



**The Quoted
Companies Alliance**

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Mr Tom Seidenstein
Chief Operating Officer
IFRS Foundation
30 Cannon Street
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Email: strategyreview-comm@ifrs.org

29 July 2011

Dear Mr Seidenstein,

IFRSs as the Global Standard: Setting a Strategy for the Foundation's Second Decade

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 Quoted Companies Alliance is a founder member of **EuropeanIssuers**, which represents over 9,000 quoted companies in fourteen European countries. A copy of the Corporate Reporting Charter developed by the Quoted Companies Alliance and **EuropeanIssuers** is attached.

The Quoted Companies Alliance's 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 and make the following comments:

'Ambition' of document very modest

Our overall view is that the 'ambition' of the document seems very modest in terms of its lack of in-depth discussion of how corporate reporting might change over the next ten years, the period covered by the document. This will shape the environment in which IFRS are set and have a significant influence on them. For example, there are active discussions at present on integrated reporting, which parts of the annual report should be subject to assurance and the form it should take, and, the need to avoid overburdening smaller companies, including smaller listed companies, with over-heavy regulation.

A1 Purpose of Financial Reporting Standards

We believe the strategy document should make clear that the purpose of financial reporting standards is to enable the preparation of high quality financial statements that show a true and fair view from a shareholders' perspective, in so doing portrays economic reality as faithfully as possible and enables shareholders to assess the board's stewardship of the company and to make economic decisions in relation to their holdings.

The above paragraph raises a number of important points. Firstly, it is vital that IASB focuses on the impact of the use of its standards on the overall quality of financial reporting. We consider too much emphasis has been placed on setting individual standards and not enough on taking a holistic look at the resultant effect of implementing those standards taken as a whole. There is significant concern in the marketplace that IFRS are unduly complex especially, not only with regards to smaller listed and exchange regulated companies, and that they lead to over long financial statements which sometimes obscure key messages in them.

The second point we would make is that IFRS should seek to ensure the financial statements show a true and fair view. This term, and its translation in other languages, is well understood, more widely recognised, and perhaps stronger in substance, than terms such as providing 'a faithful representation'. The importance of financial statements providing a true and fair view of performance and position, without qualification as to the accounting convention under which they are prepared, cannot be overstated.

We note the reference to standards serving investors and other market participants. Further exploration is needed of how the needs of potential investors and other market participants might differ from those of current investors. The term 'other market' participants' is also unduly vague and needs to be clarified.

We continue to believe that assessing how stewardship has been exercised is one of the fundamental uses of financial statements.

A focus on proportionality

We would strongly emphasise the role of proportionality in setting reporting standards. IASB should not adopt a 'one size fits all' approach but should recognise the different needs, for example, of shareholders in smaller listed and quoted companies compared to their global counterparts, not least due to the different sizes of the respective companies with smaller listed/quoted having a market capitalisation that may be less than 1% of their global counterparts. There should be appropriate segmentation, for instance, when cost/benefit analyses are undertaken prior to a standard being set and when post-implementation reviews are being carried out.

Effective representation from smaller listed/quoted companies

The document seems silent on how the Foundation will ensure a balanced IASB with representation from its various constituencies. We believe it needs to enhance representation

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from those with current or recent marketplace experience and that in the first decade it has drawn too high a proportion of members from full time national standard-setters with the result that many board members have not been active market participants for a prolonged period. We also believe far greater effort is needed to increase the involvement of those drawn from smaller listed/other quoted companies.

Improved listening

There is a general perception that IASB could strengthen its listening skills and be more responsive to comments made during consultations or at other stages of the development process.

Broader aspects of reporting

It is unclear from the document how IASB sees its role emerging with regards to narrative reporting, or the wider ranging integrated reporting, an ever increasing element of the overall corporate reporting package. Moreover, whilst reference is made to the specific issue of XBRL, there is an absence of discussion of the impact of technology on standard-setting, for example in determining which information should be regarded as core information to be sent to shareholders and which additional disclosures should be available primarily from the company's website. It would also help to consider issues related to the frequency of reporting bearing in mind that with modern technology different aspects could be reported at different times. We believe the above are significant omissions and, whilst recognising that it may be felt that they are more the responsibility of IASB than the Foundation, we believe it is important to consider the boundaries between the two bodies in order to ensure there is effective oversight of IASB and that no areas fall 'between the gaps'.

Finances

We are very surprised by the suggestion that the finances may need to increase from £26m to £40-45m, a rise of more than 50% and think those contributing are likely to want greater assurance on value for money before committing to such an increase. Generalised statements that the Foundation's costs are relatively modest for an international organisation will need to be supported by more specific cost/benefit analysis relating to proposed increases in expenditure.

Conclusion

If you would like to discuss further any of the comments in this letter please do not hesitate to contact us.

Yours sincerely,



Tim Ward
Chief Executive

THE QUOTED COMPANIES ALLIANCE FINANCIAL REPORTING COMMITTEE

Anthony Carey (Chairman)*	-	Mazars LLP
Anthony Appleton	-	PKF LLP
Peter Chidgey	-	BDO LLP
Ian Davies	-	Victoria plc
Jack Easton	-	UHY Hacker Young
Jonathan Ford	-	PricewaterhouseCoopers LLP
David Gray	-	DHG Management
Shalini Prasad	-	Ernst & Young LLP
Kern Roberts	-	Smith & Williamson
Chris Smith	-	Grant Thornton LLP
Ian Smith/Bill Farren	-	Deloitte LLP
Matthew Stallabrass	-	Crowe Clark Whitehill LLP
Paul Watts	-	Baker Tilly
Nick Winters/James Lole	-	RSM Tenon Group PLC
Tim Ward	-	The Quoted Companies Alliance
Kate Jalbert	-	The Quoted Companies Alliance

*Main Author

THE QUOTED COMPANIES ALLIANCE

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

The Quoted Companies Alliance 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 Quoted Companies Alliance is a founder member of EuropeanIssuers, which represents quoted companies in fourteen European countries.

The Quoted Companies Alliance's Aims and Objectives

The Quoted Companies Alliance 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.

For more information contact:

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