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# it's our business

newspad of the Employee Share Ownership Centre

## Swedes axe Centre's 2013 top employee share scheme

**EXCLUSIVE**
One of the UK's most successful employee share schemes is to be axed in the New Year and not replaced because its sponsoring company is being taken over by a Swedish multinational, which doesn't believe in them.
**Edwards Group**, a leading manufacturer of vacuum products, will lose its award-winning international SAYE-Sharesave employee share scheme when predator Atlas Copco takes it over and delists the company from the US NASDAQ stock index.
The news came just hours after the Edwards Group was announced the winner of the Esop Centre's annual ***Best international employee share plan in companies with more than 1,500 employees*** competition at a champagne reception and gala dinner in London's RAF Club in Piccadilly.
Outraged Centre chairman Malcolm Hurlston CBE condemned Atlas Copco's decision to scrap employee share ownership in Edwards and demanded a change in UK company law to prevent this happening again.
Around 130 diners at the Esop Centre's awards ceremony (*see full story below*) had heard how Edwards Group's Sharesave scheme had been designed as part of an IPO. The results were astonishing for a first launch, with more than half of eligible employees signing up in the UK and 43 percent overseas – a testament to the communications work done, all within an eight-week project timeframe.
Mr Hurlston said: "It is outrageous that a truly popular and successful broad-based employee share scheme should be scrapped in a British company and not replaced, just because the new foreign owner is not interested in share schemes.
"This is not the first time we've been forced to witness this behaviour – the same thing happened when Dubai Ports World took over P & O some years back. Again, the new owners couldn't wait to get rid of the popular employee share schemes at P & O because they didn't understand them.
"Normally, when US or UK based multinationals take over UK companies which operate employee share schemes, they wind up existing schemes, which can be a legal requirement, and then *replace them with their own employee share plans.* That is what should be happening at Edwards Group, but clearly it is not.
"It's about time the government intervened and changed company law to prevent foreign based companies taking over UK based companies that have broad-based employee share schemes, from scrapping them without installing replacement share schemes," added Mr Hurlston.
"Broad-based employee share schemes are increasingly important in countries like the UK, in which millions of employees will retire without any source of regular income other than the state pension. Participation in such schemes, which is always optional, allows committed employees to build up share-based nest eggs to help them in later life, should they lose their jobs or retire.
"So what is the government doing, supposedly trumpeting employee share ownership in public, while standing by as popular employee share schemes are quietly strangled behind the scenes?" he demanded. "I have posed the question to Secretary of State Vincent

***From the Chairman***

*I have been close to the Co-op for many years so its travails have been distressing. In Britain it has been consumer owned rather than employee owned but its governance problem is shared with all kinds of enterprise: how can overmighty bosses be restrained? A prescient letter from former CWS chief Sir Graham Melmoth was published in 2007: "Would Peter Marks (the new Co-op Group ceo) know a co-operative value if it hit him in the face? The membership can't say they haven't been warned." The lesson is that we too need to add alignment of values to our talk of alignment of interest.*

***Malcolm Hurlston CBE***

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Cable, who has been a particularly forceful advocate." Edwards Group deputy company secretary Michael Anscombe had to confirm the demise of the company's employee share schemes after collecting the Centre's award in person. Mr Hurlston had asked him and Edwards to help promote wider share ownership, but Mr Anscombe said that it would be "no longer appropriate" for the company to do so, as – post takeover – they would "no longer have any share schemes."

**Centre Awards**

A record 130 diners attended the Centre's annual black tie champagne reception and dinner, which was held on November 6 at the RAF Club in Piccadilly. They heard Centre chairman Malcolm Hurlston CBE and international director Fred Hackworth laud the winning companies and their advisers and the runners-up in each of the three major award categories. A further award was made for the *Student of the Year* on the **Esop Institute** certificate course. The Guest of Honour was Otto Thoresen, director-general of the Association of British Insurers.

Mr Hurlston said that the event paid tribute to the many in the room who had made it possible for millions of UK employees to participate in and gain from broad-based Eso schemes. The dinner was timely because we would be celebrating shortly the centenary of the birth of the US founder of employee share ownership plans, Louis Kelso, who had described memorably the point of Esops as being the '*Wages of Capital'*.

"We have achieved much, but there are areas in which we have failed. As Gross of Pimco has pointed out the top one percent in business look after themselves much better than their employees. In the US, they now earn 20 percent of all national income, twice the share they earned in the 1970s," said Mr Hurlston. "In this context, the efforts of the UK coalition government, in supporting indirect employee ownership, pale into insignificance. As we have seen recently, encouraging 'employee ownership' through co-op type organisations can be likened to a Trojan Horse. Francis Maude is now saying "Let ninety nine flowers bloom." Our sector, which is about encouraging more broad-based employee share ownership throughout the economy, has been shamefully neglected," he added.

"However, I have to pay tribute to business minister Michael Fallon for his success in steering almost 150,000 Royal Mail employees into real share ownership, with the prospect of meaningful gain. I salute too the Communication Workers Union which, to its credit, did nothing to dissuade postal workers from accepting their shares, even though it fought the privatisation all the way. This is helping to bring trade unions onside – to see employee share ownership not as a threat, but as something that could help them sell memberships.

"We cannot afford mere passive ownership of shares – the industry should give it its best efforts. Eso mechanisms in the UK and perhaps mainland Europe too must be far closer to US mechanisms, with for example more linkage to retirement funds," added Mr Hurlston.

He announced that the Centre, helped by JPMorgan Cazenove, was launching in the New Year the new quarterly Eso index, based on what was happening in companies with at least three percent of their equity owned by employees.

The winner of this year's award for ***Best international employee share plan in companies with more than 1,500 employees*** was **Edwards Group**, nominated by **Equiniti**. The runners-up were: **Rio Tinto**, nominated by **Computershare** and **ARM Holdings**, nominated by **YBS Share Plans**.

**Edwards Group** is a leading manufacturer of vacuum products and provides related value-added services for the manufacture of semiconductors, flat panel displays, LEDs and solar cells. Edwards Group Ltd is a Cayman Islands incorporated company (but UK tax resident and headquartered) with a main listing of American Depositary Shares on the US NASDAQ global select market, under the symbol EVAC, which complicated the legal position. Its International Sharesave scheme was designed as part of an IPO, following on from a similar scheme as part of BOC Group. The results were astonishing for a first launch, with more than half of eligible employees signing up in the UK and 43 percent overseas – a testament to the communications work done, all within an eight-week project timeframe. The judges, Francis O'Mahoney and Kevin Lim said: While all the candidates submitted impressive entries, the fact that Edwards Group had made great progress, especially in South East Asia (a company objective) - 18 countries & nine languages in all - in just eight weeks from a standing start made a big impression. Amazingly the pre IPO share allotment was over-subscribed.

The **winning** award was collected by Michael Anscombe and Sarah Larkins (Edwards Group) with John Daughtrey and Phil Smith of Equiniti in attendance.

**Rio Tinto**, the global commodities company, employs 54,585 people. It has offered employee share plans for more than 20 years. It launched a global share purchase plan '*myShare'* in October last year, partly as a positive reaction to employee engagement survey responses. To date there are almost 15,000 participants (a 27 percent take-up rate). Matching shares are offered at a 1:1 ratio to encourage plan participation, and purchases are made on a *quarterly basis*, rather than annual, in order to shelter employees as much as possible from share price and foreign exchange fluctuations up to $5,000 pa. Rio Tinto faced challenges including a complex corporate structure, and launching a plan in 36 countries to an employee base of 55,000 individuals speaking many different languages. The judges said that Rio Tinto deserved credit for establishing a successful Eso scheme spanning 55 countries and 15,000 participants. A 27 percent take-up in the first year was impressive as was its network of local champions. Its *Keep It Simple* mantra – when explaining the scheme - was noted, as was one of its aims '*to supplement retirement income.'* Rio Tinto's certificate of ***commendation*** was collected by Pat Sims and Sarah Morley (Rio Tinto), with Martyn Drake & Iain Wilson of Computershare in attendance.

Fast-growing **ARM**, a world-leading semiconductor IP supplier, employs more than 2,500 people globally and has 28 offices in 14 countries. Its chips are incorporated into smart phones, tablets and other consumer electronic devices. ARM offers three share plans globally and ensures that every employee has access to at least one of those schemes, of which the jewel in the crown is an international Sharesave, in which 38 percent of staff participate. The judges liked the fact that ARM discusses its share schemes with prospective employees during job interviews, stressing its track record of impressive equity growth in which employee participants share. ARM's certificate of ***commendation*** was collected by Dan Zisimos (Arm Holdings) with Jenna Clark & Paul Bowen of YBS in attendance.

The winner of this year's award for *Best Employee Share Ownership Plan for companies with fewer than 1,500 employees* was **IGas Energy,** nominated by **Equiniti.** The runner-up was **ASOS,** nominated by **Capita.**

**IGas** explores and develops gas and oil reserves at onshore locations in the northwest of England, in north Wales, in the east midlands and in southern England. IGas launched a Share Incentive Plan in 2013. Of the 160 employees 136 are eligible to join the scheme. The basis of IGas's SIP is to incentivise employees on a quarterly basis to meet their oil barrel production targets. The scheme accumulates employee's contributions over three months and the matching share ratio per quarter is award at a 'one for one' standard rate, which is increased to a 'two for one' rate if the targets are met. Three employees out of four elected to save monthly from April 2013. The judges said: The IGas employee share scheme had clear performance targets and offered a generous share match. The judges admired the incentivisation of employees to meet quarterly oil barrel production targets by using matching shares on ratio increases from 1:1 to 2:1 if production targets were met. This was brave. IGas had worked closely with Equiniti, PwC and HMRC to ensure the final performance conditions satisfied all legal requirements. Both submitted schemes had achieved healthy employee take-up rates. Peter Foster (IGas) collected the **winning** certificate, with Phil Ainsley, Stuart Allin and Ghal Supple from Equiniti in attendance.

ASOS, the online fashion retailer, offers both a Sharesave and a SIP to its 1,000 staff in the UK. Around 40 percent of these employees currently participate in the Sharesave. Participants who contributed the full £250 a month in the first launch in 2008 made a profit of more than £72,000. Underlining its commitment to share ownership, the company added a SIP in 2012, offering free shares with no performance conditions to all its full-time employees. Almost 80 percent took up the offer, with the objective being to reach 100 percent participation in future years. In a unique element to the ASOS SIP, approval was obtained from HMRC to make larger awards to lower level employees, with smaller awards being made working up the organisation. This request was made by ASOS specifically to help increase share ownership at a deeper level in the company. The judges were impressed that ASOS received HMRC approval to do this. Judges noted the fact that ceo Nick Robinson makes his Eso commitment clear in company annual reports, a policy much favoured by the Centre. Lucy Maxwell of ASOS collected the certificate of ***commendation***, with David Isaacs and Tristan Adams of Capita in attendance.

The winner of this year's award for ***Best all-employee share plan communications*** was **Pearson Group,** which was an in-house entry. The first runner-up was **Morrisons**, nominated by **YBS Share Plans.** Very close behind was **Telefonica**, nominated by **Global Shares**. The judges had their work cut out to choose between the three finalists as all three had submitted strong entries.

**Pearson** celebrated its Sharesave's 30th anniversary last year. However, familiarity with a product breeds its own set of communication challenges. For the 2013 plan launch, the team therefore decided to revisit their initial strategy with outstanding results, receiving warm feedback from employees. The no-restrictions offer was made to 24,000 employees in 90 countries. It used: visually appealing brochures; a network of local planning coordinators; direct access to the Shareplans team for any employees with unanswered questions; and unified branding across the corporate *('Worldwide Save for Shares').* Employees save in local currency, with exchange rates (and hence minimum and maximum monthly contributions) fixed at the start of the year. Sixty percent of Pearson's employees are US based. Judges liked Pearson's use of *Neo*, an internal social media platform, to communicate with employees (raising awareness, disseminating information, reminding employees of upcoming deadlines), combined with the all-round strength of its communications. Lesley McFee, Share Plans Manager, collected the winner's certificate for Pearson. Lesley commented:

"I am delighted to receive the ESOP award for *Best All –Employee Share Plan Communication* on behalf of Pearson. Having operated global share plans at Pearson for 15 years, we are always learning and trying to innovate and engage with our people in new and compelling ways. We are thrilled to have won this award and take great pride from the fact that the communication of this important employee benefit has been recognised by industry leaders and our peers alike."

Robert Head, Director for Executive Reward & People Strategy, added:

"We firmly believe that one of the best ways for people to share in Pearson's success and be part of 'one Pearson' is to participate in an all-employee stock plan and ultimately to own part of the company they work for. This award represents yet further recognition of Pearson's enduring commitment to employee stock ownership. Well done to everyone involved in making this happen."

**Morrisons,** the UK's fourth largest food supermarket group, with 129,000 employees, tackled the problem of lack of understanding of share plans among its diverse workforce using a multi-pronged approach, including: a segmented communications strategy; opportunities to address technical questions; and incorporating the Sharesave into the 'Save your dough' financial education website. Now 26 percent of the eligible workforce participates in the schemes. Morrisons takes a medium to long-term view of Eso, encouraging employee participants to hold onto their shares after scheme maturities: currently just under two-thirds hold onto their shares and the rest sell up. The judges noted that a successful communications strategy had reduced the number of calls from Morrison employees to the YBS Customer Service Contact Centre by almost 80 percent between 2012 and 2013. Recognising pressures on lower income employees, Morrison's stressed in its literature that Sharesave contributions start as low as £5 per month. WM Morrison Supermarkets was ***highly commended.*** Gillian Mitchell of Morrisons collected its certificate, with Jenna Clark & Paul Bowen of YBS Share Plans in attendance.

**Telefonica,** listed on the Madrid Stock Exchange, has 260,000 employees worldwide *with 315m customers* in 25 countries. The company's global employee stock purchase plan allows employees to buy shares worth between €25 and €100 each month, with each share purchased being generously matched by the company (a 1:1 ratio) if the shares are then held for one year. The communications materials used included a dedicated website and an explanatory video. The average employee contribution is £75. The 18 percent initial take-up rate was higher than expected, given the huge logistical difficulties. The judges noted Telefonica's main objectives of encouraging employee engagement and of reinforcing corporate identity in a truly global context. They liked Telefonica's use of an effective, well-presented video to explain the global share purchase scheme. Employees who log onto the company's share plans site are offered the choice of playing the intro video in one of six languages. Its certificate of ***commendation*** was collected by Tina Clayton & Juan Manuel Alvarez Zabala (Telefonica), with Karen Mortimer and Richard Hayes of Global Shares in attendance.

The Centre thanks awards dinner sponsor **Ogier**.

**New fears over huge executive equity incentive scheme payouts**

Total pay for the directors of the UK's top businesses rose 14 percent over the past year - driven by a huge jump in share-based long-term incentive payments, pay research company Incomes Data Services (IDS) reported.

The average total reward for a director of a FTSE 100 firm is now £3.3m, the IDS report said, partly swelled by a 58 percent rise in share-based long-term incentives.

This was despite the fact that basic pay rises were "relatively restrained" at four percent on average and directors' annual bonuses had actually fallen by an average 8.8 percent.

Steve Tatton, editor of IDS's directors' pay report, said the survey illustrated the complex make-up of boardroom remuneration. With nearly two-thirds of FTSE directors benefiting from the maturity of a Long-Term Incentive Plan (LTIP) award in the latest year, the higher share-based payouts clearly made up for any ground lost in lower annual bonuses.

According to the research from IDS, part of Thomson Reuters, the median figure for such awards increased by 58 percent last year, from £764,462 to £1,208,940. The more visible annual bonus figure dropped to £553,200. IDS prefers to cite median figures as more indicative of ongoing trends in directors' pay. On other standard measures, the figures show an even more rapidly accelerating gap between top and average pay packets.

A number of huge share awards at the top of the scale pushed the mean payout from LTIPs last year to £2.57m. With two-thirds of directors getting LTIP payouts, the average total earnings of FTSE 100 directors across the board for 2013 went up almost 40 percent to £3.32m.

TUC general secretary Frances O'Grady said the survey's findings meant that top bosses' pay was growing 20 times faster than that of the average worker. "It's one thing replacing bonuses with long-term incentive plans, but FTSE 100 companies are simply exploiting this change to make their fat cats even fatter," she said.

This news may reignite all the bile and spite concerning executive reward levels. With a General Election to fight within 18 months, Downing Street may feel obliged to put more pressure on the regulators and representative bodies to act again.

Further afield, the Swiss national referendum calling for a maximum 12:1 reward ratio for ceos, vis-à-vis the lowest average full-time working pay in their companies, was defeated by 65.3 percent of voters against 34.7 percent. However, the level of votes, more than one third in favour of installing a maximum reward ratio raised eyebrows in Brussels.

The debate became heated earlier this year when the Swiss drug group Novartis agreed to pay its outgoing chairman, Daniel Vasella, £49m. The payment, to persuade Vasella not to use his knowledge to help rival pharmaceuticals, was described as a 'golden gag.' A huge public and political backlash ensued, with the Swiss justice minister, Simonetta Sommaruga, saying the payoff was "a huge blow to the social cohesion in our country" and that payouts on such a scale "undermined public trust in the entire economy." Novartis was forced to cancel the payout, but serious damage had been done, and in a referendum the following month more than two-thirds of Swiss voters backed a new rule to ban golden hellos and goodbyes.

The proposed 12:1 maximum reward ratio has been adopted already as policy by the main Spanish Opposition party.

Although this proposal was defeated, the issue of very high executive salaries in quoted companies and a widening wage gap between them and shop floor employees has not gone away concerning activists on the right as well as the left.

According to a study by Manifest and **MM&K**, FTSE 100 chief executive total pay sits at 120 times the average earnings of their employees. This has risen from 47 times the rate in 1998, but down from a pre-crash peak of 151 times average employee pay in 2007.

A significant portion of FTSE 100 directors were given large share blocks when equity prices were much lower. With rising share prices the top directors are now seeing large windfall gains.

Latest UK labour market statistics show average annual wage increases of 0.7 percent.

Steve Tatton, editor of IDS's directors' pay report, said: "The higher share-based payouts clearly made up for any ground lost in lower annual bonuses. *However, this boost to overall earnings took place without any of last year's talk of a shareholders' spring, with fewer institutional investors voting down remuneration reports.*

"This was perhaps because the vesting of large share awards is currently less visible to investors than salary increases and bonus pay-outs."

New accounting rules brought in recently by the business secretary, Vince Cable, could mean more scrutiny of LTIP schemes by shareholders, with the requirement to include a single total pay figure for top executives likely to underline the scale of long-term incentive payments. Many listed companies' annual accounts hitherto have not directly included vested share awards when reporting directors' pay.

The reforms mean that total pay, including pensions, share options and bonuses should be presented in a clear, simple format, and will be subject to a legally binding vote by shareholders.

Mr Cable said: "Pay increases at the very top have not always been an indication of how well a company has performed. That is why last month I introduced new reforms to make directors' pay much more transparent, so shareholders can better understand what this country's top bosses are paid and hold them to account. These reforms mean all shareholders, big or small, will no longer be kept in the dark through complex reporting methods on the performance of the companies they invest in. They will be able to challenge companies over excessive pay, preventing big bosses being rewarded for failure."

Mr Tatton agreed that better transparency would likely mean tougher shareholder questioning of pay schemes in future.

The problem with that is that UK companies increasingly have large proportions of their equity owned by foreign institutions, eg Middle East sovereign wealth funds, which, so far, have tended to side with company remuneration committees over pay votes at agms. This makes it that much harder for messages about over-generous executive reward schemes to get through.

Ms O'Grady said: "The time has come for legislation to put ordinary workers on the pay committees of companies. This is the only way to bring some sanity to the way in which directors are paid."

***Seasonal greetings from all at the Centre to our members.***

***We hope that your celebrations go with a fizz! (Our chairman is mixing champagne and Guinness to make black velvet).***

***See you in the New Year.***

***Malcolm Hurlston CBE; Fred Hackworth; Harry Atkinson; Juliet Wigzell and Linda Wilbert.***

**Shares for Rights boomlet in sight?**

Up to 80,000 employees will have taken up the new 'Shares for Rights' legislation by the year 2017, a Treasury minister claimed in a parliamentary answer. David Gauke MP, Exchequer Secretary, said the Government calculates that between 50-80,000 employees will have taken up the scheme by April 2017, reported Centre member **Deloitte**.

The estimated cost of the new tax relief will be £15m next year, rising to £75m by 2016-17, the minister said.

The new 'Employee Shareholder' status has been available from September 1. Employee shareholders have fewer employment rights than employees, and are awarded at least £2,000 worth of shares in their employer or a parent company. The scheme is controversial, as the potential tax benefits under the original proposal do not seem to provide a sufficient incentive to rank-and-file employees to surrender their rights.

However, the income tax and CGT reliefs introduced under the UK Finance Act 2013 are potentially extremely valuable, given that they can deliver a tax-free acquisition and disposal of shares worth up to £50,000 (valued at the date of acquisition), said lawyers *Jones Day*. "As a result, the scheme will be of particular interest to private equity and other investors looking to incentivise management in start-up or growth businesses," said Jones Day. "*It is unlikely to be of interest to larger organisations, however, because of the administrative hurdles and costs of implementation introduced by the employment rights safeguards.*"

It remains to be seen whether most of the take-up will be from the managerial sector, or from rank-and file employees in offices and factories.

A survey this month by law firm **Irwin Mitchell**, however, raises concerns about the scheme's prospects. Only 20 percent of firms responding said they had heard of the new employee shareholder contracts and just one percent of this group - i.e. just *one* firm - said they were considering implementing it. More than half of respondents said they thought the scheme would have a negative impact on staff recruitment.

Employee shareholders will have the same rights and will be afforded the same protections as colleagues who have not taken up the new contract status, with the exception of certain statutory employment rights, which they will be required to surrender. Employee shareholders will have:

- no right to request time off for study or training;
- no right to make a flexible working request, aside from those employee shareholders returning from parental leave
- no right not to be unfairly dismissed (except in health and safety cases, automatically unfair cases or cases where the dismissal is discriminatory under the UK Equality Act 2010);
- no right to a statutory redundancy payment; and
- to give 16 weeks' notice if they want to return early from statutory maternity, adoption or additional paternity leave.

Concerns were raised about the potential effect on employee rights and protections. In recognition of these concerns, a number of safeguards have been added, including:

- protection against dismissal or other detrimental treatment for employees who refuse to become employee shareholders;
- a statement contained in the offer of employee shareholder status explaining the employment rights that would be sacrificed if the terms of employment and the rights attaching to the shares were accepted;
- a requirement for employees to receive independent legal advice on the offer of employee shareholder status with the reasonable costs incurred being borne by the employer (regardless of whether the offer is accepted); and
- individuals agreeing to the offer will be entitled to a seven-day cooling off period from the day on which the legal advice is received.

The market value of the employee shareholder shares acquired will be taxable as earnings and therefore subject to income tax. However, subject to certain conditions, an employee shareholder will be entitled to deduct up to £2,000 from taxable earnings. There will be no income tax or NICs on the first £2,000, as the employee will be treated, for tax purposes, as paying £2,000 for the relevant shares. Any value in excess of £2,000 will be subject to income tax under PAYE withholding and NICs on acquisition.

However, it should be noted that the income tax benefits of employee shareholder status will **not** be available if either the employee shareholder or any connected individuals have a material interest (broadly, a 25 percent interest) in the employer or a relevant parent undertaking, or had such an interest for the period of one year ending on the date of acquisition. A subsequent disposal of the shares will be exempt from CGT only if, immediately after the acquisition by the employee shareholder, the total value of that employee's shares is £50,000 or less but more than £2,000. There is a mechanism for pro-rating this allowance where the value of the shares exceeds £50,000. The CGT exemption will not be available where the employee shareholder or any connected individuals have a material interest in the employer or a relevant parent undertaking at the time the shares are acquired, or had such an interest in the period of one year ending on the date of acquisition. A corporation tax deduction will not be available in these circumstances. However, the corporation tax deduction rules will apply in the usual way where any additional value was subject to income tax and NICs on acquisition.

The scheme was originally introduced to promote a new class of entrepreneurial employees who take a stake in their companies in exchange for surrendering certain rights. "*Unfortunately, the safeguards introduced to the scheme, not least the requirement to obtain independent legal advice, are likely to render the scheme unattractive to certain employers, especially those with a large number of lower paid employees*," added *Jones Day.*

The potential tax benefits are, however, substantial, and investors are likely to see the scheme as an effective way to incentivise management and other senior employees where the potential benefits are more likely to outweigh the costs of implementation.

Centre chairman **Malcolm Hurlston** CBE, said that there was a precedent for this quid-pro-quo arrangement of shares for rights, in the iconic Mondragon co-operative in Spain. At the world's largest co-operative, members have few employment rights. "It's perhaps not as off-the-wall as it first appeared," Mr Hurlston said. "It is a curious idea which shouldn't be discounted. There is a handful of businesses which I understand have asked for a valuation but, because a lot of it is still unclear, it's very difficult for people to be recommending it yet. It may partially fill the private equity gap which results from the limitations of the Enterprise Management Initiative. "

** The Centre will be sending a **quarterly questionnaire** to members in order to assess the take-up of the scheme. The first questionnaire will be sent out *December 2* - the three month anniversary of the policy coming into effect - and will take just a few moments of respondents' time. **

**Centre briefs Labour Treasury shadow minister**

Centre chairman Malcolm Hurlston CBE has briefed Cathy Jamieson, MP for Kilmarnock and Loudoun and shadow Treasury minister, on the Opposition's opportunity to champion all-employee share schemes in readiness for the 2015 General Election. Cathy has replaced Chris Leslie, a former Centre awards dinner guest of honour, who has been promoted to the Shadow Cabinet. Cathy comes to the job with ministerial experience from Scotland. Mr Hurlston briefed her on building on Gordon Brown's achievements when Chancellor of the Exchequer in introducing both SIP & EMI. Further meetings are planned.

**Centre Chairman hosts US community finance delegation**

Centre Chairman Malcolm Hurlston CBE and Gareth Thomas MP hosted a delegation of MPs and US and UK community finance experts on November 20 at a reception in Portcullis House.

The reception was part of a four day visit to the UK by three US Community Reinvestment Act (CRA) experts, including Joy Hoffman, Group Vice President for Public Information and Community Development at the **Federal Reserve Bank of San Francisco**.

The event was much appreciated by the guests and provided a useful environment in which to promote the virtues of employee share ownership.

Alongside Joy were Jeff Nugent, a CRA expert, and Mark Pinsky, president and ceo of Opportunity Finance Network. Ben Hughes, ceo of the UK's Community Development Finance Association, organised much of the visit.

The CRA, first enacted by Congress in 1977, pushes US depository institutions to meet the credit needs of lower income neighbourhoods. Banks must extend their credit facilities to all communities within their areas of operation in order to receive insurance from the Federal Deposit Insurance Corporation (FDIC). At the same time, these non-exclusionary lending practices must be consistent with the safe and sound operation of the bank.

The Co-operative Party urges the creation of a UK version of the CRA. The proposed Financial Inclusion Act would mandate that 'all financial organisations must engage with, design services for, and invest in people from all geographical areas and income levels.' The Labour Party is sympathetic but thus far there is no firm indication whether the proposal will make it into the 2015 manifesto.

One guest and supporter of employee share ownership discussed his personal experience as a participant in an underwater share scheme. His comments highlighted the importance of communicating with and educating employees in order to ensure that they are fully aware of the risks to which they are exposed. Many companies and their service providers have already taken great strides in this direction and the Centre will continue to press the matter through its media, member support and lobbying activities.

**Shares disposal was taxable**

The First-tier Tribunal has held that a gain made on a disposal of shares was taxable as employment income, reported Deloitte. The taxpayer, after serving six months as an employee, was awarded some shares. The company was later sold. A memorandum on the transaction made it clear that the gain on the shares would be subject to income tax as conditional shares, and that PAYE and NIC would be deducted. The taxpayer's advisers included the gross gain in income and then showed a deduction against it of an equivalent amount, before taxing the gain under the capital gains rules. Following an enquiry, HMRC decided that the gains should indeed be taxed as income, and also levied a 20 percent penalty. The Tribunal held that there was no reasonable basis for returning a capital gain. Although there are circumstances in which reliance on incorrect professional advice can constitute a reasonable excuse for the filing of an incorrect return, this did not apply here. There was no reasonable basis for the advice given, and the memorandum had set out the correct position.

The **Scottish** Court of Session, Inner House, found in favour of HMRC in the *Aberdeen Asset Management* case. The company implemented a PAYE/NICs planning arrangement on the payment of bonuses. The employer paid cash via an EBT to 'money box' companies, one for each participating employee. The employee was awarded shares in 'his' or 'her' company under option arrangements, which aimed to reduce their money's worth (and hence tax value) at the date of transfer. The First-tier Tribunal and the Upper Tribunal found that the scheme failed on Ramsay grounds and that the shares in the 'moneybox' company were readily convertible assets. However, the Upper Tribunal rejected HMRC's argument that the provision of the shares amounted to payment for PAYE purposes. Both sides appealed. The Court of Session, Inner House, the equivalent of the Court of Appeal in England and Wales, decided that the provision of the shares was a payment for PAYE purposes. The Court held that the employee shareholders had ample power to ensure the beneficial use of the funds that had been transferred into moneybox companies. *The Court stressed the importance of the substance of control, and in particular the ability to use the funds in the companies as a medium of exchange for the benefit of the employee.* It followed that the cash was at the disposal of the employees and the employer ought to have deducted PAYE when funds were transferred to the EBT. The Court of Session agreed with the Upper Tribunal that the shares were readily convertible assets, on the basis that there were trading arrangements for the vesting and subsequent sale of the shares.

**Correction:**

We stand corrected: our front page story in the previous issue of ne*wspad*, about the biggest ever UK SIP launched by Royal Mail as part of its privatisation, contained two minor errors. Our thanks go to **Paul Stoddart** of **Computershare**, who put us straight on dividend shares. When we said: "*Up to £1,500 per year can be reinvested as dividend shares, free of tax and NI,*" that ***was*** indeed true until earlier this year, when the limit was abolished. Secondly, dividend shares are tax-free after *three years*, ***not*** five years, as we said erroneously.

**On the move**

Centre member **Pett Franklin & Co. LLP** announced the appointment of **Stephen Woodhouse** as partner to further strengthen its Birmingham-based team. Stephen, a partner in Deloitte, the Big Four accountant, will be moving from his practice in London to join Pett Franklin from December 1, to support the development of its national practice. Stephen, a lawyer who worked previously at Slaughter and May and Norton Rose, brings a wealth of knowledge and experience across a range of organisations both domestically and internationally. He will be working alongside **David Pett** who co-authors '*Employee Share Schemes*', the leading text on employee share schemes, and **William Franklin**, a leading adviser on the valuation, accounting and financial aspects of all forms of remuneration. The addition of Stephen's expertise into the firm will cement Pett Franklin's place amongst the leading advisers on legal, tax and accounting in relation to employee share plans, incentives and remuneration. The firm has a wide range of corporate clients (including large multinationals, listed companies and SMEs) as well as other lawyers, accountants and trustee companies and is retained by the Department for Business, Innovation and Skills to draft new standard documentation for employee owned companies. **David Pett** said: "*It is rare to recruit an individual of Stephen's talents and expertise and we welcome the opportunity this affords to contribute further to our clients' business success.*" **Stephen Woodhouse** said: "*My focus will be on continuing to guide clients through the minefield of the ever changing tax regime to deliver commercially relevant solutions. I look forward to joining such a hugely respected business.*" Further details can be obtained by contacting David Pett on 0121 348 7878 or by email David.Pett@pettfranklin.com.

Nine senior **HMRC** employees have resigned, the greatest number among senior ranks for five years. The biggest staff losses were in personal tax section.

The newly established **Morgan Stanley Institute for Sustainable Investing** claims three main focus areas: financial products that enable clients to invest in sustainability-focused strategies seeking risk-adjusted financial returns; thought leadership that will help mobilise capital toward sustainable investing opportunities; and strategic partnerships with the public, private and non-profit sectors designed to build capacity and best practices within the field of scalable sustainable investing.

Centre member **Postlethwaite** celebrated its tenth anniversary at the media cool *L club* in Covent Garden, conveniently near its offices. Eponymous founder Robert Postlethwaite welcomed a range of guests with wine and very British snacks (no speeches, no promo packs added to the cool of the occasion.)

Among thronging clients and friends, *newspad* saw index guru **Nigel Mason**, co-worker and equity strategist **Leon Boros**, Unity banker **Andy Jesson** and former New Bridge Streeter **Ann Tyler**. Quaffing too was **Tanya Semley** who runs almost single-handedly an exemplary micro charity: www.hopeforcambodia.org.uk

**New ABI guidance on top pay**

The Association of British Insurers (ABI) wrote to remuneration committee chairpersons of quoted FTSE 350 companies to underline changes in its annual *Principles of Remuneration*. The ABI investment committee said: "Last year, we made significant revisions to the content and structure of the guidance. Given this, we have made only minor amendments and clarifications in 2013. The main changes are:

*Performance Adjustment/Malus and Clawback – the ABI provides a clearer definition of performance adjustment and clawback and ask committees to disclose the circumstances in which performance adjustment or clawback could be used.

*Executive shareholdings – This has been updated to clarify which shares would qualify as meeting the guideline.

*Performance on grant schemes – Many members still retain significant reservations over the use of performance-on-grant schemes. The update provides the conditions shareholders expect these schemes to meet, such as genuinely long holding periods, significant shareholding requirements, lower overall amounts and the disclosure of targets/performance achieved.

*The new Reporting and Voting Regime – the appendix outlines ABI views on various practical aspects of the new reporting arrangements.

"With the introduction of the Reporting Regulations and Voting Legislation, the coming year will see significant changes in the way companies report, and shareholders vote, on pay. The Principles should be viewed in conjunction with the guidance on the new reporting regulations produced by the GC 100 and Investor Group. The ABI supports this guidance and encourages companies to adopt the best practice within it." Under the new voting and reporting regime, IVIS will continue its current approach of assessing companies. IVIS does not issue direct voting recommendations. Instead, in the spirit of comply-or-explain, the ABI highlighted key issues and non-compliance with best practice through its colour coding (bottle top) system. This gave flexibility in its dealings with companies and the ability to consider well-reasoned arguments, added the ABI.

Centre member **Linklaters** summarised the key executive reward clauses:

- Companies are only expected to put their remuneration policy to shareholders every three years but should include their policy table every year for reference.
- Companies are expected to disclose performance measures and targets for bonuses and long-term incentive awards and should only rely on the commercial sensitivity exemption *"by exception"*.

***Linklaters comment:*** *bonus targets, in particular, can be commercially sensitive and our understanding is that many companies will seek to rely on the exemption at least until after the end of the bonus year.*

- Remuneration policies are expected to take effect from the date of the agm.

***Linklaters comment:*** *the majority of companies are planning to do this anyway although some may want the policy to become legally binding at the beginning of the 2015 financial year, as permitted by the legislation.*

- The ABI expect any differences in the policy between limits for new recruits and continuing directors to be clearly justified.
- Remuneration structures should include pre-vesting claw back (i.e. malus) and/or post-vesting claw back. The ABI acknowledge the difficulty of applying post-vesting claw back and accept that it will be applicable in more limited circumstances than malus.
- The ABI suggest that companies should specify the circumstances in which malus and claw back will apply and disclose that to shareholders.

***Linklaters comment:*** *in our view, it would be prudent for the committee to have residual discretion to operate malus or claw back in other circumstances. We expect to hear more from the FRC on claw back following its recent consultation on the UK Corporate Governance Code. Companies may need to review their malus and claw back provisions to ensure they reflect current good practice.*

- When determining whether or not a director has satisfied shareholding guidelines, companies cannot count shares under an award which is still subject to performance or employment conditions but can include those under an award which is in a holding period subject only to clawback.

***Linklaters comment:*** *companies may want to review their directors' shareholding guidelines in light of this.*

The ABI continue to have reservations about pre-grant performance conditions but, if they are used, they should be fully disclosed, a post-grant financial underpin should be considered and award levels should generally be lower than for awards with post-grant performance conditions.

Share plans and incentives expert **Judith Greaves** of

Centre member **Pinsent Masons**, said that the document would provide "helpful guidance" to UK listed companies, as they updated their own policies on executive remuneration ahead of the introduction of the binding shareholders' vote at their next AGMs.

The updated *Principles of Executive Remuneration* came in the wake of the new rules regarding listed company directors' pay. "These guidelines reflect a number of developing themes; with a clear steer that bonus pay-out to executives is discouraged, even if some specific performance targets have been met, if the business has suffered an 'exceptional negative event'," noted Judith. "Applying these types of performance adjustment or clawback provisions in the real world can be tricky. At the end of the day, the guidelines make clear that what matters most is that remuneration is clearly aligned with strategy. Whilst shareholders will challenge pay structures that they see as too generous, or as insufficiently long-term, there is also a clear statement that high pay for exceptional performance is acceptable," she added.

The revised guidance reflects the significant changes to the way in which companies have had to report, and shareholders vote on, executive remuneration since October 1. Company shareholders were given a legally-binding vote on executive pay from this date for companies whose accounting period ended on September 30, alongside the introduction of new remuneration reporting requirements. Annual reports must now contain more information about how directors have been and will be paid, along with information about how this relates to company performance. This information is intended to assist shareholders in deciding whether to approve the company's pay policy.

In their role as institutional investors, ABI members have a fiduciary responsibility to their clients to ensure long-term value creation in the companies in which they invest, according to the guidance. This responsibility involves ensuring that clients' capital is efficiently invested and that the companies they invest in are well-governed and run in the interests of shareholders. As part of this, company remuneration policies and practices should be aligned with shareholder interests and promote sustainable value creation, the guidance says. Shareholders look to the company's remuneration committee to protect and promote their interests, by setting executive remuneration within the context of overall company performance. Policies should support performance, encourage the sustainable financial health of the underlying business and promote sound risk management for the benefit of investors.

"Undeserved remuneration undermines the efficient operation of the company," the guidance says. "Excessive remuneration adversely affects its reputation and is not aligned with shareholder interests."

The guidance does not prescribe or recommend a particular remuneration structure, instead stating that it should be "appropriate for the specific business, and efficient and cost-effective in delivering its longer-term strategy". Remuneration structures should, however, be "simple and understandable," preferably by limiting variable remuneration to a single annual bonus and a single long-term incentive scheme. Incentives should also have a long-term focus, including a "high degree of deferral and measurement of performance over the long-term," said Judith.

Remuneration structures should include provisions that allow the company to 'claw back' sums already paid, and 'performance adjustment' or malus clauses allowing it to adjust bonuses or long-term incentives before they have vested and been paid. The circumstances in which these clauses can be implemented should be agreed and documented before awards can be made. *The Financial Reporting Council (FRC) is currently consulting on whether such clauses should be required of listed companies* through the *UK Corporate Governance Code*.

The document contains detailed guidance in respect of variable pay, such as annual bonuses and longer term incentives. It clarifies which shares and share incentives should be allowed to count towards the satisfaction of directors' shareholding requirements, and makes it clear that measuring performance achieved before the incentive is granted will not usually be appropriate. More specific guidance is given on leaver provisions in long-term incentive plans. It is suggested unvested share awards should normally lapse on termination for cause or through the individual's choice; may vest on a pro-rated basis at the end of the performance period in cases of ill health, redundancy and retirement; and early vesting may be appropriate, subject to performance targets, on death or certain corporate events.

Judith added: "Remuneration committees are now required to set out their policy on departures. The new guidance does not provide any additional steer where, as frequently happens, departure is by mutual agreement; other than to reiterate the principle that 'payment for failure cannot be tolerated'."

CONFERENCES

**DAVOS: Feb 6 & 7**

**Stefan Bort** from **Prudential Assurance** promises verbal fireworks during the Davos delegates' open debate, as he plans to air client companies' views on the quality of service suppliers in the industry. Two new presentations have reinforced a top quality programme: New York attorney **Harvey Katz,** who is co-chair of the compensation & benefit practice of Fox

Rothschild LLP and **Jeremy Mindell,** director of tax and share schemes advisor Primondell, will deliver talks respectively on US executive compensation and new accounting tax problems for share schemes.
This, the Centre's 15th Global Employee Equity Forum, will again take place in the five-star Steigenberger Belvedere Hotel in Davos Platz on **Thursday February 6 and Friday February 7.**
Download the Davos 2014 e-brochure from :
www.esopcentre.com/events/upcoming/ for the full programme – including details of the slots awarded to our 15 speakers, all experts in their fields. The 2014 conference e-brochure is sponsored by Centre practitioner members **Bedell Group** and **Appleby Global**.
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Attendance fees: The package deal comprises: two nights (Feb 5 & 6) accommodation in the Steigenberger Belvedere Hotel (on half-board, single occupancy basis + entrance to all conference sessions + cocktail party (partners welcome) + coffee break refreshments + bound delegates' handbook. **Delegates** – Centre member practitioners (service providers) **£1150** for the package and non-members pay **£1,495**. Plan issuer delegates pay **£765** and no VAT for the same package.
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This event is CPD accredited and is worth 11 hours. Email your Davos delegate registrations now to Fred Hackworth at:
fhackworth@esopcentre.com with copy to esop@esopcentre.com

**NEW YORK: March 27 2014**
Save the day for the ESOP Centre's first event in New York which will take place on **Thursday March 27 2014**. The venue will be the New York office of Centre member Linklaters, whose generous support has made this event possible. The conference will bring together senior figures from the US and UK to discuss how equity incentive strategies operating at both the chief executive and all-employee levels can enhance sustainable business growth, under the title "Bigger cake, fairer slices". Antonio Falato, capital markets economist in the Federal Reserve Board's Division of Research and Statistics, will lead the discussion with his influential views on optimal ceo incentives. Keep an eye out for further details, including a detailed agenda, to be released over the coming weeks. To register your interest, please contact Harry Atkinson at hatkinson@esopcentre. com or tel: +44 (0)207 239 4970

**JERSEY 2014**
Speaker slots are now available for the Centre's 2014 annual **Jersey** employee share schemes seminar for trustees in the spring. Our Channel Island seminars, held in association with the local branches of the **Society of Trust & Estate Practitioners (STEP),** provide an informative and relaxed environment in which to network and keep up with the latest developments in share schemes and employee benefit trusteeship. More information on venue and themes will be published shortly. If you are interested in speaking at this event, please contact Harry Atkinson at: hatkinson@esopcentre.com or tel: +44 (0)207 239 4970 with your details and suggested topic.

**Bonus corner**
Only 36 per cent of ceos at **AIM** listed technology groups receive share-based awards, according to research by Centre member **Grant Thornton**, compared with 60 per cent of technology companies on London's main market. Total average reward

packages, including share options and bonuses, in AIM tech companies was £383,000 last year, less than half the average ceo package of £789,000 across all AIM sectors, said the report, which analysed returns from 162 companies. GT partner **Amanda Flint** commented: "A lot of these AIM technology companies are cash poor, but they shouldn't forget that there needs to be a *quid pro quo* for the managers." Ms Flint called for more imaginative reward packages, including more equity awards, in such companies.

During a grilling by MPs at a parliamentary committee hearing, the md of energy for **British Gas,** Ian Peters, sought to defend a 38 percent bonus for his boss despite people paying more in bills. When asked whether he felt comfortable putting people's prices up while those at the top of his company were "still taking huge bonuses", he replied: "We thought deeply about what to do with pricing, because of the impact on bills at a time that incomes are stressed. We do more than any other company to help those in need. Executive pay, that's salaries, have not changed since 2010." But, when pressed, he admitted: "Bonuses have gone up, that's a matter of record. Sam Laidlaw, boss of **Centrica**, the owner of British Gas, waived his bonus this year after admitting that the energy industry urgently needs to rebuild trust with consumers. Laidlaw, who was paid a total of nearly £5m last year including almost £1.5m in cash bonuses, said he understood the anger and frustration felt by many after bills rocketed by more than three times the rate of inflation in 2013. The 'big six' energy companies were forced to explain to Parliament why bills were increasing so much this winter. The MPs called them in after four firms put up charges by an average of more than nine percent.

Almost a quarter of **BSkyB**'s shareholders rebelled against the £7m pay package of ceo Jeremy Darroch and other top executives at the pay-TV company's agm last month. BSkyB's remuneration report had a rocky ride after several shareholder advisory services flagged concerns over the way top executives are paid. Rupert Murdoch's **21st Century Fox** voted its 39 percent stake in favour of the pay deal – meaning that of the independent shareholders who voted, 42 percent opposed the overall reward plans.

**Calpers** (California Public Employees Retirement System) has doubled the bonuses paid to its staff as the $277bn fund recovered losses made during the recession. Calpers said that it had paid 130 employees and managers a total $7.7m in bonuses last year, more than double the $3.6m paid in staff bonuses in the previous year. Yet Calpers has been acting as a pro-shareholder activist institution. The total Wall Street bonus pool rose by eight percent last year.

Following the decision of the First-tier Tribunal in **Ferro,** and a number of other cases on share schemes, **HMRC** has issued one of its '*Spotlights'*, which are typically used to identify schemes that HMRC regards as tax avoidance and which are thus likely to challenge. This new one covers bonuses paid in the form of share awards.

The boss of **Lloyds Banking Group** António Horta-Osório, has been awarded a £2.3m share bonus, but the Portuguese banker, who has been at the helm of the bailed-out bank for two and a half years, will have to wait *five years* before he can cash in the shares he is receiving under the terms of a scheme put in place in March. He stood to receive more than 3m shares if the share price remained above 73.6p for 30 days – the price at which the taxpayer breaks even on its remaining 32 percent stake in the bank. After the shares closed at 75.02p, those terms had been met. The revelation came only weeks after Lloyds announced a third quarter loss of £440m, partly as a result of a £750m provision for mis-selling payment protection insurance.

The shares have risen from the levels closer to 50p when the ceo's bonus was first tied to the share-price performance. Horta-Osório had asked for the payout to be linked to the share price to show the returns being generated for taxpayers, while the Treasury had stipulated that he could receive the shares if the government had sold off at least a third of its holding at prices above 61p.

**Xstrata** paid large bonuses to some executives last December to mark the £18bn takeover by **Glencore International**, only two weeks after shareholders had rejected payment of retention bonuses, worth more than £144m, to key executives. Details of the 'transaction' bonuses, in some cases worth £500,000 pp, came to light during a court case involving an Xstrata executive who claimed he should have been given a £420,000 severance payment too when he was forced to resign his post last August. The Xstrata ceo Mick Davis and chairman John Bond both left the company early as a result of the retention bonus fiasco.

A row erupted at **City Hall,** London, after it was revealed that Transport for London (TfL) Commissioner and Esop hero Sir Peter Hendy took home £652,452 last year including bonuses, 33 times more than the lowest TfL salary. A spokesperson for Mayor Boris Johnson said: "The Mayor has been committed to reducing salary costs across the GLA. The proportion of TfL employees who earn more than £100,000 in total has fallen by around ten percent in the past year and there has been a salary freeze in the top pay grades since 2008." TfL had an outstandingly good Olympics.

**Czech media Eso on the way**

Entrepreneur and ANO political leader Andrej Babis is considering listing publisher Mafra on the bourse, he told Czech media, confirming information from *The New York Times*. Before the IPO he plans to make further acquisitions in the media and subsequently offer the securities "in one package." Some Mafra shares would be offered to employees, Babis said. Fed up by accusations of having undue influence, he said he planned to take Mafra and his future media acquisitions public and become a minority shareholder, *The New York Times* said. Babis bought Mafra from Germany's Rheinisch-Bergische Verlagsgesellschaft earlier this year. Babis was in talks on takeover of the Czech branch of Ringier Axel Springer group. The deal did not, however, materialise and Babis acquired the rival MAFRA instead. Babis has not specified the stock exchange(s) under consideration. According to analyst David Brzek of the Fio company, it is too early to assess the potential of a Mafra IPO because the structure of the offer is not known yet. In general, the sector of printed media is not attractive to investors, so in order for the IPO to be successful, a dominant part of the structure should be formed by assets linked with on-line media, Brzek said. Mafra publishes nation-wide dailies Mlada fronta DNES and Lidove noviny and runs on-line portals iDNES.cz and lidovky.cz. The latest Czech polls show business-friendly ANO as the country's leading party.

**Top French company Eso award**

Essilor received the French 2013 *Employee Shareholding* first prize, which recognises the Group's activities to promote a strong employee share ownership and place its employee shareholders at the heart of the company's governance. This award was presented in Paris by the *Federation of Associations of Employee Shareholders*. Essilor, which claims to be the world's leading ophthalmic optics company, prioritises employee share ownership. The judges' citation said: "Essilor stands out by its exemplary governance, which closely connects 15,000 employee shareholders to the company's key decisions, with three members of the employee shareholders association sitting on the board of directors and an annual vote of confidence in the company's strategy, as well as in its human resources policies." The jury highlighted Essilor's actions to develop employee ownership at an international level (via employee shareholding plans tailored by country and performance share plans), with Eso plans operating in 37 countries in five continents. "The award recognized the quality of information, advice and training provided to employee shareholders thanks to a dedicated internal department." Hubert Sagnières, chairman and ceo of Essilor International said: *"Employee share ownership has been at the heart of our corporate culture since Essilor's creation. By encouraging our teams' active engagement, employee shareholding has allowed the group to deliver a consistent level of performance. The global extension of employee ownership reflects our desire to unite our employees' and our company's interests around the shared goal which is Essilor's success. Our governance, which promotes dialogue and associates employee shareholders in the Group's mission of improving vision and in its major decisions, also reflects this ambition."* Internal shareholding by present and former Essilor employees now totals eight percent of share capital.

**Autumn Statement delayed**

A reminder to members that the Autumn Statement will be on **December 5**, and not on the previous day, as originally announced. The extra day's delay will allow Chancellor George Osborne to report in his Statement to Parliament on the outcome of PM David Cameron's investment talks in China.

**Auto-enrolment stage two**

One year since the government launched auto-enrolment, a landmark move to automatically enrol employees into a Qualifying Workplace Pension Scheme (QWPS), the next stage looms. The UK's largest employers have passed their staging dates, but the deadline is approaching for SMEs, revealing the need for preparation as their dates approach. So far, there have been few problems with initial auto-enrolment implementation and only a small proportion of employees have been opting out of pension scheme membership. However, SMEs will need to prepare well in advance to ensure that they are ready when their date comes, said benefits adviser *Central Investment*. Recent research showed that up to 90 percent of small business owners had done no forward planning for auto-enrolment, despite the risk of heavy fines. In the first half of next year, around 38,000 employers are expected to introduce auto-enrolment, which will involve mostly SMEs. Employers with 150 to 240 employees will have a deadline of May 1 as a staging date; companies with 90 to 149 employees have until June 1 and smaller companies with between 50 and 89 employees will have until July 1.

**France signs FATCA deal**

As the January 1 2014 implementation date for the Foreign Account Tax Compliance Act (FATCA) rapidly approaches, the US government is making progress in negotiating Intergovernmental Agreements (IGAs) with partner jurisdictions in order to facilitate the effective and efficient implementation of FATCA. The US Treasury announced that it had signed an IGA with **France**. With this announcement, a total of 10 IGAs had been signed to date; the other signatories being Denmark, Germany, Ireland, Japan, Mexico, Norway, Spain, Switzerland, the UK and the Channel Islands. FATCA seeks to obtain information on accounts held by US taxpayers in other countries. It requires US financial institutions to withhold a portion of payments made to foreign financial institutions (FFIs) who do not agree to identify and report information on US account holders. FFIs have the option of entering into agreements directly with the IRS, or through one of two alternative Model IGAs signed by their home country. The IGA between the United States and France is the Model 1A version, meaning that FFIs in France will be required to report tax information about US account holders directly to the French government, which will in turn relay that information to the IRS. The IRS will reciprocate with similar information about French account holders. The US Treasury said that it had achieved agreements in principle to sign FATCA with 16 other nations.

**Eso in the US**

Although almost half of all US full-time employees have some form of capital stake in the company they work for, more incentives for employees to build ownership stakes in the firms they work for are now needed, argue Joseph Blasi and Douglas Kruse of Rutgers University and Richard Freeman of Harvard University, in their new book *The Citizen's Share*. The scale of workers' equity has not increased enough to counter two bigger trends that have dramatically increased inequality of incomes in America over the past 30 years: the widening gap in pay between the top one percent and the rest, and the overall squeeze in the share of national income going to wages. To counter this concentration of wealth, and live up to the ideals of the country's founders, Messrs Blasi, Freeman and Kruse argue that America needs another dose of Washington's medicine.

Based on a series of national surveys, the authors reckon that 47 percent of full-time employees have one or more forms of capital stake in the firm for which they work, whether from profit-sharing schemes (40 percent), stock ownership (21 percent) or stock options (ten percent). About a tenth of Fortune 500 companies, from Procter & Gamble to Goldman Sachs, have employee shareholdings of five percent or more. Almost a fifth of America's biggest private firms, including behemoths like Cargill and Mars, have profit-sharing or share-ownership schemes. Some 10m people work for companies with Esops. In most cases the stakes are fairly small: the median employee shareholding is worth $10,000.

However, *The Economist* magazine criticised the book's message: "The political appeal of employee share ownership is not in doubt. Broader stock ownership appeals to the right. Helping squeezed employees appeals to the left. Economically, however, the merits of using government incentives to encourage the phenomenon are less clear," it said. "Most academic analyses of employee ownership have focused on the gains to firms. Employee participation plainly does not guarantee success: Lehman Brothers was 30 percent employee-owned. Fagor, a flagship firm in Mondragon, the Spanish co-operative, recently filed for bankruptcy. However, many studies show that workers at firms where employees have a significant stake tend to be more productive and innovative, to retain staff better and to fire them less readily. "These findings come with a proviso, however. The effects often depend on whether the employees' ownership stake also brings a greater say in how the firm is run. Would larger stakes benefit employees? There, too, the answer is not clear. If share ownership comes at the expense of wages, employees may simply be shifting from a stable and liquid form of compensation to a riskier one. Messrs Blasi, Freeman and Kruse argue that share ownership should be, and usually is, additional compensation. Surveys suggest that more than 70 percent of workers who benefit from a profit-sharing or other share-ownership scheme say their wages are at or above prevailing market rates - presumably thanks to their firms' superior performance. Even if the compensation is genuinely additional, Eso can have disadvantages. It may lead workers to hold too much of their wealth in their own company's stock. The authors acknowledge this risk and *recommend that workers should diversify their portfolios.* But since most Americans have very few savings, that caveat sharply limits the potential expansion of employee share schemes, especially for poorer people," added *The Economist.*

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