The Quoted
Companies Alliance

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22 September 2010

Dear Ms. Knight,

Call for Evidence – BBA Taskforce on SME Lending

INTRODUCTION

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

RESPONSE

We very much welcome the opportunity to respond to the BBA's Taskforce for evidence on the current state of SME lending. Our understanding is that the Taskforce is most interested in what small and mid-cap quoted companies consider best practice in the event that their bank does not want to renew (or alternatively will only renew with different terms) facilities.

We surveyed our corporate members about their banks' behaviour in the last 12 months, asking them whether they needed to approach their banks to renew existing facilities or for additional funding and, if so, what response they received from their banks in this process. In addition, we asked them how they would like to be treated by their bank in the event that their existing facilities were not going to be renewed or were to be renewed under different terms.

Summary of Findings

24 companies responded to the survey; 80% are quoted on AIM and 40% with a market cap between £0 and £20m.

We found that, unlike what is considered the norm today, out of 24 respondents, 45% stated that their banks' general attitude has been either very helpful/supportive or supportive in this economic climate. 25% also noted that they viewed their banks' attitude as neutral/no change.

30% stated that their banks' general attitude has been unhelpful/unsupportive or very unhelpful/unsupportive. As such, the results show that experience in the small and mid-cap quoted sector is mixed.

75% of respondents had approached their banks to renew existing facilities or to obtain additional funding. 55.5% of those noted that they found their banks' attitudes in this process to be either very helpful/supportive or helpful/supportive, 11.1% found them to be neutral, and 33.4% found their banks' attitudes unhelpful/unsupportive or very unhelpful/unsupportive. Many commented in this question that their banks did not actively contact them or communicate with them about the renewal or additional funding process and that there were higher fees and interest margins, which some believed were disproportionate.

<u>Key practices in not renewing facilities or changing terms</u>

In Question 9 of our survey, we asked small and mid-cap quoted companies:

The Taskforce is particularly interested in what would be best practice in the event that your bank decides not to advance a facility or will only do so with additional/different conditions. Please describe any key practices that you would expect from your bank in such circumstances.

From the responses, we believe that your best practice guidelines should consider the following:

1. Banks should give clear reasons – with reasonable notice - of their decision not to advance a facility.

2. Banks should give clear reasons – with reasonable notice of at least 6 months - of any anticipated variations to existing facilities.

3. Bank managers should be aware of their credit committee's likely response (and be prepared and able to communicate this to their customer at the earliest opportunity), so that companies do not waste time negotiating with managers only for the credit committee to turn the application down. Any professional costs or bank recharges in respect of any exercises initiated in connection with the renewal or maintenance of facilities should be reimbursed where this happens.

4. Banks should communicate changes to their lending criteria and/or publish their criteria. If criteria change during a loan period, then transfer to another bank should be free.

5. Banks should provide clear and consistent instructions on what needs to be done to secure a new facility, including what information they need.

6. Where the performance of a business is in line with bank expectations, banks should be clear in their reasons - and give sufficient notice – where different conditions are to be applied to the facilities.

We suggest that any best practice guide for banks needs to focus on these points.

If you wish to discuss these issues in further detail, we would be delighted to attend a meeting.

Yours sincerely,

Tim Ward
<u>Chief Executive</u>

APPENDIX B

THE QUOTED COMPANIES ALLIANCE (QCA)

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

The QCA 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; Financial Services Authority (FSA) consultations
- political liaison – briefing and influencing Westminster and Whitehall, the City and Brussels
- accounting standards proposals from various standard-setters

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

QCA's Aims and Objectives

The QCA 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 <u>exclude</u> business rates, VAT and other indirect taxes.

For more information contact:

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