

Spotlight falls on employee share ownership plans

Share schemes

Brussels is to review promotion of employee stock ownership, says **Jeremy Woolfe**

Savings schemes offering incentives for employees to set aside monthly sums to invest in the shares of their employer are coming under scrutiny by the European Commission as it reviews existing codes for corporate governance. The matter comes up in the Commission's consultation paper "The EU corporate governance framework".

Among responses to the consultation is one that opposes the systematic encouragement of employee stock ownership. It "places asymmetric risk upon the employee", according to Charles Cronin, formerly of CFA Institute, and John Mellor, of the Foundation for Governance Research and Education.

They fear that "if the company fails, the employee not only loses his job, but could also lose his savings". They judge that, "on balance [such practice] should not be considered as an instrument to promote long-term-orientated investment".

A big exponent of the contrary position, favouring employee share ownership, is the UK's ifs ProShare, which says employee share ownership in Europe has grown dramatically during the past decade. The number of large European companies with employee share plans has more than doubled.

John Collison, head of employee share ownership at ifs ProShare, says more than 900,000 employees in the UK participate in a Share Incentive Plan (SIP). The average value per employee of a SIP holding, based on share prices at the end of 2010, was just under £3,000 (\$4,700). The sums are too small to affect share prices, he adds.

A survey also shows that last year the average amount employees save in a Save As You Earn (SAYE) plan is £106 a month and there are just over 1.4m SAYE accounts.

Mr Collison defends SIPs, noting that the government limit on the amount that can be invested in "approved" employee share plans is £1,500 per year. Such limits are common in other European Union countries, he says, "some are higher, and some are lower". He refutes the criticism of SIP schemes: "Having a limit acts as a mechanism to prevent [an employee having] too much in a single savings vehicle."

The organisation will put its case at a conference to be held in mid-October, in Brussels. It is being organised by the European Economic and Social Committee.

Pre-conference notes suggest any European regulation should encompass a broad incentive system encouraging employee share holding. EU rules should provide "different, flexible solutions, compatible with those already established in the member states".

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As for the Commission itself, its green paper does have a focus "on measures to promote, at EU level, employee share ownership". It also concentrates on the need for European businesses to "demonstrate the utmost responsibility not only towards their employees and shareholders but also towards society at large". It notes that the present corporate governance codes date back to a Directive of 2006.

The Commission now stresses that "until now, there has been no decision on any specific measures yet". Feedback to its consultation is expected "before the end of the year".