

Quoted Companies Alliance Policy Update – 16 October 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 were published 2 September 2014.
- We are working on refreshing the report layout and design.
- We have agreed with BDO that we will carry on for a fourth year.
- The 13th survey's fieldwork will take place in January 2015.

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 have started the fieldwork for the 2015 survey.
- The report will be launched at an event on 3 February 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 submitted our proposals for the 2015 Budget on 15 October 2014, ahead of the deadline for the Autumn Statement on 3 December 2014. We are in the process of sending them out to ministers, selected MPs, and the Shadow Cabinet. They are available at: www.theqca.com/Budget2015

- We have scheduled a discussion lunch with Shabana Mahmood MP, Shadow Tax Minister for the Labour Party, and corporate members on 4 December 2014.

b. Costs of raising equity

What we are proposing:

- Allow the costs of raising equity to be tax deductible.
- Introduce a £1.5m upper limit in order to target the relief appropriately to SMEs.
- Allow the relief to be applicable for both IPO and secondary fundraisings.
- Allow all types of fundraising costs associated with raising equity to be tax deductible.
- Allow tax relief for the costs of raising funds to be available in the year these were incurred.
- Allow the relief to be available once the implementing legislation comes into effect.
- Allow the relief to apply to costs incurred as a result of an aborted fundraising.

What we have done this past month on it:

- We submitted this as a key measure in our 2015 Budget Representations (see above 2a).

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 met with Stephen Welton, CEO of BGF, to discuss this in early September 2014. BGF has invested in Victoria PLC.

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 102 (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 held an event with the FRC on 1 October 2014 on its smaller companies reporting project and the Financial Reporting Council's clear and concise project. Companies heard about the work being done in this area from the FRC, as well as getting feedback from Gervais Williams on this subject. Attendees highlighted areas of complexity in reporting, such as remuneration disclosures, derivatives, financial instrument notes, audit report, net debt, fair value accounting and share-based payments, and materiality.
- 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.

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 sent our Audit Committee Guide for Small and Mid-Size Quoted Companies to print in October. It is a companion publication to the QCA Code. It will be released in early November and launched officially at an event on 9 December 2014, hosted by the NAPF.
- We have carried out the fieldwork for the second QCA/UHY Hacker Young Corporate Governance Behaviour Review. We also held a discussion lunch with investors to get their feedback on 13 October 2014. We plan to publish the report of the results in December 2014.

Issues being considered by the expert groups

Corporate Finance Expert Group – last meeting 17 July 2014 (no meeting since the last update)

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 responded to the Takeover Panel's consultation on the Takeover Code: miscellaneous Code amendments (RD: 12 September 2014).

4. The group responded to 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).

Corporate Governance Expert Group – last meeting on 15 September 2014

1. Gillian Lees of CIMA attended the September meeting to discuss the CIMA's current work on integrated reporting.
2. A working group has completed its work on 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.
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 following the European Commission's proposals on the Shareholders' Rights Directive.
6. The group responded to the ACCA's Discussion Paper – Creating value through governance: toward a new accountability (RD: 31 August 2014).
7. The group responded to the House of Commons Public Bill Committee request for written evidence: Small Business, Enterprise and Employment Bill (RD: 14 October 2014).

Financial Reporting Expert Group – last meeting on 16 September 2014

1. Anna Colban, the Financial Reporting Council, attended the September meeting to discuss the FRC's Smaller Company Reporting Project.
2. 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).
3. The group responded to 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).
4. The group responded to the IAASB's Exposure Draft on ISAs (RD: 11 September 2014).

Legal Expert Group – last meeting on 25 September 2014

1. 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.
2. The group is considering producing a guidance note on relationship agreements in light of upcoming changes to the Listing Rules.
3. The group responded to the FCA's consultation on removing the Transparency Directive's requirement to publish interim management statements (CP14/12) (RD: 4 September 2014).
4. The group responded to ESMA's two Consultation Papers on the Market Abuse Regulation (RD: 15 October 2014).

Secondary Markets Expert Group – last meeting on 30 September 2014

1. The group is following the European Commission's Securities Law Regulation.

2. The group is following the implementation of the EU Short Selling Regulations in the UK.
3. 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.
4. The group responded to FCA's Discussion Paper: DP14/3 The use of dealing commission regime (RD: 10 October 2014).

Share Schemes Expert Group – last meeting on 18 September 2014

1. A working group is revising Rewarding Enterprise II – Guidance for Companies on Employee Share Schemes (July 2009).
2. The group responded to 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).
3. The group responded to HM Treasury's and HMRC's consultation on the new employee shareholding vehicle (RD: 10 October 2014).
4. The group responded to HMRC's consultation on Office of Tax Simplification's review of unapproved share schemes: marketable security (RD: 10 October 2014).
5. The group responded to HMRC's consultation on internationally mobile employees and earnings related securities (RD: 16 October 2014).

Tax Expert Group – last meeting on 22 September 2014

1. Roland Phillips, Policy Adviser, Financial Services Tax, HM Treasury, attended the September meeting to discuss our draft proposals for the 2015 Budget and give an update on current work.
2. The group has submitted its proposals for the 2015 Budget, focusing on the costs of raising equity to be tax deductible.
3. The group responded to 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).