EFES – European Federation of Employee Share ownership
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WHICH EUROPEAN POLICIES FOR EMPLOYEE SHARE OWNERSHIP?
INTENTIONS AND EXPECTATIONS

Second round table: Practitioners - Expectations for the facilitation of multinational employee share plans
• Pierre Schereck, Director Employee & Pension Savings, Amundi, France
• Phil Ainsley, Managing Director, Equiniti Employee Services, UK
• Moderator: Stanislas de Germay, Executive Director, Assembly Conseil, France

Stanislas de Germay
Phil, what is stopping English issuers and providers extending their offers to foreign countries?

Phil Ainsley
Rather than just give you my views, I thought I would ask our clients themselves why they haven't extended their plans. In terms of representation we look after some or all elements of share plans for around 60% of the FTSE 100. So, I was trying to get their views about those that do extend their plans even though they don't extend them to all countries and what were the key things that held them back. Certainly, the large majority of them talked about tax and tax treatment recognize the problems for tax equalization across Europe and we have to be aware of that but it does make it very difficult, particularly when UK listed companies are offering things like the Share Incentive Plan (SIP) where you have money that is invested out of gross salary. Effectively, your marginal rate of tax is the discount that you get on the share price. This does make it difficult when you're extending that overseas to provide a similar benefit without incurring additional costs to individuals. So, probably tax is the largest issue.
Also tax treatment where it's considering whether awards are taxed on award, or whether they're taxed on vest, or whether they're taxed on sale. That is obviously an issue for people.
Administration generally, certainly trying to look at some of the different protection laws and how they apply in the different jurisdictions.
And regulation, red tape, I don't think you can ever win with corporates when it comes to the levels of administration. They are always seen as a burden rather than a protection. But certainly a lot of the directives which have been coming out of the EU, different things like the MiFID 2; the market abusive directive; the savings directive and a number of other different directives have impacted on the administrative and therefore have impacted on the clients as well.
And something which I think a lot of people look at in terms of the higher-rate-tax payers and the directors is around global mobility. Global mobility now is very much an issue for all employee-share plans too. So we're seeing a lot more movement of labour around Europe and trying to effectively track and report back to the relevant authorities with something which has been validated.

Stanislas de Germay
Thank you. Pierre, and for French issuers?

Pierre Schereck
I think what our clients are expecting is really simplicity. The wish is there, the benefit without a doubt however the real basic matter is simplicity, the visibility. They want it deployed across the board and rapidly. This implementation is carried out on a worldwide scope and the paradox in which we find ourselves now is that it's easier to propose a FCPE to an employee based in Hong Kong than to those located in certain European countries. Frankly, it's a pity.
We have just mentioned the subject of the FIA and the help that the French regulator, the AMF, gave us to help simplify crossing borders. But to provide some context, Amundi has worked closely with 300 operators on a global scale over these last ten years, that's to say, roughly thirty per year and of an international size. Our clients are concerned about being able to cross the borders in an extraordinarily simple way. There isn't any "commercialization", it's simply about allowing an employee wherever he or she may be, at least in Europe, to be able to buy the shares that are proposed by their company via a vehicle, possibly collective, which is transparent and in which there are only shares.
What we could finally come to is a European recognition, a sort of "European label" of this notion of employee shareholding and the vehicle itself. The pension fund directive today enables extremely swift, flexible cross-border facilitation. We have done this for the social and solidarity-based economy funds and I'm very pleased about the way it's gone. Why is it that we cannot apply this way of doing things to employee ownership? That would simplify life enormously as having visibility is fundamental for an issuer.

Stanislas de Germay
Phil, what do you think about this "European label"?

Phil Ainsley
I think there are always cultural differences, and the cultural differences which are exacerbated, not just by different languages but by different understanding. Certainly people will look at the fact that under a UK share-Incentive plan there is a trustee and they will not quite understand that the trustee actually works very similarly to an FCPE or a collective fund. The SIP trustee in the UK has no discretion, the trustee has to act in accordance with the underlying beneficiary's wishes. So, if an individual wishes to vote for or against a particular motion then that is what the trustee will do. To have a similar kind of body or entity within the EU, I think would be a great idea. I think there would be some concerns if it had a collective voting power. I think that would be something that some of the UK companies would be concerned about. Share plans are generally put in place in order to create a number of different things and one of them is obviously to get the active engagement of the individual shareholder. I think just about every one of our share-incentive plans does allow, encourage and promote voting by the individual underlying beneficiaries.

Stanislas de Germay
I have the same question for the audience: what do you think about an idea of a European vehicle or "label"? Do you think it could be possible in your country?

Audience
Relevant!
A label

Pierre Schereck
Maybe another point is tax. Since there is still something quite strange when you wish to cross the European borders, depending on if you manage the funds locally or from another country, there is in addition a difference in taxation: if it's not managed in the country where the employee lives, an additional tax can be added if applicable, let's say 0.20% per year of the assets that you manage. There again, if we want to construct Europe, at a given time, it's also necessary to make it free-flowing, so that crossing borders is done in the simplest way. As once again, it's much simpler to export to non-European countries than to Europe itself!

Audience
"bravo"
"bravo"

Marc Mathieu, Secretary General EFES (Belgium)
You don't give at all the same reply. It's striking that you don't give at all the same reply. I hear « tax » and « tax treatment » from the British side and then other things, and you Pierre, it's simplification and then…. And then… "tax" somewhere. Why such a big difference ?

Phil Ainsley
I probably haven't covered all the feedback that I've had. Simplicity was another of the things that UK companies would want in order to extend their share plans more than they do at the moment but the overriding factor that they did cite was tax and tax treatment. I think any company that is looking to put in place a total reward package for their employees will look at all the different methods they've got and what advantages it brings them. They will want to look at the cost of implementation and they will look at the benefit to those individuals. If they see that the cost is disproportionate to the benefit that is being given to the individuals, then it doesn't make sense for them commercially to extend it to a wider audience.
Another point I'd like to mention is that many companies do take an altruistic view about share plans even though there are many obstacles and there may not be the same tax advantages in different countries in order to deploy them. They have tried to put them in place and for a number of different reasons, sometimes it is tax, they haven't had the participation rates that they would have wanted and therefore they have in future years thought "well we won't be launching there again because we don't get the participation rates and staff don't see it as a benefit for whatever reason and therefore we won't do it anymore".

Pierre Schereck
As far as we are concerned, I think that the starting point that characterizes the French companies operations, which again are global, thus European, is the legislation that allows offering advantages when entering, at the starting point, such as the discount (20% for example, it's quite normal, or 15%), the matching contribution, the free shares… Obviously, in each host country where the employees to whom the operations are proposed reside, the taxation will be local, it will depend on the host country. We would prefer that there were zero taxation everywhere as in France, while we're at it. However, I'm not sure that we'll manage to get a harmonization of zero on this straight away… Of course, the beneficiaries pay taxes but the taxes are calculated on the advantages, thus the operation is financially a winner when entering the scheme, even if once again, the less taxes you pay, the more the final return will be in any given country. Our issuer clients' concern is first of all and above all that the regulatory process is extremely simple so that you do not need to negotiate locally each time, authority by authority, to ensure that the operation can cross the border. That's really the point. Again, if we have a very favorable taxation rate, the same everywhere, fine. But at least, simplicity.

Phil Ainsley
I do think it would be useful to have some kind of agreed recommendation for a structure of share plans within Europe. It's interesting that ever since the share-incentive-plan legislation was enacted in the UK a lot of French companies have put that in place. I was interested to see that they have also put in place a free share SIP for its UK employees and it is something which is adaptable. A lot of US companies have also used the SIP legislation. I think there is a structure of a plan, some kind of pro forma that will work for all European countries that they can use for their own equity tool kit. I think that would be a first step towards encouraging more countries to go down that route.

Max Stelzer, CEO, Voestalpine Mitarbeiter Privatstiftung (Austria)
I'd like to underline what Pierre said because when running an international plan, the most important problem is to be aware about national legislation. So taxation is one point. Also from the western experience, more taxation benefits promote all share plans but it's not the most important problem when running international plans as we have seen by looking at different boards.
So for example, you mention running share-purchase plans in the UK because you want to benefit from the tax advantages but we have to install a UK trustee for the UK tax authority. You speak about the French who think they have a lot of tax benefits but they are tied to very strict French legislation. For example, to install a fund, a fund is not a traditional Austrian share-incentive-plan fund, or for example when they speak about going to France the problem is we are then informed that we have to use the French financial bank or institute.
So there is a lot of legislation which represents major obstacles for us to get through the door. So taxation is not the only point.
Maybe we can learn from each other, from different taxation-benefit systems from the different countries. Also in Austria we are trying to instore a new type of share-plan-foundation system.
So I think there are reasons and conditions for national government but we need international development too. My proposal is that we need one simplified model. So this simplified model is to run and not to be forced to set up a UK trust or to use a French institution. So it's very complicated and very expensive. I think we need a different model, a good one but maybe a simple one. And simple application means that in some countries we have to speak about tax benefits for price reduction, in other countries to speak about tax benefits for bonuses and in others to speak about how to manage shares in a collective scheme or to handle voting rights. I think we need a simplified model for international companies abroad because it's too expensive to do all the analysis country by country. So we need simplification.

Pierre Schereck
That's what I meant through the "European label" of employee ownership.

Phil Ainsley
Certainly one of the big pluses of recent years has been the ability to passport all the European countries under the Prospectus Directive. That has been a very big advantage for us. Something on similar lines in other areas.

Stanislas de Germay
Ok, and apart from an evolution of the European rules, what can we ask for, I mean education or helping informing companies?

Phil Ainsley
What we do need I think is a lot more communication, a lot more education as well as trying to break down some of the barriers that I think we see in the different institutions that are made in Continental Europe and the UK around encouraging employee-share plans. I think the difference appears wider than it actually is. I think that if we could just get past some of the promotional jargon

people see in the different vehicles, they'll realize that the reason people want to put in place equity participation is for exactly the same reasons. It's to have a company that's attractive for people to join and to stay with, it's to try and motivate them and to reward them for what they do and it's to try and engage them with the company and make them proud of who they work for and feel that they've got some "skin in the game".

Sylvie Lucot, Vice-President FAS, member of the "collège AMF" (France)
It's more a comment perhaps than a question. Contrary to Marc, me, I'm rather struck not by what differentiates us, not by that you don't give the same answer to the questions. Me, I was struck by the diversity which was demonstrated here. I was very impressed by what was said during the different round tables, by an extremely large diversity of models which weren't just for me linked to the diversity of states and countries in terms of regulation, laws, but we've seen, we've heard the views of listed companies, unlisted companies, big multinationals, small *societad laborad,* there you are, employee share ownership that is forthrightly described in terms of governance, intermediation by the trustees, by professionals, competent of course, well I'm struck by all this.
At the same time, I was wondering what we could learn from this discussion.
What we can retain, on the one hand, is, looking at the wording: "*une action*" is called a share in English which means to share and "*une action*" means "*action*" that's to say, to act in French. And how to act together, to share these models, for me, it's something very very important what's coming out of these round tables.
Actually, we need to work each time that we're in an international structure, for example, the big internationals, it's more or less the same, they're the same problems in all the European countries, the listed companies which try to distribute the models that work in a union of capital for those that are listed, I'm absolutely convinced.
And from that, let's try to find some regulations that can really be transversal, simpler and let's draw on best practices from such or such a country, but furthermore, let's take note of what our Basque friends have been showing us.
What stands out for me as a common point is that everyone has spoken about commitment, and for me commitment is a real characteristic of employee share ownership. What I mean by that is, the capacity to engage over time. And I just wanted to raise the point that has already been raised by certain of you at coffee break: that makes the point that we are all representatives of what we call today, well that which is sometimes called the "patient capital". Since we know that "short termism" finally dominates finance, but not only, it also rules the governance of states, it rules the governance of companies, finally in the worst cases, and it rules our individual behavior due to the Internet, due to all of that.
And so, me, I think we need to bear in mind this concern that we have the long-term, patience which contrasts somewhat to the air of impatience that surrounds us. There you have it, rather comments than questions.
And I would like to thank Marc.

Stanislas de Germay
Thank you. Any other questions from the audience? No…
OK, Thank you gentlemen.

Audience
Applause

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