EMPLOYEE SHARE OWNERSHIP FOR BUILDING THE CAPITAL MARKETS UNION

THE NEED FOR A EUROPEAN ACTION PLAN

EFES POSITION PAPER
ANSWERING THE PUBLIC CONSULTATION
ON BUILDING A CAPITAL MARKETS UNION

EUROPEAN FEDERATION OF EMPLOYEE SHARE OWNERSHIP

Employee Share Ownership for building the Capital Markets Union

The Need for a European Action Plan

EFES Position Paper answering the public consultation on building a Capital Markets Union

Abstract

The European Federation of Employee Share Ownership welcomes the European Commission initiative and the Green Paper on Building a Capital Markets Union. Indeed it could help the European economy to revive growth and jobs.

Employee share ownership can be a foundation stone for this, as a significant piece of long term savings policies. In particular, the ESOP model can bring a strong support in Europe for the financing of SMEs and for the liquidity of their equity market, as it is doing in the USA.

A pilot project was recently organized by the European Commission, leading to the proposal of a European Action Plan. We call for this European Action Plan to be now implemented through a European preparatory action for information and education to employee share ownership and participation.

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May 6, 2015

1. Who we are

The European Federation of Employee Share Ownership (EFES) welcomes the European Commission initiative and the Green Paper on Building a Capital Markets Union.

The main aim of the EFES is to promote the development of employee ownership over Europe, as a mean of progress and productivity for companies, a mean of economic and social performances, and a mean of employment enhancement.

The EFES is an open organisation acting as the umbrella organization of employee owners, companies and all persons, trade unions, experts, researchers, institutions looking to promote employee ownership and participation in Europe. The EFES was recognized by the European Commission (DG Enterprises & Industry) as European Business Representative Organisation in the field.

The EFES is a European organisation located in Brussels, with the statute of an international not-for-profit association. It gathers organisations, companies and individuals in all countries of the European Union. Its Board of Directors consists of representatives of organisations and companies from all EU countries. It also works in partnership with similar organizations in all other regions of the world (including USA, Australia, Asia, Africa and others).

Members of the EFES are:

- Almost all associations and federations of employee shareholders and organizations promoting employee share ownership in European countries like AGP, CGSCOP, CONFESAL, DEZAP, FAS, NPI and others.
- Top companies like voestalpine, Engie, Essilor, Orange, Saint-Gobain, Vivendi, ING Bank, as well as small and medium sized ones.
- Trade unions and representatives of workers' unions (DirCredito, CFE-CGC, etc.)
- Experts and services providers like Accurate Equity, Amundi, Equiniti, Eres, Monidee and others.
- Researchers and university centres working on the issue.
- European partner member organizations as EuropeanIssuers, EuroFinUse - Better Finance and others.

The EFES was registered in the EU Transparency Register under ID number 309808016043-82.

2. PRELIMINARY REMARK

We draw the attention on the answers to this public consultation due to:

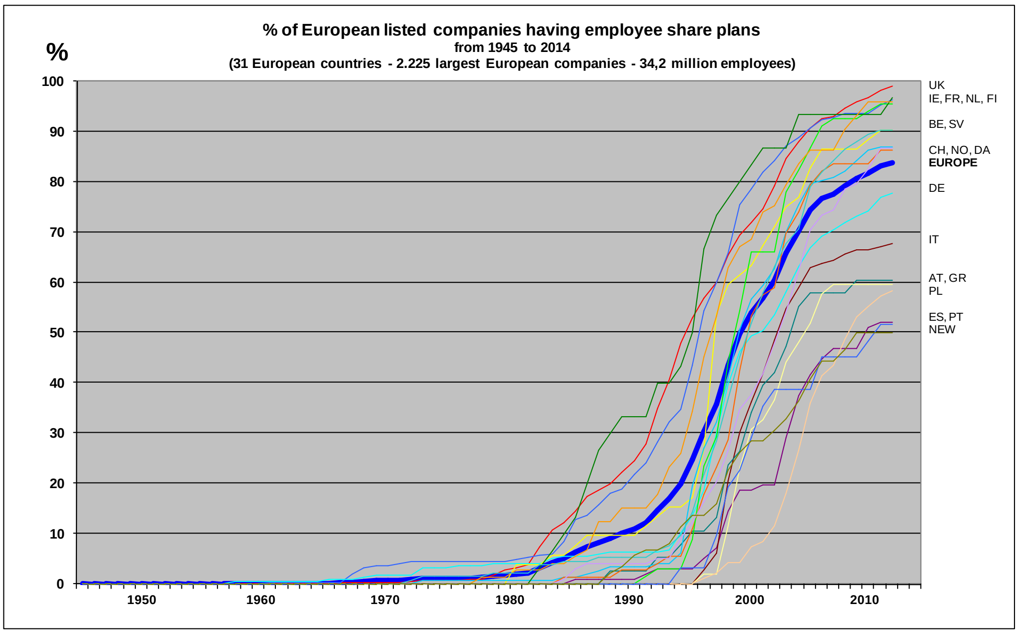
- EuropeanIssuers, the European Private Equity & Venture Capital Association and the Federation of European Securities Exchanges in the "EU IPO Report" [1].
- EuroFinUse - Better Finance, the European Federation of Financial Services Users.

Together with our European Federation of Employee Share Ownership, these organizations express the view that the foundation stone for developed and balanced capital markets are long term households savings, including pension savings and employee share ownership, and that public policies based on fiscal incentives are indispensable prerequisites in this sense. This is a prerequisite for the Capital Markets Union.

It is remarkable that our organizations, representing the full range of private actors of the Capital Markets Union, converge on analysis and proposals about employee share ownership in Europe.

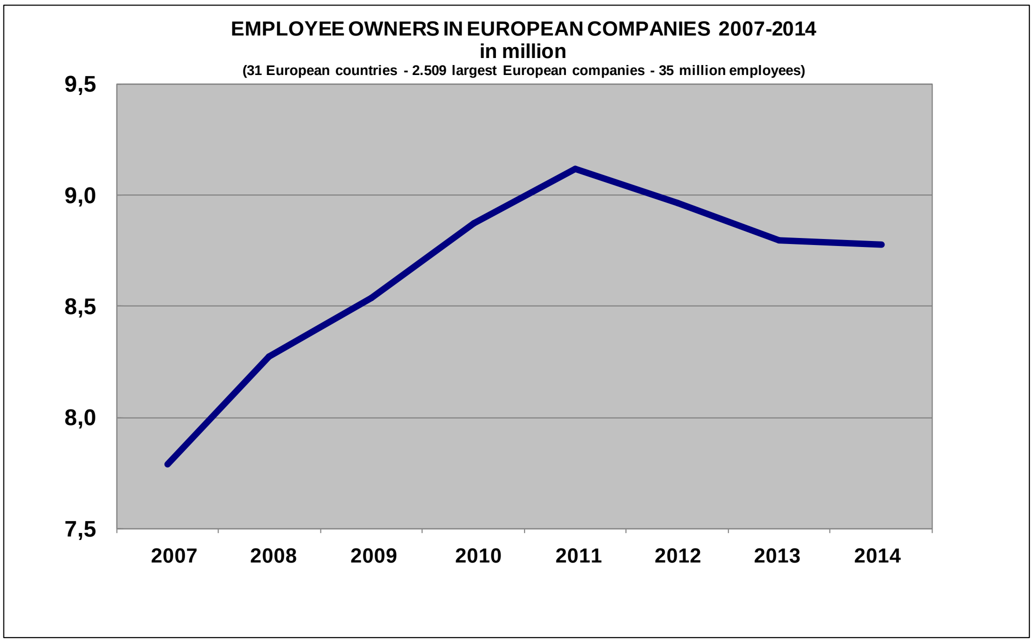
3. FACTS

During the last 20 years, a fast and strong development of employee share ownership was observed across Europe. The following graph illustrates this development through the percentage of listed companies having employee share plans. 85% of all European listed companies have employee share plans today [2]. This led to a strong increase in the population of employee shareholders in Europe to 10 million people in 2011.

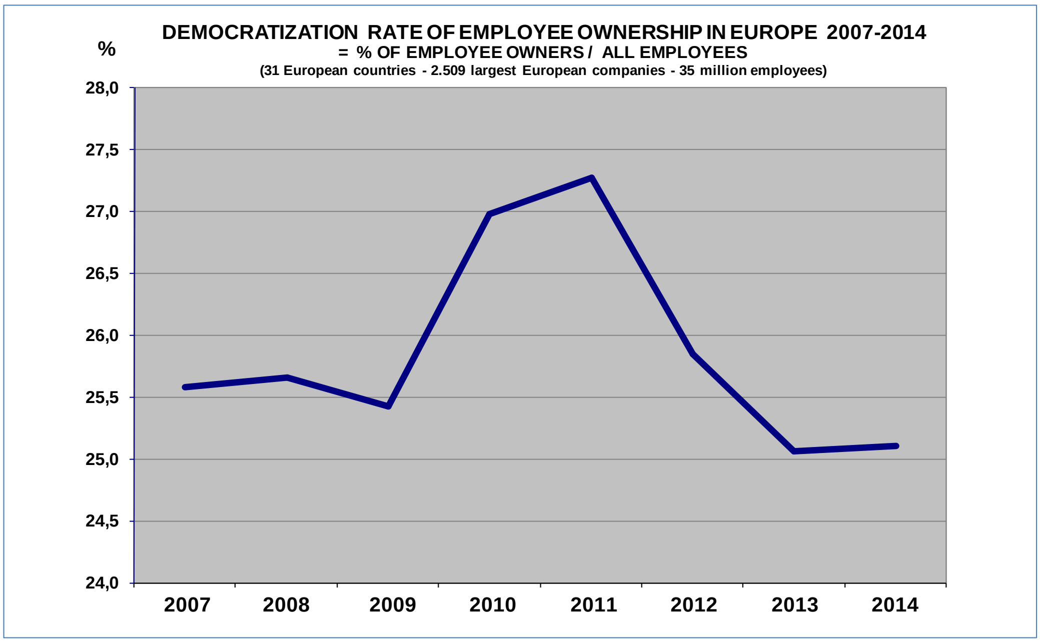


[1] The EU IPO Report: "Rebuilding IPOs in Europe; Creating jobs and growth in European capital markets"
[2] Economic Survey of Employee Ownership in European Countries in 2014, EFES, 2015

However, a bad signal was recently observed: For the third consecutive year in 2014, the number of employee shareholders decreased in Europe (see following graph) [3].



Even more alarming: The democratization rate of employee ownership decreased from 27.3% in 2011 to 25.1% in 2014, while it was continuously increasing before (see following graph).

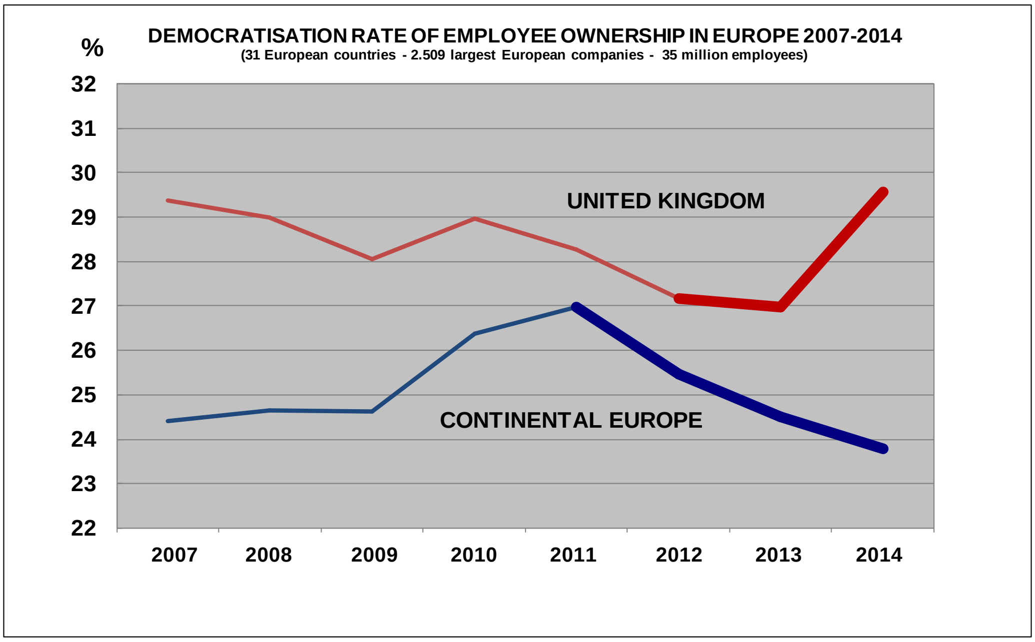


This should be a warning signal for everyone in Europe.

[3] All following numbers and graphs can be found in the Economic Survey of Employee Ownership in European Countries in 2014, EFES, 2015

In fact, the number of employee shareholders in continental Europe decreased by 500.000 persons (-8%) from 2011 to 2014, while the number increased by 200.000 persons in the UK (+8%).

These changes are clearly related to the regressive fiscal policies in several European countries, while in contrast, the UK chose to double the fiscal incentives for employee share ownership, considering it is a key element of recovery and an investment for the future.



The table of all recent policy decisions regarding employee share ownership in European countries reveals a remarkable shift (see table hereafter) [4].

RECENT POLICY DECISIONS

Negative decisions		Positive decisions	
France	1.1.2009 forfait social 2% 1.1.2010 forfait social 4% 1.1.2011 forfait social 6% 1.1.2012 forfait social 8% 1.8.2012 forfait social 20%	Finland	1.1.2011 new Personnel Funds Act
Denmark	21.11.2011 end of incentives		
Greece	1.1.2012 end of incentives		
Ireland	1.1.2012 taxation 4 to 11%		
Netherlands	1.1.2012 end of incentives		
France	28.9.2012 end of exemptions options and AGA		
		UK	1.10.2012 new Action Plan 1.9.2013 new "shares for rights" scheme
		Hungary	1.1.2014 simplification
		UK	1.4.2014 doubling incentives 6.4.2014 new scheme for SMEs
France	August 2014 abolition of the 1986 legislation		
		Spain	February 2015 exemption 12.000 € confirmed
		Austria	1.1.2016 doubling incentives

[4] Source: Virtual Information Centre on Employee Share Ownership and Participation. The detailed table of all recent policy decisions can be seen hereafter in appendix.

At the beginning of the financial crisis, several countries took negative decisions to reduce their expenses. This bad signal came first from France, followed by Greece, Denmark, Ireland and The Netherlands, between 2009 and 2012.

Since 2012, most policy decisions are positive again, as in the UK, in Spain, in Hungary, and in Austria where tax incentives will be doubled.

It is not only about recent policy decisions and their impact. The close link between encouraging fiscal policies and the development of employee share ownership clearly appears when looking at Europe as a whole.

Significant fiscal incentives favouring employee share ownership in large European companies can be observed in 12 of the 28 countries of the EU (Austria, Belgium, Cyprus, Finland, France, Hungary, Ireland, Italy, Slovenia, Spain, Sweden, UK).

Three additional European countries (Iceland, Norway, Switzerland) can also be considered for their significant incentives, leading to 15 countries. This is still a minority of States.

However, this minority of 12 Member States of the EU (or 15 European countries in the wider area of 31 countries) represents the lion's share when considering European listed companies, stock market capitalization and employee share ownership (see table hereafter): 72% of all European listed companies, with 72% of employees, 77% of the stock market capitalization, 83% of employee shareholders...[5]

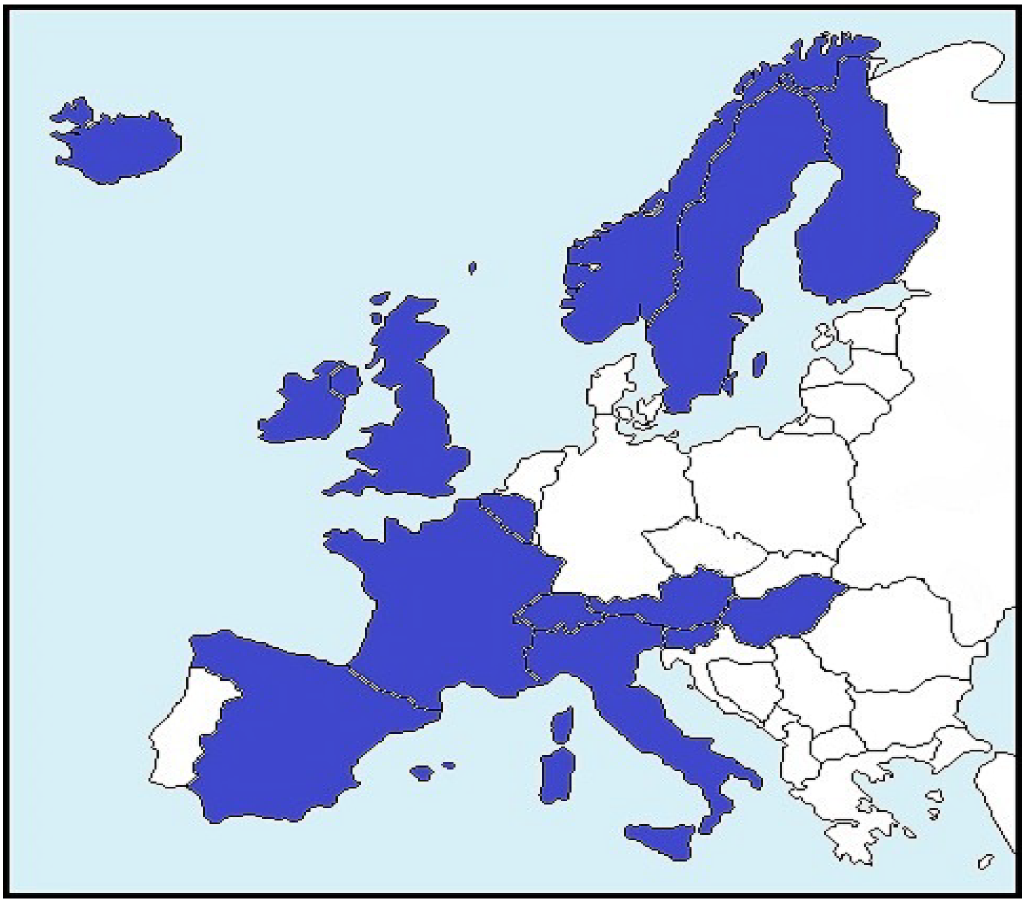
European listed companies (31 countries)	European countries with significant fiscal incentives (15 countries)	European countries without significant fiscal incentives (16 countries)
% companies	72 %	28 %
% stock market capitalization	77 %	23 %
% employees	72 %	28 %
% employee shareholders	83 %	17 %
% capitalization held by employees	85 %	15 %
Democratization rate of employee ownership	28,4 %	14,5 %

It is also remarkable to see that the democratization rate of employee share ownership (the percentage of employee shareholders amongst all employees) appears to be twice higher in countries with significant fiscal incentives.

Looking at the map of Europe brings more information about countries having significant fiscal incentives and others.

[5] Economic Survey of Employee Ownership in European Countries in 2014, EFES, 2015

In the map hereafter, European countries having significant fiscal incentives for employee share ownership in large companies are highlighted in blue.



A last point in this short review relates to the links between households or individual share ownership and employee share ownership in Europe.

A sharp decrease of the number of individual direct shareholders was observed in Germany and France in recent years (see table hereafter). The same sharp decrease was also observed in the number of employee shareholders in Germany (which doesn't apply significant fiscal incentives for employee share ownership). At the contrary, the number of employee shareholders increased strongly during the same period in France (which for a long time promoted employee share ownership through significant fiscal incentives).

in million people	2000	2014
Germany [6]		
Individual direct shareholders	6.2	4.1
Employee shareholders	1.6	0.8
France [7]		
Individual direct shareholders	7.2	4.5
Employee shareholders	1.0	3.5

[6] Deutsches Aktieninstitut, Aktionärszahlen 2014
[7] La Finance pour tous, Les actionnaires qui sont-ils

As a conclusion, fiscal policies encouraging employee share ownership can be significant pieces of long term savings policies as a whole

4. EUROPE AND THE USA

The main difference between employee share ownership in Europe and in the USA relates directly to this first point of the CMU initiative: "The main areas that the Green Paper seeks to address are:... 1. Improving access to financing for all businesses across Europe (in particular SMEs)".

Here are the numbers of employee shareholders in Europe compared to the USA [8]:

	Europe	USA
Listed companies	9 million	18 million
Non-listed companies (SMEs)	1 million	10 million
	------------	--------------
Total	10 million	28 million

The main difference affects SMEs, with some 12.000 ESOP companies in the USA compared to some 300 similar employee-owned companies in Europe. ESOP companies in the USA are under employees' control, often 100% employee-owned, with an average size of some 800 employees. In Europe, some 300 similar employee-owned companies employing 100 people or more can be identified, most of them being workers' co-operatives [9].

This major difference is due to the fact that an adequate model for employee share ownership in SMEs was implemented in the USA from 1974 (the ESOP model), while nothing so effective was done in Europe until recently, when the UK set up its Employee Ownership Trust scheme.

As already mentioned, fiscal incentives are the key-element for the promotion of households long-term savings, pension savings and employee share ownership as well. USA are probably the most typical case in this sense, with the implementation of the ESOP (Employee Stock Ownership Plan) since 1974.

The ESOP is a pension plan based on strong tax incentives (no taxation on the selling of the company to its employees, no taxation on profits), aimed at transferring the ownership of SME's to employees.

In doing so, the ESOP model provides considerable resources: On the one hand first, the ESOP provides cash to owners selling to the ESOP. On the other hand, the ESOP will along years provide resources for employees' pension.

It is so successful and widely used that it changed a lot for entrepreneurship and for the financing of SMEs in the USA.

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[8] Sources: EFES History and Background for Europe, National Center for Employee Ownership for the USA
[9] Economic Survey of Employee Ownership in European Countries in 2014, EFES, 2015

The ESOP model could bring a significant support in Europe for the financing of SMEs and for the liquidity of their equity market, as it is doing in the USA.

The UK is the only European country which recently implemented a quite similar scheme for employee ownership in SMEs.

As a matter of fact, from 6 April 2014, the UK provides:

1. Full exemption from Capital Gain Tax on the sale of a controlling interest to an Employee Ownership Trust.

2. Income tax exemption for bonuses of up to £3.600 per tax year paid to employees of companies controlled by an Employee Ownership Trust [10].

This new British initiative can be seen as the first significant step for the development of the ESOP model in Europe.

A European Action Plan for employee share ownership would be helpful to make this information available to all EU countries.

5. European Action Plan

As was pointed out by EuropeanIssuers, the European Private Equity & Venture Capital Association and the Federation of European Securities Exchanges in the IPO Report [11], European companies need investment, to grow, to enter new markets, to develop new products and to create jobs.

A healthy European capital market attracting long-term investors (especially households, employees and pension savers) is a critical route to channel such investment. More generally, "the links between savers, the original providers of capital, and the financial markets, which allocate that capital, have become less coherent" [12].

The Report recommends that policymakers set the goal of creating an equity culture in Europe. That Member States should be encouraged to use tax policy to encourage long-term investing, providing tax incentives to encourage investment for the longer-term in equity. That fiscal incentives should be provided to support the development of employee share ownership across Europe.

In our vision, the foundation stone for developed and balanced capital markets are long term households savings, including pension savings and employee share ownership. Public policies based on fiscal incentives are indispensable prerequisites in this sense.

This analysis was already the basis for the conclusions of the Lisbon Summit in year 2000, which asked for a European Action Plan in this field.

[10] New capital gain tax relief for businesses, Robert Postlethwaite, 2014
[11] The EU IPO Report: "Rebuilding IPOs in Europe; Creating jobs and growth in European capital markets"
[12] Gervais Williams, "Slow Finance: Why Investment Miles Matter"

A Pilot Project on the "Promotion of Employee Ownership and Participation" was recently organized by the European Commission, leading to a concrete project for this European Action Plan in October 2014 [13].

We support this project, with some slightly different proposals [14].

Here are the five points of this European Action Plan:

1. Launch a European Coordinate Platform of 28 Virtual Information Centres.
2. Set up a Commission expert Group.
3. Implement an Action Programme to raise awareness.
4. Set up a reliable information and statistical tool.
5. Dedicated legislation in each Member State providing an optional simple, uniform incentive model, with the same tax arrangements and incentives.

We suggest this European Action Plan should now be implemented through a European preparatory action for information and education to employee share ownership and participation.

[13] Final Report of the Pilot Project on the Promotion of Employee Ownership and Participation, October 2014
[14] Proposals for the European Action Plan, EFES, January 2015

Appendix: Recent policy decisions regarding employee share ownership in European countries

RECENT POLICY DECISIONS REGARDING EMPLOYEE SHARE OWNERSHIP IN EUROPEAN COUNTRIES	
NEGATIVE	**POSITIVE**
France: From 1.1.2009, special tax of 2% ("*forfait social*") on companies' contributions to employee share plans. From 1.1.2010: 4%. From 1.1.2011: 6%. From 1.1.2012: 8%.	
	Finland: From 1.1.2011, new Personnel Funds Act (partial exemption from income tax, exemption from social security contribution).
Denmark: From 21.11.2011, tax favorable regimes on employee share and option plans were removed.	
Greece: From 1.1.2012, tax incentives on employee share and option plans were removed.	
Ireland: From 1.1.2012, employee social insurance (PRSI) of 4% and Universal Social Charge of up to 7% on income gains from employee share and option plans.	
Netherlands: From 1994, *Spaarloonregeling* offered Dutch employees the opportunity to build up financial assets by saving tax free part of their salary. From 1.1.2012, tax exemption on employee savings were removed.	
France: From 1.8.2012, special tax of 20% ("*forfait social*") on companies' contributions to employee share plans.	
France: From 28.9.2012, income tax exemption abolished on benefits from stock options and restricted share awards ("*actions gratuites*").	
	United Kingdom: October 2012: Government Action Plan for promoting employee ownership, as proposed in the "Nuttall Review".
	United Kingdom: From 1.9.2013: New tax free "shares for workers' rights" scheme.
	Hungary: From 1.1.2014, simplification of employee share plans. Income tax exemption maintained on benefits of up to HUF 1 million (approximately 3.300 €) per participant per year.
	United Kingdom: From 1.4.2014: - The limits for tax advantages on sharesave schemes will double from £250 to £500 a month. - The maximum value of shares an employee can acquire with tax advantages through share incentive plans (SIP) will increase by £300 a year, to £1,800 for partnership shares and £3,600 for free shares.
	United Kingdom: From 6.4.2014: - Full exemption from Capital Gain Tax on the sale of a controlling interest to an employee ownership trust. - Income tax exemption for bonuses of up to £3.600 per tax year paid to employees of companies controlled by an employee ownership trust.
France: August 2014: The emblematic legislation of 1986 was abolished (which obliged for a 10% offer reserved for employees in case of privatisation).	
	Spain: February 2015: The tax exemption for the first 12.000€ of income realised from employee share plans will NOT be removed (as was proposed in September 2014). New condition: The tax exemption applies to all-employee plans.
	Austria: From 1.1.2016, income tax exemption on employee share plans will be increased from 1.460 to 3.000 € per year.