

Quoted Companies Alliance Policy Update – 16 December 2014

Progress on key campaigns for 2014

1. Raise awareness of the sector

a. QCA/BDO Small and Mid-Cap Sentiment Index

What we have:

- A quarterly sentiment survey that tracks the economic and business confidence of the small and mid-cap sector (advisors and corporates), with a specific theme for each quarter.

What we have done this past month on it:

- We are working on changing the design and layout to make it more relevant and accessible to company directors.
- The 13th survey's fieldwork will take place in January 2015.

b. QCA/Baker Tilly Fund Manager Survey

What we have:

- A qualitative survey, in conjunction with Baker Tilly and conducted by YouGov, 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.

What we have done this past month on it:

- The fieldwork for the 2015 survey was completed in November 2015. 16 small and mid-cap institutional fund managers took part.
- We are currently finalising the text for the report, which includes a number of helpful tips for company directors, for example, on appointing advisers, priorities for 2015, etc.
- The report will be launched at an event on 3 February 2015.

c. A 'UK Index'

What we are proposing:

- An index series that measures companies' contribution to the UK economy (ie through metrics such as sales made in the UK, number of employees in the UK, etc).
- This would act as a barometer for the UK economy and present a more valid index for investors to see UK company performance.
- The index will be an 'editorial' index, where fund managers and heads of research would be polled on UK quoted companies for inclusion in the index. A panel will then filter these

responses down to 100. The list of constituents will be refreshed annually and the index calculated daily.

What we have done this past month on it:

- Tim Ward has approached the IMA to see if there is an interest in collaborating on this project.

d. SME Asset Class

What we are proposing:

- For the European Commission to create an SME asset class (ie companies of a certain size would be a member of this 'asset class' (aka category/label)) –we are proposing that this includes SMEs both on the Main List and AIM.
- Also, for the European Commission to mandate pension funds to state their investment policy towards this asset class.

What we have done this past month on it:

- We are currently in the process of preparing an outline of the key issues that we would like the next European Commission to work on (both to send to the European Commission and HM Treasury). The SME Asset Class proposal will be included.

2. Improve liquidity and access to finance

a. Capital Gains Tax Reform – Entrepreneurs' Relief

What we are proposing:

- Remove the requirement to hold 5% shares in a company to qualify for a reduced rate of capital gains tax.
- Allow long-term investors to also qualify for the relief by rebranding it 'Stakeholders Relief'; only have the relief apply for investments in SMEs; and they have to hold shares for three to five years before they can get the reduced rate.

What we have done this past month on it:

- Our 2015 Budget Representations are available at: www.theqca.com/Budget2015
- The Autumn Statement happened on 4 December 2014. There were no announcements that were of particular significance to quoted companies. Most noteworthy included: small changes to Entrepreneurs' Relief; announcements not pursue certain areas in Share Schemes, such as a marketable security and a new employee shareholding vehicle; and an expansion of the R&D tax credit. We submitted a press comment on the day of the statement, which is available at: www.theqca.com/qcaautumnstatementcomment.
- Our discussion lunch with Shabana Mahmood MP, Shadow Tax Minister for the Labour Party, and corporate members, due to take place on 4 December 2014, was cancelled due to the shadow minister having a conflicting appointment.
- We have scheduled a discussion lunch with David Gauke MP, Exchequer Secretary to the Treasury, and corporate members for 15 January 2015. Invitations have been sent out.

b. Costs of raising equity

What we are proposing:

- Allow the costs of raising equity to be tax deductible.
- Introduce a £1.5m upper limit in order to target the relief appropriately to SMEs.
- Allow the relief to be applicable for both IPO and secondary fundraisings.
- Allow all types of fundraising costs associated with raising equity to be tax deductible.
- Allow tax relief for the costs of raising funds to be available in the year these were incurred.
- Allow the relief to be available once the implementing legislation comes into effect.
- Allow the relief to apply to costs incurred as a result of an aborted fundraising.

What we have done this past month on it:

- We submitted this as a key measure in our 2015 Budget Representations (see above 2a). Nothing was announced in the Autumn Statement on this measure.

3. Reduce the burden of corporate disclosures

a. Proportionate IFRS

What we are proposing:

- We do not have concrete proposals as to what proportionate IFRS would include. Some suggestions have been:
 - Allow small and mid-size quoted companies (both those on the Main List and AIM) to use FRS 102 (the UK version of IFRS for SMEs).
 - Allow small and mid-size quoted companies (both those on the Main List and AIM) to use a form of full IFRS that has less detailed disclosures.
- We are emphasising the importance of materiality in making corporate reporting more clear and relevant and highlighting this to companies, regulators, investors and standard setters.

What we have done this past month on it:

- We understand that the London Stock Exchange is planning a further consultation on the AIM Rules for 2015. We are preparing to gather views on whether AIM companies should be allowed to use FRS 101 in order to include something in our response to this.
- We have met with the FRC on their smaller companies reporting project, which is exploring the role of accounting standards in smaller companies' reports. In addition to the event we held with them on 1 October, we have also sent a survey on this for them to all our corporate members.

4. Improve corporate behaviour

a. A proportionate approach to corporate governance

What we are planning to do:

- Monitor uptake of our revised Corporate Governance Code for Small and Mid-Size Quoted Companies (May 2013).
- Publish a revised version of the Audit Committee Guide in 2014.
- Publish a revised version of the Remuneration Committee Guide in 2015.

What we have done this past month on it:

- We soft-launched our Audit Committee Guide for Small and Mid-Size Quoted Companies on 5 November 2014. All members received 1 free copy of the guide.
- We held a launch event for the guide on 9 December 2014 at the NAPF, which around 50 people attended.
- At the same event, we also launched the second QCA/UHY Hacker Young Corporate Governance Behaviour Review 2014 (www.theqca.com/cgreview2014). All members have received a copy via email and post.
- The feedback we have received from members about the guide has been very positive so far. We have sold approximately 75 copies to date.
- We are starting to revise our Remuneration Committee Guide in January 2015. The aim is published the revised version by July/August 2015.

Issues being considered by the expert groups

Corporate Finance Expert Group – last meeting on 13 November 2014

1. Some members of this group have volunteered to join a working group on the Prospectus Directive (with members of the Legal Expert Group), which is developing a briefing paper on changes to the Directive that we would like to happen ahead of the next review in 2015.
2. The group is considering the FCA's Consultation Paper CP14/21: Feedback and Policy Statement on CP14/02 – Consultation on joint sponsors and call for views on sponsor conflicts (RD: 30 December 2014).
3. The group is considering the FCA's Quarterly Consultation (no 7) (Prospectus Rules) (RD: 5 February 2015).
4. The group responded to the Takeover Panel's consultation on the Takeover Code: consultation on post-offer undertakings and intention statements (RD: 24 October 2014) with the Legal Expert Group.

Corporate Governance Expert Group – last meeting on 20 October 2014 and 25 November 2014

1. David Styles, Director of Corporate Governance, The Financial Reporting Council, attended the October meeting to provide an update on the FRC's current governance work.

2. The Audit Committee Guide for Small and Mid-Size Quoted Companies was published in November 2014 – more details are mentioned above in the key campaigns section.
3. The second QCA/UHY Hacker Young Corporate Governance Behaviour Review was published on 9 December 2014 – more details are mentioned above in the key campaigns section.
4. The group is considering how to monitor the AIM Rule 26 change.
5. The group is following the European Commission’s proposals on the Shareholders’ Rights Directive.
6. The group is following the European Commission’s proposals on the 4th Money Laundering Directive, specifically Articles 3 and 29 on beneficial ownership. As stands, the directive could require AIM and ISDX companies to have to keep a list of beneficial owners, whilst companies on regulated markets will not have to. This goes beyond what the UK is currently doing in this area (as DTR 5 companies are exempt from the UK’s persons with significant control register requirements). We submitted draft amendments to MEPs and Commission officials on 29 October and have followed up them up. We are hopeful that this will be amended during trilogue, which is due to finish 16 December 2014.
7. The group is considering BIS’s Consultation Paper on Corporate Directors – Scope of exceptions to the prohibition of corporate directors (RD: 8 January 2015).
8. The group responded to the NAPF’s informal consultation on its Corporate Governance Policy & Voting guidelines 2015 (RD: 27 November 2014).
9. The group responded to the BIS Discussion Paper – Understanding the new requirements, recording control on the PSC register and protecting people at serious risk of harm (RD: 9 December 2014).
10. The group responded to OECD’s Public consultation on the 2014 Review of the OECD Principles of Corporate Governance (RD: 4 January 2014).

Financial Reporting Expert Group – last meeting on 21 October 2014 and 9 December 2014

1. The group is considering the IASB’s Exposure Draft on Recognition of Deferred Tax Assets for Unrealised Losses (Proposed amendments to IAS 12) (RD: 18 December 2014).
2. The group is considering the FRC’s Exposure Draft, FRED 56 – Draft FRS 104 Interim Financial Reporting (RD: 12 January 2015).
3. The group is considering the FRC’s Exposure Draft, FRED 57 – Amendments to FRS 101 (RD: 20 March 2015).
4. The group is revising its Corporate Reporting Charter in 2015.
5. The group is considering the IASB’s Exposure Draft detailing proposed amendments to IFRS 2 Share-based Payment (RD: 25 March 2015).
6. The group responded to the European Commission’s consultation on the effects of using International Financial Reporting Standards (IFRS) in the EU (RD: 31 October 2014).
7. The group responded to the FRC’s FRED 55 Draft Amendments to FRS 102 – Pension Obligations (RD: 21 November 2014).

Legal Expert Group – last meeting on 25 September 2014

1. The group is leading a working group (with members of the Corporate Finance Advisors Expert Group also involved) on the Prospectus Directive, which is developing a briefing paper on changes to the Directive that we would like to happen ahead of the next review in 2015.
2. The group is considering producing a guidance note on relationship agreements in light of upcoming changes to the Listing Rules.
3. The group responded to the FCA's consultation on removing the Transparency Directive's requirement to publish interim management statements (CP14/12) (RD: 4 September 2014).
4. The group responded to ESMA's two Consultation Papers on the Market Abuse Regulation (RD: 15 October 2014).

Secondary Markets Expert Group – last meeting on 30 September 2014 (no meeting since October Policy Update)

1. The group is following the European Commission's Securities Law Regulation.
2. The group is following the implementation of the EU Short Selling Regulations in the UK.
3. The group, with the Corporate Finance Expert Group, is developing a briefing note for company directors on questions to ask when considering raising finance from an alternative finance provider.
4. The group responded to FCA's Discussion Paper: DP14/3 The use of dealing commission regime (RD: 10 October 2014).

Share Schemes Expert Group – last meeting on 4 December 2014

1. A working group is revising Rewarding Enterprise II – Guidance for Companies on Employee Share Schemes (July 2009).
2. Andrew Ninian, Director of Corporate Governance and Engagement at the IMA, is attending the February 2015 meeting, to discuss the IMA's revised Principles of Remuneration. In preparation, the group is currently exploring the use of Treasury Shares, which is mentioned in the Principles.

Tax Expert Group – last meeting on 22 September 2014 (no meeting since October Policy Update)

1. Roland Phillips, Policy Adviser, Financial Services Tax, HM Treasury, attended the September meeting to discuss our draft proposals for the 2015 Budget and give an update on current work.
2. The group has submitted its proposals for the 2015 Budget, focusing on the costs of raising equity to be tax deductible.
3. The group responded to HM Treasury's consultation on tax-advantaged venture capital schemes: ensuring support for small and growing businesses with the Corporate Finance Expert Group (RD: 19 September 2014).