

## Quoted Companies Alliance Policy Update – 19 February 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 10th survey, which focuses on the sector's performance in 2013 and expectations for 2014, will be published on 24 February 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 launched the report on 16 January 2014 at an event at Baker Tilly, which was attended by over 60 people. The report has been sent to all members via email and hardcopy.

##### 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:

- There was meeting of the working group held on 5 February 2014. The index is now becoming 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.

#### **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:

- No further action since last policy update.

#### **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 the last policy update – A review on enhancing public equity in the UK was announced in the December 2013 Autumn Statement and is likely to be out for consultation in Q1 of 2014.

### **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 submitted our Budget Proposals to HM Treasury and other key MPs/government bodies on 31 October 2013.
- We had a discussion lunch with David Gauke MP, Exchequer Secretary to the Treasury, and corporate members on 20 January 2014.
- We are attempting to schedule a discussion lunch with Shabana Mahmood MP, Shadow Tax Minister for the Labour Party, and corporate members.
- We are planning on sending out a follow-up press release on our Budget wish-list w/c 3 March 2014. We then will issue a press comment on the day of the Budget (19 March 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:

- No further action since last policy update.

## **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:

- No further action since last policy update.

## **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:

- The London Stock Exchange is currently consulting on its AIM Rules for Companies and NOMADs (Response Date: 3 March 2014). We understand that it 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 responses to these consultations.

## **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:

- In August 2013, UHY Hacker Young carried out research on corporate governance disclosures in annual reports and websites for a sample of 100 small and mid-size quoted companies (on the Main List below the FTSE 350, AIM and ISDX).
- In October 2013, we held a discussion lunch with small and mid-cap investors to discuss the preliminary results and what they view as the most important corporate governance disclosures.
- We are currently reviewing a draft of the report, which we hope to have published by the end of February 2014.

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

#### **Corporate Finance Advisors Expert Group – last meeting on 30 January 2014**

1. Simon Kendall of BIS attended the January meeting to discuss cyber security and steps that boards should be taking to evaluate this risk.
2. The group is reviewing the guide - Are You Ready? A Brief Guide for a Company Aspiring to Go Public (May 2010).
3. 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.
4. The group is reviewing 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).
5. The group is reviewing the London Stock Exchange's AIM Notice 38: AIM Rules for Companies and AIM Rules for NOMADs Consultation Documents (RD: 3 March 2014) jointly with the Corporate Governance, Share Schemes and Legal Expert Group.
6. The group responded to the FCA's CP 13/15 – Enhancing the effectiveness of the Listing Regime: feedback on CP 12/25 and further consultation on related issues (RD: 5 February 2014) with the Legal and Corporate Governance Expert Groups.

#### **Corporate Governance Expert Group – last meeting on 14 January 2014**

1. Simon Kendall of BIS attended the January meeting to discuss cyber security and steps that boards should be taking to evaluate this risk.
2. A working group is revising the Audit Committee Guide for Smaller Quoted Companies (February 2009).
3. The group is overseeing research on corporate governance disclosures of small and mid-size quoted companies (discussed above under 4. Improve corporate governance).
4. The group is considering how to encourage better engagement between proxy voting agencies and small and mid-size quoted companies.

5. The group is reviewing the FRC's Draft Plan and Budget 2014/15 (RD: 28 February 2014) with the Financial Reporting Expert Group.
6. The group is reviewing the London Stock Exchange's AIM Notice 38: AIM Rules for Companies and AIM Rules for NOMADs Consultation Documents (RD: 3 March 2014) jointly with the Corporate Finance, Share Schemes and Legal Expert Group.
7. The group responded to the Financial Reporting Council's consultation paper on Risk Management, Internal Control and the Going Concern Basis of Accounting (RD: 24 January 2014) with the Financial Reporting Expert Group.
8. The group responded to the FCA's CP 13/15 – Enhancing the effectiveness of the Listing Regime: feedback on CP 12/25 and further consultation on related issues (RD: 5 February 2014) with the Legal and Corporate Finance Advisors Expert Group.
9. The group is following European Commission's legislative proposals for on the Disclosure of Non-Financial Information.

**Financial Reporting Expert Group – last meeting on 28 January 2014**

1. The group is considering the FRC's Draft Plan and Budget 2014/2015 (RD: 28 February 2014) with the Corporate Governance Expert Group.
2. The group is considering the FRC's FRED 53 – Draft Amendments to FRS 101 – Reduced Disclosure Framework 2013/2014 (RD: 21 March 2014).
3. The group is considering the FRC's FRED 54: Draft Amendments to FRS 102 – Basic financial instruments (RD: 30 April 2014).
4. The group is considering CIMA's consultation on Draft Global Management Accounting Principles - Driving better business through improved performance (RD: 10 May 2014).
5. The group is considering EFRAG/ANC/FRC discussion paper on the role of the business model in financial statements (RD: 31 May 2014).
6. The group responded to the IFRS Foundation's A Review of the Conceptual Framework for Financial Reporting (RD: 14 January 2014).
7. The group responded to the Financial Reporting Council's consultation paper on Risk Management, Internal Control and the Going Concern Basis of Accounting (RD: 24 January 2014) with the Corporate Governance Expert Group.
8. The group responded to the FRC's FRED 51 – Draft Amendments to FRS 102 (RD: 14 February 2014).

**Legal Expert Group – last meeting on 23 January 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 leading a campaign to get the British Growth Fund to invest in private and quoted companies.
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 following the European Commission's legislative proposals for MiFID/MiFIR and SME Growth Market.
5. The group is reviewing the London Stock Exchange's AIM Notice 38: AIM Rules for Companies and AIM Rules for NOMADs Consultation Documents (RD: 3 March 2014) jointly with the Corporate Governance, Share Schemes and Corporate Finance Advisors.
6. The group responded to ESMA's policy orientations on possible implementing measures under the Market Abuse Regulation (RD: 27 January 2014).
7. The group responded to the FCA's CP 13/15 – Enhancing the effectiveness of the Listing Regime: feedback on CP 12/25 and further consultation on related issues (RD: 5 February 2014) with the Corporate Finance and Corporate Governance Expert Groups.

**Secondary Markets Expert Group** – last meeting on 19 February 2014

1. Anand Sambasivan, CEO and Co-Founder, and Andy Dennen, of Darwin Strategic Limited, attended the February meeting to discuss equity lines of credit.
2. The group is following the European Commission's Central Securities Depositories Regulations (CSDr) and helped to draft a letter to the Council, Commission and MEPs on an amendment to the regulation so that less liquid securities on regulated markets could qualify for an exemption, as well as securities on AIM/ISDX, for example.
3. The group is following the European Commission's review of MiFID/MiFIR with regards to secondary markets and trading issues.
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.

**Share Schemes Expert Group** – last meeting on 6 February 2014

1. A working group is revising Rewarding Enterprise II – Guidance for Companies on Employee Share Schemes (July 2009).
2. The group is reviewing the London Stock Exchange's AIM Notice 38: AIM Rules for Companies and AIM Rules for NOMADs Consultation Documents (RD: 3 March 2014) jointly with the Corporate Finance, Corporate Governance and Legal Expert Group.
3. The group responded to HMRC's consultation on the draft Finance Bill 2014 on Employee Share Schemes: Office of Tax Simplification Recommendations; Unapproved employee share schemes: Office of Tax Simplification recommendations; and Increasing Share Incentive Plans and Save As You Earn limits.
4. The group responded to BIS's consultation on amending the rule against perpetuities and further reducing the complexity of employee ownership (RD: 19 February 2014).

**Tax Committee** – last meeting on 22 January 2014

1. The group has produced the Quoted Companies Alliance's Proposals for Taxation Reform – 2014 Budget. It was submitted to HM Treasury and other officials on 31 December 2014.
2. The group responded to HMRC's consultation the Draft Finance Bill 2014, in particular the section on the abolition of stamp duty reserve tax on growth market shares (RD: 4 February 2014).