



**The Quoted
Companies Alliance**

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David Blackwell, *Financial Times*

Small Talk: Ingredients for a perfect storm blow across small caps

In a week when snow brought chaos to the UK, “the perfect storm” seems an apposite metaphor for the problems facing the small cap sector this year.

It is the preferred description of Tim Ward, who in September took over as head of the Quoted Companies Alliance, which represents small and mid-cap quoted companies. Just before Christmas he sent a letter to Alistair Darling, the chancellor, suggesting that the Treasury set up a working group “to design an appropriate structure for equity markets for the UK.”

The letter highlights three main areas of concern. The first is the proposed changes to the European prospectus directive relating to a proportionate disclosure regime for smaller companies looking to raise money from the public. That looks like a good move. However, the changes will apply only to companies on the Official List and not to those on exchange-regulated or “prescribed” markets such as Aim and Plus.

Those who recall past attacks on Aim, particularly from the US, as it being little better than a casino will relish the irony that any such changes will result in an EU regime that is less onerous for fully listed companies than for Aim companies. The QCA rightly says such an outcome would be “incongruous”.

The second area of concern is the introduction by the Financial Services Authority of standard listings for UK companies on the Official List. Standard, as opposed to premium, will offer UK companies a chance to make only a bare compliance with the EU Prospectus Directive. Standard companies will, for example, have no requirement for a sponsor, whereas a principle of Aim is that a company must have a nominated adviser, or nomad. They will also not have to comply with corporate governance requirements, nor will they need shareholder approval for transactions such as takeovers.

The third area concerns the alphabet soup surrounding any tax breaks for investors. They include CGT (capital gains tax) taper relief, Sipp (self-invested pension plans), VCTs (venture capital trusts), EIS (enterprise initiative schemes), and IHT (inheritance tax) relief.

EIS and VCT investors are restricted to Aim and Plus companies, but cannot buy shares in small companies on the Official List. However, Aim and Plus shares cannot be held in a Sipp or Isa (individual savings account).

“This is seen as a major impediment to liquidity in smaller company stocks,” the letter points out. “Any consideration of tax benefits has been designed without reference to any overall grand design for equity markets.”

Whether the three concerns in combination amount to a perfect storm is open to argument. However, they certainly do not create an atmosphere in which growth companies can flourish.

While a general election looms, it is unlikely such a letter will make much impact in the Treasury. Politicians of all colours bang on about the importance of the innovation that drives small companies and the jobs that they create. But small companies always seem to fall right to the bottom of the political agenda.

A good example is the hard lobbying the Aim community has been doing for at least 18 months to try to get the stifling restrictions on VCTs eased. This column outlined the case for reforming the VCT rules 11 months ago. Yet at the LSE’s Aim conference in October, politicians from both Labour and the Conservatives were seen scribbling notes as the same old debate surfaced. You wonder whether the message gets through to the right people.

One of the restrictions disbars VCTs from investing in any company with more than 50 employees. There have been cases of companies shedding jobs to get down to 50 employees and qualify – an absurdity for a growth company, especially in current economic conditions.

For all the QCA’s worries, the proposed changes to the prospectus directive show that the EU is at last starting to wake up to the need to make life easier for smaller companies. They are important to growth and they need to raise equity finance now debt is so much harder to come by.

As for standard listings, they have been available to overseas companies for years. Nevertheless, some 600 overseas companies have chosen to come to London via Aim. Investors are unlikely to be attracted to standard companies if they are seen to be less regulated than those on Aim.

Another working group, as called for by the QCA, might be a way forward. But far better to follow the example of Christine Lagarde, the French finance minister, who has appointed a consultant to consider a small business listings act.

An individual, pulling together all the regulatory and tax issues surrounding small companies, might be able to sort out this complex mess. Then all he or she has to do is persuade the politicians to act.