

Andrew Lennard
Financial Reporting Council
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30 March 2017

Dear Mr Lennard,

The Financial Reporting Council's Corporate Reporting Research Activities

We are the Quoted Companies Alliance, the independent membership organisation that champions the interests of small to mid-size quoted companies. Their individual market capitalisations tend to be below £500m.

We welcome the opportunity to respond to the FRC's consultation on its corporate reporting research activities.

The Quoted Companies Alliance Financial Reporting Expert Group has examined your proposals and advised on this response. A list of members of the Expert Group is at Appendix A.

Responses to specific questions

Q1 Section 1 provides background to the FRC's research activities in relation to corporate reporting. In your view, should the FRC continue with its research activities at the current level, or increase or decrease the extent of its work in this area?

The FRC should continue with its research activities at the current level and with its collaboration with other standard setters, which we believe helps make the research more influential. Recent research has been high quality and thought provoking and we wish to see this continue. In prioritising its resources the quality of the research, as opposed to the quantity, should be the primary driver. It is important that the FRC displays thought leadership in order to be better positioned to influence other bodies, such as the IASB.

Q2 Section 2 considers projects that might be undertaken in the future with the aim of influencing the IASB. It identifies four potential projects: variable and contingent consideration; defined benefit pension schemes; non-exchange transactions; and intangible assets. Which, if any, of these potential projects do you think the FRC should undertake? In your view, what are the relative priorities? Are there other topics that you believe the FRC should undertake with a view to influencing the International Accounting Standards Board (IASB)?

We largely agree with the proposed projects though would like to see the FRC undertake research on extractive industries given the significance of such companies to the UK capital markets (for example 21%

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of AIM companies are in extractive industries). Given this we would like to see the FRC influencing the debate on how to replace IFRS 6. Of the remaining projects we would give the project on non-exchange transactions a lower priority than the others (including extractive industries).

We note that the IASB has explicitly stated that it plans no further work on post-employment benefits following the 2015 Agenda Consultation, beyond a limited scope project on pension benefits that depend on asset returns. Given this, we believe the FRC's resources would be better spent in a project on extractive industries.

Q3 Section 3 discusses the potential for the FRC to undertake research:

- i. with a view to assessing how corporate communications as a whole might better serve the needs of investors; and**
- ii. to develop proposals on how corporate reporting might serve the needs of stakeholders other than investors.**

Do you believe that the FRC should undertake further research in these areas? On which specific topics do you consider such research might be fruitful?

We encourage the FRC to undertake further research into how corporate communications as a whole might better serve investors' needs. In particular, there should be more analysis into the specific purpose of corporate communications, with a focus on the materiality of decisions and what companies should include in such communications.

We would turn the proposed project on how corporate communications might better serve the needs of investors around, to become a project on what the information needs of the different types of investor are, and how a corporate communications framework can best satisfy those needs. Consideration also needs to be given as to whether a one-size-fits-all solution is appropriate for all companies.

We would welcome the FRC undertaking research into what the needs of stakeholders, other than investors, are and whether corporate reporting, aimed at investors, is the right way for those needs to be fulfilled. Such a project should seek to define who the stakeholders are and how far companies should be obliged to go in meeting their reporting demands. We note that shareholders bear the cost of such demands, not other stakeholders, and hence establishing what is, and what is not, a reasonable demand is an important first step. Given the significance of this question we believe this should form a separate project and debate which should be undertaken prior to developing specific proposals.

There is also scope for the FRC to play a significant role in conducting research on financial statements.

Q4 Are there any other aspects of the FRC's research on corporate reporting on which you would like to comment?

We have no further comments other than those noted above, although we would like to re-emphasise the critical importance of the FRC displaying thought leadership if it is to effectively influence other bodies.

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If you would like to discuss our response in more detail, we would be happy to attend a meeting.

Yours sincerely,

A handwritten signature in blue ink, appearing to read 'TW', with a stylized flourish extending to the right.

Tim Ward

Chief Executive

Quoted Companies Alliance Financial Reporting Expert Group

Matthew Stallabross (Chairman)	Crowe Clark Whitehill LLP
Matthew Howells (Deputy Chairman)	Smith & Williamson LLP
Neil Armstrong	
Jonathan Compton	BDO LLP
Amy Shephard	Deloitte LLP
Gary Jones	Grant Thornton UK LLP
Anthony Carey	Mazars LLP
Rochelle Duffy	PKF Littlejohn LLP
David Hough	RSM
Edward Beale	Western Selection Plc