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it's our business

newspad of the Employee Share Ownership Centre

Employee shares for BA pilots

British Airways pilots are balloting on an offer of shares in the company in return for a pay cut, to help the airline through the economic downturn. Pilots are being urged to accept a draft pay and productivity package agreed between the British Airline Pilots' Association (BALPA) and BA, designed to save the company £26m annually. It follows an earlier appeal by BA, which reported a record annual loss last month, for staff to work for free or go on unpaid leave for a period. "The pay and productivity package will help BA get through the current economic downturn whilst, for the first time, giving pilots the mechanism to take a real share in the wealth they will help to create," BALPA said in a statement. If certain company targets are met, pilots will be eligible to receive BA shares worth £13m on June 1 2011, but the shares cannot be sold for three years after allocation. The number each pilot receives will depend on the stock's price when they are granted. The pilots were expected to approve a 2.6 percent pay cut, as well as reductions in their in-air allowances.

BA's shares have fallen headlong in the past 2.5 years, as rising fuel bills and declining demand for first-class and business seats has badly hit the bottom line. Jim McAuslan, the pilot union's general secretary, said: "Our research indicates that BA is facing a real business challenge and this is not the case of the employer crying wolf. We have always said that as a union we would share the pain if our members shared in the gain." Ceo Willie Walsh, who promised to work for nothing this month, said the idea was part of BA's across the board cost-cutting measures. However, he could gain £1.1m in deferred share bonuses. His six percent pay increase award was published in the airline's annual report. He said that he would forgo his annual bonus of up to £550,000 in shares this year. Walsh waived his cash bonus of £700,000 last year after the botched opening of Heathrow's Terminal 5. In May, BA, Europe's third-biggest airline by revenue, posted annual operating losses of £220m and scrapped its dividend.

Eso gains bonanza

More than 100 management employee shareholders of Edinburgh based Wood Mackenzie will receive windfalls averaging £1m each as the energy consultancy and research group was bought by Charterhouse Capital from Candover private equity firm for £550m. The wider workforce will benefit too. The employee benefit trust controls 21 percent of the company, enabling it to share £91m between members, some of whom will receive seven-figure pay-outs. In 2007 the company said the majority of its 500 employees are shareholders.

From the Chairman

The credit crunch crisis may be bringing hope of a new trade union interest in employee shareholders, traditionally left in the "too difficult" pile. Airline pilots have been an exception and it is good to see item take the lead with BA. In Italy, the union confederation CISC has backed employee ownership in the financial crisis and the German car workers have become shareholders willingly. Perhaps the time is now right for European union leader John Monks to captain the moment and lead a fundamental shift in attitudes.

Malcolm Hurlston

Eso in building societies?

Struggling building societies are being pushed into ditching some of their mutuality principles in favour of admitting shareholders for the first time. The decision by West Bromwich Building Society – with Treasury and regulator backing - to introduce special shares to help preserve its independence, may open the way for societies to accept employee shareholders, the Centre hopes.

Agreement with subordinated debt holders has already been reached, and once the formalities are completed some £182.5m worth of West Bromwich profit participating deferred shares (PDDS) will be created as a swap for its debt.

The Treasury is expected to publish a White Paper shortly to suggest other building societies adopt a similar model. The Financial Services Authority has held talks with several building societies, encouraging them to boost their balance sheets by following West Bromwich's example. Jon Pain, retail MD of the FSA, said: "We believe this is a strategically important step for the sector as a whole to have access to good quality capital." Chelsea, Newcastle and Principality building societies are believed to be considering whether to strengthen their balance sheets by following suit.

Critics said that West Brom's move was akin to "backdoor de-mutualisation," that weakened members' ownership of

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the 160-year-old institution and that it was done without their consent. For the first time in the history of the mutual sector, outsiders will have a claim on West Bromwich Building Society future profits.

Centre chairman Malcolm Hurlston said: “As building societies are now being encouraged to admit outside shareholders, why shouldn’t they be allowed to create employee shareholders too? After all, building societies are supposed to be owned by their members, which of course includes their employees. I think those societies that go down the same road as West Bromwich should seriously consider how they might introduce employee shares too. That would soften the bitter pill and bring more members onside,” he added.

West Brom announced that its PPDS will not be listed, though other building societies may take a different approach. There could be a spate of these conversions in the months ahead if societies struggling to strengthen their capital positions are able to secure such agreements. Nine of the building societies, including West Bromwich, Chelsea, Newcastle and Principality, had their credit rating severely reduced by Moody's in April as a result of the downturn and fears of bad debts.

• Lord Mandelson has delayed the part-privatisation of the Royal Mail until after the next election in a move that will pacify backbench Labour MPs. The sale of a 30 percent stake in the Royal Mail had been due to go to parliament before the summer recess but the Business Secretary said the planned legislation was being crowded out. The plan to award posties employee shares in the Royal Mail has been put on hold too.

On the move

Alvarez & Marsal’s expanded European headquarters has relocated to: Alvarez & Marsal, One Finsbury Circus, London EC2M 7EB Tel: 0207 715 5200 Fax: 0207 715 5201 Sarah Pickering, who is MD at Alvarez & Marsal Taxand UK LLP, is getting used to her new office there.

Deyton Bell, the business development expert and Centre member, have been added to the small panel of business service providers available via the US Government Commercial Service for US organizations exploring UK opportunities. This follows months of discussions between MD Chris Parkhouse and US Commercial Service Officials based at the US Embassy in London.

Global Shares, the West Cork-based company that administers employee share plans for both public and private companies worldwide, announced that Cargill has selected the company as its employee share plan provider following a competitive tender process. Cargill is an international producer and marketer of food, agricultural, financial and industrial products and services. It is a private company employing 160,000 people in 67 countries and had revenues of $120bn in 2008. Global Shares is led by California-based ceo Carine Schneider. It was established three years ago with Enterprise Ireland as one of its early shareholders and has a client portfolio of more than 70 companies in 14 countries. **Global Shares** has recently completed a financing round with Enterprise Ireland and its shareholder base.

Melanie Tom-Warner has joined **UBS Financial Services** as Director, head of client relationship management for Corporate Employee Financial Services (CEFS), a leading provider in equity compensation administration and wealth management services. Warner joined UBS from Smith Barney, where she was Senior VP, head of participant services, for the global stock plan business. She brings seven years of experience focused on equity plan services including operational, corporate client, participant and international assignments. “We welcome Melanie to the team” said Michael Barry, executive director, Head of CEFS Corporate Sales and Service. “Year to date, our average corporate client satisfaction rating exceeds 92 percent. We continue to enhance our services and add additional talent, like Melanie, to the CEFS organization. We expect this to further strengthen our corporate relationships”.

Directors’ reward on a rising curve

The increase in total pay for chief executives and senior directors of the UK's largest companies is "on a curve to infinity" as management fight to catch up with their better paid peers from the US, according to a report from pay consultants MM&K and governance group Manifest. Cliff Weight, Director at Centre member MM & K, commented: “The average ceo remuneration will not sky-rocket this year. Many companies have frozen salaries and reduced bonuses because of the recession. However the long-term trend is still there and when economic conditions return to normal the underlying long-term trends will re-establish themselves. This will happen unless investors and remuneration committees take action to control executive pay, and, based on their track record over the past ten years, I do not think they will.” The report says that average pay for FTSE 100 ceos last year was £2.6m, a seven percent increase on 2007. Pay for FTSE 250 bosses averaged £1.2m, five percent up on the previous year. The report can be purchased from MM & K, on 020 7283 7200, price £300.

City minister attacks reward packages

Company boards must consider the salaries of more junior staff when setting pay packages for executive directors, Lord Myners, the City minister, told the British Bankers Association annual conference. In a scathing attack on "weak and lazy remuneration committees", he criticised "simplistic" reward schemes and called for greater transparency on the targets used to calculate bonus payments. "The onus is on remuneration committees to be explicit about why senior executives are paid the way they are, and we need to see this explained in the context of overall compensation within the company," he said. He is not the first City figure in recent weeks to demand a transparent reference point, or stated multiple of average employee pay, when fixing future executive reward levels.

The comments set him at odds with policy at the Royal Bank of Scotland, the part-nationalised bank that has agreed a controversial £9.6m pay deal for ceo Stephen

Hester, who is in line for a £6.4m bonus after five years if the shares recover to 70p and certain other targets are met. He was originally due to get the bonus after three years, but this has been put back to five years after a wave of media and public criticism. However, the bank has yet to disclose the other targets, while the 70p-a-share goal was simplistic, claimed Lord Myners, who warned that "simple schemes encourage executives to push the risk envelope and provide a perverse incentive". He added: "Banks owe it to society to be open in their disclosures about the criteria which drive their compensation policies and the culture they are seeking to promote."

UK Financial Investments, which manages the 70pc stake in RBS owned by the state, has said it is "happy" with Mr Hester's arrangement.

Voicing fears that certain finance houses were failing to reform pay despite public anger, Stephen Green, HSBC's chairman, said: "Perceived excesses were bad enough in earlier years of this decade. When you read some of the things seen of late - the eye-watering golden hellos in particular - frankly, your heart sinks. No public company in this industry can afford to treat compensation as solely a matter between the employer and the employee. At present, it is not clear that the seriousness of this issue is widely enough appreciated."

Lord Myners claimed there too many weak and lazy people on remuneration committees, who preferred to have the computer tell them the answer about reward packages than exercise personal judgment.

Bonus corner

Almost a quarter of **WPP**'s shareholders did not support its controversial executive incentive scheme at the company's AGM. WPP's third "leadership equity acquisition plan" provides potentially spectacular rewards to about 25 senior executives at Europe's biggest advertising group. The scheme is built around the number five: eligible executives invest up to five times their annual target earnings in WPP shares; the performance of the company against its leading competitors is then measured over five years; and the executives can receive a reward of up to five shares for every one they hold, with the maximum payout being made if the company performs better than 90 percent of its competitors.

Taxpayer backed **Bank of America** is accused of having given multi-million US$ retention bonuses to former Merrill Lynch investment bankers in order to keep the remainder in their posts. Merrill's early payment of bonuses for 2008 before BoA took control of its books angered politicians on Capitol Hill.

More than 400 **Barclays** employees will enjoy a windfall averaging £850,000 each from the sale of Barclays Global Investors (BGI), the bank's fund management business, to BlackRock Inc. BGI employees own 11 percent of the San Francisco-based business in shares and options and individual payouts will vary according to their holdings. About 1,000 of BGI's 3,800 employees work in London. Bob Diamond, Barclays' president, will pocket £22m from the £8.2bn sale. Mr Diamond built up his shareholding during the eight years when he oversaw BGI. Blake Grossman, BGI's ceo, is set to win a payout of £50m. Rich Ricci, the London-based ceo of Barclays Capital, the investment banking arm, is in the scheme and set to make about £18m. The BGI share scheme is one of the most generous employee awards in the world. Barclays has defended it, saying BGI's contribution of profits to the group rose from £62m in 2000 to £595m in 2008. Staff own specially created non-tradable shares in BlackRock, which will form the biggest asset management company in the world. The shares were valued at £730m, making the overall gain £380m as the staff paid £350m to buy them. The lucrative share plan runs until 2010. Employees own 4.5 percent of BGI but this could double if options over shares issued to them are exercised. When it started in 2000, BGI's shares were valued by Ernst & Young at £6.11. By June 2006, the price was more than £77, and reached £87 last year.

Goldman Sachs staff can look forward to the biggest bonus payouts in the firm's history after a spectacular first half of the year, sparking concern that those big investment banks which survived the credit crunch may derail financial reforms. A lack of competition and a surge in revenues from trading foreign currency, bonds and fixed-income products has sent profits at Goldman Sachs soaring. Staff in London were told they could look forward to bumper bonuses if, as predicted, it completed its most profitable year ever. Barclays Capital, Credit Suisse and Deutsche Bank are among European firms expected to register bumper profits, along with US banks JP Morgan and Morgan Stanley. In April, Goldman said it would set aside half of its £1.2bn first-quarter profit to reward staff, much of it in bonuses. It is believed to have paid 973 bankers US$1m or more last year, while this year's payouts are on track to be the highest for most of the bank's 28,000 staff, including 5,400 in London. Goldman said it reviewed its bonus scheme last year and switched from a system of guaranteed rewards paid over three years to variable payments that tied staff to the firm. It told employees last year that profit-related bonuses would be delayed by 12 months.

The **Financial Services Authority** said in its annual report that it distributed almost £20m in bonuses to its staff last year. But ceo Hector Sants waived his £1230,000 bonus and suffered a six percent salary cut. The bonuses made up 14 percent of the FSA's salary bill.

Land Securities, which lost £4.8 bn last year, cancelled its executive bonuses, deeming them "inappropriate" in the current economic climate.

Sir Stuart Rose, executive chairman of **Marks & Spencer,** has waived £1m share options due to shareholder pressure. Rose and Steven Sharp, his marketing director, have given back a third of the shares they had been granted a few days ago following criticism from the ABI. Rose, who breached corporate governance best practice by merging the roles of chief executive and chairman, said: "The board of M&S is aware of the governance issues we face and the importance of good shareholder relations. Our decision reflects this."

Stephen Hester, the man charged with clearing up Sir Fred Goodwin's mess at **Royal Bank of Scotland** won plaudits months ago for his comments on boardroom excess: "I do think banking pay in some areas of the industry is way too high and needs to come down," the new RBS ceo admitted to MPs at the Treasury Select Committee. "I intend us to lead that process," he pledged. Now the RBS boss has been granted a pay and bonus package worth almost £10m (see preceding story). His basic salary may be only £1.2m a year, but that is being topped up with a cocktail of free shares, share options, cash, credit notes and debt.

Oxus Gold said the cash component of the remuneration of directors and senior management will be reduced from July 1 by 60 percent, in return for an issue of ords in the company for their benefit. It is cancelling the share options of the directors and certain senior staff and will replace these with new share options with an option price more in keeping with the current Oxus share price. However, the Association of British Insurers, is warning public companies not to re-price their share option awards if they are 'out of the money' due to falling share prices.

Six in every ten UK companies plan to freeze pay or negotiate cuts this year, according to the **CBI**, which surveyed 700 companies employing 3m people. Among smaller companies the percentage is even higher, 70 percent, who plan to freeze or cut wages, according to a separate survey of 400 companies, carried out by the **British Chambers of Commerce**.

Senior executives should be rewarded for sticking to the rules not just for adding to the bottom line said **Complinet**, a provider of compliance info. Finance companies and banks should ignore criticism over large pay cheques and concentrate on ensuring their managers work within the regulations. It said business must move on from arguments over who earns what and address the real issue – proper compliance. It claimed most senior managers have learned their lesson from the global financial meltdown and were now taking compliance more seriously. This advice came after the Chairman of the FSA, Lord Turner warned MPs the City was in danger of returning to 'business as usual' with overblown bonuses. Complinet questioned 150 senior compliance officers in the US and UK. and found most senior executives were now paying attention to the rules and were keen to be more involved in the compliance process.

Last Exit for final salary pensions

Barclays Bank said it plans to shut its final salary pension scheme to existing members, sparking speculation that other finance houses would soon follow suit. Rentokil and WH Smith, among others, have closed their final salary schemes to existing members and Dairy Crest is in talks with staff about the future of its final salary scheme, which was closed to new employees in 2006. Less than ten percent of UK private sector employees are still covered by a final salary pension scheme and only four percent of leading UK companies consider them to be viable long-term. Barclays said that its final salary scheme, which was closed to new employees in 1997, had a £2.2bn deficit last September and this may have worsened. Around 17,000 staff will be affected but 1500 of Barclays' top earners, who work in the US, will be allowed to keep their gold-plated pensions, as they are members of a separate US pension scheme.The others will keep benefits accrued to date but will earn future entitlement under a defined contribution scheme, which does not link payments to salaries. Watson Wyatt actuaries said they expected more high-profile closures during the coming months. Tax changes in the Budget are prompting some companies to think of scrapping workplace pension provision altogether.

Esop Institute

Students of the Esop Institute are waiting for the results of the end of course Employee Share Ownership Studies diploma exams they took at the three venues where exams are now held - London, Jersey & Edinburgh. The new term starts in October. Please consult the Institute website at: http://www.esopinstitute.com/ for more details.

CONFERENCES

There is still time to register for the Centre's 21st annual conference at the Majestic Hotel in Cannes on July 9 & 10. Delegates are offered a two nights accommodation on half-board basis plus entrance to all conference sessions package deal on advantageous terms. All the information you need about our delegate package deal, travel, conference programme, speakers and logistics can be found on the Centre website at: www.hurlstons.com/esop and click onto both 'news' and 'events.' Register now by email to: fhackworth@hurlstons.com

Davos: February 4 & 5, 2010. The Centre's tenth annual Global Equity Forum will take place at the Steigenberger Belvedere Hotel in Davos Plaz on Thursday February 4 and Friday February 5. Practitioner (service provider) delegates who are Centre members will pay £875 and no VAT for the two hotel nights + conference package deal, while plan issuer Centre members will pay £395 and no VAT. Non-members will pay 40 percent more than these prices. Practitioner speakers will pay only £695 for their package deals. Enquiries about speaking roles and delegate places to Fred Hackworth at **fhackworth@hurlstons.com**

The Royal Court of Jersey has registered the Foundations (Jersey) Law 2009 which will come into force on Friday 17th July. The CI based Bedell Group will present breakfast and early evening seminars about the Law on Tuesday July 14, at the Royal Yacht Hotel, St. Helier, Jersey. Foundations creates a new class of entity under Jersey law and offers to those clients familiar with, and interested in, foundations the opportunity to consider Jersey as a jurisdiction, either for the establishment of new structures or the re-location of existing structures. For seminar details, contact Polly Brown at Foundations@bedellgroup.com

News from the war zone

Some smaller quoted companies have abandoned their international share plans as the effort and expense has become more onerous. Companies recently taken over will have seen their Eso plans scrapped, without certainty of replacements. Others have just pulled their plans, said Paul Randall of Ashurst. Another Centre member, Martin Osborne-Shaw, MD at Killik Employee Share Services, agreed. He said there had been an increase in the number of employers installing exclusive plans for their executives, rather than all-employee plans. "Companies always look after their executives if money gets tight," he says. "Staff are, unfortunately, the ones to suffer. A few employers we know want to withdraw their all-employee plans purely on a cost basis, either in terms of administration or because they are funding the share plans from their own means." In the executive reward market, new tax rules favour Company Share Option Plans (CSOPs). Watson Wyatt's Sue Bartlett said these would get a boost when the Budget's tax hike to 50 percent for people earning more than £150,000 comes into effect. CSOP gains made at the end of the plan are taxed as a capital gain, rather than income and thus taxed at only 18 percent once the personal allowance is used up. But a gain from an unapproved share option plan is taxed as income and subject to NI. "Many companies give options as a motivator and an incentive, as well as a reward for good performance," Capita's Debbie Broom told Employee Benefits. "They want to tweak share schemes to make them more appealing and motivating for employees. Some advisers are looking to put in plans that partially vest immediately, so the executives can see value straight away. But employees might have to go through performance conditions before the shares are awarded to them. It is about fine-tuning rather than coming up with anything new." Sharesave plans are under pressure. Ms Bartlett added "Sharesave plans are underwater, so people are not taking the shares. There is a bit of a bunker mentality at the moment."

Heavy falls in base interest rates created an anomaly in the bank accounts supporting Sharesave plans. Bonus rates offered within plans were higher than those available on a normal bank account. Some administrators started charging for setting plans up for employers in order to get money back. Alistair Darling's Budget addressed this problem. His change cut the period in which interest rate changes take effect. Louise Drake, national sales manager at YBS, said: "The rate applicable to Sharesave accounts will be more in line with what is happening to savings rates in general." This should make extra administrative charges less common.

COMPANIES

Indian construction-to-power conglomerate Jaiprakash Associates is offering its employees shares at a steep discount to the scrip's latest closing price, as it gets ready to cash in on an expected hike in public spending in infrastructure. "The offer will be available to employees across all levels and will reward those who have stayed with us and shown faith in the company's ability to grow," said Manoj Gaur, executive chairman of Jaiprakash. About 17,000 employees are currently on the payroll of the company, of whom 10,000, excluding the promoters, will be given the option to subscribe to company shares. An equity stock purchase scheme (ESPS) was approved by Jaiprakash's board. If the entire block of proposed shares is subscribed, the company will get a fresh funds infusion. It is still working out the criteria, but those with 2-3 years service in the company are likely to be eligible. The shares may have a lock in period of 2-3 years. According to Mr Gaur, the company's revenue for April-May 2009 showed a 65 percent growth on strong cement sales and higher pace of execution of construction projects.

More than 207,000 employees at Tesco are to gain share bonuses worth £98m after the retailer's record annual results. Tesco said all staff from checkout workers to store managers who have worked there for at least a year are eligible for the free shares, offering 3.6 percent of salary up to a maximum of £3,000. The Shares in Success windfall marks an eight percent rise on the previous year and comes after Tesco's annual profits exceeded £3bn, setting a new record for British retailers.

FASB threat to Esop shares

The Financial Accounting & Standards Board has re-opened the issue of whether Esop shares should be deemed as equity or a liability when redeemed through retirement, death or termination, said the latest Employee Ownership Association bulletin.

The FASB had exempted Esops from the requirement expressed in statement 150 of having to declare themselves as equity or liabilities for accounting purposes, pending further review. That review is now under way.

The issue for Esops is that the trustee has no 'put' option on the shares, so – the thinking goes - they should not be considered as compulsorily redeemable. Companies which convert the stocks into cash before distribution therefore would not have to account for them as a liability.

If however Esops are deemed caught by this 'net' then the added liabilities may make it more difficult for their sponsors to obtain the necessary funding.

It is uncertain which way FASB will turn on this issue, said the EOA. Centre members know well that the Board has a very poor record on listening to the Eso industry. Despite initial scepticism, FASB caved in to pressure from its international Big Brother counterpart, the IASB, to demand that companies issuing employee stock option awards recognise them as an accounting expense on a 'fair value' basis. What the Centre argued – that forcing companies to account for share/stock options would make the companies less likely to award them in future – has turned out to be the case.

For more information see: http://www.fasb.org/project/fi_with_characteristics_of_equity.shtml