



**The Quoted
Companies Alliance**

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14 April 2008

Dear Ms Odutola,

FSA DP08/1 – A review of the Structure of the Listing Regime

INTRODUCTION

The Quoted Companies Alliance (QCA) is a not-for-profit membership organisation dedicated to promoting the cause of 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.

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

Attached is the response of the Quoted Companies Alliance. This has been produced primarily by our Markets & Regulations Committee. A list of Committee members is detailed at Appendix A.

RESPONSE

Q1. Do you consider that the UK 'super-equivalent' Listing standards should be retained?

We believe the super equivalent Listing Standards should be retained on the basis that they form an important part of the high standards of disclosure that have underpinned the success of the UK equity markets. In our opinion, the decision whether to retain the super equivalent Listing Standards – and the nature of these standards - should to a large extent be based on the views of investors.

In addition, our view is that the existence of high, super-equivalent standards raises the corporate governance aspirations and performance of companies in the more junior markets e.g. AIM. This should in turn help to maintain the reputation of London's overall capital markets offering, including its junior markets and MTFs.

We would like to see the super-equivalent standards reviewed on a more regular basis, to ensure they remain relevant and appropriate in the rapidly changing capital markets scene.

Q2. Do you consider that the 'super-equivalent' Listing standards should continue to be set by the FSA or should they be determined by the market (exchanges, trade associations or other independent body)?

We have received differing views on this question from our members (who include a range of brokers, market makers and professional advisers as well as companies). We believe that transferring the setting of the 'super-equivalent' listing standards is worthy of examination. However, in deciding which solution to opt for, the FSA should have regard to safeguarding the standards which form an important basis for the success of the UK's financial sector. It would be unfortunate if the degradation of the standards of disclosure led to a decline in the quality of markets operated in the UK, making it more difficult for companies to raise capital here. Some of our members are concerned that transferring the setting of the super-equivalence standards away from the FSA would lead to a 'race to the bottom' as a result of competition between trading platforms. On the other hand others amongst our membership believe that it would be in an exchange or trading platform's own competitive interests to maintain good standards of regulation on their markets.

It may be seen as beneficial that the FSA has no commercial interests which would conflict with its setting and enforcement of super-equivalent standards - arguably market operators would be presented with a certain degree of conflict of interest in this regard.

We have a concern that transferring the enforcement of super-equivalent standards away from the FSA will give a signal to the market that these standards are less important and discourage compliance among companies and make compliance more difficult to enforce because the threat of sanctions / action by a stock exchange will be less of a concern to companies than the threat of action from the competent authority.

Timely enforcement must be one of the primary criteria in deciding whether the super-equivalent standards should be set by the FSA or the relevant market operator. If enforcement is neither effective nor timely, then there will be no point in super-equivalent rules being set.

Q3. Should we allow equity securities to be admitted to the Official List if they are only to be admitted to trading on a MTF operated by an RIE or an investment firm and not on a Regulated Market of an RIE? If so, on what basis?

We cannot see how allowing this would in any way benefit the smaller companies we represent. The 'listing' standard should represent a quality stamp attributed to companies that are subject to the highest standards of transparency, both in terms of disclosure by companies and the trading in their shares. MTFs are subject to a less stringent regulatory regime, for example with regard to transparency of OTC trading. To resolve this by adding additional rules for UK MTFs, as we understand is being suggested, seems an unwieldy and confusing solution with further potential for unintended consequences.

MTFs that are not operated by exchanges are not run with the supervisory resources that an RIE has, and it is therefore unclear how they can effectively administer and enforce compliance with the standards expected of companies with 'listed' status.

Clearly the MTFs were envisaged by MiFID to be secondary market trading venues. It seems never to have been the intention of MiFID for MTFs that are not run by an RIE to be a primary listing venue.

MTFs wishing to take on the role of a primary listing venue should become RIEs.

Q4. Which of the options described above do you consider to be optimal? Please provide the reasons for your chosen option.

We strongly favour Option 2 (though see answer to Q8 on labelling issues).

Notwithstanding the FSA's intention to educate the media and hold discussions with HMRC with regard to labelling, the chances of unintended consequences of Option 1 on the competitiveness of the London market seem too high. Overseas issuers and those who influence their listing decisions could misunderstand the changes, believe the new status to represent a lower standard, and opt for a listing in, say, the US instead of London. Experience to date with AIM shows how difficult it is to control the usage of the term 'listing'.

Q5. What are your views about opening up Secondary Listing for UK incorporated companies?

We believe that the introduction of a new directive minimum listing status for UK companies unnecessary and would cause confusion, particularly among retail investors. The differentiation between the two tiers of listing and between Secondary Listing and AIM would be quite complex and difficult to explain widely.

With AIM and the PLUS-quoted Market on the one hand and primary listing on the other, it seems that UK companies already have plenty of choice in determining the type and level of primary market they wish to join. The super-equivalent requirements that remain today do not seem overly onerous for UK companies when compared with the rules that apply on, say, AIM. The gap between the level of regulation on AIM and a UK Primary Listing does not seem unacceptably wide.

It also occurs to us that opening up Secondary Listing for UK companies, which lacks the super-equivalent requirements such as the requirement for a sponsor or nominated adviser would mean that the FSA might require increased internal resources to regulate this segment, should it prove popular.

Q6. What are your views on how the provisions we have described above under core requirements should apply to overseas Primary Listed companies?

In our view overseas Primary Listed companies should be treated in the same way as UK Primary Listed companies and as such should be required to comply with the UK Combined Code on corporate governance and pre-emption rights or explain where they do not or cannot due to their local laws. Conflict with the laws of a company's country of incorporation should be a valid explanation for not complying (and explained accordingly).

Q7. *Should we require the appointment of a sponsor for a transaction involving the issuance of GDRs? If not, are there any other responses to the significant growth in GDRs that are necessary?*

This question is beyond the scope of the QCA; therefore we have no comment.

Q8. *Do you have views on the labelling options?*

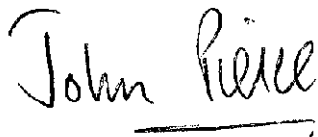
We agree to Option 2 (assuming Option 2 structure).

However we would recommend adoption of different terminology such as 'Premier' and 'Standard' rather than Tier 1 and Tier 2 to reflect and reinforce that the former is the 'gold standard' and higher than that used elsewhere in the EU (as opposed to implying a diminution in quality for the 'directive minimum' listing).

As a general commentary on the Discussion Paper and proposals, it is not clear to us that the changes proposed from the current position will bring any benefits to the small quoted companies we represent (although greater clarity on 'Listing', what options are available to issuers and what they mean can only be helpful). Yet making some of the changes proposed which go beyond such clarification could bring significant risks to the functioning and competitiveness of the London market.

If you wish to discuss any of these comments, we will be pleased to meet with you.

Yours sincerely,

A handwritten signature in black ink that reads "John Pierce". The signature is written in a cursive, slightly slanted style. Below the signature is a horizontal line that ends with a small tick mark on the right side.

John Pierce
Chief Executive

THE QUOTED COMPANIES ALLIANCE MARKETS & REGULATIONS COMMITTEE

Theresa Wallis (Chairman)*	Lidco Group plc
Peter Allen**	Barlow, Lyde & Gilbert
Stuart Andrews**	Evolution Securities
Andrew Collins	Speechly Bircham
Jonathan Eardley	Share Resources
Raquel Hughes	London Stock Exchange plc
Farook Khan	Pinsent Masons
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THE QUOTED COMPANIES ALLIANCE (QCA)

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

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 identity 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 (SQCs) 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.

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