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The Quoted
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Adam Gray
Long-term Focus Consultation
Corporate Law and Governance
Department of Business, Innovation and Skills
1 Victoria Street
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20 January 2011

Dear Mr. Gray,

BIS - A Long-Term Focus for Corporate Britain

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.

A working group made up of representatives from the QCA Corporate Governance Committee and Markets & Regulations Committee has examined your proposals and advised on this response. A list of members is at Appendix A.

RESPONSE

We welcome the opportunity to respond to this consultation. As an organisation that represents small and mid-cap quoted companies, we have responded to the questions with regards to this constituency.

It is our belief that boards of small and mid-cap quoted companies have a long-term focus as a result of the nature and size of these businesses. These companies are growing and usually have planned strategies that reach out to at least three years.

However, we believe that companies face pressures and constraints that often cause them to take a short-term view, over their long-term focus. Some of these include:

- Investors, who apply pressure on companies to focus on short-term performance to attract and retain their investment;

- Regulatory requirements, such as interim management statements.

    - Interim management statements are required for companies on regulated markets throughout Europe as a result of the Transparency Directive. Quarterly reporting can cause investors and analysts to focus purely on whether companies have met short-term forecasts and distract from companies' long-term strategies, increasing the need to deliver 'news flow' to the market.

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- The UK tax system, which could do much more to encourage long-term investment.
    - Over the past few years, the UK tax incentives for long-term investors have been eroded, as seen with changes to the capital gains tax regime (including the abolition of Taper Relief and introduction of Entrepreneurs' Relief) and narrowing of the Venture Capital Schemes (Venture Capital Trusts and Enterprise Investment Scheme).
    - In addition, the difference in the tax treatment of equity vs. debt finance discourages companies from undertaking equity funding – this skews the funding approach to favour debt for corporates. All of these tax issues may contribute to companies' decisions to take a short-term view, rather than one that is long-term. We would like to see a comprehensive review of the UK's approach to encouraging entrepreneurial behaviour and incentivising long-term investors.

We have outlined our responses to the individual questions in the accompanying response form.

Ultimately, we believe that it is of the utmost importance that the Government recognises that one size does not fit all in terms of policies for encouraging a long-term focus for corporates. We have answered the questions from the point of view of small and mid-cap quoted companies and do believe that their situation in terms of holding long-term vs. short-term focus is different from a larger company that is in the FTSE 100. As such, we would note that any policy proposals that arise as a result of this call for evidence should be proportionate and take into consideration the varying pressures put on different sized companies.

If you would like to discuss any of these issues further, we would be happy to attend a meeting.

Yours sincerely,

Tim Ward
Chief Executive

Enc: QCA Response to BIS – A Long-Term Focus for Corporate Britain (Questions)
QCA Response to HM Treasury's and BIS's Business Finance Green Paper, *Financing a Private Sector Recovery*

APPENDIX A

Working Group – BIS Long-Term Focus for Corporate Britain

Edward Craft	-	Wedlake Bell LLP
Tim Goodman	-	Hermes Ownership Services Limited
Peter Swabey	-	Equiniti Ltd
Cliff Weight	-	MM &K Ltd
Tim Ward	-	The Quoted Companies Alliance
Kate Jalbert	-	The Quoted Companies Alliance

APPENDIX B

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 <u>exclude</u> business rates, VAT and other indirect taxes.

For more information contact:

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