

Policy and Planning Officer
Financial Reporting Council
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12 February 2016

Dear Sirs,

Draft Plan & Budget and Levy Proposals 2016/17

Introduction

We are the Quoted Companies Alliance, the independent membership organisation that champions the interests of small to mid-size 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.

The Quoted Companies Alliance Corporate Governance and Financial Reporting Expert Groups have examined your proposals and advised on this response. A list of members of the Expert Groups is at Appendix A.

Response

We welcome the opportunity to respond to the Financial Reporting Council (FRC) Draft Plan & Budget Levy Proposals 2016/17.

We generally support the key priorities announced, particularly regarding the focus given to promoting corporate culture and effective engagement between boards and investors. We are delighted to be cooperating with the FRC on its Culture Project to seek to identify and promote good practice while understanding the board's influence on corporate culture.

We also particularly welcome the FRC's commitment to helping smaller listed and AIM companies with the quality of their reporting. We believe that the FRC's ongoing work on its project to improve the Quality of Reporting by Smaller Listed and AIM Quoted Companies is an important and timely intervention to raise awareness of the challenges faced by small and mid-size quoted companies and encourage collaboration through a coherent and comprehensive response by all the parties involved, and we welcome the opportunity to continue to engage with the FRC in addressing the identified challenges and implementing some of the proposals made by the discussion paper published last year.

The Quoted Companies Alliance is the independent membership organisation that champions the interests of small to mid-size quoted companies.

We note that the FRC should make reference to the Quoted Companies Alliance Corporate Governance Code for Small and Mid-Size Quoted Companies ('QCA Code' – most recent edition May 2013). We believe that the QCA Code should continue to be promoted by the FRC, in conjunction with the UK Code, as it has become a valuable reference for smaller companies wishing to follow outcome-orientated, good governance examples.

We have responded below in more detail to the questions most likely to affect our members, small and mid-size quoted companies.

Responses to specific questions

Q1 Do you have any comments on the regulatory approach we are proposing for our new three year strategy?

We support the FRC's intention to avoid making further changes to the UK Corporate Governance Code in the next three years and to monitor the application of the codes and standards ahead of making any changes. However, it is not entirely clear how the FRC plans to monitor the quality of corporate reporting. It is important to understand if the FRC will measure the quality of the corporate governance arrangements or only the compliance with the necessary corporate governance disclosures, and we urge the FRC to clarify this in its final Plan & Budget.

In addition, we note the FRC's plan to "seek opportunities to remove or reduce burdens". We are concerned that this intention may not translate into actions to actively remove burdens, particularly for smaller companies, as this is not explicitly referenced throughout the text. We urge the FRC to actively consider how to remove unnecessary burdens for companies and remove goldplating of EU legislation.

Q2 Are there areas of our work where we could reduce the regulatory costs we impose without compromising the quality of corporate governance and reporting in the UK?

We would encourage the FRC to review its regulatory requirements and remove any enhancements that are not justified by a clear cost-benefit analysis. We would also encourage the FRC to consider modernising some of its reporting requirements to provide companies with greater flexibility (e.g. allowing companies to report on many corporate governance arrangements via their websites as opposed to inclusion in the annual report). In our opinion, flexibility would not detract from the quality of reporting but could help reduce costs.

Q3 Do you have any comments on the FRC's proposed projects and activities in 2016/17?

Regarding the proposed activities in terms of corporate governance, we particularly welcome the FRC's proposed focus on corporate culture and effective engagement between boards and investors. We are delighted to be cooperating with the FRC on its Culture Project to seek to identify and promote good practice while understanding the board's influence on corporate culture.

However, we are concerned that the FRC does not mention smaller companies in its proposed priorities regarding corporate governance. Companies should be aware that there are good governance arrangements that are adequate for growing companies. In this regard, we believe that the FRC should make reference to the Quoted Companies Alliance Corporate Governance Code for Small and Mid-Size Quoted Companies ('QCA Code' – most recent edition May 2013). The QCA Code should continue to be

promoted by the FRC, in conjunction with the UK Code, as it has become a valuable reference for smaller companies wishing to follow outcome-orientated, good governance examples.

Regarding Corporate Reporting, we welcome the FRC's commitment to helping smaller listed and AIM companies with the quality of reporting. We believe that the FRC's project to improve the Quality of Reporting by Smaller Listed and AIM Quoted Companies is an important and timely intervention to raise awareness of the challenges faced by small and mid-size quoted companies and encourage collaboration through a coherent and comprehensive response by all the parties involved, and we welcome the opportunity to continue engaging with the FRC in addressing the identified challenges and implementing some of the proposals made by the discussion paper published last year.

We recently published the third QCA/UHY Hacker Young Corporate Governance Behaviour Review¹, which benchmarked the governance disclosures of a sample of 100 small and mid-size quoted companies against the QCA Code. The results of this review continue to indicate that small and mid-size quoted companies seem to struggle with:

- effectively linking governance with strategy in their annual report;
- ensuring their annual reports explain their governance arrangements clearly; and
- providing a clear narrative that highlights the year-on-year progression of governance structures.

We continue to believe that the FRC should not approach this issue as an enforcement activity, but should work with companies on this issue by identifying and informing them of what reporting problems exist and provide suggestions for improvement. It is vital that the FRC understands the challenges faced by small and mid-size quoted companies, especially in terms of the limited resource available to these companies to produce their annual reports and accounts. In this regard, we welcome FRC's renewed commitment to supporting the Financial Reporting Lab's work in promoting clear and concise reporting.

As many smaller companies face resource limitations, it is vital that the FRC conducts its work is undertaken with sensitivity and with the intention of supporting, encouraging and educating smaller companies to place greater focus on their governance arrangements. This is crucial to ensuring that this initiative reaches all companies.

Q4 Are the proposed indicators helpful in assessing progress towards the FRC's objectives; and are there other indicators that should also be taken into account?

We encourage the FRC to define quality and how it will be measured. A number of the indicators seem to seek to equate quality with compliance; whilst compliance is an important factor in assessing quality, there are other factors that should be considered. We are concerned that simply measuring compliance with Code principles does not adequately assess the quality of corporate governance arrangements in the UK.

Q5 Do you have any comments on our proposed budget for 2016/17?

We note the plans for the FRC to increase its level of reserves and the impact of this increase on the levies being raised. Whilst we understand the need for the FRC to maintain a level of reserves, past history does

¹ Available at:

http://www.theqca.com/article_assets/articledir_220/110271/QCAUHYCorporateGovernanceReview2015_Final.pdf

not suggest that the current levels of reserves are inadequate and hence we would not support the planned increase.

Q6 Do you have any comments on our proposed funding requirement for 2016/17?

See response to Q5 above.

Q7 Do you agree with our proposed levy rates for 2016/17?

Although we do not believe that levy rates would need to rise significantly, we welcome that smaller companies have been taken into consideration and that the increases in the minimum fee and levy rates for listed companies with a market capitalisation of less than £1bn will be limited to 2%. Thus, we welcome that any rises will be applied in a proportionate way, with small and mid-size quoted companies not bearing a disproportionate share of the increased cost.

If you would like to discuss our response in more detail, we would be happy to attend a meeting.

Yours faithfully,

A handwritten signature in blue ink, appearing to read 'TW', is positioned above the typed name and title.

Tim Ward

Chief Executive

Quoted Companies Alliance Financial Reporting Expert Group

Matthew Stallabross (Chairman)	Crowe Clark Whitehill LLP
Matthew Howells (Deputy Chairman)	Smith & Williamson LLP
Jonathan Compton	BDO LLP
Amy Shephard	Deloitte LLP
Shalini Kashyap	EY
Neil Armstrong	Frontier Developments PLC
Gary Jones	Grant Thornton UK LLP
Anthony Carey	Mazars LLP
Nigel Smethers	One Media iP Group PLC
Joseph Archer	PKF Littlejohn LLP
Jonathan Lowe	RSM
Andrew Westbrook	
Donna Caira	Saffery Champness
Jack Easton	UHY Hacker Young
Ian Davies	Vislink PLC
Edward Beale	Western Selection Plc

Quoted Companies Alliance Corporate Governance Expert Group

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Nick Janmohamed	Charles Russell Speechlys LLP
David Fuller	CLS Holdings PLC
Nicholas Stretch	CMS Cameron McKenna LLP
Louis Cooper	Crowe Clark Whitehill LLP
Nick Gibbon	DAC Beachcroft LLP
Tracy Gordon	Deloitte LLP
Natalie Bell	EY
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Melanie Wadsworth	Faegre Baker Daniels LLP
Rob Burdett	FIT Remuneration Consultants
Richie Clark	Fox Williams LLP
Michael Brown	Henderson Global Investors
Bruce Duguid	Hermes Equity Ownership Services
Julie Stanbrook	Hogan Lovells International LLP
Bernard Wall	
Darshan Patel	Hybridan LLP
Niall Pearson	
James Hodges	Hydrodec Group PLC
Peter Swabey	ICSA
Jayne Meacham	Jordans Limited
Carmen Stevens	
Eric Dodd	KBC Advanced Technologies PLC
Darius Lewington	LexisNexis
Jane Mayfield	
Anthony Carey	Mazars LLP
Peter Fitzwilliam	Mission Marketing Group (The) PLC
Cliff Weight	MM & K Limited
Caroline Newsholme	Nabarro LLP
Jo Chattle	Norton Rose Fulbright LLP
Julie Keefe	
Amanda Cantwell	Practical Law Company Limited
Kate Elsdon	PricewaterhouseCoopers LLP
Dalia Joseph	Stifel
Marc Marrero	
Philip Patterson	TMF Corporate Secretarial Services Ltd
Priyanka Vijay Anand	
Kevin Kissane	Vernalis PLC