

Priority policy issues

Issue & how it could affect quoted companies	Current status	Actions and achievements by the QCA
Markets in Financial Instruments Directive (MiFID II)		
<ul style="list-style-type: none"> ▪ The legislation means that brokers and fund managers may no longer be able to use dealing commissions to pay for investment research. ▪ This could decrease the level of investment research in small and mid-size quoted companies. It may also reduce the demand from fund managers for research on small and mid-size quoted companies and make it uneconomical for brokers/analysts to continue to produce it. 	<ul style="list-style-type: none"> ▪ MiFID II came into force on 3 January 2018. ▪ European Commission published FAQs on obtaining brokerage and research services from non-EU brokers in October 2017. ▪ The US Securities and Exchange Commission also issued three no-action letters to facilitate cross-border implementation of MiFID II'S research provisions in October 2017. ▪ The European Commission has consulted on building a proportionate regulatory environment to support SME listing. ▪ European Commission is also due to publish terms of reference to review the impact of MiFID II on small and mid-size quoted companies. The review will take place at the end of 2018. 	<ul style="list-style-type: none"> ▪ We secured FCA confirmation that fund managers can continue to receive small cap research without payment, where it has been commissioned and paid for by a small quoted company, including when issuing new shares. This will also cover broker research. ▪ ESMA also acknowledged in its product governance guidelines that a common approach for some types of investment products with sufficiently comparable product features may be applied. ▪ We have also approached the FCA regarding whether investment research produced by both small cap brokers and independent "paid-for" houses can be published on their respective websites. ▪ The FCA has confirmed that, providing appropriate measures have been put in place to ensure that only suitable persons are receiving the research material, research on small and mid-size quoted companies can be published on websites. ▪ The QCA/Peel Hunt Investor Survey provided further insight into the application of MiFID II. ▪ We have also sent QCA corporate members a briefing note, advising them on questions to ask their broker in the 'Board Brief'.

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<ul style="list-style-type: none"> ▪ The SME Growth Market concept has been established to further the development of specialist markets which seek to facilitate access to capital for SMEs. 	<ul style="list-style-type: none"> ▪ AIM became an SME Growth Market Status on 3 January 2018. ▪ The European Commission is currently consulting on a legislative proposal which will bring technical adjustments to MiFID II with the aim of reducing the administrative burden faced by SMEs. 	<ul style="list-style-type: none"> ▪ During the first half of 2018, we submitted responses to the European Commission’s consultation on building a proportionate regulatory environment to support SME listing, as well as its legislative proposal to make technical adjustments to MiFID II.
	<ul style="list-style-type: none"> ▪ HM Treasury published a draft Statutory Instrument regarding markets in financial instruments, which makes amendments to MiFID II, so that it continues to operate effectively in the UK once it has left the EU, regardless of the Brexit negotiation outcome. 	
Prospectus Regulation		
<ul style="list-style-type: none"> ▪ The new regulation seeks to make it easier and less expensive for quoted companies to raise finance on public equity markets by: <ul style="list-style-type: none"> – Exempting fundraisings under €8m from producing a prospectus; – Introducing a minimum disclosure regime for secondary issuances; – Introducing a minimum disclosure regime for SMEs; and – Allowing companies to incorporate information by reference. 	<ul style="list-style-type: none"> ▪ The Prospectus Regulation entered into force on 20 July 2017 with the majority of the new provisions will apply from 21 July 2019. ▪ The final text, published in the Official Journal of the EU on 30 June 2017, is less ambitious than initially intended by the Commission but does not pose serious concerns to the QCA constituency. 	<ul style="list-style-type: none"> ▪ We have continued to be in contact with ESMA and the Commission. ▪ We submitted a response to ESMA’s consultation on the draft guidelines on risk factors.

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	<ul style="list-style-type: none"> ▪ The European Commission is currently consulting on an amendment to the Prospectus Regulation which would see the introduction of a Transfer Prospectus. This would create alleviations for companies listed for at least three years on an SME Growth Market wishing to move to a regulated market. 	<ul style="list-style-type: none"> ▪ We submitted a response to the European Commission consultation and contributed to European Issuers' response.
Market Abuse Regulation (MAR)		
<ul style="list-style-type: none"> ▪ MAR brought new requirements and changes which are causing additional administrative and regulatory burdens for quoted companies. ▪ MAR directly applies to all types of markets, including AIM. As it is a regulation, the FCA has very little flexibility in how it is implemented in the UK. ▪ Quoted companies are now required to retain more information on their insiders. ▪ Other changes that impact quoted companies concern the UK Model Code, which no longer exists; the regulation is directly applicable to AIM companies. ▪ A key issue is the interaction between MAR and AIM Rules, which were amended to accommodate new MAR provisions. Key rule changes include AIM Rule 11, 17 & 21. AIM companies need more legal advice on their obligations under MAR but also have a duty to disclose inside information under AIM Rule 11. 	<ul style="list-style-type: none"> ▪ Since MiFID II came into force, companies on EU growth markets are now exempt from the insider list requirement, but national competent authorities are able to request an insider list from companies on an EU growth market. 	<ul style="list-style-type: none"> ▪ We sent a letter to the FCA on 3 July 2017 to express our concern over the continued problems with the implementation with MAR. The FCA attended a Legal Expert Group meeting in September 2017 to discuss these concerns in more detail. ▪ A QCA, ICSA, GC100 Guidance note on the Dealing Code and policy document for companies was published in June 2016. ▪ We are in continual dialogue with AIM Regulation and the FCA on how the interaction will work in practice. ▪ We have written to QCA corporate members to inform them of the MAR alleviations which now apply to AIM companies since AIM secured its status as an SME Growth Market. ▪ The FCA Primary Markets team will be contributing to the next edition of the QCA Board Brief to discuss MAR.

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	<ul style="list-style-type: none"> ▪ The European Commission is currently consulting on proposals to amend certain provisions of the regulation. These include: <ul style="list-style-type: none"> – Introducing the possibility for issuers to enter into a ‘liquidity provision contract’ with a financial intermediary responsible for enhancing the liquidity of their shares. – Requiring issuers on SME growth markets to only maintain a list of ‘permanent insiders’. – Requiring issuers on SME growth markets to justify the reasons for delaying the disclosure of inside information only upon request of the National Competent Authority. – Giving persons discharging managerial responsibilities (PDMRs) and persons closely associated (PCAs) three business days to notify issuers of their transactions. Issuers will then have two days to disclose the information to the public. 	<ul style="list-style-type: none"> ▪ We submitted a response to the European Commission consultation and contributed to European Issuers’ response. ▪ We attended meetings in Brussels with the MEPs assistants who are working and rapporteurs on this subject.

Key Campaigns

Improving liquidity and access to finance	
Activity	Update
<p>Costs of raising equity to be tax deductible</p> <p>Allow the costs of raising equity for both an IPO and secondary fundraising to be tax deductible, to an upper limit of £1.5m.</p> <p>EXPERT GROUP: Tax</p>	<ul style="list-style-type: none"> ▪ We continued to make this argument in our market manifesto, consultation responses and 2018 proposals for taxation reform. ▪ We have discussed the issue with Rt Hon Mel Stride MP – the Financial Secretary to the Treasury and Anneliese Dodds MP – a shadow Treasury minister. ▪ We have also met HM Treasury’s enterprise investment and corporation tax teams to discuss the issue in more detail.
<p>Capital Gains Tax reform of Entrepreneurs’ Relief</p> <p>Remove the requirement to hold 5% shares in a company to qualify for a reduced rate of capital gains tax and allow long-term investors to also qualify for the relief by rebranding it ‘Stakeholders Relief’.</p> <p>EXPERT GROUP: Tax (with Share Schemes)</p>	<ul style="list-style-type: none"> ▪ We continued to make this argument in our market manifesto, consultation responses and 2018 proposals for taxation reform. ▪ We have discussed the issue with Rt Hon Mel Stride MP – the Financial Secretary to the Treasury and Anneliese Dodds MP – a shadow Treasury minister. ▪ The Chancellor of the Exchequer announced at Budget 2018 that the minimum period throughout which certain conditions must be met to be eligible for Entrepreneurs Relief would be increased from one year to two years – effective 6 April 2019.
<p>Capital Markets Union Action Plan</p> <p>Ensure that the European Commission’s work on Capital Markets Union (CMU) helps to facilitate access to public equity markets for growth companies.</p> <p>EXPERT GROUP: All</p>	<ul style="list-style-type: none"> ▪ The European Commission published its mid-term review of the Capital Markets Union on 8 June 2017. ▪ We have submitted responses to the European Commission’s legislative proposals to make amendments to MiFID II and the Market Abuse and Prospectus Regulations (see above). We have also contributed to the responses submitted by EuropeanIssuers and the ESMA Securities and Markets Stakeholder Group.

Raising awareness of the small and mid-size quoted company sector	
Activity	Update
<p>QCA/YouGov Sentiment Index</p> <p>Biannual survey that tracks the economic and business confidence of the small and mid-cap sector (advisors and corporates).</p>	<ul style="list-style-type: none"> ▪ The results of the latest Sentiment Index were published on 22 August 2018. ▪ The latest survey has been sent to members for completion by mid-October 2018.
<p>QCA/Peel Hunt Mid & Small-Cap Investor Survey</p> <p>Survey of small and mid-cap fund managers to help companies understand the key issues affecting investment decisions and any emerging market trends.</p>	<ul style="list-style-type: none"> ▪ Peel Hunt LLP agreed to sponsor the survey for three years. ▪ The survey results were published on 23 April 2018. ▪ The next survey will include companies and advisers, in addition to investors. It will be conducted at the same time as the economic sentiment survey. Fieldwork will take place during November 2018.
<p>Brexit</p> <p>Ensuring that QCA members' interests are properly represented, as the UK negotiates its departure from the European Union.</p>	<ul style="list-style-type: none"> ▪ We met with James Dowler, Deputy Director – Stakeholder Engagement, and Sam Brand, Deputy Director – Market Access and Budget, of the Department for Exiting the European Union on 20 March 2018. ▪ We held a roundtable with Philip Rycroft, the Permanent Secretary of the Department for Exiting the European Union, on 31 May 2018, which was attended by 13 quoted company directors. ▪ We also met with Kyle Galler, Acting Deputy Head of Representation, at the European Commission Representation in the UK on 22 May 2018.
<p>QCA Corporate Governance Code</p> <p>Monitor uptake of the QCA Code and promote greater use of the QCA Code amongst small and mid-size quoted companies.</p>	<ul style="list-style-type: none"> ▪ The QCA Corporate Governance Code was published on 25 April 2018. ▪ We ran a Corporate Governance Workshop on 13 September 2018, attended by 18 quoted company directors. ▪ Along with our partners Evalu8, we have also launched a new online appraisal tool, which helps companies assess their application of the QCA Corporate Governance Code, as well as the QCA guides on audit and remuneration committees, and the FRC's UK Corporate Governance Code. ▪ We are hoping to meet with the Minister for Small Business, Consumers and Corporate Responsibility before Christmas to discuss the QCA Corporate Governance Code, as well as other areas of corporate governance.

	<ul style="list-style-type: none"> ▪ We have recruited an intern to review the compliance of all AIM quoted companies during autumn 2018. His work will focus on identifying which recognised corporate governance code that companies have chosen to adopt, an assessment of whether the chair’s statement mentions how the company’s governance structures/practices differ from the QCA Code, as well as the extent to which there is mention on board evaluation.
<p>Review of the FRC Ensuring the views of small and mid-sized companies are considered in the review.</p>	<ul style="list-style-type: none"> ▪ We met with the BEIS secretariat running the FRC review on 29 May 2018 and held a roundtable with members with Sir John Kingman on 31 July 2018. ▪ We submitted our initial response to the FRC review call for evidence on 6 August 2018. This was then followed by a supplementary paper in early September 2018, which outlined how the principle of proportionality could be built into a reformed FRC’s statutory objectives and duties. ▪ Our Financial Reporting Expert Group is also considering its response to a further request for comments from Sir John regarding auditor procurement and remuneration.

Expert Group activity

Corporate Governance

- **Last meeting – Tuesday 4 September 2018:** Andrew Death and Gemma Johnson of the Department for Business, Energy and Industrial Strategy (BEIS) attended the meeting to provide an update on the department’s preparatory work on Brexit.
- **Consultations responded to:**
 - The Wates Corporate Governance Principles for Large Private Companies (R: 7 September 2018)
- **Consultations under consideration:**
 - Ethnicity pay reporting (RD: 11 January 2019)
 - Climate Change and Green Finance (RD: 31 January 2019)

Financial Reporting

- **Last meeting – Tuesday 18 September 2018:** Alex Imrie of Smith and Williamson LLP attended the meeting to discuss how investors use a company’s financial statements to inform their decision-making.
- **Consultations under consideration:**
 - Sir John Kingman’s independent review of the FRC – additional questions: Arrangements for auditor procurement and remuneration (RD: 9 November 2018)

Legal

- **Last meetings – Tuesday 11 September 2018.**
- **Consultations responded to:**
 - Proposed changes to the AIM Disciplinary Procedures and Appeals Handbook (R: 10 September 2018)
 - ESMA consultation – Guidelines on risk factors under the Prospectus Regulation (R: 5 October 2018)
- **Consultations under consideration:**
 - Takeover Panel consultation – Asset Valuations (RD: 7 December 2018)

Primary Markets

- **Last meeting – Tuesday 11 September 2018.**
- **Consultations responded to:**
 - Proposed changes to the AIM Disciplinary Procedures and Appeals Handbook (R: 10 September 2018)
 - ESMA consultation – Guidelines on risk factors under the Prospectus Regulation (R: 5 October 2018)
- **Consultations under consideration:**
 - Takeover Panel consultation – Asset Valuations (RD: 7 December 2018)

Secondary Markets

- **Last meeting – Wednesday 12 September 2018:** Mark Northway and Cliff Weight of ShareSoc – UK Individual Shareholders Society attended the meeting to discuss retail perspectives on a number of topics including shareholder rights, the availability and distribution of investor research and MiFID II.
- The group will be collating a range of observations from members regarding MiFID II with a view to submitting a written report to the FCA later in 2018.
- **Consultations responded to:**
 - Proposed changes to the AIM Disciplinary Procedures and Appeals Handbook (R: 10 September 2018)

Share Schemes

- **Last meeting – Thursday 18 October 2018.**

Tax

- **Last meeting – Wednesday 26 September 2018:** Donald Stark of HM Treasury attended the meeting to exchange views on our proposals for taxation reform.
- A working group submitted our proposals for taxation reform to the Chancellor of the Exchequer, as well as other stakeholders in government and Parliament ahead of the next Budget, which is scheduled for Monday 29 October 2018.
- **Consultations under consideration:**
 - Business Lifecycle Review: Call for evidence (RD: 7 December 2018)