



**The Quoted  
Companies Alliance**

IFRS Foundation  
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8 March 2011

Dear Sirs,

## **IFRS Foundation – Status of the Trustee’s Strategy Review**

### **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.

The QCA Financial Reporting Committee has 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 find below our responses to the consultation questions:

#### **Mission: How should the organisation best define the public interest to which it is committed?**

*1. The current Constitution states, “These standards [IFRSs] should require high quality, transparent and comparable information in financial statements and other financial reporting to help investors, other participants in the world’s capital markets and other users of financial information make economic decisions.” Should this objective be subject to revision?*

We believe the objective of reporting standards as stated remains the appropriate one. It would be helpful though for a specific reference to be made to their role in assessing the stewardship of the business. We would therefore state that IFRS should ‘require high quality, transparent and comparable information in financial statements and other financial reporting to help investors, other participants in the world’s capital markets and other users of financial information make economic decisions *including those related to making an assessment of the stewardship of the business*’ (our suggested amendment is in italics).

*2. The financial crisis has raised questions among policymakers and other stakeholders regarding the interaction between financial reporting standards and other public policy concerns, particularly financial stability requirements. To what extent can and should the two perspectives be reconciled?*

It may well be appropriate to provide information in the notes to the financial statements or in other parts of the annual report on matters related to financial stability in so far as they affect the financial institution in question, as such information is likely to be important in understanding the context in which the institution operates. Financial stability requirements should not, however, determine the basis on which general purpose primary financial statements are prepared as they are constructed for a vitally important but very specific purpose. Ultimately transparency in financial reporting aimed at

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meeting the needs of investors in particular should take priority over addressing specific financial stability requirements.

**Governance: how should the organisation best balance independence with accountability?**

*3. The current governance of the IFRS Foundation is organised into three major tiers: the Monitoring Board, IFRS Foundation Trustees, and the IASB (and IFRS Foundation Secretariat). Does this three-tier structure remain appropriate?*

On balance, we are supportive of the three-tier structure. We believe it is essential that the IASB be able to make its decisions on the development of what it believes to be the best accounting standards free of political pressure. The three tier structure enables the Monitoring Board to be specifically focused on matters, such as the political legitimacy of the standard-setting process, whilst the Trustees can consider the views of the Monitoring Board and liaise with it, as well as dealing with the general management of the IASB and the IFRS Foundation.

*4. Some stakeholders have raised concerns about the lack of formal political endorsement of the Monitoring Board arrangement and about continued insufficient public accountability associated with a private-sector Trustee body being the primary governance body. Are further steps required to bolster the legitimacy of the governance arrangements (including in the areas of representation of and linkages to public authorities)?*

We recognise that however constructed there is likely to be an element of pragmatism in the governance procedures of the IFRS Foundation and the Monitoring Board given that the use of IFRS is not mandated by international treaties between governments. In view of the widespread adoption of IFRS around the world, this does not seem to be a major obstacle in practice. We are supportive of the Monitoring Board, among others, being consulted on key appointments to the IFRS Foundation and IASB, such as the chairman of each organisation.

**Process: how should the organisation best ensure that its standards are high quality, meet the requirements of a well functioning capital market and are implemented consistently across the world?**

*5. Is the standard-setting process currently in place structured in such a way to ensure the quality of the standards and appropriate priorities for the IASB work programme?*

We are not satisfied that the current structure of IASB is the most appropriate one for the setting of standards. We believe the requirement that the vast majority of board members be full time has, for example, had the effect that a number of the members of the IASB have not been directly involved in the business and financial communities for many years. We believe it is essential that most of the IASB members have current or, at least, very recent experience of relevant business or financial markets and that this would best be achieved by having far more part-time board members.

We also consider that greater representation is needed from those with experience as preparers or investors in smaller quoted companies. There is a vast difference in the size, nature of businesses of and resources available to smaller quoted companies compared to their global counterparts and better account needs to be taken of this in the setting of accounting standards. IFRS currently appear to be drafted solely from the perspective of global listed companies. Greater consideration needs to be given to making the requirements for smaller quoted companies proportionate to the size of the business. This could be achieved, for example, through proportionate requirements in individual standards, especially those related to disclosure, greater consideration of the application of the materiality, or by their being able to use the IFRS for SMEs standard. Another approach would be to set out the nature of information that is generally helpful on a given issue, leaving the preparers to decide on relevant disclosures that best take account of their specific circumstances - ie a principles rather than a rules based approach to disclosure. A specific project is needed on the application of IFRS by smaller quoted companies and the Quoted Companies Alliance would be pleased to work with the IFRS Foundation/IASB on such an initiative. It should be recognised for smaller quoted companies, by any definition, represent the vast majority by number of quoted companies.

Greater attention also needs to be paid to the financial statements overall and to the broader issue of communicating relevant and reliable financial and non-financial information on the performance, position and prospects of the business. At present the IASB's emphasis is on the drafting of individual standards. More emphasis, by contrast, needs to be given to their application and whether that is resulting in the best reflection of economic reality that is possible - over theoretical approaches to measurement in the standards. Proposed standards do not always seem to achieve this goal in practice and also lead to excessive costs of preparation, particularly for smaller quoted companies. In addition, a stronger focus is needed on seeing the financial statements as an important means of communication with the markets and others, which goes beyond just providing the required information without regard to the way in which it is presented.

*6. Will the IASB need to pay greater attention to issues related to the consistent application and implementation issues as the standards are adopted and implemented on a global basis?*

We believe greater attention does need to be paid to the implementation of IFRS but with particular reference to which information being provided is being used by investors and others. This will enable unnecessary disclosure requirements, ie those where the costs of providing them outweighs the benefits in practice to the users, to be removed enabling financial statements to be more concise and hence more readable.

We would have reservations with the IASB being responsible for the implementation of its own standards. But we do believe that there would be merits in there being a high level of cooperation between the IASB and those undertaking this role.

**Financing: how should the organisation best ensure forms of financing that permit it to operate effectively and efficiently?**

*7. Is there a way, possibly as part of a governance reform, to ensure more automaticity of financing?*

We believe it is important that the IFRS Foundation has broad-based sources of funding and that it not be, or perceived to be, dependant on any grouping which may have vested interests in the process other than those geared towards the achievement of the stated objectives.

#### **Other issues**

*8. Are there any other issues that the Trustees should consider?*

As mentioned above in our response to Question 5, we view it as vitally important that the IASB and IFRS Foundation take into consideration the nature of smaller quoted companies in the standard-setting process. A proportionate approach to standard-setting should be specifically acknowledged by the IFRS Foundation's in its strategy review.

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

Yours faithfully,



Tim Ward  
Chief Executive

## THE QUOTED COMPANIES ALLIANCE FINANCIAL REPORTING COMMITTEE

Anthony Carey (Chairman)	-	Mazars LLP
Anthony Appleton	-	PKF
Peter Chidgey	-	BDO LLP
Sarah Cox	-	Ernst & Young LLP
Ian Davies	-	Victoria plc
David Gray	-	DHG Management
Chris Smith	-	Grant Thornton (UK) LLP
Matthew Stellabross	-	Crowe Clark Whitehill LLP
Paul Watts/Bill Farren	-	Baker Tilly LLP
Nick Winters/James Lole	-	RSM Tenon Group PLC
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; 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 European **Issuers**, 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.

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