

Financial Reporting Council
8th Floor
125 London Wall
London
EC2Y 5AS

Direct line +44 (0) 207 063 4448
Email andrew.goldsworthy@mazars.co.uk

For the attention of p.fitz-gerald@frc.org.uk or
a.colban@frc.org.uk

29 July 2015

Dear Sirs,

FRC: Improving the Quality of Reporting by Smaller Listed and AIM Quoted Companies

Introduction

Mazars, the integrated international accountancy, auditing and advisory organisation with more than 15,000 professionals in 73 countries, welcomes the opportunity to provide comments on the FRC's discussion paper issued in June 2015 and titled *Improving the Quality of Reporting by Smaller Listed and AIM Quoted Companies*.

Overall comments

1. The discussion paper

We are very supportive of the FRC's initiative to improve the quality of reporting by smaller listed and AIM quoted companies.

We broadly agree with the findings on the quality of reporting, but consider it critical that solutions to the issues identified are both proportionate and practical, so that unnecessary burdens are not placed on these companies.

We recognise the importance of our roles as auditors with regard to improving the quality of reporting. Our commitment to quality is embodied in our Code of Conduct, which places quality at the top of our agenda and our clients at the heart of our business.

2. 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?

Mazars LLP - Tower Bridge House - St Katharine's Way - London - E1W 1DD
Tel: +44 (0)20 7063 4000 - Fax: +44 (0)20 7063 4001 - www.mazars.co.uk

Mazars LLP is the UK firm of Mazars, an integrated international advisory and accountancy organisation. Mazars LLP is a limited liability partnership registered in England and Wales with registered number OC308299 and with its registered office at Tower Bridge House, St Katharine's Way, London E1W 1DD.

Registered to carry on audit work in the UK and Ireland by the Institute of Chartered Accountants in England and Wales. Details about our audit registration can be viewed at www.auditregister.org.uk under reference number C001139861.

VAT number: 839 8356 73



We agree that the quality of reporting has an important role to play in attracting investors, which, in turn impacts a company's access to, and cost of, capital, but we also recognise that smaller quoted companies face many other challenges as a result of their listing or fulfilling their ongoing requirements of being listed. Challenges facing smaller listed and AIM quoted companies with regard to improving quality of annual reports include:

- a) keeping up-to-date with new requirements in International Financial Reporting Standards ("IFRS");
- b) adopting best practice requirements; and
- c) adopting clear and concise reporting.

Meeting these reporting challenges requires smaller listed and AIM quoted companies to have sufficient resources, appropriate skills and suitable guidance or professional support.

Our experience with clients supports the findings that the areas of investor focus are also the ones that present the greatest challenge, with such areas including disclosure of business model, principal risks and uncertainties, disclosure of accounting judgements and estimates, and disclosure of key accounting policies.

As auditors we seek to address these key areas in our audit processes, in particular through the importance we place on communication with management and those charged with governance and our quality control processes, which ensure that we support our audit clients in improving their quality of reporting.

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?

Communications with investors

We support the FRC's proposals concerning communications with investors and would encourage communication between smaller listed and AIM quoted companies and investors. In particular we believe the FRC can play a key role in setting out principal areas of focus for investors and suggestions for improvements.

We also consider it is important to consider and support smaller quoted companies in initiatives concerning the quality of reporting, as the FRC's Financial Reporting Lab has been seeking to do on its projects, as it is important to understand issues specific to such companies.

Resourcing

We consider that a constraint of skilled resources at smaller quoted companies is often the key barrier to quality in reporting. We consider that CPD plays a vital role in ensuring finance teams are technically able and up-to-date, but also believe that the judgement of the individual should be a primary guide in determining their CPD requirements.

AIM Companies

At this stage we consider that it would not be advisable to make application of a Corporate Governance Code mandatory for AIM quoted companies, and, in communicating the importance placed by investors on quality of reporting, we would refer AIM quoted companies to the QCA's Corporate Governance Code for Small and Mid-Size Quoted Companies 2013 as an example of a Corporate Governance Code designed for such companies.

However, we would be supportive of adopting the extended auditor report for AIM companies. Whilst we acknowledge that this may take additional time and consideration we believe that this gives greater transparency to the role of the auditor and risk reporting. Given our experience obtained to date we consider the benefits of using the extended audit report would outweigh associated costs and improve the quality of reporting.

Corporate Governance

We also acknowledge the key role that boards and audit committees have to play in the annual report preparation process. In this respect, we welcomed the FRC's publication of a practice aid for audit committees to evaluate the effectiveness of their auditors and would welcome further practical guidance for audit committees and boards of smaller quoted companies on evaluating the adequacy of a company's financial reporting function and process. We would also support the development of practical guidance tailored to the needs of smaller quoted companies on how they can enhance the content and readability of their annual reports.

We recommend the FRC firstly considers information already publicly available, for example, on changes to standards and other requirements, and then assesses the usefulness of providing such information to boards and audit committees of smaller quoted companies.

Consistent Financial Reporting Framework

We agree that, in order to maintain consistency and comparability, IFRS should remain the reporting framework for all listed companies. However, as discussed below, we consider changes are needed within 'full' IFRS to make them 'fit for purpose' in the case of smaller quoted companies.

We are of the view that the FRC should continue working closely with the IASB and other standard-setters to ensure that the UK has significant influence over the development of IFRS to ensure that it is proportionate and relevant to all companies, including smaller quoted companies.

Consistency and comparability of the annual report

We agree with the importance of highlighting existing guidance on consistency and comparability of the annual report and would suggest that there is a place here for guidance specifically aimed at smaller quoted companies.

We are of the view that the FRC should be working in conjunction with ESMA and other regulators to ensure that the UK has significant influence over the development of guidance on the annual report.

Application of materiality and disclosures

We recognise that there have been a number of recent initiatives on the application of materiality in financial statements, which has resulted in welcome guidance.

We support the exploration of the development of a differentiated disclosure framework for smaller quoted companies, particularly in the light of the reduced disclosures frameworks recently introduced into UK GAAP. However, in our view, in order to maintain consistency and comparability, no changes should be made to the recognition and measurement requirements of the reporting framework.

We believe that disclosure requirements should not be the same for all entities. In particular the level of disclosure should depend on business size, complexity and primary users of the financial information.

In this regard we would welcome specific consideration of smaller listed and AIM quoted companies in the FRC's Clear & Concise reporting initiative.

Role of the Auditor

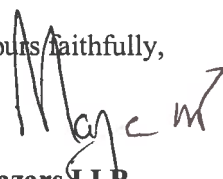
We consider that part of the role of an auditor is to challenge clients on the quality of their financial reporting while at the same time supporting them to ensure that their annual reports are prepared to a high standard. However, we do believe it would be helpful for the FRC to review the ethical standards as they apply to smaller quoted companies to consider whether they are proportionate with regards to the types of advice which it is acceptable for the auditor to provide, and whether any changes or further clarification would be helpful.

More generally, as discussed in our response letters to recent BIS and FRC consultations on implementing the new EU Audit Regulation and amended Directive, we consider the needs of smaller quoted companies should be properly considered when determining how to deal with Member State Options.

We are aware of the importance of our role in contributing to the quality of reporting of smaller quoted companies and welcome the FRC's initiative in improving the auditor's consideration of reporting matters.

If you would like to discuss our response with us please do not hesitate to contact Andrew Goldsworthy on 0207 063 4448.

Yours faithfully,


Mazars LLP