

Anna Colban
Financial Reporting Council
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Dear Ms Colban,

Improving the Quality of Reporting by Smaller Listed and AIM Quoted Companies – Discussion paper on the FRC’s findings and proposals

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 Financial Reporting and Corporate Governance 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 FRC’s initiative to conduct this study to enable better understanding of the reporting challenges faced by small and mid-size quoted companies and explore ways in which to help these companies. We believe that the FRC’s approach to the project was adequate and the resulting report draws attention to many issues faced by our members. We believe that the overall paper is supporting and encouraging from small and mid-size quoted companies’ perspective.

We welcome the acknowledgement in the paper that the quality of reporting by smaller quoted companies is generally good and the focus in the paper on areas of improvement. In our opinion, it would be helpful if the report could define quality reporting for small and mid-size quoted companies and set out how this might differ from the quality reporting expected of larger quoted companies.

It is important to highlight that, as mentioned by the FRC, “smaller listed and AIM quoted companies are important in generating future growth in the economy and need access to capital in order to invest and grow”. We welcome that the FRC recognises that “the process and costs of listing can be a challenge for smaller companies” and the ongoing requirements are onerous while being important for investment decisions.

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

As a general comment, we believe that this report is an important and timely intervention to raise awareness of the challenges faced by small and mid-size quoted companies and encourage collaboration through a coherent and comprehensive response by all the parties involved.

Indeed, we would welcome the opportunity to continue to engage with the FRC in addressing the identified challenges and implementing some of the proposals made.

We provide a more detailed analysis of the report in our response to the specific questions below.

Responses to specific questions

Q1 To what extent do you recognise and agree with the issues raised in the report regarding the quality of reporting by smaller quoted companies?

We generally recognise and agree with the issues raised in the report.

We agree that the annual report is particularly important for smaller companies, where there is a general lack of coverage and limited information available to investors (p. 6). Also, it is important to emphasise the annual report's relevance as a way of communicating with prospective investors.

We found particularly useful the FRC's findings regarding the areas of investor focus and the need for further improvement. We will reflect some of these examples in our work with our members (p. 10). Direct feedback from investors to companies can be a powerful mechanism for improving the quality or focus of reporting. Whilst the FRC has a role to play in providing aggregated feedback, further consideration should be given as to how investors and companies can work together in this regard.

We would also welcome the FRC considering how the regulatory burden for smaller quoted companies could be eased. The report identifies areas of focus and importance for investors and the FRC should consider whether there is scope to reduce the burden in areas of lesser importance. In this respect we acknowledge, and welcome, the consideration of this by the EU and the engagement the FRC has had.

We agree that small and mid-size quoted companies are significantly constrained by time and resource to prepare the annual report. Indeed, the quality of the advisory team which the company can assemble is fundamental to the quality of the Annual Report and the quality of communication with the investing community. We find it very important that the sponsor/nominated advisor work closely with the company regarding their ongoing obligations. In that regard, we welcome the FCA's ongoing and announced work with the sponsor community (p.16).

It is also important to highlight the role that the auditor can fulfil in helping companies on some of the problematic areas and ensuring that the annual report is accurate, informative and meaningful. We welcome the FRC's proposal to consider providing greater clarity for auditors and audit committees on what is acceptable support and what is not (p.8).

Finally, we believe that companies should be more aware that there are good governance arrangements that are adequate for growing companies. We welcome the FRC's reference to the Quoted Companies Alliance Corporate Governance Code for Small and Mid-Size Quoted Companies ('QCA Code' – most recent edition May 2013) (p.16). We believe that the QCA Code should continue to be promoted by the FRC, in

conjunction with the UK Code, as it has become a valuable reference for smaller companies wishing to follow outcome-orientated, good governance examples.

Q2 Do you consider that the actions proposed are (i) a proportionate response to the issues identified; and (ii) an adequate response to the issues identified?

We generally consider that the actions proposed are a proportionate and adequate response to the issues identified. We note that the FRC intends to engage with the UKLA and the London Stock Exchange concerning the resources available for financial reporting for companies seeking to list. Whilst this is a reasonable response, we would urge the FRC to ensure that any action does not add to the cost of raising equity finance that could discourage smaller companies seeking to access the UK capital markets. Please see our response to Q1.

This report should not translate into an increase in regulation for companies – which we would find disproportionate – but in improving communications between companies and investors and building trust. This will ultimately improve companies' ability to access and raise capital and grow.

As previously mentioned, we would welcome the opportunity to continue to engage with the FRC in addressing the identified challenges and implementing some of the proposals made.

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

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Jonathan Lowe	Baker Tilly
Andrew Westbrook	
Nick Winters	
Anna Draper	BDO LLP
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David Gray	DHG Management
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Gary Jones	Grant Thornton UK LLP
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David Pugh	Nationwide Accident Repair Services PLC
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Edward Beale	Western Selection Plc
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