



**The Quoted  
Companies Alliance**

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**One size does not fit all - Small listed companies should be freed from some of the regulatory reporting burdens**

Smaller quoted companies (SQC), both fully listed and members of the AIM market, have a key role to play in helping the economy emerge successfully from recession. They generate significant employment and, over time, some will grow into much larger FTSE 350 companies, while many others will make a sustained contribution as solid mid-caps.

We are beyond the era of light-touch regulation, nevertheless, but when considering SQCs rules have to be proportionate and tailored if we are to strike the right balance between risk management and promoting entrepreneurship.

In reporting, as other areas, we need to challenge the one-size-fits-all approach. The same requirements should not automatically apply to SQCs, with a market capitalisation often well under £100m, as to leading global players with a value hundreds of times greater.

At the Quoted Companies Alliance, which represents SQCs, we are committed to fostering a culture of continuous improvement in corporate reporting. We therefore welcome the feedback provided by the Financial Reporting Council (FRC), and its constituent bodies, on the quality of financial statements and business reviews. We are also very supportive of the FRC's efforts to reduce complexity in reporting, but believe that, if this project is to make a real difference, it has to have the support of the International Accounting Standards Board.

Two specific changes could significantly reduce SQCs' reporting burden. Firstly, we need a clearer shared view by finance directors, auditors and regulators of when materiality can be applied to take away the need to implement particular requirements in standards. Standard-setters tend to cite materiality to explain why SQCs do not need to be overly concerned by potentially onerous new requirements.

Preparers, however, bemoan the fact that it is hard to rely on materiality in practice as the auditors worry that the regulators will not be supportive of judgements made in this regard. We need to get all the players around the table to move the debate forward.

Secondly, SQCs should have the choice to use the much simpler IFRS for SMEs when preparing their financial statements as an alternative to adopting full IFRS, which now runs to more than 2,500 pages of guidance.

We recognise that this would require a change in the relevant EU regulation for fully listed companies and in the requirements of the London Stock Exchange and company law in the case of AIM companies. Pleasingly, though, support is not restricted to the UK for a reconsideration of the one-size-fits-all approach to listed company reporting.

Going forward, standard-setters must apply robust cost benefit tests to new requirements and gain a good understanding of the information investors actually use. We need to distinguish the 'might be nice to have' from that which is important for stewardship and other decision-making purposes.

Critically, cost benefit assessments should recognise the importance of not discouraging fast-growing private companies from seeking a market listing as a means of providing external capital to support their continued expansion. We must help acorns grow into oak trees.

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