

Quoted Companies Alliance Policy Update – 15 August 2014

Progress on key campaigns for 2014

1. Raise awareness of the sector

a. QCA/BDO Small and Mid-Cap Sentiment Index

What we have:

- A quarterly sentiment survey that tracks the economic and business confidence of the small and mid-cap sector (advisors and corporates), with a specific theme for each quarter.

What we have done this past month on it:

- The results of the 12th survey, which focuses on interest rates and corporate reputation, are due to be published 2 September 2014.

b. QCA/Baker Tilly Fund Manager Survey

What we have:

- A qualitative survey, in conjunction with Baker Tilly and conducted by YouGov, 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.

What we have done this past month on it:

- We are in the process of developing a discussion guide for the next survey, which will take place in October/November 2014. The results will be published in early 2015.

c. A 'UK Index'

What we are proposing:

- An index series that measures companies' contribution to the UK economy (ie through metrics such as sales made in the UK, number of employees in the UK, etc).
- This would act as a barometer for the UK economy and present a more valid index for investors to see UK company performance.
- The index will be an 'editorial' index, where fund managers and heads of research would be polled on UK quoted companies for inclusion in the index. A panel will then filter these responses down to 100. The list of constituents will be refreshed annually and the index calculated daily.

What we have done this past month on it:

- No further action since last update - the index has been discussed with Allister Heath, Deputy Editor of the Daily Telegraph (whilst at City AM). He requested a further meeting in October.

d. SME Asset Class

What we are proposing:

- For the European Commission to create an SME asset class (ie companies of a certain size would be a member of this 'asset class' (aka category/label)) –we are proposing that this includes SMEs both on the Main List and AIM.
- Also, for the European Commission to mandate pension funds to state their investment policy towards this asset class.

What we have done this past month on it:

- We are currently in the process of preparing an outline of the key issues that we would like the next European Commission to work on (both to send to the European Commission and HM Treasury). The SME Asset Class proposal will be included.

e. Are equity markets fit for purpose review

What we are proposing:

- A UK Government review, led by a business leader and focused on whether primary equity markets are fit for purpose and helping companies to raise the finance necessary to grow.

What we have done this past month on it:

- No further action since last update - we are awaiting publication of the Government's review on enhancing public equity in the UK, which was announced in the December 2013 Autumn Statement.

2. Improve liquidity and access to finance

a. Capital Gains Tax Reform – Entrepreneurs' Relief

What we are proposing:

- Remove the requirement to hold 5% shares in a company to qualify for a reduced rate of capital gains tax.
- Allow long-term investors to also qualify for the relief by rebranding it 'Stakeholders Relief'; only have the relief apply for investments in SMEs; and they have to hold shares for three to five years before they can get the reduced rate.

What we have done this past month on it:

- We have scheduled a discussion lunch with Shabana Mahmood MP, Shadow Tax Minister for the Labour Party, and corporate members in October 2014.
- We working on our proposals for the 2015 Budget, with an aim to submitting them in early October 2014.

b. Non-bank lending and debt markets

What we are proposing:

- Look at how Government can raise awareness about different funding options for smaller companies.
- Encourage the Government to put pressure on the credit rating agencies to develop a more cost-effective rating for smaller companies.
- Pressing for a level playing field in how equity and debt financing is incentivised through tax.

What we have done this past month on it:

- Re the level playing field on the tax treatment of raising equity vs debt, we had been working with HM Treasury ahead of the Budget on the possibility of including a measure which allowed the costs of raising equity to be tax deductible. It was not included in the Budget at the last minute; however, we have had feedback that providing further detail on how such a measure would work and what types of costs could be eligible would help HM Treasury. Work is underway on this as part of our 2015 Budget Representations.

c. **Business Growth Fund**

What we are proposing:

- For the Government-backed Business Growth Fund to invest in quoted companies, as well as private companies.

What we have done this past month on it:

- The Business Growth Fund (BGF) is starting to invest in quoted companies and Tim Ward is meeting with Stephen Welton, CEO of BGF, to discuss this in early September 2014.

3. **Reduce the burden of corporate disclosures**

a. **Proportionate IFRS**

What we are proposing:

- We do not have concrete proposals as to what proportionate IFRS would include. Some suggestions have been:
 - Allow small and mid-size quoted companies (both those on the Main List and AIM) to use FRS 101 (the UK version of IFRS for SMEs).
 - Allow small and mid-size quoted companies (both those on the Main List and AIM) to use a form of full IFRS that has less detailed disclosures.
- We are emphasising the importance of materiality in making corporate reporting more clear and relevant and highlighting this to companies, regulators, investors and standard setters.

What we have done this past month on it:

- We understand that the London Stock Exchange is planning a further consultation on the AIM Rules for later on this year. We are preparing to gather views on whether AIM companies should be allowed to use FRS 101 in order to include something in our response to this.

- We have met with the FRC on their smaller companies reporting project, which is exploring the role of accounting standards in smaller companies' reports. We plan to assist them in gathering views of investors in small and mid-size quoted companies.
- We are holding an event with the FRC in early October 2014 on its smaller companies reporting project and the Financial Reporting Lab's clear and concise project. Companies will hear about the work being done in this area from the FRC, as well as getting feedback from investors who will speak on this subject. Finally, the FRC will be seeking feedback from attendees on what the key issues are for companies in terms of preparing their annual reports and accounts.
- We responded to the IASB's Exposure Draft - Disclosure Initiatives (Proposed amendments to IAS 1) (RD: 23 July 2014), highlighting the importance of materiality in the preparation of the accounts.

4. Improve corporate behaviour

a. A proportionate approach to corporate governance

What we are planning to do:

- Monitor uptake of our revised Corporate Governance Code for Small and Mid-Size Quoted Companies (May 2013).

What we have done this past month on it:

- We are in the process of updating our Audit Committee Guide for Small and Mid-Size Quoted Companies, as a companion publication to the QCA Code. It will be published in September/October 2014.
- The QCA/UHY Hacker Young Corporate Governance Behaviour Review is being run again this summer, with an aim to publishing the results at the end of 2014 or early 2015.
- AIM Notice 39 confirmed that AIM Rules 26 is changing so that the AIM companies will have to state: which corporate governance code they follow; how they comply with that code; or if no code has been adopted, this should be stated together with its current governance arrangements. The QCA campaigned for this change to improve governance behaviour and publicised this amongst its membership ahead of the change coming into effect from 11 August 2014.

Issues being considered by the expert groups

Corporate Finance Expert Group – last meeting 17 July 2014

1. Nilam Statham, Head of AIM Regulation, and Marcus Stuttard, Head of AIM, London Stock Exchange, attended the July meeting to discuss the recent changes to the AIM Rules.
2. Some members of this group have volunteered to join a working group on the Prospectus Directive (with members of the Legal Expert Group), which is developing a briefing paper on changes to the Directive that we would like to happen ahead of the next review in 2015.
3. The group is reviewing the Takeover Panel's consultation on the Takeover Code: miscellaneous Code amendments (RD: 12 September 2014).

4. The group is reviewing HM Treasury's consultation on tax-advantaged venture capital schemes: ensuring support for small and growing businesses with the Tax Expert Group (RD: 19 September 2014).
5. The group is reviewing the FCA's consultation on Primary Market Bulletin No. 8 with the Legal Expert Group (RD: 1 October 2014).

Corporate Governance Expert Group – last meeting on 8 July

1. Paul Moxley of the ACCA attended the July meeting to discuss the ACCA's Discussion Paper – Creating value through governance: toward a new accountability.
2. A working group is revising the Audit Committee Guide for Smaller Quoted Companies (February 2009) – more details are mentioned above in the key campaigns section.
3. The group is considering how to monitor the AIM Rule 26 change (detailed above under '4. Improve corporate behaviour' – key campaigns).
4. The group is considering how to encourage better engagement between proxy voting agencies and small and mid-size quoted companies. A guidance note will be produced on this topic.
5. The group is reviewing the ACCA's Discussion Paper – Creating value through governance: toward a new accountability (RD: 31 August 2014).
6. The group is reviewing the House of Commons Public Bill Committee request for written evidence: Small Business, Enterprise and Employment Bill (RD: before 6 November 2014).
7. The group responded to the Financial Reporting Council's Proposed Revisions to UK Corporate Governance Code (RD: 27 June 2014) with the Financial Reporting and Share Schemes Expert Groups.
8. The group responded to the European Commission's strategy on Corporate Social Responsibility (CSR) 2011 – 2014 (RD: 15 August 2014).

Financial Reporting Expert Group – last meeting on 22 July 2014

1. Nick Topazio, CIMA, attended the July meeting to discuss CIMA's work on business models and integrated reporting.
2. The group is reviewing EFRAG and the National Standard Setters ANC, ASCG, FRC and OIC 's invitation to comment on public consultation on lessee accounting (RD: 22 August 2014).
3. The group is reviewing the IAASB's Exposure Draft on ISAs (RD: 11 September 2014).
4. The group is reviewing the European Commission's consultation on the effects of using International Financial Reporting Standards (IFRS) in the EU (RD: 31 October 2014).
5. The group responded to the IASB's Exposure Draft – Disclosure Initiatives (Proposed amendments to IAS 1) (RD: 23 July 2014).
6. The group responded to the Financial Reporting Council's Proposed Revisions to UK Corporate Governance Code (RD: 27 June 2014) with the Corporate Governance and Share Schemes Expert Groups.

Legal Expert Group – last meeting on 10 July 2014

1. Jamie Whitehorn and Priya Sharma, Financial Conduct Authority, attended the July meeting to discuss ESMA's consultation and discussion papers on MiFID II/MiFIR (RD: 1 August 2014), specifically the SME Growth Markets proposal in the consultation paper.
2. The group is leading a working group (with members of the Corporate Finance Advisors Expert Group also involved) on the Prospectus Directive, which is developing a briefing paper on changes to the Directive that we would like to happen ahead of the next review in 2015.
3. The group is considering producing a guidance note on relationship agreements in light of upcoming changes to the Listing Rules.
4. The group is reviewing the FCA's consultation on removing the Transparency Directive's requirement to publish interim management statements (CP14/12) (RD: 4 September 2014).
5. The group is reviewing the FCA's consultation on Primary Market Bulletin No. 8 (RD: 1 October 2014) with the Corporate Finance Expert Group.
6. The group is reviewing ESMA's two Consultation Papers on the Market Abuse Regulation (RD: 15 October 2014).
7. The group responded to ESMA's Consultation and Discussion Papers on MiFID/MiFIR (RD: 1 August 2014) with the Secondary Markets Expert Group.

Secondary Markets Expert Group – last meeting on 11 June 2014 (no meeting since the last update)

1. The group is reviewing FCA's Discussion Paper: DP14/3 The use of dealing commission regime (RD: 10 October 2014).
2. The group is following the European Commission's Securities Law Regulation.
3. The group is following the implementation of the EU Short Selling Regulations in the UK.
4. The group, with the Corporate Finance Expert Group, is developing a briefing note for company directors on questions to ask when considering raising finance from an alternative finance provider.
5. The group responded to ESMA's Consultation and Discussion Papers on MiFID/MiFIR (RD: 1 August 2014) with the Legal Expert Group.

Share Schemes Expert Group – last meeting on 15 May 2014 (no meeting since the last update)

1. The group is reviewing HMRC's Technical Consultation on a draft statutory instrument and explanatory memorandum, which simplifies the manner in which the market value of shares in listed companies (and similar instruments) is to be determined for tax purposes (RD: 22 August 2014).
2. The group is reviewing HM Treasury's and HMRC's consultation on the new employee shareholding vehicle (RD: 10 October 2014).
3. The group is reviewing the Office of Tax Simplification's review of unapproved share schemes: marketable security with the Tax Expert Group (RD: 10 October 2014).
4. The group is reviewing HMRC's consultation on internationally mobile employees and earnings related securities (RD: 16 October 2014).
5. A working group is revising Rewarding Enterprise II – Guidance for Companies on Employee Share Schemes (July 2009).

6. The group responded to the OTS's Competitiveness Review (RD: 30 June 2014) with the Tax Expert Group.

Tax Expert Group – last meeting on 3 July 2014

1. Nigel Mills MP attended the July meeting to discuss the Finance Act and the Government's corporate tax policy.
2. The group is starting to prepare its proposals for the 2015 Budget, focusing on the costs of raising equity to be tax deductible. This was explored in depth by HMRC and HM Treasury for inclusion in the 2014 Budget, but then dropped due to cost, complexity and lack of time.
3. The group is reviewing HM Treasury's consultation on tax-advantaged venture capital schemes: ensuring support for small and growing businesses with the Corporate Finance Expert Group (RD: 19 September 2014).
7. The group is reviewing the Office of Tax Simplification's review of unapproved share schemes: marketable security with the Share Schemes Expert Group (RD: 10 October 2014).
8. The group responded to the OTS's Competitiveness Review (RD: 30 June 2014) with the Share Schemes Expert Group.