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it's our business

newspad of the Employee Share Ownership Centre

Consultancies consolidate as Aon takes over Hewitt Associates

Worldwide consolidation in major consultancies continues apace with the imminent takeover of Centre member Hewitt Associates by Aon Corporation. The new giant - Aon Hewitt – will be the world's largest human capital consulting and outsourcing organisation, claimed both boards of directors. The deal should be completed before the end of November, they said.

This adds to the wave of consolidation, which has engulfed the employee share scheme industry during the past decade. First to merge were the share scheme carriers and administrators, then the trustees and now the consultants.

Last January, Centre member Towers Perrin cemented its £2.6bn takeover of another Centre member Watson Wyatt to become Towers Watson, the world's then largest HR consultants, which has 14,000 employees.

It was only two years ago that Hewitt Associates announced the takeover of one of the Centre founders - New Bridge Street - to form Hewitt New Bridge Street, a leading executive remuneration agency. Some years earlier, Mercer (formerly William Mercer) acquired SCA Consulting.

Hewitt is one of the world's leading HR consulting and outsourcing companies. It specialises in remuneration and is a leader in the provision of market data related to pay rates and HR/remuneration policy and practice. It is part of global human resources consultancy Hewitt Associates.

Leslie Moss, a frequent speaker at Centre conferences, is leading Principal Consultant in Hewitt Associates' UK reward practice. He and his colleagues are based in central London.

Hewitt has more than 3,000 clients around the world. As a result of the merger/takeover, it will be able to significantly expand its global reach, and provide even greater resources to invest in its outsourcing and consulting businesses. Russ Fradin, Hewitt's CEO, will lead Aon's human capital segment and will serve as chairman and ceo of the new corporation. "Aon Hewitt, will be a £2.75bn business, the largest human capital and advisory firm with offices in more than 120 countries worldwide. It will be the leader in the industry," said both companies in a joint statement.

Less than a year ago Hewitt New Bridge Street and other collaborators published a major survey about the future viability of employee share plans in a post crisis economy. "Given a sluggish economy, growing cost constraints and equity market volatility, will employee equity plans remain effective and viable in the future?" That question was addressed in a survey report, *Employee Equity Plans: Do They Have a Future,* which studied the prevalence of three types of employee share plans at public companies in the U.S., U.K. and Western Europe: options, free/restricted shares and employee stock purchase plans (ESPPs). Most respondents said they had no plans to cut back on employee equity plans, which they still see as integral to their company's total rewards strategy—a tool to help motivate and retain employees. More than 70 percent of companies that are qualified to operate some type of employee equity plan chose to do so.

From the Chairman

To boost EU interest in employee ownership, the Centre has agreed to provide the UK input for a new programme. The lead participant is the Free University of Berlin whose Jens Lowitzsch has spoken at Cannes and Davos and the EU institution is the Economic and Social Council. The Centre will be arranging an important consultation in London next year. These are excellent signs.

Malcolm Hurlston

Audit Commission to adopt Eso?

Will staff at the Audit Commission be able to buy shares in their employer by 2013? This possibility is being studied by ministers pondering a future flotation of the controversial body responsible for identifying waste in the public sector.

Whilst the quango's inspection duties would pass to the National Audit Office, the in-house audit practice would be transferred to the private sector, ministers think. Among the options being studied for moving most of the £200m a year Commission out of the public sector are: a management led buy-out, conversion into a co-operative, an offer of broad-based share ownership to all its full-time employees, or a combination of some or all of the above.

The Commission's fate was sealed when it came to light that senior staff enjoyed regular days out at the races and life coaching classes all at public expense.

SAYE bonus rates fall further

Employee SAYE participants' bonus interest rates are falling yet again, even though the bonus rate for three-year Sharesave schemes has been already at zero since the last change in mid May this year. This time the five-year SAYE bonus rate is halved - from 1.8 percent to 0.9 percent. The seven-year rate is slashed too, though this is largely academic as so few SAYE contracts of this length are granted these days. The trigger point, which initiates a change in SAYE bonus rates, was breached on Friday 13 August. The new prospectus with the reduced rates takes effect from **September 12.** The three-year bonus and the early leaver rate could not change as they were already at 0 percent. Centre members will waste no time reassuring Sharesave sponsor companies and employee participants that the value of the discounted option (most companies still operate a 20 percent discount) will, at maturity, more than compensate for the zero interest rate currently on offer. If you need more information on how the bonus rate trigger mechanism works then visit HMRCs website. HMRC has published the Annual Equivalent Rate of the new monthly bonus rate:

Contract	Bonus Rate	(Prev rate)	AER	(Prev rate)
3 year	**0.0 x mthly pmts**	(0.0)	**0%**	(0.00%)
5 year	**0.9 x mthly pmts**	(1.8)	**0.59%**	(1.16%)
7 year	**3.2 x mthly pmts**	(4.9)	**1.15%**	(1.74%)

The Early Leavers' Rate remains unchanged at 0 percent

Dover Port Eso privatisation plan

The port of Dover wants to privatise itself in order to fund investment-led expansion plans. Abandoning its trust port status would be followed by a public offer – to include the establishment of an ESOT as part of broad-based employee share ownership for all interested employees, the Harbour Board said: "The ESOT will provide the vehicle for a shareholding on behalf of employees of the port, with the aim of creating a real feeling of ownership and pride. The ESOT will motivate and equitably reward current employees as well as facilitate attracting new employees and embed the expertise and experience within port staff and management to enable the attainment of the new vision. The commitment by staff and management to the vision is essential for both Town and Port in achieving their ambitions."

The UK government has followed up its pledge to privatise public services. The first wave of 12 Pathfinder Mutuals will act as a pilot for potentially a much larger programme. The mutuals will be run by the staff and owned variously by employees, customers, or other entities tied to the services being provided. The 12 were selected from thousands of proposals submitted to be part of the initial programme. The new companies will receive free technical support from consulting firms, as well as from the staff of the John Lewis Partnership and the Baxi Partnership, which provides advice to employee owned companies. Among the new look businesses will be employee-owned companies providing services for the homeless, programmes for people with disabilities and an agricultural college, added US based National Center for Employee Ownership.

Barchester Healthcare joins the Centre

Barchester Healthcare Ltd has joined the Centre following group company secretary Jon Hather's impressive presentation in Cannes of the company's Eso incentive scheme. Group Corporate Healthcare Ltd provides services covering: company secretarial, insurance, patents and trade marks, contracts and legal agreements, statutory support, banking and hedging agreements, regulatory matters and data protection for about 150 companies. It is responsible for sourcing alternative share schemes (including options) for evaluation by the main boards of the groups detailed below. The implementation, administration and ongoing responsibility for the various share schemes remains with group corporate healthcare. Contractual and remuneration information for all senior executives/ managers is also held. Shares schemes are supervised for approximately 500 senior executives/managers of: Barchester Healthcare (residential nursing homes, specialist care, care villages and adults with learning difficulties - 220 locations), Castlebeck Group (specialist healthcare and rehabilitation services for adults with learning difficulties with complex and challenging needs – 55 locations), Casterbridge Care and Education (day care nursery facilities for children – 25 locations) and Kedleston (educational establishments for children (7-18) with specialist educational needs - 5 locations) Contact details: Jon Hather – Group Company Secretary + 44 207 349 4281; Charlotte Monaghan – Executive Assistant + 44 207 349 4299 Katie Smith – Company Secretarial Administrator + 00 44 207 349 4409

Arsenal FC's supporters' 'sharesave scheme' – save via direct debit to buy a fractional share in the football club – has a problem, reported *The Guardian*. The few Arsenal shares in circulation cost £10,500 each to buy and are out of the reach of most fans. "*What's wrong with a conventional share-split? A 100-for-1 issue would do the trick. Would-be small shareholders could deal via a stockbroker in the normal way. Why won't the board sanction a split? Cost and administrative reasons is the official answer. But in the age of computers and nominee accounts, these things don't cost that much,"* demanded the newspaper. The bill would probably be less than the administrative expenses involved in keeping track of all those fractional holdings. Those costs will be borne by the independent, not-for-profit Arsenal Fanshare Society and ultimately be reflected in charges. The Arsenal board, which says it supports their efforts to promote wider ownership by supporters, could make their life easier by agreeing to split the stock. The club says it may revisit the issue – the sooner the better. However, 90 percent of the shares remain in the hands of four individuals.

Centre chairman promotes EMI incentive to Coalition ministers

Centre chairman Malcolm Hurlston is promoting the Enterprise Management Incentive scheme to the Coalition government. EMI, introduced in the year 2000 by the then Chancellor Gordon Brown, is the most popular approved share option scheme ever launched in the SME sector. Interviewed by *Employee Benefits,* Mr Hurlston said: "If, as the coalition hopes, entrepreneurs are to provide the impetus for growth as we move out of the recession, then EMIs will play an important role in attracting the required talent to SMEs. Although tax incentives are being reviewed, EMI is certain to be safe. The cost of the scheme is in a way self-regulating, as when the economy stutters the value of the share options and therefore the relative cost to the taxpayer falls. Conversely, when the economy picks up the extra revenue provided by fast-growing SMEs means that the scheme pays its own way," he added. Take-up for EMIs has risen to 10,050 organisations from the 9,110 who took advantage of the scheme in 2007-08, as *newspad* reported a month ago. However, the number of organisations that issued EMI options to key employees fell from 2,840 in 2007-08 to 2,550 in 2008-09, while the initial value of the shares over which they had options fell from £310m to £210m.

On the move

Deloitte's global employer services partner **Bill Cohen** will be up an African mountain this autumn and needs your help "Rather foolishly I have volunteered to climb Mount Kilimanjaro at the end of October and I have committed to raise at least £10k – so I am contacting everyone I know," he said. "Your support would be much appreciated. Kilimanjaro is one of Africa's most magnificent sights, and at 5,985m it is the continent's highest peak and the world's tallest freestanding volcano. In October, 100 people from Deloitte will Climb Mount Kilimanjaro via the Marangu Route, which rises from the Tanzanian side of the mountain. I am one of those 100," writes Bill. "The challenge will take us into a high altitude environment and a wide range of temperatures. The trek will be both physically and mentally demanding. Our aim is to raise £250,000 for our charity partners: Help for Heroes, Cancer Research UK, Children with Leukaemia. A quarter of the funds raised will also be going towards the African Rainforest Trust (registered charity number 1129635). Please sponsor me to do this climb. You can do that easily through my JustGiving page: http://original.justgiving.com/deloitte_kilimanjaro_challenge_williamcohen1
"If you would like to donate offline, please make cheques payable to Cancer Research UK. Please send these cheques to me and I will arrange for them to go to Cancer Research UK. Let me know if you are a UK taxpayer and need a GiftAid form; I can then send you one. For more information on the challenge itself and how the money raised will support our National Charity partners, please visit the Deloitte Community Investment Challenge 2010 website: www.deloitte.co.uk/deloittekilimanjarochallenge".

Davinia Smith has left Computershare Plan Managers, where she was client relationship director, based in Jersey. She told newspad: "After 15 years at Hill Samuel/Lloyds and following the sale of the combined Lloyds and EES businesses to Computershare, I have decided to leave. I intend to have a break for a month or so and then look for new employment, either doing the same elsewhere or perhaps with an issuer on the other side of the fence, so to speak." Davinia, who will go wherever the next job takes her, would like to hear from prospective employers and colleagues in the industry. She can be contacted by e-mail: daviniasmith78@aol.com and/or by mobile 07797747958.

Irish SAYE problem

Bank of Scotland Ireland (BOSI) is pulling out of the Irish Approved SAYE savings market, as part of a wider Irish exit. The commercial argument for continuing was not there for BOSI as interest rates are so low. The news was confirmed by Lloyds Banking Group, of which BOSI is a subsidiary. Lloyds, which has been losing money in Ireland, is expected to hand back its Irish banking licence as it ceases to take on new business there and leave 150,000 individual bank account holders looking for a new Irish bank. This leaves ***Barclays***, who are an Approved Irish SAYE carrier, in possession of the Irish employee savings field. Contact: Tony Carter assistant VP, Barclays share plans team: email tony.carter2@barclayswealth.com DD 020 7114 8528; Mob 0782 590 6587

HMRC consultation on geared growth deferred

The previous Government announced in the March 2010 Budget that it would be holding a consultation on the taxation of returns from geared growth arrangements. An example of such an arrangement is growth shares which can be used to incentivise employees. It seemed the Coalition would be proceeding with this and it was included in the list of planned consultations issued in June. An announcement on the Treasury website indicates that this has been deferred. It may be that the Government is opting for a more fundamental re-think of the issues involved, said ***Deloitte.***

Esos produce results

Hewitt Associates, in its annual survey of employees in client companies around the world, identified the largest drop in employee engagement scores it has ever recorded. The analysis reports a clear link between employee engagement levels and financial performance. Organisations where 65 percent or more of employees are engaged had total shareholder returns 19 percent higher than the average total shareholder returns. Companies with less than 40 percent of employees engaged had total shareholder returns that were 44 percent lower than the average. The study is based on 900 organisations worldwide. 'Engagement' includes employee morale, confidence in the organisation, career opportunities, rewards and recognition programmes, and trust in leadership. While more successful companies have more engaged employees anyway, the findings fit in with many other studies showing that among predictors of corporate success, engagement is the most powerful, but is one of the least seriously monitored by senior executives in most conventional companies.

COMPANIES

Eso devotee **Admiral,** the vehicle insurance group, recorded record half-year profits of £127m, up 21 percent on the same period last year. The company, based in Cardiff, has pursued aggressive employee share ownership policies since its inception. As a result of its latest impressive financial returns, each of Admiral's 4,000 staff members will receive an average £1,500 of free shares in the Group. Henry Engelhardt, group ceo, said: " I'm extremely proud of how everyone at Admiral has stepped up to the challenge. Employees' hard work has resulted in a decent set of numbers: turnover was up by a third, profits have grown by over 20 percent and we will soon be paying a record dividend."

Annemarie Rocks, an **Asda** employee in Glasgow, was chosen as a finalist in the 2010 Specsavers Everywoman in Retail Awards. She has worked for Asda for 13 years and for eight of them has been a participant in the company's Sharesave scheme. She saves £20 per month and is delighted with the results. She says: "When the first one matured I had enough to take my family abroad on holiday for the first time. My latest scheme, which matured this May, was one of the best – my savings had doubled in value." Each time one scheme matures she starts another, as Asda employees are able to start a new scheme once a year. "I think it is a great scheme because it is such a simple way to save with the money coming straight out of your wages and I also like it because there is no risk, you are guaranteed your money back even if the shares fall in value." Does it make her want to work harder for the company? "Yes, it is important that you do your best," she replied.

Ingenico, the leading provider of payment solutions, announced that its Ingenico 2010 Share Ownership Plan is a great success, beyond group expectations. The plan allows employees in France and Germany to be more closely associated with the activity and the results of the company. In France, more than 75 percent of the employees are participating in the new plan. The subscription rate was above 33 percent in Germany, despite a less interesting fiscal and social regulation for the recipient. The ISOP 2010 plan follows a programme of co-investment by the top 41 managers of the company, which was fully subscribed in May 2010. This is based on ambitious objectives related to the transformation of Ingenico and the development of its profitability. Philippe Lazare, chairman & ceo of Ingenico, said: *"*Our employees have clearly demonstrated their trust in the future of Ingenico and their sense of belonging to the group. They thus actively support our 2010-2013 strategic plan, our financial strength and our ambition. I welcome the outcome of our employee shares plans, with one of the highest subscription rates of the market*".*

International Power, which has a stake in 45 power stations worldwide, has agreed a tie-up with French utility GDF Suez. Under the terms of the deal, GDF's international assets will be transferred to International Power. GDF shareholders will then own 70 percent of the newly formed company, with International Power owning 30 percent. IP shareholders will receive a special dividend of 92p a share - a total cash payment of £1.4bn. Most of IP's 4,000 employees are also shareholders and stand to profit substantially from the takeover. The UK group said that the combined company, to be named New International Power, would be able to make cost savings across the two existing businesses of £165m a year, with three-quarters of these savings achieved in the second year.

Societe Generale announced that one third of its current and former employees have subscribed for its 2010 global share ownership plan at a price of almost €37 per share. Around 44,000 former and current employees participated in the offer, raising €159m, but in France, the participation rate was above 50 percent. More than 82,000 present and former employees are Soc Generale shareholders, collectively owning 7.5 percent of the issued ordinary stock and almost 11 percent of the voting rights.

Senior **Telstra** executives in Australia had their short-term bonuses slashed last year after their divisions returned poor revenue or failed to clear customer-satisfaction hurdles. Sensis ceo Bruce Akhurst's bonus was cut to A$180,000 (£102,000) in 2009-10, down from A$1m (£568,000) and A$1.9m in previous years. The board was disappointed with the company's financial performance and paid executives an average of only 23 per cent of their short-term bonuses, the remuneration report said. Rem comm chairman John Mullen wrote that a three-year long-term incentive programme had lapsed with incentives unpaid because it did not meet shareholder-return targets.

CONFERENCES & CENTRE DINNER

Esop 2010 Awards Dinner: Oct 5

Almost 60 people have already booked their places for the Centre's third annual *'Best International Employee Share Plan'* awards dinner on Tuesday October 5, ***but there is still time for other members to book.*** The event will take place at the Oriental Club, Stratford Place, London W1C 1ES (*nearest tube is Bond Street*), starting with drinks at 6:30pm followed by dinner in the main drawing room. The cost per table of **ten** is £1,300 & VAT. Individual places cost £140 & VAT. This popular event is a tribute to those who have done so much to help spread employee ownership both worldwide and in the UK. Contact Juliet Wigzell at the Centre (until the middle of September and, thereafter, Dave Poole) in order to book your places: Tel + 44 20 7239 4906 or email: **jwigzell@hurlstons.com**

Guernsey: Nov 19

Registrations are rolling in for the next combined Esop Centre/STEP Worldwide conference, which takes place on Friday November 19. This half-day event, centred on latest employee equity developments affecting trustees, will be held at the Saint Pierre Park Hotel, Guernsey. The speakers include: **Malcolm Hurlston**, Esop Centre Chairman, **Alison MacKrill,** STEP Guernsey/Carey Olsen, giving a Channel Islands & trusts update; **Justin Oliver**, Collins Stewart Wealth Management, on investment trends for trustees; **William Franklin**, Pett Franklin & Co. LLP, speaking on JSOPs and flowering shares; **David Craddock**, David Craddock Consultancy Services, on LTIPs with case studies and **Helen Hatton** of Sator on whether the standard financial services concept of risks fits Esops. Admission costs £295 for Centre members and STEP Practitioners or £425 for non-members. Contact Juliet Wigzell (co-ordinates as above) at Centre HQ until mid September and Dave Poole thereafter (**dpoole@hurlstons.com**) in order to book your delegate place(s).

Davos: Feb 3 & 4, 2011

The World Centre's 12th annual Global Employee Equity Forum takes place in the Steigenberger Belvedere Hotel, Davos Platz, Switzerland, on **Thursday February 3 and Friday February 4.** Seven speakers - **Louise Jenkins** of Ernst & Young; **Alan Judes** of Strategic Remuneration; **Michael Sterchi** of KPMG AG (Zurich); **Mike Landon** of MM & K; **David Pett** of Pett, Franklin & Co. LLP, **Kevin Lim** of RBC CEES and **Adrian O'Shannessy** of Greenwoods & Freehills Ltd (Australia) have already booked their slots, but more agenda ideas are needed. Other would-be speakers should contact organiser Fred Hackworth (fhackworth@hurlstons.com) asap with their topic suggestions. Please see the latest registered speaker interest and logistical info about Davos 2011 in the 'events' section of this website. The speaker price for the two hotel nights (on a half-board basis) + conference package seal is an unbeatable **GBP 725** and no VAT charged. This compares with a minimum GBP 899 fee for non-speaking Centre member practitioner (service provider) delegates and GBP 1250 for non-member practitioners. Speakers from plan issuer companies (either appearing under their own steam or as guests of Centre practitioner members) will pay only GBP 415 for the same package deal. Contact Fred Hackworth at: **fhackworth@hurlstons.com** for delegate places too, or register online at: **http://www.hurlstons.com/esop/esop** and click onto 'events.'

Taken for a ride again on banking bonuses?

Is the UK the only G20 member nation which is playing cricket as far as the strict new bonus rules in the financial sector are concerned? This question is now being asked repeatedly by banks and other finance institutions, worried that they may be losing some of their best performers to foreign banks which are not applying the G20 rules.

Bankers claim that the Financial Services Authority is the only regulator enforcing the rules for the international operations of UK banks, making it hard for them to compete overseas. They say that twice as many senior staff – pro rata – are likely to be subject to the new remuneration rules as in rival countries, especially France and Germany. Up to 2,500 financial services companies, including hedge funds, would be dragged into full compliance on banking bonuses under the revised FSA remuneration code, now out to consultation.

However, UK finance executives say that G20 nations like Brazil, China and India are simply ignoring the bonus code, while the US is not imposing the rules on overseas branches. France and Germany are said to be restricting the code only to top traders and advisers.

Stephen Hester, ceo of **Royal Bank of Scotland (RBS)**, said the bank was struggling to retain some of the best employees in its investment banking operations. Staff numbers there were down partly as a result of the bank's inability to be able to pay the sums required to lure the type of people it wants to hire. **Standard Chartered** said it may consider quitting its London base because of the government's levy on bank balance sheets and other regulatory changes. Standard Chartered's ceo Peter Sands said the government could have increased corporation tax on banks rather than impose the levy, which he said would be complicated to implement. Sands listed the levy, along with changes to pay rules, new capital requirements and the government's commission into whether big banks should be broken up as reasons to question being based in London.

Angela Knight, ceo of the British Bankers'

Association (BBA), said: "Bank bonuses in the UK are subject to more stringent government control than anywhere else in the world - and are taxed accordingly. Banking and financial services are major employers, which is reflected in the overall pay bill. We all know that large bonuses are paid to only a small percentage of highly internationally mobile staff." However, Mark Hoban, Financial Secretary to the Treasury, told BBA delegates at its recent conference that the industry's remuneration system required reform. “I don't need to tell you that the next bonus round will be conducted against a background of continued pressure in the private sector," he said.

The European Parliament too announced its approval of "some of the strictest rules in the world" capping bankers' bonuses, in order to "transform the bonus culture and end incentives for excessive risk taking".

These rules come into effect on January 1 2011 and, taken together with those proposed by the Financial Services Authority (*see below*), include:

- upfront cash bonuses to be capped at 30 percent of the total bonus (20 percent for particularly large bonuses);
- 40 to 60 percent of any bonus to be deferred for at least three years (and to be recovered from the employee if investments do not perform as expected);
- at least 50 percent of the total bonus to be paid as "contingent capital" (i.e. funds that are called upon first if the bank is in difficulty) and shares, or other non-cash instruments;
- bonuses to be capped as a proportion of salary – each bank will have to establish limits on the basis of EU-wide guidelines in order to help to bring down the overall disproportionate role played by bonuses in the financial sector;
- bonus-like pensions will be covered, with exceptional pension payments being held back in instruments such as contingent capital that link their final value to the overall strength of the bank;
- not allow severance payments to reward failure
- no guaranteed bonuses of more than one year
- special rules will apply to banks bailed out by member states.

There is a concern that these rules will place EU banks at a competitive disadvantage on the international arena, as it does not appear that the US banks will be subject to equivalent legislation. The Council of the European Union has yet to rubber stamp the rules.

The Financial Services Authority is consulting on updating its Remuneration Code, to take account of changes to the EU Capital Requirements Directive and the FS Act 2010. When CRD3 takes effect, it is expected to bring all banks, building societies, asset and hedge fund managers, investment firms and some other corporate finance, venture capital, advisory and stock-broking firms within the Code's scope. The content of the Code is broadly in line with CRD3. FSA wants comments by October 8, because the relevant provisions of CRD3 are due to take effect from January 1 2011.

At least 50 percent of variable remuneration must be in the form of shares or equivalent ownership interests, or share-linked instruments or equivalent non-cash instruments in the case of a non-listed firm. Such shares and instruments must be subject to a deferral or retention policy, said Centre member ***Clifford Chance***. The FSA notes that the objective of linking remuneration to an instrument, such as shares, is an important concept. However, the FSA also recognizes that the requirement to provide shares is not easily applied in all cases. It is hoped that further guidance will be provided as to what the FSA will find acceptable. The FSA accepts that it may be difficult for some firms to meet the 50 percent shares requirement by January 1 2011 (including those already covered by the Code) and the FSA has stated that some firms (primarily non-listed firms) may be able to justify not complying with the requirements by January 1, provided that the relevant firm takes reasonable steps to comply as soon as is reasonably possible and in any event by July 1 next year. The FSA says that the 50 percent shares requirement applies to variable remuneration as **a whole**. Therefore, for those staff subject to a 60 percent deferral requirement (see above), the 50 percent share requirement could be contained in the deferred element whilst the 40 percent of variable remuneration that does not have to be deferred could be in the form of immediate cash. However, the FSA acknowledges that this interpretation may not be entirely in accordance with the text of CRD III and that it may need to revise the draft proposals once CEBS has issued its guidance later this year.

LTIPs should be structured so that half of the award should vest after not less than three years and the remainder after five years, said Clifford Chance in its latest client bulletin. “This requirement reflects a Walker recommendation. LTIPs may be treated as part of the deferred portion of variable remuneration, but only if *“upside incentives are adequately balanced by downside adjustments”* (i.e. only if the unvested portion of the LTIP award can be adjusted downwards to take account of subsequent developments),” added Clifford Chance.

In the same week that the UK’s biggest banks announced combined profits of almost £15 bn for the first six months of the year, it was revealed that financial sector bonuses paid out in the five-month period between December and April for the previous financial year reached £10bn, compared with £8bn in 2008, according to figures from the Office for National Statistics (ONS). Financial sector bonuses in the latest period were 39 percent higher than at the start of the decade, according to the ONS, with

£3.9bn being paid out in February alone. The results show that UK banks are continuing to put aside billions to pay bonuses to staff working in their investment banking arms.

While FTSE 100 organisations have continued to demonstrate some restraint when setting executive salaries, the *2010 FTSE 100 Directors' Remuneration* report from **Hewitt New Bridge Street** shows that bonuses have increased. The annual report shows the median total remuneration for the highest paid director in the FTSE 100 is just under £3m, compared to £2.5m last year. Bonuses earned for the highest paid directors in 2009/10 were around 120 percent of salary, compared to around 90 percent last year, or around 75 percent of the maximum potential, 60 percent last year. Over a third of FTSE 100 organisations have also frozen salary levels this year, compared to 60 percent last year. The report shows that where salary increases have been made, the most common rate of increase is broadly in line with inflation. Rob Burdett, a principal consultant at Hewitt NBS, said: "While the widespread salary freeze imposed in 2009 has thawed to a degree, the days of almost automatic year-on-year above inflationary salary increases for executives are numbered. Risk and greater transparency about executive pay have been embraced by many remuneration committees. However, bonuses paid this year have reached record levels, driven by the unexpected rate of improvement in economic conditions during the year. These bonus levels have not been paid due to companies purposely setting soft targets. In fact, our experience suggested that when these targets were set in early 2009 they were actually set to be tougher relative to budgets, in order to take account of possible reduced profits. Shareholders appear to have accepted the explanations provided by companies for these bonus levels, with few instances of open investor revolt during the recent AGM season." The report found that fewer organisations established new long-term incentive plans in 2009/10 than would normally be the case, although more than last year.

Lloyds half-year pre-tax profit at the bank, which is 41 percent-owned by UK taxpayers, came in at £1.6bn, exceeding City expectations, compared with loss of £4bn in the same period a year earlier. **HSBC** reported profits of £7bn for the first half, more than double a year earlier. In the UK, HSBC's pre-tax profits rose 26 percent to £2.1bn

Barclays reported pre-tax profits of £3.95bn for the first half of 2010 - up 44 percent on the same period last year. The vast majority of the profits came from the bank's investment banking arm, Barclays Capital, which made £3.4bn. Barclays set aside 42 percent of the revenues generated by BarCap as pay – or 37 percent if gains on its own debt are excluded – while finance director Chris Lucas said the overall bonus pot for 150,000 staff was £1.7bn, including £400m worth of bonuses deferred from last year. Ceo John Varley refused to give a clear answer when asked if the bank might move overseas if forced to break up by the government's banking commission. The board has considered the issue and chairman Marcus Agius fuelled speculation about such a move when he said: "I'm sure all banks are responsibly considering what their options might be."

RBS, which ran up losses of £24bn during the financial crisis, saw its pre-tax profit leap to £1.14bn in the first half of the year from £15m a year earlier. It reported an operating profit of £1.6bn compared with an operating loss of £3.4bn in 2009. RBS, which is 84 percent owned by the taxpayer, has announced 23,000 job losses worldwide since October 2008, including 17,100 in the UK. It is selling 318 branches to Banco Santander. The improvement could prompt bosses such as Stephen Hester, the RBS ceo, and Eric Daniels of Lloyds, who both turned down bonuses of £1.6m and £2m respectively earlier this year amid multi-billion pound losses and a public outcry over bankers' pay, to reconsider. Market watchers said that Mr Hester may now feel justified in taking a large bonus. City bonuses were forecast to rise by about £800,000 overall this year to £6.8 bn, according to research by the Centre for Economics and Business Research (CEBR) published in April.

Allied Irish Bank successfully lobbied Minister for Finance Brian Lenihan last year for permission to pay bonuses to overseas staff and those with pre-existing contracts for bonus payments. Under an agreement reached following the bank guarantee scheme, the main banks agreed to reduce the pay of senior executives and to cease the practice of paying bonuses for a limited period. However, AIB last year sought permission to pay bonuses to overseas staff, those based in subsidiaries and employees below senior executive level who had contracts, which included bonus payments. After considering the issue last October, the Minister for Finance agreed to bonuses for those with pre-existing contractual rights. This, he said, was on the basis on not being a return to business as normal. He insisted, however, that no bonuses be paid to senior executives, in line with the recommendations of a Government committee on bankers' pay. AIB subsequently paid bonuses last year to overseas staff in the bank's capital markets division in respect of 2008. Minutes of meetings between AIB and department officials show that the bank said it had legal difficulties with staff in the capital markets division who argued they were entitled to bonuses. It said that headhunting of key personnel was occurring due to its inability to pay bonuses to key staff. Officials in the department responded that a commitment had been given by AIB following re-capitalisation by the State that no bonuses to any staff would be paid.

Executive compensation in large and mid-sized U.S. companies is expected to rebound modestly this year after two consecutive years of declines as business conditions improve, according to a survey. However, most companies continue to remain cautious about spending and are likely to tighten the link between pay and performance, the survey conducted by human resources consultancy **Towers Watson** showed. "The findings reflect the unevenness of the recovery and underscore the fact that many companies continue to struggle to regain momentum in a challenging environment," said Doug Friske, head of executive compensation consulting at Towers Watson. Nearly half of the 251 large and mid-sized U.S. companies surveyed expect to increase funding for annual bonuses for executives this year, while one-third are making larger long-term incentive grants this year than last year.

US ceos are getting bigger long-term incentive awards and more firms are tying those payouts to performance goals, a survey shows. More companies are linking future stock and cash bonuses to specific targets, according to a study of 157 companies in the Fortune 250 released by consultants **Hewitt Associates**. Thirty-five percent of companies in the Fortune 250 had performance plans in place in 2009 compared with 18 percent in 2003. "Boards aren't going back to business as usual," said David Hofrichter principal and business development leader of Hewitt's executive compensation consulting practice. "They're saying there's a catch here and you're going to have to cross these hurdles first." The total median value of long-term incentives, which include stock options, restricted stock grants and performance awards, increased 23 percent in 2010 from a year earlier, Hewitt said. The market recovery means companies can hand out fewer shares to meet promised bonuses, Hofrichter said. The Standard & Poor's 500 Index rose 23 percent in 2009 and was up one percent this year in mid August. A separate analysis found that option awards for CEOs of 307 companies in the S&P 500 on average were slashed 17 percent in 2009 and stock awards fell 18 percent. With excessive pay packages under pressure from President Barack Obama, lawmakers and shareholder activists, average annual compensation fell 9.3 percent to $10.2m in 2009. The median total pay package was unchanged from 2008.

The US Securities & Exchange Commission and other federal regulators will determine whether money managers' compensation is considered "excessive," and that has managers on tenterhooks. The SEC, Federal Reserve System, Federal Deposit Insurance Corp. and other key federal agencies with financial industry oversight must jointly come up with compensation rules under Section 956 of the Dodd-Frank Wall Street Reform and Consumer Protection Act, the major regulatory reform measure signed into law by President Barack Obama on July 21. By April 2011, regulations are supposed to ban "incentive-based compensation arrangements" judged to encourage "inappropriate risks" — either because those arrangements result in payment of "excessive compensation, fees or benefits" or could lead to "material financial loss" to the firm, the new law states. Money managers and other financial firms will be required to disclose incentive-based compensation arrangements to federal regulators.

Bonus calculator

Angela Ahrendts, the US-born ceo of Burberry, the UK fashion house, led the best-performing company in the FTSE 100 index last year, according to statistics that could point a new way of calculating executive bonuses. The bonus index, developed by Swiss consultancy Obermatt to calculate recommended bonus levels, suggests that departing BP boss Tony Hayward was one of 2009's other most deserving executives, while Man Group's Peter Clarke was among the least, claimed *Financial News*. Obermatt's approach is unusual because it is based solely on companies' operating profits, rather than budgeted profits or shareholder returns, both of which are common metrics in executive bonus plans. Obermatt also ranks operating profits against an international peer group, with bigger recommended bonuses for greater performance. Hermann Stern, ceo of the consultancy, said: "This is a much fairer way to assess management performance than share prices or internal budgets. And in the long term, high bonuses are only allocated to persistent high performers – just as it should be. It has only been possible in the last few years, since the adoption of international financial reporting standards, to do these comparisons with international peer groups." Burberry achieved 11.8 percent growth in earnings before interest, tax, depreciation and amortisation during 2009, compared with an average 1.1 percent growth among the peer group Obermatt selected. For its financial year 2009-2010, which runs to March 31, Burberry paid Ahrendts a total of £3.2m, putting her among the upper middle of the FTSE 100 index for total remuneration. Her pay packet comprised a base salary of £910,000 and a maximum cash bonus of 200 percent of that salary, together with other allowances.

Pension fund deficits reduced

Firms in the FTSE 100 share index paid a record £17.5bn extra into their pension schemes last year to help pay off accumulated deficits. The biggest top-up payment of £3.3bn was made by Shell, with Lloyds Banking Group, RBS and Unilever all paying in more than £1bn extra. The figures were compiled by the actuaries LCP. The extra payments and better stock market returns helped reduce total deficits to £51bn from £96bn in 2008.

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