

Minutes of the QCA Financial Reporting Expert Group



Held on: Tuesday 18 September 2018

Venue: Grant Thornton UK LLP, 30 Finsbury Square, London, EC2A 1AG

Present:

Matt Howells (Chair)	Smith & Williamson LLP	MH
Matthew Stallabrass (Deputy Chair)	Crowe UK LLP	MS
Ben Courts	Moore Stephens	BC
David Ellingham	Bilby Plc	DE
Laura Mott	haysmacintyre	LM
Claire Needham	KPMG LLP	CN
Elisa Noble	BDO LLP	EN
Jon Wallis	Grant Thornton UK LLP	JW
Peter Westaway	Deloitte LLP	PW
Tim Ward	Quoted Companies Alliance	TW
Anthony Robinson	Quoted Companies Alliance	AR
Callum Anderson (minutes)	Quoted Companies Alliance	CA

In attendance:

Alex Imrie	Smith & Williamson LLP	AI
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1. WELCOME TO ALEX IMRIE, SMITH & WILLIAMSON LLP

MH welcomed AI to the meeting.

AI briefly gave an overview of his career trajectory to date.

AI explained that fund managers use financial statements to measure a company's performance over the course of a business cycle, so that they are able to produce good forecasts of future financial statements. He noted that fund managers did not adopt a 'one-size-fits-all' approach when they assess financial statements – noting that a bank's financial statements would clearly be different in nature to those of a high street retailer.

AI also noted that, compared with auditors, fund managers were generally not as pre-occupied with issues such as materiality – rather the long-term direction of a company. This meant that they (fund managers) predominantly focussed on profit/losses, the balance sheet and the cash flow statement.

AI added that fund managers prefer historical financial information from at least the previous four to five years. He noted that many worry that most companies' financial information is from relatively good years and not from more challenging macroeconomic environments. This makes it difficult to measure the resilience of a company. He emphasised that fund managers were keen to understand and analyse a company's financial information from a range of different market conditions.

AI briefly summarised the financial models that fund managers and their analyst colleagues build to assess a company's financial performance. AI and the Expert Group exchanged views on the different assumptions used, as well as the granularity of information required to ensure that accurate and durable models could be built.

AI added that the three most important financial statement metrics to fund managers were: valuation, quality and momentum (earnings expectations and share price). AI and the Expert Group discussed the merits of different valuation metrics – EBITDA was noted to be the preference of the majority of fund managers.

There was also a wide-ranging discussion comparing investor engagement with management teams of smaller quoted companies with their larger counterparts. AI noted that, often, the management teams of smaller companies were more forthcoming and welcoming to fund managers.

AI noted that most fund managers were not particularly concerned with which financial reporting standards that companies elected to adopt, as long as the financial statements were able to clearly shed light on trends which may help describe a company's future performance.

MH and the Expert Group thanked AI for his presentation and attendance to the meeting.

2. APOLOGIES

Apologies were received from Rochelle Duffy, Mark Hodgkins and David Hough.

3. MINUTES OF LAST MEETING (5 June 2018)

The minutes were approved.

4. ISSUES FOR DISCUSSION

	ITEM	ACTION
a)	<p>Independent Review of the FRC</p> <p>MH noted that the QCA had submitted its response to Sir John Kingman's independent review of the FRC.</p> <p>CA explained that Sir John was expected to issue his recommendations to the Secretary of State for Business, Energy and Industrial Strategy (BEIS) by the end of 2018.</p> <p>CA added that the QCA had met with Sir John – along with a number of corporate members – at the end of July 2018 to discuss his review. He explained that Sir John had shown particular interest in ways that the FRC could be put on a statutory footing like the FCA. Following this meeting, CA mentioned that the QCA had, with the support of a number of Corporate Governance Expert Group members, submitted a supplementary paper that supported this footing.</p>	None.
b)	Results of the QCA/YouGov Small & Mid-Cap Sentiment Index	

	<p>AR explained that the results of the QCA/YouGov Small & Mid-Cap Sentiment Index had been published, following a survey of 111 small & mid-sized quoted companies and 42 advisory firms during the summer.</p> <p>AR explained that the high-level conclusions of the survey were that although most companies were concerned about the future prospects of the UK economy due to the uncertainty surrounding the UK's economic relationship with the European Union, they remained optimistic about their own prospects and capacity to continue their growth.</p>	None.
c)	<p>Brexit</p> <p>TW noted that Andrew Death of BEIS had attended a Corporate Governance Expert Group meeting earlier in September 2018 and explained that BEIS was in the process of developing a proposal that would create an Endorsement Board, which would be responsible for endorsing IFRS in the UK. TW added that the Corporate Governance Expert Group had stressed the importance of any Endorsement Board committing itself to taking account of the needs of smaller issuers and smaller audit firms when taking its decisions.</p>	None.

5. COMMUNICATIONS – FOR INFORMATION ONLY

	ITEM	ACTION
a)	<p>Policy Update (August 2018)</p> <p>This was tabled for information only and was not discussed.</p>	None.
b)	<p>FRC publishes revised Guidance on the Strategic Report</p> <p>This was tabled for information only and was not discussed.</p>	None.
c)	<p>Guest invitations to future meetings</p> <p>The Expert Group expressed an interest in inviting the relevant BEIS officials responsible for the Endorsement Board for IFRS in the UK (mentioned in 4c). CA explained that such a meeting may be held in conjunction with the Corporate Governance Expert Group.</p>	CA to invite guests to the meeting.

6. NEXT MEETING

Tuesday 13 November 2018, 4.30pm – 6.00pm (Venue: Smith & Williamson LLP, 25 Moorgate, London, EC2R 6AY).