



**The Quoted
Companies Alliance**

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Melanie Kerr
Financial Reporting Council
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complexity@frc.org.uk

13 November 2009

Dear Ms. Kerr,

Financial Reporting Council Discussion Paper: Louder than Words

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 and a list of Committee members is at Appendix A.

RESPONSE

The Quoted Companies Alliance is pleased to present its comments on the above document.

Strong support for objectives of project

We strongly support the objectives of the project of developing principles and actions to make corporate reports less complex and more relevant. This is an important issue for smaller listed companies and those on the AIM and PLUS markets. The resources available to them to comply with the ever increasing burden of regulation is limited, and a significant proportion of compliance costs are relatively fixed in nature, i.e. not much more for a very large listed company with a market capitalisation of tens of billions of pounds than for a smaller listed or AIM company capitalised at just a fraction of that figure.

Support for principles

We fully support the four principles of targeted, proportionate, co-ordinated and clear regulation for corporate reporting.

General points on calls for action – Importance of international dimension and proper understanding of materiality

The overriding determinant of whether this initiative is successful as regards the reporting requirements facing quoted companies is whether the project wins the support of the International Accounting Standards Board (IASB) and the European Commission (EC), particularly with respect in the latter case to the IFRS endorsement process and also with general accounting and other reporting requirements set out in relevant Directives. Unless a plan is developed and vigorously implemented by the FRC to build up support in Europe and around the world in order to achieve these goals, its impact will be modest.

A critical area on which work is required internationally by the IASB, and in the UK by constituent bodies of the FRC, is in relation to how the concept of materiality can be applied to reduce the burden that complying with specified requirements would otherwise impose when the resultant figures are not material to a proper understanding of the financial statements.

The way in which the ASB's initiative on the future of UK GAAP emerges will also have a significant bearing on whether reporting becomes less complex and more relevant in the coming years; but, we recognise that this is the subject of a separate consultation.

We have also expressed the view for some time now that we believe the disclosures expected of listed companies under the Combined Code on Corporate Governance could be expressed in a simpler way and one which would lead to enhanced insights into how boards are running the companies of which they are stewards.

Call for action one – Improve cash flow and net debt reporting

This call for action is reasonable, but will need the support of the IASB to have a meaningful impact for quoted companies.

Call for action two – Ensure disclosure requirements are relevant and proportionate to the risks

As recognised in the consultation document, this project will also need the support of the IASB and EC if it is to lead to practical change for quoted companies.

Call for action three – Ensure requirements for wholly-owned subsidiaries' reporting are targeted and proportionate

This is an important initiative which could lead to significant cost savings and involves consideration of accounting and legal issues. The FRC seems well placed to lead it.

Call for action four – Improve usability of IFRS

We are less convinced of the urgency of this project. Firstly, users of IFRS are now relatively used to where to find particular pronouncements. The change suggested will involve costs in getting to know the new structure and such a reordering is bound to lead to subtle changes in the wording of standards, which would impose further costs. There is also a risk that it will detract attention from the more valuable project called for in action two. New IFRS and revisions to existing IFRS need to be drawn up with this objective in mind.

Call for action five – Cut clutter

We support this call for action. As implied above in our comments on materiality, we believe standard-setters have a vital role to play, as well as the wider community of users, preparers, auditors, accountancy bodies and auditing regulators, in cutting immaterial disclosures.

Opportunities for further action

Some of the projects listed here are among the main issues that need to be addressed if complexity is to be significantly reduced in financial reporting. We would particularly highlight the importance of taking a fresh look from a complexity perspective at certain IFRS (e.g. acquisition accounting, embedded derivatives, financial instruments generally (including fair value aspects), hedge accounting, segmental reporting and share-based payments), and simplifying procedures for communicating electronically with shareholders. It would also be helpful to review remuneration reporting requirements to see if they can be streamlined.

If you wish to discuss any of these issues with us, we will be pleased to attend a meeting.

Yours sincerely,

A handwritten signature in dark ink, appearing to read 'TDZL', is written over a light blue rectangular background.

Tim Ward
Chief Executive

THE QUOTED COMPANIES ALLIANCE FINANCIAL REPORTING COMMITTEE

Anthony Carey (Chairman)*	-	Mazars LLP
Peter Chidgey	-	BDO Stoy Hayward LLP
Sarah Cox	-	Ernst & Young LLP
David Gray	-	DHG Management
Shane Horsell	-	Ultimate Finance plc
Chris Ogle	-	SQC Consultant
Paul Watts/Bill Farren	-	Baker Tilly LLP
Nick Winters/James Lole	-	Vantis plc
Tim Ward	-	The Quoted Companies Alliance
Kate Jalbert	-	The Quoted Companies Alliance

*Main Author

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; Financial Services Authority (FSA) consultations
- 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.

For more information contact:

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