

## Quoted Companies Alliance Policy Update – 17 June 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 11th survey, which focuses on the current state of equity markets, were published on 28 May 2014.
- The fieldwork for the 12<sup>th</sup> survey, which focuses on corporate governance, reputation and diversity, is taking place 24 June – 9 July. The results will be published in early 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 what the key issues are affecting investment decisions and see any emerging market trends.
- We are hoping that it will become an annual piece of research.

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. 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.

What we have done this past month on it:

- 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.

- The index has been discussed with Allister Heath, who is joining the Daily Telegraph as Deputy Editor soon, and will be followed up on once he is at the Telegraph.

#### **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:

- 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.
- We published a revised version of our Are You Ready Guide in May 2014 entitled – 'Are You Ready To Grow As A Quoted Company?'. This guide is aimed at companies looking to join a public equity market and generally describes what investors look for in small and mid-size quoted companies.

## **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 are starting to work 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. As such, we are beginning work on that now.

#### **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:

- We have heard that the Business Growth Fund may be starting to invest in quoted companies and are looking to meet with the Fund to discuss this.

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

#### **a. Proportionate IFRS**

What we are proposing:

- We do not have concrete proposals as to how proportionate IFRS will look like. Some suggestions have been:
  - Allow small and mid-size quoted companies (both those on the Main List and AIM) to use 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 disclosures.

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 IFRS for SMEs 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 get to hear about the work being done in this area from the FRC, as well as get 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.

#### **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 July/August 2014.
- We plan to run the QCA/UHY Hacker Young Corporate Governance Behaviour Review 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 will publicising this amongst its membership before the rule change comes into effect on 11 August 2014.

#### **Issues being considered by the expert groups**

##### **Corporate Finance Expert Group – last meeting 8 May 2014**

1. Clare Cole, FCA, attended the May meeting to discuss the FCA's consultation on its proposals to amend the sponsor competence regime.
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 FCA's Proposed amendments to the Listing Rules in relation to sponsor competence and other amendments to the Listing Rules and Prospectus Rules (RD: 30 April 2014).

##### **Corporate Governance Expert Group – last meeting on 20 May 2014**

1. 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.
2. The group is considering how to raise awareness of the AIM Rule 26 change (detailed above under ‘4. Improve corporate behaviour’ – key campaigns) amongst corporate members. A guidance note will be produced on this topic.
3. 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.
4. The group is reviewing 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.
5. The group is reviewing the European Commission’s strategy on Corporate Social Responsibility (CSR) 2011 – 2014 (RD: 15 August 2014).
6. The group is reviewing the ACCA’s Discussion Paper – Creating value through governance: toward a new accountability (RD: 31 August 2014).
7. The group responded to the ICSA’s consultation on annual reports content (RD: 30 May 2014).

**Financial Reporting Expert Group** – last meeting on 3 June 2014

1. Vickie Wood, Assistant Director (Accounting), BIS, attended the June meeting to give an update on BIS’s work on accounting issues in the UK.
2. The group is reviewing the IASB’s Exposure Draft – Disclosure Initiatives (Proposed amendments to IAS 1) (RD: 23 July 2014).
3. The group is reviewing 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.
4. The group responded to the FRC’s FRED 54: Draft Amendments to FRS 102 – Basic financial instruments (RD: 30 April 2014).
5. The group responded to ESMA’s consultation on proposed guidelines on the presentation of alternative performance measures by issuers (RD: 14 May 2014).
6. The group responded to the EFRAG/ANC/FRC discussion paper on the role of the business model in financial statements (RD: 31 May 2014).
7. The group responded to the FRC’s Revised Operating Procedures for Reviewing Corporate Reporting (RD: 16 June 2014).

**Legal Expert Group** – last meeting on 22 May 2014

1. Nilam Statham, Head of AIM Regulation, London Stock Exchange, attended the May meeting to give an update on the AIM Rules consultation and other market issues.
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 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

1. Matthew Leighton, Regulatory Strategy, London Stock Exchange, attended the June meeting to discuss ESMA's consultation paper and discussion paper on MiFID/MiFIR (RD: 1 August 2014).
2. The group is reviewing ESMA's Consultation and Discussion Papers on MiFID/MiFIR (RD: 1 August 2014) with the Legal Expert Group.
3. The group responded to ESMA's Discussion Paper – Draft Technical Standards for the Regulation on Improving securities settlement in the European Union (Central Securities Depositories - CSDr) (RD: 22 May 2014).
4. The group is following the European Commission's Securities Law Regulation.
5. The group is following the implementation of the EU Short Selling Regulations in the UK.
6. 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.

**Share Schemes Expert Group** – last meeting on 15 May 2014

1. Anne Smith, Specialist PT Savings and Share Schemes, HMRC, attended the May meeting to discuss self-certification with a number of QCA corporate members also in attendance.
2. A working group is revising Rewarding Enterprise II – Guidance for Companies on Employee Share Schemes (July 2009).
3. The group is considering the OTS's Competitiveness Review (RD: 30 June 2014) with the Tax Expert Group.

**Tax Committee** – last meeting on 28 May 2014

1. 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.
4. The group is considering the OTS's Competitiveness Review (RD: 30 June 2014) with the Share Schemes Expert Group.