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it's our business

newspad of the Employee Share Ownership Centre

Eso companies surge ahead, shows new Centre-supported index

FTSE-listed companies which encourage employees to purchase shares outperformed those that did not by as much as 30 percent last year, according to a new index, published by corporate finance firm Capital Strategies, with the support of the Esop Centre.

The 69 Eso-friendly companies tracked by the new UK Employee Share Ownership Index (Esop Index) delivered total average returns – by share price - of 53 percent in 2013, more than twice as much as the 21 percent average returns delivered by all 623 companies on the FTSE All-Share Index.

The Esop Index uses the All-Share Index to measure the share price performance of companies in which employees own *more than three percent* of the total equity, as against all constituent companies.

Launching the new index, with the London Stock Exchange (LSE) and Capital Strategies at Centre member **JP Morgan**, Centre chairman, Malcolm Hurlston CBE told an expert audience of officials, academics and researchers: "This is a landmark for employee share ownership.

"For the first time we have an index calculated to FTSE standards which tracks how companies with substantial and realistic employee ownership perform. It puts beyond doubt the value, to companies and the national economy, of encouraging employees to be shareholders.

"The new index has been calculated from 2003 and demonstrates that Esop companies have substantially outperformed the market through boom and bust in eight out of eleven years. It promises to be live proof that employee ownership not only works but works well. The Centre will publish it quarterly"

Judith Greaves, share plans expert with Centre member law firm **Pinsent Masons**, said: "These figures give additional evidence why share incentives are a good thing that can benefit companies, employees and their shareholders. Furthermore, they support the Government's welcome recent decision to increase the limits for the UK's tax-favoured all employee Save As You Earn (SAYE) and Share Incentive Plans (SIPs) from April 6 this year. There is much talk of aligning the interests of employees and shareholders, but these results may help to show sceptics what a difference employee ownership can make to a company."

Capital Strategies began tracking the performance of companies that were ten percent or more employee-owned in 1995. However, since last June, the index has been officially linked to the LSE and calculated using FTSE index methodology - using the *three percent* threshold and including dividend payments as well as changes in the price of shares.

At the end of the year the new Esop Index stood at 714.9 (2002=100).

Esop shares have risen faster than the FTSE All-Share in eight of the eleven years for which the index has been calculated (see table on following page).

The new index was created by collaboration between the LSE and Capital Strategies, following a promise last year by LSE ceo Xavier Rolet who said it would highlight some of the key benefits of encouraging employees to take an active interest in the future success of the companies in which they work. Capital Strategies was able to use FTSE technologies to track total shareholder return and compare it with the return of FTSE All-Share calculated on a similar basis.

Thanks largely to four government supported share schemes open to all employees (two of which are to be radically enhanced in April following the Autumn Statement) between two and three million employees of UK companies own shares in the companies they work for. The Esop Index includes some 69 FTSE companies where employees own at least three percent of the stock. Millions of employees will now be able to track sector performance as well as that of their own company.

From the Chairman

While companies cogitate how best to use the largesse of the autumn statement, the Centre is spreading its wings to support an ever more global industry. Next week many of us are in Davos with a record three US members of the faculty; in early March the new term of the Esop Certificate features a global shares module; world events shape our Jersey conference that month and finally we visit New York for the first time. This one of a series of trailblazing events (after Cape Town, Dubai and Hong Kong which greatly benefited the members who took) but New York is New York and, with support, we have the opportunity of influencing global agendas of importance to us all. Be there with us.

Malcolm Hurlston CBE

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	ESOP Index (TSR)	ESOP Index % increase	FTSE All Share % increase
2002	100.0		
2003	171.9	71.86	20.7
2004	213.1	23.97	12.8
2005	318.0	49.26	21.8
2006	434.4	36.60	16.8
2007	382.3	-12.01	5.3
2008	212.9	-44.31	-29.8
2009	325.9	53.08	29.9
2010	380.6	16.80	14.3
2011	366.0	-3.84	-3.3
2012	466.4	27.44	12.2
2013	714.9	53.27	20.9

Nigel Mason of Capital Strategies said: "Screening for employee ownership creates a portfolio of businesses built on intellectual capital and earning high returns on tangible assets. They are engaging their employee shareholders to deliver constantly superior returns." The screen excludes shareholdings of senior directors.

Capital Strategies said that the EOI ended 2013 "on an all time high", having outperformed the FTSE All-Share in each of the last six quarters. In the final quarter of 2013 the EOI was up 12.5 percent, against 5.5 percent on the FTSE All-Share. Work had started to create an investment fund to track the index due to its consistent returns, the firm said.

"Screening for employee share ownership creates a portfolio of businesses built on intellectual capital and earning high returns on tangible assets," said Mr Mason.

"It helpfully filters out some of the dogs. We are left with a list of high quality businesses which, in their different ways, are engaging their employee shareholders to deliver consistently superior returns for themselves and their investors."

As part of last December's Autumn Statement, Chancellor George Osborne allocated an additional £25m annually to support employee ownership, following the annual £50m set aside as part of the Budget last March. This money will be used to increase the maximum annual value of shares that employees can acquire with tax advantages under the two main types of HMRC-approved employee share schemes, SAYE and SIP. It will be used too to fund two tax breaks for indirect employee ownership structures, as announced by the Government last July.

Companies for inclusion in the new index are identified from public disclosures, meaning that it does not necessarily include every eligible company.

TSB flotation nears

Lloyds Banking Group has begun meeting institutional investors before its expected flotation of TSB on the London Stock Exchange in May this year. Between 30 and 50 percent of TSB's equity will be sold to both institutional and retail investors. UK Financial Investments, the state arm which still owns 30 percent of Lloyds on behalf of UK taxpayers, is gearing up to announce the sell off of a further slice of the banking group parent soon after Lloyds announces large pre-tax profits for 2013 on February 13. Both these imminent flotations are expected to create further opportunities for TSB and Lloyds employees to buy shares in their own companies. The current shared SAYE and SIP Lloyds/TSB all-employee share plans are administered by **Equiniti**. The Centre is aiming to encourage massive employee participation.

Tax transparency pressures mount on trustee duty

Increasing pressures for tax transparency are challenging the boundaries of trustees' key duty of client confidentiality, said William Simpson and Catherine Moore, from Centre member **Ogier** Guernsey.

Writing in *Guernsey Finance*, they examined the balance needed between a trustees' duty of confidentiality versus the trustees' interests and concluded that trustees' own-interests may conflict with this duty and that it was not always easy to resolve such issues.

Disclosure should only be as is necessary and specific to the reason for the disclosure, for instance compliance with a foreign court order. The impact of disclosure on all parties should be considered and a trustee should not disclose more than is reasonable in the circumstances, they said.

All beneficiaries' interests had to be considered together, but this was not always simple when the reason for disclosure arose because of the place of residence or nationality of just one of the beneficiaries. It could be very hard to explain to the other beneficiaries that this disclosure was fair.

"One of the key duties owed by trustees to beneficiaries of a trust is a duty of confidentiality. This is well known and generally understood by trustees, beneficiaries and fiduciary practitioners. However, in light of ever increasing pressures for tax transparency, the boundaries of this duty are being challenged. This duty is not written into statute and there is no formal handbook that trustees can refer to when this conflict arises. It can therefore be very hard for trustees to know what to do," added Mr Simpson and Ms Moore.

Shares for Rights scheme - knives out

Companies have turned their backs on the government's new Employee Shareholder Contracts, according to the *Financial Times.* To date, few enquiries have been to Whitehall about the scheme where employees would be asked to give up certain employment rights in return for receiving a minimum of £2,000 shares in the business they work for, an FT probe revealed.

The Treasury had estimated that between 20,000 and 40,000 people will be covered by 'Employee Shareholder Status' in the next two years, which would amount to £90m in lost tax revenue, as the shares would be free of capital gains tax.

However, 'Shares For Rights' contracts, as they have been nicknamed, introduced last September, may fail because an overwhelming proportion of firms think it will be damaging to their business - according to a survey of more than 500 UK companies by law firm, Irwin Mitchell.

Chancellor George Osborne's blushes are spared so far because Whitehall keeps no statistics on the number of companies who take up the Chancellor's scheme. This emerged from a little-noticed parliamentary answer on January 24 by Lib-Dem MP Jennifer Willott, who is replacing Business minister Jo Swinson while she is on maternity leave. She said: "Those thinking of using the new (Employee Shareholder) status may seek advice from a number of different sources such as their legal contacts, or a helpline or business organisation*, but there is no requirement on any company wishing to offer an employee shareholder contract to notify any Government Department or agency in advance. Consequently, details of the number of companies offering employee shareholder status or the number of employee shareholders are not available at the national or local level."*

The aim of the scheme is to kick-start economic growth and encourage businesses to recruit more easily. Businesses are allowed to award shares worth up to £50,000 to their staff. In return, employees give up some of their rights, including unfair dismissal, redundancy, training rights and the right to ask for flexible working. The contracts are optional for existing employees, but businesses will be able to make this type of contract part of the package for new recruits.

According to Irwin Mitchell, 80 percent of businesses have not heard about the new contracts and ten percent businesses surveyed thought it was a good idea. Out of the 20 percent who said that they were aware, only five companies said they were considering introducing them. Hardly any of the businesses questioned said they were *planning* to introduce shares for rights contracts. Almost three quarters of the respondents said that they thought the initiative would make it more difficult to recruit. More than half said the contracts would have a negative impact on employee retention whilst nearly a quarter said that they thought this type of conduct would be a hindrance to good employee relations.

Less than half of those aware of the concept said that they knew it was the responsibility of the employer to pay the reasonable legal costs of the employee in taking advice on whether to accept the terms.

Deputy PM Nick Clegg dismissed it as a 'pet project' and said the money would have been better spent distributing tax cuts to all employees. An earlier consultation on the scheme showed that out of 209 businesses questioned, barely half a dozen were supportive of it.

Centre chairman Malcolm Hurlston said: The research is pretty meaningless in the light of the bienpensant hullabaloo which greeted the idea at launch. In practice SfR goes a long way towards giving us what we have long asked for on private equity and time will tell whether new uses emerge.

RM shares bonanza for posties

Those postal employees who bought the maximum number of shares allowed under the special employee priority terms of the Royal Mail (RM) flotation are so far sitting on *total* paper gains of more than £11,700 each, due to the post-flotation surge in the share price.

This is because they were allowed to buy up to £10,000 worth of Royal Mail shares *without* having their allocation scaled back. In addition, they were allocated 725 free shares each, as were all 150,000 eligible RM employees - a key government condition of the flotation.

The paper gains are spectacular because the closing market price of an RM share was around 578p on January 28, compared to the floatation price of 230p, which the government fixed. This float price enabled those posties who signed cheques for the maximum GBP 10,000 to acquire 3,030 shares each, in addition to their free 725 shares.

Thus the paper profit they have ticked up so far comprises: maximum shares bought 3,030 x 248p (being the profit on the 330p flotation price) + 725 free shares x 578p = **£11,7000** as Royal Mail motored its way straight into the FTSE100 index of the UK's leading quoted companies and into the Esop Index which is equally FTSE calculated.

As reported exclusively in *newpad* last year, such was the price surge in RM shares post flotation that only 613 shares could be awarded under £3,000 SIP limit, which remains in force until the new tax year in early April. Only then can a further allocation of the balance

- 112 free shares - can be made to all eligible full time employees. Part time employees received and will receive a pro rata award.

Industry commentators wondered whether this hiccup over the distribution of the posties' free shares inspired Chancellor George Osborne to announce, in his Autumn Statement, an increase in the annual limit for tax-protected Share Incentive Plan (SIP) free employee shares from £3,000 to £3,600 per year and similarly to raise the limit on tax-protected Partnership Shares from £1,500 to £1,800 per year - or a maximum ten percent of an employee's annual salary. Had the new increased SIP free shares limit been in force during the IPO, then qualifying postal employees could have received all their 725 free shares in one go.

For those 15,000 – one in ten – employees who applied to *buy* up to £10,000 worth of shares in Royal Mail, it has been a case, so far, of fortune favouring the brave.

"We know that 15k employees applied for varying amounts of shares through the employee priority offer between the £500 minimum and £10,000 maximum, which were met in full. Any amounts in excess of the maximum were deemed part of the general public retail offer and scaled back accordingly," said **Phil Ainsley, md, Equiniti Employee Services.**

All the postal employee shareholdings are administered by Centre member **Equiniti.**

However, postal employees cannot cash in their gains for a minimum three years as their SIP shares are all held in a giant employee benefit trust (EBT), which is a conventional SIP trust managed by **Equiniti Share Plan Trustees Ltd.**

The only difference from any other EBT is that this one contains shares given to employees by the government to honour its pledge to award ten percent of Royal Mail to its employees. Under SIP legislation both awards need to be held for a minimum of three years and at least five years to be completely free of income tax and NICs.

"In order to maximise take up, Royal Mail got approval from HMRC to adopt an 'opt out' process, as opposed to the usual 'opt in' to receive free shares. Employees were given a 25 day 'opt out' period in which to decline the shares and Royal Mail was delighted that only 370 employees elected to do so," said Mr Ainsley.

"With an employee base of almost 150,000, communication was vital and many channels were used to ensure employees received plenty of information about the free share award and the IPO in general. All eligible employees were mailed a comprehensive brochure, and this was backed up by a live chat service for employees to ask questions.

"Items appeared on RM's internal TV network discussing employee shares and the IPO and there was a steady stream of both paper and electronic communications sent out in the run up to the IPO."

Finally 'drop in clinics' were run in the 109 largest sites with these being staffed by both Royal Mail and Equiniti staff. They were tailored to fit in with working patterns which meant early starts (05:00) and late finishes (21:00) for all concerned. Post IPO, employees received their allocation notices together with log on details so that they can keep track of their investments on the Royal Mail branded portal that is hosted by Equiniti.

On the move

One of employee share ownership's best friends, **J. Sainsbury's** ceo **Justin King** is to step down in July, after ten years at the helm, it was announced as this issue went to Press. Mr King has been an outspoken opponent of the government's Shares For Rights scheme. He has helped the Centre build up data on the willingness of large public companies, such as his own, to promote Eso as effectively as he has done in the supermarket giant. Sainsbury's was the inaugural winner of the Centre's award for *Best Share Plan Communications* – in this case its 30th anniversary SAYE-Sharesave scheme. As part of the celebrations, 1,000 employees received 30 free shares each, following an attention-getting prize draw. Under King's guidance, the company developed a new management information tool so that it could focus its resources in shop and office locations where Eso take-up had been previously low.

HR specialist and employee share scheme lawyers **Abbiss Cadres** announced that Tim Wells had joined the firm as the Head of Global Mobility Consulting. Tim is a well-known global mobility expert and frequent speaker on the industry conference circuit.

Former *newspad* editor and Hurlstons distinguished alumnus **Malcolm Coles** has been appointed to the newly created role of general manager of Mirror Online, within Trinity Mirror. Malcolm went on to the Mirror after joining Hurlstons from Which? Last year Malcolm launched the experimental sites UsVsTh3m and Ampdd3d whose striking visualisation techniques created a fast following.

Aidan Langley, director at Centre member **PwC,** now edits the share schemes and incentives section of the *Practical Law* publication website.

The **Chancellor, George Osborne,** announced that **Budget Day** will be on **Wednesday March 19.**

Jill Evans, formerly head of share schemes at YBS Share Services has been appointed managing director of Accord Mortgages at Yorkshire Building Society Group. **Ashley Price**, the new head of YBS Share Plans, replaces Jill, who said: "As I take on this new and exciting challenge, the strategy team at YBS Share Plans remains unchanged, in that **Louise Drake** stays as national sales manager (new business), **Cathy Browne** is national sales manager managing the existing Share Plan Consultants and the day to day relationships between clients and their employees, **Garry Milner-Brown** is operations manager and will continue to oversee all aspects of the service delivery and continual improvement. YBS Share Plans has developed and grown our business and service offering to achieve a market share of 45 percent whilst not compromising on the customer experience we deliver to you and your employees" added Jill. Ashley has spent 20 years with the YBS, latterly as head of retail networks, where he had overall responsibility for branches, particularly the integration of branches and call centres from Barnsley, Chelsea and N&P Building Societies to see the overall network expand from 130 to 230 branches.

Patricia Hetter Kelso, widow of the Esop movement founder, **Louis Kelso,** has written to *newspad* expressing her gratitude for the Centre's lobbying work across several fronts and praised our chairman **Malcolm Hurlston, CBE**. Patricia wrote: "The ESOP Centre News-pad is extremely informative--I read it very thoroughly and learn a lot. In this issue I was extremely gratified to read Malcolm's comments on foreign acquisition of British firms who eliminate already existing employee share ownership without providing ESO plans of their own. The Royal Mail privatization was an important precedent. Thank you--and Malcolm and the ESOP Centre--for your pioneering work!"

Sanne Group announced that **Tom Hicks** and **Sandra De Sousa**, instrumental in the development of the Sanne Group Executive Incentives business during the past few years, have been promoted directors within the Executive Incentives business. Group director **Peter Mossop** said: "**Sandra** has worked tirelessly with Colum and I and others in Sanne Group to develop the operational capability that is the backbone of our service delivery to customers. She is diligent, committed, thorough and extremely competent. She manages a very strong, growing team. **Tom** joined Sanne two years ago. He is a qualified accountant and brings with him very strong skills combined with 12 years of direct industry experience in this field. His approachability is underpinned by a thorough grasp of the technical aspects and the ability to translate those into efficient and very effective administration and execution of customer requirements. The executive incentives business within Sanne Group has grown extensively into a team of 24, dedicated to the increasingly specialist area of employee share trusts as a core service. In addition to their roles as heads of administration teams, Tom and Sandra will become part of the senior management team responsible for the overall operation and on-going development of the business. In addition to these key promotions I am delighted to welcome **Jon Cartmell** to Sanne. Jon joins us as an associate director and his skills, multi-jurisdictional experience and can-do-attitude will complement the existing teams as we continue to grow," added Mr Mossop.

The **Esop Institute's** Spring term begins on **March 3.** You should be enrolling now for the online Certificate in employee share ownership studies. The comprehensive course covers: employee share schemes – context and evolution; share trusts; legal framework; share scheme models; tax and accounting aspects; the business case; how employees benefit; employee share plans in action – case studies; the bigger picture and - new this year - global employee equity schemes. All the material is peer reviewed by Linklaters. The all-in cost is GBP 650 and everything is online (as modern convenience demands) except the exams which take place worldwide. The Institute's contact co-ordinates are: registrar@esopinstitute.com Phone: 0207 239 4906 www.esopinstitute.com

Soilum completes GlobalSharePlans takeover

Solium Capital, the leading global provider of software-as-a-service for equity administration, financial reporting and compliance, confirmed its acquisition of GlobalSharePlans, a leading online provider of regulatory and tax information for companies with global equity incentive plans. The re-named entity is now Solium GSP, which provides regulatory information and tax rates and rules through online databases, automated alerts and a network of experts spanning more than 150 countries. Solium GSP assists clients in the administration of international equity incentive plans across multiple tax jurisdictions, including their compliance with local laws and regulations. Solium GSP provides a strong functional complement to Solium's Shareworks™ platform by enhancing Solium's industry leading global taxation and compliance services. Solium GSP plays an important role in fulfilling Solium's mission of simplifying the complexities of equity administration for clients by assisting them to more efficiently manage regulatory compliance and human capital. The cost of the acquisition included cash and the issue of 176,493 Solium ords.

CONFERENCES

DAVOS: Feb 6 & 7 Still time to register

There is still time, just, for you to register *now* as a delegate to attend the Centre's 15th Global Employee Equity Forum, which takes place in the five-star Steigenberger Belvedere Hotel in Davos Platz on **Thursday February 6 and Friday February 7.** Almost 40 people from across the share schemes industry have already done so. An informative and lively time is guaranteed up in snow land now free of the political debris.

For those who can't make it all the papers will be available from the Centre from February 7 at a cost of GBP 50.

Stefan Bort of **Prudential Assurance** plans to air client views about the quality of service suppliers in the share schemes industry. Download the e-brochure from: www.esopcentre.com/event/davos-2014-diary-dates which gives the full programme – detailing the slots awarded to 15 speakers, all experts in their fields. The e-brochure is sponsored by Centre trustee members **Appleby Global** and **Bedell Group:**

Appleby *is one of the world's largest providers of offshore legal, fiduciary and administration services. With 770 lawyers and professional specialists across the Group, operating from 12 offices around the globe. Appleby advises global public and private companies, financial institutions, and high net worth individuals, working with them and their advisers to achieve practical solutions, whether in a single location or across multiple jurisdictions. Review the website at: www.applebyglobal.com and contact: Patrick Jones, partner, Appleby* Trust (Jersey) Ltd. Tel: +44 (0) 1534 818390. ***Bedell*** *is a leading provider of legal and fiduciary services with more than 300 partners and staff in key financial centres including Jersey,* *Guernsey, London, Dublin, Geneva, Mauritius, VI and Singapore. Its offshore law firm, Bedell Cristin, was founded in 1939 and offers comprehensive Channel Islands, Mauritian and BVI legal advice. Its trust company, Bedell Trust, has been providing fiduciary and administration services offshore and onshore since 1971. Experience and commitment to excellence have earned Bedell a strong client list of world class institutions, corporates, high net worth individuals and intermediaries. Contact: Grant Barbour, Partner, Bedell Group +44 (0) 1534 814627 grant.barbour@bedellgroup.com*

The delegate conference package rate 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, and is open to members and non-members. This event is CPD accredited and is worth 11 hours. Email your Davos delegate registrations asap to international director, Fred Hackworth - fhackworth@hurlstons.com - with copy to esop@esopcentre.com

JERSEY: March 14

Bookings are now being received for the annual ESOP Centre/STEP Jersey employee share schemes conference for trustees as members respond fast to our first mailings. The half-day conference will take place between 9am and 1pm on **Friday March 14**, at the Royal Yacht Hotel in Jersey.

Our Channel Island seminars, held in association with 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. As part of this CPD accredited course, expert speakers will be sharing their knowledge and insights across a range of topics:

Jonathan Fletcher Rogers (Abbiss Cadres) – *The changing landscape of employee share ownership: wrap-up of Coalition reforms and their impact moving forward*

Stephen Woodhouse (Pett, Franklin & Co. LLP) – *EBT settlements with HMRC*

Graham Muir (Nabarro) – *EBTs: new incentives and opportunities*

Paul Malin (Haines Watts) – *EBTs: common pitfalls*

David Craddock (David Craddock Consultancy Services) *Structuring Long Term Incentive Plans*

Alison MacKrill (Carey Olsen) – *Legal update for trustees*.

The slot presentations will be followed by a delegates lunch from 1pm. Ticket prices are £295 per person for ESOP Centre or STEP members and £425 for non-members.

Special early-bird offer: three tickets for the price of two.

(offer expires February 14; lowest price ticket free)

For registrations and all queries, please contact Harry Atkinson asap – email:

hatkinson@esopcentre.com tel: 0207 239 4971

NEW YORK: March 27 - Reserve your place now

Preparations are advanced for the Centre's first high level employee equity event in **New York** on **Thursday March 27, 2014**. This event will take place on the Avenue of the Americas at the New York office of Centre members **Linklaters**. Under the title - Bigger cake, fairer slices - event participants will work on how employee shareholding can combat income inequality, a major stumbling block to world economic progress. Equity rewards are part of the problem but are they also part of the solution? The US and the UK are the world's engine economies for equity rewards – understanding best practices in these economies, with the help of our expert speakers, will make answers easier to find.

Keynote speaker **Antonio Falato**, capital markets economist in the **Federal Reserve Board's research and statistics division**, will lead the discussion with a talk on optimal ceo incentives. Fellow keynote speaker **Dr Woody Brock** (controversial economist and author of *American Gridlock*) will be discussing fairness and company remuneration policies, while Centre chairman Malcolm Hurlston CBE will outline the esop answer to inequality. A host of technical experts will explore Anglo-American attitudes and practices: **Alan Judes (Strategic Remuneration)** & **James F Reda (James F Reda Associates)**, **William Franklin (Pett, Franklin & Co. LLP)**, **David Craddock (DC Consultancy Services)**, **Fred Whittlesey (Compensation Venture Group)**, **Harvey Katz (Fox Rothschild)**, US attorney **Joe Saburn**, plus a speaker from host **Linklaters**. For a full provisional agenda see the Centre's website: www.esopcentre.com/event/new-york-conference/ To register your interest in attending this event and/or for further details, please contact Harry Atkinson at hatkinson@esopcentre.com tel: 020 7239 4971.

Price for the all day event inc lunch is $499 (some speaker slots at $399 are still available.) The event is being co-promoted by the US Esop Association.

ROME: June 5 & 6

The World Centre's 26th annual employee equity plans conference will take place in **Rome on Thursday June 5 and Friday June 6, 2014.** Our two-day summer conference provides an ideal forum for a personal update on the latest legal, regulatory and market trends in the employee equity industry; doing business; discussing share plan strategies and networking. We have early confirmed speaker slot presentations to date from: **Equiniti; Association of British Insurers; World Centre for Employee Share Ownership; European Trade Union Confederation; Gateway Consulting Group; Global Shares; KPMG; Lewis Silkin LLP; Pearson Group; Pett, Franklin & Co. LLP** and **Strategic Remuneration**. Other speaker proposals are in the wings.

The Centre wishes to thank lead Rome sponsor, **Equiniti**, which is helping to organise this event. *Equiniti provides award-winning executive, Sharesave & SIP plans and a wide variety of other employee benefits management services. It is the leading share plans administration provider for UK-listed companies and manages the second largest UK Flexible Benefits* *plan. Equiniti's clients vary in size, from 30 to more than 300,000 employees and span both FTSE 350 and overseas listed companies.*

The Rome conference package comprises:

- Entrance to all conference sessions
- Two nights accommodation (on single occupancy basis) on June 4 & 5 in the
- four-star plus **Residenza di Ripetta**, Via Ripetta, in central Rome.
- Breakfasts, lunches and refreshments
- Delegate pack with speech summaries
- Cocktail party on Thursday evening

The hotel, a converted 17th century convent, is part of the Royal Demeure Luxury Hotel Group and is in the heart of the city; a stone's throw from Spanish Steps, the Tiber and Via Corso. Your early registration will secure you a room in the conference hotel, as the Centre books rooms at group rate, to make things easy for all.

Prices:

Centre member delegates

Practitioners	£1,100	Plan issuers	£645

Non-member delegates

Practitioners	£1,750	Plan issuers	£765

No VAT is charged on these fees

If you wish to deliver a presentation in Rome, you will benefit from a significant conference package price reduction, subject to agreed topic content and slot availability. Practitioner **speakers**, who are Centre members, will pay **£995**; plan issuer **speakers,** whether members or not, will pay **£645**.

Apply for a speaking slot now, as demand is high.

Small supplements are charged for two person room occupation, or room upgrade.

Room extensions over the weekend will be available at the same price (subject to supply and demand) the Centre pays.

To book your delegate place or submit your proposed speaker topic, please send your details to international director Fred Hackworth at :

fhackworth@esopcentre.com or call the Centre on: +44 (0) 207 239 4971. See our event page at: www.esopcentre.com/event/diary-date-rome-2014/

Claw back for all?

The Financial Reporting Council's consultation on possible changes to the Corporate Governance Code has ended, according to Centre member **Linklaters.** The main issue was whether the Code should be amended to require all quoted companies to have performance adjustment and claw back provisions for deferred bonuses and LTIP awards. If the FRC decides to change the Code, there will be a further consultation this year. The changes will apply to accounting periods beginning on or after October 1 2014. In the meantime it is clear from remuneration reports that many companies have already adopted performance adjustment and some clawback provisions. We have started to see a number of cases involving the application of these provisions and expect to see more this year.

Public sector pay troughing

University vice-chancellors in the top tier Russell Group of universities (which includes Oxbridge) pocketed substantial pay rises at the same time as offering staff just one percent, new statistics show. The average salary for a vice-chancellor in the elite university group rose by £22,000 to nearly £293,000 in 2012-13, according to a *Times Higher Education* (THE) analysis of 19 of the group's 24 members. Once pension payments are included, those vice-chancellors received an average of £318,500 last year — up from £302,500 in 2011-12. It means an average salary rise of 8.1 percent and a 5.2 percent rise in overall benefits — significantly higher than the one percent pay deal agreed with rank-and-file staff that year.

Among those receiving improved deals last year was the outgoing president and provost of University College London (UCL), Sir Malcolm Grant, who received a £41,077 increase in his pay and pensions package to £365,432, despite having spent only three days a week at UCL after taking the chair of NHS England. Don Nutbeam, vice-chancellor of the University of Southampton, enjoyed a £19,015 rise in reward in 2012-13, which took his salary to £294,000 and overall pay package to £333,615.

Sally Hunt, general secretary of the UCU university and college union, said: "It is the startling hypocrisy that grates more than the actual rises. Many vice-chancellors have talked down to their staff and told them to accept a one percent rise — representing yet another real-terms pay cut — as it is the best they can expect, while happily pocketing big sums themselves."

There were big rises too for chiefs of non-Russell Group institutions, the THE found. Steve West, vice-chancellor of the University of the West of England (UWE), saw his overall pay package rise by £52,434 to £314,632 thanks to a £24,158 performance-related bonus and higher pension contributions.

The **BBC** is applying a new employment test to all staff, including well-known presenters previously employed as freelancers. Where individuals were hired on a freelance basis, they were paid through personal service companies, which enabled some high earners to pay only 20 percent or 23 percent in corporation tax on some of their income, instead of the 45 percent top rate of income tax. There is no suggestion these individuals have behaved inappropriately However, as freelance contracts come up for renewal, the BBC said it would assess if individuals should be reclassified as employees on a case-by-case basis. If this is so, the BBC will move its freelancers onto payroll where they will agree to become employees in line with statutory minimum legal conditions. Although this could mean some will face a pay cut of up to 25 percent, they will become eligible to receive benefits which are paid through payroll such as contributions to the BBC's pension scheme and holiday pay. HMRC came under pressure to launch retrospective enquiries about whether certain top BBC personnel had been in breach of the IR35 regulation.

Bank bonuses struggle resumes:

The entire executive board of state-owned RBS has declined bonuses for last year, following its announcement of an horrendous £8bn loss in 2013. RBS ceo, Ross McEwan, said the other eight members of his executive committee, including Citizens Bank chief Bruce van Saun, would join him in not taking a bonus for 2013. Mr McEwan will not take one for 2014, either. “Fronting up to our past mistakes is very expensive,” said Mr McEwan, as he pointed out the majority of these provisions related to activities prior to 2008. This is about leadership...this team is not responsible for past mistakes. But we are the leaders running the company now,” he went on. RBS booked £3.1bn of provisions for litigation and mis-selling costs. That was on top of a loss of up to £4.5bn for the creation of its new ‘bad’ bank (stuffed with toxic loans from the pre-2008 crisis). Meanwhile, RBS chairman Sir Philip Hampton confirmed that the bank is discussing with investors - including UKFI - the need for a shareholder vote to allow the bank to pay bonuses at 200pc of salary levels to meet new European compensation rules.

Any executive cash bonuses at RBS will be limited to £2,000 next year, Prime Minister David Cameron promised MPs. He was responding to calls by the Labour leader Ed Miliband in the House of Commons to block any attempts by the bank to pay its senior staff bonuses worth twice their salaries. Mr Cameron said: "I can confirm that just as we have had limits on cash bonuses of £2,000 at RBS this year and last year, we will do the same next year as well." The PM said he would veto any attempt by RBS to increase its overall pay and bonus bill; "We will continue with our plans for RBS that have seen bonuses come down by 85 percent and the bonus pool reduced to one third of the level that it was under Labour."

However, Shadow Treasury Chief Secretary Chris Leslie said capping the overall bill was not the same as vetoing individual share bonuses - the PM made no mention of share award bonuses: "A cap on total remuneration is a complete red herring because RBS is cutting another 2,000 jobs in its investment bank and many executives were paid bonuses worth more than 100 percent of their salary last year," said Mr Leslie.

RBS is expected to invoke an EU clause that allows it to pay staff double their annual salary in bonuses, if approved by shareholders. Under the EU bonus cap, which came into force on January 1, bonuses of more than 100 percent of basic salary must be approved by shareholders. As the Government owns 80 percent of RBS, taxpayers are represented by the Chancellor, who can veto any bonus decision. The Chancellor is challenging the cap in the Courts, arguing it would not lead to bankers receiving less money.

CRD4 took effect in EU Member States on January 1 2014 and is making a number of changes to pay in banks and certain investment firms. The most important is a bonus cap of 1xsalary on variable pay (2xsalary with shareholder approval). This applies to payments to Code Staff/Identified Staff for services provided or performance from 2014 onwards, whether due on the basis of contracts concluded before or after January 1 this year. So the first bonus round caught by the cap will be in 2015, for 2014 performance.

Fitch, which is one of the so-called 'big three' ratings agencies, said that it was "unlikely that compensation costs and benefits will fall significantly as a result of the EU bonus cap."

"Compensation costs of five large European global and trading banks were 41 percent of net revenues on average for the first nine months of 2013, and we do not expect the new rules that come into effect this year to substantially reduce this ratio."

The bonus cap came into force this year, as part of new rules on capital requirements for banks. Under the rules, banks can only pay staff bonuses on a ratio up to 1:1, with an exemption to pay bonuses on a 2:1 basis with the approval of at least 66 percent of shareholders. EU lawmakers said the cap was aimed at curbing excessive risk-taking and speculation among executives.

However, the regulation has since been watered down by the **European Banking Authority** (EBA), the EU's London-based bank watchdog. As part of a deal thrashed out in December, EBA relaxed the cap rules to exempt financiers earning more than €500,000 if agreed by regulators. Fitch referred to a report released by German bank watchdog Bafin**,** which found that only four out of fifteen banks surveyed had applied the EU salary cap, while four had awarded bonuses higher than double the base salary maximum allowed on the basis of shareholder approval. The Bafin report hinted that many German banks were failing to identify 'risk-takers' in banks. Fitch warned that confusion about the definition of 'risk-takers' could be replicated elsewhere. "Inconsistent application of risk criteria could result in some banks getting around the bonus cap," it said, adding that reports suggested that many banks would simply increase salaries and share options," it warned.

More than 3,500 EU bankers were paid more than €1 million in 2013, of which 75 percent are based in the UK, home to the bloc's largest financial services sector, and around 20 percent in Germany. The UK issued a legal challenge against the legislation last September, claiming it was in breach of the EU treaties and would put European banks at a competitive disadvantage.

Verum Financial Research highlighted the correlation, or lack of it, between FTSE 100 companies' recent financial performance and the remuneration of their executive and non-executive directors. Using information from company reports and accounts for those in the FTSE 100 last July (12), the Verum FTSE 100 Company Pay report compared growth in company performance (including: ability to generate returns on capital; equity; debt in relation to assets; and earnings per share) with growth in director pay (incl.: basic salary; incentives such as pension, health insurance and company car schemes; and bonuses such as shares and cash bonus payments) over the fiscal period 2008/09 to 2012/13.

The report concluded that ‘performance exceeded pay’ at 65 percent of FTSE 100 companies, while ‘pay exceeded performance’ at the remaining 35 percent.

Growth in executive director average pay versus Verum Index of company performance 2008/09 to 2012/13:

Centrica	1
GKN	2
Severn Trent	3
Persimmon	4
Prudential	5
Burberry Group	6
Hargreaves Lansdown	7
Melrose Industries	8
ITV	9
British Sky Broadcasting Group	10
Croda International	11
Fresnillo	12
Land Securities Group	13
BT Group	14
Aviva	15

The tail-enders in terms of growth in directors' reward v performance, according to Verum, were:

WPP	95
Glencore Xstrata	96
Easyjet	97
Smith & Nephew	98
Lloyds Banking Group	99
Barclays	100

Verum found that, while the basic salary component of an average FTSE 100 executive director's pay increased by seven percent between 2008/09 and 2012/13 (from £0.60m to £0.64m), incentives increased by 24 percent (from £0.2m to £0.24m) and bonuses by 18 percent (from £0.47m to £0.56m) over the same period. In particular, in 2009/10, while the overall performance of all FTSE 100 companies rose by only two percent according to the Verum Index, the bonus element of executive director pay increased by 28 percent.

The average pay of a FTSE 100 executive director in 2012/13 was £1.45m. For a non-executive director it was £137,527. However, many directors hold roles at more than one company, so their income will often be much higher.

Verum spokesman, Robert Macnab, said: "The gulf between average income and executive pay was initially highlighted by the scandal surrounding Fred Goodwin's retirement package from the Royal Bank of Scotland in 2009. From an investor perspective, there is real concern that bonuses and incentives have become detached from performance and that they have become almost part of fixed pay. Our research suggests that the metrics commonly used by FTSE 100 companies to benchmark director remuneration – Total Shareholder Return (TSR) and Earnings Per Share (EPS) – have serious shortcomings. TSR can be influenced by generous dividend policies and EPS can be enhanced by higher borrowings. This goes some way to explaining the ratcheting effect in directors' pay. The Verum Index is based on a broader set of fundamental performance metrics, including: Return On Capital Employed (ROCE), Return On Investment (ROI), Return On Equity (ROE), Cash Return On Invested Capital (CROIC), Cash To Profit Ratio (CTP), Earnings Per Share (EPS), Profit After Tax (PAT), Assets To Debt (ATD) and Equity To Debt Ratio (ETD). It is a better way to evaluate director remuneration and a valuable new tool for both investors and pay structure decision makers," he added.

Irish Water executives defended offering their staff performance-related bonuses in the wake of political pressure not to proceed with the payments. John Tierney, the company's md, said that even with bonus payments, which will average ten percent of salary, the new semi-state company will have cheaper wage costs than similar organisations. John Barry, an Irish Water executive, said the bonuses, which are available to all staff except Mr Tierney, help motivate workers. Their comments at a meeting of the Dáil Public Accounts Committee (PAC) followed statements from Minister of State for Finance Brian Hayes that the bonuses should not be paid. Minister for Social Protection Joan Burton said she was surprised too that contractual provision had been made for the bonuses. Senior civil servants in the Department of the Environment said at the meeting that the Minister was not given a detailed breakdown on consultancy spending by Irish Water. However, Mr Tierney said the wages and pay structures offered to staff in Irish Water were based on those of **Bord Gáis**, which paid its staff an average bonus of €7,000 among 300 staff. He stressed that no bonuses have been paid to date, but the 299 staff recruited to Irish Water so far will be entitled to them

The ceo and senior management of **IBM**, the world's biggest computer-services provider, have said they will forgo their bonuses for 2013. The move comes as the firm reported a five percent drop in sales and a one percent decline in net profit for 2013, from a year ago. Its performance was dented by falling profits in emerging economies - where a slowdown in economic growth in recent years has hurt demand. Revenues from these markets fell by nine percent from a year earlier. In the BRIC countries - Brazil, Russia, India and China - sales declined by 14 percent during the year. "While we made solid progress in businesses that are powering our future, in view of the company's overall full year results, my senior team and I have recommended that we forgo our personal annual incentive payments for 2013," said Ginni Rometty, IBM ceo.

The Forum of Private Business (FPB) opposed Chancellor George Osborne's call for a significant rise in the National Minimum Wage (NMW) – perhaps up to a new level of £7 per hour. "Until the UK has seen a sustained recovery and businesses are in a position to afford it, we oppose any large rise in the NMW, as we have not yet reached that point," said the FPB.

"With many companies not yet profitable enough to service their own debts the last thing we need is a huge, inflation busting rise in the minimum wage, which would cost jobs in some sectors. We are clear that efforts to tackle the cost of living should not increase the costs of doing business. Whilst it is true to say that the NMW has lost real terms value since 2010, that ignores the wider context of the huge over-inflationary growth since its creation in 1997. The recent lower increases are helping to recalibrate the NMW to a more appropriate level. Equally, the independent Low Pay Commission, which has the confidence of employer and employee bodies, should be left to make the final decision as political intervention would be damaging to the process."

"Government should be mindful of the multiplier effect of raising the minimum wage. Not only does it cause wage inflation higher up, but it also means an increase in the cost of other employment benefits offered, such as pensions. A 50p rise in the NMW may sound innocuous, but to a business employing nine members of staff, it equates to an extra £9,000 per year before any pensions or employer benefits are taken into account. Any proposals looking to offset a rise in the NMW for businesses must take such factors into account."

France

The share savings plan (PEA) and SMEs (PME)-mid-cap companies (ETI) share savings plan tax exempt limits were raised by the Finance Act for 2014 - adopted by the French Parliament on December 19, said Centre member **Bird & Bird.** From January 1 this year, the share savings plan threshold was increased from €132,000 to €150,000 (€300,000 for a married couple). A new kind of share savings plan has been created: the 'SME-mid-cap companies' share savings plan with a threshold limited to €75,000 (€150,000 for a married couple). This new share savings plan can be combined with the classic share savings plan. Securities affected by this new plan are shares and bonds issued by European mid-cap companies and shares and bonds issued by UCITS. Note that preferred shares and bonds or subscription rights or attribution rights cannot be placed in a share savings plan

M & A activity slows

M & A activity in the final quarter of the year dropped 39 percent to 468 deals and value fell 56 percent to $313bn compared to the same period last year, said corporate lawyers Allen & Overy. For the year 2013 as a whole, the number of deals fell 14 percent by both value and volume, with 2263 deals worth $1.83 trillion. However, as investor priorities and sentiment change, the market needs to be looked at through different lenses. *2014 could see M&A activity significantly increase, as it is now highly likely that interest rates will go up and the end of cheap funding is in sight.* The US continued to be the liveliest of the M&A markets: in Q4, it accounted for 32 percent of all activity by volume and 39 percent by value, despite a year that was marked by budget impasse and widespread anxiety about the end or reduction of the Federal Reserve's monetary stimulus programme. This reflected growing confidence in the economic recovery taking hold, with companies focusing on bolstering core business activities and disposing of non-core assets. Examples include the **Novartis** sale of its blood transfusion diagnostics business unit to **Grifols** for $1.7bn and **AIG**'s sale of its aircraft leasing unit for $5.4bn to **AerCap.**

The UK still ranked as the second most attractive market for foreign buyers in 2013 and confidence is improving, but there were still signs of aversion to risk, as deals became smaller in value. The average deal value in Q4 2013 went down by 27 percent compared to the same quarter last year, from $721m to $523m. Much of Europe, with the exception of the UK and Germany, remained in recession or low growth. With 556 deals completed, 2013 was the quietest year since 2009 in Western Europe. However in Spain, the M&A market showed signs of gradual recovery. Excluding deals in the financial sector, the number of deals still increased by 24 percent in 2013 while deal value was up by more than 50 percent. In 2013 US and European capital flows were directed more towards domestic deals: in the UK there was a 20 percent increase in domestic deals. Capital flows towards emerging markets slowed as companies have been taking stock of the changing economic situations in those markets. One of the consequences of this was the virtual ring-fencing of the Asia Pacific region where intra-regional deals now dominate.

Share scheme reform in Oz

Many multinational companies have operations in Australia and want to extend their global incentive plans to employees there, said Centre member **Linklaters.** There is good news for 2014, with the Australian Securities and Investments Commission (ASIC) looking to end much of the uncertainty that has surrounded the offer of free share plans structured as restricted stock units (RSUs or conditional awards). ASIC recently released a consultation paper and draft regulatory guide (click here for details) and proposes to broaden the current Class Order exemption (from prospectus and licensing requirements) associated with employee incentive plans. A key proposal is to extend the exemption to include various types of newer style incentives including RSUs, phantom plans, cash-settlement alternatives and dividend equivalents, alongside the traditional share options and share purchase plan structures already covered by the 10 year old Class Order. It is proposed to allow offers of depositary interests such as U.S. ADRs, provided there is a clear link to the underlying listed share. As a result, companies would no longer have to consider modifying their plan rules, applying for special relief or excluding their Australian employees from their global plans because of securities law considerations.

Companies will welcome ASIC's intention to dispense with the requirement to lodge offer documents each time the plan is operated. However, ASIC is also proposing new, general, standards of disclosure – including a risk disclosure – on issuers, which may not be quite so welcome. Other proposals include a new 12 month mandatory holding period for a significant portion of entitlements under the offer, and additional conditions for offers to non-executive directors. These seem likely to be the subject of submissions during the consultation period, which runs to January 31 2014. It is expected that the new Class Order will be released in May 2014.

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