



**The Quoted
Companies Alliance**

Policy and Planning Officer
Financial Reporting Council
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13 April 2012

Dear Sirs,

Financial Reporting Council - Comments on Draft Plan and Budget 2012/13

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.

The Quoted Companies Alliance Financial Reporting Committee and Corporate Governance Committee have examined your proposals and advised on this response. A list of committee members is at Appendix A.

RESPONSE

The Quoted Companies Alliance welcomes the opportunity to comment on the Financial Reporting Council's (FRC) Draft Plan and Budget for 2012/13.

Small and mid-cap quoted companies have a vital role to play in promoting economic growth in the years ahead and if they are to achieve this widely supported objective it is essential that the regulation confronting them is proportionate and relevant.

To enable the above goal to be achieved, as our attached Corporate Reporting Charter highlights, we believe there must be sufficient representation from the small and mid-cap sector, including both companies and investors in the sector, on the FRC board and its two new key operating committees. We do not believe this exists at present within the outgoing structure and are concerned that the position will be aggravated under the new arrangements.

Question 1 - Do you have any comments on the proposed major activities and projects?

It is stated on page 5 that "...we continue to have concern about the quality of the reports and accounts of some smaller listed and AIM-quoted companies"¹.

At the Quoted Companies Alliance, we are committed to promoting high quality reporting in this segment of the market. It is also important to recognise, however, that small and mid-cap quoted

¹ <http://www.frc.org.uk/images/uploaded/documents/FRC%20draft%20plan%20and%20budget%202012-131.pdf>

companies do not have the same internal resources at their disposal as their larger counterparts to assist them in corporate reporting as in other areas.

We are therefore disappointed that we do not see any key activities or projects aimed at reducing the reporting burden on small and mid-cap quoted companies. This has increased markedly since the introduction of IFRS and has recently been recognised as an issue by Hans Hoogervorst, the Chairman of International Accounting Standards Board. We would urge the FRC to support any new initiatives in this area undertaken, for example, by the IASB or the European Commission.

We would also suggest that the Financial Reporting Laboratory could be more active in supporting projects of particular value to small and mid-cap quoted companies and, in this context, would specifically suggest that it should consider how 'materiality' could be applied in practice to eliminate unnecessary disclosures in annual reports.

A report or workshops focusing on how small and mid-cap quoted companies could enhance their reporting would also be helpful. The Quoted Companies Alliance would be pleased to work with FRC on such an initiative.

Question 2 - Do you have any comments on our draft budget and funding projections for 2012/13?

We do not have any particular comments on the proposed budget.

Question 3 - Do you have any comments on our levies for 2012/13?

We do not have any particular comments on the proposed levies.

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

Yours sincerely,



Tim Ward
Chief Executive

QUOTED COMPANIES ALLIANCE FINANCIAL REPORTING COMMITTEE

Anthony Appleton	PKF (UK) LLP
Anthony Carey	Mazars LLP
Peter Chidgey	BDO LLP
Ian Davies	Victoria PLC
Jack Easton	UHY Hacker Young
Bill Farren	Deloitte LLP
Jonathan Ford	PricewaterhouseCoopers LLP
David Gray	DHG Management
Kate Jalbert	Quoted Companies Alliance
Shalini Kashyap	Ernst & Young LLP
James Lole	RSM Tenon Group PLC
Jonathan Lowe	Baker Tilly
Kern Roberts	Smith & Williamson Limited
Nigel Smethers	One Media Publishing
Chris Smith	Grant Thornton UK LLP
Ian Smith	Deloitte LLP
Matthew Stallabrass	Crowe Clark Whitehill
Jacques Sultan	Quoted Companies Alliance
Tim Ward	Quoted Companies Alliance
Paul Watts	Baker Tilly
Nick Winters	RSM Tenon Group PLC

QUOTED COMPANIES ALLIANCE CORPORATE GOVERNANCE COMMITTEE

Edward Beale	Western Selection Plc
Tim Bird	Field Fisher Waterhouse
Dan Burns	McquireWoods
Anthony Carey	Mazars LLP
Richard Chin	Oriel Securities Limited
Louis Cooper	Crowe Clark Whitehill
Madeleine Cordes	Capita Registrars Ltd
Edward Craft	Wedlake Bell LLP
Kate Elsdon	PricewaterhouseCoopers LLP
Nicola Evans	Hogan Lovells International LLP
David Fuller	CLS Holdings PLC
Clive Garston	DAC Beachcroft LLP
Tim Goodman	Hermes Equity Ownership Services
Nick Graves	Burges Salmon
David Isherwood	BDO LLP
Kate Jalbert	Quoted Companies Alliance
Colin Jones	UHY Hacker Young
Dalia Joseph	Oriel Securities Limited
Derek Marsh	China Food Company PLC
Claire Noyce	Hybridan LLP
James Parkes	CMS Cameron McKenna LLP
Anita Skipper	Aviva Investors
Julie Stanbrook	Hogan Lovells International LLP
Jacques Sultan	Quoted Companies Alliance
Eugenia Unanyants-Jackson	F&C Investments
Melanie Wadsworth	Faegre Baker Daniels LLP
Tim Ward	Quoted Companies Alliance
Cliff Weight	MM & K Limited

THE QUOTED COMPANIES ALLIANCE (QCA)

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

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

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.

For more information contact:
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The QCA Financial Reporting Committee's Corporate Reporting Charter

The Quoted
Companies Alliance

- » **The Quoted Companies Alliance is committed to working with boards, investors, regulators and standard-setters to promoting high quality corporate reporting by quoted companies, especially smaller quoted companies.**

We will encourage the boards of quoted companies to be aware of the importance of high quality reporting in order that the market can have confidence in their businesses and in the information provided by companies generally. In order to undertake our work effectively, we will work with investors to better understand their information needs. We will also encourage standard-setters, regulators and others to set standards and other requirements that meet the genuine needs of investors in a practical way.

- » **We seek to foster a culture of continuous improvement in corporate reporting.**

We will encourage companies to keep their corporate reporting under regular review and to seek ways of responding to changing market needs. Information provided should be understandable, avoid unnecessary complexity, be presented in a timely fashion and in a format that makes use of modern technology where appropriate. We will similarly encourage regulators and standard-setters to remain responsive to marketplace changes and to provide information to preparers on good practice and on reporting issues which companies generally need to address. Standard-setters should also take a strategic rather than a piecemeal approach to their work and should periodically seek to eliminate requirements which have not been found to provide useful information.

- » **We believe the concept of stewardship lies at the heart of good corporate reporting.**

Directors are responsible to the shareholders for the long-term success of their businesses and this will have a bearing both on what they are expected to report on and the most suitable method of measurement in financial statements. It is likely to have implications, for example, for the circumstances in which fair values are used and for what is considered to be the most appropriate means of measuring fair value in particular situations.

- » **Corporate reporting requirements should be subject to robust cost-benefit tests.**

Standard-setters need to carefully assess the costs compared to the benefits of introducing requirements and to avoid unintended consequences wherever possible. To do this, they need to be conscious of the risks of a 'one-size-fits-all' approach since quoted companies encompass both global companies with a market valuation of tens of billions of pounds and smaller quoted

companies with one of a relatively few million pounds. Moreover, there should be a clear and public consensus between boards, investors, standard-setters, regulators and auditors on how materiality is to be applied in practice by companies when preparing their financial statements. A proportionate approach to corporate reporting that focuses on significant disclosures and avoids clutter in the financial statements with immaterial disclosures will both improve the quality of corporate reporting and reduce the costs of providing relevant information.

» **We press for accounting standards which properly reflect economic reality when implemented.**

Standards when applied, as well as when written, should focus on principles and not rules, enabling appropriate judgement to be exercised, and in their drafting should take account of practical concerns raised when they are being prepared. In measurement terms, a theoretically optimum solution may turn out to be sub-optimal if, for example, the assumptions of active markets are not met in practice. A mission to reflect economic reality also calls for post-implementation reviews of issues arising. Furthermore, investors may well wish to distinguish between those profits that have been realised in cash and those that have not. Moreover, how best to reflect economic reality may be impacted by the time horizon over which performance is being measured. Further work on what is meant by, and how best to capture, economic reality in financial statements would be helpful. There should be a pre-eminent emphasis on economic reality when standard-setters agree on convergence programmes.

» **Standard-setters should be in close touch with their marketplace.**

In a fast-changing modern market economy, if standards are to reflect economic reality and to be practical, the standard-setters need to be fully in touch with their marketplace. Standard-setters as a team should have substantial current or recent practical experience of operating in the marketplace as a user, preparer or adviser. They should also be drawn from a broad range of backgrounds, including those related to smaller quoted companies as well as to global corporations.

» **We emphasise the importance of good narrative reporting as an integral part of corporate reporting.**

Whilst the focus on narrative reporting is increasing, it has traditionally tended to be the 'Cinderella' of the corporate reporting model. To enable the development of a business to be seen in its proper context, it is essential that high quality information be provided on its strategy, its key risks and how they are being managed, the KPIs used to manage the business, current performance and future prospects, and its corporate governance.