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The Quoted Companies Alliance

HM Treasury
1 Horseguards Road
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Email: nonbanklending@hmtreasury.gsi.gov.uk

19 February 2010

Dear Sirs,

**HM Treasury – Discussion paper on non-bank 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.

The QCA Corporate Finance Advisors 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 paper. We view the issue of non-bank lending as particularly important given the lack of bank finance currently available to smaller companies.

Following our meeting with David Tyrrall of the Department of Business, Innovation and Skills (BIS) and Caroline McGill of BIS, we understand that the focus in the discussion paper on 'large and upper mid-sized firms' means companies of a size to be ranked in the FTSE 350 indices. The QCA represents small and mid-cap quoted companies outside of the FTSE 350, including those quoted on AIM and PLUS. Furthermore, the main focus of the QCA is on equity markets, rather than the issues of debt financing. Against that background, we respond below to your questions.

We have only answered the questions for business, as we do not have fixed income fund managers amongst our active membership. Accordingly, we have also not replied to questions 6-8 and 15-19.

1. **Do you consider any of the following to act as a barrier to companies obtaining public credit ratings, and which are the most significant:**

**a. cost:**

Companies generally first obtain credit ratings with a view to a particular debt issue, and if they are minded to carry out such an issue, it is highly unlikely that the decision would be reversed due to the cost of the rating.

**b. businesses' concern about revealing information (particularly in circumstances of a difficult trading environment):**

In a difficult trading environment, providing more detailed information could be a minor factor in a board's decision as to whether to tap non-bank debt sources. Please see our comments on transparency below in the response to Question 3.

**2. Would lowering the cost of credible credit measurement processes in the UK encourage more:**

**a. businesses to issue more non-bank debt; and**
**b. more non-bank investors to buy UK corporate debt?**

As stated in Question 1 above, we do not believe that the cost of credit rating is a material factor in the supply of or demand for non-bank lending.

**3. If you do not currently use non-bank lending channels, such as bond or loan markets:**

**a. what currently stops you from doing so;**

**b. how burdensome do you find providing your current levels of corporate transparency (if at all), and would increasing this act as a significant deterrent to accessing non-bank lending; and**

**c. are there any regulatory barriers that deter you from using non-bank channels?**

We believe that the relative scarcity of non-bank lending amongst our corporate members is mainly due to a combination of structural/cultural factors and, indeed inertia, as suggested on page 9 of the discussion paper.

Current levels of corporate transparency are already seen as burdensome and expensive by many boards, particularly since the strengthening of governance, environmental, remuneration and financial reporting disclosure in recent years. Whilst our members recognise the importance of appropriate, accurate and timely disclosure for investors and other stakeholders, increases in corporate transparency beyond current levels would not, generally, be welcomed by our members, on the basis of cost and management time, unless they could be demonstrated to provide material benefits in financing choices.

There are no other regulatory issues as far as we are aware.

***Questions 4 – 5 are not applicable.***

***9. Are you able to compare the prices of different types of borrowing (e.g. bank and non-bank lending? If not, what might help you to do so?***

To the degree that non-bank finance is available, investment banks are keen to give indicative pricing so that it can be compared at an early stage with bank alternatives.

**11. How significant an issue do you believe investor preferences to be when accessing non-bank lending?**

Investor preferences are absolutely central. We cannot see that any company or advisor would consider a non-bank debt issue without knowing that there is latent demand for that particular product.

**20. Do you believe that HM Treasury should be promoting more diverse sources of funding for companies?**

We firmly believe that greater diversity of funding for companies is vital for the continued growth and strength of the UK economy, and any effective measures or initiatives that HM Treasury can introduce to promote greater funding is to be warmly welcomed.

**21. Which of the issues covered in this discussion paper do you believe to be the most significant?**

We believe that investor appetite for non-bank debt is the prime issue to be addressed. If this can be ignited, we believe that the financial community would then work with UK corporates to create products to fulfil the demand. Given the current tightened supply of bank finance, we believe this would be attractive for companies.

It should be noted that until about the mid-nineties, there was a healthy market for quoted and unquoted loan stocks and fixed income securities among the small and mid-cap UK quoted companies. We believe that it would be healthy for this market to be revived.

**22. Are there any additional significant barriers that should be considered?**

As well as investigating the demand side from fixed interest fund managers, we believe that HM Treasury should also consider the potential demand from equity fund managers for fixed interest products that have an equity exposure, such as convertible preference shares and convertible loan stock.

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

Yours sincerely,

Tim Ward
Chief Executive

**APPENDIX A**

## THE QUOTED COMPANIES ALLIANCE CORPORATE FINANCE ADVISORS COMMITTEE

| | |
|---|---|
| Tom Price (Chairman)* | Westhouse Securities |
| Azhic Basirov | Smith & Williamson Ltd |
| Richard Brown | Ambrian Partners Limited |
| Lesley Gregory | Memery Crystal LLP |
| Rick Thompson | Charles Stanley |
| Susan Walker | KPMG LLP |
| David Worlidge/Simon Clements | John East & Partners |
| Ray Zimmerman | ZAI Corporate Finance Ltd |
| Tim Ward | The Quoted Companies Alliance |
| Kate Jalbert | The Quoted Companies Alliance |

*Main Author(s)

# 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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