



**The Quoted
Companies Alliance**

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10 March 2010

Dear Sirs,

Financial Reporting Council – Draft Plan and Levy Proposals

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 welcome the opportunity to comment on these proposals as follows:

Two – Proposed major activities and projects

1. Do you have any comments on the proposed major activities and projects? Are there any additional activities or project which should be included?

We strongly support the FRC's initiative to reduce complexity in corporate reporting (4th bullet point under *Identifying and responding to the longer term lessons of the financial crisis*). This is an issue that the QCA Financial Reporting Committee will be campaigning on in 2010 and has identified this as a priority in its Corporate Reporting Charter (separately attached).

We would further stress the importance of materiality in helping to reduce complexity in financial reports. We would like to see the FRC promoting the importance of materiality for preparers and users of accounts throughout 2010, as materiality is integral in helping to reduce unnecessary disclosures in accounts and to produce more meaningful financial reporting.

We also would emphasise the importance of the Accounting Standard Board's taking forward and prioritising the project 'The Future of UK GAAP'. We consider that both small fully listed companies and companies quoted on AIM and PLUS should be able to use IFRS for SMEs unamended rather than full IFRS as at present. We recognise that implementing such a change would require a change in the relevant EU regulation in respect of fully listed companies but consider the 'one size fits all' approach to financial reporting by EU listed companies is not appropriate given the vast difference in market capitalisation and size between Europe's leading global companies and smaller quoted entities. We believe that this project should be a top priority for the ASB in 2010.

The policy proposal 'The Future of UK GAAP' will greatly affect not only the preparation of accounts, but also the future role of the ASB as a standard-setter. Given the proposal no longer have UK GAAP, the ASB will have less of a role in maintaining accounting standards and as such may need to consider a transformation in its role to more of a lobbying organisation. We would stress the need of the ASB to further consider its role and function in 2010.

Three – Draft 2010/11 budget

2. Do you have any comments on our draft budget and our funding projects for 2010/11?

We have no specific comments on the budget.

Four – 2010 levy proposals

3. Do you have any comments on our levies for 2010/11?

The 5% increase of the minimum levy will need to be carefully explained when billing companies who are themselves under intense pressure to cut costs during an economic downturn.

We also note that it may be necessary to review the levy structure in light of changes to the listing regime and the introduction of the standard listing. As we understand it, Standard Listed companies will not have to 'comply or explain' against the UK Corporate Governance Code. As a result, there may be a case for differentiating the levy of standard listed companies from those that are premium listed, similar to what is now done for companies quoted on AIM and PLUS.

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

Yours sincerely,



Tim Ward
Chief Executive

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:

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The QCA Financial Reporting Committee's Corporate Reporting Charter

The Quoted
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- » **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.