

Present:

Fiona Bell (Chair)	RSM	FB
Barbara Allen	Stephenson Harwood	BA
Stephen Diosi	Mishcon De Reya	SD
Liz Hunter	Mazars LLP	LH
Stuart James	MM & K Limited	SJ
Isobel Pooley	Grant Thornton UK LLP	IP
Jennifer Rudman	Prism Cossec	JR
Richard Sharman	FIT Remuneration Consultants	RS
Tim Ward	Quoted Companies Alliance	TW
Callum Anderson (minutes)	Quoted Companies Alliance	CA

In attendance:

Andrew Buchanan	Octopus Investments	AB
Chris Errington	Kestrel Partners LLP	CE
Katie Potts	Herald Investment Management Ltd	KP
Ian Brown	Deloitte LLP	IB
Nicholas Stretch	CMS	NS
Jia Xie	Eversheds Sutherland	JX

1. WELCOME TO KATIE POTTS OF HEARLD INVESTMENT MANAGEMENT LTD, CHRIS ERRINGTON OF KESTREL PARTNERS LLP AND ANDREW BUCHANAN OF OCTOPUS INVESTMENTS

FB welcomed KP, CE and AB to the meeting.

KP explained that a number of investors had experienced companies issuing an excessive proportion of nil-cost shares options as an incentive or reward for employees or directors. This had resulted in their holdings being diluted to the extent that the value of the holding and influence in the company was reduced by up to 25%. She commented that this practice had made valuing a company accurately increasingly difficult. AB added noted occasions when there was no performance criteria associated with the granting of nil-cost options.

KP stressed that she and other investors understood that executives needed to be remunerated fairly for their expertise, but that any granting of shares should be put to a shareholder vote. AB noted his agreement, highlighting that a nil-cost share option scheme seldom took investors' interests in to account. He added that for smaller quoted companies, the interests of investors and the companies themselves should be closely aligned.

CE highlighted the hidden tax aspects of granting nil-options shares. He noted that if participants in a scheme or employees or directors, then the company would be liable to operate PAYE and suffer the employer's secondary national insurance contributions. He added that this could impact a company's cash flow.

The Expert Group thanked KP, AB and CE for their remarks. There was unanimous agreement that a company granting nil-cost options to the extent that existing shareholders could be diluted by as much as 25% was poor practice. The Expert Group also agreed in principle that companies should put such schemes to a shareholder vote. However the Expert Group questioned how prevalent such behaviour was among small and mid-size quoted companies and queried whether such instances were exceptions.

KP, AB and CE exchanged views with the Expert Group on the potential costs for companies to put such employee share schemes to a vote. The Expert Group noted the time and money cost for preparing non-executive directors to engage with shareholders regarding the details of an employee share plan.

There was a brief discussion regarding potential solutions to investor concerns including the QCA leading the production of new guidance through the QCA's Corporate Governance Code and Remuneration Committee Guide or lobbying London Stock Exchange for a change to the AIM Rules so that shareholder approval is required for certain share-based remuneration arrangements (subject to discrete conditions).

FB thanked KP, CE and AB for sharing their views. KP, CE and AB left the meeting.

FB explained that, in light of the discussion, she would draft a discussion paper outlining the issues raised with KP, CE and AB, with a menu of potential approaches for the QCA to take forward. She noted that this would be circulated to the Expert Group for their comment. ***This was circulated on Monday 23 October 2017.***

2. APOLOGIES

Apologies were received from Emma Bailey, Dave Bareham, Danny Blum, Michael Carter, Stephen Chater, David Daws, Juliet Halfhead, Caroline Harwood, Daniel Hepburn, Graham Muir and Robert Postlethwaite.

3. MINUTES OF LAST MEETING (13 July 2017)

The minutes were approved.

4. ISSUES FOR DISCUSSION

	ITEM	ACTION
a)	QCA Share Schemes Expert Group publications This was not discussed.	None to note
b)	Current issues affecting small and mid-size quoted companies This was not discussed.	None to note.

5. COMMUNICATIONS AND FUTURE MEETINGS

	ITEM	ACTION
a)	QCA Position Paper – Future of the UK market structure for quoted companies This was tabled for information only and was not discussed.	None to note
b)	Policy Update (August 2017) This was tabled for information only and was not discussed.	None to note.
c)	Guest invitations to future meetings This was tabled for information only and was not discussed.	None to note.

6. NEXT MEETING

Thursday 15 February 2018, 4.00pm – 5.30pm (Venue: RSM, 25 Farringdon Street, London, EC4A 4AB
(Host: Fiona Bell))