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Executives see restricted stock gateway to lower tax

Leading UK companies are asking their remuneration consultants to devise reward schemes that would enable top executives to escape the government's new 50 percent band of income tax for high earners, which operates from April, the *Guardian* newspaper claimed.

Complex executive reward schemes have surfaced - some intended to allow senior executives to pay a tax rate of 18 percent instead of the 50 percent top rate, according to industry experts.

The new schemes came to light only weeks after Chancellor Alistair Darling announced a new 50 percent payroll tax on bankers' bonuses higher than £25,000.

However, his unexpected decision, revealed in the Pre Budget Report, ***not*** to raise the rate of Capital Gains Tax from its present level of 18 percent, may prove to be his *Achilles Heel*, as reward consultants study potential opportunities.

The plans for complex reward packages are being presented to institutional investors who are briefed by remuneration consultants. Investors vote on executive pay schemes in an advisory capacity, but most companies try to gain their biggest shareholders' approval for reward package changes, fearing the negative publicity impact of heavy voting against the annual board remuneration report. Investors had expected proposals that would allow boardroom executives to enjoy base salary rises this year, after a big freeze last year, but plans they are being shown are surprisingly complicated and constructed to adapt to the changing income tax environment in the 2010-11 tax year.

Peter Montagnon, head of investment affairs at the Association of British Insurers, said: "We have noticed a lot of interest in tax efficiency. This is liable to produce some very complicated share schemes which shareholders will have to scrutinise closely." The new 50 percent Income Tax band will be levied on the estimated 350,000 people with incomes above £150,000 a year.

Some new-look corporate reward plans seek to reclassify executives' income as capital gains, which attract a lower tax rate. Most reward schemes for FTSE 100 executives are based on awards of shares or options that are linked to performance criteria over three to five years. The income tax is paid when the shares or options actually vest. But the new schemes are based on restricted stock. These seek to shift most of the tax liability to a capital gain on any profits made at the end of the three-to-five-year period when the shares vest. They use special financial instruments to minimise the income tax paid by the director when the stock is received and transfer some of the economic risk to the executive. Company share schemes can be arranged in such a way as to ensure that payouts are taxed as a capital gain by using 'flowering shares', normally involving the creation of a separate class of shares. The concept has been given a new lease of life by the huge discrepancy between the rates of income and CGT. Jon Terry, head of remuneration at Centre member PricewaterhouseCoopers said: "A number of these restrictive stock-type arrangements will come forward this AGM season."

Restricted stock awards have been growing in popularity as an executive incentive reward tool for several years. Recent regulatory demands, in the wake of G20, have accelerated the move away from cash bonuses in favour of equity bonuses in any event.

Significantly, Centre member Clifford Chance said: "Whilst it had been predicted in some quarters that the Government might introduce targeted anti-avoidance provisions to close down certain employee share arrangements which seek to obtain CGT treatment in light of the forthcoming income tax rate of 50 percent - or even

From the Chairman

Amid the seasonal turmoil of strike threats and inclemency, it was good to see BALPA - the British pilots' union - reaching an agreement with BA which included share options for concessions. It remains to be seen whether unions down the pecking order such as Unite - which represents cabin staff - follow the same route. I feel they may not for historic reasons. If we look back on the credit crunch crisis I am sure we shall see too many examples of sacrifices made by guiltless employees unrecompensed by the upside of equity and a great opportunity missed by unions in particular but by our sector in general. Perhaps it is not yet too late as unemployment glides towards its probable peak.

Malcolm Hurlston

to increase the rate of CGT far above 18 percent - these predictions have not materialised, ***although it seems that HMRC is instead seeking more information on such arrangements.*** This means that, in general, there remain opportunities to accelerate cash/share based awards (in the non-banking sector) into the 2009/2010 tax year to take advantage of the 40 percent income tax rate and to put in place new arrangements to maximise tax efficiency in future tax years."

Montagnon warned companies that shareholders are unwilling to endorse reward plans that are overly complicated and designed to pass on the cost of the extra tax to the company from the executive. "We can't support schemes which end up costing the company more than would otherwise have been the case or simply shift the tax burden from the individual to the company. Shareholders recognise that schemes should be efficient in relation to tax implications, but there is a limit. They cannot support schemes which are nakedly for the purpose of avoiding tax," he said.

This year's Pre-Budget Report contained few changes specifically targeted at employee share plans, although a limited change for Enterprise Management Incentives will help permit more overseas-based companies to offer EMI share options to their UK employees. The government published draft legislation, which will allow the extension of EMI to companies with a permanent establishment in the UK from April 6 this year.

Meanwhile, controversy mounted over the efficacy of the 50 percent bonus payroll tax, though most media ignored the exemption granted to banking employees whose *approved* employee share scheme matured holdings (or disposals) exceed the £25,000 benchmark. Kevin Thompson of Clifford Chance said: *"It seems relatively clear that the draft legislation is intended to catch not only bonuses (whether paid in cash or shares) but also, for example, share options and LTIP awards, regardless of whether or not they are part of the annual bonus round. There are, however, exclusions for Share Incentive Plans and Sharesave. Other benefits, e.g. discretionary pension contributions, also seem to be caught."*

The Financial Services Authority ruled months ago that large bank bonuses should be paid in shares and disbursed in tranches over a prolonged period of time. According to the terms of the new supertax, equity bonuses paid out within the next few months would also attract the 50 percent levy and the charge for the whole bonus would be payable up front.

Commentators were divided over whether banks would dramatically slash bonuses this year to £1bn, down from an estimated £6bn, or whether they would still award them willy nilly. Several banks including JP Morgan, Citigroup and Barclays took the other way out by raising base pay substantially. Some believe banks which have had a particularly successful year, such as Goldman Sachs, may choose to pay the huge tax so that their key employees can still get their scheduled bonuses on time. The Treasury said it expected to make only around £550m from the new payroll tax, which came into effect on December 9. The effective rate of tax will be 66 percent, with the Treasury taking five tranches of tax on bankers' bonuses: the new payroll tax, corporation tax, NI from both employers and employees and income tax. The Government is hoping to minimise the danger of banks moving their operations abroad - in order to avoid the tax - by limiting its life until April 5 this year. It warned that any attempts to avoid the tax would be stamped on. The use of loans to employees to tide them over until the next bonus round will in particular be frowned upon, the Treasury said. All UK and foreign banks operating in the UK will be affected.

Criticism of the one-off bank bonus tax was severe: Anatole Kaletsky wrote in *The Times:"The Financial Services Authority could simply have instructed banks operating in Britain to pay out all bonuses in newly issued shares. This would mean that bonuses were automatically added to a bank's share capital, increasing its resilience to future financial busts and expanding its ability to lend money. This policy would also force bank directors to think more carefully about the distribution of revenues between their shareholders and employees, since every £1m paid out to bankers would dilute the existing shareholders by the same amount. Having established the principle that banks have to choose between rewarding their employees and their existing shareholders, Mr Darling could have stated that as the main shareholder in RBS and Lloyds Banking Group he would veto any payments beyond £25,000. Such an approach to bank remuneration would have made sense financially, would have strengthened bank capital in the long term and would have set an example for other governments. Instead, the one-off tax chosen by Mr Darling is a financial nonsense, will prove unsustainable beyond the next election and will be ridiculed by governments and regulators in other countries."*

Centre member Pinsent Masons said the Government had played down concerns that banks would shift their headquarters away from the UK in order to avoid the tax, yet there was a general feeling that some bankers would ask for their contracts to be amended to attach them to other financial centres such as Zurich, Paris and Frankfurt. One banker said: "It is completely naïve to think this will have no effect. The Treasury, the FSA, the Inland Revenue and politicians are all being very aggressive across the board. The UK is making itself business unfriendly. A huge number of colleagues will get themselves relocated."

JP Morgan may scrap plans to build a £1.5 bn HQ in London because of concerns about the 50 percent bonus tax and Britain's regulatory crackdown. Jamie Dimon, JP Morgan's ceo, expressed anger at the tax and other issues in a telephone call with Alistair Darling. HSBC may move its HQ out of the UK. The bank revealed last autumn that it was reorganising its senior management structure and Michael Geoghegan, its ceo, will move to Hong Kong shortly.

French Finance Minister Christine Lagarde later announced that France too would introduce a tax on bankers' bonuses similar to the one in the UK. Any bonus above€27,000 (£24,300) would be taxed at a rate of 50 percent on payments made in 2010. Ms Lagarde said that a Bill would be brought before the French parliament in January. The ceo of Germany's Deutsche Bank told the *Financial Times* that the bank will spread the impact of the UK's bonus tax among its staff worldwide. "We will clearly globalise it", said Josef Ackermann, Deutsche Bank's ceo: "It would be unfair to treat the UK bankers differently", he added. It is the first bank to detail its response to the bonus tax. "We will monitor what [other] banks are doing, how much of the cost will be borne by staff and how much will be taken by shareholders", Mr Ackermann told the paper. He also said that he opposed government interference in deciding bankers' pay, saying "bonuses should be the result of supply and demand for skilled people".

Centre member Deloitte said that the UK payroll tax applies to employees performing 'banking services' who are either UK resident or who perform their work in the UK and who are awarded a bonus between December 9 and April 5 2010. It will not apply where the payer has no discretion re the bonus amount due to an existing contractual obligation. The liability will fall on the bank and will be chargeable at the rate of 50 percent on the amount by which the bonus exceeds £25,000. The payroll tax will be payable on 31 August 2010 and will not be deductible when calculating the bank's taxable profits and losses.

Within minutes of the Pre-Budget Report, investment bankers began considering delaying payment of this year's bonus until next Christmas, to avoid the levy. While the Treasury insisted that the taxman would have the power to extend the life of the levy, tax experts were scathing about the charge, because it will be difficult for HMRC to prove whether a discretionary payment made next year relates to a verbal agreement made today.

The Treasury insisted that if it had evidence that bankers were taking steps to wriggle round the April deadline, it would view such measures as tax avoidance and claw money back after the timetable had expired. The bonus tax may catch a promise (or even a mere indication) made during the chargeable period that a later bonus/ benefit will be provided, but an exception has been made for guaranteed bonuses. Contractual obligations to pay bonuses/benefits which arose prior to the commencement of the chargeable period are not generally caught, so long as the amount of the bonus/benefit is fixed. Any discretion is likely to mean that a bonus/ benefit will be caught. The draft legislation is very broad and there are a number of circumstances in which employers may find they inadvertently fall within the rules. For example, a payment made now into an Employee Benefit Trust to fund payouts for future years may, in certain circumstances, trigger the bank payroll tax charge.

As the tax only applies until April 5, banks may wait until April 6 before paying out their bonuses. If a banker were paid a £125,000 bonus *before* April 5, his employer would have to pay £191,000 in total — £125,000 for the employee, £50,000 levy to the tax man, and £16,000 national insurance.

Angela Knight, ceo of the British Bankers' Association, warned that the tax would endanger the City's position as a global financial centre: "Viewed from abroad, London may well look now like a significantly less attractive place to build a business. We must repeat that only concerted international agreements will succeed in reforming remuneration in the financial sector."

The Government was later forced to amend the bankers' bonus tax after admitting the original rules had accidentally targeted the wrong type of company. Revenue & Customs finally confirmed that the tax law would be amended to exclude those firms accidentally caught by the tax. HMRC clarified the scope of the new rules. In a statement it said: "The bank payroll tax announced at PBR 2009 applies to retail and investment banks (including building societies), and to banking groups. It does not apply to non-banking companies outside of banking groups (for example, insurance companies, asset managers, stockbrokers etc.)." The climb-down was a victory for leading City stock-broking firms, including Centre member Collins Stewart, who wrote to HMRC demanding a clarification of the tax. Treasury sources at first insisted the tax did not catch stockbrokers and was aimed solely at banks that had depended on taxpayer support or might in a crisis But the Revenue issued fresh guidance on the tax, admitting 'the original definition of a bank did not effectively exclude all the groups we intended to exclude'. Stockbrokers were included in the original tax because many carry out trading and advisory activities similar to those carried out by investment banks - the key companies where massive bonuses are paid. The amendment adds an extra clause that will exclude companies that under current rules do not have to hold significant buffer capital. In effect, this will exclude stockbrokers and asset managers and refocus the tax on banks. Banks are still struggling with the details of the tax, which must be implemented in their full-year results due in February.

After intensive lobbying from industry bodies, it said that only the most heavily regulated non-deposit takers, known as BIPRU 730k, would be caught by the tax. The government will amend the legislation to add the following to the list of excluded companies:

- A company in a group that is not a deposit taker and is only carrying on relevant regulated activities on behalf of an insurance company in the same group.
- A company that does not carry on any relevant

regulated activities otherwise than as a manager of a pension scheme.

- A company whose activities consist wholly or mainly in acting as the operator of a collective investment scheme (within the meaning of Part 17 of FISMA 2000).
- An exempt BIPRU commodities firm.
- It will exclude non-banking financial service groups that are incorrectly characterised by the rules as banking groups because the group structure includes a company with banking activity. Almost all financial companies in this category carry out proprietary trading — buying and selling shares on their own account.
- Private equity firms are not in this category and were given a "get out of jail free card" by the clarification.

This is the case both for standalone entities and those carrying out the same activities within banks, such as staff at Scottish Widows, the investment management arm of Lloyds.

The Investment Management Association said that after detailed discussions with senior Treasury officials it had confirmed that the tax would not affect asset management firms, including those owned by banks.

Within banks, says the technical note on the draft legislation, the tax will affect people whose employment involves duties that relate either 'directly or indirectly' to regulated activities such as deposit-taking, trading, and investment deal-making. "'Indirectly' is cavernously wide," says Stephen Herring, a senior tax partner at accounting firm Centre member BDO LLP.

People who work for a unit of a banking group but aren't actually involved in banking -- for example, if they work for a bank's insurance business -- would be exempt, but there are grey areas with certain categories of employees, such as Internet technology specialists, top-level executive assistants, government-relations teams and legal advisers. For example, an IT specialist who supports a trading-floor platform would be subject to the tax, while one who works on another side of the business, such as customer service, might not, said HMRC. The bank will be asked to show that a certain person or groups shouldn't be taxed.

"We are not looking to broaden the net as far as we can. It is about focusing the tax to discourage a culture of awarding bonuses that encourage risky lending," said an HMRC spokesman.

An employee of a U.K. bank based in New York and paid in New York, but who flies to the UK for meetings or other business, would be subject to the tax, said HMRC.

Given the new Group of 20 guidelines surrounding pay packages this year, banks plan to pay a good deal of their awards in shares that don't vest for several months or several years, but how should such awards be taxed, since their value to an employee may not be known until shares vest several years after the award is made. UK Treasury and tax officials said that compensation in the form of shares or other instruments will be taxed according to its value when the award is made. They say any attempts to circumvent the tax by awarding bonuses after the financial year ends on April 5 could result in the law being extended.

Contributions to 401(k)s or severance pay awarded during the period would be subject to the payroll tax, but stock previously awarded, which vests within the period wouldn't be taxed if the amount was previously determined by contract. There will be no refund for taxes on bonuses that are subsequently clawed back due to poor performance, HMRC warned.

Centre member Alvarez & Marsal Taxand said that additional anti-avoidance measures had been introduced this year. However, "we continue to work with clients to establish sophisticated, commercially-based tax planning, which would not be subject to an anti-avoidance challenge. A new regime to tackle offshore evasion will be introduced with swingeing penalties, which could amount to 200 percent of the unpaid tax."

These matters will be extensively scrutinised at the Centre's Top Pay Unit session in Davos next month.

FT takes up Centre's case on Prospectus Directive

Newspad's front-page exclusive in the December issue – about the internal rift within the EU over proposed changes to the Prospectus Directive was followed up by the *Financial Times* last month. Journalist Jonathan Moules was briefed by Centre chairman Malcolm Hurlston about the surprising turn of events. Moules then wrote: *"Brussels has been accused of reneging on a proposal that would have cut the red tape burden on companies in the European Union who want to give shares to their employees. Anger has been sparked by the EU Council of Ministers' decision to overrule plans by the European Commission to offer an exemption from the onerous prospectus directive requirements for all companies running employee share schemes. As a result, unlisted companies must continue to publish a costly and time-consuming prospectus if they want to award non-UK employees equity- based incentives. Only tiny awards are exempt. Malcolm Hurlston, founder and chairman of the Esop Centre, said: 'We smelt a rat when the Commission, without warning, suddenly refused to send an expert official to our Global Employee Equity Forum in Davos.'* Centre member Guy Abbiss, of Abbiss Cadres, a City law firm, described the Council of Minister's textual changes as "baffling and disheartening."

New member:

The Centre is pleased to welcome into membership **Howells Associates,** which provides employee share scheme services for companies employing more than 2.5m employees... almost half its clients being FTSE100 companies...involving more than 600 different schemes, of which almost half are global, in 112 countries...and covering £300bn in base value award benefits. Howells' client base and service range extends from simple admin records for as few as 25 participants up to highly complex live web-based scheme and systems integration for almost 300,000 employees for HSBC. It works closely (i.e. direct data and facilities integration) with many other leading major service providers. Working with clients, Howells was the first to achieve full XML dealing links and with Unilever it was the first UK provider to achieve a full web-based electronic worldwide grant. It even has a client quoted on the Kazakhstan Stock Exchange. "Interestingly, during the past year (while others have seen muted business development during a recession) we have increased our client base, including four new FTSE100 clients," said Howells Associates MD Alastair Hall.

Howell Associates is appointed to provide, support and maintain a wide range of services for a wide range of companies, as follows: in-house share scheme admin facilities; share scheme out-sourcing facilities; dedicated corporate share scheme website facilities; global share scheme/administrator data integration facilities; various DataShare(c) facilities - including stockbroker share scheme dealing integration; registrar share scheme data integration; trustee share scheme data integration and global corporate nominee integration- ShareSave and SIP data integration facilities; share scheme IFRS2 reporting facilities; Citrix-based share scheme admin facilities and online internationally mobile executive (IME) tax calculation facilities.

Howells never takes on new clients where work would impact on existing clients' services, so it is mildly choosy about the clients it will take on and it has not therefore focused too strongly on sales. "One can, however, take being exclusive too far and perhaps we should get out more!" said Peter Howells. In the previous issue, the Centre commented on the changed shape of the share scheme admin market following Computershare's acquisition of HBOS, but did not mention Howells, so under-stated has it been. It does not quite fit the description of general admin provider (although it provides a wide range of admin services), nor it is an adviser (although clients seek its advice). He added: "We do, however, quietly dominate the field of special services for share schemes. Working with a wide variety of companies has been described by clients as rather like being a member of a distinguished private club! We will be trying to improve market awareness of our services and, somewhat late in the day (we've been around for some twenty years), we've sensibly joined the ESOP Centre, which will no doubt help." For more info, call Howells on +44 (0)1423 812 800 and or consult online: www.howells-associates.com

On the move

Joe Saburn, whom Centre conference goers will know well, has left Greenberg Traurig LLP and has joined the New York office of Squire Sanders & Dempsey. Joe tells us: "The chance to substantially grow my executive compensation and employee benefits practice, and work with talented lawyers in a world-wide platform is a tremendous opportunity for me." He will update our delegates on key US executive compensation trends when he speaks at our annual conference in Cannes in July. His new contact information is: Joseph M. Saburn, Partner, Squire Sanders & Dempsey LLP 30 Rockefeller Plaza, 22nd Floor New York, NY 10112 212-872-9812 Email: jsaburn@SSD.com

Rosemary Marr is now an independent consultant based in Jersey. She is vice-president of STEP International (a five-year appointment) and has recently become the Esop Institute's international research fellow. Her contact co-ordinates are: rosemary.marr@jerseymail.co.uk and telephone number: 07797 729701.

UK companies out-perform their global peers

Centre member **MM&K**, the independent remuneration consultancy and **Obermatt,** the Swiss financial research firm, have formed a partnership to promote the Obermatt Bonus Index in the UK in order to measure management performance and bonus payments objectively. The recently published Obermatt Bonus Index on the FTSE100 companies came to the unexpected conclusion that many UK companies have outperformed their global peers and, based on first half year 2009 performance, deserve above average bonuses. The Obermatt Bonus Index evaluates levels of senior executive bonuses based on an index of relative operating performance. This rewards true operating performance – free from external factors that distort current bonus plans. For more information go to www.obermatt.com/bonus-index. Shareholders and proxy advisories please note.

Morgan Stanley & Citi Smith Barney joined forces last June to create **Morgan Stanley Smith Barney** - a new industry leader in wealth management. Morgan Stanley Smith Barney is the trading name for the Global Stock Plan Services (GSPS) division of MS Private Wealth Management Services Ltd. The establishment and evolution of GSPS was celebrated appropriately at the Goring Hotel in London last month, in the presence of a fair sprinkling of Centre members. MSSB offers global offices and expertise; sophisticated record keeping and trading; multilingual online participant services; real-time trading and execution; currency conversions and mobility tracking and support for changing regulatory requirements worldwide. Mitan Patel is GSPS's head of business development & marketing and you can contact him at Tel: + 44 (0) 207 986 8260; Mob: + 44 (0) 7702 779 201 Email: mitan.patel@citi.com The Goring has the class and stability associated with London's remaining family owned top flight hotel, still with the feel of the country set which frequent it, now as in the days when it hosted debutante events, said Mr Hurlston.

Commission on ownership

"Enterprises owned by staff or communities should deliver more public services" , Tessa Jowell, Minister for the Cabinet Office said in a speech to the think-tank Progress. She claimed that after the credit crunch and the expenses scandal, people were now looking for different types of organisations that give them a greater sense of ownership and control. She argued that we are entering a "mutual moment", where a new sense of community ownership would be created through making greater use of mutual organisations in the provision of public services. Ms Jowell announced the launch of an independent Commission on Ownership, chaired by economist Will Hutton and funded by Co-operative Financial Services, to look at how to get more employee and community ownership into public services. The minister urged the Commission to encourage a level playing field for mutuals to run public services and extend the right of ownership to communities.

Davos: Feb 4 & 5

New member Collins Stewart, the leading independent financial advisory group, will deliver a major presentation at the 11th Global Employee Equity Forum in Davos on Thursday February 4 and Friday February 5. Its hour-long triple-headed slot is entitled: *'Trading employee shares: getting the best deal for the employee and the corporate.'* Anyone who thinks that broking employee shares is simply a matter of pressing a computer key should attend. Among the subjects the speakers will cover are: Case studies: FTSE100 companies; the process of broker trading and achieving best execution; hedging employee share awards: equities vs call options vs contracts for difference (CFD); how to choose a custodian for your employees shares and effective cash management - maximising return while assessing risk. The three Collins Stewart speakers will be: Michael Smith, Head of Corporate Executive and Employee Trading Desk (CEET); Glenn Coxon Head of Wealth Management, Geneva and stockbroker Justin Jouan.

Credit Suisse, the global financial services company (private banking, investment banking and asset management), will deliver another major presentation in Davos, dealing with innovative corporate compensation strategy. Its lead speaker will be Philip Halliday, based in New York, who is global head of equity compensation. He will be supported by fellow speakers Marcelo Victoria and by Claudia Campomori in the slot entitled: *'Innovative Compensation Solutions for a Challenging Environment: A Case Study.'*

Other speakers are: Grant Barbour of Bedell Group; Paul Stoddart of Computershare Plan Managers; Sue Mellors, Head of Financial Services at Diageo; Maoiliosa O'Culachain of Global Shares; David Pett of David Pett & Co.; Mike Landon, MM & K; Malcolm Martin of Martin Remuneration Consulting (Australia); Kevin Lim of RBC Corporate Employee & Executive Services; Jean-Nicolas Caprasse of RiskMetrics Group; Alan Judes of Strategic Remuneration and Centre chairman Malcolm Hurlston.

There is still time in which to register yourself and/or a colleague as a delegate for this prestigious event, to be held at the Steigenberger Belvedere Hotel in Davos Platz. BT, Diageo and Invista Real Estate are among Centre member plan issuers who have already done so. The Centre offers all delegates a two nights (on half-board basis) hotel accommodation + conference package deal, including cocktail party, at very cost-effective rates. Please access the Centre website at; www.hurlstons.com/esop and click onto the 'events' tab in order to download the brochure, study the comprehensive programme and register online. Alternatively, you can email your delegate name(s) to fhackworth@hurlstons.com with copy to esop@hurlstons.com The conference brochure is being co-sponsored by: **Appleby Global; HBOS Employee Equity Solutions** (now part of **Computershare Plan Managers**) **and by RBC Corporate Employee & Executive Services** (see website at: www.rbccees.com). Enquiries about other co-sponsorship opportunities in Davos should be emailed to Fred Hackworth.

Tweedie to hang up his abacus

William Franklin of David Pett & Co. reports: " It was with mixed feelings that I heard the news that Sir David Tweedie was planning to step down from the International Accounting Standards Board in June 2011. Without his drive and resilience it doubtful whether all the obstacles to implementing Share Based Payment would have been overcome but the jury is probably still out as to whether all the effort has been worthwhile. With the US Securities and Exchange Commission pressing for the replacement of US Accounting Standards with International Standards by 2014 the worldwide adoption of International standards looks like being his true legacy – something which at the beginning of the decade looked about as likely as the restoration of Habsburg monarchy." A few years ago Sir David outlined his plans to the Centre at Davos and only a diary clash preventing his attending this year.

COMPANIES

Banco Santander has extended its Sharesave scheme to 6,500 Alliance and Leicester employees after taking over the bank in 2008. The scheme was previously offered only to staff of Abbey, which became part of the Santander group in 2004. Ian Cunning, reward consultant at Abbey, said welcoming new staff into the group was a key reason to extend the scheme. "It is about making people feel part of an integrated bank," he said. "People now will take a keen interest in the share price, and have a reason to want to stay with us and share in our success."

The trusteeship of Centre member **Cyril Sweett's** Share Incentive Plan (SIP) has been transferred from Cyril Sweett Trustee Company Ltd to Capita IRG Trustees Ltd. The SIP is a discretionary trust, which holds shares on behalf of employees of Cyril Sweett Group plc and participating subsidiaries. As a result, 9,810,063 shares previously held by Cyril Sweett Trustee Co Ltd have been transferred to Capita IRG Trustees, with the balance of 399,006 shares remaining in the name of Cyril Sweett Trustee Co. This balance of shares is either pending transfers to beneficiaries or unallocated shares, which will be used for future share appropriations.

Hargreaves Lansdown shareholders refused to vote down plans for 'excessive' executive bonuses at the AGM. Only 4.5 percent of shareholders voted against the rem comm. report and only a further one percent abstained. Shareholder rights group Pirc had said it was concerned that bonuses were uncapped, were not explicitly linked to performance and had no provisions for claw-back. Chair Stephen Lansdown and ceo Peter Hargreaves were the only directors facing caps, with bonuses limited to 300 percent of salary. Approved at the meeting was a new long-term incentive scheme offering share options open for up to five years.

Invensys launched an all-employee Sharesave scheme in 11 countries. In the UK, the technology group's approved Sharesave scheme was rolled out to 3,386 staff in September, and a further 9,929 staff were eligible for an unapproved plan in ten other countries, including China, Spain, the US, Singapore and Australia. Jessica Wildgoose, of Invensys group secretariat, said retention was a key driver in launching the scheme. One-third of its UK employees opted to join the scheme, while average take-up across the 11 countries was 16 percent. Owing to the scheme's global nature, Invensys had to make allowances for cultural differences. For example, in China, it is difficult to arrange mass savings through the workplace, so employees were asked to set up their own bank account into which to pay their monthly savings. The scheme was communicated primarily using a poster campaign, with posters translated into local languages. Employees could also ask local or regional scheme co-ordinators specific questions. Staff could then join the scheme online or by telephone. "A lot of employees work in factories, so average earnings are not high," said Wildgoose. "It was hard to communicate that it was a worthwhile scheme." The plan administrator is Centre member Yorkshire Building Society.

Marks & Spencer is expected to pay new ceo Marc Bolland a 'golden hello' of about £5m to compensate him for loss of share options at Morrisons, where he led a remarkable turn-round. Bolland is expected to arrive in May and sources say he would not have agreed without being paid for the share options he will leave behind. M&S declined to comment.

At its AGM, **Punch Taverns** shareholders voted down executive pay awards, forcing the company to review its reward policies. More than 55 percent of shareholders voted against the remuneration report after learning that Punch Taverns may suffer further declines in profitability. Their main concern was Punch's share based Long-Term Incentive Plan, which could be worth up to 200 percent of base salary for its top executives, provided upper quartile peer group performance is achieved over the next three years.

Italian tax amnesty yield: Under the government's tax amnesty plan, assets worth €95bn have been declared for the first time, of which 98 percent will be brought back to Italy from offshore, the Italian Economy Ministry said. "This is a positive dividend from the London G20 - the era of banking secrecy is over," claimed Economy Minister Giulio Tremonti. The €95bn figure was well above the ministry's previous estimate of €80bn, as there had been "a last minute acceleration" in people making a voluntary disclosure. The ministry said the further extension of the plan to April 2010 would be final. Italians who repatriate assets by Feb. 28 will have to pay a six percent fee on those assets, while assets declared by April 30 will have a seven percent fee. Last October, the Italian government started a tax amnesty plan that allowed Italians with undeclared assets hidden in tax shelters outside the country to repatriate them by paying a five percent fee. Under the tax amnesty plan the government will get around €5bn in tax windfall. Small domestic asset managers, as well as small private banks, have benefited most from the flood of new funds, as Italy's two largest domestic retail banks--Intesa Sanpaolo and UniCredit -- weren't able to attract large sums of assets deposited offshore, according to those involved in the tax-amnesty plan. Observers noted that there was a rush in requests to repatriate real-estate property in the last four weeks after the government authorized trusts to take control of that type of asset. The assets repatriated include works of art, sculptures, jewelry, cars and yachting berths, tax lawyers say.

Bonus corner continued

Alistair Darling clashed with the City's biggest institutional shareholders after the Treasury seized control of the bonus pool at Royal Bank of Scotland. Institutional investors raised concerns about RBS's ability to compete with rivals after the Treasury demanded the right of veto over both the size and terms of bonus payments for thousands of its bankers. RBS, 70 per cent owned by the taxpayer, would normally set bonus levels at the end of the year. It employs about 20,000 staff in its global banking and markets division, which has had a record year trading in bonds, interest rates and currencies. However, in an unprecedented political intervention, the Treasury demanded the right to dictate both the "quantum and shape" of bonuses at RBS for 2009. The directors threatened to resign unless they could pay out bonuses this time round. Amid worries about a public backlash on pay, HMG has already forced RBS to agree to pay bonuses in shares rather than cash and to stagger payouts over three years. RBS had to agree the size of this year's payouts with UKFI, the body that manages the Government's stakes in part-nationalised institutions. The Treasury's direct intervention was revealed in a shareholder circular about RBS's entry into the Government's insurance scheme for troubled assets sent to investors. The Treasury insisted on the right to approve payments as a condition of allowing RBS to join the scheme and for agreeing to pump a further £25.5bn into the bank. Shareholders, backed by the Association of British Insurers (ABI), said they were worried.

Civil servants were paid a total £130m in bonuses during the past year, a rise of 25 percent over the previous year, it emerged from MPs' parliamentary answers. Some senior civil servants netted up to £50,000 in bonuses in 2009 via performance-related pay schemes. The Ministry of Defence attracted bonuses totalling £47m last year, while civil servants at the Department of Work and Pensions raked in £29m in bonuses.

Barclays' president Bob Diamond said his bank would defer up to 60 percent of its bonuses due to be paid for performance over the past year. Bonus pay-outs at Barclays would in future be better controlled with more remuneration paid in fixed income. It looked likely that directors would get no cash bonuses this time round. Meanwhile Goldman Sachs announced that its management committee would receive no cash bonuses for last year's performance and that instead share-based bonuses would be subject to three-year vesting regimes.

The US House of Representatives backed President Obama's financial reform package, which would give government the power to break up companies which threaten its economy. The Bill if passed by the Senate would beef up the Securities & Exchange Commission (SEC) to enable it to give early warnings of fraudulent investment schemes and to give it supervisory powers over the derivatives market.

In filings to the SEC, it was revealed that Fannie Mae ceo Michael Williams and Freddie Mac ceo Charles Haldeman would each receive up to $6m - ($1m in salary, $3m in deferred payments and an additional $2m if performance targets were met). The regulator, the Federal Housing Finance Agency, defended the size of the pay deals. For Fannie Mae and Freddie Mac to continue to play a key role in the US mortgage market they had to "attract and retain the talent needed to accomplish these objectives", said the FHFA's acting director, Edward DeMarco. The pay deals had, he added, dropped 40 percent from where they stood before the companies were seized by the government in September 2008, at the peak of the credit crisis, but housing consultant Thomas Lawler said the payments were "more than what is needed for the ceos to serve their function".

Pay freeze

Two thirds of businesses are planning to cut or freeze wages this year, while one in five is set to cut benefits such as bonuses or gym memberships in an attempt to trim their overheads, according to data from the British Chambers of Commerce.

Pensions plight worsens

The sharp increase in pension scheme deficits made last year the worst on record for private-sector companies, according to pensions experts, who predict 2010 will see many more final-salary plans close. Despite a jump in the FTSE100 share index and rises in other markets to boost their returns, companies' liabilities in 2009 rose markedly from the year before, largely due to moves in bond yields and the way they are used to calculate liabilities. That left the total deficit £175bn higher, according to the advisers, Pension Capital Strategies. They believe a particularly tough year could see companies spurred into action in the coming months and 2010 could mark a turning point in the way UK companies manage their huge retirement liabilities. PCS estimates that as at 31 December 2009, the deficit for all UK private-sector, defined-benefit pension schemes was £212bn compared with just £37bn a year earlier. The bigger gap opened up as equities failed to provide enough returns to keep pace with growth in bond-derived liability values. So total assets rose to £919bn from £809bn, but liabilities soared to £1,131bn from £846bn. For companies in the FTSE 100 taken on their own, the year-on-year deterioration was even starker as they swung from a pensions surplus of £12bn in 2008 to a deficit of £72bn at the end of 2009.

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