

**Priority policy issues**

Issue & how it could affect quoted companies	Current status	Actions and achievements by the QCA
<b>Markets in Financial Instruments Directive (MiFID II)</b>		
<ul style="list-style-type: none"> <li>▪ The legislation means that brokers and fund managers may no longer be able to use dealing commissions to pay for investment research.</li> <li>▪ This could decrease the level of investment research in small and mid-size quoted companies. It may also reduce 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.</li> </ul>	<ul style="list-style-type: none"> <li>▪ MiFID II came into force on 3 January 2018.</li> <li>▪ European Commission published FAQs on obtaining brokerage and research services from non-EU brokers in October 2017.</li> <li>▪ The US Securities and Exchange Commission also issued three no-action letters to facilitate cross-border implementation of MiFID II’s research provisions in October 2017.</li> <li>▪ The European Commission issued a consultation on building a proportionate regulatory environment to support SME listing.</li> <li>▪ European Commission will shortly publish terms of reference to review the impact of MiFID II on small and mid-size quoted companies. The review will take place at the end of 2018.</li> </ul>	<ul style="list-style-type: none"> <li>▪ We secured FCA confirmation that fund managers can continue to receive small cap research without payment, where it has been commissioned and paid for by a small quoted company, including when issuing new shares. This will also cover broker research.</li> <li>▪ ESMA also acknowledged in its product governance guidelines that a common approach for some types of investment products with sufficiently comparable product features may be applied.</li> <li>▪ We have also approached the FCA regarding whether investment research produced by both small cap brokers and independent “paid-for” houses can be published on their respective websites.</li> <li>▪ The FCA has confirmed that, providing appropriate measures have been put in place to ensure that only suitable persons are receiving the research material, research on small and mid-size quoted companies can be published on websites.</li> <li>▪ The QCA/Peel Hunt Investor Survey will provide further insight into the application of MiFID II.</li> <li>▪ We have also sent QCA corporate members a briefing note, advising them on questions to ask their broker in the ‘Board Brief’.</li> </ul>

Issue & how it could affect quoted companies	Current status	Actions and achievements by the QCA
<ul style="list-style-type: none"> <li>▪ The SME Growth Market concept has been established to further the development of specialist markets which seek to facilitate access to capital for SMEs.</li> </ul>	<ul style="list-style-type: none"> <li>▪ AIM became an SME Growth Market Status on 3 January 2018.</li> </ul>	<ul style="list-style-type: none"> <li>▪ We are currently drafting a response to the European Commission's consultation on building a proportionate regulatory environment to support SME listing.</li> </ul>
<b>Prospectus Regulation</b>		
<ul style="list-style-type: none"> <li>▪ The new regulation seeks to make it easier and less expensive for quoted companies to raise finance on public equity markets by: <ul style="list-style-type: none"> <li>– Exempting fundraisings under €8m from producing a prospectus;</li> <li>– Introducing a minimum disclosure regime for secondary issuances;</li> <li>– Introducing a minimum disclosure regime for SMEs; and</li> <li>– Allowing companies to incorporate information by reference.</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>▪ The Prospectus Regulation entered into force on <b>20 July 2017</b> with the majority of the new provisions will apply from <b>21 July 2019</b>.</li> <li>▪ The final text, published in the Official Journal of the EU on 30 June 2017, is less ambitious than initially intended by the Commission but does not pose serious concerns to the QCA constituency.</li> </ul>	<ul style="list-style-type: none"> <li>▪ We continue to be in contact with ESMA and the Commission.</li> <li>▪ The QCA's Prospectus Regulation Working Group is preparing a response to ESMA's consultation on the draft regulatory technical standards.</li> </ul>
<ul style="list-style-type: none"> <li>▪ As the UK will no longer be an EU member state in July 2019, the new Regulation will not apply in the UK and because the new law is a regulation, it will not be possible to apply it earlier. This means that the old prospectus directive will remain in place.</li> </ul>		<ul style="list-style-type: none"> <li>▪ We are lobbying the Government to have a prospective enactment of legislation in the Great Repeal Bill which would make the Prospectus Regulation applicable in the UK once it is no longer an EU member state.</li> </ul>
<b>Market Abuse Regulation (MAR)</b>		
<ul style="list-style-type: none"> <li>▪ MAR brought new requirements and changes which are causing additional administrative and regulatory burdens for quoted companies.</li> <li>▪ MAR directly applies to all types of markets, including AIM. As it is a regulation, the FCA has</li> </ul>	<ul style="list-style-type: none"> <li>▪ Since MiFID II came into force, companies on EU growth markets are now exempt from the insider list requirement, but national competent authorities are able to request an insider list from companies on</li> </ul>	<ul style="list-style-type: none"> <li>▪ We sent a letter to the FCA on 3 July 2017 to express our concern over the continued problems with the implementation with MAR. The FCA attended a Legal Expert Group meeting in September 2017 to discuss these concerns in more detail.</li> </ul>

Issue & how it could affect quoted companies	Current status	Actions and achievements by the QCA
<p>very little flexibility in how it is implemented in the UK.</p> <ul style="list-style-type: none"> <li>▪ Quoted companies are now required to retain more information on their insiders.</li> <li>▪ Other changes that impact quoted companies concern the UK Model Code, which no longer exists; the regulation is directly applicable to AIM companies.</li> <li>▪ A key issue is the interaction between MAR and AIM Rules, which were amended to accommodate new MAR provisions. Key rule changes include AIM Rule 11, 17 &amp; 21. AIM companies need more legal advice on their obligations under MAR but also have a duty to disclose inside information under AIM Rule 11.</li> </ul>	<p>an EU growth market.</p>	<ul style="list-style-type: none"> <li>▪ A QCA, ICSA, GC100 Guidance note on the Dealing Code and policy document for companies was published in June 2016.</li> <li>▪ We are in continual dialogue with AIM Regulation and the FCA on how the interaction will work in practice.</li> <li>▪ We will be writing to QCA corporate members to inform them of the MAR alleviations which now apply to AIM companies since AIM secured its status as an SME Growth Market.</li> </ul>

## Key Campaigns

<b>Improving liquidity and access to finance</b>	
<b>Activity</b>	<b>Update</b>
<p><b>Costs of raising equity to be tax deductible</b></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><b>EXPERT GROUP: Tax</b></p>	<ul style="list-style-type: none"> <li>▪ We continue to make this argument in our market manifesto, consultation responses and proposals for taxation reform.</li> <li>▪ We have discussed the issue with Rt Hon Mel Stride MP – the Financial Secretary to the Treasury and Anneliese Dodds MP – a shadow Treasury minister.</li> <li>▪ We have also met HM Treasury’s corporation tax team to discuss the issue in more detail.</li> </ul>
<p><b>Capital Gains Tax reform of Entrepreneurs’ Relief</b></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><b>EXPERT GROUP: Tax (with Share Schemes)</b></p>	<ul style="list-style-type: none"> <li>▪ We continue to make this argument in our market manifesto, consultation responses and proposals for taxation reform.</li> <li>▪ We have discussed the issue with Rt Hon Mel Stride MP – the Financial Secretary to the Treasury and Anneliese Dodds MP – a shadow Treasury minister.</li> <li>▪ The Chancellor of the Exchequer announced at Autumn Budget 2017 that the qualifying rules of Entrepreneurs’ Relief will be changed to ensure that entrepreneurs are not discouraged from seeking external investment through the dilution of their shareholding.</li> </ul>
<p><b>Capital Markets Union Action Plan</b></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><b>EXPERT GROUP: All</b></p>	<ul style="list-style-type: none"> <li>▪ The European Commission published its mid-term review of the Capital Markets Union on 8 June 2017.</li> <li>▪ We attended a European Commission workshop on 28 November 2017 to discuss how to increase access to public markets for SMEs in the European Union.</li> <li>▪ Our Expert Groups are helping us draft a response to the European Commission’s consultation on building a proportionate regulatory environment to support SME listing. We are also influencing the responses submitted by EuropeanIssuers and the ESMA Securities and Markets Stakeholder Group.</li> <li>▪ We are also preparing a response to the European Commission’s consultation on the review of the SME definition ahead of the 8 May 2018 deadline.</li> </ul>

Reducing the burden of corporate disclosures	
Activity	Update
<p><b>The Prospectus Regulation</b></p> <p>Create a proportionate prospectus regime so that small and mid-size quoted companies are able to access public equity markets efficiently.</p> <p><b>EXPERT GROUP: Legal and Primary Markets</b></p>	<ul style="list-style-type: none"> <li>▪ Please refer to the section on Priority Policy Issues.</li> </ul>
<p><b>MiFID II</b></p> <p>Ensure that the regulatory requirements are fit-for-purpose and take into consideration the burden placed on small and mid-size quoted companies, particularly regarding SME Growth Markets, investment research and deferred publication regime.</p> <p><b>EXPERT GROUP: Legal and Secondary Markets</b></p>	<ul style="list-style-type: none"> <li>▪ Please refer to the section on Priority Policy Issues.</li> </ul>

Improving corporate behaviour	
Activity	Update
<p><b>QCA Corporate Governance Code</b></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><b>EXPERT GROUP: Corporate Governance</b></p>	<ul style="list-style-type: none"> <li>▪ The QCA Code Working Group has met on several occasions in 2018 and is on track to complete a final draft by early 2018.</li> </ul>

**Raising awareness of the small and mid-size quoted company sector**

<b>Activity</b>	<b>Update</b>
<p><b>QCA/YouGov Sentiment Index</b></p> <p>Biannual survey that tracks the economic and business confidence of the small and mid-cap sector (advisors and corporates).</p>	<ul style="list-style-type: none"> <li>▪ A press release on the tracking questions was published in February 2018. Further press releases regarding women on boards and the role of non-executive directors, as well as the results in full, will be published in the coming weeks.</li> </ul>
<p><b>QCA/Peel Hunt Small and Mid-cap Investor Survey</b></p> <p>Survey of small and mid-cap fund managers to help companies understand the key issues affecting investment decisions and any emerging market trends.</p>	<ul style="list-style-type: none"> <li>▪ Peel Hunt LLP has agreed to sponsor the survey for the next three years.</li> <li>▪ Fieldwork for the report is currently being carried out.</li> <li>▪ Qualitative interviews with 11 fund managers have been completed and a press release will be published in due course. A quantitative survey of the wider population of fund managers is in progress.</li> <li>▪ The results of the next survey will be published in Q1 2018.</li> </ul>
<p><b>Brexit</b></p> <p>Ensuring that QCA members' interests are properly represented, as the UK negotiates its departure from the European Union.</p>	<ul style="list-style-type: none"> <li>▪ We will publish a second edition of our market structure paper, setting out the QCA's proposals for market reform in spring 2018. This will be sent to relevant external stakeholders.</li> <li>▪ We will have meetings with the European Commission Representation in London, HM Treasury and the Department for Exiting the European Union in Q2 2018.</li> </ul>

## **Expert Group activity**

### **Corporate Governance**

- **Last meeting – Tuesday 9 January 2018:** Catherine Horton and David Styles, the FRC, attended the meeting to discuss the FRC’s proposals for a revised UK Corporate Governance Code. The potential removal of the small company exemptions was discussed.
- **Consultations responded to:**
  - London Stock Exchange Feedback Statement and Consultation: AIM Rules Review (R: 29 January 2018)
- **Consultations under consideration:**
  - FRC consultation: Proposed revisions to the UK Corporate Governance Code (RD: 28 February 2018)

### **Financial Reporting**

- **Last meeting – Tuesday 30 January 2018:** Melanie McLaren and James Calder of the FRC attended the meeting to discuss the FRC’s approach to Brexit, including how the UK might recognise any future new international accounting standards.
- **Consultations under consideration:**
  - FRC consultation: Strategy 2018/21 & Draft Budget and Levy Proposals 2018/18 (RD: 28 February 2018)

### **Legal**

- **Last meeting – Tuesday 16 January 2018.**
- The group is following the progress of the Commission’s Prospectus Regulation and the implementation of the Market Abuse Regulation.
- **Consultations responded to:**
  - London Stock Exchange Feedback Statement and Consultation: AIM Rules Review (R: 29 January 2018)
- **Consultations under consideration:**
  - European Commission: Public consultation on building a proportionate regulatory environment to support SME listing (RD: 26 February 2018)
  - ESMA consultation: Draft regulatory technical standards under the new Prospectus Regulation (RD: 9 March 2018).

## Primary Markets

- **Last meeting – Tuesday 19 September 2017:** Michael McKersie, Nike Trost, John Mulcahy and Angela Morgan from the FCA attended the meeting to discuss the FCA's review of the UK primary markets landscape and its consultation on creating a new premium listing category for sovereign controlled companies.
- **Consultations responded to:**
  - London Stock Exchange Feedback Statement and Consultation: AIM Rules Review (R: 29 January 2018)
- **Consultations under consideration:**
  - European Commission: Public consultation on building a proportionate regulatory environment to support SME listing (RD: 26 February 2018)
  - ESMA consultation: Draft regulatory technical standards under the new Prospectus Regulation (RD: 9 March 2018)

## Secondary Markets

- **Last meeting – Wednesday 17 January 2018:** Stephen Hanks and Anne Mainwaring from the FCA attended the meeting to discuss MiFID II implementation.
- It will be collating a range of observations from members regarding MiFID II with a view to submitting a written report to the FCA later in 2018.
- **Consultations responded to:**
  - London Stock Exchange Feedback Statement and Consultation: AIM Rules Review (R: 29 January 2018)
- **Consultations under consideration:**
  - European Commission: Public consultation on building a proportionate regulatory environment to support SME listing (RD: 26 February 2018)

## Share Schemes

- **Last meeting – Thursday 12 October 2017:** Katie Potts of Herald Investment Management Ltd, Chris Errington of Kestrel Investment Partners and Andrew Buchanan of Octopus Investments attended the meeting to discuss share-based management incentives.
- In light of the last meeting, the Expert Group has prepared a discussion paper on shareholder rights relating to the issue of new shares for employees, directors, consultants and suppliers with the objective of reaching a market consensus.

## Tax

- **Last meeting – Wednesday 29 November 2017.**
- The group intends to conduct work on how to simplify UK business taxes during 2018.