



The Quoted
Companies Alliance

Quoted Companies Alliance
6 Kinghorn Street
London EC1A 7HW
Tel: +44 20 7600 3745
Fax: +44 20 7600 8288

Web: www.quotedcompaniesalliance.co.uk
Email: mail@quotedcompaniesalliance.co.uk

Dave Hartnett CB
Acting Chairman
HM Revenue & Customs
100 Parliament Street
London SW1A 2BQ

5 March 2008

Dear Mr Hartnett,

HMRC Research Project 41 – EMI options

The Quoted Companies Alliance (QCA) is a not-for-profit membership organisation representing smaller quoted companies (SQC), which we define as those 2,000+ quoted companies outside the FTSE 350 (including those on AIM and PLUS) representing 85% of the UK quoted companies by number. Their individual market capitalisations tend to be below €500m. Appendix B to this paper gives more detail about the QCA.

We have read with interest the HMRC Research Report 41 issued last month on the use and impact of Enterprise Management Incentives (EMI).

Although no formal consultation is being conducted on this research, our members' Share Scheme Committee (detailed at Appendix A) recently discussed this and asked me to make 4 comments. These are below and are made against a background where employee share schemes are of particular importance to smaller growing companies.

1. Retention versus recruitment

First, in no way should retention be seen as inferior to recruitment as a business need for smaller companies. The research points to EMI options being used by companies to cement their relationships with existing employees and in the concluding paragraph of the report (page 113) questions whether there should not be a "greater focus on the recruitment aspects of EMI". While additional incentives for recruitment options might be considered, we would be concerned if any changes were made to the EMI legislation to make the retention options unable to benefit from the core benefits of EMI. Companies struggle with retention as much as, if not more than, recruitment, and small companies need just as much help in encouraging executives to stay while products are developed, until the market realised the value of the company or a company sale is concluded, and EMI tax-favourable incentives help achieve this.

2. £100,000 Limit

The £100,000 limit on individual participation has been in place since 2000. Aside from considering an increase to reflect normal inflationary pressures (and salary inflation has been potentially high since then), it is worth noting that ²/₅ of options granted were at or were close to the £100,000 limit showing that there is evidential pressure to raise this limit. Given that the overall scheme limit of £3 million already safely protects the Exchequer, we believe there should be greater capacity to grant tax-approved EMI options, say up to £150,000.

3. Success of the EMI legislation

The research project gives no flavour of the enthusiasm for equity-based incentives as a whole which the EMI legislation has helped to create amongst companies since 2000. A factual research project looking for quantitative evidence would not be expected to elicit this, but there is a real feeling amongst advisers and others that EMI has acted as a flagship for performance-based pay among smaller companies and any removal of its benefits will not just affect EMIs but interest among smaller companies for equity-based remuneration generally, which would be a retrograde step.

4. Companies which cannot participate

Interestingly, no research has been conducted into companies who could not use the scheme. We have regularly highlighted that many of our members are companies who are trading in areas that would otherwise enable them to use EMIs and meet the size test, but who are unable to use EMIs because they are not "independent". Independence is defined by reference to formal control tests, which have little regard to the fact that quoted companies are not controlled in any meaningful sense by their main shareholder as AIM and Main List corporate governance standards require that their boards act independently.

As the commissioned research will inevitably be a prompt for a review of the EMI legislation, we hope that the points we make above will be taken into account. We have already separately written to you about the negative impact on EMI of the withdrawal of its favourable taper relief treatment with effect from 6 April 2008 and that EMI optionholders are often unlikely to be able to benefit from the more limited replacement entrepreneurs' relief.

As we point out above, EMI has been a great prompt for employee share schemes generally and a very successful venture, and the QCA hopes that no changes are being planned on the basis of this research or otherwise which would reduce its impact and jeopardise what it has achieved.

Yours sincerely,



John Pierce
Chief Executive

THE QUOTED COMPANIES ALLIANCE SHARE SCHEMES COMMITTEE

Nicholas Stretch (Chairman)	CMS Cameron McKenna LLP
David Baxter	New Bridge Street Consultants
Chris Booker	KPMG LLP
Stephen Chater	Addleshaw Goddard
Sara Cohen	Lewis Silkin LLP
James Dean	Burges Salmon
David Ellis	BDO Stoy Hayward LLP
Amanda Flint	Chiltern (part of BDO Stoy Hayward)
Ian Fraser	K & L Gates LLP
Mathew Gorringe	Eversheds LLP
Colin Kendon	Bird & Bird
Tarl Lall	Charles Russell
Nigel Mills	MM&K Personal Financial Management Ltd
Colin Patterson	The RM2 Partnership
Robert Postlethwaite	Postlethwaite & Co
David Tuch	Hewitt Associates
Nick Wallis	Smith & Williamson Limited
John Pierce	Quoted Companies Alliance
Laurence Davis	Quoted Companies Alliance

THE QUOTED COMPANIES ALLIANCE (QCA)

A not-for-profit organisation funded by its membership, the QCA represents the interests of smaller quoted companies (SQC), their advisers and investors. It was founded in 1992 and originally known as CISCO.

We define as those 2,000+ quoted companies outside the FTSE 350 (including those on AIM and PLUS) representing 85% of the UK quoted companies by number. Their individual market capitalisations tend to be below €500m.

The QCA has nearly 400 members. 75% of these are smaller companies quoted on a stock market, or companies with aspirations to join. 25% are drawn from the full range of professional advisory firms whose business is either wholly or significantly derived from servicing smaller companies.

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
- introduction of, or changes to, legislation affecting SQCs
- corporate governance
- share schemes for employees
- trading, settlement and custody of shares
- structure and regulation of stock markets for SQCs; Financial Services Authority (FSA) consultation
- political liaison – briefing and influencing Westminster and Whitehall, the City and Brussels
- accounting standards proposals from various Accounting Standards Boards
- company law reform

The QCA is a founder member of EuropeanIssuers, which represents over 9,000 quoted companies in twelve EU member states.

QCA's AIMS

As the only organisation dedicated solely to the particular interests of the SQC sector, the QCA has three primary goals:

Identification

To create a distinct identify for the SQC sector, and demonstrate its value to the stock markets and the UK economy.

Representation

To pro-actively pursue and represent the interests and requirements of the SQC sector to enable it to increase its contribution and ensure that its specific needs are addressed.

Affiliation

To build a strong and vocal collective body of support from within the SQC sector, among corporate directors and securities industry leaders.

DEFINITION

The Quoted Companies Alliance definition of Smaller Quoted Companies (SQC) is:

- all fully listed companies – excluding the top 350 ie with market cap of £340m+
- plus companies quoted on AIM
- plus companies quoted on PLUS

The QCA also represents companies planning to float.

SQCs contribute to the economy:

- there are approximately 2,000 SQCs
- they represent around 85% of the total of quoted companies by number
- they employ 2 million people
- this figure represents around 10% of total private sector employment
- every 5% growth in the SQC sector could reduce UK unemployment by a further 100,000
- They generate:
 - corporation tax paid of £2.0 billion pa
 - income tax paid of £5.0 billion pa
 - social security paid of £2.0 billion pa

The tax figures exclude business rates, VAT and other indirect taxes.

For more information contact:

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