

Quoted Companies Alliance Policy Update – 9 February 2017

PRIORITY POLICY ISSUES

Issue	How it could affect quoted companies	Status	Actions and achievements by QCA
MiFID II			
<p>The legislation means that brokers and fund managers may no longer be able to use dealing commissions to pay for investment research. MiFID II will take effect from 3 January 2018.</p>	<p>This could decrease the level of investment research in small and mid-size quoted companies. It may lower the demand from fund managers for research on small and mid-size quoted companies and make it uneconomical for brokers/analysts to continue to produce it.</p>	<p>Detail from the European Commission published in 2016 allows for companies to continue to pay for and distribute investment research. Further detail on how the FCA will implement this is still awaited.</p> <p>HMT published its Policy Statement on 9/2/17. Statutory Instruments are to follow shortly afterwards.</p> <p>FCA is to publish its Policy Statements in March and June 2017.</p>	<p>Participation in the FCA stakeholder group and liaising with HMT and European Commission.</p> <p>We are responding to consultation papers on the implementation of these rules and continuing to monitor this issue closely.</p> <p>Raised at roundtable event with EU Vice President held at LSE.</p>
Prospectus Regulation			
<p>A proposal for a Prospectus Regulation to replace the current Prospectus Directive was published at the end of November 2015.</p> <p>The new Prospectus Regulation is likely to take effect from Spring 2019.</p>	<p>The Regulation brings changes which should make it easier and less expensive for quoted companies to raise finance on public equity markets by:</p> <ul style="list-style-type: none"> - Exempting fundraisings under €8 million from the obligation to produce a prospectus; - Introducing a new minimum disclosure regime for secondary issuances; - Introducing a new minimum 	<p>The final Regulation text, as agreed in December 2016, is less ambitious than initially intended by the European Commission but does not pose serious concerns to our constituency.</p> <p>Focus will now be on level II measures. ESMA is giving priority to the EU Growth Prospectus.</p>	<p>Working group took stock of level I and discussed level II measures in January 2017.</p> <p>Liaising with European and UK institutions, particularly ESMA and the FCA.</p> <p>Leading the European Issuers working group and drafting amendments.</p> <p>TW to participate in working group of</p>

	disclosure regime for SMEs; and - Allowing companies on SME Growth Markets to incorporate information by reference.		ESMA SMSG in due course.
Market Abuse Regulation			
<p>MAR requires quoted companies to keep an insider list which includes more information on insider than what was previously required.</p> <p>The legislation exempts companies on SME Growth Markets from this requirement, but gives the competent authority the ability to request an insider list from a company on a SME Growth Market.</p> <p>MAR now directly applies to all types of markets, including AIM. As it is now a regulation, the FCA has very little flexibility in how it is transposed into UK law and implemented.</p>	<p>This means that all quoted companies will need to keep more information on their insiders.</p> <p>Due to an implementation timing issue, AIM companies will also have to keep an insider list from the date of MAR implementation (3 July 2016) until MiFID II takes effect and AIM becomes a designated SME Growth Market (if it decides to do so).</p> <p>There are a number of changes in the implementation of MAR that impact quoted companies: the UK Model Code will no longer exist and the regulation is directly applicable to AIM companies. A key issue is the interaction between MAR and the AIM Rules, which were amended to accommodate new MAR provisions. Key rule changes include AIM Rule 11, 17 & 21. AIM companies will need more legal advice on their obligations under MAR but also have a duty to disclose inside information under AIM Rule 11.</p>	<p>Completed and now law. Commission has confirmed that it will not act to resolve the inconsistency between MAR and MiFID II.</p> <p>The FCA has confirmed it will not take further measures to resolve the issue.</p> <p>Completed and now law, but evaluating the impact through feedback from market practitioners on its implementation.</p>	<p>Awareness raising through consultation responses, QCA newsletter and technical events.</p> <p>Participation in FCA roundtables on MAR issues.</p> <p>Meetings with FCA to discuss implementation issues.</p> <p>Drafted a briefing note which was discussed with the Commission, FCA and European Parliament.</p> <p>Drafted a QCA, ICSA, GC100 Guidance note on the Dealing Code and policy document for companies.</p> <p>Discussing directly with AIM Regulation and with the FCA on how the interaction will work in practice.</p> <p>Approaching the EU institutions through joint action by EuropeanIssuers.</p>

KEY CAMPAIGNS

1. Improve liquidity and access to finance	
Activity	Action Since Last Update
<p>Costs of Raising Equity to be Tax Deductible</p> <p>Allow the costs of raising equity for both an IPO and secondary fundraising to be tax deductible, to an upper limit of £1.5m</p> <p>EXPERT GROUP RESPONSIBLE: Tax (with Share Schemes)</p>	<p>The QCA Budget Representations for 2017 included this point.</p> <p>We met with HM Treasury on 30 January 2017 to discuss our Budget Representations, including this point.</p> <p>We had a breakfast meeting with Jane Ellison, Financial Secretary to the Treasury on 2 February where we discussed this point. We have invited Ms Ellison to another session in early autumn.</p>
<p>Capital Gains Tax Reform of Entrepreneurs' Relief</p> <p>Remove the requirement to hold 5% shares in a company to qualify for a reduced rate of capital gains tax and allow long-term investors to also qualify for the relief by rebranding it 'Stakeholders Relief'</p> <p>EXPERT GROUP RESPONSIBLE: Tax (with Share Schemes)</p>	<p>The QCA Budget Representations for 2017 highlighted this point.</p> <p>We met with HM Treasury on 30 January 2017 to discuss our Budget Representations, including this point. The HMT is open to considering this point but wishes to see factual evidence of problem created by the current system.</p> <p>We hosted a breakfast meeting with Jane Ellison, Financial Secretary to the Treasury on 2 February 2017 where we discussed this point.</p>
<p>Capital Markets Union Action Plan</p> <p>Ensure that the European Commission's work on Capital Markets Union (CMU) helps to facilitate access to public equity markets for growth companies.</p> <p>EXPERT GROUP RESPONSIBLE: All</p>	<p>The Commission has launched a public consultation on the mid-term review of the Capital Markets Union on 31 January 2017. The mid-term review is expected to be published in June 2017. The consultation is being reviewed by all of the QCA expert groups.</p> <p>We have been invited to speak at a Commission roundtable on SME Access to Finance within the context of the Capital Markets Union.</p> <p>We are in close contact with the Commission's unit responsible for the CMU and are due to meet with their representative to discuss the QCA's position on the CMU.</p>
2. Reduce the burden of corporate disclosures	
Activity	Activity Since Last Update
<p>The Prospectus Directive Review</p>	<p>A political agreement on the Prospectus Regulation was reached on 7 December 2016. The text was approved by COREPER II (the Council) on 20 December and will be voted on by the European Parliament in a</p>

<p>Create a more appropriate and proportionate prospectus regime so that small and mid-size quoted companies are able to access public equity markets efficiently</p> <p>EXPERT GROUP RESPONSIBLE: Legal</p>	<p>plenary session in January 2017. It is expected to be published in the Official Journal of the EU in April/May 2017. The new law will be applicable in Spring 2019.</p> <p>The Prospectus Regulation working group has met to discuss the outcome of the trilogies and the next steps in lobbying efforts for level II measures.</p> <p>We have prepared briefing notes for the political trilogues which have been circulated to the Commission, the Council, the Parliament and HMT.</p> <p>We chair the European Issuers working group on the Regulation and lead the drafting of its position papers.</p> <p>We met with the FCA to discuss level II measures on 10 January 2017.</p> <p>We met with ESMA to discuss level II measures on 24 January 2017.</p> <p>TW to participate in ESMA SMSG working group in due course.</p>
<p>MiFID II: SME Growth Markets, Deferred Publication Regime and Investment Research</p> <p>Ensure that the regulatory requirements are fit-for-purpose and duly take into consideration the burden on small and mid-size quoted companies, particularly regarding SME Growth Markets, investment research and deferred publication regime</p> <p>EXPERT GROUP RESPONSIBLE: Legal and Secondary Markets</p>	<p>We have been attending the FCA's MiFID II Roundtables, which update stakeholders on the implementation of MiFID II in the UK.</p> <p>We have shared our vision of SME Growth Markets with the European Commission.</p> <p>We are assessing and have responded to a number of consultations on the implementation and technical details of MiFID II, including aspects of investment research, inducements and product governance.</p> <p>We have spoken at seminars and workshops with policymakers and industry experts on our vision of SME Growth Markets.</p>
<p>Register of People with Significant Control (PSC Register) and the Fourth Money Laundering Directive (4MLD)</p> <p>Ensure that the administrative burden impact of a PSC Register on small and mid-size quoted companies is reduced</p> <p>EXPERT GROUP RESPONSIBLE: Corporate Governance</p>	<p>There is an implication for QCA members as all subsidiaries will need to be registered. This does not apply to quoted companies at the moment, but will after the entry into force of the 4MLD in July 2017.</p> <p>We have responded to a HM Treasury consultation on the transposition of the Fourth Money Laundering Directive.</p> <p>We have responded to a BEIS consultation on implementing the Fourth Money Laundering Directive: beneficial ownership register.</p>

<p>Shareholders' Rights Directive (SRD)</p> <p>Monitor the development and ensure that the changes to the text minimise the impact of the new rules on small and mid-size quoted companies through the final negotiation stages of the Directive before its adoption</p> <p>EXPERT GROUP RESPONSIBLE: Corporate Governance</p>	<p>We were part of a BEIS stakeholder group proposing the UK amendments to the SRD.</p> <p>On 7 December 2016, the European Commission, Parliament and the Council concluded the trilogue negotiations on the new Shareholder Rights Directive.</p> <p>The text will be subject to a vote in the plenary session of the European Parliament in spring 2017.</p> <p>Through the participation in the BEIS Stakeholder Group informing the UK position in the negotiations as well as independent campaigning, we have contributed to positive changes to the amendments in the text regarding the articles on transparency on costs and right to vote on related party transactions.</p> <p>Through EuropeanIssuers, we have put forward amendments on shareholder identification to inform the trilogue negotiations.</p>
<p>Market Abuse Regulation (MAR)</p> <p>Minimise the impact on trading and administrative burden increase for small and mid-size quoted companies from the implementation of MAR</p> <p>EXPERT GROUP RESPONSIBLE: Legal and Corporate Finance</p>	<p>We met with the FCA on 14 November 2016 to discuss MAR implementation issues and the QCA/ICSA/GC 100 dealing code.</p> <p>We have followed up with the FCA and the Commission on the issue of the timeline inconsistencies with MiFID II and the exemptions for SME Growth Markets. The Commission has confirmed that it does not plan to take action on the inconsistency with MiFID II and the exemptions for SME Growth Markets, but will encourage national competent authorities to identify those markets that will fit the SME Growth Markets requirements so that these rules can be applied as soon as possible after the entry into force of MiFID II.</p> <p>In cooperation with EuropeanIssuers we are drafting a joint letter to ESMA to highlight the diverging implementation of MAR in EU Member States and companies' need for more clarity.</p> <p>We continue to inform our members on updates from FCA, ESMA and AIM Regulation regarding the interpretation of MAR and the AIM rules on the aspects of the prohibition of dealings during closed periods for persons discharging managerial responsibilities and preliminary announcements.</p>
<p>Central Securities Depositories Regulation (CSDR)</p> <p>Ensure that CSDR is drafted and implemented in a manner adequate to the needs of small and mid-size quoted companies</p> <p>EXPERT GROUP RESPONSIBLE: Secondary Markets</p>	<p>The Commission has adopted a delegated act, three regulatory technical standards and two implementing technical standards to complement the obligations defined under CSDR.</p> <p>The Secondary Markets Expert Group is assessing the impact of the adopted package.</p>

3. Improve corporate behaviour	
Activity	Activity Since Last Update
<p>QCA Corporate Governance Code for Small and Mid-Size Quoted Companies</p> <p>Monitor uptake of the QCA Code and promote greater use of the QCA Code amongst small and mid-size quoted companies</p> <p>EXPERT GROUP RESPONSIBLE: Corporate Governance</p>	<p>A number of volunteers have formed a working group to review the Code.</p> <p>Members of the working group are analysing the need to reword various sections of the Code and have drafted initial changes to the Code.</p> <p>The Group will reconvene in Spring 2017 for further discussions and to assess the impact of the Government's Corporate Governance Green Paper on the QCA Code.</p> <p>Investors' Charter being considered.</p>
<p>QCA/UHY Hacker Young Corporate Governance Behaviour Review</p> <p>Monitor corporate governance disclosures of small and mid-size quoted companies</p> <p>EXPERT GROUP RESPONSIBLE: Corporate Governance</p>	<p>We held a successful launch event on 7 December 2016.</p> <p>Hard copies of the review have been sent out to the QCA membership.</p> <p>No further action since last update.</p>
<p>Remuneration Committee Guide for Small and Mid-Size Quoted Companies</p> <p>Revise the QCA Remuneration Committee Guide (last published in 2012) to take into account recent changes in the remuneration reporting landscape</p> <p>EXPERT GROUP RESPONSIBLE: Corporate Governance</p>	<p>A launch event was held on 13 September 2016. The Remuneration Committee Guide was well received and each member received a hard copy of the report and free access to electronic copies.</p> <p>No further action since last update.</p>

4. Raise awareness of the sector	
Activity	Activity Since Last Update
<p>QCA/YouGov Sentiment Index</p> <p>Triannual survey that tracks the economic and business confidence of the small and mid-cap sector (advisors and corporates)</p>	<p>The fieldwork for the next QCA/YouGov Sentiment Index is expected to start in March 2017.</p>
<p>QCA/RSM Small and Mid-cap Investors Survey</p> <p>A qualitative survey of small and mid-cap fund managers so that companies can understand the key issues that are affecting investment decisions and any emerging market trends</p>	<p>The fieldwork was concluded in mid-November.</p> <p>The report has been finalised and is to be sent to the printers.</p> <p>A launch event will be held on 9 March 2017.</p>
<p>Brexit</p> <p>Following the UK's decision to leave the European Union and ahead of the formal exit negotiations, the QCA is putting together a strategy to ensure that the needs of its membership are considered during and after the negotiations.</p>	<p>Based on the introductory brainstorm, the QCA has drafted a Brexit discussion paper which is used as a basis for further work in the Expert Groups and the Brexit working group.</p> <p>We have met with policymakers and regulators, including the HMT, FCA, BEIS, DExEU, to discuss their approach to Brexit. met with Richard Knox, Deputy Director Securities and Markets, HM Treasury on 9 January 2017.</p> <p>We are seeking an introductory meeting with Lord Hill to discuss Brexit and the Capital Markets Union.</p> <p>Principles of small cap markets being developed for Brexit discussions. Patient Capital Review and Industrial Strategy Green Paper.</p>

QCA EXPERT GROUPS

<p>Corporate Finance Expert Group</p> <ul style="list-style-type: none"> This group was dissolved in January 2017 due to low activity and low levels of attendance. We are in the process of forming a new 'Primary Markets Expert Group' which will consist mainly of nomads and brokers. The group is expected to be ready by end of March 2017.
<p>Corporate Governance Expert Group – last meeting on 10 January 2017</p> <ul style="list-style-type: none"> Luke Hildyard from the Pensions and Lifetime Savings Association (PLSA) attended the meeting to discuss their stewardship 'toolkit' for pension funds. The group is considering the BEIS consultation on Corporate Governance Reform. (RD: 17 February 2017).

Financial Reporting Expert Group – last meeting on 24 January 2017

- The group is considering the FRC's Draft Plan & Budget and Levy Proposals 2017/18. (RD: 17 February 2017).
- The group is drafting a response to a financial reporting related question within the BEIS consultation on Corporate Governance Reform (RD: 17 February 2017).
- The group is considering the consultation on the Financial Reporting Council's Corporate Reporting Research Activities. (RD: 30 March 2017).
- The group is considering the FRC consultation on FRED 66 Draft amendments to FRS 101 Reduced Disclosure Framework 2016/17 cycle. (RD: 31 March 2017).

Legal Expert Group – last meeting on 2 February 2017

- The group is considering responding to the European Commission's public consultation on the capital markets union mid-term review 2017. (RD: 17 March 2017).
- The group is considering responding to the BEIS consultation on Building our Industrial Strategy. (RD: 17 April 2017).
- The group is following the European Commission's Prospectus Regulation proposal and the implementation process of the Market Abuse Regulation.
- The group is assisting with the work outlined above in the section 'Progress on key campaigns for 2017'.
- The group is in the process of establishing a separate working group on Brexit.

Secondary Markets Expert Group – last meeting on 18 January 2017

- David Smith from the London Stock Exchange and Charlie Pugh from Euroclear attended the meeting to discuss the Central Securities Depositories Regulation.
- The group is considering the FCA Consultation CP16/43 - Markets in Financial Instruments Directive II implementation - Consultation Paper IV (RD: 17 February 2017).
- The group is following the publication of the MiFID II delegated acts and assisting with the work outline above in the section 'Progress on key campaigns for 2017'.
- Jon Gerty appointed Chairman, succeeding Simon Rafferty.

Share Schemes Expert Group – last meeting on 2 February 2017

- The group is drafting a letter to BEIS regarding amending the company law requirement relating to employees' share schemes to pay nominal value for shares.
- The group has started work on updating the Share Schemes Guides.
- The group is drafting a response to a share-scheme related question within the BEIS consultation on Corporate Governance Reform. (RD: 17 February 2017).

Tax Expert Group – last meeting on 30 November 2016

- The group hosted a meeting with Jane Ellison, Permanent Secretary to the Treasury on 2 February 2017.
- The group is revising the timetable for the QCA Budget representations following the Chancellor's announcement of a Spring statement and Autumn budget on 23 November 2016.
- Paul Fay appointed Chairman, succeeding Neil Pamplin.