

Janet Ford
Business and Society
Department for Business, Innovation and Skills
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London SW1H 0ET

employeeownership@bis.gsi.gov.uk

21 February 2014

Dear Ms Ford,

**On amending the rule against perpetuities and further reducing the complexity of employee ownership:
call for evidence**

Introduction

We are the Quoted Companies Alliance, the independent membership organisation that champions the interests of small to mid-size quoted companies. Their individual market capitalisations tend to be below £500m.

The Quoted Companies Alliance is a founder member of European **Issuers**, which represents over 9,000 quoted companies in fourteen European countries.

The Quoted Companies Alliance Share Schemes Expert Group has examined your proposals and advised on this response. A list of members of the Expert Group is at Appendix A.

Response

We welcome the opportunity to respond to the proposals to amend the rule against perpetuities. We predominately represent small and mid-size quoted companies where their shares are traded on the Main List of the London Stock Exchange, AIM and ICAP Securities and Derivatives Exchange (ISDX), which might not be owned substantially by trusts, but might have employee share ownership via trusts to a lesser extent. Unless for historical reasons, the employee trust would not be set up merely to create an internal market, but to create a pool of shares preserved for employees. Whilst such a company would not be fully employee owned, a 10-25% pool of employee share ownership is not uncommon. Note that 99% of the companies in the FTSE 100 index have some form of employee share scheme.

Our view is that 125 years is adequate for the majority of situations encountered by small and mid-size quoted companies, and therefore, on the whole, is not a deterrent for these companies setting up employee share ownership arrangements at the moment. There may be limited situations where a longer period is helpful and we would support the exemption of employee trusts that are employees' share schemes within the definition in section 1166 Companies Act 2006 from the current perpetuity rules.

It is noted that many companies will have set up employee trusts with different perpetuity periods, perhaps referring to lives in being plus 21 year or the former specified maximum of 80 years, or may have specified a shorter period, say 20 years, seeking to deal with specific circumstances that are no longer relevant. The fixed period might mean a windfall for employees at a given date, whereas former or future employees are unable to benefit. Therefore, it would avoid these windfall problems for a trust to remain in existence indefinitely, and so we would ask for existing employee trusts to benefit from this change.

Once a company is quoted on a market, the corporate ambitions are less likely to be a sale of the company, but rather sustainable growth with engaged employees. This can be supported by aligning the interests of shareholders and employees through methods, including direct or indirect holding of shares using trusts.

We have no specific examples of difficulties with the perpetuity period in quoted companies, but appreciate that the growth in employee benefit trusts in recent years means this might be a future problem that gives rise to unnecessary expense to resolve. We understand that this can be a significant problem for privately owned companies that are 100% owned by employee trusts, and so, if the Government intends to encourage further employee share ownership in businesses, then this change in law would be appropriate to encourage this.

If you would like to discuss any of the responses in more detail, we would be happy to attend a meeting.

Yours sincerely,



Tim Ward
Chief Executive

Quoted Companies Alliance Share Schemes Expert Group

Fiona Bell (Chairman)	RM2 Partnership Limited
Michael Landon (Deputy Chairman)	MM & K Limited
Jared Cranney (Deputy Chairman)	ISG plc
Isabel Pooley/Nicholas Stretch	CMS Cameron McKenna LLP
Barbara Allen/Anika Chandra	Stephenson Harwood
Emma Bailey	Fox Williams LLP
Martin Benson	Baker Tilly
Danny Blum	Eversheds LLP
Stephen Chater /Robert Postlethwaite	Postlethwaite & Co
Sara Cohen	Lewis Silkin
Karen Cooper	Osborne Clarke
Rory Cray	FIT Remuneration Consultants
John Daughtrey	Equiniti
Matthew Findley	Pinsent Masons LLP
David Firth	Penna Consulting PLC
Philip Fisher/Andy Goodman	BDO LLP
Amanda Flint/Richard Sharman/	
Amanda Stapleton	Grant Thornton UK LLP
David Fuller	CLS Holdings PLC
Mark Gearing	Field Fisher Waterhouse
Paula Hargaden/Caroline Harwood	Burges Salmon
Colin Kendon	Bird & Bird LLP
Andrew Quayle	Olswang
Mia Thursby-Pelham	PricewaterhouseCoopers LLP
Nick Wallis	Smith & Williamson Limited
Matthew Ward	Hewitt New Bridge Street