

James Ferris
Project Director
Financial Reporting Council
8th Floor
125 London Wall
London
EC2Y 5AS

AAT@frc.org.uk

23 June 2017

Dear Mr Ferris,

Auditors and Preliminary Announcements

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 auditors and preliminary announcements. 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.

Overview

As a general comment, we believe that the consultation lacks clarity with respect to the identification of a problem regarding preliminary announcements. This has subsequently resulted in difficulty ascertaining what the consultation is trying to achieve and whether the FRC is in a position to address the problem.

If deficiencies in preliminary announcements are identified, we believe that these should be addressed by AIM Regulation or the FCA and not by the FRC. This notwithstanding, the FRC could provide indicative good guidance as to what should be included in a preliminary announcement – this could drive consistency.

Response

Before the FRC seeks to make changes to the existing requirements on preliminary announcements, further work should be undertaken to establish whether there are problems with the current position and hence whether improvements could, and should, be made. This is significant because the feedback received from investors does not seem to indicate a problem with the current approach.

In particular, the FRC should seek to understand:

1. Why companies continue to use preliminary announcements;

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2. In what circumstances unaudited preliminary announcements are issued and whether there is evidence of material change between the preliminary announcement and the audited Annual Report in these circumstances;
3. Whether share price movements after the issuance of the full Annual Report, including the Auditor's Report, indicate that price sensitive information is being omitted from the preliminary announcement; and
4. Whether there is evidence of a difference in quality between UK and non-UK companies listed on the market in terms of the quality of preliminary announcements.

By answering these questions, we believe that the FRC would gain the evidence it needs to assess whether changes are needed. It would particularly provide evidence of whether important information is being omitted or whether the limited practice of issuing an unaudited preliminary announcement is, in some way, misleading the market.

In the absence of a thorough understanding of the current position, its strengths and its flaws, we are concerned that any extension of the current guidance, and in particular Options 4-7, could have unintended consequences. We would not want to see the FRC make regulatory changes which delay the release of information into the market unless those changes are needed to stop market abuse.

If greater guidance is needed on the content of preliminary announcements, then this should be set out in the Listing Rules and the AIM Rules rather than in an FRC Bulletin or engagement standard. In the event that the evidence suggests there is scope for improvement, we would welcome a joint public consultation, with both the FCA and the London Stock Exchange on this issue to ensure that as wide a set of stakeholders as possible are consulted and that regulation, in all its forms, is consistent.

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

Yours sincerely,



Tim Ward
Chief Executive

Quoted Companies Alliance Financial Reporting Expert Group

Matthew Stallabrass (Chairman)	Crowe Clark Whitehill LLP
Matthew Howells (Deputy Chairman)	Smith & Williamson LLP
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
Neil Armstrong	Unattached
Edward Beale	Western Selection Plc