

Quoted Companies Alliance Policy Update – 25 February 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 sixth survey, with a special focus on corporate bonds, was published on 25th February 2013. It received a good amount of press coverage which is listed on our website (<http://www.theqca.com/news/qca-in-the-news/>), including an interview with Scott Knight on BB5Live Wake Up Money.

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 is interest from the Telegraph in developing an index with us. Tim Ward is in the process of gathering a working group of people interested in this for a meeting with the Telegraph in April.

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:

- We are waiting for the publication of a European Commission Green Paper on Long-Term Investment, which will have questions on whether the Commission should create something similar to a SME asset class for listed companies.
- Tim spoke at a conference in Brussels organised by CFA/FESE and this issue was discussed with Commission officials.
- ESMA visiting Winterflood Securities in May as part of work on SME Growth Market.

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:

- Meeting with Vince Cable organised for May.

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:

- Held a discussion lunch with David Gauke MP, Exchequer Secretary to the Treasury, for QCA corporate members on 21st January 2012.

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:

- No further action.

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 had a meeting with Hans Hoogervost, Chairman of the IASB, and corporate members on 6 February 2013 to discuss complexities with IFRS. As a result, we will be carrying out a survey of small and mid-size quoted companies with the IASB to identify specific areas of IFRS that are complex; we have been invited to nominate a small and mid-size quoted company to become a member of the Global Preparers Forum; and we are setting up another meeting with the IASB and QCA corporate members to follow up on these actions in May.

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:

- We have had working group meetings to discuss the revised guide and have produced a detailed draft of the guide. The expected publication is in May, with a launch event early on in the month.

Issues being considered by the expert groups

Corporate Finance Advisors Expert Group – 31 January 2013

1. Chris Woods of FTSE attended the January meeting to discuss how their indices are calculated.
2. The group is considering FSA consultation on amendments to Enforcement Guide (corporate aspects) – CP 13/6 (RD: 1 March 2013)
3. The group is considering the LSE's High Growth Segment: Draft Rulebook (RD: 8 March 2013) with the Markets & Regulations Group.

Corporate Governance Expert Group – 15 January 2013

1. A working group made up of members of the Corporate Governance Expert Group is revising our Corporate Governance Guidelines for Smaller Quoted Companies.
2. The group is considering the FRC's Draft Plan and Budget 2013 (RD: 28 March 2013) with the Financial Reporting Expert Group.
3. The group is considering the FRC's Implementing the Recommendations of the Sharman Panel (RD: 28 April 2013) with the Financial Reporting Expert Group.

Financial Reporting Expert Group – 22 January 2013

1. The group had a meeting with corporate members and the IASB on 6 February, from which a number of actions arose (see above under 'Progress with Key Campaigns')
2. The group is considering the FRC's Draft Plan and Budget 2013 (RD: 28 March 2013) with the Corporate Governance Expert Group.
3. The group is considering the FRC's Implementing the Recommendations of the Sharman Panel (RD: 28 April 2013) with the Corporate Governance Expert Group.
4. The group is considering the FRC's Consultation Paper: Revision to ISA (UK and Ireland) 700 (RD: 30 April 2013).

Legal Expert Group – 24 January 2013

1. The group had its January meeting at Winterflood Securities to see how small and mid-size quoted company shares were traded.
2. The group is leading a campaign to get the British Growth Fund to invest in not only private companies, but also quoted companies.
3. 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 – 21 November 2013

1. The group is considering the effects of the Short Selling Regulations on trading in small and mid-size quoted company shares through the ESMA Call for evidence on the evaluation of the Regulation (EU) 236/2012 of the European Parliament and of the Council on short selling and certain aspects of credit default swaps (RD: 15 March 2013).

2. The group is considering the European Commission's legislative proposals for MiFID/MiFIR, the Market Abuse Directive/Regulation, and the Transparency Directive.
3. The group is considering the European Commission's legislative proposals for Central Securities Depositories.
4. The group is considering non-bank lending and how this financing option could be more readily available to small and mid-size quoted companies.

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 drafting a briefing note for MPs and Lords on executive pay provisions in the Enterprise and Regulatory Reform Bill.

Tax Committee – 10 January 2013

1. The group held a discussion lunch with David Gauke MP on 21 January 2013 (see above under 'Progress with Key Campaigns').