The data contained in this report is based on Computershare’s client data. Information relating to the ASX300 Remuneration Report is sourced and verified via the ASX.
Welcome to the fifth edition of Computershare’s Employee Equity Plan Trends Intelligence Report, designed to provide you with insights into the local and global employee equity landscape.

2018 was an exciting year for Computershare Plan Managers globally with the USD420 million investment in Equatex. This acquisition reaffirms our commitment to investing in and growing our equity plans business globally. We have never been more thrilled to see what lies ahead.

With the deal only closing late last year, I am unable to share any specific timelines yet. We’re already starting to get heavily involved in this initiative with a number of key employees from this region being identified for secondment opportunities to the UK to begin work on the implementation, equipping them with knowledge and skills that will ultimately benefit you and your employees. I will provide updates on progress in the months ahead.

2018 continues to deliver stability and consistency across different plan designs

In Australia, there has been very little political attention, and ultimately change, regarding all-employee plans. As members of Employee Ownership Australia (EOA), we continue to lobby for improvements for employee equity plans but this is receiving little attention currently. Despite the lack of movement in this space we continue to see Australian companies launching new all-employee equity plans with most taking advantage of the tax benefits under division 83A. We have also seen Australian companies with a long-history of share ownership take their plans global.

For our clients in New Zealand, plan design has remained broadly the same for both executive and all-employee plans despite the change in legislation last year.

Throughout 2018, the focus in Australia has been on executive remuneration with headlines like “how CEO pay turned into Frankenstein’s monster” and “CEOs now earn 78 times more than Aussie workers”. This has been reflected in the level of shareholder activism in the current AGM season, causing a record number of ASX300 organisations to receive a first strike.

We haven’t seen significant change in plan design across the majority of the plans that we manage. From a practical perspective, we are seeing a continued increase in the number of companies introducing trusts to satisfy awards under their executive and management long term incentive (LTI) and short term incentive (STI) plans and tweaks to plans to enable dividend equivalent payments to continue.

2 “CEOs now earn 78 times more than Aussie workers”, www.abc.net.au, by Matt Liddy, Ben Spraggon & Nathan Hoad, 6 December, 2017
Executive summary

We have noted consistency in take-up across different purchase plans despite the continued pressure on discretionary income. Employees continue to value participation in these plans even at a time when wage growth is low.

It’s been a long held view that participants are more inclined to amass their equity before selling their shares, and for the first time, we have been able to prove this hypothesis after analysing our data, and in particular sales behaviour. This is evident across both gift/award plans and contribution plans.

For executives, although the majority of our clients still offer both short and long term incentives, we have a number of clients who have adopted the so called ‘single’ incentive structure. This has also been observed by KPMG, in an update later in this report. KPMG also discuss the current trend of the move from solely financial performance measures.

Partnership with the University of Melbourne

In 2018, Computershare partnered with researchers from the University of Melbourne to undertake research into motivations and drivers of employee equity plan participation. The research was piloted with a select number of organisations, including Computershare.

We’re currently working with the University of Melbourne to analyse the data in detail, understand key trends and determine what are the key influencers of equity plan participation (or non-participation) and we’ll be issuing a report over the next couple of months that will give you this insight.

We have outlined some initial highlights from the research. I hope you enjoy our latest report and if you have any feedback or questions please let me know.
In this section we take a look at trends in all-employee and executive equity plans across our client base in Australia and New Zealand.

TRENDS IN TAKE-UP FOR DIFFERENT EMPLOYEE EQUITY PLAN TYPES

We’ve seen a relatively stable period in participation across different plan types over the past 12 months. Gift/award plans, as you would expect, achieve 99% take-up rates.

As one of the main objectives of this style of plan is to create employee ownership, it’s pleasing to see that the majority of employees retain their equity post vesting. In the subsequent pages, more detail is provided around vesting behaviour. The majority of these award plans offer equity to employees and take advantage of local tax legislation; however we have one client with a global workforce that offers rights of the same USD value to over 13,000 employees globally.

For salary-sacrifice plans with no match, we have chosen to assess clients that don't offer any additional type of broad-based plan, as some companies offer their employees a gift of shares and then provide a further opportunity to salary-sacrifice. We have done this to ensure that results are not significantly skewed.

Similar to last year’s report, the apparent decline in salary-sacrifice with matching is a result of clients who determine whether to offer a match or not year on year. These clients have excellent participation which results in the matching numbers going down and the no-match increasing if they decide not to offer a match in a particular year. Broadly, take-up remains stable.
Deeper analysis indicates that there are some variances between companies. For example, one of our clients achieves over 90% take-up in their salary sacrifice matching plan. Their success is largely due to the fact that they have a longstanding plan which has been in place for almost 15 years, a generous matching component and good communication. Across our global contribution plans, overall participation is steadily increasing year on year. Take-up is relatively consistent from client to client, which is to be expected, as the terms and matching ratios are very similar with either a match of one for two or one for three, across most clients.

One of our Australian clients offers a US style employee share purchase plan (ESPP), very different from the Australian norm, with post-tax employee contributions and a 15% discount on shares acquired and still achieves a take-up of nearly 30%.

POST VESTING BEHAVIOUR ANALYSIS

This year we have also analysed participant dealing behaviour, across our entire client base of broad-based plans, once equity becomes available. We have undertaken this analysis across gift/award plans, contribution plans (cliff vesting) and contribution plans (non-cliff vesting). In this context, cliff vesting is where all equity from a plan year becomes available on the same day as opposed to equity becoming available after a defined period following each regular award.

Overall, our analysis indicates that aside from an expected initial surge of interest in trading equity when it becomes available, activity falls away significantly for gift/award and cliff faced plans.

Are participants aware that equity has become available and do they understand what choices are available to them? We are not so sure they do, and feel that there is much that we can do with our clients to improve engagement and education in this space.

With regards to non-cliff faced plans, we would have expected to see participants wait at least 12 months from the first vesting date and build up awards to sell, however our findings show inconsistent behaviour. Again, do participants understand the choices available to them along with taxation implications of monthly vesting? We believe that in this instance, there is an opportunity to engage with employees at the point of vesting to ensure they are fully educated on what actions they can take.

Please get in touch with your relationship manager for a detailed analysis of your specific participant base, along with how we can collaborate to improve communications to participants at the point of vesting.
Gift/award plans

The following analysis looks at the plans we manage where a gift of free shares is made through both tax-exempt awards to all employees or targeted tax deferred awards made as part of STI management plans.

A key finding of this analysis indicates that participants are more inclined to amass their equity before selling. This is evident with the average number of annual awards that are sold ranging between 3-7 years' worth.

WHAT PERIOD DO THEY TRADE WITHIN?

<table>
<thead>
<tr>
<th>MONTHS</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
<th>8</th>
<th>9</th>
<th>10</th>
<th>11</th>
<th>12</th>
<th>13</th>
<th>14</th>
<th>15</th>
<th>16</th>
<th>17</th>
<th>18</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of awards traded</td>
<td>0.0%</td>
<td>2.0%</td>
<td>4.0%</td>
<td>6.0%</td>
<td>8.0%</td>
<td>10.0%</td>
<td>12.0%</td>
<td>0</td>
<td>2</td>
<td>4</td>
<td>6</td>
<td>8</td>
<td>10</td>
<td>12</td>
<td>14</td>
<td>16</td>
<td>18</td>
<td></td>
</tr>
<tr>
<td>Percentage of participants trading</td>
<td>13.6% of participants trade after 3 months</td>
<td>15.7% of participants trade after 6 months</td>
<td>17.5% of participants trade after 9 months</td>
<td>18.6% of participants trade after 12 months</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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</tr>
</tbody>
</table>

Although our data indicates that employees are holding on to their equity longer, therefore inferring that in some cases, accumulation of wealth could be a driver, it could also mean that employees may be unclear about the choices available to them. Hence, the need for simple and timely communication to inform and educate employees, so they understand the true value of their plan, and how to optimise this benefit.
Contribution plans with a cliff faced vesting structure

The following analysis looks at contribution plans where a single vesting or available date occurs each year, most commonly Tax Deferred Salary Sacrifice Plans or Post-Tax Global Employee Share Purchase Plans (GESPP).

Our data indicates that employees have a tendency to build their equity before trading their shares, which is in line with our findings and commentary from the gift/award plan analysis. According to our data, greater than four years’ worth of monthly awards are traded by participants when they choose to do so.

Contribution plans without a cliff faced vesting structure

The following analysis looks at contribution plans whereby a vesting or available date occurs each month from the first award. Most commonly these are tax exempt salary sacrifice plans, with some exceptions.

Our data indicates that participants are building multiple years’ worth of equity before trading; with close to three years’ worth of regular purchases being traded when participants choose to do so. This is evident when the first award is made available for trading, with only 2.1% of participants trading.

WHAT PERIOD DO THEY TRADE WITHIN?

<table>
<thead>
<tr>
<th>Percentage of participants trading</th>
<th>Number of awards traded</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.0%</td>
<td>0.0%</td>
</tr>
<tr>
<td>2.0%</td>
<td>0.0%</td>
</tr>
<tr>
<td>3.0%</td>
<td>0.0%</td>
</tr>
<tr>
<td>4.0%</td>
<td>0.0%</td>
</tr>
<tr>
<td>5.0%</td>
<td>0.0%</td>
</tr>
<tr>
<td>6.0%</td>
<td>0.0%</td>
</tr>
<tr>
<td>7.0%</td>
<td>0.0%</td>
</tr>
<tr>
<td>8.0%</td>
<td>0.0%</td>
</tr>
<tr>
<td>9.0%</td>
<td>0.0%</td>
</tr>
<tr>
<td>10.0%</td>
<td>0.0%</td>
</tr>
<tr>
<td>11.0%</td>
<td>0.0%</td>
</tr>
<tr>
<td>12.0%</td>
<td>0.0%</td>
</tr>
</tbody>
</table>

OVERALL TRENDS

- **13.5%** of participants trade after 3 months
- **15.7%** of participants trade after 6 months
- **17.2%** of participants trade after 9 months
- **19.4%** of participants trade after 12 months
- **22.1%** of participants trade after 18 months
Limit vs market orders

There appears to be a slight variation in ‘market order’ sales between cliff faced contribution plans and gift/award plans. Market order implies that employees prefer to sell at market and therefore execute their trade immediately, rather than leaving an order to sell at a target price (limit order). Our data suggests that for cliff faced plans, where participants make contributions to their plan, 9% choose to place dealing instructions with a ‘limit’ order. For gift/award plans, ‘limit’ order is reduced to 3%.

This variation could imply that employees, who chose to contribute their own salary in cliff faced plans, have a higher level of financial acumen or sophistication than those participating in gift plans, particularly when it comes to then selling those shares.
PERFORMANCE HURDLES

According to our performance hurdle data, utilising the information from the active LTI plans across our client base, we can see that 74% of these plans use TSR as a measure, which is very little change from last year’s report. The majority of the other measures continue to be EPS, Return on Equity or Capital or EBITDA.

Our research shows that around 50% of the plans we reviewed utilise more than one performance hurdle measure. 47% of these plans have two or more performance measures with the majority being financial and a very small percentage have three.

Of the plans that use TSR, 65% have a second or third measure with 56% of this subset using EPS as the second measure and 28% ROE.

A small number of our clients have moved to the single incentive structure, which is outlined in the report from KPMG. Statistically, however, we have seen very little change in plans and hurdles used since our 2017 report.

Plan types

We have seen little change in the type of equity vehicle used across the plans we manage with almost three quarters using performance rights. The remainder of the plans are a mixture of shares, options and Restricted share units (RSUs) with cash being used in some cases for participants outside of Australia.
In 2018, Computershare partnered with researchers from the University of Melbourne to undertake research into motivations and drivers of employee equity plan participation. The research was piloted with a select number of organisations, including Computershare.

We’re currently working with the University of Melbourne to analyse the data in detail, understand key trends and determine what are the key influencers of equity plan participation and we’ll be issuing a report over the next couple of months that will give you this insight.

In the meantime, we wanted to share with you some initial highlights from the research:

Demographic drivers (across the select organisations surveyed) of share ownership include gender, age and tenure

› Women are more likely to enroll than men – 58% vs. 51%
› Participation rises with age, with low participation rates for employees <25
› Average job tenure is higher amongst participants than non-participants (11 years vs 7 years, on average)

Key motivating factors influencing non-participation in a plan include:

› Concerns about a company’s share price
› Preference to save in other ways
› Concerns about the tax payable on shares

A lack of interest in or understanding employee share ownership does not seem to be a widespread barrier to participate, with only 15-20% of respondents agreeing or strongly agreeing that lack of interest or understanding is a reason for non-participation.
This year we saw an unprecedented 24 companies in the ASX300 receive a strike, including nine companies in the ASX50. Both retail and institutional shareholders seem to have taken a stand on executive remuneration. One of the main contributing factors may have been the inquiries and investigations of the Financial Services Royal Commission. AMP, ANZ, NAB, WBC all received a strike; CBA was the only major bank to escape a strike but did receive a strike in 2016.

For more information on the current AGM season, please read our recent publication Insights from Annual General Meetings 2018.

### ASX300 remuneration report/spill resolution strike summary (2014 to 2018)

The following table shows the number of companies who received either a first strike or second strike on their remuneration report since 2014.

Interesting to note, since 2014 no ASX300 company has received more than 50% of votes in favour of the spill resolution, the trigger point forcing a company to hold a spill meeting within three months of the AGM to re-elect the board.

### ASX300 NUMBER OF STRIKES

<table>
<thead>
<tr>
<th>Year</th>
<th>Received 1st Strike</th>
<th>Received 2nd Strike</th>
<th>Spill Resolution Carried</th>
<th>Spill Meeting Required</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>14</td>
<td>1</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>2015</td>
<td>15</td>
<td>4</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>2016</td>
<td>17</td>
<td>1</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>2017</td>
<td>9</td>
<td>3</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>2018</td>
<td>21</td>
<td>3</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>
Nine ASX companies in the ASX50 received a first strike.

One third of companies receiving a strike received over 50% ‘against’ votes.

Average ‘against’ votes for companies receiving a strike was 45.77%.

13 companies had near-strike misses determined by receiving votes ‘against’ between 20% and less than 25% on the remuneration report.

165 companies received strong shareholder support on their remuneration report, receiving less than 5% no vote.

The ASX50 received the highest average percentage of ‘against’ votes for the remuneration report at 15%. Followed by ASX100 receiving an average of 12.17% of votes against.

### Average Percentage of Votes Against Remuneration Report in ASX300

<table>
<thead>
<tr>
<th></th>
<th>ASX50</th>
<th>ASX100</th>
<th>ASX200</th>
<th>ASX300</th>
</tr>
</thead>
<tbody>
<tr>
<td>Percent</td>
<td>15.0%</td>
<td>12.1%</td>
<td>8.8%</td>
<td>9.0%</td>
</tr>
</tbody>
</table>

### Number of Companies in ASX300 Within Different Strike Rate Groups

<table>
<thead>
<tr>
<th>Strike Rate Group</th>
<th>0%-5%</th>
<th>5%-10%</th>
<th>10%-20%</th>
<th>20%-25%</th>
<th>25%-30%</th>
<th>30%-50%</th>
<th>50%-75%</th>
<th>75%-100%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Count</td>
<td>165</td>
<td>34</td>
<td>29</td>
<td>13</td>
<td>5</td>
<td>11</td>
<td>7</td>
<td>1</td>
</tr>
</tbody>
</table>
ASX300 companies who received a first strike in 2018

- 21 ASX300 companies recorded their first strike in 2018 compared to nine in 2017, an increase of 133%. These companies will now need to prepare and address issues raised by their shareholders on the remuneration report by engaging in discussions with proxy advisers and their large institutional securityholders on their remuneration report policies to avoid a second strike in 2019 and a possible spill meeting.

- All remuneration report resolutions were decided via a poll.

- National Australia Bank Limited received the most votes against the remuneration report 88.43% followed by Westpac Banking Corporation 64.16%.

### AGM outcomes

#### FIRST STRIKE RECEIVED – ASX300

<table>
<thead>
<tr>
<th>COMPANY CODE</th>
<th>COMPANY NAME</th>
<th>FINAL VOTE</th>
</tr>
</thead>
<tbody>
<tr>
<td>NAB</td>
<td>NATIONAL AUSTRALIA BANK LIMITED</td>
<td>88.43%</td>
</tr>
<tr>
<td>WBC</td>
<td>WESTPAC BANKING CORPORATION</td>
<td>64.16%</td>
</tr>
<tr>
<td>MIN</td>
<td>MINERAL RESOURCES LIMITED</td>
<td>63.62%</td>
</tr>
<tr>
<td>TLS</td>
<td>TELSTRA CORPORATION LIMITED</td>
<td>61.98%</td>
</tr>
<tr>
<td>AMP</td>
<td>AMP LIMITED</td>
<td>61.46%</td>
</tr>
<tr>
<td>RCR</td>
<td>RCR TOMLINSON LIMITED</td>
<td>51.31%</td>
</tr>
<tr>
<td>HVN</td>
<td>HARVEY NORMAN HOLDINGS LIMITED</td>
<td>50.63%</td>
</tr>
<tr>
<td>NWH</td>
<td>NRW HOLDINGS LIMITED</td>
<td>49.05%</td>
</tr>
<tr>
<td>WFD</td>
<td>WESTFIELD CORPORATION</td>
<td>47.52%</td>
</tr>
<tr>
<td>QBE</td>
<td>QBE INSURANCE GROUP LIMITED</td>
<td>45.57%</td>
</tr>
<tr>
<td>GMG</td>
<td>GOODMAN GROUP</td>
<td>45.46%</td>
</tr>
<tr>
<td>IPD</td>
<td>IMPEDIMED LIMITED</td>
<td>44.33%</td>
</tr>
<tr>
<td>TAH</td>
<td>TABCORP HOLDINGS LIMITED</td>
<td>40.40%</td>
</tr>
<tr>
<td>ASB</td>
<td>AUSTAL LIMITED</td>
<td>37.24%</td>
</tr>
<tr>
<td>ANZ</td>
<td>AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED</td>
<td>33.76%</td>
</tr>
<tr>
<td>CPU</td>
<td>COMPUTERSHARE LIMITED</td>
<td>31.89%</td>
</tr>
<tr>
<td>HSO</td>
<td>HEALTHSCOPE LIMITED</td>
<td>29.29%</td>
</tr>
<tr>
<td>BKW</td>
<td>BRICKWORKS LIMITED</td>
<td>28.00%</td>
</tr>
<tr>
<td>AHG</td>
<td>AUTOMOTIVE HOLDINGS GROUP LIMITED</td>
<td>27.62%</td>
</tr>
<tr>
<td>CLQ</td>
<td>CLEAN TEQ HOLDINGS LIMITED</td>
<td>26.56%</td>
</tr>
<tr>
<td>EHL</td>
<td>EMECO HOLDINGS LIMITED</td>
<td>26.03%</td>
</tr>
</tbody>
</table>
ASX300 companies facing a second strike in 2018

- In 2018, nine ASX300 companies had to prepare for a second strike, compared to 17 in 2017 and 15 in 2016.
- Tatts Group Limited (TTS) facing a second strike in 2018, was delisted as a result of a Scheme of Arrangement and was not required to hold an Annual General Meeting.
- Five Companies did not receive a second strike and recorded against votes between 0.71% and 17.84%.
- Three Companies Karoon Gas Australia Limited (KAR), Liquefied Natural Gas Limited (LNG) and Myer Holding limited (MYR) all received a second strike and recorded against votes between 37.54% and 62.95%.
- Seven companies decided the remuneration report via a poll.
- One company decided the remuneration report on a show of hands.

ASX300 companies who received a second strike in 2018

The three companies, KAR, LNG and MYR who received a second strike against their remuneration report resolution, were required to put the spill resolution to the meeting as required by the Corporations Act. The spill resolution results for all three companies were conducted via a poll. No company was required to hold a spill meeting as all poll results showed the spill resolution for each company had received more than 50% of votes against.

ASX300 COMPANIES FACING STRIKE 2/SPILL RESOLUTION

<table>
<thead>
<tr>
<th>COMPANY CODE</th>
<th>COMPANY NAME</th>
<th>2017 AGAINST REM REPORT</th>
<th>2018 AGAINST REM REPORT</th>
<th>2018 FOR SPILL RESOLUTION</th>
</tr>
</thead>
<tbody>
<tr>
<td>KAR</td>
<td>Karoon Gas Australia Limited</td>
<td>43.92%</td>
<td>62.95%</td>
<td>15.86%</td>
</tr>
<tr>
<td>LNG</td>
<td>Liquefied Natural Gas Limited</td>
<td>60.26%</td>
<td>43.75%</td>
<td>0.94%</td>
</tr>
<tr>
<td>MYR</td>
<td>Myer Holdings Limited</td>
<td>29.41%</td>
<td>37.54%</td>
<td>35.93%</td>
</tr>
<tr>
<td>ISD</td>
<td>Isentia Group Limited</td>
<td>33.35%</td>
<td>17.84%</td>
<td></td>
</tr>
<tr>
<td>TPM</td>
<td>TPG Telecom Limited</td>
<td>29.88%</td>
<td>6.03%</td>
<td></td>
</tr>
<tr>
<td>CMW</td>
<td>Cromwell Property Group Stapled</td>
<td>30.98%</td>
<td>2.42%</td>
<td></td>
</tr>
<tr>
<td>AGI</td>
<td>Ainsworth Game Technology Limited</td>
<td>29.67%</td>
<td>11.9%</td>
<td></td>
</tr>
<tr>
<td>RWC</td>
<td>Reliance Worldwide Corporation Ltd.</td>
<td>42.09%</td>
<td>0.71%</td>
<td></td>
</tr>
</tbody>
</table>
ASX300 companies facing a spill meeting in 2018

No company in the ASX300 was required to hold a spill meeting in 2018. A spill meeting is required to be held within 90 days from the AGM when a spill resolution receives more than 50% of votes in favour.

ASX300 companies who received a strike each year since 2011

Australian Ethical Investment Limited (AEF) and Globe International Limited (GLB) have continued to record a strike on their remuneration report each year since the 'two strikes' legislation was introduced in July 2011.
EMPLOYEE EQUITY PLAN PARTICIPANT VOTING TRENDS

Companies who use Computershare to administer their employee equity plans have the unique opportunity to capture insights into their employee’s voting intentions. This may help companies better structure their internal engagement communications.

According to our research, despite seeing a gradual decline in voting behaviour over the last few years, 2018 saw increased engagement by plan participants. Furthermore, 8.1% of issued capital held in employee trust plans received voting instructions from plan participants, up slightly from 2017.
Financial wellness and equity compensation

The year 2018 goes down in history as one of the most important for workplace wellness programs in the US. Employers everywhere are introducing workplace wellness programs into their benefits structure, with a focus on financial wellness, and we expect this trend to continue as more employees turn to their employers for solutions that can help them achieve and maintain financial wellness. Wal-Mart, by way of example, recently implemented a financial wellness program to ease their workers financial strains in response to a survey that revealed their employees had serious concerns about meeting short-term financial needs, like rent and mortgage, utilities and in some cases food. Research indicates that an employees' financial wellness has an impact on a company's productivity and on its bottom line financials. Further, statistics show that nearly half of the American work force is stressed out and that they take that stress to the office every day. Below are some figures that show the challenges we are facing in the US to this end.

- 54% of workers say they’re stressed about finances (PwC)
- 2/3 of workers would fail a financial literacy test (FINRA Foundation)
- 53% of employees have skipped or postponed a healthcare issue to save money (BenefitsPro)
- 78% of Americans work pay check to pay check (CareerBuilder)
- 50% of workers spend an average of 45 minutes a day at work dealing with personal finances (BenefitsPro)

A comprehensive financial wellness program can empower employees, improve productivity and retain talent. Computershare's US Plan Managers recognizes the importance of programs like this as it relates to understanding equity-based employee benefits and more broad financial considerations. To this end, in 2017 Computershare's US Plan Managers partnered with HighTower Advisors to develop financial wellness programs for Computershare clients and their employees with the goal of shifting employee behavior as it relates to their finances, e.g., keeping employees from making bad financial decisions, like selling their awards at the market bottom, or making good decisions, like contributing to their ESPP or saving for retirement. In connection with this partnership, clients have access to help managing and planning for their equity awards and that includes helping them on the decision support process, like how they are going to pay taxes, when they should sell and what to do with the proceeds.
In addition, we have responded to this growing trend by:

- Holding quarterly financial wellness webinars covering stock options and restricted stock vesting (with sessions for both beginners and advanced level participants).
- Devoting a special session at our ESPP Day in February to ESPPs and financial wellness.
- Speaking at a webcast for the National Association of Stock Plan Professionals (NASPP) on financial wellness in June.
- Presenting financial wellness as a potential area of focus for Client Advisory Board in 2019.

With marketplace studies revealing that only 50% of stock plan participants are confident in their ability to make the right decisions about their awards on their own and only 24% of stock plan participants have exercised options or sold shares that are part of their equity compensation, helping participants understand where their true benefit can be in terms of how their equity awards helps them towards their financial goals and security is a leading workplace trend that will likely continue and eventually become a best practice.

Market and Regulatory Events

CEO Pay Ratio

By way of background, publicly traded US companies are required to disclose how the pay of their CEOs compares to the compensation of their median employees (the so-called “pay ratio”). Companies were required to disclose the pay ratio in their 2018 proxy statements for the first fiscal year beginning on or after January 1, 2017 pursuant to the Dodd-Frank financial reform act.

A few things were clear in connection with the findings from the first year’s filings:

- Companies spent considerable time and money calculating and disclosing their pay ratios.
- Many CEOs worried about the response to their pay ratio and, most importantly, the reactions of investors, special interest groups and the press were much more muted than expected.
- It appeared that the most interested group was the employees, and they were interested in how their own compensation compared to the median compensation, rather than to what their companies’ pay ratio was.
- The disclosures did not get us any closer to settling the long-running debate as to whether pay ratio disclosure provides useful information for investors.
- A company’s pay ratio may become a more useful data point when it is analyzed over time and compared to industry peers.

Section 162(m) Changes

Historically there’s been a limitation on corporate tax deductions for compensation in excess of a million dollars in the US, but there’s also been a specific exception for performance-based compensation, which historically, this exception has applied to the CEO and the next three highest compensated employees of US public companies. The change that was introduced is specific for tax years beginning after 2017 was that Section 162(m) no longer provides for the performance-based exemption that was historically available. The definition of the covered employee group has also been
expanded, so it now includes the CEO, the CFO and then the top three highest paid officers. The other significant change was that a previously covered employee would remain, so in essence, once someone was in that covered employee category, they would continue to be in that bucket, including for any payments after termination, which is a significant change.

What this means is for tracked and covered employees, the population is different than what companies might have seen in the prior years and could potentially be a significant change in the amounts that were previously deductible. While this change results in some loss of deductibility in terms of compensation amounts, overall corporate tax rates went down quite significantly in the US in 2018. So, there are some offsets in terms of the overall costs or the costs to a company when they look at all of the changes in totality.

If you are interested in what one company proposed to do in connection with these changes, you might take a look at Netflix. Their public filings indicate that they have been very aggressive about changes to their compensation program in light of 162(m) changes. Until now, their pay chiefly comprised a cash salary and a performance-based bonus. Henceforth, the company announced, their bonus will be folded into their cash salary and no longer tied to performance goals. For most companies, however, they are really trying to understand what the impact is in terms of the non-deductible amounts to their business and will make adjustments in due time.

Smaller Reporting Companies Are Getting Larger

Earlier this year, the SEC released amendments to the definition of a “smaller reporting company” that significantly expands the threshold up to which a company can be considered a smaller reporting company. They actually more than doubled the threshold under one of the applicable tests. By way of background, the SEC divides reporting companies—those that file periodic reports under Exchange Act of 1934, into different categories based on size and other factors.

Currently, if a company’s public float (represents the portion of shares of a corporation that are in the hands of public investors as opposed to locked-in stock held by company officers, etc.) is less than $75,000,000, it will qualify as an SRC. When the amendments became effective at the end of August, if a company’s public float was less than $250,000,000 at the end of its second fiscal quarter, it would qualify as an SRC for 2018.

The company itself determines whether it qualifies as an SRC and, if it determines that it does qualify, it can elect to file as an SRC. The determination does not need to be cleared with the SEC or require a legal determination from the SEC.

Awards to Non-employees

Also earlier this year, the FASB (fair accounting standards board) issued ASU 2018-07, which expands the scope of ASC 718 to cover awards issued to nonemployees.
As originally issued, ASC 718 covered only awards issued to employees and outside directors (who are considered employees for purposes of ASC 718). Awards to nonemployees (other than outside directors) were accounted for under ASC 505-50, which stipulated mark-to-market accounting until awards were vested.

By expanding the scope of ASC 718 to cover awards to nonemployees, ASU 2018-07 largely aligns the accounting treatment of these awards with that of awards granted to employees. Under the ASU, expense for awards granted to nonemployees that are settled in stock is determined on the grant date, with adjustments only for forfeitures and modifications. Mark-to-market accounting is no longer required.

Rule 701

Rule 701 (which is the most commonly used exemption to grant equity to employees under comp plans) provides an exemption from various requirements under the Securities Act for US private companies and non-US companies when issuing securities to their employees, directors and other advisors under an incentive plan.

For private companies to rely on Rule 701, numerous conditions have to be met and there are certain limits to the exemption. If a company issues more than $5 million in securities in any consecutive 12-month period, additional information must be delivered to participants. This is a burden most companies want to avoid.

What is known as the Reform Act, which was enacted on 24 May, directed the SEC to increase the $5 million threshold to $10 million. In addition, the threshold should be increased to match inflation every five years.

Credit Karma Inc. was fined $160,000 for issuing securities in excess of the $5 million threshold under Rule 701.
EUROPE & SOUTH AFRICA
European share plans market update

2018 stood out in the scale of regulatory initiatives. Preparations to MiFID II’s January deadline cost financial services firms around US$2.5 billion in 2017 (Source: Financial Times) — a scale of impact that very few legislation initiatives can rival. Regulations impacted not only corporate institutions including service providers and issuers but also share plan participants.

Innovation in share plan design continued in 2018, with some plan features being driven by regulations while others by increasing focus on employee engagement and employee motivation. Companies are structuring schemes that aim to attract an increasingly flexible workforce with a constantly decreasing tenure. In practice this means we are seeing shorter contract terms for plans and shorter vesting periods. Another significant factor in plan design is tightening expectations of investors resulting in increasing focus on malus and clawback provisions in the UK.

In the past 12 months, a large number of Europe-based multinationals such as Allianz, Danone and Axel Springer, designed new share schemes to broaden offering of share plans to all employees. Companies are looking to give employees a voice as well as increase employee engagement - two key drivers that shape up design of share schemes.

Regulatory changes

In Europe, The Markets in Financial Instruments Directive II (MiFID II) was introduced from 3 January 2018, to help regulators identify and prosecute market abuses like insider trading and market manipulation, with the aim of making financial markets more transparent and improve protection for investors. MiFID II was a major undertaking for all financial organisations and changed drastically the requirements for identification of share plan participants trading their securities.

May 2018 saw the introduction of the new European Union General Data Protection Regulation (GDPR) which has been designed to bring data protection regulations up to date and enhance and protect the personal data and rights of data subjects. Computershare has had to ensure further safeguard of the vast amount of internal personal employee data and clients’ personal data that we either process or control on their behalf on a daily basis.

Brexit (Britain’s withdrawal from the European Union) and related proposals have had a significant impact on the European economy in general and will continue having a significant impact on the share plans sector as part of the financial services industry overall. The UK, as part of the single European market, is one of the world’s largest financial centres and it benefited from passporting regime. This meant that UK-based companies can provide cross-border services into the EU without setting up a local base in individual EU states. Due to Brexit proposals, the financial industry has to focus on planning for potential exit scenarios and restructuring challenges.

2018 was also the first year of Gender Pay Gap Reporting in the UK, which is designed to improve recruitment and the progression of women.

Among the news that shook up the industry, were the UK’s Labour party’s shadow chancellor’s plans for ‘inclusive ownership funds’ (IOF). Under IOF, employees would have voting rights and receive dividends in the same way as other shareholders, but would be unable to sell or transfer the
shares. Conceptually, increasing employee ownership is a positive but there is little clarity in how this would work and implications are unknown. The proposed structuring of the schemes with a dividend in excess of 500 pounds per participant transferred to the UK Government’s budget attracted criticism from industry bodies, who see the proposed draconian measures as another way to raise tax.

In share plans news this year, the collapse of Carillion, a construction giant, amassed £1.5bn of debt and a controversial £110m LTIP payout to the CEO of Persimmon (which was subsequently reduced to £75m) caused public uproar and calls for more stringent remuneration policy rules and clawback provisions for bonuses and share awards.

New share plan offering and trends

UK

In the UK, the Share Incentive Plan (SIP) remains the most popular way to provide all employee incentives given their tax advantages and familiarity. We see that the SIP scheme continues to gain popularity compared to another UK approved plan type – Save As You Earn (SAYE).

A trend to offer schemes that better match employee tenure has been seen with the SAYE plan, which sees an increasing number of employers offering three year option schemes over five years. The UK government relaxed the contribution holiday rules allowing anyone wishing to take up to 12 months break. This is expected to help with SAYE enrolment rates. The new rule benefits either a parent, those wanting to take a career break or simply those seeking greater flexibility in payment.

Engaging the millennials category of employees remains a challenge for companies. Increasing evidence suggests that the schemes are less popular with younger employees who might not be able to picture themselves five years down the line which is the minimum requirement to receive shares tax free.

Ireland

Key Employee Engagement Programme (KEEP) in Ireland was introduced in the Finance Bill 2017 and provides a tax efficient share option scheme for employees of SME’s (unquoted companies). The KEEP scheme became available from 1st January 2018 however whilst interest is high no companies have launched a scheme due to numerous restrictions.

The most popular scheme in Ireland is the Approved Profit Sharing Scheme (APSS). This is a revenue approved plan that provides tax incentives for both the employer and the employee. The employee can save up to 40% income on all monies invested in shares and the employer saves 10.8% (employer PRSI) on all employee monies invested in shares (this results in an APSS being highly tax efficient for the company.)
Over the last 2 years interest in SAYE has grown with companies looking to offer employees a share scheme without the risk associated with owning stock as with an APSS.

In Ireland, we also see that many companies previously administering discretionary plans in-house started struggling with complexity and scales for the plans that have grown beyond the limit of their control and there has been a genuine appetite to outsource to de-risk management of the schemes.

Denmark

It is worth highlighting a new initiative of Parliament in Denmark – the ‘Growth Package’ which contains a number of new proposals to strengthen the stock culture in Denmark that, to some extent, also could have an impact on share based payments.

In December 2018, a revised Stock Option Act passed through the Danish Parliament. The Act will make it easier to rollout global share plan schemes without local exceptions in terms and conditions.

A stock savings account is also being introduced, inspired by similar legislation in Sweden, with a lower and more simple taxation, which will make it more attractive for private investors to invest in Danish companies. It also has an aim to attract more SMVs to list at the stock exchange, which has recently been quite stagnant from an IPO activity perspective.

New favourable tax rules were introduced in Section 7P of the Danish Tax Assessment Act, effective 1st January 2018. The rules imply that an employee can defer tax due on equity awards until the underlying shares are sold, at which time the entire gain is taxed as capital gain (rather than employment income).

France

France will also see a major change from a tax perspective in 2019. With an introduction of PAYE starting from January, participants holding non-qualified awards will now be required to pay tax at the point of vesting rather than filing a tax return at the end of the tax year.

Continental Europe

In terms of discretionary plans, performance shares remain the most popular type of Long Term Incentive Plan (LTIP) in Continental Europe, with almost a third of European companies offering this type of plan. This is similar to recent years but follows a trend of moving away from stock option type plans seen in the past and with many public commentators and politicians believing they caused some of the excessive risk taking of the financial crisis era.

European companies also tend to roll out their LTIPs in more countries.
In terms of popular schemes, Broad-Based Black Economic Empowerment (BBBEE) plans are the most common ones for a number of reasons, namely they are broad based and inclusive and they are supported by legislation and government policy. These plans are normally awarded at discounted rate and/or at no cost to the participant. Overall, common Plans in South Africa are Discretionary Plans, Contributory plans and BBBEE Plans. Discretionary plans are generally awarded to employees at no cost. These Plans include but are not limited to executive stock options, employee share options, stock appreciation rights, share awards and profit share scheme. Contributory plans are awarded at cost, which usually takes the form of salary sacrifice from a participant. This plan is less attractive for the low income earners. Profit share plans might gain popularity in South Africa as well as broad based plans.

From a wider economic perspective, 2018 was certainly a challenging year for South Africa which received a credit downgrade by S&P. This impacted share price for many companies, putting share options into the “under water” position with some issuers taking drastic decisions to delaying vesting for the discretionary schemes.

Outlook for 2019

We expect to hear further proposals on design of IOF in 2019 whilst gender pay gap in the UK will continue to be one of the fundamental measurements of equality in the work space for corporate clients.

In the EMEA, we expect that companies will retain focus on share plan features addressing corporate governance issues. Plan design will include performance shares as well as malus and clawback provisions. Whilst more and more companies in Europe acknowledge benefits of broad based plans, Computershare will continue working with companies and advisers on improving effectiveness of all-employee schemes in Europe.
CANADA

The number of implementations/conversions of plans managed by Computershare Canada remained consistent from 2017 to 2018. The trend we are observing is that Share Option Plans (SOPs) and Restricted Share Unit Plans (RSUs) are the two most popular award plan types, with SOPs being slightly more popular over the two years in aggregate and most popular in 2018. Performance Share Unit Plans (PSUs), Deferred Share Unit plans (DSUP) and Employee Share Purchase Plans (ESPPs) implementations were generally consistent in quantity over the past two years. From an ESPP growth perspective, plan take-up has remained flat year over year.

In recent years, the idea of a full value award such as RSUs has often been discussed as a replacement for the traditional stock options.

According to the information we have on hand, options still appear to be the award of choice as they were in 2017.

When breaking this down by Canadian geographical regions, the results are still consistent:

- **Eastern**: 59% SOP, 27% RSU, 14% Other
- **Central**: 70% SOP, 13% RSU, 17% Other
- **Western**: 60% SOP, 16% RSU, 24% Other

The self-administration clients are typically smaller cap companies which may lend to these findings.

**Global mobility**

While global companies have been sending employees to work abroad for many years, governments are becoming more stringent in enforcing taxation, immigration, employment law and equity awards rules. There are several reasons for this. In the past, employees sent abroad would need to officially relocate, but advances in technology make it easy for employees to move in and out of countries on shorter assignments. Big data enables improved tracking of movement across borders in terms of who are travelling and how long they’re staying. Governments seeking alternative sources of revenue are imposing penalties on non-compliant companies. These companies may also face legal action.
Cannabis legalisation

With the legalization of cannabis by the federal government earlier this year, we are seeing an increase in new as well as established cannabis companies launching Long-term Incentive Plans (LTIPs). With this comes additional regulatory compliance (for example, agreements requiring cannabis company-specific language, Computershare obtaining copies of clients’ permits, licenses, etc).

Other legislation

Canadian Anti-Money Laundering and Anti-Terrorist Financing legislation is having an impact on the industry with regards to non-VLCs (very large corporations) for whom reporting requirements are significantly more stringent. A non-VLC is defined as having less than $75 million in shareholder equity. Plan administrators such as Computershare need to obtain the Identity Ascertainment Documents for a corporation before opening an account or accepting any assets or within 15 days of becoming a trustee of a Trust.
Executive remuneration in Australia – is it irretrievably broken?

2018 – a perfect storm

2018 has been a tumultuous AGM season for corporate Australia, with executive remuneration taking centre stage. The Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry and the findings of APRA’s Prudential Inquiry into CBA have highlighted remuneration as a key driver in encouraging the pursuit of short-term financial gain at the expense of the long term interests of key stakeholders, good corporate culture and health of business. Remuneration at both executive level and sales based incentives for customer facing staff have taken the heat (being vilified as the root cause of unethical behaviour), with some questioning the need and appropriateness of incentives altogether.

Underpinning it all are three key issues:

› **Quantum:** the sheer size of some remuneration outcomes has reverberated badly with the community, fed by the financial media;

› **Alignment:** the lack of alignment of some remuneration outcomes with shareholder experience has incurred the wrath of investors – most notably Telstra, Tabcorp, Westpac and NAB; and

› **Trust:** an underlying distrust in Boards of our major companies to do the right thing.

Boards have been grappling with executive remuneration frameworks and outcomes, and how to ensure alignment with company performance and shareholder experience, for a number of years. However, now a new layer of complexity has emerged. Government, regulators and the community are demanding Boards ensure results are achieved in the ‘right way’ and not at the expense of customer or community standards. While this should be a ‘given’, history tells us it is not. There is mounting pressure on companies (particularly Boards) to focus on their ‘social licence to operate’, as part of a broader campaign to rebuild trust in corporate Australia.

As we look back on 2018, it is clear the mood has shifted. The key trends, outlined below, have been underpinned by a deep scepticism of the role of incentives and a distinct lack of trust in Boards to do the right thing.

**Key trends**

› The overall quantum of executive remuneration is too high for the public – and corporate Australia is listening and acting, albeit too slowly for some. The public and financial media continue to express their outrage at the sheer quantum of remuneration, and investors and proxy advisers at remuneration that is disproportionate to company performance (or shareholder experience). In 2018 we saw some leading Board members publicly recognise that executive remuneration is out of hand.

Companies have responded to community and shareholder criticism by ‘rebasing’ CEO pay levels upon a new appointment. In FY18, new ASX100 CEOs have, on average, commenced on fixed remuneration 19% lower than their predecessor, and a number of companies have rebased other incoming KMP to maintain appropriate ratios with the CEO.

For continuing CEOs, we have seen restraint in fixed
pay increases, with only 7 ASX50 companies with 30 June reporting dates increasing CEO fixed pay in FY18. This is also filtering down to executives. The ‘small’ CPI increase often given as a minimum in the past has been withdrawn, as Boards realise that for a CEO on near $2m a year this increase can often come close to the average worker’s wage.

Whilst not a solution, it is a step in the right direction.

Outcry where bonuses have been paid in circumstances where companies have performed poorly. Shareholders (and proxy advisors) continue to be particularly critical of incentive payouts where there has been a fall in shareholder value and/or stubborn underperformance (e.g. Telstra), performance that has not met expectations (e.g. QBE) or payments against ‘soft’ targets/vague non-financial measures which are not clearly quantifiable (or no targets at all in relation to Tabcorp’s Tatts transaction bonus). Boards need to go beyond looking at scorecards or performance metrics set at the start of a period and consider share price, reputation and conduct to assess whether variable remuneration (whether in the current year or from previous years) is deserved.

In addition, there has long been a divergence in view of the role of short-term incentives or ‘bonuses’. Many investors and commentators believe these should only be given for outperformance – while many management teams consider these annual bonuses to be ‘normal’ remuneration, at risk only in cases of underperformance. This compounds the trust issue where two of the key players have completely different expectations around STIs and companies are not clear and transparent in their communications.

The tension between financial and non-financial measures as the basis for incentive payments has escalated. The Royal Commission and APRA have been particularly critical of the emphasis of short term financial measures in scorecards. They are calling for more focus on non-financial measures in the financial services industry such as customer, behaviour, risk and culture. The intention is to shift the focus to include ‘how’ an employee does their job rather than just the focus being ‘what’ the outcome was.

Previous attempts to introduce strategic or non-financial measures into remuneration frameworks were often attacked by shareholders and proxy advisers as introducing ‘soft’ targets so the Board can ‘hand money out’ or targets that can produce payouts even when financial results are below expectations.

Much of the initial backlash to strategic/non-financial measures was down to poor communication of the targets. In order to regain the trust and confidence of stakeholders, these measures need to be quantifiable and clearly linked to the achievement of a company’s strategic objectives and shareholder value creation. Engagement with external stakeholders will be even more critical than ever.

Recognising one size definitely does not fit all, companies are introducing bespoke remuneration arrangements in an effort to align reward frameworks more closely with company strategy and shareholder experience.

The trend towards incorporating strategic measures into the LTI has continued as a way to better align rewards with company strategy – not just annual profit (eg CBA, Incitec Pivot and Caltex).
A number of companies have also moved to collapse STI and LTI structures into a single incentive plan. These plans link rewards to a scorecard tested annually and deliver a large proportion of the reward in shares that are restricted for a period (eg QBE, JB Hi-Fi, NAB). A variant of this plan incorporates an additional performance test at the end of the performance period on at least some of the equity (eg Wesfarmers, Telstra, and now Perpetual for its CEO).

The rationale for these plans is compelling – to reduce complexity, enhance the value executives place on these structures by improving line of sight while also allowing for long-term alignment with shareholder through granting restricted shares (which also allows Boards greater opportunity to clawback or forfeit awards). However, they are not appropriate for all companies or industries.

Stakeholder reaction to variable incentive plans during the 2018 AGM season has been very mixed. There has been a high degree of shareholder cynicism that these plans are only being introduced to boost executive pay packets by companies that have not enjoyed LTI vesting. A few have received strikes (e.g. NAB, AMP, Telstra, QBE) and there have been a few near misses.

The negative market reaction has been most violent where there have been healthy payouts following poor company performance, opaque scorecards or perceived short termism (because of the annual scorecard) or other contextual factors which are not directly linked to the remuneration structure or outcomes under the variable plan (such as the Royal Commission, strategic direction and consistent underperformance).

While shareholders continue to distrust boards to do the right thing, we have seen, more than ever, the use of Board discretion to reduce awards. However, even where Boards are exercising discretion, this is often perceived to be ‘too little’ (eg Telstra and NAB).

Boards are increasingly calling for more information to allow it to consider the quality (not just quantity) of financial results in awarding incentives. This has been facilitated by using contra or supplementary indicators to assess if results have been achieved in the ‘right way’. This takes in consideration of behaviours, culture, risk, customer, employees, suppliers and the broader community in which companies operate.

Culture, governance and remuneration are inextricably intertwined – The role of remuneration in supporting (or undermining) culture is in the spotlight and has been reinforced by the findings of the Final Report. The Commission stated ‘remuneration tells staff what the entity values’. With culture, and its link to governance and remuneration, now squarely on the agenda, the questions for companies are how will culture be measured internally? How will culture be reflected in the reward framework? How will it be reported to RemCo/Board? And how will companies respond to problems identified?
Looking forward

Where does this leave us? We are at cross roads.

Remuneration will undoubtedly continue to be a contentious issue in 2019 and beyond. The findings of the Royal Commission were released in early February and their reach will be felt by companies outside of the financial services industry.

APRA and ASIC have had a big stick taken to them in the Royal Commission and will need to flex their regulatory muscles in response.

The Final Report of the Royal Commission has tasked APRA with setting limits on the use of financial measures in connection with long term measures in the financial services industry. The Australian Opposition recently indicated it would follow the US and UK and mandate disclosure of the CEO-to-average-worker pay ratio (if elected). It appears that it is only a matter of time until this type of disclosure is required in Australia.

There have been calls for more simple frameworks by some of the leading Chairman in corporate Australia (ie cash and grants of shares).

We will continue to see restraint in quantum and a greater willingness of Boards to exercise discretion in light of corporate and shareholder outcomes.

As financial services companies are tasked to review the effectiveness of their remuneration frameworks. Boards will need to undertake annual reviews to understand whether their frameworks encourage ‘sound management of non-financial risks’ and have been ‘working as intended’. The quality and type of information that Boards will demand will have a greater emphasis on misconduct, risk and culture.

We also expect to see a greater emphasis on accountability and consequence management, including the more regular consideration and exercise of clawback policies when issues are identified.

However, whether this can rebuild trust between Boards and investors, is unclear. The sins of the past hang heavy.

We will, however, see greater transparency and more emphasis on communication – with shareholders, the community, and management teams.

Two things are clear – there are no easy answers. And rebuilding trust will be a journey that takes time.

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There has been a keen interest in employee share schemes in New Zealand during 2018.

General Observations on Scheme Design

From a share scheme design perspective, there has been a move away from loan backed share schemes to share rights and restricted share units (RSUs), influenced by the New Zealand tax reforms (referred to below) and more simplicity.

There has also been more interest in tax exempt schemes given the tax reforms (referred to below) that provide more flexibility in designing these schemes.

New Zealand Tax Reform

The Government enacted the expected employee share scheme income tax reforms on 29 March 2018.

Future Taxing Point to Employees on Vest

These reforms apply to benefits provided under arrangements that involve issuing or transferring shares to past, present and future employees or shareholder–employees (or their associates) of the issuing company (or a group company).

In general terms, the new rules mean employees are taxable on the market value of shares on the date on which the employee holds the shares like any other shareholder.

This is when they have fully vested meaning they have full ownership of the shares and there is no price protection or continued employment obligations to be satisfied.

These new rules generally do not apply to share benefits granted or acquired before 12 May 2016 and share benefits granted or acquired before 29 September 2018 where vesting is prior to 1 April 2022.

Exempt Employee Share Schemes

As noted above, the tax reform has included welcome changes to the tax exempt schemes, now called Exempt Employee Share Schemes. These changes include:

› There is no longer a requirement to have the share scheme approved by the Commissioner for the shares acquired by participating employees to be considered tax exempt;

› Schemes that were previously approved by the Commissioner will automatically be considered an exempt scheme, with shares received by employees under the Plan continuing to be exempt from tax (subject to the requirement that the monetary thresholds explained below are adhered to);

› The previous legislation provided that all employees should be permitted to participate in the DC 12 schemes. The new rules provide that at least 90% of employees in each class must be offered the opportunity to participate in an exempt scheme;
Under an exempt scheme the market value of the shares that the employees may receive is to be limited to NZ$5,000 annually;

An employer’s contribution to the purchase of the shares may not exceed NZ$2,000 and the purchase price of the shares may not exceed their market value;

The new rules provide that where the employee is required to contribute to the purchase of the shares and this contribution is not a nominal amount, an interest free loan facility must be made available to the employee or they should be permitted to pay for the shares in regular instalments of a month or less;

Under the new legislative provisions, the period of restriction is the shorter of a period of three years and the period until the employee’s employment;

The legislative changes require that employees should be permitted to withdraw from the scheme with a notice period of no more than one month and three months as was previously stipulated in the old rules.

**Employer Income Tax Deduction**

The new law allows employers an income tax deduction equal to the taxable income to the relevant employees, regardless of the actual cost incurred by the employer. Some employers are likely to take the approach of “sharing” this benefit with employees to the extent the tax impost under the new rules for employees’ increases.

**Tax Working Group**

As part of the Coalition Agreement to form the Government in 2017, a tax working group has been considering changes to the New Zealand tax system. The group will likely report to the Government in January 2019. The group is giving detailed consideration to extending the taxation of capital income which would include share interests from 1 April 2021. If the Government accept this, it would mean employee share gains post vesting would...

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The market practice and legal framework surrounding the operation of global executive and employee share plans is constantly shifting. It is essential that share plan professionals are aware of the developments impacting their plans and participant population to ensure that they know what is coming and can respond accordingly.

Janet Cooper OBE, a partner at leading law firm, Tapestry Compliance, looks ahead to 2019 and identifies some of the key trends:

› **Employee engagement:** Across a broad range of sectors, we have seen an increasing number of major global companies introduce share plans for their employees worldwide. The key driver is employee engagement. Companies have focussed on designing plans which enable workers at all levels to share in the success of the business on a long-term basis. The use of creative communications has helped to crystallise the link between share plan participation and engagement with the business, with companies such as HSBC producing award winning communications.

As a result, during the last year, we have seen an increase in the number of UK listed companies implementing new ‘share match’ plans, whereby employees are invited to buy shares using salary deductions and then receive free ‘matching’ shares. Employee engagement has become an important strategic objective in many companies and enabling employees to have a stake in the business can be an important step towards meeting this objective. We see this trend continuing over the next year.

› **Executive incentives:** Executive incentives are always in the spotlight. The question is: what is the latest focus of attention? The concepts of ‘quantum’ (the justification of the amounts delivered) and alignment with company performance remain the centre of attention – but also coming under the spotlight this year are:

› Shareholding guidelines – these guidelines have taken a back seat for a while but a new requirement means that executives of UK listed companies must continue to hold a defined level of post-termination shareholding for 2 years. This is a hot topic and is unpopular with executives. Companies are likely to take a fresh look at their shareholding guidelines. It is possible that investors will start to expect post-termination shareholdings in other countries.
› Malus and clawback clauses – there is a focus on making these clauses broad enough to cover issues relevant to the company and not just to have financial misstatement as a ‘trigger’. A common trigger is ‘corporate failure’ which would require the executives to forfeit or repay awards in the event of company failure. Another key point is to make sure these clauses are enforceable, a point emphasised by the recent case where malus provisions operated by Lloyds Bank were found to be unenforceable. This has led to the introduction of robust malus and clawback policies.

› **Global compliance**: Companies are likely to keep global legal and tax compliance under review to ensure it is up-to-date and accurate but also cost effective. We have seen a number of countries, such as Belgium and France, change from direct taxation to payroll withholding with a view to improving tax collection in those countries. We are likely to see more of this and companies are ensuring they have advance notice of this to notify employees but also to have the correct systems in place.

› **Diversity**: Diversity is on the agenda for many boards. Gender equality is ‘Goal #5’ in the UN's Sustainability Development Goals, requiring UN member states to work towards those goals, which will be reviewed and measured in 2030. This will be one of the reasons we have seen new legislation globally to address gender equality and the broader diversity agenda. This legislation includes the gender pay gap reporting requirements in Germany and the UK, with similar requirements planned for Ireland. Some boards are looking at this from a compliance perspective but others, such as Unilever, are viewing it as a strategic imperative to enable them to attract and retain the best talent.

Whatever the motivation, there is a clear focus on diversity at board level. This can impact share plan design (some plans are more attractive to women than others). Some companies are tracking participation demographics and, primarily in relation to executive plans, are ensuring that awards are made fairly and without bias. We are likely to see a continuation of such developments.

Janet has advised companies on their global executive and employee share plans for over 30 years and, just over 7 years ago, co-founded Tapestry Compliance, a leading law firm headquartered in the UK which advises the world’s leading global companies on their global executive and employee share plans.

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