

Quoted Companies Alliance Policy Update – 4 January 2017

Progress on key campaigns for 2016 - 2017

1. Improve liquidity and access to finance	
Activity	Activity Since Last Update
<p>Costs of Raising Equity to be Tax Deductible</p> <p>Allow the costs of raising equity for both an IPO and secondary fundraising to be tax deductible, to an upper limit of £1.5m</p> <p>EXPERT GROUP RESPONSIBLE: Tax (with Share Schemes)</p>	<ul style="list-style-type: none"> • A working group made up of members of our Tax and Share Schemes Expert Groups has updated and submitted the QCA Budget Representations for 2017 on 13 October 2016. The representations included this point. • We met with HM Treasury on 28 September 2016 and 13 October 2016 to discuss our Budget Representations, including this point. • We are having lunch with Jane Ellison, Financial Secretary to the Treasury on 2 February where we will discuss this point.
<p>Capital Gains Tax Reform of Entrepreneurs' Relief</p> <p>Remove the requirement to hold 5% shares in a company to qualify for a reduced rate of capital gains tax and allow long-term investors to also qualify for the relief by rebranding it 'Stakeholders Relief'</p> <p>EXPERT GROUP RESPONSIBLE: Tax (with Share Schemes)</p>	<ul style="list-style-type: none"> • A working group made up of members of our Tax and Share Schemes Expert Groups has updated and submitted the QCA Budget Representations for 2017 on 13 October 2016. The Representations highlighted this point. • We met with HM Treasury on 28 September 2016 and 13 October 2016 to discuss our Budget Representations, including this point. • We are having lunch with Jane Ellison, Financial Secretary to the Treasury on 2 February 2017 where we will discuss this point.
<p>Capital Markets Union Action Plan</p> <p>Ensure that the European Commission's work on Capital Markets Union (CMU) helps to facilitate access to public equity markets for growth companies.</p> <p>EXPERT GROUP RESPONSIBLE: All</p>	<ul style="list-style-type: none"> • We contributed to the European Issuers paper on the future of Capital Markets Union which was launched on 28 November 2016. • We spoke at the European Commission's second workshop on SME Growth Markets on 8 December 2016 in Brussels. • We spoke at a roundtable discussion on SME Growth Markets, as part of InvestWeek on 29 November 2016 in Brussels.
2. Reduce the burden of corporate disclosures	
Activity	Activity Since Last Update
<p>The Prospectus Directive Review</p> <p>Create a more appropriate and proportionate prospectus regime so that</p>	<ul style="list-style-type: none"> • A political agreement on the Prospectus Regulation was reached on 7 December 2016. The text was approved by COREPER II (the Council) on 20 December and will be voted on by the European

<p>small and mid-size quoted companies are able to access public equity markets efficiently</p> <p>EXPERT GROUP RESPONSIBLE: Legal and Corporate Finance</p>	<p>Parliament in a plenary session in January 2017. It is expected to be published in the Official Journal of the EU in April/May 2017. The new law will be applicable in Spring 2019.</p> <ul style="list-style-type: none"> • Key items of the new regulation include: <ul style="list-style-type: none"> ○ Max threshold for mandatory prospectus €8m. ○ No prospectus is required for capital raisings of up to €1m. ○ Max number of investors to which a product can be offered without prospectus is 150 persons. ○ New, lighter EU Growth Prospectus for SMEs, other companies on SME Growth Markets with a market cap up to €500m, and unlisted companies with less than 500 employees for offers up to €20m. ○ The prospectus summary should be limited to a max of 7 pages. It shall be read as an introduction to the prospectus. It can only list a maximum of 15 risk factors and cannot incorporate information by reference. ○ Risk factors are to be listed in a limited number of categories depending on their nature. ○ Paper prospectuses will no longer be required. ○ Issuers already admitted to stock and SME growth markets will benefit from a lighter prospectus for secondary issuances. • We have prepared briefing notes for the political trilogues which have been circulated to the Commission, the Council, the Parliament and HMT. • We have prepared a briefing note on Level 2 proposals, which we have discussed with ESMA, HM Treasury and the FCA and sent to the Commission, relevant MEPs and other stakeholders. • We are preparing an additional briefing note on level 2 measures. • We chair the European Issuers working group on the Regulation and lead the drafting of its position papers. • We met with HM Treasury on the Prospectus Regulation proposals on 21 November 2016.
<p>MiFID II: SME Growth Markets, Deferred Publication Regime and Investment Research</p> <p>Ensure that the regulatory requirements are fit-for-purpose and duly take into consideration the burden on small and mid-size quoted companies, particularly regarding SME Growth Markets, investment research and deferred publication regime</p>	<ul style="list-style-type: none"> • We have been attending the FCA's MiFID II Roundtables, which update stakeholders on the implementation of MiFID II in the UK. • We have shared our vision of SME Growth Markets with the European Commission. • We are assessing and have responded to a number of consultations on the implementation and technical details of MiFID II, including aspects of investment research, inducements and product governance.

<p>EXPERT GROUP RESPONSIBLE: Legal and Secondary Markets</p>	<ul style="list-style-type: none"> • We have spoken at seminars and workshops with policymakers and industry experts on our vision of SME Growth Markets.
<p>Register of People with Significant Control (PSC Register) and the Fourth Money Laundering Directive (4MLD)</p> <p>Ensure that the administrative burden impact of a PSC Register on small and mid-size quoted companies is reduced</p> <p>EXPERT GROUP RESPONSIBLE: Corporate Governance</p>	<ul style="list-style-type: none"> • There is an implication for QCA members as all subsidiaries will need to be registered. This does not apply to quoted companies at the moment, but will after the entry into force of the 4MLD in July 2017. • We have responded to a HM Treasury consultation on the transposition of the Fourth Money Laundering Directive. • We have responded to a BEIS consultation on implementing the Fourth Money Laundering Directive: beneficial ownership register.
<p>Shareholders' Rights Directive (SRD)</p> <p>Monitor the development and ensure that the changes to the text minimise the impact of the new rules on small and mid-size quoted companies through the final negotiation stages of the Directive before its adoption</p> <p>EXPERT GROUP RESPONSIBLE: Corporate Governance</p>	<ul style="list-style-type: none"> • We were part of a BEIS stakeholder group proposing the UK amendments to the SRD. • On 7 December 2016, the European Commission, Parliament and the Council concluded the trilogue negotiations on the new Shareholder Rights Directive. • The text will be subject to a vote in the plenary session of the European Parliament in spring 2017. • Through the participation in the BEIS Stakeholder Group informing the UK position in the negotiations as well as independent campaigning, we have contributed to positive changes to the amendments in the text regarding the articles on transparency on costs and right to vote on related party transactions. • Through EuropeanIssuers, we have put forward amendments on shareholder identification to inform the trilogue negotiations.
<p>Market Abuse Regulation (MAR)</p> <p>Minimise the impact on trading and administrative burden increase for small and mid-size quoted companies from the implementation of MAR</p> <p>EXPERT GROUP RESPONSIBLE: Legal and Corporate Finance</p>	<ul style="list-style-type: none"> • We met with the FCA on 14 November 2016 to discuss MAR implementation issues and the QCA/ICSA/GC 100 dealing code. • We have followed up with the FCA and the Commission on the issue of the timeline inconsistencies with MiFID II and the exemptions for SME Growth Markets. The Commission has confirmed that it does not plan to take action on the inconsistency with MiFID II and the exemptions for SME Growth Markets, but will encourage national competent authorities to identify those markets that will fit the SME Growth Markets requirements so that these rules can be applied as soon as possible after the entry into force of MiFID II. • In cooperation with EuropeanIssuers we are drafting a joint letter to ESMA to highlight the diverging

	<p>implementation of MAR in EU Member States and companies' need for more clarity.</p> <ul style="list-style-type: none"> • We continue to inform our members on updates from FCA, ESMA and AIM Regulation regarding the interpretation of MAR and the AIM rules on the aspects of the prohibition of dealings during closed periods for persons discharging managerial responsibilities and preliminary announcements.
<p>Central Securities Depositories Regulation (CSDR)</p> <p>Ensure that CS DR is drafted and implemented in a manner adequate to the needs of small and mid-size quoted companies</p> <p>EXPERT GROUP RESPONSIBLE: Secondary Markets</p>	<ul style="list-style-type: none"> • The Commission has adopted a delegated act, three regulatory technical standards and two implementing technical standards to complement the obligations defined under CS DR. • The Secondary Markets Expert Group is assessing the impact of the adopted package.

3. Improve corporate behaviour	
Activity	Activity Since Last Update
<p>QCA Corporate Governance Code for Small and Mid-Size Quoted Companies</p> <p>Monitor uptake of the QCA Code and promote greater use of the QCA Code amongst small and mid-size quoted companies</p> <p>EXPERT GROUP RESPONSIBLE: Corporate Governance</p>	<ul style="list-style-type: none"> • A number of volunteers have formed a working group to review the Code. • Members of the working group are analysing the need to reword various sections of the Code and have drafted initial changes to the Code. • The Group met on 18 October 2016 to discuss changes and will reconvene in January 2017 for further discussions.
<p>QCA/UHY Hacker Young Corporate Governance Behaviour Review</p> <p>Monitor corporate governance disclosures of small and mid-size quoted companies</p> <p>EXPERT GROUP RESPONSIBLE: Corporate Governance</p>	<ul style="list-style-type: none"> • We met with UHY Hacker Young and fund managers on 4 October 2016 to review the survey results and gather further views and input from investors. • We drafted and finalised the review in November 2016. • We held a successful launch event on 7 December 2016. • Hard copies of the review have been sent out to the QCA membership.
<p>Remuneration Committee Guide for Small and Mid-Size Quoted Companies</p> <p>Revise the QCA Remuneration Committee Guide (last published in 2012) to take into account recent changes in the remuneration reporting landscape</p> <p>EXPERT GROUP RESPONSIBLE: Corporate Governance</p>	<ul style="list-style-type: none"> • A launch event was held on 13 September 2016. The Remuneration Committee Guide was well received and each member received a hard copy of the report and free access to electronic copies. • No further action since last update.

4. Raise awareness of the sector	
Activity	Activity Since Last Update
<p>QCA/YouGov Sentiment Index</p> <p>Triannual survey that tracks the economic and business confidence of the small and mid-cap sector (advisors and corporates)</p>	<ul style="list-style-type: none"> • The fieldwork for the QCA/YouGov Sentiment Index was conducted during September 2016. • We have analysed the survey results from YouGov and finalised the report. • We published the findings of the survey on 7 November 2016.
<p>QCA/RSM Small and Mid-cap Investors Survey</p> <p>A qualitative survey of small and mid-cap fund managers so that companies can understand the key issues that are affecting investment decisions and any emerging market trends</p>	<ul style="list-style-type: none"> • The fieldwork was concluded in mid-November. • We have finished writing the first draft of the report. • A launch event will be held on 9 March 2017.
<p>Brexit</p> <p>Following the UK's decision to leave the European Union and ahead of the formal exit negotiations, the QCA is putting together a strategy to ensure that the needs of its membership are considered during and after the negotiations.</p>	<ul style="list-style-type: none"> • We have received a response to our congratulatory letter to David Davis from Robin Walker, Parliamentary Under Secretary of State at the Department for Exiting the European Union. We are due to arrange a meeting with a member of Walker's team in early 2017. • We held an introductory Brexit brainstorming call to discuss the QCA's approach to Brexit on 21 December 2016. • Based on the brainstorm, the QCA has drafted a Brexit discussion paper which will be used as a basis for further work in the Expert Groups and the Brexit working group. • We met with Richard Knox, Deputy Director Securities and Markets, HM Treasury on 9 January 2017. • We met with Edwin Schooling-Latter, Head of Markets Policy, Financial Conduct Authority on 10 January 2017. • We met with Debbie Gillatt, Director, Europe, Department for Business, Energy and Industrial Strategy on 16 January 2017. • We met with Zoe Woodrow, Deputy Director, Market Access Strategy, Department for Exiting the EU on 16 January 2017. • We are seeking an introductory meeting with Lord Hill to discuss Brexit and the Capital Markets Union

Issues being considered by the expert groups

Corporate Finance Expert Group – last meeting on 10 November 2016

1. Jeff Lynn from Seedrs attended the November meeting to discuss equity crowdfunding platforms.
2. The group is following the European Commission's Prospectus Regulation proposal and the implementation process of the Market Abuse Regulation.

3. The group is considering the FCA's consultation on DTR 2.5 changes: delay in the disclosure of inside information. (RD: 6 January 2017)
4. The group is assisting with the work outlined above in the section 'Progress on key campaigns for 2016 – 2017'.

Corporate Governance Expert Group – last meeting on 29 November 2016

1. Claire Dorrian and David Harris from the London Stock Exchange attended the November meeting to discuss the Exchange's environment, social and governance (ESG) report project.
2. The group responded to the Business, Innovation and Skills Committee's inquiry on corporate governance. (RD: 26 October 2016)
3. The group responded to the HM Treasury's consultation on the transposition of the Fourth Money Laundering Directive. (RD: 10 November 2016)
4. The group responded to the BEIS consultation on Implementing the Fourth Money Laundering Directive: beneficial ownership register. (RD: 16 December 2016)
5. The group responded to the FRC's consultation on changes to corporate reporting review procedures. (RD: 4 January 2017)
6. The group is considering the BEIS consultation on Corporate Governance Reform. (RD: 17 February 2017)

Financial Reporting Expert Group – last meeting on 22 November 2016

1. The group responded to the IASB's consultation on Exposure Draft of Definition of a Business and Accounting for Previously Held Interests (Proposed Amendments to IFRS 3 and IFRS 11). (RD: 31 October 2016)
2. The group responded to EFRAG's Classification and Measurement of Share-based Payment Transactions - Amendments to IFRS 2 - Invitation to Comment on EFRAG's Initial Assessments. (RD: 10 November 2016)
3. The group responded to EFRAG's requests for comments on Preliminary Consultation Document regarding the endorsement of IFRS 16 Leases. (RD: 8 December 2016)
4. The group responded to the FRC's Triennial review of UK and Ireland accounting standards - Approach to changes in IFRS. (RD: 31 December 2016)
5. The group responded to the FRC's Consultation on changes to corporate reporting review procedures. (RD: 4 January 2017)

Legal Expert Group – last meeting on 27 October 2016

1. Cleo Alliston from the Competition & Markets Authority (CMA) attended the meeting to discuss the work of the CMA.
2. The group is considering the FCA's consultation on DTR 2.5 changes: delay in the disclosure of inside information. (RD: 6 January 2017)
3. The group is following the European Commission's Prospectus Regulation proposal and the implementation process of the Market Abuse Regulation.

4. The group is assisting with the work outlined above in the section 'Progress on key campaigns for 2016 – 2017'.

Secondary Markets Expert Group – last meeting on 16 November 2016

1. The group responded to the FCA's consultation paper CP16/29: Markets in Financial Instruments Directive II Implementation – Consultation Paper III, all sections except Chapter 16. (RD: 4 January 2016)
2. The group is considering ESMA's Draft guidelines on MiFID II product governance requirements. (RD: 5 January 2016)
3. The group is following the publication of the MiFID II delegated acts and assisting with the work outline above in the section 'Progress on key campaigns for 2016 – 2017'.

Share Schemes Expert Group – last meeting on 13 October 2016

1. Fraser Eccles and Wyndham North, HM Treasury, and Benjamin Martin, HMRC attended the October meeting to discuss tax-advantaged share schemes and the QCA Budget Representations.
2. The group is considering the OTS review of Stamp Duty on paper transactions. (RD: 31 January 2017)

Tax Expert Group – last meeting on 30 November 2016

1. The group contributed to an analysis of the Autumn Statement on 23 November 2016.

The group is revising the timetable for the QCA Budget representations following the Chancellor's announcement of a Spring statement and Autumn budget on 23 November 2016.