



**The Quoted  
Companies Alliance**

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The Kay Review  
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27 April 2012

Dear Sirs,

**Department for Business, Innovation and Skills – The Kay Review of UK Equity Markets and Long-Term Decision Making: Interim Report**

**INTRODUCTION**

The Quoted Companies Alliance is a not-for-profit membership organisation working for small and mid-cap quoted companies. Their individual market capitalisations tend to be below £500m.

The Quoted Companies Alliance is a founder member of European**Issuers**, which represents over 9,000 quoted companies in fourteen European countries.

**RESPONSE**

We welcome the opportunity to respond to Professor Kay's Interim Report. There are three areas that we would like to provide further evidence on:

**1. Not all companies on equity markets are the same.**

Throughout the Interim Report there are some generalisations that all companies on public equity markets are relatively similar in terms of size, types of investment, etc, and likewise that equity markets provide the same function for all companies. We would note that the reason for listing and the experience of a small and mid-cap quoted company on an equity market is very different to that of a large, FTSE100 company.

For example, paragraph 2.16 of the Interim Report quotes a response received that notes '...The investment strategy of a significant proportion of fund managers is oriented towards share trading rather than long-term company ownership.' We would stress that investors in small and mid-cap quoted company stocks have to invest on the basis that they have to be long-term shareholders, as they cannot expect to be able to sell their holding at a specific time in the future – in contrast to a FTSE 100 or 250 stock.

As such, we would stress the importance of the need to segment the market and look at the various issues facing each segment, as they are different.

**2. The purpose of equity markets is to help companies raise finance and working capital.**

Paragraph 2.1 of the Interim opens by stating:

“The purpose of equity markets are to generate returns for savers and to improve the performance of companies.”

Paragraph 2.3 of the Interim Report, also asserts that:

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“Overall, equity markets are now a relatively minor source of new finance for business investment.”

Again, while the upper end of the UK market may not need to issue new shares or seek equity to finance their working capital, small and mid-cap quoted companies do. They rely on equity markets as a vital platform for raising finance – especially in light of banks restricting lending as a result of the financial crisis.

In the last two surveys of the QCA/BDO Small and Mid-Cap Sentiment Index<sup>1</sup>, we asked small and mid-cap companies what their preferred way of raising capital would be, if the need arose in the next 12 months. In September 2011, 52% of small and mid-cap quoted companies said they preferred to raise public equity (over bank finance, listed debt issuance, private equity and other). In January 2012, 56% of small and mid-cap quoted companies said they preferred to raise public equity. This evidence clearly shows that small and mid-cap quoted companies turn to equity markets to raise money. This further highlights what we have discussed above about the need to segment the market and consider the different issues small and mid-cap quoted companies face.

### **3. Tax incentives are an important tool in encouraging investment in public companies.**

We believe that tax incentives are a driver for long-term holding of equity, which is mentioned in Chapter 3 of Interim Report. We made a number of representations in our response to the Call for Evidence and have since put forward our 2012 Budget Representations<sup>2</sup> to the Chancellor.

We believe that a well targeted and cost effective capital gains tax relief will encourage equity investment in private and public companies. We have made a number of proposals to reform Entrepreneurs' Relief that aim to encourage long-term investment and to remove restrictions so that all who make a contribution to the growth of business can benefit. These were detailed in our last submission to the Call for Evidence and can be found in our 2012 Budget Representations.

In the most recent survey of the QCA/BDO Small and Mid-Cap Sentiment Index, we asked the small and mid-cap quoted company sector what they wanted to see in the 2012 Budget. When asked what policy would have the greatest positive impact on your business, 28% of small and mid-cap quoted companies opted for 'Allow AIM and PLUS-quoted company shares to be included in ISAs'.

Paragraph 3.30 of the Interim Report touches on this point and notes the inconsistencies in how tax relief on UK equities is applied in terms of what can be included in an ISA and what cannot. We agree with this analysis and would highlight the support of the sector to allow AIM and PLUS-quoted company shares into ISAs as a means to drive more investment into the sector and offer beneficial incentives to investors.

If you would like to discuss this in more detail, we would be pleased to attend a meeting.

Yours sincerely,



Tim Ward  
Chief Executive

Enc: QCA/BDO Small and Mid-Cap Sentiment Index – Issue 1 (October 2011) and 2 (February 2012)

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<sup>1</sup> <http://bdoqcasantimentindex.co.uk/>

<sup>2</sup> <http://www.theqca.com/about-us/responses/51263/qca-2012-budget-representations.shtml>

## THE QUOTED COMPANIES ALLIANCE

A not-for-profit organisation funded by its membership, the Quoted Companies Alliance represents the interests of small and mid-cap quoted companies, their advisors and investors. It was founded in 1992, originally known as CISCO.

The Quoted Companies Alliance is governed by an elected Executive Committee, and undertakes its work through a number of highly focussed, multi-disciplinary committees and working groups of members who concentrate on specific areas of concern, in particular:

- taxation
- legislation affecting small and mid-cap quoted companies
- corporate governance
- employee share schemes
- trading, settlement and custody of shares
- structure and regulation of stock markets for small and mid-cap quoted companies;
- political liaison – briefing and influencing Westminster and Whitehall, the City and Brussels
- accounting standards proposals from various standard-setters

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### **Quoted Companies Alliance's Aims and Objectives**

The Quoted Companies Alliance works for small and mid-cap quoted companies in the United Kingdom and Europe to promote and maintain vibrant, healthy and liquid capital markets. Its principal objectives are:

*Lobbying* the Government, Brussels and other regulators to reduce the costing and time consuming burden of regulation, which falls disproportionately on smaller quoted companies

*Promoting* the smaller quoted company sector and taking steps to increase investor interest and improve shareholder liquidity for companies in it.

*Educating* companies in the sector about best practice in areas such as corporate governance and investor relations.

*Providing a forum* for small and mid-cap quoted company directors to network and discuss solutions to topical issues with their peer group, sector professionals and influential City figures.

Small and mid-cap quoted companies' contribute considerably to the UK economy:

- There are approximately 2,000 small and mid-cap quoted companies
- They represent around 85% of all quoted companies in the UK
- They employ approximately 1 million people, representing around 4% of total private sector employment
- Every 5% growth in the small and mid-cap quoted company sector could reduce UK unemployment by a further 50,000
- They generate:
  - corporation tax payable of £560 million per annum
  - income tax paid of £3 billion per annum
  - social security paid (employers' NIC) of £3 billion per annum
  - employees' national insurance contribution paid of £2 billion per annum

The tax figures exclude business rates, VAT and other indirect taxes.

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