

Quoted Companies Alliance Policy Update – 28 April 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, will be published on 28 May 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 currently in discussion with Baker Tilly about repeating the research this year.

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.
- The next working group meeting is scheduled for Tuesday, 6 May 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 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 are about to publish a revised version of our Are You Ready Guide 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 are attempting to schedule a discussion lunch with Shabana Mahmood MP, Shadow Tax Minister for the Labour Party, and corporate members.
- 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:

- 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:

- We included our view that AIM companies should be able to use IFRS for SMEs in our response to London Stock Exchange's AIM Notice 38: AIM Rules for Companies and AIM Rules for NOMADs Consultation Documents (RD: 3 March 2014).

- 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.

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 published a Corporate Governance Behaviour Review in conjunction with UHY Hacker Young LLP on 4 March 2014. Email and hardcopies were circulated to all members. We received some good press coverage on it and have had interest in the results from both corporate members and the Financial Reporting Council.
- We are also 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 launched in early July 2014.

Issues being considered by the expert groups

Corporate Finance Expert Group – last meeting 13 April 2014

1. 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.
2. 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).
3. The group responded to 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.

Corporate Governance Expert Group – last meeting on 8 April 2014

1. A working group is revising the Audit Committee Guide for Smaller Quoted Companies (February 2009) – more detailed mentioned above in the key campaigns section.
2. The group is considering how to encourage better engagement between proxy voting agencies and small and mid-size quoted companies.
3. The group is reviewing the Financial Reporting Council's Proposed Revisions to UK Corporate Governance Code (RD: 27 June 2014) with the Share Schemes Expert Group.
4. The group is reviewing the ACCA's Discussion Paper – Creating value through governance: toward a new accountability (RD: 31 August 2014).
5. The group responded to the FRC's Draft Plan and Budget 2014/15 (RD: 28 February 2014) with the Financial Reporting Expert Group.

6. The group responded to 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.

Financial Reporting Expert Group – last meeting on 18 April 2014

1. Sue Harding, Director of the Financial Reporting Lab at the Financial Reporting Council, attended the April meeting to discuss the Lab's current projects.
2. The group is considering the FRC's FRED 54: Draft Amendments to FRS 102 – Basic financial instruments (RD: 30 April 2014).
3. The group is considering CIMA's consultation on Draft Global Management Accounting Principles - Driving better business through improved performance (RD: 10 May 2014).
4. The group is considering ESMA's consultation on proposed guidelines on the presentation of alternative performance measures by issuers (RD: 14 May 2014).
5. The group is considering the IFRS Foundation's Post-Implementation Review: IFRS3 for Business Combinations (RD: 30 May 2014).
6. The group is considering EFRAG/ANC/FRC discussion paper on the role of the business model in financial statements (RD: 31 May 2014).
7. The group is considering the FRC's Revised Operating Procedures for Reviewing Corporate Reporting (RD: 16 June 2014).
8. The group responded to the FRC's FRED 53 – Draft Amendments to FRS 101 – Reduced Disclosure Framework 2013/2014 (RD: 21 March 2014).
9. The group responded to the FRC's Draft Plan and Budget 2014/2015 (RD: 28 February 2014) with the Corporate Governance Expert Group.

Legal Expert Group – last meeting on 24 April 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 responded to 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.

Secondary Markets Expert Group – last meeting on 16 April 2014

1. The group is considering 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).

2. The group is considering the ESMA Consultation Paper on Draft Regulatory Technical Standards on major shareholdings and an indicative list of financial instruments subject to the notification requirements under the revised Transparency Directive (RD: 30 May 2014).
3. The group is following the European Commission's Securities Law Regulation.
4. The group is following the implementation of the EU Short Selling Regulations in the UK.
5. 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 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 considering the OTS's Competitiveness Review (RD: 30 June 2014) with the Tax Expert Group.
3. The group responded to 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.
4. The group responded to HMRC's Draft Finance Bill consultation on Employee Share Schemes: Office of Tax Simplification Recommendations (RD: 11 February 2014).
5. The group responded to HMRC's Draft Finance Bill consultation on Unapproved Employee Share Schemes: Office of Tax Simplification Recommendations (Section 222) (RD: 11 February 2014).
6. The group responded to HMRC's Draft Finance Bill consultation on Increasing Share Incentive Plans and Save As You Earn limits (RD: 11 February 2014).

Tax Committee – last meeting on 2 April 2014

1. John Whiting, Director of the Office of Tax Simplification, attended the April meeting to discuss the OTS's current project.
2. 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.
7. The group is considering the OTS's Competitiveness Review (RD: 30 June 2014) with the Share Schemes Expert Group.