



**The Quoted  
Companies Alliance**

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Rt Hon Alistair Darling MP  
Chancellor of the Exchequer  
HM Treasury  
Horse Guards Road  
London  
SW1A 2HQ

16 December 2009

Dear Chancellor,

**Who's looking after equity markets for growth companies?**

I write to request that you set up a working group to design an appropriate structure for equity markets. There are a series of measures being promulgated that will greatly affect how the UK's markets function. These could lead to a situation that significantly impairs the attractiveness of the UK's dedicated growth markets (AIM and PLUS-quoted), where smaller companies currently go to seek vital funds, at a time when banks are reluctant to lend to them.

These measures include:

- 1. Changes to the Prospectus Directive** – Proposed changes to the Directive, by the Working Party of the EU Swedish Presidency, would restrict concessions already proposed by the Commission (relating to a proportionate disclosure regime for smaller companies looking to raise money from the public) to those companies on the Official List, excluding those on exchange-regulated or 'prescribed' markets. This will result in a regime that is more onerous for AIM and PLUS-quoted companies than companies on the Official List, which is incongruous.

The Commission suggests that these concessions will not be available to the smaller companies on exchange-regulated markets until the Market Abuse and Transparency Directives apply to them, in spite of the fact that most of the provisions of both of these directives already apply to companies on AIM and PLUS-quoted.

It is likely to take many years for the Commission to apply these two Directives to smaller companies across the EU. We call on you to support our call for the European Commission to accelerate their reviews of the Market Abuse and Transparency Directives, so that all changes can be implemented at the same time.

- 2. The Introduction of Standard Listings** – The Financial Services Authority has introduced admission for UK companies to the Official List by way of bare compliance with the EU Prospectus Directive – to be known in the UK as a 'Standard Listing'. Until October 2009, this route was only available for overseas companies seeking a

secondary listing in the UK and whose EU home state regulator was someone other than the FSA.

Superficially, this looks like an attractive option for companies. Under this regime, there is no requirement for a Sponsor; the Combined Code does not apply; and there is no need for shareholder approval of transactions, such as takeovers. As a result, there is no suitability threshold for companies and much of the UK's advanced system of corporate governance will not apply.

- 3. Tax Rules** – None of the current tax benefits – CGT taper relief, SIPPs, VCTs, EIS or IHT relief – has been specifically designed to enhance equity funding for smaller, growth companies. While EIS and VCT investors may invest in AIM and PLUS-quoted companies, they cannot buy shares in smaller companies on the Official List. Equally AIM and PLUS-quoted shares cannot be held in an ISA or a SIPP<sup>1</sup>. This is seen as a major impediment to liquidity in smaller company stocks. Any consideration of tax benefits has been designed without reference to any overall grand design for equity markets.

All in all, these measures reflect a piecemeal approach to equity funding and the structure of equity markets. At a time when macro-supervision is the 'watchword' of future financial services regulation, no consistency in policy appears to have been adopted.

The evidence suggests that without constraint or appropriate market definition, there will be a tendency for unsuitable companies to be introduced to equity markets, which, over time, will undermine the integrity of, and confidence in, public markets.

The history and success of AIM has resulted from the consistent application of appropriate market standards in a flexible manner. It is particularly important at this stage in the economy that changes to markets are made quickly, constructively and in a coordinated way – just as AIM has itself operated. The measures set out above could lead to reputational damage to the equity markets for smaller companies in the UK. Market reputation takes a long time to build and a very short time to be destroyed.

The QCA is market agnostic and we want companies to be able to find the right equity markets – or the right segment of any equity market – which will enable them to raise equity in a way that reflects their stage of development and which provides the advice and support they – and their investors – need. The sustainability of markets for small and mid-capitalisation companies is vital for our economy.

So, we ask who is looking after the structure of equity markets in the UK and Europe? Who is looking after growth markets in the UK and Europe?

A great strength of UK equity markets is that they are supported by an extensive advisory network, including corporate finance advisers, brokers, introducers, investors of all types, lawyers, accountants, and others, all of whom contribute to the vibrancy of the markets. However, the recent financial turmoil could be argued to have demonstrated that without some form of effective direction, lasting and sustainable markets will not flourish.

We call on the Treasury to take responsibility for the structure of the UK's equity markets as a whole. We need to stop stumbling from one initiative to another without direction, without

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<sup>1</sup> Please note that it has been brought to our attention, following sending the original letter, that AIM shares can be included in a SIPP, but cannot be included in an ISA.

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purpose, and without fully considering the effects of each initiative on the UK's market structure.

In conclusion, we request that you set up a working group to design an appropriate structure for equity markets for the UK. This should include other key European market participants. The future of growth markets should be a key priority. The UK should be leading a constructive European debate on the future of equity funding.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'TWL', is centered on a light blue rectangular background.

Tim Ward  
Chief Executive

### **THE QUOTED COMPANIES ALLIANCE (QCA)**

A not-for-profit organisation funded by its membership, the QCA represents the interests of small and mid-cap quoted companies, their advisors and investors. It was founded in 1992, originally known as CISCO.

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
- legislation affecting small and mid-cap quoted companies
- corporate governance
- employee share schemes
- trading, settlement and custody of shares
- structure and regulation of stock markets for small and mid-cap quoted companies; Financial Services Authority (FSA) consultations
- political liaison – briefing and influencing Westminster and Whitehall, the City and Brussels
- accounting standards proposals from various standard-setters

The QCA is a founder member of European**Issuers**, which represents quoted companies in fourteen European countries.

#### **QCA's Aims and Objectives**

The QCA works for small and mid-cap quoted companies in the United Kingdom and Europe to promote and maintain vibrant, healthy and liquid capital markets. Its principal objectives are:

*Lobbying* the Government, Brussels and other regulators to reduce the costing and time consuming burden of regulation, which falls disproportionately on smaller quoted companies

*Promoting* the smaller quoted company sector and taking steps to increase investor interest and improve shareholder liquidity for companies in it.

*Educating* companies in the sector about best practice in areas such as corporate governance and investor relations.

*Providing a forum* for small and mid-cap quoted company directors to network and discuss solutions to topical issues with their peer group, sector professionals and influential City figures.

Small and mid-cap quoted companies' contribute considerably to the UK economy:

- There are approximately 2,000 small and mid-cap quoted companies
- They represent around 85% of all quoted companies in the UK
- They employ approximately 1 million people, representing around 4% of total private sector employment
- Every 5% growth in the small and mid-cap quoted company sector could reduce UK unemployment by a further 50,000
- They generate:
  - corporation tax payable of £560 million per annum

- income tax paid of £3 billion per annum
- social security paid (employers' NIC) of £3 billion per annum
- employees' national insurance contribution paid of £2 billion per annum

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

For more information contact:

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