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it's our business

newspad of the Employee Share Ownership Centre

Over-regulation is damaging equity reward, Davos speakers warn

The tidal wave of new and beefed-up regulation in the wake of the world financial crisis is having a damaging effect on the employee equity industry, delegates heard during the Centre's 12th Global Equity Forum in Davos.

Share plan administrators and consultants alike warned of the danger posed by regulators who seemed to be "*using a sledgehammer to crack a nut*" when carrying out routine compliance checks on certain organisations. Others spoke about the risk posed by new or impending legislation, some of it from the US, to the tax treatment of employee equity awards.

Meanwhile, in the corridors of the Steigenberger Belvedere Hotel, where the forum was staged, anecdotes flowed about how teams of UK regulators were tying up compliance and legal departments of some Eso service providers for weeks on end. Fears were expressed for the future of smaller providers who face an increasingly expensive future in order to stay within the industry.

*Speaker **Justin Cooper,** md at Capita Registrars, explained how a lobbying campaign was being mounted in the US by alarmed foreign companies who stood to lose hundreds of millions of dollars from the new Foreign Account Tax Compliance Act, which aims to prevent tax evasion by US citizens either working abroad or for a foreign company within the US. One of the many problems was that if foreign employees didn't sign a disclaimer – confirming that they weren't US citizens - the IRS, the US tax-collecting service, would deem them to be US citizens trying to dodge their tax bills, with resulting crippling penalties for their employers. Meanwhile in the UK, the Financial Services Authority had hinted that there would be 'zero tolerance' for any compliance failures, no mater how innocent they may have been. "A lot more fines are on the way – they are almost becoming a daily occurrence," said Justin. "A cynic would ask himself: *Are they funding their operations through stiffer and stiffer fines?"*

*Speaker **Martin Osborne Shaw** of Killik Employee Services told of IT data security compliance bureaucracy having "gone crazy," with the result that the cost of filling in all the forms in some cases now exceeded the per capita value of the plan administration contract, he warned.

*Speakers **John Pymm** of Towers Watson and **Julie Withnall** of drinks company Britvic asked in a joint presentation whether we should have the same regulatory framework for all listed companies. There was the danger of a sledgehammer approach, said John. On the one hand, the regulators would be expected to do a thorough job when examining the processes of Russian companies who planned to launch IPOs in London this year, because that would affect the composition of the FTSE100. However, was it really necessary to have dozens of regulators and six weeks of work to go through the processes of a financial company turning over a few million per year, he asked? Of course, the aggressive role of finance industry regulators was inevitable in the wake of the world financial and economic crisis. The question was still being asked: *Was the executive remuneration system partly responsible for the great banking collapse?* Other questions were: *Is society at large a stakeholder?* and: *Should employees have a say in how pay levels are set?* John and Julie were examining the governance of executive remuneration from their own business standpoints. There was a perceived disparity between economic performance and executive reward, but incentive schemes were an important way by which companies could differentiate themselves from others in the same field, said John. From inside the corporate, the questions to ask were: *Who owns the performance aspect? How well are your processes working? Is your*

From the Chairman

Davos was packed with content. Since a friend's funeral kept me away from the first day I was grateful for Fred Hackworth's incisive summary on this page which led me back to rereading several of the papers.

It was particularly good to welcome Ivo Jarofke from EBA and Henri Malosse likely future president of Ecosoc as well as Madi Sharma, the UK employers' representative. Their presence underlines Davos's reputation.

I hope you will now make space in your diaries for either or both of our joint event with the EU in London and the annual Centre European Forum in Cannes. Change has never been so fast and you will want to be on the button.

Malcolm Hurlston

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board demonstrating ethical behaviour? and *Are shareholders being well treated?* said Julie. About 80 percent of UK Long-Term Incentive Plans (LTIPs) used performance share plans, based on Total shareholder Return (TSR) against Earnings Per Share (EPS), but why should they all have the same design?

*Speaker **Ivo Jarofke**, who runs the remuneration and risk desk at the European Banking Authority, accepted that "even more" tough regulation would cover banking executive reward within the next few years. By 2014, banks would have to justify their staff bonus plans and "that will become more and more difficult," he said. Ivo agreed that the EBA should not seek a One-Size-Fits-All approach: "Our guidelines accept different levels of proportionality depending on the size, risks and nature of the financial organisation. Our approach is only to regulate remuneration to the extent that incentive structures are connected to risk-taking." He reminded delegates that between 40-60 percent of banking bonus awards had to be deferred for between three to five years and 50 percent of each payment should be in the form of equity and not cash. The size of deferred payouts could go down over the years, if the risk factor in the finance house had increased. The new remuneration policies applied to all subsidiaries and branches, including offshore centres, of the 2500 UK-based credit institutions and investment firms caught within the EBA's net. The aim was to apply the new requirements consistently across financial groups to prevent distortions and arbitrage opportunities. Each firm had to identify internally how many of its staff were 'risk-takers' whose reward packages would be subject to the guidelines. This meant that monitoring and compliance would stretch down into middle management layers. There should be no guaranteed bonuses, except during the first year of employment; no personal hedging of incentives and no reward for failure in severance payments, added Ivo.

*Faced by the continuing financial crisis, many western governments were steadily raising tax rates on employee equity awards, whether previously sheltered from tax or not, delegates heard. In a first presentation at a Centre conference, **Alasdair Friend** of Baker & McKenzie discussed these developments in the evolution of executive reward, country by country. In France, for example, an additional one percent had been levied on capital gains and the CGT exemption threshold (previously £22,000 pa) had been swept away. A new highest income tax bracket of 41 percent had been introduced and certain allowances on dividends had been eliminated. Worse still, a possible steep increase in employers' 'social tax' at grant of qualified staff equity grants and on profit sharing was being mooted, Alasdair said. If tax approved French structures no longer differentiated between early or late exercising, then the incentives for Eso participation would be severely reduced, he warned. In the UK there was increased interest in equity incentive structures that delivered capital gain, rather than income – eg hurdle shares and co-ownership arrangements. New taxes on equity awards and bonuses had been introduced in Italy, while tax breaks for equity incentives had been either reduced or withdrawn in Austria and Ireland, said Alasdair.

***Alan Judes** of Strategic Remuneration told delegates how to recalibrate executive incentives to support corporate strategy. Reward strategy could not properly evolve without reference to the company's vision, mission statement and business strategy, he said. Disclosure requirements in Long-Term Incentive Plans (LTIP) included a statement in the rem report of the company's remuneration policy for the following financial year and for subsequent financial years. The policy statement had to give detailed summaries of performance conditions for each director in such plans *and* explanations as to why such conditions were chosen, the methods used in assessing whether they would be met or not and why those methods were chosen. Proposed changes to terms and conditions governing directors' entitlements to equity reward had to be explained in detail to shareholders in the rem report. Alan described how corporate change often involved moving the goalposts in performance-backed equity reward schemes, as was the case when British Land converted itself into a real estate investment trust (REIT). However, Cable & Wireless suffered a major shareholder revolt last year when it divided itself into two internal divisions. Its controversial LTIP claimed to pay out to senior managers, but the only LTIP members last year were the executive directors who shared a £60m bonus pool. Other interesting case histories he discussed included Smiths Group, WH Smith and International Power, who all faced major changes in their executive remuneration arrangements during corporate structural change.

***Mike Landon,** of MM & K, asked where next for UK tax-favoured employee share plans? The Share Incentive Plan (SIP) was "too detailed and prescriptive" in its reach, while SAYE-Sharesave and the Company Share Option Plan (CSOP) showed signs of age and needed adjusting for inflation, he said. "They were possibly the best all-employee share plans in the world, but they are now a bit out of date and have not kept up with current trends," added Mike. By and large, UK Esos had met many of their objectives, he pointed out. An HNRC study in 2008 showed that 87 percent of companies using SAYE and 82 percent of those using SIPS reported positive effects on relations between employer and employees, while half of employers using SAYE or SIPs said their share plans had had a positive effect on productivity. Although the total maximum monthly tax-protected contribution limit (£250) had not been raised for 20 years, now was not a good time to raise it, according to ministers, because of the resulting tax losses. Discretionary share awards had no tax relief whatever. By comparison with tax-protected Australian Esos, their UK counterparts led to complex administrative problems, were inflexible and difficult to communicate. "Should we scrap the main UK employee share plans altogether and start again, or should we aim for gradual change?" Mike asked.

***David Pett,** of Pett, Franklin & Co. LLP, discussed the enhanced popularity of 'growth shares' (flowering shares, joint ownership plans & frozen deferred shares) in the UK. Their use hinged on getting HMRC onside – such shares had to be valued soon after award for tax reasons and again post transaction. Neither Black Scholes, nor its variants, were suitable for options pricing, especially in retail companies and HMRC wasn't keen on discounted cash flow as a share valuation mechanism, said David. A dialogue was "ongoing" with HMRC about the efficacy of the capital asset pricing model (CAPM) and as for threshold targets, which would only vest if (say) a 20 percent investment rate of return were achieved, they could be manipulated, he added. CAPM was useful because it was relatively simple, used a single value rather than a range and it projected share price growth that was close to reality. He advised companies to seek expert advice and not to 'wait and see' before achieving proper valuations of their shares when they launched growth share equity arrangements.

***Arne Peder Blix** of Norwegian admin and accounting IFRS2 software provider Norse Solutions explained the importance of good corporate governance, especially transparency, in companies that operated Eso. Corporate governance was a combination of business ethics and moral duty and as for employee equity incentives, Confucius had said: "Involve me and I will understand." Share based option awards were 'good' because they encouraged corporate democracy, added Arne. He gave the example of a low-cost Norwegian airline that had introduced broad-based Eso and discovered that employee participants started turning off office and storeroom lights when they weren't needed. With increased pressure on pensions and other social benefits, western legislators would be more or less forced to promote greater use of share-based payment at work, predicted Arne. Subtly, they were already asking employees to take more care of their futures in financial terms.

***Pam Roffe** of Shell International and **Iain Wilson** of Computershare delivered a case study entitled 'Success Through Standardisation & Simplicity' of the all-employee equity plan that won the Centre's major 2010 award for *Best International Employee Share Plan for larger companies*. Pam explained that Computershare was brought in to supervise the re-launch in 2009 and 2010 of Shell's global employee share purchase plan, which now had 27,000 participants in 50 countries. All Shell's Eso plans had been looked at in order to "eliminate, standardise, simplify and automate." All plan leavers are treated in the same way, for example. They had reduced the admin burden, increased the participation rates to 35 percent worldwide and had improved the employee experience. There was now one share type instead of three, employee savings were held in euros (conversions from 36 currencies) and there were annual purchases of shares for participating employees. They found themselves tracking 70,000 emails and translated documents into 13 languages during the re-launch. A particularly difficult challenge had been to integrate all US participants into the global model. Workloads had been massively reduced by imposing centralised data collection, centralised payroll uploads, query handling and tax/compliance reports. Invitations to participate had been sent by personalised multi-lingual emails and enrolment had been multi-channel, including the phone. Employee ownership is very much "ongoing" as the majority of participants have held onto their shares, said Pam and Iain, who are looking to extend the plan into China and India next year.

Kevin Lim of RBC Corporate Employee & Executive Services and **Jeremy Mindell** of Henderson Global Investors discussed Henderson's many share plans and what should be done to balance share ownership and financial diversity. Around 70 percent of Henderson's 1,000 employees were active share scheme participants, which was "an unusually high percentage for the City," said Jeremy. Employees collectively own 15 percent of the firm's equity and even relatively low-paid employees who have stayed with Henderson since the early days now have employee share portfolios worth £55,000, he said. However, Henderson understood the dilemma – on the one hand it wanted high employee engagement to achieve its objectives, but on the other it did not want them putting all their eggs into one basket. "Recent surveys have highlighted a knowledge gap in financial education and employees should have access to independent qualified advice," said Kevin and Jeremy. For junior staff, Eso holdings could represent 80 percent of their liquid wealth, but though top executives were nowadays forced to hold many shares in their employer, they faced larger wealth issues.

***Martin Osborne Shaw** of Killik Employee Services discussed whether issuers should in-source, co-source or out-source share plan administration. Executive plans are more commonly in-sourced and psychologically, companies liked to be in charge of their own equity plans anyway. However, out-sourcing dealt with the technological and complexity problems, as well as transferring risk to the administrator, something not readily acknowledged by the issuer, he said. In addition, outside administrators had to monitor tax withholding obligations, money transfers, the risk of individual fraud and so on. Issuers who wanted to DIY admin had to consider the very high cost of installing the necessary technology, said Martin. More companies were out-sourcing their plan admin for the first time, but at the same time more companies were taking plan admin back in-house from out-sourced arrangements. There had been a huge consolidation of administrators in recent years, added Martin: "When I joined Killik there were 18 administrator companies, but now only a handful remain."

***Maoiliosa O'Culachain** of Global Shares explained how corporate 'spin-offs' affected the operation of employee share plans. "We are going to see a lot more corporate activity – M & A and buy-outs etc this year," he told delegates. "The spun-off company becomes independent for one minute – to warehouse the shares – before being sold on. Employees transferring to Newco are treated as good leavers from the parent company plan, thus triggering the vesting of awards. Newco will usually need to set up and operate new plans to replace the old ones." It was a huge task for Newco, which had no rem com as yet, no corporate governance and no Eso plan administration system. Valuations had to be professional (eg capitalising the value of assumed losses) to assure employee shareholders that they were not being cheated. Data migration of plan participants to Newco's separate systems raised issues such as data privacy consents, data formatting between one IT system and another and poor communications between the project team, third party service providers and employees, added Maoiliosa.

***Henri Malosse,** of the employers' group of the European Economic & Social Committee (EcoSoc) said that employee financial participation (FP = Eso) should be seen as a model for society. FP promoted the entrepreneurial spirit by encouraging employees' responsibility, but that spirit was not sufficiently developed among young people, he said. For employers, it offered the prospect of having loyal and stable shareholders; the chance to keep the company's capital at home and for the employer to build links with local communities. FP promoted more motivation, which often led to increased productivity. This was a critical issue because the west could no longer compete with China, so the west "must increase productivity at work" added Henri. EcoSoc wanted the EU to adopt and promote a model FP scheme, as a framework around which member states, who were in the process of converging their tax systems, could operate and improve employee incentive legislation.

***Adrian O'Shannessy** of Greenwood & Freehills, said that new Australian tax laws meant that there was now very little tax incentive for employee participation in Eso plans. Tax was now being applied at vesting, as opposed to when they sold their shares. Employees who left their jobs were being taxed on unvested equity. "It's a crazy law which everyone wants repealed, but it has just not happened, " said Adrian. In New Zealand, shares were taxed up front too, regardless of when they vested, but there was no capital gains tax in NZ.

Executive remuneration levels had fallen on average by 16 percent pa since the 2007 world financial crisis, but average reward for ceos in the top 20 Oz companies was around £4.5m, or 110 times average weekly earnings. However, the largest Oz companies like BHP Billiton were world competitors, added Adrian. LTIPs as a proportion of ceo pay in Oz had risen between 2004-9 from 11 to 25 percent and the most common performance hurdle used was total shareholder return (TSR). A much talked about feature of reward regulation in Oz is the *two strikes and you are out* policy, explained Adrian. If more than 25 percent of shareholders voted against the remuneration report, directors were on notice. They then had the chance to explain the raison d'etre of equity and salary awards, but could be removed if shareholders later voted through a resolution that rejected their explanation.

* **Michael Sterchi** of KPMG Zurich discussed the use of trusts for share or share option based employee equity plans in Swiss companies. The big problem was that the majority of Swiss cantons did not accept the trust as a legal entity, Michael explained. Trusts were considered to be transparent for income and wealth tax purposes. Typical UK employee benefit trusts could not be used in Switzerland, though in reality Swiss SMEs in particular needed trust like structures through which employees could be incentivised. There were no specific rules governing employee shares and options in Switzerland – indeed the Swiss accounting body had decided not to publish IFRS2, nor FAS 123, he said. However, a few Swiss companies *had* set up trusts

*Chairman **Malcolm Hurlston** welcomed the participation of EcoSoc in the Davos conference. Malcolm explained that EcoSoc's own-initiative opinions had to be responded to by the other EU institutions and it had the power to put issues onto the EU Commission's agenda - so its voice was well worth hearing. "EcoSoc's intervention is to be welcomed, especially because the importance of Eso/ FP has been allowed to slip down the EU Commission's agenda in recent years," he told delegates. "That is why the Centre is helping out - by holding a major Eso conference in London on **Friday May 20**, at the request of EcoSoc. We have a particular focus on business succession, which is a very serious problem in Europe. Employee share ownership is a key vehicle for transferring business ownership across the generations.

***Dave Poole** from the Centre explained the context behind EcoSoc's choice of the Centre as its UK partner and how the London conference would form part of EcoSoc's *'Week of Employee Financial Participation,'* which will culminate in three days of seminars and events in Brussels in October this year.

Centre/EU national employee equity workshop May 20. At the request of the European Economic and Social Committee, the Centre will hold an all-day national workshop on employee share ownership on Friday May 20. This event, which forms part of this year's Employee Financial Participation in the EU 27 project, will take place in the offices of Centre legal member Travers Smith at 10 Snow Hill, London, EC1 from 9:30am to 5:30pm. The workshop will gather together politicians, academics, employers' organisations, trade unions, employee share scheme experts, media and representatives from Small & Medium Sized Enterprises (SMEs) to discuss aspects of employee share ownership (Eso), with a focus primarily, though not exclusively, on SMEs. The objectives of the workshop are to: communicate the many benefits of Eso among the millions of UK citizens who are unaware of the concept disseminate studies/research about Eso and increase awareness of the EU 20:20 strategy; facilitate the growth of Eso among SMEs examine the role of Eso in the public sector and promote a common platform for Eso within the EU. The programme will contain presentations from Eso plan experts, an employers ' organisation, a politician, and EcoSoc representatives. the topics they will cover include: a How To Do It Eso tool kit for

SMEs; an Eso case study, costs and tax issues and employee communication strategies. There will be no attendance charge and travel expenses of non London based delegates will be refundable, within defined limits, subject to presentation of receipts. Audience capacity will be limited to 60, so please confirm your interest in participating by replying asap to: esop@hurlstons.com.

Furious staff denied a say over partnership trust decision

The danger in any future Coalition government decision to rely on John Lewis Partnership Trust style structures as a backbone for 'employee ownership' policies was starkly exposed by a similar trust's decision last month not to consult employee beneficiaries before making a key decision on their behalf.

More than 2,000 staff at **Eaga** - half its workforce – have signed an email petition in protest at their treatment during Carillion's £306m takeover of the green outsourcing company. Eaga employees are furious that a trust set up on their behalf, holding 37 percent of the company, said it would waive its right to a major cash payout for shareholders under the terms of the deal. The Eaga Partnership Trust was set up to benefit staff in a similar way as the ownership structure behind John Lewis. However, the Eaga trust's board voted to refuse cash payments to employee beneficiaries following the sale and instead to convert its holding into Carillion shares - without consulting its members. The decision will save Carillion from having to pay out more than £100m in cash to the employees, many of whose jobs are at risk. They are unhappy at being denied potential pay-outs of around £25,000 each that they would have received had the trust been wound-up. Employees are annoyed too that John Clough, Eaga's founder and former ceo, joined the board of the trust just before the deal was announced.

In the e-petition seen by *The Daily Telegraph*, organisers of the employee protest said: "This is £25,000 per partner that's being unnecessarily taken from us without our say or vote, but we can make the difference. *It's not all about the money. It's the principal of the matter that we as partners don't have and haven't had any say in the decision. But we certainly can change this."* The Eaga Partnership Trust provides benefits for employees like cheap holiday homes and shopping discounts but many of the partners would rather see the cash than continue to be members of the scheme. Ken Temple, chairman of the trust, who used to work for John Lewis's partnership, said he saw no reason why the trust should be wound up now. "We envisaged it as a long term trust and there is no reason to bring it to an end," he said. "Carillion told us they welcome a continued shareholding. We realised we had to make some changes to the trust deed and went to the High Court to get a judgment making sure what we were doing was right and proper. I'm confident we acted properly and within the power of the trustees. It's worrying and distressing, of course, that people are upset but it's been tested in one of the highest courts in the land." The takeover should be completed in April. Eaga declined to comment, saying it was a matter for the trust.

A Feb 4 statement by the Trustees of Eaga Partnership Trust to the employees said: "Dear Partner, Following yesterday's statement regarding the movement in Eaga's share price, I am sure that many of you will be speculating on the role the Eaga Partnership Trust might play should an offer be made for the Company. If the EPT Trustees were asked to consider the terms of an offer they would do so carefully. The Trustees hold the Trust funds for the benefit of all the Trust beneficiaries *but the Trust's assets do not belong to the beneficiaries and no individual has a right to trust property. Any decision the trustees made would be based on their judgement of the best interests of the beneficiaries.* The trusts are long term, so the interests of future beneficiaries would be considered alongside those of current beneficiaries. "The Trust intends to continue as an employee benefit trust. If the terms of an offer were announced, the Trustees would brief Partners as soon as they were able to do so. *Regulatory and commercial sensitivities mean that Partners should not expect to be updated in advance of a decision by the trustees."* They weren't.

Centre pushes for Eso MPs group

Centre chairman Malcolm Hurlston is leading efforts to establish a new all-party parliamentary group on employee share ownership. He is discussing the plan with the newly ennobled Howard Flight, the former Tory front bench Treasury spokesman. There is an all-party parliamentary group on employee ownership, but not on employee *share* ownership (in other words - minority ownership, rather than majority ownership). Hence the feeling within the industry that alleged employee ownership solutions like John Lewis, which gives its staff cash and not equity bonuses, are getting disproportionate attention. Coalition ministers need to be more aware of genuine Eso opportunities, particularly in the public services, which are due to be weaned away, at least partially, from state control, said Mr Hurlston.

The chairman has written to TUC General Secretary Brendan Barber, asking him whether it would be worthwhile looking again together at the issue of Esops and employee ownership. "The Centre has been chosen to lead in the UK on the employee financial participation initiative of ECOSOC and I hope TUC will be represented at the spring event in London, which we are organising," wrote Mr Hurlston. "I feel that in the current recession workforces have not been taking the opportunity to ask for equity kickers when they have agreed to accept shorter hours or made other concessions. We have been holding think tank meetings on Royal Mail and briefed CWU on our experts' views."

Disguised remuneration

More than 70 clients and contacts of **Pett, Franklin & Co. LLP** attended a London seminar, hosted jointly with Inbucon Meis, on the proposed new tax legislation intended to put a stop to the use of efurbs / EBTs/ loans to employees and the perceived abuses of deferred incentive arrangements. The seminar was addressed by senior officers of HMRC responsible for the new legislation, including George Rowing, the assistant director ultimately responsible for the successful implementation of the new rules. David Pett gave delegate a thorough understanding of the scope of the proposed new rules, as published, and of their shortcomings. HMRC were challenged to defend their approach, particularly insofar as the new rules would affect many commercial arrangements established with no tax avoidance motive. Delegates raised many points relating to the practical difficulties to which the proposals will give rise if HMRC does not heed the many representations and technical comments made in response to the recent consultation on the new rules. Answers to FAQs on certain aspects of the proposals have now been published but many of the legitimate points raised gave rise to questions which will require determination by Ministers before final decisions could be made. A rewrite of the proposed new rules will appear in the Finance Bill when it is published later this year.

Branding change

Centre member **MM & K,** a leading independent consultancy specialising in the planning, design and implementation of pay and reward strategies, announced that its trading division, The Share Option Centre, is being renamed MM & K Share Plan Administration. "The new name reflects MM & K Share Plan Administration's ability to provide a full range of share plan administration services for our clients, from discretionary plans to the all-employee Share Incentive Plan," said Ian Murphie, share plans director. "It also highlights our role within the MM & K family. Our share plan administrators work closely with share plan consultants, accountants, and legal professionals, giving them a unique level of access to expert advice and support."

On the move

From April 1 Leslie Moss, principal consultant at **Aon Hewitt Consulting** will take over the management of the reward and engagement team. Leslie told *newspad*: "I will be focused on broad-based pay more than executive pay going forward."

Aer Lingus appointed Irish Confederation of Trade Unions general secretary David Begg as a non-executive director to its board. Mr Begg has served as a director nominated by Aer Lingus's employee share ownership trust since 2008. However, following last year's decision by the airline to pay the Esot €25.3m to clear its debt, it distributed shares to its 4,700 members. As a result, the Esot shareholding fell below the percentage threshold that entitled it to nominate any directors to the board. The airline announced the retirement of Michael Johns as an Esot nominated director.

Responding to growth in its business, **Bedell Trust** appointed Grant Barbour as md of its employee benefits division. Grant now has operational, financial and HR management responsibility for his area of expertise, in which Eso plays a key role. Paul Anderson is promoted to trust director level in the same division.

Richard Nelson is leaving **Computershare** this month, having made a significant contribution to the integration of the front offices in the wake of the takeover of HBOS employee equity business. Julian Foster has been asked to run Computershare's voucher services business, the UK's largest childcare voucher provider.

Corey Rosen is stepping down from his position as director of the California based **National Center for Employee Ownership** next month after 30 years at the helm. Loren Rodgers will replace him. Long-term Centre friend Corey said: "Fifteen years ago, I decided we should work towards a transition at 30 years (which is now). Loren has been here five years and is unanimously viewed by staff and the board as the right choice. He will be great, but I will be the senior staff member working four days a week, essentially as a volunteer (I will get a share of the bonus and health care, but not a salary). That lets us hire a new person. Work is and always has been more a hobby than a job, and I am having far too much fun to stop. Fortunately, the organization is doing very well, which makes the job even more fun."

Long-term Centre supporter **Nigel Whittaker,** formerly of Kingfisher, died of cancer on February 19. He was 62. Nigel attended the Centre's first international event – at the Hotel Lutetia in Paris.

CONFERENCES

Cannes – July 7 & 8: Patrick Neave from the Investment Affairs Department of the Association British insurers (ABI), which represents insurance companies and key investment houses, will discuss the latest guidance and approaches to executive remuneration at the Centre's 23rd annual conference in the Majestic Hotel on the Cannes seafront. Institutional shareholders are increasingly demonstrating their stewardship responsibilities with a higher voting dissent on remuneration reports. Patrick will highlight the latest developments in executive remuneration packages. Delegates will be able to question Patrick during the open sessions about the implications of the ABI's remuneration guidelines and in more detail during conference breaks. Other early-confirmed speakers include **Sara Cohen** of Lewis Silkin LLP and **David Craddock** of his eponymous consultancy.

Centre member practitioner/service provider organisations are invited to speak at our flagship event, under the terms of our reduced package deal attendance price, which includes two nights (July 6 & 7) accommodation in the five-star Majestic Hotel, plus breakfasts, lunches, refreshments and cocktail party invitation – all for just *£895 per person* - no VAT added - for those who commit to a half-hour topic presentation. This is an excellent offer, as the hotel rooms (two nights), conference facilities and day delegate rate package costs the Centre £600 per head at current exchange rates. If you bring with you a plan issuer client, to make a joint plan case history presentation, the same package deal charge for such a co-speaker will be only £595. We are constructing an exciting programme, both European and global in flavour, with stock plan case histories and live technical employee equity/Eso/Financial Participation topics, such as: executive reward trends in both the EU and USA under the new regulatory regimes; the impact of government intervention, the regulators, disguised remuneration, corporate governance, options expensing and other accounting issues, cross-border tax strategies, EBTs, trusteeship, communication strategies, the Prospectus Directive, aspects of plan administration and wealth management. This two-day conference provides an ideal forum for reviewing latest employee equity developments, forging new business opportunities and networking. The Majestic website is at: www. lucienbarriere.com and click on to the virtual tour of this magnificent five star hotel. Information about Cannes is at: www.cannes.fr and the Centre has info sheets on travel and local restaurants, which we will email on demand. Register your speaker interest now by emailing Fred Hackworth, with an indication of your presentation topic. You can either present a technical employee equity/Esop issue, or in tandem with a colleague. Email Fred at: fhackworth@hurlstons.com, with copy to esop@hurlstons.com Increase your chances of being allocated sea-view rooms in the Majestic (as part of the package deal) at no extra charge by registering now. If you cannot attend, please circulate/forward this message among colleagues. You can take your partner/friend with you and/or to extend your stay at preferential rates and/or upgrade your pre-paid room (single occupancy basis).

Money In Mind

Employees are being offered the chance to whip their finances back into shape by signing up to Money In Mind's free seven-day trial. **Killik Employee Services** has created this one-stop financial resource, comprising financial calculators and tools, including a budget planner and yearly forecast. It has gadgets galore plus news and views, handy guides and a comprehensive learning programme leading to a certificate in personal finance. Covering everything from pensions, savings and investments to debt, tax and retirement, MIM helps employees take control of their cash without any product selling, ensuring impartial information. Money In Mind provides financial education at the click of a mouse button, encouraging individuals to become better money managers. The site helps share scheme participants to calculate the value of their plan holdings. Employees who have a money-related question can put it to one of Killik's qualified advisers via its *Ask the Adviser* feature. Log on to www.moneyinmind.com, select Organisations / Press and click on 7 Day Trial to get started.

SAYE bonus rates raised

New SAYE bonus rates came into effect on February 27 after an announcement from HMRC's employee shares and securities unit.

ContractType	BonusRate(Prev. in brackets)	Annual Equivalent Rate (Prev. in brackets)
Three year	0.1 x mthly pmts(0.0)	0.18% (0.00%)
Five year	1.7 x mthly pmts(0.9)	1.10% (0.59%)
Seven year	4.8 x mthly pmts(3.2)	1.70% (1.15%)

The Early Leavers' rate rose from zero percent to 0.12 percent.

Shareholders revolt over bonus awards

Investors at low-cost airline Easyjet narrowly voted against the firm's payments to its executives last year. Founder Sir Stelios Haji-loannou had led calls to reject the remuneration report, over a £1m payment made to former ceo Andrew Harrison. Easyjet said it acknowledged the concern from some investors. *The vote will have no financial impact on the airline and it will not need to retrieve payments made to any executive*. Mr Harrison was retained by the company to keep continuity following the departure of the airline's cfo and chairman in 2009. He was paid the fixed £1m payment for six months work between April and September last year - which includes three months after he left the airline. Easyjet said that the payment to Mr Harrison was a 'one-off' made in "unusual and difficult circumstances." The company had now moved forward, it added. Easyjet said that there were 172,483,766 votes against the pay report, with 162,073,601 supporting it and 25,306,985 abstaining. The airline said that this was a protest vote against the fixed sum paid to Mr Harrison - and was not a rejection of overall executive pay per se. Sir Stelios said the result proved many shareholders felt Mr Harrison's compensation was *"undeserved and completely unjustified. I sincerely hope that this is the last time in the life of this company that a bonus is paid without taking the company's financial results into account.*" Harrison picked up £2.5m in salary and bonuses during 2010, including the £1m fixed cash payment for six months work and £1.2 m under a golden handcuffs retention deal agreed in May 2009.

Thomas Cook shareholders gave the travel company a bloody nose as nearly half failed to support bonus awards made to its top 100 executives. Almost 40 percent of the travel agent's shareholders voted against its remuneration report, after a powerful City lobby group complained that changes to the way bonuses were calculated had artificially inflated senior executives' pay awards. When abstentions were included, more than 46 percent of investors chose not to back the company. In another blow to the company, almost 11 percent of investors voted against the re-election of chairman Michael Beckett. The Association of British Insurers (ABI) issued a red alert in relation to a three-year share bonus award granted as part of the 2007 remuneration package for Thomas Cook's most senior 100 staff that is based upon the group's total shareholder return. The ABI said these awards had been artificially inflated after Thomas Cook decided to treat the impact of the volcanic ash crisis in April 2010 as an exceptional event. The disruption caused by the Icelandic volcano knocked £82.1m off the group's bottom line and, in turn, hit its shares. However, the impact of the crisis was excluded when the bonuses were calculated. As a result, the top 100 executives collectively picked up an additional £1.1m, with chief executive Manny Fontenla-Novoa seeing an increase in his share bonus component based on total shareholder return from about £250,000 to about £465,000. A Thomas Cook spokesman said: "The board is aware of the issues relating to the group's performance share plan, raised by some shareholders and reflected in the votes cast at the AGM." Peter Middleton, chairman of the remuneration committee has offered to meet those shareholders to listen to their concerns and explain the board's decision.

Chancellor George Osborne confirmed that the heads of the major British banks (Barclays, RBS, Lloyds and HSBC) had reached a settlement with the Government on lending and bonuses. The banks agreed that total bonuses for their UK-based staff would be lower than last year, and lower than they would have been without the deal. The independent non-executive director who chairs each bank's remuneration committee will have to confirm personally in writing to the Financial Services Authority that each pay accord conforms with the **Project Merlin** commitments. In addition, the banks agreed to seek explicit approval from their boards' rem coms for the pay of the ten highest-paid employees in each of their main business units. From now on, the four major banks will disclose the pay details of their executive board members and the top five highest-paid executives not on the board. UKFI, which manages the Government's stake in Lloyds and RBS, has agreed that for all staff at RBS and Lloyds, upfront cash bonuses will be limited to a maximum of £2,000 this year. Executive directors, including the ceos, will receive this year's bonuses entirely in shares, which cannot be converted into cash until 2013.

Sir Philip Hampton, chairman of state-owned **Royal Bank of Scotland**, confirmed that more than 100 employees received £1m or more for their performance in 2010, but said the number was lower than the preceding year. Average pay for the 19,500 staff in RBS's investment banking arm fell by just over £18,000 per employee to £144,012 and about a quarter of staff in the division received no bonus at all for last year. Those who did receive bonuses had the cash element capped at £2,000 and the rest will be paid in the form of bonds convertible into RBS debt that will pay out over three years, with the first due to vest in June. RBS did not say how much its bonus pool was worth this year, but confirmed that the total was less than £950m. Stephen Hester, ceo, said: "We have tried to exercise restraint." Staff at the bank felt beleaguered by the widespread criticism they had faced as the lender became a 'political football,' he added.

Cash bonuses for **Wall Street** bankers fell by nine percent last year to an average $128,530 (£79,259), according to New York state Comptroller Thomas DiNapoli. "Cash bonuses are down, but that's not an indicator of a weakness on Wall Street," said Mr DiNapoli. He said financial reforms meant a shift toward more deferred compensation and higher base salaries. And despite calls for restraint, overall compensation, including stock awards, grew by six percent in 2010. "The industry's greater emphasis on deferred compensation will hold down tax collections this year, but the state and the city will benefit in future years when taxes are paid on this deferred compensation," said Mr DiNapoli. There was outrage in the US last year when it was revealed that bankers' cash bonuses had risen by 17 percent in 2009, despite many financial institutions having been bailed out by the taxpayer.

More corporate pension fund misery

Uniq plc announced proposals for restructuring whereby its shareholders will cede around 90 percent of its shares to a new company (ultimately owned by a charitable trust) as part of an arrangement to remove the burden of the defined benefit pension scheme from its group, said Deloitte. When the old Unigate dairies were closed down or sold the company was left with a pension plan that the continuing business could no longer support. *One calculation of the liability was £436m, compared to the company's quoted value of just £6m.* In outline, NewCo will assume responsibility for the pension deficit and own 90 percent of the Company. NewCo will then be put into administration. The Section 75 pension liability will then arise in NewCo and not the Company's group. Once NewCo is in administration, various options arise for the Trustee and, potentially, the Pension Protection Fund, to manage the deficit. For further information on pension arrangements please contact Gavin Bullock 020 7007 0663.

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