The Association of Investment Companies

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Improving the quality of reporting by smaller listed and AIM quoted companies

Submission from The Association of Investment Companies

The Association of Investment Companies (AIC) welcomes the opportunity to respond to the Financial Reporting Council's (FRC) discussion paper on improving the quality of reporting by smaller listed and AIM quoted companies.

The Association of Investment Companies (AIC) represents some 345 closed-ended investment companies with assets under management of over £120 billion. Investment companies have their shares admitted to trading on public stock markets. The AIC's members are predominantly listed on the Main Market of the London Stock Exchange. Some have shares admitted to trading on the Specialist Fund Market; others are quoted on AIM.

The AIC's members include UK investment trusts, Venture Capital Trusts, UK REITs and non-EU companies. Our non-EU members are primarily Channel Islands domiciled.

In response to the issues raised in the paper:

The FRC's discussion paper is a useful starting point for a debate on improving the quality of financial reporting for smaller listed and AIM quoted companies. The AIC agrees that a number of the proposals put forward by the FRC will help smaller listed and AIM quoted companies improve the quality of their financial reporting. For example, we welcome the FRC's intention to provide annual reminders setting out the key areas of focus for investors and highlighting common errors that it encounters in annual reports, along with making suggestions for improvements in these areas.

We have some more detailed comments on the ideas set out in the paper that raise concerns.

AIM Companies

AIM quoted companies are not required to report against the *UK Corporate Governance Code* (the UK Code). They are encouraged to develop strong governance procedures and encouraged to adhere to the *Quoted Company Alliance Corporate Governance Code* (the QCA Code). The QCA Code is based on the UK Code but specifically tailored to the needs of growth companies and their investors.

The AIC has also produced its own code, the *AIC's Code of Corporate Governance* (the AIC Code) which sets out a framework of best practice in respect of the governance of investment companies. This is supported by the *AIC's Corporate Governance Guide for investment companies* (the AIC Guide). These documents have been endorsed by the FRC as an alternative means for members to meet their obligations in relation to the UK Code. In practice, it is not just members with a Premium Listing that report against the AIC's Code, as many of our members see this model as setting out best practice for the sector.

It is important to retain the distinction between AIM companies and those on the Main Market of the London Stock Exchange. AIM provides a proportionate regime that encourages companies to take the step of having their shares admitted to trading. Investors are aware of the different standards that apply on AIM in comparison with a listing on the Main Market. The choice of trading venue determines the disclosure requirements applied to issuers. The market accepts that issuers of securities on AIM operate to different standards.

The AIC agrees that it is important to "*ensure that companies understand the importance of, and have appropriate financial reporting resources to meet, their ongoing reporting obligations on admission to AIM*". However, the AIC does not support introducing a mandatory corporate governance code for AIM companies. This would reduce the flexibility that the AIM regime currently offers.

The AIC **recommends** that companies continue to be encouraged to adhere to good corporate governance practices such as those set out in the QCA Code and AIC Code. The AIC considers that a new "AIM Code" is not required and **recommends** one is not introduced.

Additionally, AIM companies must retain the extended reporting periods for the production of their annual and half yearly reports. There are already regulatory obligations on the disclosure of inside information. Where there is sufficient shareholder demand for further information, companies can choose to publish additional material. For example, many investment companies issue a monthly factsheet. This is not a regulatory requirement. Instead it is a response to market demand. This allows investors to be informed without imposing burdensome regulation. The AIC is not aware of any investor demand for further regulatory requirements or for the current provisions to be amended.

Reducing the reporting period available for companies to produce reports would place an unnecessary burden on AIM companies. The AIC **recommends** that the current timetable is retained.

Corporate governance

The FRC has stated that it will encourage AIM companies "*to consider carefully the principles of accountability as set out in Section C of the [UK] Code.*" The principle point drawn out of the discussion paper is that a non-executive director with "*recent and relevant financial expertise could add significant value to the reporting process*" for these companies.

The QCA publishes an "*Audit committee guide for small and mid-size quoted companies*". This states that audit committees should "*ideally*" include members with "*recent and relevant financial experience*" along with a number of other attributes. The documents the QCA have published align with the ambitions of the UK Code but crucially are tailored for small and mid-sized quoted companies.

The AIC's Code covers the principles of accountability set out in Section C of the UK Code. The AIC's Guide sets out in more detail how this has been achieved as it demonstrates how the AIC Code translates each principle of the UK Code into principles and recommendations suitable to the industry's unique structure.

Whilst we support the FRC in encouraging AIM companies to improve the quality of reporting, we warn against an increase in regulatory burdens for these companies. The AIC **recommends** that no additional regulatory obligations be created in relation to this issue.

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To discuss the issues raised in this paper please contact:

Guy Rainbird, Public Affairs Director
guy.rainbird@theaic.co.uk, 020 7282 5553

Lisa Easton, Public Affairs Executive
lisa.easton@theaic.co.uk, 020 7282 5611