Vol 38 No 2 March 2021

it's our business

newspad of the Employee Share Ownership Centre

Budget: EMI may be expanded; no CGT rises (yet?)

There was relief throughout the employee share scheme sector that the chancellor did not use his March Budget to announce any changes to the Capital Gains Tax (CGT) regime. A CGT review, ordered by Mr Sunak himself, had sparked fears late last year that CGT was being lined up for major surgery, which would have threatened SAYE-Sharesave and other tax -advantaged share schemes, but he did not mention the subject during his Budget presentation in the House of Commons.

All at the Centre, which organised a campaign against the proposed CGT increases, expressed their satisfaction that the lobbying – including a cautionary letter to the chancellor – appeared to have paid off, at least for the time being.

*Members studied an unexpected Treasury Budget note implying that the chancellor is thinking of expanding the highly popular **Enterprise Management Incentive (EMI)** stock option based scheme, to include far more gazelle type UK companies.

He is calling for evidence on the efficacy of EMI, currently used by more than 11,000 SMEs, but thousands more do not qualify for this tax-advantaged scheme, either because their gross asset value exceeds £30m, or they are in one of the excluded occupations, such as finance and forestry. While the rewards from EMI options can be considerable, vesting often depends upon an exit event, such as an IPO or takeover, so option holders are taking a risk on the company's future success. "*I assume that the Budget theme of innovation, growth and jobs is echoed in this EMI evidence study*," commented Damian Carnell, director of Centre member **Corporate Growth Ltd.**

The Treasury note said: "The government announced at Budget 2020 that it would review the EMI scheme to ensure it provides support for high-growth companies to recruit and retain the best talent so they can scale up effectively and examine whether more companies should be able to access the scheme. *The government's objective for this call for evidence is to gather more evidence to understand whether the EMI scheme should be extended to include more companies.* It added: In particular, the government is seeking views on: • whether the current scheme is fulfilling its policy objectives of helping SMEs recruit and retain employees • whether companies that are ineligible for the EMI scheme because they have grown beyond the current qualification limits are experiencing structural difficulties (i.e. in the labour market) when recruiting and retaining employees • whether the government should expand the EMI scheme to support high-growth companies and how • whether other forms of remuneration could provide similar benefits for retention and recruitment as EMI for high-growth companies. *The Treasury wants all responses in by **May 26**. Responses by email should be sent to: emiconsultation@hmtreasury.gov.uk

From the chairman

Some 20,000 employee shareholders in Northern Rock were denied their compensation by Alastair Darling when he decided they should have no claim on the proceeds when Northern Rock was finally sold. As it happens, the government sold over the weekend for a handsome profit, so I shall be calling on the prime minister to reverse Labour's fiat. Indeed I doubt whether today's Labour would support Darling's brutal move.

Northern Rock employee shareholders got virtually nothing back from the first sale but they have stayed coherent and still have hope. This time round there is scope for compassion. There aren't the farfetched possibilities from which Roadchef has suffered. It is a straight question - does the government care enough about employee owners as opposed to policy nostra. The former Northern Rock shareholders are concentrated in the North East and have held together. They are not expecting financial action until the pandemic has abated but it is a time for hope

Malcolm Hurlston CBE

Immediately after the Budget speech, the Treasury wrote to the Esop Centre inviting leading members to participate in its evidence gathering exercise about the effectiveness of EMI and the possibilities of expanding the scheme.

Mr Sunak was finalising a series of consultations, due to be launched on March 23, on further potential tax increases to help pay the £400bn cost of the pandemic. The range of proposed new levies is likely to include a potential tax on online purchases and changes to the preferential tax treatment currently given to the self-employed. It was unclear whether these might include potential CGT changes too. Ministers claimed that hiving these off from the Budget would allow parliament to scrutinise them in more detail. Thereafter, Mr Sunak could use his *Autumn Statement* in November in which to identify changes to EMI, as well as additional tax rises, which could include CGT. By then, the government hopes, the Covid virus will be corralled, if not largely eliminated.

The chancellor's CGT review argued that the tax on profits should be modernised by: (a) more or less doubling the charge bands from ten (*for basic tax rate payers*) and 20 percent (*for higher rate payers*), to 20 and 40 percent respectively, as in the Income Tax bands and a further 45 percent band (instead of 28 percent CGT) for additional rate taxpayers who earn more than £150,000 and (b) by slashing the annual CGT exempt amount (AEA) – from the first £12,300 of profits from trading in shares – to between just £2,000 and £4,000 p.a. The Centre told the chancellor that broad-based employee share ownership, especially the SAYE-Sharesave scheme, would be hit hard by such measures. Members pointed out that a report last year by the Social Market Foundation, supported by the Investment Association, concluded that employee ownership enhanced long-term performance within companies, improved employee commitment and helped staff retention.

Senior UK executives have been selling share stakes in their companies because they feared –and still fear- that CGT rates would rise. The *FT* reported that accountants had been swamped with calls for advice on whether to sell, as Mr Sunak considered CGT increases, as suggested by the review. Some corporate executives even asked their employers to change the terms of their Long-Term Incentive Plans (LTIPs) in order to allow them to escape the worst of any CGT rate band rises.

*The announced increase in Corporation Tax (CT) from 19 to 25 percent (a 31 percent increase!) from fiscal year 2023 may well encourage more quoted UK companies to make additional share or share option awards to rank-and-file staff, as well as to executives. All-employee share and stock awards are used by bigger companies to reduce their CT bills. The higher the CT charge rate goes, the greater the temptation for large corporations to award most staff big equity awards – on which they can claim CT reductions - while perhaps rowing back on annual pay rises at the same time. Companies claim a CT deduction on such awards if the shares acquired by a participant are in an independent company, or a company which is, or is controlled by, a listed company (*other than a close company for UK tax purposes*) said Centre member **Pinsent Masons.** For *share option* plans, the tax relief is given in the accounting period during which the options are exercised, for the amount of the option gain. Where *shares*, or interests in shares, are acquired upfront under a direct share purchase plan such as a growth share plan or ExSOP™ award, statutory CT relief is only available on any amounts subject to income tax on acquisition of the shares. Each one percent increase in CT is estimated to raise an additional £3.4bn in revenue, said Centre member **Travers Smith.** Even an increase to 25 percent from April 2023 will leave the UK with one of the lowest CT rates in the G7. Furthermore, the UK has a fairly generous regime allowing for losses suffered in one year to shelter profits from tax in current, prior or subsequent years across a corporate group (although there are limits on the amount of losses that can be utilised in future years). Trading losses accumulated during the pandemic might therefore prove to be a useful shield against increased corporation tax, added Travers Smith.

One reason **Amazon**'s UK tax bill has been low over many years is that it gives many of its employees shares as part of their compensation. Such share-based awards enjoy certain tax benefits. The aggregate option gains for all employees on exercise on a share sale should attract corporation tax relief. Amazon grants shares to its lower-paid warehouse employees as well as senior managers and that trend now has further to run. *A major factor in Amazon's low tax rate in 2017 was a deduction of £17.5m from its tax bill, due to share-based pay schemes*. The size of Amazon's deduction is linked to the company's surging share price.

*The jobs furlough scheme will continue until the end of September, the chancellor confirmed. Employees will continue to be guaranteed 80 percent of their salary for a further three months after the government envisages all restrictions on activity will be removed in June. Employers will be expected to pay for ten percent of a furloughed worker's wages in July, rising to 20 percent in August and September. An additional 600,000 of the newly self-employed will now be eligible for state financial help.

Roadchef: Concerns mount over tax dispute

Concerns are mounting over the failure of the Roadchef EBTL trustee and HMRC to resolve their lengthy dispute over the tax status of the High Court awarded compensation for the former Roadchef Esop participants.

It is now more than **seven years** since the High Court in Chancery ruled in favour of the Esop participants, a number of whom have died subsequently without receiving a penny of what they were owed.

Mrs Justice Proudman ruled (Jan 29 2014) that the ex Roadchef motorway service station ceo and chairman Tim Ingram Hill (TIH) had breached his fiduciary duty when he arranged the transfer of employee Esop shares from the EBT to a separate performance shares trust which he controlled. The judge voided the shares transfer and gave a compensation order in favour of the beneficiaries. However, 15 years earlier, the Esop shares and others which he owned in his own right had been sold to Japanese investors who bought Roadchef from Mr Ingram Hill in 1998.

Despite the judge having indicated in her ruling that she expected the employees' Esop compensation pay-outs to be taxed, the Roadchef EBTL trustee, Christopher Winston Smith has repeatedly refused to settle with HMRC over the tax bill.

For the trustee argues that the Roadchef beneficiaries should not have to pay any tax on their varying compensation payments. He has told them in briefing notes that he has legal support for his demand that HMRC should waive all tax liabilities of the compensation.

Crucially, in addition, the trustee has told the beneficiaries in briefing updates that *were* their compensation to be taxed in full, many individual net payments would be derisory sums. This disclosure sparked fresh concerns that huge amounts have been spent on securing what might turn out to be a *Pyrrhic Victory,* as the legal costs to be paid by the beneficiaries continue to mount.

Already, beneficiaries face a bill, thought to be in excess of £3m to pay to the company which financed the High Court case on their behalf – *Harbour Litigation Funding*. On top of that there have been all the fees incurred by the lawyers and the trustee in crystallising the compensation claim, preparing the case, securing the compensation offer and all subsequent attempts to get it paid tax free.

Excited claims by union officials immediately after the court ruling that individual compensation payments could exceed £80,000 now seem very wide of the mark.

Because HMRC refuses to back down in the tax row, Mr Winston Smith has threatened to argue the beneficiaries' case before the tax tribunal, which would take many more months, if not years, to resolve.

To his credit, the trustee *did* secure for the beneficiaries the repayment by HMRC of the multi-million pound 'tax' payment made by TIH on the estimated £26m+ profit he made on the sale of Roadchef in 1998. However, as a *quid pro quo*, HMRC wanted the trustee to agree to the taxation of the compensation pots.

Roadchef Esop beneficiaries have told the Centre over recent years that they are very fed up over the continuing delay and would rather receive their compensation now – taxed or not. **Others have told *newspad* that they have given up all hope of receiving any compensation before they die**.

However, due to a legal *lacuna* in UK trust law, the trustee, apparently, has the right to decide what course of action is in the best interest of the beneficiaries. Mr Winston Smith has not asked the 400 Roadchef Esop beneficiaries believed to be still alive whether they would rather accept their compensation payments now.

Questions are now being asked about why the Chancery division of the High Court has not yet intervened to demand enforcement of Mrs Justice Proudman's ruling.

Beneficiaries complain that they have not been told how much compensation is being kept in the relevant escrow account, nor who is supervising it. Beneficiaries have received no further updates so far this year.

The trustee and his legal advisers, notably Cardiff based Capital Law, reply they cannot divulge such information because they had to sign a confidentiality agreement with Mr TIH in order to secure an acceptable compensation offer from him after the court ruling.

The Centre suggests that there is, potentially, a way out of the impasse. When the Esop participants' shares were transferred out of their EBT without their understanding of what was involved, the tax advantages now enjoyed by popular all-employee schemes like SAYE-Sharesave, or the SIP, did not exist in their current form. *However, had their shares remained in the trust to prosper over the years, they might retrospectively have been awarded SAYE type tax shielding – from Income Tax and NICs payments.* ***Nevertheless, the gains would not have been shielded from Capital Gains Tax liability in any event.***

Were HMRC to waive – in these special circumstances – the beneficiaries' potential liability to Income Tax and NICs, it could, in return, expect the trustee to agree to the compensation pots being subject only to CGT liability. Then both sides could claim a result from the protracted negotiations. As most of the beneficiaries have only very modest incomes, their net liability to CGT would not be great unless they had significant capital gains from other sources. In addition, the current annual CGT exemption allowance of £12,300 pa would ensure that, mostly, their CGT bills would be limited.

However, all that could change later this year when chancellor Rishi Sunak will come under great pressure to raise taxes like CGT in a Budget Mark Two in order to start plugging the huge pandemic derived hole in the national accounts. Were Mr Sunak, as has been recommended, to slash the CGT exemption allowance and raise the charging band rates *before* the compensation payments are finally made, thus subjecting the compensation pots to huge CGT charges, then all hell would break loose.

Jo Wakeman, HMRC's Large Business Director, has told Esop beneficiaries in e-correspondence that HMRC cannot comment directly on the situation until the case is settled. It believes that it would be dangerous for tax revenues in general were it to waive tax liability for the compensation payments, because it would create a precedent which others might exploit. For their part, the beneficiaries argue that the Roadchef case is unique and it would be extremely difficult for others to get their tax bills nullified on the back of it.

EVENTS

Last chance to register for share plans symposium

There is still time for you and/or a colleague to register for the Centre's fourth British Isles share plans symposium, which will be held online over three days later this month on **March 23, 24 & 25.** The online format comprises three, hour-long, live webclaves with the speaker panel discussing employee equity topics of the day with delegates inter-acting live. Supporting material for each webclave, featuring speakers' pre-recorded presentations, is being released the day before the relevant live panel session. The final programme looks like this:

Day 1 - All-employee share plans and share plan regulation. Speakers: Baker McKenzie; Computershare; EQ; and Pett Franklin

Day 2 - Executive equity incentives. Speakers: Deloitte; Linklaters; and Willis Towers Watson.

Day 3 - Opportunities for SME companies. Speakers; Bird & Bird, David Craddock Consultancy Services; Doyle Clayton; and Rm2 Partnership.

Programme segments will cover the impact of the pandemic on all-employee share plans and on executive remuneration trends.

John Pymm, md of executive compensation and global head of natural resource, industry talent & reward at Willis Towers Watson, is among the speakers in the Executive Reward segment of the programme on: *Top pay, incentives and the pressing environmental, social and the corporate governance (ESG) agenda*. An employee share plan case study, promoted by Centre member plan administrator Computershare will be introduced by Stuart Bailey. In the executive equity segment, Bradley Richardson of Linklaters will address: *The changing landscape of investor and corporate governance expectations regarding executive equity reward*. He will focus on: *regulatory developments impacting remuneration in the FS sector; *listed company investors and corporate governance expectations are catching up, as concepts the FS sector has been dealing with come to the fore and *what listed companies can learn from the challenges and developments faced by the FS sector in share plan design and operation. Deloitte's Liz Pierson will ask whether recent changes in the UK corporate governance code go far enough on the executive reward front.

The event will be chaired and introduced by Centre founder and chairman, **Malcolm Hurlston CBE,** who will address: *How all-employee share plan schemes could be re-set to make them more popular with companies and employees?* Other speakers at the symposium include: Colin Kendon, partner (employee incentives) at Bird & Bird, who will deliver a frank review of the popular Executive Management Incentive (EMI) share options based approved scheme being operated by more than 11,000 UK SMEs. During his tour of the 'ins and outs' of the HMRC tax-advantaged scheme, Colin will talk anecdotally about the use of 'Exit Only' EMIs. David Craddock will explain how SME companies are valued, so that employee shares can be issued. He is Centre representative as well as technical secretary to the ground-breaking Share Valuation Worked Examples Group. Baker McKenzie's Jeremy Edwards, partner and head of the employee benefits group, will examine the practicalities of easing a cash flow crisis by paying employees in shares rather than cash; Jennifer Rudman and Graham Bull of EQ, formerly Equiniti, will ask: *How do you ensure that all employee plans (Sharesave and SIP) continue to be relevant and provide benefits for today's workforce?* Garry Karch, of Doyle Clayton, a leading Esop banker in the UK, will explain How Employee Ownership Trusts (EOTs) are structured and financed. Jane Jevon of Pett Franklin takes the dust covers off the Company Share Option Plan (CSOP), the forgotten share scheme; unlocking its potential and avoiding its hidden pitfalls. Robin Hartley, a senior associate of RM2, will discuss how best to structure and install growth shares in companies. The programme can be viewed on the events page at www.esopcentre.com. The main event co-sponsor is **Ocorian**, the independent Channel Islands based provider of corporate and fiduciary services, which offers share plan sponsors expert guidance on installing and operating employee equity schemes for companies of all sizes.

Attendance Prices: Delegates from share plan issuer companies, large or small, are welcome to attend **free of charge**, though each must register their planned attendance in advance. Prices for all other delegates have been ***reduced*** to reflect the enforced change in format: Practitioners: members pay £250 and non-member practitioners £425. Trustees: members pay £225 and non-member trustees £395.

Speakers needing to update their presentations should inform Fred Hackworth at: fred_hackworth@zyen.com. For all other enquiries, including attendance logistics and reservations, contact juliet_wigzell@zyen.com or call +44 (0)20 7562 0586.

***Newspad* Awards**

Results of the judging for the 2020 *newspad* all-employee share plan awards will be announced at the end of the second day of the Centre's Share Plans Symposium. These awards recognise the achievements of companies who offer employee share plans and hold up best practice models for other companies to follow. Exceptionally, the latest awards will reflect the challenging circumstances with a new category focussing on how share plans are adapting to the Covid crisis.

Google, Nokia, Telefónica, easyJet, Unilever, BP, BAE Systems, Reckitt Benckiser, Tesco, Marks & Spencer and **Dixons Carphone** are all recent award winners.

Webinars:

Esop sofa – hot topics from Newspad review: The latest Esop Sofa webinar was led bv **Darren Smith,** now national sales manager at **YBS Share Plans**, with assistance from **Peter Smith**, head of future planning at YBS. They were joined by panellists **Amanda Flint**, head of corporate reward and executive compensation at **Mercer** and by **William Franklin** partner at **Pett Franklin.**

Smaller quoted companies are putting in share plans for the rank-and-file first off, as a priority, instead of giving preference to awarding executive equity incentives, said Darren, from YBS Share Plans. More packages of free shares were being awarded to employees – often as a reward for their efforts during the pandemic. Interestingly, international share plans were back in fashion, with UK companies extending or introducing share plans for as 10-20 employees in some jurisdictions, he said.

Amanda Flint of Mercers reported that many more identical employee equity schemes were being planned for overseas employees because there was a: '*We're all in the same boat – we've all suffered worldwide,'* sentiment – a kind of family feeling.

Interest in the Share Incentive Plan (SIP), *which is exempt from CGT charges,* was really picking up, said Darren. The Office of National Statistics had calculated that the average UK household had been saving an extra £182 per week, as a result of the pandemic lockdowns, said Peter. This compared to the average £158 per month put into SAYE-Sharesave schemes by employee participants, so we only needed to persuade employees to save an extra £10 per week, which would represent a real jump in commitment, he added.

Asked about the post Brexit scenario for share plans, as discussed in *newspad,* Amanda said that dealing with the EU as a bloc was quite easy, but fewer American companies now took the view that the UK was a springboard for the EU. "*In terms of operating share plans, we are in a holding pattern at the moment,*" she said.

The panel discussed the recent *newspad* story about how EU airline foreign ownership rules were forcing airlines like *RyanAir, easyJet, Wizz Air* and *BA* owner *IAG* to cancel the voting rights of UK shareholders, including employee shareholders. This opened out to a discussion of the wider threat to shareholder voting rights – for example the government consultation on proposed changes to the voting rights attached to different share categories, which would have implications for employee share ownership. The fact was that many constituent companies in the FTSE100 index did not want to cede any control to employees.

Peter said that many categories of UK employees, notably in the public sector, missed out on the advantages of participating in employee share schemes. Remote working, necessitated by the pandemic, was hardly conducive to share plan participation, because online working might eventually lead to many being re-categorised as 'self-employed' and, as such, ineligible for employee share schemes. Employee share ownership, he said, underlined the importance of people working together. The Esop Sofa was chaired by **Alderman Professor Michael Mainelli,** executive chairman of the **Z/Yen Group**, which operates the **Esop Centre** chaired this webinar.

(2) Beyond Brexit: EU-UK social contribution rules

The last minute EU-UK Trade and Cooperation Agreement contains a framework agreement for the future treatment of employees through a Protocol on Social Security. It put in place measures to ensure that social security benefits are coordinated and protect individuals (and their employers) against double social security contributions. However, employers sending employees from the UK to the EU and the EU to the UK still face more difficulties than existed under the EU regulatory framework (*which ceased to apply from December 31 last*). **Jeremy Edwards** partner and head of the employee benefits group of **Baker McKenzie** in London and **Don-Tobias Jol**, partner within the Amsterdam global compensation tax practice of **Baker McKenzie** explored the implications from both a UK and Dutch perspective. The main takeaway from their webinar was that by last month, most of the social contributions arrangements – the export of benefits and aggregation of benefits - had been settled, but some benefits, such as medical, compensation and family benefits were not covered by the protocol. However, the French had slipped in extra social contributions from UK expat employees who worked there.

Mr Jol explained that under Dutch law, UK employees seconded to work in Holland were only covered by mutual social security rights for two years, but thereafter they would have to pay contributions to the Dutch Exchequer if they remained working in Dutch territory. Some British companies were considering *Channel Hopping* so that key ex-pat employees could be re-registered for a new two year period of exemption, after a brief stay back in the UK, but the authorities were alive to this ruse, he said.

Mr Edwards advised companies and relevant executives to consult the UK government's social security guidance, which was "really helpful."

Subject to transitional rules, if a UK employee is sent to work in an EU country this year (after Jan 31), UK employee and employer national insurance contributions (NICs) can continue to be paid and no social security will arise in the EU country, provided that *the posting will not exceed two years; and *the employee has not been sent to replace another detached employee. Similarly, if an employee from an EU country is sent to work in the UK, no NICs will arise in the UK and social security will continue to be payable in the employee's home country provided that the conditions above are met. The UK has negotiated a separate social security agreement with Ireland, which contains a detached worker exemption. Depending on the circumstances, it may be possible to apply the detached employee exception under the Irish agreement for longer than two years.

MOVERS AND SHAKERS

Louise Drake left YBS Share Plans on February 26. "*It's **all good news** -I am taking (very!) early retirement, so from March onwards, I will be a lady who lunches at a social distance with a Cockerpoo called Harry!,*" Louise informed her clients. YBS Share Plans corporate relationships manager Darren Smith has stepped into her shoes as national sales manager. In addition, **Beverley Johnson**, who has been working a three-day week in recent years, will be retiring from March 30. Cathy and Michael will continue to lead the existing business sales team and Garry the operational teams.

***Sionic** announced that two senior members of staff, managing partner Gilly Green and partner **Shelley Doorey-Williams** from the firm's wealth management division, will now be part of the Sionic-Jersey leadership team. The duo will work alongside Paul Bratch, a managing partner and original founder of the Jersey operation. This move marks a significant increase in the range of advisory and consulting services Sionic will offer to the Jersey market, including corporate governance and board effectiveness reviews, regulatory services, business integration, transformational change management and digital transformation.

*Centre trustee member **VG** appointed **Sheena Huggett** as senior manager to further support the expansion of VG's private client team. Sheena has 15 years' experience in managing a complex portfolio of clients, including international ultra-high net worth individuals and corporate clients; she administered a range of entities holding global assets such as high-end real estate, large investment portfolios and art collections within trust, company, limited partnership, EBTs and charitable structures. She brings extensive experience in risk management having managed complex litigation in the London High Court, the BVI court and the Jersey Royal Court. Welcoming Sheena, Paul Roper, director, said: "Having worked alongside Sheena for over a decade, I have total confidence that her knowledge and expertise, strong affinity with clients and their families, in addition to her versatility and skill set in dealing with complex client matters, will be a welcome addition to our growing team." Christie Barette, formerly of Intertrust, joined VG as a manager within the wealth structuring team. Ben Schofield is promoted to manager within the same team. One of VG's longest standing team members, Paul Bulstrode, was appointed manager (real estate and Islamic finance funds).

PRIVATE EQUITY

US private equity bidder for Equinti Group: Centre member **Equiniti** faced a takeover attempt by US buy-out investor fund **Siris Capital**, which apparently tabled a 170p per share cash offer, valuing EQ at £600m, reported *Sky News*. The offer represented a premium of c 45 percent to Equiniti's share price before the bid went quasi public. Equiniti, which employs around 5,000 people worldwide, runs quality share plan administration and share registry services for 70 percent of the top FTSE100 companies. It refused to comment on the bid speculation. Were this approach to succeed, it would be another loss of a listed company being taken private.

Siris Capital, based in New York and in Palo Alto, specialises in high tech and telecoms private equity investing. It has been nosing around Equiniti for many months, according to *Sky News*, but its approach was delayed by the pandemic. Equiniti witnessed the unexpected departure in January of its then ceo, Guy Wakeley, who took the company public in 2015. He was being replaced by Paul Lynam, who resigned as ceo of Secure Trust Bank in order to take on the new job. Equiniti has had recent owners such as Lloyds Banking Group and Advent International, the private equity firm. Equiniti provides other services to corporate clients, such as investor relations management, pensions administration and helping to manage IPOs.

*__Asda takeover threatens share schemes__: The restless Blackburn based **Issa** brothers, who made billion-pound fortunes running petrol stations, claimed they had completed the deal to co-buy **Asda**, Britain's third-largest supermarket chain, from US owner **Walmart** for £6.8bn. More than 25,000 employees who participate in its annual Sharesave invitation are seriously worried that the prospective new owners will close their share schemes and not replace them. They are posting their concerns about the future of their share schemes on websites. According to employees posting on the website *Reddit,* their Asda/Walmart share schemes were about to terminate. One said he/she had seen a notice on the wall of their Asda store office saying that the Eso schemes would be wound up once the takeover was finalised. The speculation was that their share schemes would be replaced by enhanced cash bonuses. Senior managers at Asda are believed to hold restricted stock units in Walmart, which will be cashed out once the takeover is approved by the CMA. Centre member **Computershare**, which administers the Asda Sharesave, told *newspad* that it was not at liberty to discuss clients' share plans. However, the regulator, the Competition and Markets Authority (CMA) ordered Asda's acquirers, **Euro Garages (EG)** and private equity partners **TDR Capital,** not to buy Asda's 323 petrol stations for £750m while the CMA investigates the proposed deal. The Issa brothers want to add Asda's petrol pumps to EG Group's portfolio of more than 6,000 petrol stations worldwide.

Post takeover, Walmart will retain a small stake in Asda, for £500m, along with a seat on Asda's board. Then the new owners will sell off parts of Asda to raise the rest of the purchase price, a strategy condemned by the trade union GMB as *asset stripping*. Asda will sell its warehouses and distribution system for £950m. It will still use them, but in future, it will have to pay rent to their new owners.

With the exception of Centre member **KKR,** private equity houses are not usually interested in all-employee share ownership schemes, though the combination of private equity and Eso is much more common in the US than in the UK. After all, having Eso schemes dilutes ownership, which is not what private equity is about. When private equity secures control of a company, it naturally closes all existing employee share schemes, but doesn't often replace them with ***new*** share schemes, often because it is taking the company private.

This is why the Centre is concerned about future opportunities for the expansion of all-employee share schemes. Year by year, the pool of listed (quoted) UK companies grows ever smaller as more and more ex listed companies are taken private. Already, by 2019 there were 118 private equity funds registered in the UK, many of them researching juicy UK quoted target companies to attack.

Asda, a business which had been debt-free, will be weighed down by billions of debt, used to finance the bid and shorn of its cash generating petrol forecourt stations and without its distribution centres, raged City commentator Ben Marlow in *The Telegraph.* He said the financial engineering was a "*trick straight out of the private equity playbook, which wasn't how it was billed when the bid was unveiled in October last year. All the hype about the hardworking sons of Asian immigrants had conveniently ignored the fact that the Issas were basically private equity by another name and* UK companies are falling like flies," he added

*Generator and plant hire firm **Aggreko** is the latest listed company to attract private equity, in this case a consortium led by TDR Capital and Florida based infrastructure fund I Squared Capital. "*They and their colleagues are picking off quoted UK companies one by one, steadily reducing the pool of quoted companies,"* added Marlow. Other UK companies acquired by private equity include:

vehicle breakdown services, the **AA, Aston Martin**, **notonthehighstreet** and **Saga.** Online personalised gift retailer notonthehighstreet was bought by US private equity firm Great Hill Partners for around £150m, after seeing annual sales jump 50 percent thanks to the surge in internet shopping. Green Hill will take a majority stake in notonthehighstreet, with existing investors Burda Principal Investments and Industry Ventures remaining as shareholders.

UK CORNER

Employees reduce hours and pay to save jobs
Airbus employees in Flintshire voted to reduce their working week by up to ten percent in a bid to save jobs. The proposal came after the firm announced it was looking to shed 1,435 posts at its Broughton plant. A ballot of up to 3,500 Unite union members was carried out at the site, which employs 6,000. Airbus said it was delighted members had supported the proposal which was *"rooted in helping save jobs"*. Unite said voting in favour of the change had removed the possibility of compulsory redundancies. Many employees opted for schemes including voluntary redundancies, but between 350 and 400 posts are still under threat. Airbus Broughton head of plant Jerome Blandin said: "*The shorter working week increases our flexibility and will help us manage the downturn in demand. We look forward to continuing to work in partnership with the trade union on the implementation of the new working arrangements at the appropriate time*." Unite said members had voted "*overwhelmingly in favour*" of the plan. Regional secretary Peter Hughes said: "Whilst it is not ideal that our members have had to commit to a shorter working week, this decision should be viewed against the background of an unprecedented crisis in global aviation. *This solution to the crisis faced by Airbus is one that could be deployed to other manufacturing sites across Wales in order to avoid large scale redundancies. These unprecedented times require creative solutions."* The vote means employees will see a reduction in working hours of between five and ten percent each week. Union sources previously said Airbus would make up a third of the shortfall in salaries, although employees would lose about 6.6 percent of their pay. The 12-month arrangement would be implemented when the furlough scheme comes to an end. Last April, 3,200 staff were placed on the furlough scheme.
*About one-third of UK companies imposed a wage freeze on their employees in the three months ending January, said payroll firm XpertHR. It found that among recent pay settlements covering 130,000 private sector employees, 33 percent of agreements showed no pay rise at all.

Quoteds give full-time staff Covid share bonuses
Two quoted companies, **Flutter Entertainment** and **Lloyds Banking Group,** announced equity award bonuses for all full-time staff for their extra efforts and loyalty during the pandemic emergency. Leeds based gambling company Flutter Entertainment, which owns *Sky Bet*, *Paddy Power* and *Betfair* gave its 14,000 employees a £1,000 bonus each in shares. Peter Jackson, group ceo said: "To recognise the hard work, focus and resilience over the course of an incredibly challenging year, we have gifted all colleagues a share award worth £1,000 giving them a stake in the business." Lloyds announced that it would pay each permanent staff member £400 worth of its shares that will vest in three years' time, in recognition of their work last year and to ensure staff had a "*personal interest in the longer-term success of the group."* Outgoing ceo António Horta-Osório was paid £3.4m last year, despite waiving a bonus worth up to £1.8m, in light of the pandemic. Formal bonuses are likely to restart this year as the economy recovers from the pandemic. The bank is to resume dividend pay-outs this year. Lloyds is to reduce its office space by 20 percent over the next two years, after 77 percent of its 68,000 employees said they wanted to work from home for three or more days a week.

Sale of Bradford & Bingley and Northern Rock
The Treasury announced the £5bn sale of two state-owned building societies **Bradford & Bingley** and **Northern Rock** following a competitive auction. They had to be rescued by the taxpayer during the 2007-8 financial crisis. Their remaining mortgages and loan portfolios were sold to a consortium comprising **Davidson Kempner Capital Management and Citibank.** The sale is of great interest to employee shareholders who believe they were badly treated when their employers had to be bailed out (*see chairman's column in this issue).*

Sun Life research on pandemic pay cuts
Research by **SunLife** implied that the over-50s have suffered significant pay cuts since the pandemic began. A poll conducted among 1,051 respondents aged 50-plus revealed that 30 percent had seen their hours or salaries cut; 25 percent had been furloughed, and one-in-10 had lost their jobs. More than one in five admitted that they had resorted to asking friends and family for financial support, and one-in-six said they had either their working hours or their total pay cut during the pandemic, reported *Employee Benefits.* All-told, the research revealed that as a result of pay cuts, a quarter of respondents said they were now financially worse off due to the pandemic. Eleven percent of the over-50s said they had either stopped or reduced their pension contributions from an average of £75 per month to £35 per month.

The man who paid himself US$479m

Billionaire hedge fund manager Sir Chris Hohn paid himself $479m last year after his **Children's Investment (TCI) Fund**, recorded a 66 percent jump in pre-tax profits to $695m. It was the highest annual amount ever paid to one person in Britain and equates to *£940,000* a day. It is *9,000* times the average UK salary and 1,700 times the amount paid to the PM, Boris Johnson, reported *The Guardian.* His reward was paid in dividends from TCI, the hedge fund Hohn set up in 2003, to Hohn's personal company TCI Fund Management (UK), according to a Companies House filing. Hohn is the son of a Jamaican car mechanic who emigrated to the UK in the 1960s. TCI, which holds big stakes in Visa, Microsoft, Google's owner, Alphabet, and a Canadian oil transportation railway company, recorded pre-tax profits of $695m, up from $420m the year before. The parent is The Children's Investment Fund Management (Cayman) Ltd, an entity registered in the Cayman Islands.

Upper Tribunal rejects ER claim

The Upper Tribunal (UT) denied a claim for Entrepreneurs' Relief on the sale of shares by a trust. The claimant should have been a qualifying beneficiary *throughout* the one-year period when the personal company condition was met, reported accountants *Ross Martin*. In July 2015, three members of the Skinner family (the Beneficiaries) were each given an Interest in possession in the whole of the settled property of three separate family settlements. The Beneficiaries had each held 32,250 C ordinary shares, with full voting rights, in DPAS Ltd since 2011, such that DPAS Ltd was a 'personal company' of each of them. In August 2015 Quentin Skinner gave 55,000 D ordinary shares in DPAS to each trust. Only four months later, in December 2015, the Skinner Settlements disposed of the D shares and claimed Entrepreneurs Relief (ER), now known as Business Asset Disposal Relief (BADR)**.** HMRC denied ER on the basis that in each case the beneficiary had not been a Qualifying Beneficiary (QB) for at least a full year before the shares were sold. The trustees appealed. The First Tier Tribunal (FTT) had allowed the appeal, finding that once the personal company ER conditions are met in a personal capacity, additional shareholdings which are owned by a trust of which the individual is a QB, will automatically qualify for ER even if they not been a QB for one year. HMRC appealed to the UT.

Section 169J TCGA 1992 allows ER (now BADR) to be available on the disposal of certain trust assets. A QB must have an interest in possession, not for a fixed-term, in the *whole* of the settlement assets being disposed of, for ER to apply. On a sale of shares, throughout a period of one year (two years from April 6 2019) ending within the three years prior to disposal: *the company must be the QB's personal company (which is trading). *the QB must be an officer or employee of the company. The UT allowed HMRC's appeal, denying ER, finding that: *The only tenable construction of s.169J(4), when read with s.169O, is that the individual must be a QB throughout the one-year period at a time when the company is the beneficiary's personal company*. In *HMRC v The Quentin Skinner 2005 Settlements [2021] UKUT 0029,*

Share awards a good tool in acquisitions

Cheap cash combined with the risk of tax hikes was fuelling a rush of corporate transactional work at the moment and share awards could be a useful tool to lock in the star players, wrote Catherine Ramsay of **Gannons Solicitors.** Employee equity was a neat solution as, if structured properly, the tax rates were much lower than payroll taxes on cash salaries. Whereas a cash salary could mean up to an effective tax rate of 47 percent for the highest earners (and 13.8 percent employer NICs at the other end of the scale in certain circumstances (such as EMI plans) employers may be able to offer a ten percent tax rate which didn't kick in until the underlying shares are sold (often on an exit). There had never been a better time to consider using employee equity to attract and retain key talent in a business, wrote Catherine in a Gannons blog: "Salary costs are often the main expenditure for companies and employee equity can not only lessen that burden, but increase productivity and motivation which is needed now more than ever. The sentence *we are all in this together* not only applies to the pandemic but also to the spirit of employee share plans. With many businesses folding, the time may be ripe to secure key hires and seize a larger share in the competitive market where your business is robust enough to ride the pandemic out."

Catherine said that buyers could pick a number of strategies, from delayed reward through to extra reward based on hitting targets. If there were different share classes, not all shareholders had to be treated equally. Some employees may be due a pay rise soon or were asking for a rise due to increased financial difficulties. On the flip side, many businesses would not be able to afford to pay current salaries.

Not only was employee equity a motivational reward for hard work, but it promoted company loyalty, often linked to company performance and remaining with the business. A share option was a one way risk and an employer could set flexible boundaries in what they required for the option to convert to shares e.g. future performance of the company and remaining in employment with them. In an ideal world these awards would be granted under an EMI plan as EMI options brought certainty in uncertain times that the price at which an option was awarded couldn't be challenged on exercise. However, EMI was not always available especially for venture capital backed companies, as often one of the legislative proscribed tests was not met. There were other tax-advantaged share plans available such as Company Share Option Plans (CSOP) Share Incentive Plans (SIP) and (SAYE) For smaller enterprises, growth shares provided much more flexibility as there were no legislative proscribed tests to be met and they were very tax efficient. With growth shares, a new class of share was introduced which had little to no value upfront but which could share in the future growth of the company. Growth was usually linked to 'hurdles' such as company performance or exit value. As growth shares did not participate in the current value of the company, they could be acquired at a lower value than the current share capital of a business and provided a real shareholding from the outset for participants, she added.

Covid unemployment

The UK's official jobless rate rose to 5.1 percent in the three months to December, the Office for National Statistics said, the highest for almost five years. The latest numbers showed 726,000 fewer people were currently in payroll employment than before the start of the pandemic. Almost three-fifths of this fall comprised people younger than 25 years. The ONS said 1.74m people were unemployed in the October to December period, up 454,000 from the same quarter in 2019. However, the UK's statistics body said that there were some "tentative early signs" of the labour market stabilising. There was a small increase in the numbers of employees paid through payroll over the past couple of months. In January 2021, 83,000 more people were in payroll employment when compared with the previous month. The ONS said underlying wage growth was likely to be under three percent. Smoke and mirrors continued to obstruct a clear view of UK's unemployment crisis, as an estimated four million plus jobs remained protected by the chancellor's jobs furlough scheme. The ranks of the self-employed had fallen by a further 400,000.

*Younger employees are bearing the brunt of the jobs crisis inflicted by the pandemic, because they tend to work in sectors that have suffered most from physical-distancing restrictions and shutdowns – such as retail, hospitality and leisure. Low-paid staff, and employees from black, Asian and minority ethnic (BAME) backgrounds had suffered a disproportionate impact, stoking fears that a lasting legacy of the crisis will be to entrench inequalities. As of mid-February this year, around 4.5m employees were still receiving taxpayer job support. The scheme, due to run until April – and probably until the summer - has cost the Treasury almost £50bn so far. Billions more has been spent subsidising lost income for self-employed people, but even so, millions of people have fallen through the cracks and have received no emergency Covid job support.

SIP half-way house to EOT
Employee ownership trusts (EOTs) are becoming increasingly popular across many business sectors. Even the traditionally conservative legal is starting to embrace this business model pioneered by *Aardman Animations* and *Richer Sounds*, said Centre member **Rm2 Partnership**. *Crossland Employment Solicitors* recently announced their conversion to employee ownership – and RM2 advised them on their transition. Selling a business to an EOT is the perfect exit route for some business owners. However, what if the owner is keen on the concept of wider employee ownership, but not quite ready to make that significant jump of allowing control to pass to the employees? There's an alternative plan available for the business owner who likes the idea of all employees benefiting from share ownership without the transfer of control associated with the EOT. As well as delivering equitable share ownership for employees, the Share Incentive Plan (SIP) carries the potential for significant tax advantages: *For selling shareholders: an existing shareholder can sell shares into a SIP trust at market value, and may claim "rollover relief" from capital gains tax (CGT). For the company: upfront corporation tax deduction available If the company has made a payment to enable the trustees to acquire shares in the company; zero employers' NICs on the award of shares to employees. For the employees: zero income tax and NICs on the award of shares (even if shares are gifted to them); zero CGT on the sale of their shares. Using the SIP, employees can be awarded up to £9,000 worth of shares in their company each year, using a mix of free shares, and shares bought out of pre-tax salary – though that's a maximum amount, and owners can award fewer shares if preferred.

Institutional guidance on 2021 agm voting
The **Investment Association** (IA) warned quoted companies not to pay bonuses to their directors if they had taken taxpayers' money in the form of the government's job protection furlough payments. The IA, whose members include 250 City funds, told companies that it did not want to see any executive catch-up bonuses or large basic salary increases this year. Any bonuses awarded by companies taking furlough payments would by closely scrutinised and a high bar would be set for approvals. The IA's Andrew Ninian said that it expected them to treat executives and the wider workforce consistently and not as two distinct groups – they both had to share the pandemic pain. The IA will issue *red top* warnings to investors before agms where particular companies were still giving executives more than 15 percent of salary pension contributions and who had done little or nothing to reduce payments to percentages in line with the broad mass of their employees.
Aviva wrote to the chairs of companies in which it invests setting out its focus for 2021 and published its 2021 Global Voting Policy. It highlighted the issues that will guide Aviva's voting intentions which include:

- Stakeholder business models – companies must ensure a link between its corporate purpose, strategy, stakeholder welfare and board decision making.
- Executive remuneration – executive incentives should be aligned with shareholder outcomes. Management should not benefit from unjustified windfall gains on vesting of long term incentive awards linked to market sentiment. There should be a commitment to paying employees at least the living wage.
- Diversity and social inclusion – the board should reflect gender, ethnicity and social back grounds in its makeup. The board should have at least one racially diverse director, and there should be a strategy to increase the number of ethnically and socially diverse employees in senior management. Companies should publish ethnicity data, including ethnic pay gaps.
- Climate change – companies should adopt a target to achieve net-zero emissions by 2050 and integrate climate goals into strategy and financial targets. Companies should publish a transition roadmap including short and medium-term

climate targets and report on progress using the Taskforce on Climate-related Financial Disclosures framework and consider providing investors with an advisory vote on the report.

Effective dynamic leadership – companies should ensure boards and senior management teams have the right balance of skills and experience, foster a corporate culture that is dynamic and forward-looking; be bolder in taking decisive action to revise strategy, reorganise or reallocate capital to maintain competitiveness, regardless of short term repercussions.

*Women now make up more than a third of top jobs at the UK's 350's largest firms, with the percentage of women on boards rising 50 percent from 682 to 1,026 in five years, said the government-backed Hampton-Alexander Review, launched in 2016 to encourage UK-listed companies to appoint more senior women. It said this showed "a dramatic shift in representation at the very highest levels of British business".

Share plans and Brexit: Broadly speaking, there was little immediate change to the operation of equity incentives, said **Sonia Gilbert**, partner at **Clifford Chance**, in a review of post Brexit transition impacts. However, the biggest headache remained the uncertainty over data transmission, including share plan participant information, from EU jurisdictions to the UK under the terms of the General Data Protection Regulation. "*As a third country, the UK will need to demonstrate that it has an 'adequate' framework for personal data protection and the European Commission will need to give an adequacy decision. This has not happened yet*," wrote Sonia. "*The Trade and Co-operation Agreement now allows for a four month grace period on this issue (which can be extended to six months). The hope is that this period will allow for an adequacy decision or other solution to the issue*."

While checking participant documents were in good shape was a good idea, no amendments or changes in operation should be needed to incentive plans themselves in the short term, said Sonia. However, it did make sense for any new grant documents, new plan rules or employee communications to be reviewed and amended as required. For example, companies would want to make it clear that where UK law diverged from EU law in the future, then any references to EU legislation would be interpreted as meaning the UK's equivalent laws. The Clifford Chance bulletin said that amendments had been made towards the end of transition to ensure that the *Prospectus Regulation* worked following transition. The prospectus exemptions relied on to date to offer share plans in the UK would,

helpfully, continue to be available, she said. The *UK Market Abuse Regulation* may be reviewed in future, but there was no immediate impact arising directly as a result of Brexit for incentives. The 'EU MAR' had been updated to reflect minor changes to timings on RNS notifications. These changes will be made to 'UK MAR' when the Financial Services Bill 2019-21 is enacted. The Trade and Co-operation Agreement had set out a protocol for social security co-operation in the EU/UK which was relevant for companies with internationally mobile employees. It maintained the principle that only one state's legislation for social security applied at a time so that, for example, someone working in the UK and in an EU member state, should only pay social security in *one* country and not in both. This broadly preserved the status quo for the time being.

*About 1,000 EU finance firms plan to open offices in the UK for the first time, according to financial consultancy Bovill. A Freedom of Information (FOI) request by the firm found that of 1,500 money managers, payment firms and insurers who had applied for permission to continue operating in the UK after Brexit, *two-thirds had no prior physical operations in the UK*. "Many of these European firms will be opening offices for the first time, which is good news for UK professional advice firms across multiple industries including lawyers, accountants, consultants and recruiters." said Mike Johnson, managing consultant at Bovill. There had been worries over how the UK's financial sector would be affected by Brexit. London has been ousted by Amsterdam as the largest share-trading centre in Europe as Brexit-related changes to finance rules came into force. The highest number of applications came from companies in Ireland, France and Germany.

Post Brexit trade – 'Dante's fifth circle of hell': "January was like Dante's fifth circle of hell" for importers and exporters unable to move supplies because of new red tape, said Ben Fletcher, policy director of **Make UK,** which represents manufacturers. One major car manufacturer had "1,000 cars sitting in their car park partially built because they could not get the parts in time," said Fletcher. "They said this had never happened before." A survey by Make UK of its members showed that more than 60 percent of companies who had claimed they were ready for Brexit, now experience disruption and are *finding supply chains significantly impacted. There is real anger and incredible frustration for people who either import or export that they are simply not able to move stuff. It is just incredibly difficult to get the paperwork right and there have been very low levels of support from government,*" added Mr Fletcher. He was commenting as the Cabinet Office claimed the flow of cross-channel freight was much better than anticipated with less than three percent of trucks turned away for not having the paperwork or Covid tests required, and no expectation now that the worst-case scenario it had modelled of 7,000 trucks queuing in Kent would be realised. The **Road Haulage Association** said that 65 percent of lorries leaving the UK from Dover were empty because drivers were worried about getting stuck in the UK by new customs red tape and by the repeated need for Covid tests. One logistics company reported that some customers, including one large car firm, were paying for empty trucks to return to the EU without cargo to ensure they were not delayed at the frontier and would have time for a second or third delivery back to the UK each week. The biggest hit to business is the new rules of origin requirement, which will have a permanent impact on trade. Previously, Brexit goods coming from the EU did not need to be certified as made in Britain or made in the EU to be sold freely within the single market. Since January the provenance of all goods must be documented. A circuit board from Korea in a gadget assembled in Germany, metal from China in a bicycle made in Italy or textile from Morocco in a shirt made in Portugal could mean the difference between no tariff and a tariff that can range from 6.5 percent duty on plastics to 1.7 percent on vacuum cleaners, 12 percent on coats and 14 percent on bicycles. The **Food and Drink Federation (FDF)** said the issue was compounded by a lack of notice and sheer lack of experience of customs officials on both sides of the border. "*One port requires every document to be individually stamped. Another wants one stamp on a dozen pages fanned out and is turning people away if they haven't done it that way,"* said Dominic Goudie, its head of international policy. FDF says some fresh food exporters are facing an existential threat. Cross-channel deliveries that used to take "a couple of days are now taking five days", killing the shelf life of produce such as British sausage, said Goudie.

Make UK said that even large businesses that had spent two years preparing were scuppered by rules of origin. They complained their EU suppliers were unprepared for Brexit and had not been able to supply an audit trail for all goods. Large exporters had some idea of what they were facing come January 1, but they did not have the detail until the 1,400-page deal was published on January 26.

ESG forces itself into annual reports

UK companies with a premium listing are now required to explain in their annual reports whether their disclosures are consistent with the recommendations of the Taskforce for Climate-related Financial Disclosures (TCFD), reported lawyers **Macfarlanes.** Developments like these signal a broader movement towards embedding environmental, social and governance (ESG) issues as a permanent fixture of corporate governance, and will inevitably necessitate an enhanced focus on the quality of metrics used in executive pay. While Covid-19 has accelerated the uptake of ESG-based remuneration practices, it looks less like a fleeting trend and more like something that will stick around. Linking the achievement of ESG targets to executive pay is a logical step for companies that genuinely take these interests, objectives and risks seriously. In that sense it is no different from linking pay to financial metrics – if you want to ensure your business achieves a given outcome, only pay your people if it does. In October 2020, Centre member Macfarlanes undertook a review of the FTSE 100 companies' remuneration reports, which showed that 35 had disclosed that ESG factors had a tangible impact on executive pay. Of those, 23 had included it in their short-term bonus awards, four had included it in their LTIP and eight had included it in both. Many ESG metrics are appropriate for short-term plans such as annual bonuses. But, as familiarity with and confidence in ESG metrics develops, it may become more common to see them alongside traditional financial metrics in long term incentive arrangements, such as executive share plans. Part of this confidence can only come through a better consensus on what the suitable metrics really are. Investors want to know that such metrics are both meaningful in themselves (and don't simply *greenwash* a company's operations), and that they provide a measure of performance that can be properly compared against other companies, especially their competitors. The increasing prevalence of ESG metrics in executive pay has evolved in tandem with efforts to standardise how ESG performance is both measured and disclosed. Both the World Economic Forum and European Banking Authority recently published discussion papers setting out appropriate ways to disclose various ESG measures.

COMPANIES

***Amazon**'s founder Jeff Bezos**,** 57, will step down from his post of ceo later this year, after 27 years at the helm, moving to an executive chairman role in the autumn. He will be replaced by Andrew Jassy, currently head of Amazon's cloud computing division. Mr Bezos, worth *$190bn,* said he needed more time to explore his many other interests, including his rock company and the newspaper *Washington Post.*

*The **AA**'s shareholders approved a takeover of the roadside assistance provider after the private equity suitors overcame opposition from a major investor. The 35p per share deal was cleared by investors holding 88 percent of the shares voted, AA said in a statement. The offer from Warburg Pincus and TowerBrook Capital Partners valued the AA at about £2.8bn, including debt, according to data compiled by *Bloomberg*. The deal's most vocal opponent, **Albert Bridge Capital**, disclosed that it had sold all its shares in AA, having previously held a 19.5 percent stake under some customers' managed accounts.

*Hundreds of former **Arcadia Group** staff were poised to claim compensation after being made redundant following the collapse of Sir Philip Green's fashion empire. Two *no-win no-fee* legal firms said they had already gathered almost 200 potential claimants who they say may not have been properly consulted before losing their jobs. Shopworkers union, **Usdaw**, said it was consulting with members and would consider seeking compensation for those affected. The union is already backing a similar claim for former Debenhams employees. Up to 12,000 people are set to lose their jobs at Arcadia after its main brands, Topshop, Topman, Miss Selfridge, Wallis, Burton and Dorothy Perkins, were sold off to online specialists **Asos** and **Boohoo**, who have not taken on the group's hundreds of stores. There is a legal duty to consult collectively with staff in shops or other locations where more than 20 redundancies are made. Employees who were not properly consulted are entitled to a *protective award* of up to 90 days' wages, capped at £4,353 each, if an employment tribunal finds that a company has not conducted a proper consultation process with them ahead of their dismissal. Green's family is likely to receive £50m from the sale of Topshop while more than 1,000 suppliers to the high street fashion chain are set to get less than one percent of the money they are owed. A report by administrators into the collapse of *Topshop* and *Topman*, seen by *The Guardian,* revealed that the chains owed almost £200m to 1,155 unsecured creditors, who include clothing suppliers and landlords. This figure does not include £44m tax owed to HMRC. As secured creditors, the Green family's Aldsworth Equity, which is owed £50m for an interest-free loan it made to the group in 2019 at the time of an emergency restructure, will be paid before any funds are distributed to other creditors. Topshop's parent, another secured creditor, is set to receive £327.6m of the proceeds with up to £210m of that cash potentially set aside to reduce Arcadia's pension funds *£510m* deficit.

*Covid vaccine maker **AstraZeneca'**s ceo Pascal Soriot received total reward of £15.4m last year, of which only £1.2m was basic salary. His annual bonus went up by 20 percent to £2.32m, but he won a share package worth £11m from a maturing three-year LTIP, plus £400,000 more from a deferred bonus scheme, paid out for exceptional performance. Under a new remuneration policy at AstraZeneca, executive pension contributions will fall to 11 percent of base salary, in line with rank-and-file employees. Carbon emissions will play a part in determining executive bonuses, but AstraZeneca wants to increase the maximum performance share plan award for Mr Soriot from 550 percent to 650 percent of base salary. Anglo-Swedish pharma giant AstraZeneca said it was selling its Covid vaccine worldwide at cost.

***Barclays'** annual report revealed that 325 employees were paid at least £1m last year, up from 290 in the previous year. About 60 percent of them are based in the US and only one third in the UK. Barclays announced a staff bonus pool of £1.6bn for this year, up six percent on last year and £1.4m in bonuses and incentive shares for ceo Jes Staley, who earned £4m total reward last year, including a £843,000 bonus. He donated £392,000 from his income to the bank's pandemic fund, but did not waive his bonus like rivals at **NatWest** and **Lloyds**, leaving him with £3.6m. The Bank of England warned last December that it would keep a close eye on cash bonuses for senior staff, given the uncertain economic outlook. Barclays announced it was restarting dividend payments, with plans to pay shareholders one penny per share for 2020 and launch a £700m share buyback programme. Its annual profits fell 30 percent and it had to write off almost £5bn to cover bad loans.

*Semi grounded **BA** was accused of borrowing money from its pensioners - by deferring the payment of £450m in pension contributions due last year and this year - in order to shore up its pandemic ruined finances. The trustees of its New Airways Pension Scheme had reportedly agreed with BA's owner, IAG, to delay plugging BA's large retirement scheme deficit in order to help keep the airline alive.

*Oil and gas giant **BP** is giving either shares or share options to 60,000 staff worldwide in an effort to win more workforce support for its renewable energy policies. The share awards will be distributed throughout this year, but recipients will be locked in for four years before they can cash out. About 5,000 senior managers will be given options to buy BP shares at today's price in four years' time.

*Dozens of present and former employees of **Foresight Group** shared a £186m payout after the asset manager was valued at £455m in its stock market listing. The flotation made fortunes for 37 people linked with the company, including its partners, who used the IPO to cut their stakes. Centre member **Travers Smith** acted for Foresight Group on its IPO and listing on the London Stock Exchange main market. Foresight is an independent infrastructure and private equity investment manager with £6.8bn of assets under management. The Travers Smith team advising Foresight Group was led by corporate partner Andrew Gillen, assisted by Victoria Robinson and Dan Ursu. US securities senior counsel, Brent Sanders and associate, Kristen Roth, provided specialist US securities law advice. Tax advice was led by partners Simon Skinner and Jessica Kemp, senior associate Joseph Sheldrick and Hugh Brooks. Incentives advice was provided by employee equity partner **Mahesh Varia** and associate Hugo Twigg**.** Bernard Fairman, Foresight's co-founder and executive chairman retained a stake of almost 30 percent in the company, worth £149m, after the shares rose by 40p, or 9.5 percent, to 460p on its first market trading day.

*More than a third of shareholder agm votes went against magazine publisher **Future's** *value creation plan,* which awards executives and staff up to £95m annually in shares over the next three years. Ceo Zillah Byng-Thorne gets 14 percent of the plan's reward, on top of the £27m paid to her during the last six years. Her base salary goes up 21 percent and she could rake in £3.3m if maximum bonuses were added. Shareholder advisory firms criticised the pay-out trigger – total shareholder return must exceed ten percent, with the share price moving up to £19.50 – as being allegedly vulnerable to "excessive" pay-outs. In a second agm vote, 27 percent of voting shareholders rebelled against Future's remuneration report, including some believing that the publisher of *Country Life* and *Horse & Hound* had not responded fully to complaints raised at last year's agm. However, revenues have increased well beyond initial expectations.

*More than £4bn in savings belonging to 100,000 investors was transferred to brokers **Interactive Investor** following its acquisition of **The Share Centre** last year. Yet almost one third of these investors who own almost £400m between them had yet to give their consent to the transfer.

***JD Sports,** the FTSE100 retailer, announced that it is was overhauling its remuneration practices in the wake of a second successive shareholder revolt last July, on that occasion over the doubling of chairman Peter Cowgill's annual reward, to £5.6m. One third of voting investors gave the thumbs down to Cowgill's largely cash based LTIP. JD Sports promised to introduce an executive equity based incentive scheme asap.

***NatWest** cut its banker bonus pool to the lowest level since its financial crisis bailout, after recording a full-year loss in 2020. The bonus pool for NatWest bankers has been cut by 33 percent as a result, leaving staff to share £206m. A total of 803 employees earned more than £250,000 last year. The lender, formerly known as Royal Bank of Scotland, slipped to a loss of £351m for 2020 compared to a profit of £4.2bn a year earlier. The bank put aside £3.2bn to cover a potential jump in defaults because of the pandemic. Natwest, which is 62 percent taxpayer-owned, paid ceo Alison Rose £2.6m for 2020. She gave up a quarter of her fixed pay last year, which was taken out of her annual share allowance, and waived her long-term bonus for 2020 – which will be reflected in her 2023 reward. Chairman, Howard Davies, who donated part of his pay, confirmed there were no plans to extend their salary sacrifice this year. NatWest, like Barclays, is restarting its dividend after the Bank of England lifted its temporary ban on shareholder distributions in December to allow limited payouts.

*Four Ocado senior executives were awarded shares collectively worth *£116m* after its share price soared on the back of the pandemic boom in grocery home shopping. Ceo Tim Steiner gained the most from the bonus scheme which attracted a backlash from investors when it was first introduced – in order *to give directors the opportunity to share in value created for shareholders.* It is pegged to the share price, which has more than doubled in the past year, boosting the value of the company, which has never registered a profit, to £20.2bn. Steiner was granted 2.45m shares, worth £66.2m at the current share price, according to the company's annual report. The Ocado co-founder owns an equity stake in the company worth close to £600m. The group's coo, Mark Richardson; plus Luke Jensen, who runs its tech business, *Ocado Solutions*; and Neil Abrams, the company secretary, will each receive 600,000 shares, worth £16.2m under the five year so-called *value creation plan*. Shares awarded to executives cannot be sold until 2022 at the earliest. The report, which revealed Steiner earned £7m last year, was published on the same day as annual results which showed the group made a loss of £44m in the year to end November. That compares to a pre-tax loss of £214.5m in 2019. In order to *retain the right* *calibre of senior executives*, the board upped Steiner's salary from £720,000 to £738,000 for this year. His 2020 reward packet was a big step down from last year when he earned close to *£60m* after a previous bonus scheme windfall. Shareholder adviser **Minerva** said the scheme could transfer significant equity value to the ceo and considering Steiner was already a significant shareholder it was hard to accept it was there to "*attract, recruit and retain*".

*Former **Rio Tinto** (RT) ceo JS Jacques received a 20 percent rise in his reward last year, despite the Juukan Gorge disaster, in which the company blew up ancient sacred Aboriginal caves in Australia while searching for iron ore. He received total reward of £7.2m, comprising £1.16m basic salary and share awards worth £5.7m. He did lose his short term bonus and £1m worth of long-term share awards, but while on gardening leave until March 31, Jacques is set to receive further payments in lieu of notice. RT's remuneration committee chairman said that the former ceo and two other senior executives had not deliberately ordered the destruction of the caves and had done nothing illegal.

*The share price of employee share ownership icon **Royal Mail (RM)** had rocketed from just 126p to 457p in the ten months to late February. Analysts said that RM's deal with the unions, notably the CWU, to concentrate on its explosive parcels business growth was the main reason for its stellar share price rise. Postal services employees collectively hold more than 11.5 percent of its equity, following their free SIP shares awards during the privatisation process.

*Four senior executives at **Softbank** have accumulated paper profits worth hundreds of millions of dollars through an unusual incentive scheme that gave them loans to buy large amounts of the Japanese conglomerate's shares. By the end of March last year Marcelo Claure, coo, and Rajeev Misra, head of the Softbank Vision Fund, had each used about $250m of loans from Softbank to buy the company's stock, according to details of the scheme in Softbank's annual report.

*Fund manager **Standard Life Aberdeen** told staff not to expect any bonuses, or pay rises, unless they turn in stellar performances at work. New ceo Stephen Bird said SLA's bonus pool would be smaller this year as the company focuses on cost-cutting and better reward for the most talented staff. Mr Bird told staff that SLA would **not** spread bonuses around "*like peanut butter across the entire company because then it doesn't send a message. The message we have to send out there is that we recognise excellence, though unfortunately that means not everyone will get a bonus, but that's what a performance culture is.*" The new remuneration system will apply to all pay codes throughout the company which employs 5,000 in the UK.

*The **Treasury** rescinded the government's ban on public sector staff pay-offs worth more than **£95,000** per head**,** barely three months after first installing it. Public sector trade unions stopped the measure in its tracks by challenging the cap through the judicial review process. They claimed that the curb would over-ride existing contractual arrangements; would affect pension payments even for the less well paid and in any case there had been, allegedly, insufficient advance consultation. However, a Treasury spokesman, responding to the fiasco, said the government remained committed to bringing forward fresh proposals speedily in order to clamp down on unjustified farewell payments. A mandatory Treasury Direction, in force from February 12, waived the cap until the regulations were formally revoked. The government published guidance stating that any employee who was affected by the cap while it was in force *should request the amount he or she would have received had the cap not been in place by contacting his or her former employer directly.* Employers are encouraged to pay to any former employees to whom the cap was applied the additional sums that would have been paid but for the cap. Most public sector authorities and offices had been caught by the Restriction of Public Sector Exit Payments Regulations 2020. The £95,000 cap applied to any non-exempt termination payments that represent a cost to the employer, including redundancy payments; employer pension contributions, including any top up payments to fund a pension enhancement; ex-gratia sums; voluntary exit payments; a payment in lieu of notice that exceeds 25 percent of the employee's annual salary; and shares and share options.

*Taxi app firm **Uber** must classify its drivers as employees, rather than self-employed, the UK's **Supreme Court** ruled. The decision means tens of thousands of Uber drivers are set to be entitled to the minimum wage and holiday pay. The ruling could leave Uber facing a hefty compensation bill, and have wider consequences for the gig economy.

WORLD NEWSPAD

***SPAC backers turn to Europe**: A new 'blank cheque' company has filed to raise $250m in an IPO in New York in order to buy European technology companies, wrote Michael Stothard editor of the FT-supported website *Sifted*. The proposed listing of Tailwind International Acquisition (TIA) shows how the frenzy in the US around these companies — known as SPACs — is set to start shaping the European market. SPACs are shell companies set up by financiers to raise funds for unspecified deals. They are notable for offering immense returns for those putting the deals together, but are seen by some as a sign of an overheated market, with investors willing to pour money into companies that are simply a promise to buy an unspecified asset. In the US, $80bn was raised by SPACs last year, surpassing the record $13.6bn in 2019. However, this has not been such a vibrant sector in Europe. While there are said to be more than a dozen in the works that could list in Europe, including one between €200m-€300m from Lakestar, just 19 have listed in Europe over the past six years, raising only $3.4bn — according to Refinitiv. The listing of TIA is a sign that the US SPAC trend will still have an effect on the European markets, because while the vehicle will list in the US, it will target European tech deals. In the S1 filing with the US regulators, the TIA said: "*We intend to focus our search within international consumer internet and other high-growth technology companies in international markets, with a focus on the European market.*"

*The world's top 15 hedge fund managers collectively made **£16.9bn** last year. That is the equivalent of more than six Marks & Spencers or more than the gross domestic product of Iceland or Zambia, reported *The Guardian*. The best performing hedge fund manager, Chase Coleman III, founder of **Tiger Global Management (TGM)**, made **$3bn** in performance management fees and gains on his personal investment in the fund, according to a *Bloomberg* analysis of regulatory filings. Coleman's personal reward last year was more than the GDP of dozens of countries including Gambia, Bhutan and Eritrea, according to the International Monetary Fund.

***French** energy giant **Total** is offering 100,000 eligible employees and former employees worldwide the chance to buy its shares at a 20 percent discount, as part of its latest all-employee share ownership scheme. Employees who subscribe will benefit from a matching contribution in the form of a free allotment of additional shares, the number based on the amount of the personal contribution and within the limits of five free shares per employee. The subscription period will run from April 30 until May 17 and the lock-up period will be five years. The newly issued shares will hold immediate dividend rights and they will be traded on Euronext. As of last December 31, employee shareholders held collectively 6.4 percent of Total's share capital.

***France** issued transitional measures concerning private equity funds, share savings plans (PEA) and stock savings plans intended to finance small and medium-sized enterprises (PEA PME-ETI). The measures permit investments in UK securities for a transitional period running for nine months (ending September 30). For FCPR fund vehicles, the transition period runs for 12 months (ending December 31).

***Germany**'s exemption regime for third country firms is unlikely to be available to UK firms seeking continued access to the institutional market in Germany. In addition, Germany takes a stricter approach than some other EEA states as regards agents of payment services firms and e-money issuers. It will not be possible for a UK firm to continue offering payment services into Germany based on an agency arrangement with an EU-licensed institution unless the UK firm opens a subsidiary in Germany, or, arguably, at least a branch office.

***US: Harley-Davidson**'s latest strategy for reversing a multi-year slide in sales and margins included a surprise windfall for employees: The iconic motorcycle maker announced that it would issue stock to 4,500 employees, including all hourly paid factory payroll, reported *Bloomberg*. The inspiration for the grants came from **KKR's Pete Stavros**, who has developed similar employee stock-ownership programmes for companies within the private equity firm's portfolio, including capsule manufacturer Capsugel, aerospace hardware company Novaria and the quoted company **Ingersoll Rand**. The concept is that employees who have a financial stake in a company beyond a simple pay packet will be more invested in its success. They will do their jobs in a way that benefits shareholders because those same benefits are more obviously accruing to themselves as well. It's a means of restoring a sense of pride to manufacturing too, after decades of outsourcing, pension reform and other cost-cutting measures. Yet KKR has no financial interest in Harley and has no plans to take a stake; indeed, Stavros hadn't even met ceo Jochen Zeitz until recently. A mutual friend who knew of their respective interest in inclusive stakeholder management connected them. "It was out of the blue," Stavros, co-head of Americas private equity at KKR and Ingersoll Rand's chairman, said in an interview. He's heard from other private equity firms and a couple of public companies interested in learning more about KKR's experience with employee stock ownership but "Harley was the first who said: 'I believe in this. We need to do this," Stavros said. He made a presentation to the motorcycle maker's board and helped Zeitz think through how to structure the programme. There's no good reason why this practice can't be more commonplace on the factory floor, said *Bloomberg*. Zeitz has an interest in the cause of employee well-being: he is co-founder of the B Team, a group of business leaders including Salesforce.com ceo Marc Benioff and former PepsiCo ceo Indra Nooyi, who seek to redefine corporate leadership around goals of sustainability, equality and community. However, preaching the benefits of stakeholder management and putting into practice policies that can actually make a difference are two different things — especially at a company like Harley that's in reboot mode. Zeitz dismissed concerns about diluting shareholder value by issuing shares to workers as "*rubbish*." If the stock price goes up because employees are more engaged, everyone benefits. Zeitz noted that many motorcycle customers are union or factory employees themselves and would rather spend their money with a company that cares about people in those positions. It's now in companies' interest to be pro-active about improving employee relations lest the Democrat government decide for them what changes are necessary. Senator Elizabeth Warren has proposed replicating elements of the German system of labour supervisory boards and making employees responsible for electing 40 percent of corporate directors at large US companies.

***KKR** agreed to acquire industrial firm **Flow Control Group** from private equity firm **Bertram Capital**. About 1,200 Flow Control employees are expected to benefit from KKR's signature stock ownership programme, which has been implemented in its eight industrial portfolio companies and was devised by Pete Stavros. Terms of the deal were not disclosed, but the speculation was that the offer valued Flow Control at more than $1 billion, including debt. Headquartered in Charlotte, North Carolina, Flow Control provides industrial machinery and engineering systems, including pumps, valves and air compressors, to more than 10,000 customers in the US and Canada.

***Armchair investors' war with hedge funds**

The Redditors' war with Wall Street was just the beginning of retail investor power in the financial markets, said Peter Cruddas, ceo of CMC Markets, who expects the trading frenzy against shorted stocks to become the new normal. He spoke out after an army of mostly US small-time investors who use *Reddit* and other chat rooms acted together to buy, often via WallStreetBets, massive amounts of stock in gaming chain GameStop, which is a heavily shorted stock, thereby sending its market price soaring. Elon Musk, the world's richest man, expressed anger after stockbrokers pulled the plug on the frenzied trading in GameStop and other popular stocks. The fee-free apps used by armchair investors were in reality controlled by the big stock trading houses and stock 'shorting' was a scam, he alleged. Left-wing Congresswoman Alexandria Ocasio-Cores demanded to know why small time investors were blocked from certain stock trades while major financial institutions could carry on as normal and Republican senator Ted Cruz said he fully agreed with her. Semi-coordinated action is easy because the investors are using commission-free platforms and apps, such as Robinhood, which are aimed at small retail investors. They were targeting hedge funds by launching a '*short squeeze,'* aiming to force them to buy back now – at ruinous prices – the GameStop stock which they had borrowed and then sold, *with the intention of buying it back later when the price had fallen*.

As a result, at least one US hedge fund, Melvin Capital Management, was forced to close out its position in GameStop, taking a rumoured huge loss. One hedge fund source said that he feared an existential moment for the sector, which is derided by some as '*vulture funds*,' though others maintain that in a Darwinian sense, shorting stock forces faltering businesses to adopt radical change, or die.

The US Securities & Exchange Commission probed the phenomenon after the stock of struggling video games vendor GameShop surged to astronomic heights. The UK's Financial Conduct Authority waded in too, warning investors to comply with market abuse rules and to beware of taking risks on such blind bets. One WallStreetBets user posted a screen shot showing his **$33m** gain on a $755,000 purchase of GameStop stock. Chamath Palihapitiya, ceo of Social Capital and a former Facebook executive, claimed that blitz investors were deliberately trying to knock down parts of the Wall Street financial establishment. Some of the chat room posters said they had bought into GameStop because they were seeking revenge for the suffering they had experienced from the financial crash of 2008-9.

"Retail investors are a very important part of financial markets but, up to now, they have been ignored because they tended to buy and sell in isolation," said Mr Cruddas.

"Now they are gathering together and realising how much power they have collectively. GameStop will not be the last stock to be traded this way. Interesting times lie ahead."

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