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it's our business

newspad of the Employee Share Ownership Centre

Eso shake-up in next Budget

Speculation is growing in political circles that the Treasury will use its autumn Budget to introduce new rules, aimed at making it easier and more attractive for smaller companies to adopt employee share ownership, as well as making share schemes more available in practice to the young and the just about managing.

One concern is that the proportion of UK plc shares owned by private investors has tumbled from 20.6 percent in 1989 to 12.3 percent now. City institutions, including pension companies, are the dominant power in most shareholder registers and private shareholders often have difficulty in exercising voting rights.

Efforts to boost the number of *individual* shareholders through tax breaks and red tape-cutting measures have largely failed. Even in the Eso sector, the overall level of all-employee participation in approved schemes is down despite being shorn up by EMI. On top of that, some SME employers – especially those owned by private equity – who wish to give staff a share in their businesses, give up because they feel the rules are too restrictive. The Centre has worked closely with the British Venture Capital Association and the policy arm of the Institute of Directors to propose improvements.

Treasury secretary Mel Stride has asked former defence secretary **Sir Michael Fallon MP**, to put forward plans to make employee share ownership easier. Some sources suggest that Sir Michael who, when minister of state at the **Department for Business, Innovation & Skills,** supervised the creation of the UK's largest employee shareholding scheme during the privatisation of **Royal Mail,** will present three major proposals shortly: To make it easier for private equity-owned businesses to launch share schemes; improve share scheme tax incentives; and reduce the qualifying periods for tax reliefs available for approved schemes.

Family-controlled businesses continue to be sold to private equity as founders retire or move on, even though the **Employee Ownership Trust** mechanism is open to owners seeking an exit, if they are prepared to sell more than 50 percent of the equity to their employees.

One of Sir Michael's ideas is to increase tax relief for companies that offer free shares to employees, to make them into stakeholders, but this would have to be strictly controlled, to prevent them from selling their free shares immediately (*free money*). In addition, employees who were given free shares would have to agree to ongoing employment with their employer.

Simplification of some approved share scheme rules is overdue, argues the Centre, since they were largely created in and belong to the last century. Chairman Malcolm Hurlston said: "Michael Fallon's intervention is most welcome. We have been working closely with him. When he and Sajid Javid were together at Business there was unprecedented success for employee share ownership at Royal Mail. Now our message of share ownership for all employees stands a good chance of being spread."

From the chairman

The publication on gov.uk, the official government website, of the first share valuation worked example represents a remarkable achievement in collaboration between our sector and HMRC. HMRC can't always give us what we want by any means, as readers of newspad will know, and often there is good reason. But here a new method of working together has been devised and activated which acknowledges our needs and HMRC's constraints. The Centre has created the Worked Examples Group framework and the approach was devised by William Franklin of Pett Franklin. Graeme Nuttall OBE of Fieldfisher came up with the first example to be approved - Healthcare CIC and Tony Spindler of HMRC saw the possibilities and made it happen - faster and more efficiently than any of us could have imagined. It is not only a success in itself but opens a gateway for other WEG-style collaboration. WEG plus? Let's have some ideas.

Malcolm Hurlston CBE

Brexit threat to EMI

Fears are growing that the Enterprise Management Incentive (EMI), the UK's most successful approved

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share options based employee incentive scheme, could be suspended once again after the UK leaves the EU on March 29 next year.

newspad was alerted to this risk by **William Franklin,** partner at **Pett Franklin** who pointed out that the recently re-granted EU exemption for EMI from state aid rules applies ***only*** until UK leaves the EU, after which HMRC could again come under strong pressure to freeze the big tax advantages EMI offers to both companies and their key participating employees.

Mr Franklin, a senior chartered accountant, told *newspad:* "Clause 4b (*of the government's Brexit white paper*) says the UK and EU post Brexit will agree to a common rule book on state aid. This is taken in reports to mean we will follow the EU rules in the future, but we will not be able to influence them because we will have exited from the EU."

Pett Franklin share schemes partner **Stephen Woodhouse** was even more emphatic about the post Brexit threat to EMI. He told *newspad*: "*The future of EMI may depend upon the terms of the deal (if any) the UK gets with the EU over Brexit. I can see a scenario in which we could well have a repeat of what happened earlier this year because, if the UK were in a customs union of some kind outside EU membership, then the UK would still have to ask Brussels for another state aid exemption for EMI post March next year.* ***However, you have to ask yourself whether Brussels would be in any hurry to renew the state aid exemption in such circumstances. Why would Brussels need to be co-operative?"***

Were the EU to prove reluctant to expedite the re-exemption request, HMG could not unilaterally tell HMRC to maintain the EMI tax reliefs - to avoid major disruption among the 8,600+ companies using it currently - if it were bound to EU rules by the terms of a Chequers-style quasi customs union.

With goodwill over the Brexit negotiations draining away by the day, it now looks certain that there will be no more *passporting* of financial services, even though the UK may pledge to shadow EU rules, including those on state aid, for the foreseeable future.

A cliff-edge Brexit might suit EMI better because in that case, HMG could simply say that the structure of EMI benefits was no longer the business of Brussels and so the Treasury would then announce that EMI's tax reliefs could continue as before.

However, in the wake of a Chequers style deal with the EU, the hugely popular EMI – rather than the Prospectus Directive exemption – *could* become the share scheme industry's biggest Brexit casualty, a prospect which alarms reward practitioners and companies alike.

EMI advisers well remember the six week hiatus earlier this year when HMRC was forced to warn companies and practitioners that any new EMI options awarded after April 6 (the end of the 2017-8 fiscal year) might not qualify for the key tax reliefs. This was because the government had delayed its application to the EU for an extension of the UK's exemption (hitherto) from EU state aid rules.

The Brussels exemption expired on April 6. Thereafter, until Brussels re-granted the exemption, in mid May, hardly any new EMI options were issued.

"Could there be another problem for EMI building up?" asked Mr Franklin in the latest issue of ***Tax Adviser - The strange death and resurrection of EMI****: "The selective nature of EMI by concentrating the relief on smaller companies and excluding some business activities brought it within the state aid rules but it was not until 2007 that the UK sought an exemption from the EU. This was fortunately granted with retrospective effect by the EU who, when issuing the exemption, recorded their annoyance that the UK had failed to follow the rules and report the state aid in the first place. But the exemption was time limited and expired on April 6 2018.*

"The government had been well aware that the exemption was due to expire and in the 2017 Spring Budget announced it would be seeking an extension of the state aid exemption. So it was a considerable shock for many (including HMRC) when the government announced in a low key statement, only two days before the exemption expired, that a continuation of the exemption after April 6 had not been obtained. Furthermore, the government offered no assurance that awards made after April 6 would be valid EMI options and suggested companies might wish to delay granting options until the position was clear. Companies and their advisers were effectively left to work things out for themselves. Fortunately, in May, Brussels agreed to a continuation of the state aid rules exemption until the UK leaves the EU, *but pointed out that the UK had only submitted the formal request for an extension in March 2018. It is hard not to conclude that EMI has been one of the business casualties of the pressures and dislocations that the Brexit process has placed on the machinery of UK government,"* said Mr Franklin.

He said that EMI was starting to show its age and that a review of its operating conditions might be needed. "The EMI tax reliefs come with a plethora of conditions - *The rules on independence, rules that prevent companies with EMI schemes participating in some joint ventures, constraints on making changes to the Articles of EMI companies, working time and employee number requirements, and changes in the mix of the activities of*

companies with qualifying and non-qualifying trades are just a few of the rules that companies can trip over during the lifetime of an EMI scheme. For the majority of EMI schemes, these problems are of only academic interest as the companies never achieve a realisation event with gains for the employees. *But for the minority that do, where there is an exit, the normal due diligence process for transactions is increasingly becoming a challenge.* The need for an exit event within ten years of grant for the EMI tax reliefs to apply may have contributed to some extent to a business culture in the UK whereby successful entrepreneurs prefer to sell and realise value early rather than carry on with the hard slog of building much larger enterprises. However, the widespread cultural preference of owners in the UK for selling rather than holding and growing businesses organically over the long term was well entrenched in the UK before EMI, which has at least allowed more people to benefit from the UK's early exit culture."

CSOPs an alternative to EMI?

Both Mr Franklin and Mr Woodhouse said that **Company Share Option Plans (CSOPs**) could be an alternative if the going gets tough for EMI post Brexit, especially if the CSOP's annual value limit per person were doubled from its current level of ***£30,000.*** CSOPs are not selective and therefore outside the state aid rules. "*CSOPS have been rather neglected in recent years with the focus of attention being on the much more generous EMI options and the overall limit on the value of awards that can be granted has not been increased for 20 years. If the CSOPs limit had kept pace with inflation or the rise of earnings over the period it would have doubled to about **£60,000**. The equivalent limit on grant for EMI options is £250,000 and unlike EMI options, CSOP option gains do not benefit from the ten percent Entrepreneurs Relief rate, but have to pay tax at the higher standard rates of Capital Gains Tax. However, CSOPs are much simpler to implement now that the rigmarole of HMRC pre-approval has been removed. CSOPs have the same opportunities as EMI to agree tax valuations in advance with HMRC and if the limit on grants were uplifted to £60,000 and indexed, most start up and early stage companies which would otherwise have used EMI options could still make meaningful awards to most of their key employees with CSOPs,"* they said.

Chairman Malcolm Hurlston commented: "More attention to CSOP can only be welcome, and even more welcome if all-employee linkage is applied."

newspad awards 2018

The Esop Centre's *newspad* 2018 Awards, for the best employee equity plans, either already operating, or about to launch, are now open to nominations.

This annual competition presents an opportunity for friends, share plan advisers and their clients to show off their best all-employee equity plans to the rest of the industry.

Framed award certificates, kudos and publicity await the winners, so do ensure that you, and/or colleagues, submit at least one entry for a *newspad* award this year.

This year's categories for which companies and/or their advisers can submit entries are:

- *Best all-employee international share plan (companies with more than 5,000 employees)*
- *Best UK centred all-employee share plan (companies with fewer than 5,000 employees)*
- *Best employee financial education programme*
- *Best share plan communications*
- *Best use of video communication*
- *Best use of technology in employee share plans*
- *The most creative solutions to employee cultural, jurisdictional or social diversity issues when launching international all-employee share plans*

Companies/advisers can enter their/client share plans for **more than one category.**

Entries involving employee share plans in non-member **issuer** companies will be accepted directly or through advisers, but advisers **must be Centre members** in order to submit entries.

Entries involving executive/managerial equity reward schemes will be accepted, **provided at least 250 executives and/or managers participate in the shares or share option arrangements**.

Details about how to enter for this year's awards can be accessed on the Centre website at: www.esopcentre.com/awards. The entry process is not difficult.

The judges of the Centre's 2018 Awards will be: **Damian Carnell**, director at **Willis Towers Watson,** specialist in executive reward and employee share plans; **Anna Watch,** head of executive share plans (governance & compliance) at member firm **BT, Robert Head,** director of **Neo Reward** and formerly head of global share plans at **Pearson** with **Malcolm Hurlston CBE** chairing.

Winners and commentary will be published in a special edition of *newspad*.

Sponsorship opportunities: The *newspad* awards will be published in the paper, which has an influential audience worldwide. However members are free to propose a celebratory event to host the newspad awards, in association with the Centre; contact Juliet Wigzell at Centre HQ. Email: jwigzell@esopcentre.com telephone: +44 (0)20 7239 4906.

EVENTS

Guernsey seminar – November 30

This year's Guernsey employee share schemes and trustees seminar will take place on **Friday November 30** at Old Government House Hotel in St Peter Port. This popular educational event is jointly organised with **STEP**, the **Society of Trust & Estate Practitioners.**

Confirmed speakers to date for this half-day event are: **Alison MacKrill** of STEP Guernsey; **Graham Muir** of CMS; tax barrister **David Pett** of Temple Tax Chambers; **Paul Malin** of Haines Watts, **David Craddock** of David Craddock Consultancy Services, Pett Franklin and **Elaine Graham** of Zedra.

To book your place, email:
events@esopcentre.com or call 020 7239 4971.

Third British Isles symposium - March 7 2019

Note for your diaries: the Centre's next **British Isles share schemes symposium** will be hosted by senior legal member Travers Smith in its London offices on Thursday March 7 next year.

This full-day event will include talks and debates on: employee equity plan case histories with focus on both large and SME UK companies which have employee equity arrangements in place; regulatory & compliance issues; latest developments in international share plans; interactive share plan communications; the impact of Brexit; employee equity trustee matters and shareholder activism over executive equity reward packages. The event will include a buffet lunch and finish with an informal drinks reception in the late afternoon. **Mahesh Varia,** who is head of incentives and remuneration at **Travers Smith**, as well as being a partner there, will help the Centre draw up the programme.

If you are a Centre member wanting to make a topic presentation, please contact Fred Hackworth at fhackworth@esopcentre.com or call the team on +44 (0)207 239 4971.

MOVERS AND SHAKERS

Worked Examples Group

Surprisingly fast progress has been made by the Centre-led Worked Examples Group in developing a new and clear form of collaboration with HMRC. The first share valuation worked example has now also been published within the SAV guidance on GOV.UK, far sooner than anybody expected. As reported at the WEG meeting, the worked example - Healthcare CIC - has appeared on the Centre website under the rubric Understandings (together with an update of an earlier Understanding on tax treatment of Employee Ownership Trusts reached with the Financial Reporting Council). Tony Spindler of HMRC has given permission for his name to be associated with the work of William Franklin and the group so it can now be usefully in the public domain. Members are in the process of considering more worked examples.

The Centre provides the secretariat to WEG on which EOA, ProShare and Share Scheme Lawyers Group are represented by Graeme Nuttall OBE, Ian Murphie and Graham Muir. It is chaired by William Franklin of the Centre, who originated it with Graeme Nuttall and Malcolm Hurlston.

On the move

Paul Anderson has been appointed head of management incentives at Mourant Governance Services.

*Intrepid traveller **Bill Cohen,** partner at Centre member **Deloitte,** will be taking an extra large water bottle when, on September 14, he and 20 Deloitte colleagues, depart to Namibia to hike across the desert from Damaraland to the Skeleton coast.

Bill writes: "*We are attempting to cover 30 km a day over five days, which I understand is going to be quite tough (apparently there is lots of sand and sand dunes).We are doing this in aid of a terrific charity called **Depaul International**. It is one of Deloitte's partner charities this year. The charity has a mission to end homelessness among vulnerable and disadvantaged young people. Its vision is for a society in which everyone has a home. It hopes to achieve this through providing housing as a solution to the immediate problem but working with individuals too on the appropriate next steps, such as finding employment, or being*

reunited with their families. Depaul helped 3,700 individuals last year make positive changes in their lives. If you would like to learn more about them the website address is https://int.depaulcharity.org/ If you would be able to sponsor me in the endeavour that would be wonderful, although I would understand if you have other priorities. If you could support me please either send a cheque or CAF voucher to me at the address below. If you prefer doing things electronically, I have a fundraising page with Virgin, at http://uk.virginmoneygiving.com/BillCohen Letters to: **William A L Cohen**, partner, Deloitte LLP, 2 New Street Square, London, EC4A 3BZ.

***John Daughtrey** has been promoted to the post of director, corporate services, at **Ocorian** (formerly Bedell Trust). He migrated to Ocorian a year ago as business development officer from **Equiniti.**

***Isobel Evans** is now an associate partner at **EY.**

***Dominic Raab MP,** the former housing minister, was appointed as the new **Brexit secretary**, with Cabinet rank, after the resignation of **David Davis MP** from his former post. In September 2012, Raab co-authored the book *Britannia Unchained*. In it, the authors claimed that "*Once they enter the workplace, the British are among the worst idlers in the world*". **Jeremy Hunt** replaced **Boris Johnson** as **foreign secretary** after the latter resigned too over the government's Brexit policy. **Andrew Griffiths MP** resigned as **minister for small businesses** (which includes employee share ownership) after having sent sexually explicit texts to two women in his constituency.

Death of Lord Thomas of Macclesfield

Terence James Thomas, Baron Thomas of Macclesfield CBE (born October 19 1937) died after suffering a second stroke on July 1, aged 80. Lord Thomas, a UK pioneer of ethical business practice, was a Labour and Co-operative politician and banker. He was the first md of **Unity Trust**, the so-called 'trades union bank' and he more than doubled the size and reach of the **Co-operative Bank,** which he ran for nine years.

His most memorable achievement was its customer-led ethical and environmental policy, which gave the bank a distinctive marketing image and set an example for like-minded businesses to follow. It declared that the Co-operative Bank would not offer services to any business or organisation that failed to respect human rights, or manufactured weapons, caused environmental damage or harm to human health, or promoted gambling. Later surveys showed that four-fifths of customers chose to keep their accounts with Co-operative Bank because they liked its ethical stance.

Terence Thomas grew up in Wales and was a pupil

at Queen Elizabeth Grammar School in Carmarthen, where his father was a transport manager and his mother ran a greengrocery. He failed his GCEs after doing next to no work. "*The results were inevitable and had to be compensated for well into the next 30 years,*'' he later admitted. Eventually, he passed an entrance exam to *Bath University School of Management* and studied at *Insead*, the leading French business school.

After National Service in the Army, he joined the National Provincial Bank. After secondment to the Joint Credit Card Company, Thomas joined the Co-operative Bank as the first marketing manager of a British bank. He was appointed md in 1988 and commissioned a statue of Victorian social reformer **Robert Owen,** which was placed outside the Bank's offices in Balloon Street, Manchester. Owen's views on management influenced Lord Thomas's own.

He gained national publicity when he coined the phrase at a conference '*banking is much too important to be left to bankers'* - justified, in view of the many subsequent scandals in the banking sector.

In 1992, Lord Thomas committed the Bank to its customer-led ethical and environmental policy, which it continued to develop following his retirement. He introduced free banking to UK consumers. He served as ceo of the bank for nine years, before retiring in the late 1990s. He suffered a stroke in 1999; in his 2010 autobiography, entitled *An Inclusive Community With Integrity*, he said this was the result of a hole in the heart, of which he had been unaware. Lord Thomas, 'Terry' to his many friends, was chairman of the East Manchester Partnership (1990–1996) and founding chairman of the North West Partnership. Having been appointed a **Commander of the Order of the British Empire (CBE)** in the 1997 Birthday Honours, he was created a life peer as **Baron Thomas of Macclesfield**, of Prestbury in the County of Cheshire in November 1997. He sat in the House of Lords until 18 May 2016. The keen rugby player and fan lived in Prestbury and was married to Lynda for 55 years. They had three sons.

Tributes poured in:

Centre chairman, **Malcolm Hurlston** who met

Lord Thomas when proposing the name 'Sterling' to the Joint Credit Card Company (the winner was Access), was to work with him throughout his managerial career in banking and introduced him to employee share ownership in the US, said: "Lord Thomas was the leading personal banker of his generation and probably of the 20th century. He came to prominence in 1973 when he joined the Co -operative Bank as the first marketing manager of any UK bank; there he introduced free banking, the free-for-life credit card and an ethical stance. Then he became the first md of **Unity Trust,** co-owned by the Co-op and the trade unions, where he brought **employee share ownership to Britain.** In 1988, he was recalled full-time to head the Co-operative Bank, which became the most popular bank in the country under his leadership, re-infusing the Bank with co-operative principles and working closely with the Labour Party of which he had been a lifelong supporter. In his role as the first chair of the East Manchester Partnership he played a major role in the regeneration of east Manchester and was instrumental in bringing the 2002 Commonwealth Games to the city. He became the first chairman of the North West Regional Development Agency.

"Terry became a life peer in 1997, intending a new career in public service which was unfortunately shortened by illness. He was personable, committed and engaging: few could resist his conviction, charm, *hwyl* and passionate commitment to good causes. TJT, as he was affectionately known, was greatly respected and admired. He was the popular personal banker whose memory lives on in an era when corporate bankers have never been so scorned," added Mr Hurlston.

Paul Monaghan, ceo of the **Fair Tax Mark** and former head of sustainability at the **Co-op Group**, said: "Terry brought me into the Co-op Bank as he wanted to create nothing less than the world's first ecological bank. He wasn't just way ahead of all other banks; he was way ahead of the vast majority of environmental campaigning groups too. He was an inspiration to work with and he was arguably the most important cooperator of modern times. I've never seen a business leader so loved by employees as Terry was: he left his last management conference to floods of tears. He and the Body Shop's Anita Roddick raised the bar on corporate responsibility more than anyone in that era. He took on issues well ahead of the curve: from climate change to landmines, and shook up everyone from the Bank of England to the Chemicals Industries Association.''

Francesc Abad Rigla, coordinator general of the Spanish small business group **CONFESAL** said in Madrid: "We much regret this painful loss and send you warm greetings and our condolences."

During his 25-year-long career at the Co-operative Bank, he demonstrated that high principles could result in high profits too. When, in 1988, he was appointed the bank's md, the bank had assets of just £1.8bn, customer lending amounted to £1.2bn and customer deposits stood at £677m. When he retired in 1997, the bank's assets had increased almost three times to more than £4.6bn, customer lending had doubled to £2.1bn and deposits had gone up fourfold to more than £2.8bn.

UK CORNER

Roadchef Esop victims ask *newspad* for help

A dozen former Roadchef employees who were participants in the company Esop, are collectively demanding an ***interim*** payment from the court-awarded compensation fund. They wrote to *newspad* which alone has campaigned for them and the Centre passes on the letter to the Roadchef EBT trustee. The former employees said they had suffered enough after a 20 year wait for full justice to be served over the Esop shares, which were removed without their knowledge, prior to the sale of the company in 1998.

In their letter, the ladies, who all used to work in a Scottish Roadchef service station, remind the trustee that the High Court ruling in their favour - in January 2014 - authorised the Esop participants' trustee and their lawyers, Capital Law, to seek the post tax payments, ***four and a half years ago***.

They and around 350 other original Roadchef employee Esop participants still haven't seen a penny post-judgement because the EBT trustee is locked in a lengthy battle with HMRC over whether the beneficiaries (the ex employees) are entitled to up to £10m of the so-called tax paid by former Roadchef ceo and chairman Tim Ingram-Hill (TIH) on the estimated £26m+ profit he made when he sold the company to Japanese investors. The trustee chairman, solicitor Christopher Winston Smith, argues that HMRC has no right to keep the bulk of the tax payment because the High Court had voided the 'sale' of Roadchef shares by Ingram Hill, *except for the 20-25 percent of the shares which he had owned in his own right.*

However, HMRC is refusing to transfer the 'tax' payment proceeds to the beneficiaries, arm-twisting the trustee by offering to pay the beneficiaries' c. £20m estimated separate compensation pot tax free, ***provided the trustee allows HMRC to keep the TIH 'tax' payment.*** The trustee has condemned the offer as outrageous, arguing that the 'tax' payment made by TIH belongs to the beneficiaries because there was no legal sale of their Esop shares.

Hence the compensation process is at standstill

with, apparently, no hope of resolution in the short-term.

The issue was to have been aired at a parliamentary Treasury sub-committee meeting on July 9, but the meeting had to be postponed in the chaotic aftermath of the resignation of former foreign secretary Boris Johnson MP.

In their letter – signed by 12 former Roadchef employees - to the EBT trustee, they said:

"*We write to you on behalf of ourselves and our former Roadchef colleagues to ask why our allocated share money is still being withheld from us, despite the fact that in 2014 a High Court Ruling (accompanied by approval from HMRC) was granted to authorise the settlement money already paid by Tim Ingram Hill, to be distributed.*

"We do appreciate that there is still a discrepancy regarding the return of the £10m currently in dispute with HMRC but believe that this should be treated as an entirely separate issue (which it is) and pursued, as planned, at a later date.

"The priority is that we, as former Roadchef employees, are allowed to benefit from what rightfully belongs to us sooner rather than later, and avoid further lawsuit costs. 20 years on I am sure that you will agree that we have suffered long enough over this.

"We are sorry to add that a number of our former colleagues are sadly no longer with us. Therefore, they did not have the opportunity to reap the rewards of a sum of money that could have potentially enhanced their life style should it have been awarded in a fair and timely manner.

"Essentially we are writing this letter to plead that you take heed of our requests for immediate settlement and distribute the allocated funds accordingly as per the award granted in 2014 and treat the HMRC demand as a completely separate entity. I am sure that you will agree that everyone has suffered this for long enough and we are extremely keen for some closure on the matter as soon as possible. We look forward to a response from yourselves."

The Roadchef EBT1 trustee however was unmoved by their request for an interim payment. His spokesman, Jeremy Glover of lawyers ***Reed Smith***, told the Centre:

*"As already discussed, the trustees can only provide updates directly to **all** potential beneficiaries and will do so in due course. It is not cost effective, proportionate or appropriate to respond to individual queries on a piecemeal basis. In addition, to prefer one potential group over others as you have suggested or at all is not legally, morally or practically conceivable.*

"The trustees continue to work tirelessly for all beneficiaries as far as the law permits to achieve a resolution to the maximum extent possible. You will also have noted the extensive political efforts undertaken. I know the Esop Centre understands this and respects the efforts involved. Its support continues to be appreciated by the trustees at this delicate stage of the negotiations."

Margaret, one of the Esop participant letter co-signatories, told *newspad* "We did not get nearly enough for our shares back then, so basically we are fighting a losing battle and have no say in this scandal."

Fred Hackworth, editor of *newspad,* responded on behalf of the Centre: "It has always been a puzzle to us (*and others)* why any Roadchef employee who was **NOT** a participant in the company Share Participation Scheme (SPS) should have any entitlement to any compensation, as they suffered no financial loss, unlike the SPS participant employees.

"Indeed, as pointed out by Mrs Justice Proudman (*Point 90 - see below)* in her High Court ruling, the definition of the term 'beneficiaries' in this case **implied a firm link with the SPS.** This scheme ended in July 1998, when Tim Ingram Hill sold the equity to Nikko Corporation. Anyone who began employment with Roadchef after that date had no connection whatsoever with the SPS in question. The ladies who co-signed the letter we forwarded to the trustee were all participants in the SPS and ***each lost the enhanced value of the varying holdings of their Roadchef SPS shares, which were sold without their approval***.

"No other category of Roadchef beneficiaries suffered any financial loss, so there is nothing to be restituted to them. They will receive windfalls in due course and should be grateful for them.

"So we see the original employee participants in the Roadchef Esop as being akin to *preferential creditors* - and believe that they should be treated as such. This group of women should be commended and not criticised for making a written application to the trustee for interim payments, as – from the outside – it looks as if they may well have to wait many more months before they see any of their court-awarded compensation.

"By now the total legal and funding costs in this never-ending case almost certainly amount to around **£4m** – and the 'taxi-meter' keeps on ticking

over. This huge sum will be deducted from the beneficiaries' compensation pot," added Mr Hackworth.
Under the compensation pot formula – hammered out over the course of many months – the original Roadchef employee Esop participants are entitled to receive collectively **61 percent** of the net amount (after fees and tax), while original non Esop participants – e.g. part-timers and those who had not been employees for long enough to qualify – are to receive **nine percent**. Most surprisingly, it emerged that around 3,000 more recent Roadchef employees are collectively to receive the remaining **30 percent** of the compensation pot. To his credit, Mr Ingram Hill had warned that he would not support any payout scheme which did not give the original Esop participants the bulk of the court-awarded compensation.
Mrs Justice Proudman's ruling said:
90. Clause 1 (4) of EBT1 defines the expression 'the Beneficiaries' to mean: "the employees from time to time of the company [namely Roadchef] and any subsidiary of the company…which is a participating company, **in relation to any profit sharing scheme established by the Company** and approved in accordance with part I of schedule 9 to the Finance Act 1978 and "Beneficiary" has a corresponding meaning.

Corporate governance reform

The Financial Reporting Council (FRC) published a new corporate governance code for listed companies, in order to crack down on bad corporate behaviour and give more influence to staff. The reforms included a new provision for employees to be represented either by an employee advisory panel, a director from the workforce or a non-executive director. Both **FirstGroup,** the passenger transport company, and **Sports Direct** already have an employee representative on their board, with the sports kit retailer appointing a 30-year old shop manager to the role in an attempt to counter criticism of its working conditions, but no other FTSE100 company yet has an employee representative on the board.
TUC general secretary Frances O'Grady said she was disappointed by the watered-down rules. "These reforms are a step in the right direction, but they are not the shake-up of corporate Britain Theresa May promised and the country needs," she said. "The government should have stuck to its commitment to make workers on boards mandatory."
The revamped **Corporate Governance Code,** drawn up in the wake of the Carillion scandal, is aimed at discouraging short-term decision making. The FRC will require remuneration committees to consider imposing five-year bans on executives selling shares - awarded through long-term incentive plans - soon after they step down. The move came after a series of scandals, including the dramatic collapse of **Carillion**, the construction outsourcing giant, in January, that have sparked anger over the behaviour of senior company executives. Richard Adam, Carillion's former finance director, sold £800,000 worth of shares after stepping down in 2017, less than a year before it perished.
Boards must give themselves discretion to override formulaic executive pay deals, the watchdog has decided in the wake of the **Persimmon** fiasco. Flexibility to intervene in bonus schemes that pay out an undeserved jackpot is the most eye-catching reform to the principles and rules governing how power is exercised in listed companies. Investment institutions were furious when Persimmon directors found themselves powerless to prevent the house-builder's ceo, Jeff Fairburn, qualifying for a bonus of more than £100m, thanks to a badly structured LTIP equity incentive plan.
FRC's chairman Sir Win Bischoff said the shake-up would be essential to restoring trust in business following a string of scandals. His director of corporate governance, David Styles, said: "I wouldn't say that boards have lost their way, overall we have high standards of governance but it's very noticeable when things go wrong." However, Dr Roger Barker, head of corporate governance at the **Institute of Directors,** (which recently enjoyed its own corporate governance scandal with the 'man from Scunthorpe' ceo secretly recording conversation with chairman Barbara Judge) said he was disappointed that a "crucial recommendation for directors to undertake continued professional development" had been removed from the code.
Those companies with a main stock exchange listing who don't want to accept employee representatives on their boards will be either have to nominate a non-executive director responsible for representing staff or create a separate *employee advisory council.*
The changes will not be mandatory but those companies wishing to opt out would be forced to explain to shareholders why they did not think they were necessary.
Other measures the government has implemented already include making companies report the ratio between their ceo and median employees' pay levels and creating a public register – operated by the **Investment Association** - to *name and shame* companies that face considerable investor opposition to their executive reward proposals. This register will be available for republication on other websites.
The Centre is taking the opportunity to draw up a

model framework to help companies who want to report separately on equity for all employees.
The FRC is drawing up a code that will apply to large privately-held businesses, seen partly as a response to the controversial collapse of Philip Green's department store chain **BHS** in 2016. Last month the FRC revealed six principles for the new code put together by James Wates, chairman of the family-owned property developer **Wates Group**, which has been put out for consultation until September.

More Brexit

***Abbiss Cadres: pre-Brexit workshops** Several multi-nationals and even a European institution have recently moved their headquarters or employees from the UK to the Netherlands, putting interest in cross-border employment between the two countries at an all-time high. To prepare Dutch and UK businesses for their employees working abroad, *Loyens & Loeff* and Centre member **Abbiss Cadres** will be running workshops on cross-border employment in London and Rotterdam. The workshops will focus on key areas of employment law, taxation of employment income, social security and pensions. In particular:

- the tax treaty between the Netherlands and UK
- employment law in international situations
- the EU directive on social security and cross border pension issues.

They will discuss the impact of Brexit on cross-border working between the Netherlands and UK. The workshops will be interactive and pragmatic and will provide valuable takeaways in the form of templates and tools designed for practical use. Experts in each of the practice areas will be on hand for one-to-one discussions (which can be pre-booked). Abbiss Cadres is offering half-day London workshops for £700, or €799 per person, on **October 4** & **18 2018** at Abbiss Cadres, 11 Ironmonger Lane London EC2V 8EY.
*The government's plan for UK relations with the EU post Brexit will restrict jobs and was a 'real blow,' said **The City of London Corporation.** Finance groups regret that plans for EU and UK financial services to mutually recognise rules have been dropped. Services, including banks, insurance companies and investment firms, make up 80 percent of the UK economy and are one of its most successful exports to the EU. The government wants UK financial services in future to adopt a beefed up version of a system already used by some non-EU countries. These use rules that are equivalent to each other in some areas. The City of London Corporation, which governs London's financial district, said dropping the push for mutual recognition for so-called equivalence would curb business opportunities with European counterparts. "One rational for Brexit is that the UK can adopt its own standards and regulations and get rid of all that Brussels red tape, but to ensure trade is as frictionless as possible, it wants to have these standards recognised automatically in the EU, that is mutual recognition and to the EU it is having your cake and eating it as well, and therefore unacceptable. With equivalence, the EU would decide that UK regulations in a specific area achieve the same regulatory objectives even if they do not follow the exact same EU laws. ***But the rub is that the EU assesses whether that third country meets its standards. It normally does this industry by industry, and it can withdraw its approval at very short notice***. Settling for equivalence for services (including financial services) will therefore be unpopular with many companies who had hoped that the Treasury, which was campaigning hard for mutual recognition, would fight their corner. Theresa May's three-page statement from the Chequers meeting said little about the trade in services, which form the dominant part of the UK economy, said Tim Wallace, writing in *The Telegraph.* The aim is to "provide regulatory flexibility", though the Government admits "the UK and the EU will not have current levels of access to each other's markets". Financial services receive just two lines*: The UK wants "arrangements on financial services that preserve the mutual benefits of integrated markets and protect financial stability, noting that these could not replicate the EU's passporting regimes"*. Consequently there will be a significant cost to the UK economy: services account for 44 percent of the UK's exports – the highest among major economies – and the UK runs a large trade surplus with the EU (and non-EU) in services," says Daniel Vernazza, chief UK economist at UniCredit. "*Unfortunately, it neglects the fact that, today, services trade and goods trade are intrinsically linked as production chains have become increasingly complex."*
*The extent of Britain's dominance has shrunk as banks, insurers and other finance firms have begun to set up operations elsewhere in the EU to prepare for Brexit. Last year 78 foreign direct investment projects came into the UK from overseas, according to an EY study of the financial services industry. This represents a fall from the record level of 106 projects in 2016 – a drop of 26 percent. Investments into Europe as a whole rose 13 percent, with the number of projects into Germany rising steeply to 64 and the number into France more than doubling on the year to 49. "Many UK-headquartered financial services firms need to ensure post-Brexit access to EU markets to safeguard the future of their business, and are currently moving relatively small numbers of people and operations to alternative EU locations in response," said Omar

Ali at EY. “The timeline for delivering these operational restructures is tight, and we will see this trend play out up until March 2019. The question is, will this be a temporary shift or the start of a more sustained trend?”

*When the Brexit referendum result was announced, people living in the UK’s 14 **overseas territories (OTs**), mostly in the Caribbean, were shocked at the result. They were annoyed ***they hadn’t had a chance to vote***, and concerned about their future. Neither side in the campaign had given serious thought to the implications for the OTs and the situation has not improved. **Gibraltar** is the exception – the only one already part of the EU in its own right. In the Caribbean, the **British Virgin Islands** (pop 30,000) and **Cayman Islands** (pop 60,000) both do well from specialist financial and business services – as does Bermuda to the north. They are most likely to be affected if Brexit reduces the UK’s influence in determining the prevailing international rules and regulations that govern these activities – with the EU one of the key players here, this is a distinct possibility. Cayman exports c £2bn a year to the EU (almost exclusively financial services income), while BVI exports £600m a year to the EU. More generally, the OTs enjoy tariff-free trade with the EU, but depending on the outcome of the Brexit negotiations, this too could come to an end.

*The EU (Withdrawal) Act 2018 received Royal Assent on June 26. Amongst other things, it permits changes to legislation to be made by statutory instrument, and around **800** statutory instruments are expected to be published in tranches over the coming months (some of which will relate to tax), said Centre member, **Deloitte.**

As reports of banks moving activities from London to the EU 27 continue, businesses need to evaluate the potential impact of Brexit on their UK and EU treasury functions, warned Deloitte. “Banks are working hard to keep Brexit related disruption to their corporate clients to a minimum, but nevertheless concerns persist. From a tax perspective, the most obvious issue is whether lost access to the *Interest and Royalties Directive* will result in increased withholding taxes, and the extent to which double tax treaties will be available to manage this. From a broader commercial perspective, there are questions as to whether euro-denominated bank accounts held by UK entities might need to transfer to an EU 27 group company to continue to operate.

“Further, if the UK loses access to the *Single European Payments Area* (SEPA), an initiative which harmonises payment protections between member countries, arrangements will be needed to alleviate additional costs. Treasurers with responsibility for significant UK or EU corporate

WHITE & CASE

treasury functions need to identify plans to mitigate Brexit risks across a wide range of disciplines (direct and indirect tax, legal, accounting, reporting, regulatory) to ensure they can continue to provide seamless treasury services to their group. For more information, contact **Mo Malhotra** at Deloitte.

Disguised Remuneration briefing

HMRC published a briefing on the disguised remuneration charge on loans introduced in Finance Act (No 2) 2017, which will apply to all disguised remuneration loans made since April 6 1999 if they are still outstanding on April 5 2019. The charge will not arise on outstanding loans if the individual has agreed a settlement with HMRC under existing law before April 5 2019, reported **Deloitte.**

Users of disguised remuneration schemes who wish to settle should register their interest with HMRC as soon as possible, and all the information required to settle must be sent to HMRC by September 30 2018. HMRC will allow scheme users to spread their payments over five years if their taxable income in 2018 to 2019 is estimated to be less than £50,000, provided that they are no longer in avoidance. See https://deloi.tt/2uyibDf

Employee share schemes a good motivator - poll

Almost 30 percent of respondents to an *Employee Benefits* magazine straw poll believe that financial benefits, such as employee share schemes, motivate employees the most. The readers’ poll which received 143 responses, found that 25 percent of respondents think that free holidays are the best employee benefit motivator, while 22 percent state that health and well-being benefits are the most motivational for employees. A further 17 percent of respondents cited family-friendly initiatives as strong staff motivators.

A report published by HR management software provider **ADP**, *The workforce view in Europe 2018*, found that of its 9,908 employees surveyed across France, Germany, Italy, the Netherlands, Poland, Spain, Switzerland and the UK, 47 percent of respondents are most motivated and engaged by pay and remuneration terms, compared to 22 percent who are most motivated by having a

good work-life balance and 18 percent who find praise and recognition from management as the component that motivates them the most. Only six percent of respondents claimed that nothing motivated them.

Eye digital voting at agms?

An investment fund is showcasing plans to launch an eye digital voting mechanism in order to boost shareholder rights, according to the *Financial Times.*

Auto-enrolment boosts employee pensions

In the past five years, more than 9.5m UK employees have been automatically enrolled into pension schemes, with three-quarters of them now saving via a workplace pension. Younger workers and the lowest paid have seen the biggest increases in the proportion of employees with defined contribution pensions, said the **Office for National Statistics**. Half of all full-time employees in the least well paid private sector jobs now have a workplace pension. About 63 percent of private sector workers aged 22-29 paid into a defined contribution pension in 2017, up from 16 percent in 2012. Even among employees in fields such as caring and customer service – some of the least well paid private sector jobs – there has been a similar surge. In 2012, only ten percent of private sector employees had workplace pensions. Many employee pension savers are still only making very small contributions to their pension pots. In 2017, almost half of private sector employers were paying less than two percent of earnings into their workplace pension pots. At the start of the new tax year, employees with auto-enrolment pensions saw their minimum contributions rise from one to three percent. In April next year, this will rise further, with employees paying a **five percent** minimum contribution and employers paying three percent on top. This might have a slight adverse impact on employees' willingness to commit to participating in new Eso schemes. Up to 2017, only one in ten employees had opted out of their workplace pension**.**

Wealth manager's Esop is the social economy

Wealth manager **EQ Investors**' employees hold 22 percent of the corporate equity and are now the company's third largest shareholder. The Eso plan offer was taken up by 88 percent of eligible employees, those who have been at the firm for more than 12 months. An additional 31 percent of shares has been gifted by EQ Investors' ceo **John Spiers** to the EQ Foundation, a registered charity linked to the firm. The charity aims to help mainly UK-based disadvantaged people through grants, donations and impact investments. Mr Spiers said: *'The number of employees subscribing to the employee share ownership plan has exceeded my expectations and demonstrates tremendous confidence by staff in EQ's philosophy and long-term prospects. As a long-standing advocate of employee share ownership, I have seen first-hand the strategic and ethical rewards of adopting a model which aligns the interests of employees with that of the business.'*

Following its re-launch as EQ Investors in October 2014, assets under management have doubled to over £800m. The firm is a Certified B Corporation, whereby it is committed to meeting high standards of social and environmental performance, transparency and looks to make a positive contribution to the wider community.

COMPANIES

Royal Mail** suffered a major shareholder backlash as an astonishing ***70 percent of voting investors at the Sheffield agm gave a clear *thumbs down* to its reward packages for senior executives. Investors rebelled after it emerged that incoming ceo **Rico Back** would be paid a £640,000 base salary, almost 17 percent more than previous boss **Moya Greene.** They were further enraged to learn that shareholder funds were being used to give Zurich based Mr Back a **£6m** *Golden Hello* payment to recompense him for resigning his current post! Golden Hellos are frowned on by City institutions.

The massive vote against the remuneration report was the largest in a decade, easily eclipsing high profile shareholder revolts this year, including Shell and AstraZeneca. However, Royal Mail's vote this year is not binding - companies only face a binding vote on their pay policies every three years, so Zurich based Mr Back, who will commute to London in his new job, will still receive the sum. More than 12 percent of Royal Mail's equity is owned by postal workers, many of whom voted their shareholdings against the remuneration report.

"It would appear that Rico Back has got £6m by moving from one job within the Royal Mail to another, a life-changing lottery win to anyone else, as well as an astronomical wage packet," said Terry Pullinger, deputy general secretary of the **Communication Workers Union,** to which most postal workers belong. "These things have drifted away from reality and it's got to the point where it's unbelievable money. The business is constantly telling us that every pound is a prisoner and they're under the cosh and then you see this," he said. "How can people believe the business is in difficult financial straits when that sort of money is being bandied about?"

Two prominent investor advisory groups, **Institutional Shareholder Services (ISS)** and **Glass Lewis**, contested the planned termination

bonus of £900,000 for Greene, who stepped down as ceo in June and who leaves the company in September. Glass Lewis said it could not support the improved deal given to Back: "We believe shareholders should question the appropriateness of the increase. In particular, we note that an increase to base salary has a compounding effect on the amount of short and long-term incentives granted to an executive, since such awards are often granted as a fixed percentage of base salary." On the departure payouts for Moya Greene, which include a full-year cash bonus of £774,000 and 12 months' salary, worth £547,500, after she leaves in September, ISS said these were above the normal amounts given out by British businesses to departing executives. Royal Mail (RM) said that Mr Back was worth the money, because of his outstanding performance leading RM's European profit-making parcels subsidiary, **GLS.**

*Shareholders in software engineer **Aveva** revolted against a "highly excessive" £5.5m buyout package for its new boss and a proposed 50 percent surge in maximum senior executive salaries. Almost 21m votes, equivalent to ***43.5 percent*** of those voting at the agm, were cast against Aveva's directors' remuneration policy, which is *binding*. Another resolution, the directors' remuneration *report* for the year ended March 31 2017, which is merely advisory, attracted a smaller rebellion – almost 26 percent voting against it. Aveva promised to liaise with shareholders over the two contentious resolutions and to study their feedback. Shareholder advisory groups **PIRC** and **Glass Lewis** had urged shareholders in advance to vote against Aveva's remuneration report. PIRC urged investors to vote against the re-election of chairman Philip Aiken on concerns about *over-boarding* – when executives spread themselves too thinly by taking on multiple boardroom roles – and almost 11 percent of voting shareholders did. An Aveva spokesman said that the "board felt that the package was appropriate to attract an exceptional candidate". The pay surge came after Aveva finally completed a merger with the software arm of French energy business **Schneider Electric**. The tie-up, sealed at the third attempt, created a £4bn company. Some 42 percent of shareholders opposed its remuneration policy last year. Yet Aveva is proposing an increase to the maximum salary cap from £600,000 to £900,000 for executive directors. New boss Craig Hayman's £700,000 salary will be 77 percent larger than that of former boss James Kidd. So-called buyout awards to lure the new ceo from US firm PTC are "not considered appropriate", warned PIRC. "The total value of awards made to Mr Hayman amount to £5.5m, which is considered highly excessive." The company had not addressed the "significant opposition to the remuneration report", PIRC added.

Despite voicing their opposition to the report last year, shareholders had been thought powerless to block the jump in pay after Schneider was handed a 60 percent stake in the newly combined company. Schneider has two non-executive directors on the company's board. Concerns over retention awards to keep Mr Kidd and former cfo David Ward at the company were raised by advisory groups too.

*After one third of those voting at its agm rejected **BT**'s remuneration report, the company said: "Historically, both the remuneration report and our remuneration policy have received overwhelming shareholder support and over the past two weeks we have been in dialogue with our major shareholders and proxy advisers to discuss their questions and concerns. We understand that the lower level of support for the remuneration report is, in the most part, attributable to the annual bonus payment to BT's ceo for the 2017/18 performance year." BT added that it would engage further with shareholders and proxy advisers to understand in full detail the reasons for their concerns and whether it should consider any changes to its longer -term approach to remuneration. Departing ceo, Gavin Patterson, netted a £1.2m performance bonus.

***Nex Group** too suffered an investor protest over executive reward at its agm, with more than **40 percent** of shareholders voting against its remuneration report. The reward plan will allow senior executives to receive their share awards years earlier than they normally would as a result of the company's forthcoming £3.8bn acquisition by Chicago-based **CME Group**. It will allow Michael Spencer to pocket his £18.5m windfall early. Although the vote was non-binding, the company said it was disappointed not to have received more support. "In the event that the offer [from CME] does not complete, the board will review and respond to the feedback from shareholders," the company said. ISS, the shareholder advisory group, urged investors to vote against the report ahead of the meeting, arguing that "effectively these awards will be fully realised without being pro-rated for time and performance". The agm results emerged hours after Mr Spencer said the sale to the world's largest exchange was "on track" to close by the end of this year.

Ocado**'s senior executives will see their reward packages soar by millions of pounds this year after a series of international deals sent the online grocer's shares soaring. *Yet the FTSE 100 company recorded a £9m loss in the 26 weeks to June 3, partly because of higher-than-expected charges for* ***management bonus schemes, said *The Telegraph.* It expects to pay out an extra £9m in share-based

incentives this year, the bulk of which will be split among its top four directors, including its ceo Tim Steiner. Ocado is trying to shift its business model away from a reliance on its own retail business towards becoming a supplier of technology to other grocers. Its market value has risen more than fourfold since November on the back of deals with partners including France's ***Casino***, Canada's ***Sobeys*** and the US giant ***Kroger***, with whom it plans to build up to 20 robotic warehouses over the next three years.

*__Persimmon__ fuelled more anger over its executive and managerial reward scheme as the house-builder prepared to split a £300m bonus between 130 staff. The FTSE 100 company has been trying to quell outrage over the long-term incentive plan (LTIP) it set up in 2012 with no bonus cap, leaving senior executives cashing in huge sums following an unexpected surge in its share price. Even more staff will become multi-millionaires as Persimmon hands out huge bonuses to employees three years earlier than planned. Apart from from ceo Jeff Fairburn and two other top executives, the company's 31 regional managers are expected to pocket the largest chunk of the payout. The LTIP, thought to be the most generous ever devised by a UK corporate, was supposed to apply over a decade but executives cashed in early after the firm beat performance targets. Critics suggested that the company's soaring success has been due to the sale of leasehold contracts – forcing house buyers to pay escalating ground rents to a freeholder company on ***houses*** Persimmon had built and sold (*a practice which HMG has promised to outlaw*), as well as the Government's *Help to Buy* scheme, which offers interest free loans to first-time buyers. The huge bonus won by Persimmon's ceo, Jeff Fairburn, was "almost unfathomable", the ex-housing minister, **Dominic Raab,** a former **Linklaters** solicitor and now Brexit secretary, told MPs. Persimmon faced fierce criticism earlier this year after it emerged that a rise in profits would trigger more than £200m in bonuses for three executives. The company trimmed the payouts by £51m amid widespread outrage, with Fairburn accepting a cut from **£140m** to **£75m** and promising to give a substantial portion to an unnamed charity. Marion Sears, the head of Persimmon's remuneration committee, was criticised by MPs after *forgetting how much its ordinary workers were paid*. The backlash over the share bonus scheme forced Nicholas Wrigley, the former chairman, to resign last December. The company's share price has rocketed from £6.57 in 2012 to around £25.00 today. The unexpected surge in its value made Persimmon's LTIP's bonus payments, which are linked to the share price, among the biggest ever seen in the UK. *Investors believe it should have been linked to other targets, such as how many homes it builds.* Nigel Mill, interim chairman, apologised, at its agm last April, for the company's handling of bonuses.

*__Stagecoach__ executives have been stripped of almost £800,000 worth of bonuses following the "disappointing" nationalisation of the East Coast mainline. Ceo Martin Griffiths was in line for short-term incentives worth around £593,000, while finance director Ross Paterson was due to be paid an extra £395,000 under Stagecoach's annual bonus programme. The FTSE 250 company's remuneration committee "exercised discretion", reversing agreed policies which would have allowed the pair to take home bonuses of 91 percent of basic salary. Mr Griffiths received no bonus, and Mr Paterson was paid £198,000 on top of his £435,000 basic wage. Mr Griffiths' total pay fell from £1.3m to £987,000, while Mr Paterson's rose from £811,000 to £867,000. The East Coast mainline, a joint venture led by Stagecoach and operating in conjunction with Virgin Trains, was handed back to the Government on June 24.

*__WPP__ is threatening to confiscate share awards potentially worth £20m from its former ceo **Sir Martin Sorrell** over **S4 Capital**'s winning £266m bid for Dutch digital production company **MediaMonks.** A source revealed that WPP's lawyers had written to Sir Martin claiming that the bid launched by his new company S4 Capital- in direct competition with WPP - was likely to be in breach of his confidentiality obligations. However, he is not bound by a non-compete clause thanks to an unusual contract he signed in 2008, in which he sacrificed that right in return for an arrangement that allowed him to leave - or the company to fire him - "at will". WPP considered it unlikely that Sir Martin would set up in competition to a company in which the vast majority of his personal wealth was invested. WPP is adamant that he may not use any confidential information he gleaned as WPP boss. That could include information on potential takeover targets that WPP looked at acquiring or insights on WPP client's advertising strategies. WPP sources believe these confidentiality agreements operate as powerful curbs on his ability to compete directly against his former company, but the source from Sir Martin's camp added: "*If WPP is going to start some sort of procedural process, Sir Martin will fight it, though this guy is worth £400m to £500m. He is not going to allow £20m to stand in the way what he is trying to do.*" He added: "He is not out to damage WPP. He is still one of the largest, if not the largest private shareholder in WPP, so why would he want to do that?" Sir Martin bought WPP in 1985 and turned it into the world's biggest advertising and media company with revenues of £15bn. However, he stepped down as ceo in April after the board said it was investigating claims of alleged misconduct.

WORLD NEWSPAD

China: Lei Jun is the founder and ceo of the Chinese smartphone company **Xiaomi**. He's been called the **Steve Jobs** of China and *The Wall Street Journal* reported that he recently got a bonus of $1.5 bn worth of company stock, one of the biggest executive bonuses in business history. The bonus, purportedly for the purpose of "rewarding him for his contributions," comes as Xiaomi is on the cusp of an IPO later this summer. If the IPO goes as planned, Jun's stock will soon be worth even more than it is now, probably around $1.8bn. The sheer size of Jun's executive bonus outdoes any equivalent such bonus other ceos have been given in the recent past, including the $638m that Evan Spiegel got from **Snapchat** last February. *But it's unusual too in that the bonus does not seem to be tied to any performance goals on Xiaomi's part, and instead comes with no strings attached*. Contrast that with the stock awards **Elon Musk** is set to attain should his **Tesla** company meet the established benchmarks, valued at as much as $2.6 bn over the next ten years — but only if all of those benchmarks are met. In Jun's case, the bonus has no such benchmarks, and he gets to enjoy his humongous bonus even in the unlikely event of his company crashing and burning in the near future. Jun founded Xiaomi, which is primarily a smartphone company but produces other electronics as well as software, in 2010, and joined the billionaires' club two years later as his company experienced rapid growth. In addition to Xiaomi, he's also involved in other companies in China, including the social media site YY and the online game outfit Kingsoft.

South Africa: Vodacom will spend R1.1bn on an employee share ownership scheme as part of its R17.5bn broad-based black economic empowerment deal - the biggest BEE deal in the telecoms sector. The scheme will benefit 4,637 permanent employees in South Africa. "The employee share scheme effectively is for all employees, but black employees and [especially] black female employees will obviously get the lion's share," Vodacom Group ceo Shameel Joosub told *Business Day*. The new Eso scheme was targeted more towards general staff as opposed to management, he said. The scheme would be geared to give staff effective exposure to the group's shares of R3.5bn — an average of about R755,000 per qualifying staff member. Meanwhile, the group's new BEE deal will replace the scheme that was launched in 2008 and which expires in October 2018. If approved, the transaction will pool all of Vodacom's BEE shareholders under a single entity, JSE-listed YeboYethu. This would involve existing black shareholders exchanging their shares in Vodacom's South African business for Vodacom Group stock, giving them exposure to other markets. (one pound sterling = 17.59 Rand).

Encouraging US Employee Ownership

In late May, President Trump signed into law the first major financial services reform bill since the enactment of the Dodd-Frank Wall Street Reform and Consumer Protection Act in 2010. The Economic Growth, Regulatory Relief, and Consumer Protection Act is not a wholesale repeal of the Dodd-Frank Act, but it does modify or eliminate certain requirements on community and regional banks and non bank financial institutions in particular that have been perceived to be too onerous. Section 507 amends Rule 701 of the Securities Act of 1933.

Rule 701 is an exemption from the registration requirements of the securities laws that allows private companies to grant equity awards, including stock options, to employees, directors and consultants. Private companies overwhelmingly rely on Rule 701 as it permits them to grant equity awards to employees and others without any filings with the SEC and without paying any fees, reported Shearman & Sterling. Under Rule 701(e), if a private company issues more than $5m of securities in a 12-month period, it is required to provide financial statements and risk factor disclosures to anyone receiving equity awards. Section 507 increases this threshold to **$10m.**

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