

Catherine Woods
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11 December 2015

Dear Ms Woods,

Enhancing confidence in Audit: Proposed revisions to the Ethical Standard, Auditing Standards, UK Corporate Governance Code and Guidance on Audit Committees

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 Group has examined your proposals and advised on this response. A list of members of the Expert Group is at Appendix A.

Response

We welcome the opportunity to respond to this consultation. We note that we are also responding to the BIS consultation on the technical legislative implementation of the EU Audit Directive and Regulation and that we welcome the important approach taken by BIS not to extend the definition of Public Interest Entity (PIE) to AIM companies.

We believe that the FRC's approach taken since the previous consultation is generally welcome and positive for small and mid-size companies. Notwithstanding, we believe that there are some points that would need clarification and which we have addressed in more detail below:

1. Listed entity definition

We welcome the more proportionate application of listed requirements set out in the FRC Ethical Standard for smaller listed entities for non-audit services of non-PIE companies below £100m market capitalisation. The £100m threshold is a familiar concept which may work in terms of practicalities and should be in line with the value used for Audit Quality Review. We believe that this will support improvements in the quality of reporting by AIM companies which will not be affected by the rules for non-audit services.

We note that it would be important to provide more clarity to companies on how these new rules will be applicable to them, particularly clarifying the differences in the application of the rules between listed entities and the definition. More specifically, we highlight that there could be uncertainty related to which entities “are technically listed, but which are not in substance freely transferrable or tradeable” (p 7) or “not in substance open to trading by members of the public” (p 13).

We believe that it would be important for our members, small and mid-size quoted companies, to be able to identify clearly if they are listed entities or if they can benefit from the £100 million market cap exemption.

Likewise, we believe that it is of crucial importance for small and mid-size quoted companies to set out clearly how the £100 million threshold will be assessed and the average calculated in practice. Again, it should be made clear whether companies benefit from the application of the proposed reliefs, particularly in the situation where a company exceeds temporarily the threshold. Any further guidance in this regard would be very welcome.

Finally, the FRC should provide more clarity on how the listed entity definition proposed by the FRC relates to the IESBA definition (pp 6-7).

2. Audit committee impact and changes to the UK Corporate Governance Code

We generally believe that the revision of the Audit Committee Guidance seems sensible and should not have a significant impact on our members, small and mid-size quoted companies. Likewise, the changes to the UK Corporate Governance Code are also welcome.

3. Wording of the Revised Ethical Standard

We note that the revised text of the Ethical Standard has now replaced the words ‘immaterial’ with ‘clearly inconsequential’, ‘trivial’ or ‘trivial or inconsequential’. We believe that these terms should be clarified as no guidance has been issued on their meanings.

4. Provision of tax services on a contingent fee basis

We query the rationale behind the prohibition proposed by the FRC in respect of the provision of tax services on a contingent fee basis, as this could be an option for our members which is now removed.

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
Anna Draper	BDO LLP
Amy Shephard	Deloitte LLP
Shalini Kashyap	EY
Neil Armstrong	Frontier Developments PLC
Gary Jones	Grant Thornton UK LLP
Anthony Carey	Mazars LLP
Nigel Smethers	One Media iP Group PLC
Joseph Archer	PKF Littlejohn LLP
Jonathan Lowe	RSM
Andrew Westbrook	
Donna Caira	Saffery Champness
Matthew Howells	Smith & Williamson LLP
Jack Easton	UHY Hacker Young
Ian Davies	Vislink PLC
Edward Beale	Western Selection Plc

Quoted Companies Alliance Corporate Governance Expert Group

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Colin Jones (Deputy Chairman)	UHY Hacker Young
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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
Tracy Gordon	Deloitte LLP
Natalie Bell	EY
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Bruce Duguid	Hermes Equity Ownership Services
Julie Stanbrook	Hogan Lovells International LLP
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Darshan Patel	Hybridan LLP
Niall Pearson	
James Hodges	Hydrodec Group PLC
Peter Swabey	ICSA
Jayne Meacham	Jordans Limited
Carmen Stevens	
Eric Dodd	KBC Advanced Technologies PLC
Darius Lewington	LexisNexis
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Anthony Carey	Mazars LLP
Mebbs Dossa	McguireWoods
Peter Fitzwilliam	The Mission Marketing Group PLC
Cliff Weight	MM & K Limited
Caroline Newsholme	Nabarro LLP
Jo Chattle	Norton Rose Fulbright LLP
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Kate Elsdon	PricewaterhouseCoopers LLP
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Priyanka Vijay Anand	
Kevin Kissane	Vernalis PLC
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