

## **Quoted Companies Alliance Policy Update – 22 April 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:

- The seventh survey is underway (<https://start.yougov.com/refer/vtFQhkdT1SdNtz>). It has a special focus on the role of NEDs.
- We have received increased media coverage of the survey as a result of some PR work we did around the Budget announcement on removing stamp duty on growth market shares.

##### **b. A 'UK Index'**

What we are proposing:

- An index series that measures companies' contribution to the UK economy (ie through metrics such as tax paid to the UK, number of employees in the UK). (The theory is that this would show that more small and mid-size quoted companies contribute to the UK economy and also present a more valid index for UK pension funds to invest in).

What we have done this past month on it:

- There was meeting held with the Telegraph, investors and brokers on 16 April 2013. A number of action points were agreed and the working group is meeting again on 14 May 2013 to follow up on them.

##### **c. 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)) – at the moment we are proposing that this includes SMEs both on the Main List and AIM.
- Have not proposed yet through which mechanism this could be done (i.e. Directive, Regulation, Commission/Parliament recommendation).
- 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:

- The European Commission Green Paper on Long-Term Investment has been published and includes have questions on whether the Commission should create something similar to a SME asset class for listed companies.
- As part of this review, we have been asked by HM Treasury to write a paper on the structural barriers that exist for SMEs in accessing capital markets and impact investors' ability to invest. This is due by 7 May 2013, after which HM Treasury will hold an industry roundtable on this topic to discuss ideas suggested in our paper. Our paper will help HM Treasury to form their response to the European Commission's green paper.

**d. 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:

- A meeting with Vince Cable is organised for May to discuss this topic.

**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 and extend the holding period of shares from 12 months to three years.
- 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 five years before they can get the reduced rate.

What we have done this past month on it:

- The Tax Expert Group met with HMRC on 18 April to discuss the welcomed change that EMI shares qualify for Entrepreneurs' Relief.

**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:

- Published QCA/BDO Small and Mid-Cap Sentiment Index on 25 February, which includes research on the use and knowledge of corporate bonds in the small and mid-size quoted company sector.

### **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:

- It was agreed at the Legal Expert Group that the Quoted Companies Alliance could write to the banks that fund that Business Growth Fund as a way to encourage the banks to put pressure on the fund to invest in quoted companies.

## **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:

- Following up from our February 2013 meeting with IASB Chairman Hans Hoogervost, we carried out a survey of small and mid-size quoted companies with the IASB to identify specific areas of IFRS that are complex.
- We nominated some small and mid-size quoted company finance directors from our membership to become a member of the Global Preparers Forum.
- We have invited our corporate members to a follow up meeting with the IASB on 13 May 2013.

## **4. Improve corporate behaviour**

### **a. A proportionate approach to corporate governance**

What are planning to do:

- Update our Corporate Governance Guidelines for Smaller Quoted Companies (September 2010) to take into account various developments since the guide was last published.

What we have done this past month on it:

- The revised Quoted Companies Alliance Corporate Governance Code for Small and Mid-Size Quoted Companies ('QCA Code') is being published on 1 May 2013 at a launch event at the London Stock Exchange. Over 80 people are due to attend.
- We are currently preparing the PR for the guide and also the sales – we expect sales to be high, as we have had already had a strong amount of interest in it.
- We are currently pairing the marketing of the new guide with our Corporate Governance MasterClass in July and October 2013.
- We are working with an accountancy firm in the summer to look at AIM and ISDX companies and their compliance with the QCA Code.

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

#### **Corporate Finance Advisors Expert Group – 21 March 2013**

1. The group is considering the ISDX Regulatory Consultation (RD: 13 May 2013) in conjunction with the Legal Expert Group.
2. The group is reviewing then guide - Are You Ready? A Brief Guide for a Company Aspiring to Go Public (May 2010).
3. The group is also exploring how the Retail Distribution Review (RDR) may affect corporate finance advisory firms.

#### **Corporate Governance Expert Group – 19 March 2013**

1. A working group made up of members of the Corporate Governance Expert Group has revised our Corporate Governance Code. The new Code is being launched on 1 May 2013.
2. The group is considering the FRC's Implementing the Recommendations of the Sharman Panel (RD: 28 April 2013) with the Financial Reporting Expert Group.
3. The group is starting to revise the Audit Committee Guide for Smaller Quoted Companies (February 2009).
4. The group is starting to revise the Remuneration Committee Guide for Smaller Quoted Companies (February 2012).

#### **Financial Reporting Expert Group – 12 March 2013**

1. The group had a meeting with corporate members and the IASB on 6 February, from which a number of actions arose and have been followed up (see above under 'Progress with Key Campaigns'). We are holding another meeting with the IASB on 13 May 2013.
2. The group is considering the FRC's Implementing the Recommendations of the Sharman Panel (RD: 28 April 2013) with the Corporate Governance Expert Group.
3. The group is considering the FRC's Consultation Paper: Revision to ISA (UK and Ireland) 700 (RD: 30 April 2013).
4. The group is considering the IASB's Exposure Draft: Financial Instrument: Expected Credit Losses (RD: 5 July 2013).

5. The group is considering the IASB's Exposure Draft of proposed amendments to IAS 19 Employee Benefits (RD: 25 July 2013).

#### **Legal Expert Group – 28 March 2013**

1. Paul Haddock of ICAP Securities and Derivatives (ISDX) came to speak to the Legal Expert at the March meeting about their upcoming consultation on changes to their rulebook.
2. The group is considering the ISDX Regulatory Consultation (RD: 13 May 2013) in conjunction with the Corporate Finance Advisors Expert Group.
3. The group is leading a campaign to get the British Growth Fund to invest in not only private companies, but also quoted companies.
4. The group is considering ESMA's Draft Regulatory Technical Standards on specific situations that require the publication of a supplement to the prospectus (RD: 12 June 2013).
5. The group is considering European Parliament ECON Committee's consultation on the coherence of EU financial services legislation (RD: 14 June 2013).
6. The group is considering the European Commission's legislative proposals for MiFID/MiFIR, the Market Abuse Directive/Regulation, and the Transparency Directive.

#### **Markets and Regulations Expert Group – 17 April 2013**

1. The group has been considering its structure and focus and will be focusing more on secondary market issues. The group membership may evolve as part of this process.

#### **Share Schemes Expert Group – 7 February 2013**

1. Graeme Nuttall of Field Fisher Waterhouse came to the January meeting to discuss his Government review on employee share ownership.
2. The group is starting to revise Rewarding Enterprise II – Guidance for Companies on Employee Share Schemes (July 2009).

#### **Tax Committee – 18 April 2013**

1. The group had another success with the Budget announcement specifically on the removal of Stamp Duty on growth market shares from April 2014. They are liaising with HM Treasury on how this change will be implemented.
2. The group met with HMRC at its April 2013 to discuss recent changes to EMI and general points on how to encourage more tax-advantaged employee share ownership.
3. The group is considering HM Treasury's ISA qualifying investments: consultation on including shares traded on small and medium-sized enterprise equity markets (RD: 8 May 2013).