The Quoted Companies Alliance
6 Kinghorn Street
London EC1A 7HW
Tel: +44 20 7600 3745
Fax: +44 20 7600 8288

Web: www.quotedcompaniesalliance.co.uk
Email: mail@quotedcompaniesalliance.co.uk

The Quoted Companies Alliance

Financial Reporting Council
5th Floor, Aldwych House
71-91 Aldwych
London WC2B 4HN

Email: stewardshipcode@frc.co.uk

23 April 2010

Dear Sirs,

<u>Financial Reporting Council – Consultation on a Stewardship Code for Institutional Investors</u>

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.

The QCA Corporate Governance 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, as we view stewardship as a key element in helping to improve corporate governance.

We are very concerned that a focus on institutional investors reporting how they have voted will lead to more un-informed voting. Far too often companies have experienced voting that is determined by corporate governance teams apparently without consultation with fund managers, and also voting blindly in accordance with the recommendations of an outsourced voting agency (e.g. RiskMetrics).

Voting should arise from engagement (i.e. dialogue) rather than become a substitute for engagement. We believe that the Stewardship Code for Institutional Investors should do more to encourage this type of behaviour and engagement. The Code should facilitate effective shareholder engagement and enable companies to raise public finance cost effectively and prosper accordingly.

Companies need to be aware of the investment approach of their shareholders and so should have access to the explanations given by their shareholders about how they engage with companies and the data published to support this.

Policy Objectives and Content of the Code

What do smaller quoted companies want from institutional investors?

Smaller quoted companies want long term investors who are willing to engage in dialogue about important matters and who will discuss differences of opinion prior to voting or taking other action.

It is difficult for directors to be confident that they have that trust of shareholders that they have not met. Similarly, how can shareholders trust directors that they have not met, especially in SQCs where directors often do not have an established city track record?

Engagement is fundamental to stewardship and exercise of fiduciary responsibilities. Engagement should not be a last resort attempt to mitigate loss of value, but is something that should happen on a regular basis.

All year round engagement from investors

a) Be available to meet directors (Chairman & senior executives) both at interim and final presentations and when requested (e.g. remuneration issues)

b) Taking an active interest in how the company is being run on their behalf:

   i. How is strategy set, achievement monitored, and updated?

   ii. Who are the directors, what roles do they play and why?

   iii. Does the company’s appetite for risk match the investor’s appetite?

   iv. How does the Chairman ensure that investor’s interests are understood and being addressed? For example:

      - Do remuneration policies align executive directors’ rewards with shareholders’ interests?

      - Is the level of dividend appropriate to the stage of growth of the company?

      - Are major accounting judgements fully and clearly explained?

Considered voting from investors

a) Voting for directors on an informed basis.

b) Discussing issues directly with relevant directors before deciding to vote against resolutions.

What can companies do to encourage such behaviour?

All year round engagement from companies

a) Make available the Chairman and senior executive directors for interim and final presentations and at other times if requested by a shareholder.

b) Be prepared to consult shareholders in advance on issues that might become contentious.

c) Produce an annual report that:

- gives a comprehensive picture of the company's structure, management and operations, as well as its strategy and risk profile.

- explains how the company is governed and managed, and any major governance issues arising in the year.

Considered voting from companies

a) Make new directors available to meet shareholders either as part of routine rounds of presentations, in a separate meeting prior to the AGM, or separately.

b) Ensure the SID and Committee Chairmen especially, but also all other NEDs, are available to talk to investors on demand.

<u>Reporting, Monitoring and Review</u>

We welcome the Financial Reporting Committee taking responsibility for the Stewardship Code and believe that it should manage, monitor and review the Code. We believe it would avoid any perceived conflicts of interest arising from stewards managing their own Code. We believe that the Code should be reviewed every three years.

We outline below what should be reflected in institutional reporting:

How can the actions noted above be reflected in institutional reporting?

a) Explain policy for meeting companies.

b) Publish number of meetings (face to face, by video link, or conference call) held with companies subsequent to investment relative to number of investments held.

c) Confirm that voting decisions include input from individuals that have attended meetings with the companies, preferably the fund manager. Where this is not possible, the report should explain how voting decisions are made, the degree of involvement of the corporate governance team and fund managers, and, where a vote is likely to be contrary to the Board's recommendation, who is responsible for discussing this in advance with an appropriate director.

d) Disclose number of times the institution has voted:

- For a director that the voting decision maker or fund manager has not met

- Against a director that the voting decision maker or fund manager has not tried to meet

- Against a resolution without the voting decision maker having discussed the issue with an appropriate director

If you wish to discuss these issues with us, we will be pleased to attend a meeting.

Yours sincerely,

Tim Ward
<u>Chief Executive</u>

APPENDIX A

QCA CORPORATE GOVERNANCE COMMITTEE

Edward Beale* (Chairman)	-	City Group PLC
Mirza Baig	-	F & C Asset Management
Nigel Burton	-	Advanced Power
Anthony Carey	-	Mazars LLP
Louis Cooper	-	Horwath Clark Whitehill LLP
Clive Garston	-	Davies Arnold Cooper LLP
Tim Goodman	-	Hermes Equity Ownership Services Ltd
Nick Graves	-	Burges Salmon LLP
Dalia Joseph	-	Oriel Securities
Michael Landon/Cliff Weight	-	MM & K Ltd
Murray Steele	-	Cranfield School of Management
Andrew Viner	-	BDO LLP
Melanie Wadsworth	-	Faegre & Benson LLP
Tim Ward	-	The Quoted Companies Alliance
Kate Jalbert	-	The Quoted Companies Alliance

*Main Author(s)

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 exclude business rates, VAT and other indirect taxes.

For more information contact:

Tim Ward
The Quoted Companies Alliance
6 Kinghorn Street
London EC1A 7HW
020 7600 3745
www.quotedcompaniesalliance.co.uk

-o0o-