

Priority policy issues

Issue & how it could affect quoted companies	Current status	Actions and achievements by the QCA
Markets in Financial Instruments Directive (MiFID II)		
<ul style="list-style-type: none"> ▪ The legislation means that brokers and fund managers may no longer be able to use dealing commissions to pay for investment research. ▪ 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. 	<ul style="list-style-type: none"> ▪ MiFID II came into force on 3 January 2018. ▪ European Commission published FAQs on obtaining brokerage and research services from non-EU brokers in October 2017. ▪ 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. ▪ The European Commission has consulted on building a proportionate regulatory environment to support SME listing. ▪ European Commission is also due to 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. 	<ul style="list-style-type: none"> ▪ 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. ▪ 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. ▪ 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. ▪ 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. ▪ The QCA/Peel Hunt Investor Survey provided further insight into the application of MiFID II. ▪ We have also sent QCA corporate members a briefing note, advising them on questions to ask their broker in the ‘Board Brief’.

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<ul style="list-style-type: none"> ▪ The SME Growth Market concept has been established to further the development of specialist markets which seek to facilitate access to capital for SMEs. 	<ul style="list-style-type: none"> ▪ AIM became an SME Growth Market Status on 3 January 2018. ▪ The European Commission is currently consulting on a legislative proposal which will bring technical adjustments to MiFID II with the aim of reducing the administrative burden faced by SMEs. 	<ul style="list-style-type: none"> ▪ We have submitted responses to the European Commission's consultation on building a proportionate regulatory environment to support SME listing, as well as its legislative proposal to make technical adjustments to MiFID II.
Prospectus Regulation		
<ul style="list-style-type: none"> ▪ 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"> – Exempting fundraisings under €8m from producing a prospectus; – Introducing a minimum disclosure regime for secondary issuances; – Introducing a minimum disclosure regime for SMEs; and – Allowing companies to incorporate information by reference. 	<ul style="list-style-type: none"> ▪ The Prospectus Regulation entered into force on 20 July 2017 with the majority of the new provisions will apply from 21 July 2019. ▪ 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. 	<ul style="list-style-type: none"> ▪ We continue to be in contact with ESMA and the Commission. ▪ The QCA's Prospectus Regulation Working Group submitted a response to ESMA's consultation on the draft regulatory technical standards. ▪ The Working Group is also preparing a response to the two ESMA consultations on risk factors guidelines and draft technical advice on the minimum information content for prospectus exemption.
	<p>The European Commission is currently consulting on an amendment to the Prospectus Regulation which would see the introduction of a Transfer Prospectus. This would create alleviations for companies listed for at least three years on an SME Growth Market wishing to move to a regulated market.</p>	<ul style="list-style-type: none"> ▪ We submitted a response to the European Commission consultation and contributed to European Issuers' response.

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<ul style="list-style-type: none"> ▪ 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. 		<ul style="list-style-type: none"> ▪ 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. This has been communicated in a direct meeting with HMT.
Market Abuse Regulation (MAR)		
<ul style="list-style-type: none"> ▪ MAR brought new requirements and changes which are causing additional administrative and regulatory burdens for quoted companies. ▪ MAR directly applies to all types of markets, including AIM. As it is a regulation, the FCA has very little flexibility in how it is implemented in the UK. ▪ Quoted companies are now required to retain more information on their insiders. ▪ Other changes that impact quoted companies concern the UK Model Code, which no longer exists; the regulation is directly applicable to AIM companies. ▪ 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 & 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. 	<ul style="list-style-type: none"> ▪ 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 an EU growth market. 	<ul style="list-style-type: none"> ▪ 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. ▪ A QCA, ICSA, GC100 Guidance note on the Dealing Code and policy document for companies was published in June 2016. ▪ We are in continual dialogue with AIM Regulation and the FCA on how the interaction will work in practice. ▪ We have written 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. ▪ We distributed a survey to issuers on behalf of the FCA to gather feedback on MAR in August 2018.

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	<ul style="list-style-type: none"> ▪ The European Commission is currently consulting on proposals to amend certain provisions of the regulation. These include: <ul style="list-style-type: none"> – Introducing the possibility for issuers to enter into a ‘liquidity provision contract’ with a financial intermediary responsible for enhancing the liquidity of their shares. – Requiring issuers on SME growth markets to only maintain a list of ‘permanent insiders’. – Requiring issuers on SME growth markets to justify the reasons for delaying the disclosure of inside information only upon request of the National Competent Authority. – Giving persons discharging managerial responsibilities (PDMRs) and persons closely associated (PCAs) three business days to notify issuers of their transactions. Issuers will then have two days to disclose the information to the public. 	<ul style="list-style-type: none"> ▪ We submitted a response to the European Commission consultation and contributed to European Issuers’ response. ▪ We attended meetings in Brussels with the MEPs assistants who are working and rapporteurs on this subject.

Key Campaigns

Improving liquidity and access to finance	
Activity	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: Tax</p>	<ul style="list-style-type: none"> ▪ We continue to make this argument in our market manifesto, consultation responses and proposals for taxation reform. ▪ 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. ▪ We have also met HM Treasury’s corporation tax team to discuss the issue in more detail.
<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: Tax (with Share Schemes)</p>	<ul style="list-style-type: none"> ▪ We continue to make this argument in our market manifesto, consultation responses and proposals for taxation reform. ▪ 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. ▪ 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.
<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: All</p>	<ul style="list-style-type: none"> ▪ The European Commission published its mid-term review of the Capital Markets Union on 8 June 2017. ▪ 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. ▪ We have submitted responses to the European Commission’s legislative proposals to make amendments to MiFID II and the Market Abuse and Prospectus Regulations (see above). We have also contributed to the responses submitted by EuropeanIssuers and the ESMA Securities and Markets Stakeholder Group. ▪ We also responded to the European Commission’s consultation on the review of the SME definition.

Raising awareness of the small and mid-size quoted company sector	
Activity	Update
<p>QCA/YouGov Sentiment Index</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"> ▪ The latest edition of the Sentiment Index was conducted in June/July 2018 and is scheduled to be published by the end of August.
<p>QCA/Peel Hunt Mid & Small-Cap Investor Survey</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"> ▪ Peel Hunt LLP agreed to sponsor the survey for three years. ▪ The survey results were published on 23 April 2018. ▪ The next survey will include companies as well as investors. It will be conducted at the same time as the economic sentiment survey.
<p>Brexit</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"> ▪ We met with James Dowler, Deputy Director – Stakeholder Engagement, and Sam Brand, Deputy Director – Market Access and Budget, of the Department for Exiting the European Union on 20 March 2018. ▪ We held a roundtable with Philip Rycroft, the Permanent Secretary of the Department for Exiting the European Union, on 31 May 2018, which was attended by 13 quoted company directors. ▪ We also met with Kyle Galler, Acting Deputy Head of Representation, at the European Commission Representation in the UK on 22 May 2018. ▪ The latest edition of the QCA/YouGov Sentiment Index included a number of questions around the impact of Brexit on hiring and retaining EU nationals. It is to be released in August 2018.
<p>QCA Corporate Governance Code</p> <p>Monitor uptake of the QCA Code and promote greater use of the QCA Code amongst small and mid-size quoted companies.</p>	<ul style="list-style-type: none"> ▪ The QCA Corporate Governance Code was published on 25 April 2018. ▪ We ran a Corporate Governance Workshop on 22 May 2018, attended by 14 quoted company directors. ▪ We met with the Minister for Small Business, Consumers and Corporate Responsibility – on 2 May 2018 to discuss the QCA Corporate Governance Code, as well as other areas of corporate governance. ▪ A further workshop is to be held on 13 September 2018. ▪ Further collateral material is being produced including an Evalu8 product to assist implementation.

<p>Review of the FRC</p> <p>Ensuring the views of small and mid-sized companies are considered in the review.</p>	<ul style="list-style-type: none">▪ We met with the BEIS secretariat running the FRC review on 29 May 2018▪ We held a roundtable with members with Sir John Kingman on 31 July 2018▪ We submitted our response to the FRC review call for evidence on 6 August 2018▪ A further submission will be made in August.
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Expert Group activity

Corporate Governance

- **Last meeting – Tuesday 10 July 2018:** Rachit Gupta of Institutional Shareholder Services attended the meeting to discuss recent developments in corporate governance reform from the perspective of proxy advisers.
- **Consultations responded to:**
 - Independent Review of the Financial Reporting Council: Call for Evidence (R: 6 August 2018)
- **Consultations under consideration:**
 - The Wates Corporate Governance Principles for Large Private Companies (RD: 7 September 2018)

Financial Reporting

- **Last meeting – Tuesday 5 June 2018:** Ian Charles of Emile Woolf, attended the meeting to discuss the value of financial statements to non-executive directors.
- **Consultations responded to:**
 - European Commission public consultation: Fitness check on the EU framework for public reporting by companies (R: 21 July 2018)
 - Independent Review of the Financial Reporting Council: Call for Evidence (R: 6 August 2018)

Legal

- **Last meetings – Tuesday 17 July 2018:** Helen Boyd and Michael Naughton of the Financial Conduct Authority (FCA) attended the meeting to discuss the implementation of the Market Abuse Regulation.
- **Consultations responded to:**
 - The FCA's 19th Primary Market Bulletin (R: 20 July 2018)
 - European Commission: Fostering and promoting the use of SME growth markets – Level 1 (R: 25 July 2018)
- **Consultations under consideration** (also by Primary Markets Expert Group):
 - Proposed changes to the AIM Disciplinary Procedures and Appeals Handbook (RD: 10 September 2018)
 - ESMA consultation – Guidelines on risk factors under the Prospectus Regulation (RD: 5 October 2018)
 - ESMA consultation – Draft technical advice on minimum information content for prospectus exemption (RD: 5 October 2018)

Primary Markets

- **Last meeting – Monday 25 June 2018:** Denzel Jenkins, Chief of Staff and Head of UK Compliance and Regulatory Strategy at London Stock Exchange attended a dinner. This provided a unique opportunity for Expert Group members to share and exchange insights on their interaction with the AIM Regulation team and the future development of the AIM Rules for Companies and Nominated Advisers.
- **Consultations responded to:**
 - NEX Exchange consultation on amendments on Growth Market Rules for Issuers (R: 27 June 2018)
 - The FCA’s 19th Primary Market Bulletin (R: 20 July 2018)
 - European Commission: Fostering and promoting the use of SME growth markets – Level 1 (R: 25 July 2018)
- **Consultations under consideration** (also by Legal Expert Group):
 - Proposed changes to the AIM Disciplinary Procedures and Appeals Handbook (RD: 10 September 2018)
 - ESMA consultation – Guidelines on risk factors under the Prospectus Regulation (RD: 5 October 2018)
 - ESMA consultation – Draft technical advice on minimum information content for prospectus exemption (RD: 5 October 2018)

Secondary Markets

- **Last meeting – Wednesday 13 June 2018:** Lee Foulger, Head of the International Department at the Financial Conduct Authority, attended the meeting to provide an update on its EU withdrawal work.
- The group 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:**
 - European Commission: Promoting the use of SME growth markets – Level 2 (R: 21 June 2018)
- **Consultations under consideration:**
 - Amendment to Commission Delegated Regulation (EU) 2017/588 (RTS 11) (Tick size regime under MiFID II) (RD: 7 September 2018)
 - Proposed changes to the AIM Disciplinary Procedures and Appeals Handbook (RD: 10 September 2018)

Share Schemes

- **Last meeting – Thursday 17 May 2018:** HMRC’s Employee Share Schemes team joined the meeting via conference call to answer the questions which had been posed by both the Expert Group and quoted company directors. A summary of the meeting is now available on the QCA website.

Tax

- **Last meeting – Wednesday 25 July 2018:** Paul Morton and David Halsey of the Office of Tax Simplification (OTS) attended the meeting to provide an update on the OTS's work.
- A working group has supported the development of this year's proposals for taxation reform, which will be submitted to the Chancellor of the Exchequer ahead of his Budget in November 2018.