



**The Quoted  
Companies Alliance**

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Dear Sirs,

**ASB/FRC: The Future of Financial Reporting in the United Kingdom and Republic of Ireland (FREDs 46-48)**

**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 has examined your proposals and advised on this response. A list of committee members is at Appendix A.

**RESPONSE**

We welcome the opportunity to respond to this consultation and are broadly supportive of the ASB's revised Exposure Drafts. We are particularly pleased to see the scope of the proposals reduced, so that the number of entities required to use EU-adopted IFRS is not widened.

It is important that the UK's financial reporting framework supports and encourages growth in the UK and we believe that this is the key factor to consider in evaluating the new Financial Reporting Exposure Drafts (FREDs) 46-48.

We believe that there may be possibilities to reduce administrative burdens on companies through further simplification of the proposals, as suggested in the Alternative View. We outline our views in response to Question 9 below.

We have responded to the individual questions below that we find relevant to small and mid-cap quoted companies.

**Question 1:**

***The ASB is setting out the proposals in this revised FRED following a prolonged period of consultation. The ASB considers that the proposals in FREDs 46 to FRED 48 achieve its project objective:***

***To enable users of accounts to receive a high-quality, understandable financial reporting proportionate to the size and complexity of the entity and users' information needs.***

***Do you agree?***

We believe that this objective has been met in part.

We welcome the changes in the scope of the proposals, in particular removing any attempt to widen the number of entities required to use EU-adopted IFRS, and the re-insertion of many of the accounting options removed from the original proposals.

We welcome the reduced disclosure framework for subsidiaries as an example of standards being created that are proportionate to the size and complexity of the entity and the needs of users. However, we would question whether this aim has been met in the case of private companies. Although private companies are not amongst those that we represent, we would question whether the costs of valuing share option schemes, defined benefit pension schemes and certain financial instruments will outweigh the benefits to users, especially when it would appear that disclosure could have highlighted the cashflow impacts of such instruments in a more cost effective manner.

**Question 3:**

***Do you agree with the proposed scope for the areas cross-referenced to EU-adopted IFRS as set out in section 1 of FRED 48? If not, please state what changes you prefer and why.***

We agree with the proposed scope for the areas cross-reference to EU-adopted IFRS. However, we would note that companies should be able to opt out from segmental reporting to the extent this is necessary to avoid disclosure being prejudicial to the interests of shareholders.

**Question 8:**

***Do you agree with the effective date? If not, what alternative date would you prefer and why?***

We agree with the effective implementation date of 1 January 2015.

We note that there are significant proposed changes to IFRS that are intended to be implemented during the periods commencing on or after 1 January 2015 in areas such as revenue recognition, leasing, financial instruments, consolidation and insurance contracts. Hence, if the effective date of the final standard and that of the proposed changes to IFRS are aligned, it would be in the interest of preparers and users to implement all material GAAP changes in one financial year instead of introducing changes to the financial statements over two or more consecutive years.

Retaining the option for early adoption of the final standard provides flexibility for those entities that may wish to take advantage of this option.

**Question 9:**

***Do you support the alternative view, or any individual aspect of it?***

The Quoted Companies Alliance has considerable sympathy for the Alternative View and in particular that there are possibilities for reducing administrative burdens upon companies by some further simplification of the proposals.

As noted in our response to Question 1, we would question whether the costs of the ASB proposals on share option schemes, defined benefit pension schemes, financial instruments and deferred tax will outweigh the benefits to users, especially when it would appear that a simpler route via disclosures may achieve the effects for users in a more cost effective manner. It may also be possible to offer the EU-IFRS options on accounting in a more economical fashion at the same time.

The Quoted Companies Alliance would be very pleased to work with the ASB and other stakeholders to try to improve these aspects.

We have outlined some views on specific points below:

- ***Deferred tax (Explanation Paragraph 3.42 - 3.44, Alternative View Paragraph 4.21 - 4.23)***

We understand that the ASB is currently undertaking a project with EFRAG to improve the financial reporting of tax and that the outcomes of the project will influence the UK's standards.

We agree with the Alternative View that the deferred tax section could be considerably simplified and agree that there is a great deal of debate as to whether this standard is useful to users of accounts.

We believe that one option could be to simply reduce the standard to a disclosure standard similar to that in the UK's version of IFRS for SMEs (Draft FRS 101). Another suggestion would be to apply flow through accounting as the valuation and recognition procedure and companies could provide some additional disclosures on flow through to clarify any payments made. As a result, the UK standard could suggest that if companies want to disclose more information on deferred tax in their notes, then they are able to refer to EU IFRS, and/or companies could opt to use EU IFRS treatment as an alternative.

The Quoted Companies Alliance will respond to the ASB and EFRAG's consultation on Improving Financial Reporting of Income Tax with more detail.

- ***Equity-Settled Share Based Payment (Alternative View Paragraph 4.24 - 4.26)***

We agree with implicit concept suggested in these paragraphs of Alternative View - i.e. that a simple disclosure is all that is required, such as the number of share options and who has them.

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

Yours sincerely,



Tim Ward  
Chief Executive

**THE 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	The 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	The Quoted Companies Alliance
Tim Ward	The Quoted Companies Alliance
Paul Watts	Baker Tilly
Nick Winters	RSM Tenon Group PLC

## 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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