

Quoted Companies Alliance Policy Update – 24 June 2013

Progress on key campaigns for 2013

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 published the results of seventh survey, which focused on the role of NEDs, on 28 May 2013.
- The eighth survey will feature further questions on corporate governance, women on boards and proxy advisors and will be carried out in July, with results published in August/September 2013.

b. 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). (This would act as a barometer for the UK economy and present a more valid index for investors to see UK company performance.)

What we have done this past month on it:

- There was a further meeting held with the Telegraph, investors and brokers on 14 May 2013. A number of action points were agreed and the investors and brokers are meeting again shortly.

c. 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 had a meeting with officials from ESMA, who are exploring the criteria needed for markets to qualify as SME Growth Markets under MiFID II, on 23 May 2013 at Winterflood

Securities. ESMA representatives were taken onto the trading floor and showed how SME shares are traded to highlight the important role that liquidity providers play.

- The European Commission Green Paper on Long-Term Financing of the European Economy has been published and includes have questions on whether the Commission should create something similar to a SME asset class for listed companies.
- As part of this review, we wrote a paper on the structural barriers that exist for SMEs in accessing capital markets and impact investors' ability to invest for HM Treasury to help the Government formulate its response to the green paper.
- We attended a roundtable hosted by HM Treasury to discuss our paper on 22 May 2013, with QCA members present and other industry bodies.
- We also held a separate roundtable for HM Treasury on 13 June 2013 with small and mid-size quoted company directors to discuss what they saw as the key pieces of regulation hindering their companies' growth.
- We are using these meetings and our paper as the basis for the QCA's response to the European Commission Green Paper on Long-Term Financing of the European Economy (RD: 25 June 2013).

d. Are equity markets fit for purpose review

What we are proposing:

- A UK Government review, led by a business leader and focused on whether primary equity markets are fit for purpose and helping companies to raise the finance necessary to grow.

What we have done this past month on it:

- We had a meeting with Vince Cable MP on 15 May 2013, where we discussed the creation of a SME asset class; creating a level playing field between the costs of raising debt and equity; proportionate corporate governance rules; and encouraging the Business Growth Fund to invest in quoted companies.

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 and extend the holding period of shares from 12 months to three years.
- 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 five years before they can get the reduced rate.

What we have done this past month on it:

- The Tax Expert Group met with HMRC on 18 April 2013 to discuss the welcomed change that EMI shares qualify for Entrepreneurs' Relief.

b. Non-bank lending and debt markets

What we are proposing:

- Look at how Government can raise awareness about different funding options for smaller companies (beside just bank debt and equity).
- Encourage the Government to put pressure on the credit rating agencies to develop a more cost-effective rating for smaller companies.
- Pressing for a level playing field in how equity and debt financing is incentivised through tax.

What we have done this past month on it:

- We are holding a Capital Matters breakfast event at Coutts on 3 July 2013 to discuss listed debt and the opportunities available to small and mid-size quoted companies for raising this type of finance.

c. Business Growth Fund

What we are proposing:

- For the Government-backed Business Growth Fund to invest in quoted companies, as well as private companies.

What we have done this past month on it:

- We discussed this with Vince Cable at the meeting on 15 May 2013 who agreed to take this up with the management team of the Business Growth Fund. Tim Ward and Tom Shaw, Chairman of the Legal Expert Group, have since met with BIS officials to brief them about how this could work.

3. Reduce the burden of corporate disclosures

a. Proportionate IFRS

What we are proposing:

- We do not have concrete proposals as to how proportionate IFRS will look like. Some suggestions have been:
 - Allow small and mid-size quoted companies (both those on the Main List and AIM) to use 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 disclosures.

What we have done this past month on it:

- We had a meeting with IASB to follow up on actions from our meeting in February 2013.
- We have nominated three small and mid-size quoted company finance directors from our membership to join the Global Preparers Forum.

4. Improve corporate behaviour

a. A proportionate approach to corporate governance

What we are planning to do:

- Update our Corporate Governance Guidelines for Smaller Quoted Companies (September 2010) to take into account various developments since the guide was last published.

What we have done this past month on it:

- We published the revised Quoted Companies Alliance Corporate Governance Code for Small and Mid-Size Quoted Companies ('QCA Code') on 1 May 2013 at a launch event at the London Stock Exchange. Over 100 people attended.
- At the end of May, we had sold over 125 copies of the QCA code (a mixture of both pdf and hardcopy versions).
- We are working with an accountancy firm in the summer to look at AIM and ISDX companies and their compliance against the QCA Code.

Issues being considered by the expert groups

Corporate Finance Advisors Expert Group – 2 May 2013

1. Clare Cole, Manager of Sponsor Supervision, FCA, attended the May meeting to discuss an upcoming review on sponsor supervision and competency requirements.
2. The group responded to the ISDX Regulatory Consultation (RD: 13 May 2013) in conjunction with the Legal Expert Group.
3. The group is reviewing then guide - Are You Ready? A Brief Guide for a Company Aspiring to Go Public (May 2010) – a working group met in early June to go through a revised first draft.
4. The group is also exploring how the Retail Distribution Review (RDR) may affect corporate finance advisory firms.

Corporate Governance Expert Group – 14 May 2013

1. Seamus Gillen, ICSA, attended the May meeting to discuss its new guidance – Enhancing Stewardship Dialogue.
2. The group responded to the FRC's Implementing the Recommendations of the Sharman Panel (RD: 28 April 2013) with the Financial Reporting Expert Group.
3. The group is starting to revise the Audit Committee Guide for Smaller Quoted Companies (February 2009).
4. The group is considering how to encourage better engagement between proxy voting agencies and small and mid-size quoted companies.
5. The group is considering ICAS's paper 'Balanced and Reasonable: A discussion paper on the provision of positive assurance on management commentary' (RD: 31 October 2013) with the Financial Reporting Expert Group.

Financial Reporting Expert Group – 11 June 2013

1. Brian Singleton-Green of the ICAEW attended the June meeting to discuss a paper the ICAEW is producing on financial disclosures.
2. The group had a meeting with corporate members and the IASB on 13 May (see above under 'Progress with Key Campaigns – Proportionate IFRS').
3. The group has responded to the FRC's Implementing the Recommendations of the Sharman Panel (RD: 28 April 2013) with the Corporate Governance Expert Group.
4. The group has responded to the FRC's Consultation Paper: Revision to ISA (UK and Ireland) 700 (RD: 30 April 2013).
5. The group is considering the IASB's Exposure Draft: Financial Instrument: Expected Credit Losses (RD: 5 July 2013).
6. The group is considering the IIRC's consultation on the draft International Integrated Reporting Framework (RD: 19 July 2013).
7. The group is considering the IASB's Leases Exposure Draft (RD: 13 September 2013).
8. The group is considering ICAS's paper 'Balanced and Reasonable: A discussion paper on the provision of positive assurance on management commentary' (RD: 31 October 2013) with the Corporate Governance Expert Group.

Legal Expert Group – 23 May 2013

1. The group has responded to the ISDX Regulatory Consultation (RD: 13 May 2013) in conjunction with the Corporate Finance Advisors Expert Group.
2. The group is leading a campaign to get the British Growth Fund to invest in not only private companies, but also quoted companies.
3. The group is considering ESMA's Draft Regulatory Technical Standards on specific situations that require the publication of a supplement to the prospectus (RD: 28 June 2013).
4. The group is considering the European Commission's legislative proposals for MiFID/MiFIR, the Market Abuse Directive/Regulation, and the Transparency Directive.

Markets and Regulations Expert Group – 17 April 2013

1. The group has been considering its structure and focus and will be focusing more on secondary market issues. The group membership will evolve as part of this process.
2. A sub-group of this group, made up predominantly of those working in compliance/secondary markets, is having a meeting on 10 July 2013 to develop and agree terms of reference.

Share Schemes Expert Group – 16 May 2013

1. The group is starting to revise Rewarding Enterprise II – Guidance for Companies on Employee Share Schemes (July 2009).
2. The group is considering HMRC's consultation on the Office of Tax Simplification's Review of Unapproved Share Schemes (RD: 16 August 2013)

3. The group is following the progress of the Finance Bill and provisions affecting share schemes and tax arrangements.

Tax Committee – 18 April 2013

1. The group had another success with the Budget announcement specifically on the removal of Stamp Duty on growth market shares from April 2014. They are liaising with HM Treasury on how this change will be implemented.
2. The group met with HMRC at its April 2013 to discuss recent changes to EMI and general points on how to encourage more tax-advantaged employee share ownership.
3. The group has responded to HM Treasury's ISA qualifying investments: consultation on including shares traded on small and medium-sized enterprise equity markets (RD: 8 May 2013).