

Quoted Companies Alliance Policy Update – 21 October 2013

Progress on key campaigns for 2013

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:

- We have completed the fieldwork for the ninth survey, which featured questions on the Budget and attitudes toward the City. The results will be published w/c 25 November 2013.

b. QCA/Baker Tilly Fund Manager Survey

What we have:

- A one-off, 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 regarding investment.
- We are hoping that it will become an annual piece of research.

What we have done this past month on it:

- We carried out the fieldwork in August and September via phone interviews with 16 small and mid-cap fund managers.
- We are collating the results now and are hoping to launch a report in January 2014.

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:

- Meeting held with the Telegraph Group to redesign concept. Further discussions with fund managers. Launch in 2014.

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 responded to the European Commission Green Paper on Long-Term Financing of the European Economy (RD: 25 June 2013), highlighting the need for a SME Asset Class for quoted companies amongst other measures (to read our response visit: www.theqca.com/ecgreenpaper).

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 policy update.

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:

- The Tax Expert Group is preparing our 2014 Budget Proposals, which are due to be submitted to HM Treasury and others by 1 November 2013.

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 (beside just bank debt and equity).

- 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:

- No further action since last policy update.

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 aim to publish a report on the results in November/December 2013.

Issues being considered by the expert groups

Corporate Finance Advisors Expert Group – last meeting on 3 October 2013

1. The group is reviewing the guide - Are You Ready? A Brief Guide for a Company Aspiring to Go Public (May 2010).
2. The group is considering the FCA's Primary Market Bulletin No. 7 (RD: 19 November 2013).
3. The group is liaising with the Legal Expert Group on a respond to ESMA's Consultation Paper: ESMA Guidelines on enforcement of financial information (RD: 31 October 2013).

Corporate Governance Expert Group – last meeting on 24 September 2013

1. Mark Jackson, Senior Policy Advisor – Markets and Local Growth, Department for Business, Innovation & Skills, attended the September meeting to discuss the upcoming changes to the UK narrative reporting regime.
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 considering the NAPF's informal consultation on its draft 2014 Corporate Governance Policy & Guidelines (RD: 23 October 2013).
6. The group is considering ICAS's paper 'Balanced and Reasonable: A discussion paper on the provision of positive assurance on management commentary' (RD: 31 October 2013) with the Financial Reporting Expert Group.
7. The group is considering the FRC's Exposure Draft: Guidance on the Strategic Report (RD: 15 November 2013) with the Financial Reporting Expert Group.
8. The group is considering the FRC's Directors' Remuneration Consultation (RD: 6 December 2013).
9. The group is following European Commission's legislative proposals for on the Disclosure of Non-Financial Information.
10. The group responded to the FCA's consultation on Consequential Changes to the Listing Rules resulting from the BIS Directors' Remuneration Reporting Regulations and Narrative Reporting Regulations (RD: 9 October 2013) with the Legal Expert Group.
11. The group responded to BIS's consultation - Corporate Responsibility: A Call for Views (Response Date: 27 September 2013).

12. The group responded to BIS's informal Call for Evidence on the European Commission's Proposals on the Disclosure of Non-Financial Information (RD: 21 October 2013).

Financial Reporting Expert Group – last meeting on 15 October 2013

1. James Barbour, ICAS, attended the October meeting to discuss ICAS' paper on providing assurance on the management commentary of reports.
2. The group is considering ICAS's paper 'Balanced and Reasonable: A discussion paper on the provision of positive assurance on management commentary' (RD: 31 October 2013) with the Corporate Governance Expert Group.
3. The group is considering the FRC Invitation to Comment on IAASB Exposure Draft (July 2013): Reporting on Audited Financial Statements: Proposed New and Revised International Standards on Auditing (ISAs) (RD: 1 November 2013).
4. The group is considering the FRC's Exposure Draft: Guidance on the Strategic Report (RD: 15 November 2013) with the Corporate Governance Expert Group.
5. The group is considering the IFRS Foundation's A Review of the Conceptual Framework for Financial Reporting (RD: 14 January 2014).
6. The group responded to the IASB's Leases Exposure Draft (RD: 13 September 2013).

Legal Expert Group – last meeting on 26 September 2013

1. The group is leading a campaign to get the British Growth Fund to invest in private and quoted companies.
2. The group is considering ESMA's consultation on ESMA Guidelines on enforcement of financial information (RD: 31 October 2013).
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 following the European Commission's legislative proposal for a new regulation on a new Key Information Document for Investment Documents (previously known as PRIPS).
6. The group responded to the FCA's consultation on Consequential Changes to the Listing Rules resulting from the BIS Directors' Remuneration Reporting Regulations and Narrative Reporting Regulations (RD: 9 October 2013) with the Corporate Governance Expert Group.

Secondary Markets Expert Group – first meeting on 20 November 2013

1. The Markets & Regulations Expert Group has now been renamed the Secondary Markets Expert Group and will focus on trading and liquidity issues for small and mid-size quoted companies.
2. The group is following the European Commission's review of MiFID/MiFIR with regards to secondary markets and trading issues.
3. The group is following the European Commission's Central Securities Depositories Regulations (CSDr).
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 5 September 2013

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 consultation on Reform of Close Company Loans to Participators Rules (RD: 2 October 2013).

Tax Committee – last meeting on 8 October 2013

1. The group has produced a draft of the Quoted Companies Alliance's Proposals for Taxation Reform – 2014 Budget. It is due to be sent to HM Treasury and others in Government by 1 November 2013.
2. The group is liaising with HM Treasury on how the removal of stamp duty on growth market shares will be implemented.