

Financial Reporting Council
8th Floor
125 London Wall
London EC2Y 5AS

plan@frc.org.uk

16 February 2015

Dear Sirs,

Financial Reporting Council Draft Plan & Budget and Proposed Levies 2015/16

Introduction

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.

The Quoted Companies Alliance is a founder member of European **Issuers**, which represents over 9,000 quoted companies in fourteen European countries.

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

Response

We welcome the opportunity to respond to the Financial Reporting Council (FRC) Draft Plan & Budget and Proposed Levies 2015/2016.

Question 1 – Do you have any comments on the FRC’s proposed priorities for 2015/16?

Concerning the Draft Budget 2015/16 Section 2 on the Priorities for 2015/16, we note the bullet point on page 8:

Continue our project aimed at achieving over a three year period a step change in the quality of reporting of smaller listed and AIM companies. In 2015/16 we will report on our progress and consult on action to help these companies improve their reporting.

We continue to support your initiative to improve the quality of reporting amongst smaller listed and AIM companies and welcome the opportunity to continue working with you and within our membership to achieve this. We recently published the second QCA/UHY Hacker Young Corporate Governance Behaviour Review¹, which benchmarked the governance disclosures of a sample of 100 small and mid-size quoted companies against the Quoted Companies Alliance Corporate Governance Code for Small and Mid-Size

¹ Available at: <http://www.theqca.com/cgreview2014>

The Quoted Companies Alliance is the independent membership organisation that champions the interests of small to mid-size quoted companies.

Quoted Companies. The results of this review continue to indicate that small and mid-size quoted companies seem to struggle with:

- linking the application of corporate governance to strategy;
- making board evaluation disclosures (albeit there has been a slight improvement this year); and
- describing the role of external advisers in the boardroom.

We continue to believe that the FRC should not approach this issue as an enforcement activity, but should work with companies on this issue by identifying and informing them of what reporting problems exist and provide suggestions for improvement. It is crucial that the FRC understands the challenges faced by small and mid-size quoted companies, especially in terms of the limited resource available to these companies to produce their annual reports and accounts.

In this regard, we welcome the FRC's efforts to understand "the extent to which small cap companies adopt the [UK Corporate Governance] Code recommendations on board and committee composition, and the level of voluntary take-up by those companies of Code recommendations addressed to FTSE 350 companies, such as annual election of directors and audit retender" (p. 7).

We welcome the continuation of the important work being developed by the Financial Reporting Lab, particularly in regard to promoting the importance of clear and concise reporting.

Also, we strongly support the priority given to influencing the development of the new EU Shareholder Rights Directive. We will also continue to campaign for the introduction of a sensible regime, especially regarding beneficial ownership.

We welcome that the FRC will "continue to work with BIS to ensure that the EU Audit Regulation and Directive is implemented to ensure an effective, appropriate and proportionate regulatory regime for audit". We will continue to campaign for the proportionate implementation of the Regulation and Directive in the UK and for the removal of 'gold plating' of regulations. We will be submitting responses to the BIS and FRC Audit Directive and Regulation consultations in due course.

We note that for four of the five outcomes the FRC has used the phrase 'high quality'. We would encourage the FRC to give greater consideration as to what that means a UK context and, using the principle of proportionality, how this should be applied in practice. The FRC should also ensure that for each priority there is a clearly defined and acknowledged problem that is being addressed. Greater clarity of both the problem and what 'quality' represents should assist the FRC is gaining greater impact.

Question 2 – Do you have any comments on our proposed budget for 2015/16?

For the 2015/16 year the FRC is planning to increase overall expenditure by 6.7% and core operating costs by 5.3%. This will result in an increase in core operating costs of 40% since 2011/12.

Given the wider economic climate and central government budget cuts, we are concerned that there appears to be no justification for the increase either for 2015/16 or the significant increase in recent years in the Draft Plan & Budget. We also note that the FRC has continued to build up its reserves over these years so that they are expected to stand at £8.2m at March 2016 (2012: £7.1m).

On the basis of the information provided, we cannot support the proposed budget and believe that the FRC should provide greater justification for the increases. We also suggest that future budget consultations provide greater justification for above inflation increases in costs to enable respondents to form a more informed view.

Question 3 - Do you have any comments on the proposed levy rates for 2015/16?

As noted in our response to question 2, we do not feel that the FRC has justified the proposed increase in its budget and, therefore, the proposed increase in the levy. We note that the levy for companies with a market capitalisation of less than £1,000m, many of whom are Quoted Companies Alliance members, is proposed to increase by 7%, meaning that they are bearing a disproportionate share of the increased cost.

We have also noted the changed format in the Draft Plan and Budget which has seen the comparative column for the preparers levy removed. This column was useful in highlighting proposed changes in levy rates to companies and we would strongly encourage the FRC to include this information, thereby enhancing transparency in future budget consultations.

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

Yours faithfully,

A handwritten signature in blue ink, appearing to read 'T. Ward', with a stylized flourish at the end.

Tim Ward
Chief Executive

Quoted Companies Alliance Corporate Governance Expert Group

Edward Craft (Chairman)	Wedlake Bell LLP
Colin Jones (Deputy Chairman)	UHY Hacker Young
Nathan Leclercq	Aviva Investors
David Isherwood	BDO LLP
Nick Graves	Burges Salmon
Nick Janmohamed	Charles Russell Speechlys LLP
David Fuller	CLS Holdings PLC
Nicholas Stretch	CMS Cameron McKenna LLP
Louis Cooper	Crowe Clark Whitehill LLP
Nick Gibbon	DAC Beachcroft LLP
Andrew Hobbs	EY
Eugenia Unanyants-Jackson	F&C Investments
Melanie Wadsworth	Faegre Baker Daniels LLP
Rob Burdett	FIT Remuneration Consultants
Richie Clark	Fox Williams LLP
Michael Brown	Henderson Global Investors
Bruce Duguid	Hermes Equity Ownership Services
Bernard Wall	Hogan Lovells International LLP
Julie Stanbrook	
Claire Noyce	Hybridan LLP
James Hodges	Hydrodec Group PLC
Peter Swabey	ICSA
Jayne Meacham	Jordans Limited
Andy Howell	KBC Advanced Technologies PLC
Eleanor Kelly	LexisNexis
Jane Mayfield	
Nicola Green	
Anthony Carey	Mazars LLP
Mebs Dossa	McguireWoods
Peter Fitzwilliam	Mission Marketing Group (The) PLC
Cliff Weight	MM & K Limited
Caroline Newsholme	Nabarro LLP
Jo Chattle	Norton Rose Fulbright LLP
Julie Keefe	
Dalia Joseph	Oriel Securities Limited
Marc Marrero	
Amanda Cantwell	Practical Law Company Limited
Kelly Millar	PricewaterhouseCoopers LLP
Madeleine Cordes	TMF Corporate Secretarial Services Ltd
Edward Beale	Western Selection Plc
Alexandra Hockenhill	Xchanging plc

Quoted Companies Alliance Financial Reporting Expert Group

Matthew Stallabrass (Chairman)	Crowe Clark Whitehill LLP
Jonathan Lowe	Baker Tilly
Nick Winters	
Paul Watts	
Anna Draper	BDO LLP
Amy Shephard	Deloitte LLP
David Gray	DHG Management
Shalini Kashyap	EY
Gary Jones	Grant Thornton UK LLP
Anthony Carey	Mazars LLP
David Pugh	Nationwide Accident Repair Services plc
Nigel Smethers	One Media IP Group plc
Joseph Archer	PKF Littlejohn LLP
Donna Caira	Saffery Champness
Matthew Howells	Smith & Williamson LLP
Jack Easton	UHY Hacker Young
Ian Davies	Vislink PLC
Edward Beale	Western Selection Plc