



**The Quoted
Companies Alliance**

1 April 2010

Ben Griffiths, *City A.M.*

Drought of small firms listing could cost jobs

QUOTED companies outside London's FTSE 350 have rarely faced such challenging times. Equity markets are fragmenting while regulations are increasingly onerous and markets illiquid, making it harder to raise capital.

But help could be on hand from an unlikely source. A French initiative has produced 20 recommendations to improve capital markets for the small to mid-cap equities that form the bulk of Europe's quoted companies.

In the Budget the UK government finally acknowledged a question the Quoted Companies Alliance (QCA) has been asking for some time: who is looking after equity markets for growth companies?

Spearheaded by QCA chief executive Tim Ward, the campaign wants a proportionate disclosure regime for smaller companies looking to raise money from the public. The same rules designed to address systemic risk should not be applicable to small companies, he argues.

Ward, who says the current rules have been created to protect the regulators, not investors, believes they discourage stock market investment and ensure lower liquidity, which in turn deters investors.

The QCA warns the recent introduction of "Standard Listings" means market entrants require no sponsor, the Combined Code on corporate governance does not apply and there is no need for shareholder approval for transactions such as takeovers. That means unscrupulous companies could damage the reputation of markets outside the Official List.

Finally, the QCA is concerned tax benefits such as Venture Capital Trusts were not designed with any thought towards enhancing equity funding for growth companies.

The Budget included a pledge by the government to look at ways of including investing in small companies within ISAs and venture capital trusts. But no firm commitment has been made.

Meanwhile France is leading the way with Mazars partner Fabrice Demarigny launching ideas that could be applied across Europe. Demarigny's findings resonate with Square Mile policy chairman Stuart Fraser, who believes the City is less about the taxes financial services firms generate and more about business and the facilitation of finance for companies to grow.

After all, small companies are crucial to our chances of economic recovery. City of London research identified 4.8m enterprises in the UK of which just 0.6 per cent have more than 250 employees and only 2.5 per cent more than 50 employees.

Yet, adjusting for GDP, the number of stock market listings has fallen by just under 15 per cent in a year while in the US they have halved. Most worrying of all, American research estimated this drop contributed to a loss of 22m US jobs, including 40 per cent of sell side analysts who were put out of work as a direct result.

If new listings dry up in London too who knows how serious the drought could be.