***ifs ProShare* response to EU Green Paper**
on the European Union corporate governance framework
July 2011

ifs ProShare

***ifs** ProShare* is a member led, not-for-profit organisation that acts as the voice of the employee share ownership industry in the UK.

Established by the Treasury, London Stock Exchange and a number of FTSE 100 companies in 1992, ***ifs** ProShare* has approximately 100 members. These include a wide range of Small and Medium Enterprises as well as larger companies such as BP, BT, HSBC and Marks & Spencer as well as share plan administrators and advisers including Computershare, Equiniti, Killik Employee Services, Linklaters and PWC.

Benefits of employee share ownership

We are naturally pleased that the European Commission (EC) has recognised the importance of employee share ownership in this Green Paper.

***ifs** ProShare* agrees that employees' interest in the long-term sustainability of the company for which they work is an element that a corporate governance framework should take into account.

Furthermore, we agree with the Commission's contention that employee share ownership plans can play an important role in increasing the proportion of long-term-oriented shareholders.

A wealth of UK and international evidence demonstrates that employee share ownership can lead to higher productivity and financial performance, greater innovation, lower staff turnover and improved employee advocacy; all of which benefits the employer and the wider economy.

Over the past thirty years employee share plans in the UK have also proved to be a very useful, simple and tax efficient savings and share acquisition mechanism for employees on a wide range of incomes thus encouraging medium and long term saving and benefitting millions of individual workers.

Response to Green Paper

1) We note that the Green Paper states that *"employee share ownership also involves risks from lack of diversification: if the company fails, employee shareholders may lose both their job and their savings.*"

This worst case scenario is incredibly rare.

Since our inception, ***ifs** ProShare* has highlighted the fact that employees need to understand risk and have the opportunity to build diversified share portfolios. We would not encourage employees to put all their savings into a single savings plan and this view is shared by our member companies, many of whom actively discourage too large a proportion of savings from being invested in employee share plans.

All-employee share plans approved by HMRC in the UK also have a number of risk reducing mechanisms. For example, employees who are participating in a Save As You Earn (SAYE) plan are in a no lose situation. In the event their shares are worth less than when they commenced their 3, 5 or 7 year plan they can simply have their savings returned together with a tax free cash bonus. Furthermore, in the event that the company collapsed during this 3, 5 or 7 year period, employees' savings are held by an independent savings carrier so can easily be returned in whole. Similarly, should the savings carrier collapse, the employees' savings would be entirely covered by the Financial Services Compensation Scheme (FSCS).

Employees who participate in Share Incentive Plans (SIPs) and SAYE plans (the two most popular all-employee share plans in the UK) also have the option of transferring their shares into a Self Invested Personal Pension (SIPP) or an Individual Savings Account (ISA) – offering yet more opportunities for diversification.

Millions of UK employees participate in an employee share plan. By investing some of their monthly income into share plans, these employees are diversifying their own savings from the current over-reliance on the most favoured asset classes of property and cash.

Another factor to consider is that Government imposes a limit on the amount that can be invested in "approved" employee share plans. Such limits are common in other European Union countries, some are higher, and some are lower. ***ifs*** *ProShare* would like to see the £250 a month limit for SAYE plans doubled to £500 (it has not been increased since 1991) but whether the limit is £250, £500 or some other figure, simply having a limit does act as a further mechanism to prevent too much money being put into a single savings vehicle.

There are a range of opportunities for diversification created by employee share ownership. Providing employees follow the simple principle of not having all their financial eggs in one basket there is no reason why employee share ownership should not be encouraged.

2) The implementation of employee share plans already involves companies in considerable expense and administrative burdens. The Commission should avoid adding extra burdens and regulatory complexity.

ifs *ProShare* and others have spent considerable time and energy defending employee share ownership from additional burdens that caused difficulties for employee share ownership at a European Union (EU) level e.g. the EU Prospectus Directive.

ifs *ProShare* worked very hard over a period of several years to secure an employee share plans exemption from the prospectus requirements under the EU Prospectus Directive. This was achieved and will apply not only to companies listed on an EU regulated market, but also to companies with an equivalent listing outside the EU and EU registered companies.

Such companies can offer shares to their employees without having to undertake the costly and bureaucratic process of issuing a prospectus, providing they instead publish a basic "summary document" which can usually be incorporated into an employees explanatory handbook or similar.

ifs *ProShare* and other organisations from across the EU subsequently lobbied for the same exemption to be extended to companies that are not headquartered in the EU. Again, we welcomed the positive response of the EC in recognising the need to do so and the subsequent Amending Directive – although the comparatively slow implementation period (18 months) for this to take effect remains a concern.

The fact this exemption extends to all companies headquartered in the EU is also helpful to the promotion of employee share ownership because it means those companies who did not have an EU listing can now benefit from this exemption.

3) As a result of HM Treasury fast tracking implementation of certain parts of the Amending Directive, from 31 July 2011 the threshold for which a prospectus is required will be raised from €2.5 million to €5 million and the minimum number of investors for which a prospectus is required will increase from 100 to 150 investors. The Commission should actively encourage other EU member states to follow the UK's lead in the early implementation of such measures. Doing so would help further promote employee share ownership across the EU.

4) The Commission should aim to facilitate a level playing field across the EU for companies wishing to offer share ownership plans. This is particularly important in the areas of tax and securities laws.

Further information

Further information about employee share ownership can be found at www.ifsproshare.org Alternatively, if you have any queries or require any further information about the above please do not hesitate to contact Phil Hall, Head, ***ifs*** *ProShare* at phall@ifslearning.ac.uk or on +00 44 (0) 7905 912514.