



**The Quoted
Companies Alliance**

The Quoted Companies Alliance
6 Kinghorn Street
London EC1A 7HW
Tel: +44 20 7600 3745
Fax: +44 20 7600 8288

Web: www.theqca.com
Email: mail@theqca.com

DG Internal Market and Services
Financial Reporting Unit
European Commission
SPA2 00/93
1049 Brussels
Belgium

Markt-F3@ec.europa.eu

18 February 2011

Dear Sirs,

European Commission – Disclosure of Non-Financial Information by Companies

INTRODUCTION

The Quoted Companies Alliance (QCA) is a not-for-profit membership organisation working for small and mid-cap quoted companies. Their individual market capitalisations tend to be below £500m.

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

Our ID number for the European Commission's register of interest representatives is 45766611524-47.

The QCA Corporate Governance and Financial Reporting Committees have examined your proposals and advised on this response. A list of committee members is at Appendix A.

RESPONSE

We welcome the opportunity to respond to this consultation. Please see our responses to the individual questions below:

1. How would you consider the current regime of disclosure of non-financial information applicable in your country?

Very poor
Poor
Sufficient
Good
Very Good

Please explain. In replying to this question, please provide information on what way current reporting provides useful information, and to what extent it is sufficiently tailored to the circumstances of the company. Please also comment on whether you find non-financial information useful for the decision-making of a company.

We believe that current national legislation and initiatives build on the EU legislation, in particular the Fourth Company Law Directive. It does appear that more companies are reporting on environmental and social issues, especially in cases where their shareholders and other stakeholders request that

they do so. The development of reporting on non-financial information thus far has very much been led by market forces and this has been very valuable. However, we do recognise that the quality of these disclosures may vary.

In general, we believe that there is room to improve the current regime of the disclosure of non-financial information. However, we do not believe that improvements should be pursued by mandatory and strict regulations on what should be reported. We feel that this would result in more boilerplate disclosure and immaterial disclosures by companies that ultimately would clutter reports and not help to improve the level of information available to the user. Much non-financial information that could be disclosed would vary widely depending on the size, sector/activity and location of a company. Even superficially similar companies may have very different business models and so their material risks will be different. As such, what is appropriate for one company to disclose could be completely inappropriate for another.

Instead we would favour a principles-based approach that encourages companies to report on non-financial information that is material and relevant to their business and that which their investors/stakeholders request. Additionally, we would note that any EU initiative in this arena should adopt a comply or explain principle to retain flexibility.

We further note that this consultation does not provide much analysis on the necessity of legislative intervention in this area, nor does it explain within what legislative framework the disclosure of non-financial should be considered or where comprehensive or mandatory disclosure of non-financial information should occur (e.g. in the annual report and accounts or a company's website).

2. Have you evaluated the effects, and costs and benefits, of any current corporate disclosure of environmental and social information?

Yes

No

No opinion

Please explain.

While we have not done in depth analysis, we believe that most beneficial and cost-effective non-financial disclosure is that which is material to the business and the company's long-term performance.

3. If you think that the current regime of disclosure of non-financial information should be improved, how do you suggest that this should be done? Please explain.

4. In your opinion, should companies be required to disclose the following (check all relevant boxes):

- Whether or not they have a CSR policy, and if they do, how they implement that policy and what the results have been
- The principal business risks and opportunities arising from social and environmental issues, and how they are taken into account in company strategy.
- Key information regarding issues such as employee engagement (e.g.: employee training policy, equality and diversity, etc.); customer satisfaction (e.g.: customer loyalty); public perception of the company (e.g.: stakeholder dialogue); environmental policies (e.g.: energy efficiency, waste reduction); and innovation (e.g.: R&D expenditure).
- **Other (Please comment)**

Please explain.

All of the issues mentioned above could potentially be of interest for users. However, as mentioned in our response to Question 1, we do not believe that improvements should be pursued by mandatory and strict regulations on what should be reported. Instead we would favour a principles-based

approach that encourages companies to report on non-financial information that is material and relevant to their business and that which their investors/stakeholders request. What is key is to encourage more interaction between companies and relevant investors/stakeholders.

5. In your opinion, for a EU measure on reporting of non-financial information to achieve materiality and comparability it should be based upon (check all relevant boxes):

- **Principles**
- Key Performance Indicators (KPIs)
- Other

As mentioned in Question 1 and 4, we believe that a principles-based approach should be adopted to improve non-financial disclosure of information. While KPIs may be useful as a benchmark, it would be impossible to create an exhaustive list of all elements and aspects of non-financial information that companies would want to communicate and/or external stakeholders would want to know about. In addition, the relevant KPIs would vary depending on the size, location, sector of the business and so could result in immaterial disclosures and unhelpful disclosures from companies. Moreover, as each company's business model is unique, the unintended consequence of such disclosures will be inappropriate conclusions drawn from inaccurate comparisons.

6. In your opinion, what should be the process to identify relevant principles and/or indicators (whether general or sector-specific)?

Please explain. In replying to this question, please comment on whether the Commission should endorse or make reference to any existing international frameworks (or a part of them), such as Global Reporting Initiative (GRI), UN Global Compact, the OECD Guidelines, ISO 26000, or other frameworks; or whether companies should be required to select relevant indicators together with their investors and other stakeholders and to disclose information according to such indicators, depending on the use that different stakeholders would make of such information.

We would stress the importance of creating a principles-based approach. In the process of creating this, we believe that it may be appropriate for the Commission to make reference to existing international frameworks, but without fully endorsing them. In addition, we believe that a comply and explain approach should be adopted for any non-financial disclosure.

7. In your opinion, should companies be required to disclose the steps they take to fulfil the corporate responsibility to respect human rights?

Yes
No
No opinion

Please explain.

We do not believe that *all* companies should be required to disclose the steps they take to fulfil corporate responsibility to respect human rights. Instead we would expect companies to which this is a material risk to disclose this information and the steps they take to prevent human rights abuse. Disclosure should happen for those companies that this is a material risk, rather than across the board, and so do not believe that it should be a mandatory requirement.

8. In your opinion, should companies be required to disclose the risks they face and the policies they have in the field of corruption and bribery?

Yes
No
No opinion

Please explain.

Similar to our response to Question 7, we would not favour a mandatory approach to requiring the disclosure of this information. Instead, those companies to which this is a material risk should disclose this information.

9. In your opinion, what companies should be required to disclose non-financial information (check only one box)?

Large listed companies

Large companies (listed and non-listed)

Medium-sized & Large listed companies

Medium-sized & Large companies (listed and non-listed)

All listed companies (Small, Medium & Large)

All listed & non-listed companies (Small, Medium & Large)

None

Other

Please explain.

As noted in our responses to the questions above, we do not believe a mandatory regime should be adopted and would promote more of a comply or explain regime. Moreover, it is difficult to answer this question as there is not much explanation or analysis in this paper in terms of where and how this information should be disclosed, which makes it difficult to answer to whom 'disclosure' should apply.

10. In your opinion, should institutional investors be subject to specific or additional disclosure requirements, for example to disclose whether and how they take into account environmental and social issues in their investment decisions?

Yes

No

No opinion

Please explain. In replying to this question, please provide information on which issues seem to be the most relevant and why; and which institutional investors should be subject to such an obligation.

11. In your opinion, should European policy promote the concept of "integrated reporting"? Integrated reporting refers to a report that integrates the company's key financial and non-financial information to show the relationship between financial and non-financial performance (environmental, social, and governance).

Yes

No

No opinion

Please explain. In replying to this question, please indicate the advantages and disadvantages of an integrated report, as well as possible specific costs of integrated reporting.

12. In your opinion, should disclosed non-financial information be audited by external auditors?

Yes

No

No opinion

Please explain. In replying to this question please provide any evidence you may have regarding costs of auditing non-financial information, as well as your views on other possible forms of independent reviews besides external auditing.

While we view the auditing of non-financial information as positive, we would not favour a mandatory requirement for this information to be audited. We believe that this would be costly and could lead to less meaningful disclosures on non-financial information as the practice of audit could cause them to become standardised.

Furthermore, we believe that the audit of non-financial information requires a different skill set in social and environmental areas that are not currently developed in most audit firms. Requiring an auditor to review companies' non-financial disclosure could lead to encouraging the predominance of the big four audit firms and diminish competition in the audit arena.

If you would like to discuss any of these issues further, we would be happy to attend a meeting.

Yours faithfully,

A handwritten signature in black ink, appearing to read 'TWL', is centered on a light blue rectangular background.

Tim Ward
Chief Executive

QCA CORPORATE GOVERNANCE COMMITTEE

Tim Goodman (Chairman)	-	Hermes Equity Ownership Services Ltd
Eugenia Jackson	-	F & C Asset Management
Edward Beale	-	City Group plc
Tim Bird/Edward Craft	-	Wedlake Bell LLP
Nigel Burton	-	Petrosaudi Oil Services
Anthony Carey	-	Mazars LLP
Louis Cooper	-	Crowe Clark Whitehill LLP
Madeleine Cordes	-	Capita Registrars Ltd
Clive Garston	-	Davies Arnold Cooper LLP
Nick Graves	-	Burges Salmon LLP
Dalia Joseph	-	Oriel Securities
Georgina Marshall	-	Aviva Investors
Cliff Weight	-	MM & K Ltd
Andrew Viner	-	BDO LLP
Melanie Wadsworth	-	Faegre & Benson LLP
Tim Ward	-	The Quoted Companies Alliance
Kate Jalbert	-	The Quoted Companies Alliance

THE QUOTED COMPANIES ALLIANCE FINANCIAL REPORTING COMMITTEE

Anthony Carey (Chairman)	-	Mazars LLP
Anthony Appleton/Nicole Kissun	-	PKF LLP
Peter Chidgey	-	BDO LLP
Sarah Cox	-	Ernst & Young LLP
Ian Davies	-	Victoria plc
David Gray	-	DHG Management
Paul Watts/Bill Farren	-	Baker Tilly LLP
Nick Winters/James Lole	-	RSM Tenon Group PLC
Matthew Stellabrax	-	Crowe Clark Whitehill LLP

Tim Ward	-	The Quoted Companies Alliance
Kate Jalbert	-	The Quoted Companies Alliance

THE QUOTED COMPANIES ALLIANCE (QCA)

A not-for-profit organisation funded by its membership, the QCA represents the interests of small and mid-cap quoted companies, their advisors and investors. It was founded in 1992, originally known as CISCO.

The QCA is governed by an elected Executive Committee, and undertakes its work through a number of highly focussed, multi-disciplinary committees and working groups of members who concentrate on specific areas of concern, in particular:

- taxation
- legislation affecting small and mid-cap quoted companies
- corporate governance
- employee share schemes
- trading, settlement and custody of shares
- structure and regulation of stock markets for small and mid-cap quoted companies; Financial Services Authority (FSA) consultations
- political liaison – briefing and influencing Westminster and Whitehall, the City and Brussels
- accounting standards proposals from various standard-setters

The QCA is a founder member of **EuropeanIssuers**, which represents quoted companies in fourteen European countries.

QCA's Aims and Objectives

The QCA works for small and mid-cap quoted companies in the United Kingdom and Europe to promote and maintain vibrant, healthy and liquid capital markets. Its principal objectives are:

Lobbying the Government, Brussels and other regulators to reduce the costing and time consuming burden of regulation, which falls disproportionately on smaller quoted companies

Promoting the smaller quoted company sector and taking steps to increase investor interest and improve shareholder liquidity for companies in it.

Educating companies in the sector about best practice in areas such as corporate governance and investor relations.

Providing a forum for small and mid-cap quoted company directors to network and discuss solutions to topical issues with their peer group, sector professionals and influential City figures.

Small and mid-cap quoted companies' contribute considerably to the UK economy:

- There are approximately 2,000 small and mid-cap quoted companies
- They represent around 85% of all quoted companies in the UK
- They employ approximately 1 million people, representing around 4% of total private sector employment
- Every 5% growth in the small and mid-cap quoted company sector could reduce UK unemployment by a further 50,000
- They generate:
 - corporation tax payable of £560 million per annum
 - income tax paid of £3 billion per annum
 - social security paid (employers' NIC) of £3 billion per annum
 - employees' national insurance contribution paid of £2 billion per annum

The tax figures exclude business rates, VAT and other indirect taxes.