The Quoted Companies Alliance

Strictly embargoed to 1am, Monday 21 December 2009

Press Release

21 December 2009

Who's looking after equity markets for growth companies?

The Quoted Companies Alliance (QCA) has called on the Government to set up a working group to design an appropriate structure for UK equity markets in response to a series of measures that threaten their structure and operation. Together, the proposals could significantly harm the attractiveness of the UK's dedicated growth markets – AIM and PLUS-quoted – where smaller companies currently seek vital funds, at a time when banks are reluctant to lend to them.

The QCA, the representative body for the UK's small and mid-cap quoted companies, has written to Chancellor Alistair Darling, highlighting a lack of strategic coordination and the danger to equity markets for smaller companies that are essential to the UK economy.

The measures include:

1. **The Prospectus Directive** – Changes to the Directive put forward by the Working Party of the EU Swedish Presidency would restrict the European Commission's much-needed concessions for smaller companies raising public funds, to those companies on the Official List, excluding those on exchange-regulated markets. This would create a more onerous public fundraising regime for AIM and PLUS-quoted companies than those on the Official List. While the Commission has suggested that the concessions could be extended once the Market Abuse and Transparency Directives apply to exchange-regulated markets, this would take years to achieve, by which time the damage will be done. The QCA has asked the Chancellor to support its call for the European Commission to accelerate its Market Abuse and Transparency Directive reviews, so that all changes are implemented simultaneously and soon.

2. **Standard Listings** – The Financial Services Authority has introduced admission for UK companies to the Official List by way of bare compliance with the EU Prospectus Directive. While superficially attractive, this option requires no Sponsor; the

Combined Code does not apply; and shareholder approval is not needed for transactions such as takeovers. There is no suitability threshold for companies and much of the UK's advanced system of corporate governance will not apply.

3. **Tax Rules** – None of the current tax benefits – CGT taper relief, SIPPs, VCTs, EIS or IHT relief – is specifically designed to enhance equity funding for smaller, growth companies. While EIS and VCT investors may invest in AIM and PLUS-quoted companies, they cannot buy shares in smaller companies on the Official List. Equally neither AIM nor PLUS-quoted shares can be held in an ISA or a SIPP, a major impediment to liquidity in smaller company stocks. Tax benefits have been conceived without reference to the overall regime for equity markets.

These measures reflect a piecemeal approach to equity funding and the structure of equity markets. When macro-supervision is the watchword of future financial services regulation, no consistency in policy appears to have been adopted.

The success of AIM has resulted from the consistent application of appropriate market standards in a flexible manner. Major changes to markets should be made quickly, constructively and in a coordinated way – as AIM has itself operated. Markets stand or fall on their reputations. These measures, together with current tax rules, present a reputational threat to equity markets for smaller companies in the UK.

While favouring no particular exchange, the QCA believes companies should be able to find the right market – or the right segment thereof – that (a) enables them to raise equity in a way that reflects their development stage and (b) provides the advice and support they – and their investors – need. The provision of effective markets for small and mid-capitalisation companies is vital to the UK economy.

Tim Ward, Chief Executive of the QCA, said: "Nobody has looked at these changes in the light of the overall function and operation of equity markets as a whole. We need to stop stumbling from one initiative to another without direction, without purpose, and without fully considering the effects of each initiative on the UK's market structure."

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Notes to editors

The Quoted Companies Alliance (QCA) represents the UK's small and mid-cap quoted companies. This sector is defined as those 2,000 companies that are quoted in the UK outside of the FTSE 350. The QCA promotes the interests and views of its members to Government, Europe, regulators and other professional bodies, educates its members on best practices and provides a vital forum for networking. Celebrating 17 years in 2009, the QCA forms its views through highly focused committees and working groups, made up of directors and professional advisors from across the small and mid-cap quoted company sector. For more information, please visit: www.quotedcompaniesalliance.co.uk.