the average employee at one of the US's top companies and that

of their ceo widened dramatically. In 1965, the average ceo earned 20 times as much as the average employee at one of the US's top 350 companies. By 1978, the ratio was 30-1. By 1991, it was 121-1.

Earlier this year, the Institute of Economic Affairs released Top Dogs and Fat Cats, a collection of **essays examining the high pay debate. Edited by IEA editorial and research fellow **Len Shackleton**, the book looks at this heated and multifaceted debate from a **number of perspectives**. The collection is available to download free of charge from https://iea.org.uk/publications/top-dogs-and-fat-cats.*

***Oz:** Top financial executives may soon have to wait seven years to claim all their bonuses, as the banking, insurance and superannuation regulator moves to align pay with long-term performance. **Key points: *** The **Australian Prudential Regulation Authority (APRA)** is proposing to cap the financial performance component of executive incentives to 50 percent *The proposals would allow boards to claw back remuneration for up to four years after it was issued if problems later arose. The executive pay guidelines follow scathing findings from the banking and financial services royal commission. Responding to a key recommendation, the APRA concluded that existing remuneration practices were "not incentivising the right behaviour" in financial companies. *The proposals would see lucrative bonuses for top executives deferred for up to seven years and give company boards the power to claw back incentives up to four years after they were paid out in cases where poor performance or misconduct became apparent*. The overhaul of executive pay would cover all APRA-regulated firms, including the big four banks and AMP, which were heavily criticised in Kenneth Hayne's royal commission findings earlier this year, with a focus on senior executives at "complex" institutions. APRA deputy chair John Lonsdale said the commission's findings played a key role in prompting the changes. "We've had a royal commission, the Hayne royal commission, we've done some self-assessments on 36 entities and I think it is pretty clear that remuneration systems are not delivering what needs to be delivered for the community, for customers and for the long-term financial soundness of entities," he told *The World Today*. Lonsdale said it was part of a regulatory push to encourage executives to take a long-term view. "In the financial sector, APRA has observed an over-emphasis on short-term financial performance and a lack of accountability when failures occur, especially among senior management," Mr Lonsdale said. "This has contributed to a series of damaging incidents that have undermined trust in both individual institutions and the financial industry more broadly. Crucially, from APRA's perspective, these incidents have damaged not only institutions' reputations, but also their financial positions." In a major change to the way remuneration is determined, APRA is proposing that financial outcomes should account for no more than 50 percent of performance criteria and that boards should oversee policy to ensure collective and individual accountability. The proposal would see variable remuneration deferred for up to seven years for senior executives at large and complex companies.

***Oz (2) Australia & New Zealand Banking Group (ANZ)** will scrap bonuses for frontline staff, after an inquiry into misconduct in the financial industry blamed the pursuit of bonuses for most of the wrongdoing. Individual bonuses for the vast majority of employees will be replaced with an incentive payment based on the overall performance of the bank, the Melbourne-based lender said. Only senior executives will still receive individual bonuses. "The Royal Commission rightly shone a light on the negative impact the over-emphasis on individual bonuses within a bank can have on customers and the community," said ceo Shayne Elliott. *The misconduct inquiry unearthed years of wrongdoing, from banks charging customers for services they never received, to selling worthless insurance and pushing people into poorly-performing funds to meet bonus targets.* "In almost every case, the conduct in issue was driven not only by the relevant entity's pursuit of profit but also by individuals' pursuit of gain," Commissioner Kenneth Hayne wrote in his final report. The group performance dividend will be based on the bank's performance from a risk, financial, customer, people and reputation perspective, said ANZ. While the move won't impact total compensation, the mix between fixed and variable pay will change, the bank said. The decision to overhaul pay for frontline staff comes after the prudential regulator last month proposed tougher rules for executive bonuses, including longer vesting periods and claw-back provisions.

***France:** The PACTE Act was adopted on April 11 this year. Its aim is to encourage and improve profit sharing, employee share ownership, employee participation and employee savings in companies, said Sophie Jouniaux and Sabrina Ben Hassou of lawyers *Osborne Clarke.* The main measures are: **Employee share ownership -** In order to promote Eso, simplified joint stock companies can offer securities to their managers and employees. Until now, this option was reserved to joint stock companies. In addition, the conditions for granting free shares (*actions gratuites*) have been simplified. The purpose of this measure is to allow the companies to renew their free share plans. The following free shares are no longer taken into account in order to assess the threshold of ten percent of the share capital that can be allocated for free by a company to its employees and managers: *shares that were not definitively awarded at the end of the vesting period (for example, due to unfilled conditions or award criteria); *shares that are no longer subject to the holding obligation and have become ordinary shares. **Employee Profit sharing (*Intéressement*) -** The Act makes profit-sharing more attractive by raising the cap on the premium and allowing a redistribution of the residual balance. The cap is raised to three quarters of the PASS (the annual social security threshold, meaning that the cap stands at €30,393 compared to €20,262 for the two previous quarters. The Act strengthens the security of the agreements: the social and tax exemptions are guaranteed for the entire duration of the profit-sharing agreement, if the "*Direccte*" (an external administration created to enforce labour law) does not present any observations within six months of filing. Until now, in companies or groups already having a profit-sharing agreement and participating with other companies in a characterised and coordinated project, an agreement could be concluded to provide that all or part of the employees would benefit from a profit-sharing associated to the project. The new law provides that a project can be internal within a company and benefit its employees.

Employee savings (*Plan d'Epargne Entreprise* or *PEE*) - Even in the absence of an employee contribution, the employer can make unilateral payments on the PEE, which are subject to the same social and tax regime as the contributions. The PEE can be fed unilaterally as part of a new system that involves sharing with employees the capital gain on the sale of securities to third party investors. In such case, the information about the beneficiaries of a PEE is reinforced by the mandatory introduction of an annual statement of situation and decision support.

Employee participation in company profits - The employee participation consists of the obligation for companies to redistribute to the employees part of the profits they realise. As from January 1 2019, this obligation applied only from the first financial year after a period of five consecutive calendar years during which the workforce exceeded 50 employees. The cap of the wages taken into account fixed by the participation agreement cannot exceed three times the PASS (the limit had previously been four times). The purpose of this measure is to establish a more egalitarian distribution of the participation when it is proportional to the wages. All these measures have been *in force* since New Year's Day.

*Ceos in **Japan** are earning more money as earnings-linked bonuses climb, yet still make one-ninth of their US counterparts. Median ceo reward in Japan grew to yen 160m (£1.24m) in fiscal 2018, up y ten million on the year, according to data from a five-country study by advisory firm and Centre member **Willis Towers Watson**. The figure was y1.48bn in the US -- widening the gap with Japan from the year before -- and y740m in Germany. Total compensation for ceos at major corporations in Japan increased 3.3 percent on the year, hitting a record for a second straight year. Company results are increasingly used as a main factor in determining executive pay in Japan, with the performance-linked portion of compensation expanding six percentage points to 58 percent. But this still fell short of the 90 percent among US companies and between 72 percent and 76 percent for the UK, Germany and France. At Takeda Pharmaceutical, president and ceo Christophe Weber's bonus surged 90 percent to y638m, driving a 40 percent jump in his compensation to y1.7 bn for fiscal 2018. Tokyo Electron's president and ceo Toshiki Kawai received more than y400m in equity-based compensation in the form of stock options, up more than 20 percent. The chip-making equipment developer has analyzed pay at other tech companies in Japan and abroad to make its compensation system globally competitive and appropriate, the company said. Starting last year, Japanese businesses are required to disclose how executive compensation is determined, including the earnings-linked portion of pay. They need to be able to "explain the overall picture of compensation to outside people," said Sumio Morita, director at Willis Towers Watson.

***US:** The **Department of Labor (DOL)** has put the valuation of Employee Stock Ownership in the spotlight of its regulatory agenda. So Esop fiduciaries need to be aware of the impact of the reduction in corporate income taxes when determining the fair market value of Esop plan assets. Fiduciaries should carefully review their Esop valuation methodologies in light of these tax law changes to determine whether any changes are needed to protect against potential DOL scrutiny. Esop litigation trends have focused on breaches of fiduciary duty related to valuation. Under the **Employee Retirement Income Security Act of 1974 (ERISA),** fiduciaries exercise discretionary control, authority, or responsibility for managing the plan or plan assets. This includes plan administrators, plan trustees, those who provide investment advice (and receive related compensation) and the plan's investment committee. Responsibilities under ERISA include running the plan in the best interests of the participants and avoiding conflicts of interest. Fiduciaries are required to value plan assets at *fair market value* (the price in an arms-length transaction). Accordingly, they must understand the methodologies and assumptions used in Esop valuations, wrote Kim Schulz of *Taxand*. Recent DOL litigation involving Esops has included situations where fiduciaries have improperly valued plan assets due to negligence or conflicts of interest. In one case, Esop fiduciaries were found liable for using a valuation that relied on overstated projections based on a thirteen percent annual growth rate even though a rate of eight percent was historically achieved. The fiduciaries were found liable for the failure to consider a discount for lack of control (DLOC) when a minority-level of interest was being valued (i.e. that a minority interest is less valuable to a buyer than control of the company). The overstated growth rate and omission of a DLOC resulted in the Esop paying more than fair market value for the company stock, a breach of fiduciary duty.

***US politicians prefer EO companies**

Almost three-quarters of respondents in a US national survey said they would rather work for an employee-owned company than for shareholders or the government. The Rutgers Institute for the Study of Employee Ownership and Profit Sharing (RISEO) proposed the question for the General Social Survey (GSS). "Americans disagree about a lot of things, but this is not one of them," said **Professor Joseph Blasi,** director of RISEO: "Democrat or Republican, female or male, black or white, union or non-union, a majority of respondents said they prefer to work for a company with employee share ownership. It is rare to find such a national consensus." The National Opinion Research Center at the University of Chicago administers the GSS to study trends in American society. Blasi, Douglas Kruse (Rutgers), and Richard Freeman (Harvard) designed the original Eso questions that have been asked every four years since 2002. They added new questions in 2018 to measure the popularity of shares across the political spectrum. The survey of 1,500 working Americans found: Most respondents (72 percent) said they prefer to work for an employee-owned company over one owned by investors (19 percent) or the state (nine percent). Given a choice between two similar jobs, 61 percent of respondents said they preferred to work for a company that shares ownership or profits over one that does not. More than a third of respondents, 38 percent, said they are more likely to purchase goods or services from a firm with employee share ownership. Only eight percent were less likely to do so. The survey findings align with recent bipartisan support for Eso on Capitol Hill. In 2018, the Republican chairs and Democratic ranking members of the Senate and House Committees on Small Business co-sponsored the **Main Street Employee Ownership Act**. Signed by President Trump as part of the national defence bill, the new law made it easier for retiring business owners to sell to their employees through an Esop or worker co-op. The Rutgers analysis of the GSS survey found 47 percent of private sector employees (59m) have ownership or profit shares where they work, up from 45 percent (52m) in 2014. While some employees have modest holdings, many others have clocked up large equity savings. The average worker holds company stock worth **$75,205 (£60,500)** in shares. For Esops alone, the average worker has a $134,000 stake. The average, annual profit sharing and gain sharing bonuses pp are $13,000. The information/communications industry has the highest concentration of equity and profit shares. Twenty percent of blue collar, clerical, and sales workers own company stock. In addition to enabling workers to build wealth and save for retirement, Eso brings greater job security. Among employees who spent at least one year in a firm with employee share ownership, 0.6 percent were laid-off last year compared to 3.7 percent of employees in companies without Eso. "Employee share owners are six times less likely to be laid off," said Prof Douglas Kruse**.** Eso may help to stabilise communities and the larger economy by maintaining employment and consumer purchasing power."

*****A federal bankruptcy judge slammed **Pacific Gas & Electric** (**PG & E**) for failing to properly disclose the full compensation package for its newly hired ceo and questioned whether bonuses for other senior executives were appropriate given the utility's parlous financial state. US Bankruptcy Judge Dennis Montali told PG&E attorneys he was "very, very troubled" by a proposed compensation package that could distribute as much as $16.3m to 12 executives if the utility met certain thresholds: *"I'm not sure I'm comfortable giving them seven-figure cheques at the end of the year when there hasn't been a single dollar given to the victim's fund,*" Montali said. Cecily Dumas, an attorney representing wildfire victims in the bankruptcy proceedings, said giving money to senior executives who presided over a corporate culture that led the largest wildfire in the modern history of California is outrageous. "*They should not be receiving bonuses, they should be losing their jobs,"* Dumas said, adding that withholding financial compensation is the only way to "let PG&E know this can't continue." State fire investigators concluded that PG&E's transmission lines were to blame for the 2018 Camp Fire, the deadliest and most destructive in California history. ***The fire killed 85 people and burned more than 150,000 acres.*** PG&E has agreed to pay $1bn to 14 local governments throughout the state for the wildfire damage caused by its equipment and practices. *Stephen Karotkin, attorney for PG&E, said the bonuses were necessary to motivate the executives to achieve the company's safety targets: "They should have the opportunity to receive market-based compensation,"* he said. Montali was unreceptive. "*They have an opportunity to serve on a corporation that is dealing with one of the most pervasive tragedies in the history of Northern California,*" Montali said. "If that isn't incentive enough, they should get another job, honestly." The judge took PG&E to task for failing to disclose a signing-on bonus paid to new ceo William Johnson. He was paid $3m by the board, but US Trustee Greg Zipes protested and said Johnson received the bonus before the judge approved it. *"It was paid and then the motion was filed,"* Zipes said. The judge said he was not happy.

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