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it's our business

newspad of the Employee Share Ownership Centre

The revenge of the regulators

National and international regulators have published a flurry of reports and recommendations aimed at clamping down on executive reward in the financial sector.

All banks operating in the UK would be forced to publish the pay and bonuses of all top earners, not just board members, under proposals made in a government-sponsored report into corporate governance of financial firms. Shareholders could then assess whether senior bank staff are paid too much or whether their bonuses encourage risky behaviour, it said.

The review by banker Sir David Walker argued that City pay structures had offered short-term bonuses on deals that posed long-term risks for banks. Greater transparency of pay practices across financial institutions was needed to curb the excesses that brought the system close to collapse. The names of those high-earning staff just below board level would be kept secret, but the remuneration committee could overrule the board if it believed the level of pay or the bonus structure encouraged risky behaviour.

The EU Commission published proposed legislation for reward in financial services. It said that remuneration policies should be consistent with, and promote, sound and effective risk management with an appropriate balance between fixed pay and bonus. Most of each bonus payment should be deferred and subject to clawback where data had been mis-stated. Performance criteria should focus on long-term achievements of financial institutions and calibrate underlying performance to account for risk, cost of capital and liquidity, reported Linklaters. The Commission intends to make these principles binding in a directive to increase compliance in the financial services sector. The Capital Requirements Directive will be amended to require banks to have sound remuneration policies that do not encourage or reward excessive risk taking.

Meanwhile, the FSA's draft code of practice on remuneration policies, which was scheduled to come into force in the UK this month, targets excessive pay and risk taking. Not only British banks but also groups such as Goldman and Deutsche Bank could be required to make similar disclosures to the FSA. In a letter to UK banks, FSA ceo Hector Sants demanded that they send their remuneration policies to the regulator by the end of October so that their compliance with the code could be measured. The ten principles on pay in the FSA's consultation paper would require firms to "establish, implement and maintain remuneration policies, procedures and practices that are consistent with and promote effective risk management". The regulator initially targeted pay alone but widened its aim to wages, bonuses, long-term incentive plans, share options, hiring bonuses, severance packages and pension arrangements.

Finally, the Financial Reporting Council updated its combined code on corporate governance following consultation, but showed no appetite for changing its principles-based style, best summarised in the phrase 'Comply or Explain.' The FRC bought the City line that 'soft law,' underpinned by some regulation, works best, plus the Walker line that it was of "critical importance" that institutional investors engaged with the companies concerned on remuneration and corporate governance.

Gordon Brown told a Commons committee that he welcomed Sir David Walker's call for tougher regulations. The PM said the government would adopt plans forcing banks to hold back half of all bonuses for senior traders and executives for up to five years to discourage excessive risk taking. He supported Walker's plan to impose limits on traders earning more than bank board directors. "Remuneration has got to be long term," said Mr. Brown. "It is only on the basis of long-term performance that we can guarantee the bonus system in the future." He is recommending that bonuses should be over a five-year period. MPs, regulators and central bankers have all called

From the Chairman

I was never a cheerleader for the AESOP/SIP but EMI may stand as one of the great achievements of Gordon Brown as Chancellor. As a tax efficient way of helping people in a small company share the pain and then the reward it has no peers and was recognised by the European Commission as the best scheme of its kind. The figures for last year came out on July 31 and show how successful it has been: more companies than ever issued over £300m in options. Taxpayers are getting good value for their concessions and our ailing economy will benefit. Government must do more to help us promote the benefits.*

** see: http://www.hmrc.gov.uk/stats/emp_share_schemes /emi.pdf*

Malcolm Hurlston

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for stricter limits on pay at banks after the government was forced to commit £1.4 trillion to bailing out the financial system and institutions including RBS and Lloyds Banking Group.

The key Walker recommendations on reward were:

Publish the pay of those earning more than 75 percent of the median salary for executive directors. This would be reported to the FSA; In Long Term Incentive Plans, at least half the bonus for any year should only vest after five years; Companies should tie bonus payments to long-term performance, rather than short-term risk; Executive bonuses should be clawed back, but only in cases of 'profit' misstatement or personal misconduct;The creation of a new role of chief risk officer and a new risk committee, which would have power to scrutinise and block big transactions; More power for remuneration committees to scrutinise company-wide pay; Introduce regular business awareness sessions for non-executive directors; Force chairmen and remuneration committee chairmen to submit themselves to re-election in certain circumstances to make them more accountable.

Sir David did not attempt to cap absolute reward levels, nor did he call for publication of ratios between highest and lowest paid employee. He did not call for a ban on 'golden parachutes' for departing top executives whose performance had been questionable or worse.

None of the regulators called for the re- enactment of a Glass-Steagall type law, separating investment banking from the retail and commercial banking divisions.

However, if Walker's proposals are adopted, it will make bad bonuses harder to pay. His recommendations could be adopted in the autumn after a consultation period.

Sir David said: "Failures in governance in financial institutions made the crisis much worse. Many boards inadequately understood the type and scale of risks they were running and failed to hold the executive to high standards of sustainable performance. Bonus schemes contributed to excessive risk-taking by rewarding short-term performance and shareholders failed to exercise proper stewardship." He said the role of non-executive directors should be beefed up to make up for the failures of banks prior to the credit crisis. A risk committee at board level would oversee the policies of the bank and assess whether they could undermine its strength or trigger a second crisis. Sir David called for institutional investors to disclose on their websites whether they followed a policy of serious engagement with companies over their long-term performance. He called on fund managers to sign up to a memorandum of understanding on how to co-ordinate action in the event of a dispute with a company.

David Berman, a partner at City law firm Macfarlanes, warned that Walker's proposals tip the balance too far in putting responsibility on shareholders.

Sir David said he did not see the need for new legislation, so his recommendations will be included in the combined code, which allows dissenting companies to explain why they do not want to comply.

Banks that have started to pay their staff guaranteed bonuses again are an "absolute disgrace" and should be reined in by governments, according to France's finance minister: "I think it is an absolute disgrace that guaranteed bonuses of several years could still be paid, or that some people are thinking of reinstating the old ways of compensating with insufficient relationship between compensation and lasting performance and risk management." In the UK, City firms are being warned that guaranteeing bonuses for more than 12 months could encourage traders to take too much risk and breach the FSA's new code on remuneration. Any guarantees made after 18 March, the date when the FSA published its initial consultation paper, will have to be revoked if firms are to comply with the code.

News of a voluntary code of conduct thrashed out by consultants to apply to the UK executive reward industry was unveiled to delegates at the World Centre's 21st anniversary conference in Cannes. Speaker **Leslie Moss**, Principal Consultant at Hewitt Associates asked delegates whether the City and/or regulators should impose codes of conduct for both remuneration committees and advisers in order to resolve the current crisis over executive remuneration. He revealed that leading reward consultants had discussed the establishment of a code of conduct. Seven executive reward advisers have signed the Code - Deloitte, Hay Group, Hewitt New Bridge Street, Kepler, Mercer, Towers Perrin and Watson Wyatt – which defines how consultants should behave when faced with conflicts of interest. In future, reward consultants who already work for a company remuneration committee should ask permission before they take up any work for the same company's main board and vice versa. But the code does not cover the quantum of executive reward, nor whether rewards for failure should be banned.

The consultants explained: "Our Code sets out to clarify the role of advisers and provide new protocols giving clients increased transparency and information. It is hoped that it will help foster confidence in the integrity and objectivity of consultants and play a part in rebuilding trust in the process of setting executive remuneration. The Code is intended to make it easier for clients to make informed decisions around the nature of work they require consultants to do and whether or not they use a single firm or a range of advisers."

Mr Moss told delegates that the structure of executive reward packages – particularly LTIPs – was out of date. As the lifespan of a FTSE100 ceo these days was barely three years, most of them were no longer around to collect their long-term incentives, so what was the point of awarding them? Furthermore, people were starting to question why bonus plans permitted 25 percent of the equity incentive to vest on median performance. Why should executives get any bonus if their performance had been only average, compared to their peer group in other companies, investors were asking?

He urged that: *executives should be awarded more incentive shares and fewer cash bonuses, *broader social responsibility should be encouraged, *remuneration

committees should make more use of 'malus' by writing bonus claw-back terms into executive contracts if the performance later proved to be illusory, *there should be more acceptance of strategic performance measures via risk adjustment – as there were corporate success indicators other than the "obsession" with EPS (earnings per share) and TSR (total shareholder return), *there should be a separate code of conduct for remuneration committees. "There is a lot of anger out there – especially over termination payments," said Mr Moss. Already this year four major company remuneration reports had been shot down in flames – Bellway, Provident Financial, RBS and Shell and even Tesco suffered a 41 percent shareholder vote defection over its remuneration report.

Colleagues agreed that: *there should be no rewards for failure, *no compensation for past poor performance, *no incentive payments for unaligned risk-taking and *no excessive incentive opportunities. But what they could not agree on was: how much is too much? when does shareholder protection mean executive disengagement? what constitutes performance and when is it acceptable for boards to use discretion?

While the Cannes reward debate was in progress, Goldman Sachs was preparing to announce that, after its 65 percent rise in 2nd quarter profits, it was on track to pay more than £12bn in salaries and bonuses to its 29,400 employees – equating to an average £408,000 per head. Goldman has repaid a US$10bn Treasury loan to free itself from pay and bonus caps imposed by the Obama administration. CFO David Viniar warned that theirs was a 'pay for performance culture' and that if they did not perform well in the 2nd half, then overall compensation levels would fall. What was not widely reported was that most Goldman bonuses are being paid in stock options, which will not vest for three years. While £282,000 average payouts for investment bankers at JPMorgan are comparitively ower than, they enraged those calling for restraint. JPM announced profits of £1.6 bn, up 36 percent on the same period in 2008. Other banks such as Barclays are handing out lavish rewards too.

Centre chairman **Malcolm Hurlston** welcomed delegates from three continents to the bright sunshine in Cannes. Consumers were still on strike, he said, and – as for the crisis itself - we still did not know whether we were out of the woods. He warned that past economic downturns had been exacerbated by companies savagely cutting their payrolls, reducing demand further, enabling crises to feed off themselves.

For too many years, shareholders and the public had had to put up with perverse executive incentives, but nobody had done anything about it. The gap between average annual executive reward in major corporations and rank-and-file reward was getting wider and wider. Now the ratio between the two in the US and the UK was approaching 300 to one, he said. Was this socially acceptable any more?

The Centre had to work more closely with governments in Europe, because there had to be concerted action to bolster and advance the cause of all-employee share ownership, added Mr Hurlston. There had been no clear evidence in Germany or Italy of a shift of opinion in favour of Eso, but the decision of BA pilots to accept shares in return for lower pay was significant and would not be the last deal of its kind. Companies which sent representatives to Cannes this year included: AstraZeneca, Diageo, Pearson, RSA Group and Unilever.

Jeff Mamorsky of US lawyers Greenberg Traurig warned that if the crisis did not end relatively soon, the share scheme industry could be threatened, including executive incentive packages. He explained the origins of the US sub-prime crisis and the securitisation of loans that could never be paid back. Pressures on market participants to produce ever-higher yields had been enormous. As a result, in many cases due diligence was not exercised, said Jeff. Rating agencies had not looked at a single loan file, while AIG had made enormous fees on NINJA loan guarantees (No Income, No Job mortgage approvals). Even the US government had encouraged the purchase of 'toxic waste' mortgage-backed securities by investors. The amount of mortgage-backed securities issued had tripled in the decade ending 2007 to the dizzy level of US$7.3 trillion. Now Goldman Sachs and Barclays had come up with "smart securitisation," whereby they were getting rid of their "junk" to increase their credit and this had to be stopped, said Jeff. Regulation had been weak: only one person at the Federal Reserve was in charge of overseeing the fiduciary conduct of 8,500 commercial banks, he added. By buying itself out of TARP (Troubled Asset Relief Program), Goldman was no longer subject to executive compensation limits and was paying ludicrously high bonuses, said Mr Mamorsky. 'Say On Pay' whereby shareholders got the right to vote on the company's remuneration policy was a great idea he said, but it only applied to the TARP finance houses. Good corporate governance and transparency were the answers and the trend in the US was for professional trustees to take on the corporate liability and responsibility.

Reward consultants had to be aware that what they did made front page news, **Alan Judes**, of Strategic Remuneration, told delegates. Companies were using lots of imaginative ways to prevent job losses in the recession: sabbaticals, factory holidays, shift reductions, part-time working and salary reduction. Some companies, such as BA, were offering share incentives to replace some of the lost salary. "They have learnt from the loss of huge swathes of labour during the previous recession - the message is: 'let's keep as many key staff as we can, ready for the next upturn' – it's a fluid situation," said Alan. Share incentives offered to employees had no cash flow cost to the company if they came from newly issued shares, but there was a notional accounting charge and dilution of existing shareholders, he added. The Share Incentive Plan could be used in 'pay cut' schemes to avoid tax liabilities. Performance based vesting would be more palatable for shareholders who were being diluted. In such circumstances restricted shares, or restricted share

units, were likely to hold value for the employee and to be the preferred form of award. Communicating the positives of Eso to employees was vital – they had to be made aware of their ownership role.

Patrick Neave of the Association of British Insurers said the crisis was so profound that one could no longer be sure that what was acceptable today in the executive reward field would still be acceptable tomorrow. Had Mr Hester, the former ceo of Royal Dutch Shell let the cat out of the bag when he publicly doubted whether his performance would have been any different had he been paid 30 per cent more or less than he had received? Referring to the recent £9.6m reward package offered to the RBS chairman, despite it being 70 percent taxpayer owned, it was "time for shareholders to show a bit more muscle," said Mr Neave. The ABI had intervened to ensure that Hester's share bonus incentives could not be cashed in for five years, rather than the three years, which was originally proposed. The Association was "looking into" the implications of risk in remuneration and might make a statement about it soon. While remuneration had to be set at levels which retained and motivated senior staff, upward ratcheting had to be avoided. Executive reward had to be justified by performance and there had to be value creation over the longer term. He forecast that shareholders would have a greater role to play in future and that they should not let executive reward spiral out of control when times were good.

Michael Whalley of Minter Ellison said that a key reason why executive reward had not sky-rocketed in Oz was that Down Under, executives' reward was based on the company's net profit after tax, whereas in Europe and the US their pay was based on company earnings. The Oz government's proposals to rein in Eso had united employers and trade unions in opposition and every major company had suspended its Eso plans overnight, for fear that a new harsher tax regime would make employees worse off than before, he added.

Shann Turnbull of the Australian Employee Ownership Association said that Eso had not really taken hold in the unlisted company sector – less than one percent of employees in private companies participated in such plans, in marked contrast to the US, where more than 90 percent of Eso participants worked in the unlisted company sector. But Oz unions were more onside than seemed the case in the UK. He proposed employee-shared ownership in return for government bail-outs of companies and for tax breaks to write off assets. During the Great Depression of the 1930s, smaller companies had survived by using private credit vouchers issued by local chambers of trade, redeemable at a discount for government cash, he said.

Joe Saburn of Greenberg Traurig said that pre-crisis, failed ceos of bankrupt giant US corporations had been pushed out with golden parachute packages worth anything between US$10m-150m. Now finance houses which had taken the US Treasury dollar to escape bankruptcy were bound by the executive compensation claw-back rules: up to 25 senior employees in each of these banks could not splash out on corporate luxuries such as executive jets and their bonuses were limited by a formula based on the amount of US taxpayers' money they had been lent and by a new rule that they had to get shareholder approval for executive reward packages. "Who is addressing the structural issues of reward?" he asked delegates. Over the years companies had switched from high salary to high incentive packages and what happened? People who managed their businesses tried to get the maximum payout. "The structure has a great deal of responsibility for this crisis. We must change the reward culture from short-term incentives to long-term shareholder value," he added.

Rosemary Marr of Investec Trust Group and chairman of STEP Worldwide (Society of Trust & Estate Practitioners) described the political storm facing offshore jurisdictions in the wake of the crisis. Offshore had become a convenient scapegoat, accused of de-stabilising the economic system, she said. Even the Pope had weighed in, accusing 'tax havens' of "robbing the poor." President Obama wanted US$ 100bn in offshore revenue repatriated, because it was allegedly 'lost' to the US tax authorities. Cases like the Cayman Islands, where 172 corporations were registered in one small building, did the offshore world no favours. By contrast, the Channel Islands had been white-listed by the OECD, so they were not regarded as tax evaders' heavens. The CIs had had to sign a minimum 12 tax information exchange agreements. Banking secrecy would slowly become a thing of the past, she predicted – offshore jurisdictions would have to comply with international regulators in order to survive. Trustees would have a greater aversion to risk as a result of enhanced compliance procedures. The tax benefits of employee benefit trusts would fall and there would be a return to using trusts solely for motivational and retention purposes, said Rosemary.

Delegates were treated to an insight into how large plan issuers, such as Pearson plc, choose their plan providers after 'beauty parades.' **Gabbi Stopp**, share plans manager at Pearson, assisted by **Cato Wille**, MD of Capital Analytics, discussed how they chose the right provider for Pearson's discretionary employee equity plans - LTIPs, deferred share bonuses and legacy executive option plans. The winning provider would handle the plan admin and offer web access for participants, as well as for key contacts at the company. Employee participants had high expectations, but the reality when accessing their plan award details was often somewhat different. Gabbi and Cato said it was better for providers to under-promise and over-deliver, rather than the other way round. Pearson preferred providers willing to be flexible and open with them, for example by sharing their client roster with them. Non-disclosure agreements were an important protection for both potential providers and the company. Regarding costs, the devil was truly in the detail. The range of cost, product, service and approach varies surprisingly between providers. "Where in the spectrum do you want (or can you afford) to be?" Cato asked. Pearson hired Capital Analytics to manage its tender

review, which had commenced last October. "Now more than ever, it's important for us to ensure that our share plan participants fully understand the value of their awards and give them reassurance that they can access their award details quickly and securely online, wherever they happen to be in the world," she added. In this case, Pearson's beauty parade had been won by Killik Employee Services, Gabbi disclosed.

John Daughtrey of Equiniti delivered a case study about new share plans Equiniti was helping to install at Sky TV, which had a popular all-employee SAYE-Sharesave in place, but which had lost impact value, and discretionary plans involving under 1,000 senior participants, said John. Sky was keen to launch new equity plans because it recognised employee value, wanted to continue engaging with them, wanted to retain key employees, align the interests of employees and shareholders and offer employees a share in the success of the leading multi-channel pay TV service. Sky planned a free share award to all permanent employees to mark its 20th anniversary and a co-investment equity plan for executives. In addition, Sky had pledged to continue its SAYE and LTIP.

Justin Cooper, executive director of Capita Registrars, discussed emerging trends in share plan administration and revealed a large increase in attempted fraud cases as the recession gathered pace. Last year alone, Capita Registrars investigated more than £17m worth of attempted fraud cases, almost 90 percent of which involved employees trying to cheat their own companies. These cases included fraudulent change of personal details, suspicious fund transfers and suspect registration requests. "The rise in suspected fraud cases we are all dealing with is exponential," said Justin: "Perhaps organised crime is pushing towards employee share plans and away from credit cards because of the upgraded chip and pin security." The stock market turmoil had influenced some Eso participants to cash out their equity holdings and there was a general demand for more information, said Justin. Administrators had had to be careful in falling markets about whether or not they had sold the shares on the 'right' day. There had been a big impact on the share option plan savings carriers because interest rates had collapsed from five percent to 0.50 percent. Executives were cashing in their option holdings early - before the new 50 percent Income Tax rate kicked in. Employee participant churn rates had increased as most share options remained deeply underwater, he said. Participants were abandoning one scheme for another because they saw no chance of making money from the original option issues.

Maoiliosa O'Culachain of Global Shares said that its 3rd annual survey of share plan administrators (conducted jointly with Buck Consultants) showed a decline in share scheme participation, mostly because companies had pulled their horns in due to the recession. There had been a big contraction in the number of international employee equity plan roll-outs in the past two years, said Maoiliosa. The percentage of such plans operating in more than 40 countries had more than halved, he said. Typically, US companies were this year paying less than half what they spent last year in supporting employee share plans. Big cost reductions had been achieved in the areas of: plan communication, software and professional fees - the latter down from an average US$120,000 per plan two years ago to $36,000 now, he said. By contrast, the amount spent annually by companies on using equity plan administrators had remained stable at c. $70,000 (most of the survey respondents were US companies). Administrators still attended conferences, valuing the networking opportunities (Esop Centre conferences were more popular among respondents than ifsProShare conferences) and 84 percent of them read at least one newsletter, but internal training had fallen sharply during the past year. HR was still the most frequently mentioned department they worked from but one third of administrators now worked for finance departments. The size of typical share plan departments had fallen significantly during the year and out-sourcing share plan work was on the increase, from one third of respondents in 2007 to 50 percent out-sourcing this year, said Maoiliosa. While share option plans were still the most popular, 55 percent of survey respondents worked with restricted stock plans. Finally, despite the crisis, 60 percent of respondents were not making any changes to their employee equity plans and only ten percent were granting less shares or options, the survey report said.

Sarah Pickering MD of Alvarez & Marsal Taxand UK and **Jaime Sol Espinosa de los Monteros** of Garrigues discussed the limited opportunities for broad-based Eso in Spanish companies. They said that there were not many tax incentives for Eso in Spain and that the present government was not really interested in the concept. Spanish multinationals like Grupo Ferrovial (owner of BAA), Telefonica and Banco Santander (owner of Abbey National) had learnt a lot about Eso from their UK acquisitions, but there were no Revenue approved schemes and even where there was an employee plan in place, they did not put in more than one plan at a time. Furthermore, the funding of equity incentive plans in Spain had been made difficult by the arrival of expense accounting and by the non-existence of EBT trusts, which was "disgraceful," said Jaime. There were equity swap mechanisms instead, but fingers had been burnt when share prices collapsed because companies were contractually obliged to receive the shares from the banks when plans vested, but at a far, far lower value than was the case when the plan had been launched. Most Spanish companies looked at Eso, if they looked at all, purely in terms of cost and taxes – very few took the more holistic long-term view of employee share ownership, he said. The honourable exceptions included: Iberia, which had offered an all-employee stock option plan when it negotiated with the unions; Amadeus, which had implemented an all-employee Eso and Telefonica, which had approved an all-employee plan for 12000 employees. There was no tradition of transparency about directors' salaries and bonuses in Spain and compliance was operating at a low level, said Jaime. However, big

Spanish companies had reacted quickly to the crisis by cutting directors' salaries and executive bonuses, he said.

Robert Collard of Macfarlanes examined the legal environment affecting Eso in Europe. Was it really any easier to launch pan-European share plans than it had been 20 year ago? In 2002 the European Commission, helped by the Esop Centre and others, had attempted to eliminate the trans-national obstacles (eg securities laws, employment law and cultural differences), which had hitherto hindered the spread of all-employee share ownership. Some success had been won – the proportion of large EU based corporations who had installed all-employee Esos had risen from just ten to 18 percent, he said. In France President Sarkozy had demanded the extension of share and share option awards to all employees and there had been an increase in tax allowances for employee shares in Germany. A voluntary Europe-wide platform for employee financial participation (Eso) was under discussion. However, across a swathe of countries in the southern Mediterranean very little real progress had been made. Meanwhile, the Prospectus Directive had proved to be a dog's dinner – whilst passporting opportunities and exemptions were written into it – the get-outs only applied to shares listed on European markets, upsetting the US corporate community mightily. Finally a new short-form Prospectus had emerged with granted exemption to US subsidiaries in Europe, he said.

Colin Kendon of Bird & Bird gamely tackled the difficulties of setting up employee share plans in China. Chinese legal and administrative systems were very bureaucratic and as there was no real system of precedent, interpreting and applying laws and processes was a maze. Plan sponsors had to negotiate their way through sometimes conflicting guidance from: state council laws, regulations, notices, circulars, provincial bureaux and local bureaux, said Colin. "There are lots of inconsistencies – it's a nightmare," he concluded. The general principle of the Chinese legal system was that anything not expressly permitted was considered prohibited. That meant that without local agents, European plan sponsors would be lost. On all fronts – exchange controls, tax and social security – there were tank traps to avoid, added Colin.

Lloyds TSB trustee under new management

The 18 corporate trustee staff of Lloyds TSB Offshore Trust Co were this week transferred into the Jersey-based offshore business of HBOS Employee Equity Services. The 'lift & drop' exercise solved the problem facing Lloyds Banking Group after it absorbed HBOS - suddenly finding itself with two offshore employee equity plan businesses. By far the larger of these two businesses is Offshore HBOS EES, built around the former Mourant business, which HBOS purchased in August 2006. Davinia Smith and Jo Lucas are the two Lloyds TSB Offshore Centre contacts based in Jersey. Davinia will ultimately report to Richard Nelson, MD of HBOS Employee Equity Solutions, in London. The Lloyds TSB CTS team will continue to work in their present offices for the time being, doing the same work as before, but eventually they will work from the same offices as the HBOS EES Offshore team at Queensway House, Hilgrove Street, St Helier. Heidi Wilson, head of offshore, HBOS EES, said that following the integration of HBOS into the Lloyds Banking Group, it had two offshore employee equity share plan businesses. A review of the two operations was carried out to see how best they could fit together. Accordingly, the 18 staff of CTS would be absorbed by HBOS EES from 3rd August. The transfer would enhance HBOS EES' position as a leading specialist administrator in UK and global all-employee and executive share plans, she said, and both sets of clients will be able to benefit from EES' recently launched Executive Online Services platform (EOS).

Esop 2009 Awards

The winner of the Esop 2009 Award for the best international employee equity plan in the larger companies category will be announced by Treasury shadow minister, Mark Hoban MP at a formal Esop awards dinner in London on **Tuesday, October 20**.

The three finalists - **Diageo**, **RSA** (advised by Equiniti) and **Serco** (advised by Linklaters and administered by Equiniti) – were announced at the Centre's 21st annual conference in Cannes (see earlier pages)

Mr Hurlston, who chaired the judges, said the distance between the three finalists was small and that it had been difficult to pick a clear winner. This was not the case in the SME category (companies employing less than 1500 people) as the clear winner for the second successive year was **Telecity**, advised by Capita Share Plan Services.

If you want to attend – either as an individual or mob-handed (by booking a table on behalf of your employer) - please contact Centre assistant director Anna Burgess on: Tel 020 7436 9936 or by email: aburgess@hurlstons.com She has information on co-sponsorship opportunities.

On the move

Judith George left her job as Assistant Company Secretary at Taylor Nelson Sofres, a FTSE 250 company specialising in market research, at the end of July. She is available for new assignments and her contact co-ordinates are: Phone +44 7722 130859 and email: judith.george@hotmail.co.uk. Judith worked at TNS for over ten years. Her main duty focuses were at parent level for the plc company, extending to the group's 50+ UK and 70+ overseas subsidiary companies. She managed administration for all global share plans within legislative deadlines including international and tax issues, communication and marketing; interfaced between the main UK and 10 overseas branches for all global share plans; improved in-house company secretarial and share plan procedures; handled recruitment, supervision and mentoring aspects; prepared Listing Particulars for the GfK-TNS merger in 2008 and drafted annual report text for directors, remuneration and corporate governance sections in accordance with the Listing Rules, Companies Acts and corporate governance.

Sanne Group has recently strengthened its capabilities in

the Middle Eastern fiduciary services sector with the opening of a representative office in Dubai. The office, which has been established with joint venture partner SG Chancery, is well positioned to market Sanne's high quality administration services to a rapidly developing market comprising international companies, high net worth individuals and private investment vehicles across the whole of the Gulf region. Sanne Group has considerable experience in building businesses in new jurisdictions, in response to customers' service requirements, and this forms part of a long- term investment in the region. Sanne Group Dubai Limited was established earlier this year and is licensed to conduct business activities by the Dubai International Finance Centre (DIFC). For more information about the services offered, please contact Simon Young, Stuart Hamon or Zena Couppey or director Peter Mossop in Jersey: Tel +44 (0) 1534 750550

CONFERENCES - dates for your diaries

The World Centre's 10th Global Employee Equity Forum takes place on **February 4 and 5** next year at the **Steigenberger Belvedere Hotel** in **Davos**.

The Centre's next annual conference is scheduled to take place on **Thursday July 8 and Friday July 9** (2010) in the **Majestic Hotel, Cannes**. Please contact Fred Hackworth, fhackworth@hurlstons.com, if you wish to speak at either (or both) event(s) and if you wish to co-sponsor part of the conference.

The Centre's next joint conference on **employee share schemes for trustees** - in association with the Society of Trust and Estate Practitioners - is due to take place in Jersey in March next year. Please contact Anna Burgess, aburgess@hurlstons.com, for more information.

The Centre hopes to organise a London conference this autumn about re-structuring of executive reward in light of the current crisis. The viability of this will depend upon the willingness of senior Centre members to participate. Please contact either Fred Hackworth or Anna Burgess if you are interested in helping to organise or speak at/co-sponsor such an event. We need suggestions on venue, dates and programme asap.

The Centre's yearly SME conference will be held in association with the Genesis Initiative which speaks for 800,000 small enterprises. Please make offers of venues and participation (sponsors or speakers) to Anna Burgess.

Executive pension costs soar

Britain's biggest companies are paying an average 70 percent of executives' pay to fund the final salary pensions of their top officials, making them hugely more expensive than the pensions of ordinary employees, said a new study from actuarial consultants Lane Clark & Peacock. It looked at the cost of executive pensions at FTSE 100 companies, at a time when employers are aggressively scaling back the benefits they offer rank-and-file workers. However, the LCP study found that new limits to tax breaks on pension contributions for high earners from April 2011 could diminish the generosity of pension schemes. It calculates that the changes will add £50,000 a year to the tax bill of a FTSE 100 director. "Executive directors may conclude that it is not worth being in a pension scheme," LCP said. It is urging remuneration committees to re-examine executive pension arrangements in light of the new tax rules.

Oz climb down

The Australian government has retreated on the taxation of employee share schemes following weeks of uncertainty caused by the proposed significant changes set out in the May Budget. "Fortunately, it has substantially abandoned many of the suggested changes after significant lobbying by industry, the professions and the unions," said Michael Whalley of Minter Ellison. "However, the position now arrived at still contains a number of changes, and there continues to be uncertainties about the impact of some of these changes and concerns about particular aspects." In summary: the new changes took effect from 1 July, but the legislation will not be published for some time; employers will be required to report share and option grants and issues, and will be required to advise the Taxation Office of the market value of shares or options when they become taxable in employees' hands; withholding of tax will be required by an employer but only in cases where an employee has not provided a tax file number; deferral of tax after the issue of shares or the grant of options will only be available if there is a real risk of forfeiture. However, time based restrictions, or anything within the employee's control will not qualify as constituting a real risk of forfeiture. A continuing employment requirement will qualify. Deferral will be available for up to A$5,000 of qualifying share scheme benefits that are obtained through salary sacrifice arrangement. The A$1,000 up front tax exemption for qualifying shares or options that meet the existing conditions for eligibility will now only be available to employees with adjusted taxable income of less than A$180,000. The availability of a tax refund will be extended to shares if they are forfeited after the taxing point, but no refund will be available for an option previously taxed simply because the employee chooses not to exercise it. New valuation rules will be developed, but until then, existing rules for valuing shares and options will continue, said Mr Whalley. The position regarding options is particularly unfavourable under these new proposals. An underwater option will notionally be taxable on vesting, although the valuation rules could be expected to assist to ensure that no tax is payable at that time. On the other hand, a vanilla option that has no forfeiture conditions will not qualify for deferral and will be taxable on grant.

Oz pilots' leader Ian Wood will be visiting London in September to share some ideas on employee trusts in the sector. He will meet Malcolm Hurlston at the RAF Club, where both are members.

The Employee Share Ownership Centre Ltd is a members' organisation which lobbies, informs and researches on behalf of employee share