

Quoted Companies Alliance Policy Update – 28 August 2012¹

Progress on key campaigns for 2012

1. Capital Gains Tax Reform – Entrepreneurs' Relief – and other Budget Proposals:

Why we are working on it:

So that all who contribute to the long-term success and growth of a business can qualify for capital gains tax relief (rather than just those employees that own 5% of shares in their company).

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:

- Started to redraft our Budget Representations to send to the Chancellor and HM Treasury, following the Autumn Statement in November 2012.
- Met with the TUC to discuss whether this organisation could support our proposals on Entrepreneurs' Relief.

2. Non-bank lending and debt markets

Why we are working on it:

To open up another financing option to smaller companies; create more effective markets; and raise awareness about non-bank lending (i.e. debt issued on the market).

What we are proposing:

Look at how Government can raise awareness about different funding options for smaller companies (besides 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:

- Tim Ward attended an ACT Private Placement Working Group meeting on behavioural triggers to encourage this type of market on 26 July 2012.

¹ covers 12 June 2012 – 18 August 2012

- Tim Ward met with a credit rating agency in August 2012 about a revised rating product for mid-cap companies looking to raise debt.

3. QCA/BDO Small & Mid-Cap Sentiment Index

Why we are working on it:

Creating awareness and knowledge of the sector (especially with Government and policymakers).

What we are proposing:

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 fourth survey, with a special focus on financial reporting, was published at the end of July 2012. It received a good amount of press coverage which is listed on our website (<http://www.theqca.com/news/qca-in-the-news/>)
- Tim Ward wrote a blog post about results from the fourth survey for Financial Director, which discusses long-termism vs short-termism: (<http://www.theqca.com/news/briefs/63662/ceo-tim-ward-weighs-in-on-the-longterm-vs-shortterm-debate.html>)
- We are in the process of developing the topics for the second year of the survey. The next one will take place in September and most likely have a number of questions on how to incentivise growth.

4. A 'UK Index'

Why we are working on it:

Creating knowledge and awareness of the sector and its contribution to the UK economy.

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-cap 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:

- No further action this month.

5. A SME Asset Class

Why we are working on it:

Increase the ability of small and mid-cap quoted companies to attract investment and make it easier for funds to invest in these companies.

Make it easier and more effective regulators and policymakers to make proportionate rules for small and mid-cap quoted companies.

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:

- Met with HM Treasury to discuss the benefits of an asset class and how it could work.

6. Proportionate IFRS

Why we are working on it:

Reduce the burden on companies in terms of having to produce accounts.

Make companies' reports more meaningful and less complex.

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 signed a joint letter in July 2012 with MiddleNext, the French small and mid-size quoted company association, the DAI, the German quoted company association, and Assonime, the Italian quoted company association, to Michel Prada, a Trustee at the IFRS Foundation, asking for the IASB to review the effect of IFRS on small and mid-size quoted companies.

Other campaigns this month

7. The closure of PLUS markets

Why we are working on it:

Ensure that the 150 companies on PLUS markets are not disadvantaged by the potential closure of the market and still able to raise finance.

Ensure that primary equity markets are fit for purpose and helping companies to raise the finance necessary to grow.

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:

- Met with HM Treasury in July 2012 to discuss the possible development of such a review.
- Tim Ward met with Seth Johnson, CEO of PLUS-SX, to discuss the future of the PLUS-quoted market in August 2012.

Issues being considered by the expert groups**Corporate Finance Advisors Expert Group – 2 August 2012**

1. The group met with Tim Farazmund, Llyods Development Capital, to discuss the state of the private equity market at the August meeting.
2. The group is considering the recently released Takeover Panel consultations (PCP 2012/1 – Profit forecasts, quantified financial benefits statements, material changes in information and other amendments to the Takeover Code; PCP 2012/2 – Pension scheme trustee; PCP 2012/3 – Companies subject to the Takeover Code) with the Legal and Markets & Regulations Expert Groups.
3. The group's semi-annual market practice survey has been sent out in August 2012 and results will be available for the next meeting in November 2012.

Corporate Governance Expert Group – 13 June 2012

1. The group is considering the European Commission's legislative proposals on Audit (with the Financial Reporting Committee).
2. The group is considering BIS's consultation on the revised remuneration reporting regulations (RD: 26 September 2012) with the Share Schemes Expert Group.
3. The group is considering DEFRA's consultation on greenhouse gas emissions reporting draft regulation for quoted companies (RD: 17 October 2012).
4. The group is considering DEFRA's reporting guidance for business on environmental key performance indicators (RD: 17 October 2012).

5. The group responded to ESMA's consultation on proxy advisors and possible policy options (RD: 25 June 2012).
6. The group responded to the FRC's consultation on the UK Corporate Governance Code (RD: 13 July 2012) and the consultation on the Stewardship Code (RD: 13 July 2012).

Financial Reporting Expert Group – 29 May 2012

1. The group responded to the ASB/EFRAG's consultation on 'Improving the Financial Reporting of Income Tax' (RD: 29 June 2012)
2. The group has developed a campaign outline for 2012 that highlights its key campaigns for this year, people to engage with, and actions to take.
3. The group is considering the European Commission's legislative proposals on Audit (with the Corporate Governance Committee).
4. The group is considering the IAASB's Improving the Auditor's Report (RD: 8 October 2012).
5. The group is considering the IASB's Comprehensive Review of IFRS for SMEs (RD: 30 November 2012).
6. The group is considering EFRAG/FRC/ANC's Discussion Paper – Towards a Disclosure Framework for the Notes (RD: 31 December 2012).

Legal Expert Group – 28 June 2012

1. Catherine Clarke, Legal Counsel of the Business Growth Fund, attended the June meeting to discuss the new Business Growth Fund and its investment mandate.
2. The group is considering the European Commission's legislative proposals for MiFID/MiFIR, the Market Abuse Directive/Regulation, and the Transparency Directive.
4. The group is considering the recently released Takeover Panel consultations (PCP 2012/1 – Profit forecasts, quantified financial benefits statements, material changes in information and other amendments to the Takeover Code; PCP 2012/2 – Pension scheme trustee; PCP 2012/3 – Companies subject to the Takeover Code) with the Corporate Finance Advisors and Markets & Regulations Expert Groups.

Markets and Regulations Expert Group – No meeting in May, June or July (next meeting in September)

1. The group is considering the European Commission's legislative proposals for MiFID/MiFIR, the Market Abuse Directive/Regulation, and the Transparency Directive.
2. The group is considering the European Commission's legislative proposals for Central Securities Depositories.
3. 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 – 24 May 2012

1. The group is considering HMRC's consultation on the Office of Tax Simplification's report on tax advantaged employee share schemes (RD: 18 September 2012).
2. The group is considering BIS's consultation on the revised remuneration reporting regulations (RD: 26 September 2012) with the Corporate Governance Expert Group.
3. The group is considering the OTS's Interim Report on unapproved employee share schemes (RD: 26 September 2012).
4. The group is considering the BIS's call for evidence on raising awareness of employee ownership, following the report of the Nuttall Review on Employee Share Ownership (RD: 7 September 2012).

Tax Committee – 5 July 2012

1. The group is working on preparing the Quoted Companies Alliance's Budget Representations for 2013, including collecting examples from companies of difficulties using certain tax reliefs, especially Entrepreneurs' Relief.