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Dear Sir/ Madam

FRC Discussion Paper: Improving the Quality of Reporting by Smaller Listed and AIM Quoted Companies

We welcome the opportunity to comment on the FRC discussion paper on improving the quality of reporting by smaller listed and AIM quoted companies. The Institute of Chartered Secretaries and Administrators (“ICSA”) is the professional body that qualifies Chartered Secretaries and, as such, our members are well placed to understand the issues connected with smaller listed and AIM quoted company reporting.

General comments

Many of the observations and findings reported in the discussion paper accurately reflect companies and investors views on smaller listed and AIM quoted company reporting. The intentions behind FRCs proposals to improve reporting are commendable and appreciated. As with all such initiatives a balance needs to be found between providing the desired information, avoiding clutter and boilerplate.

Commentary on specific sections

Q1. To what extent do you recognise and agree with the issues raised in the report regarding the quality of reporting by smaller quoted companies?

A1: We would recognise and agree with many of the issues raised. In particular the following observations resonate:

- *The annual report has value to investors and is used as a source of information used for trend analysis and performance evaluation, however there does appear to*



be a higher incidence of poorer quality annual reports by smaller quoted companies.

- *Many smaller quoted companies think investors do not read their annual reports and therefore the reports are of little value and becomes a compliance exercise.*
- *Some smaller quoted companies find preparing their annual reports challenging and they lack insufficient skilled resources or have limited access to additional external reporting expertise.*
- *The above can lead to a lack of focus, poor planning and insufficient time for adequate review and audit.*
- *Investors are more likely to invest if the annual report conveys a clear message of the business model of a company and its positions and prospects.*
- *Preparers of annual reports and investors are both concerned with the volume of information contained in annual reports. Too much disclosure is copied from a reporting standard or model set of financial statements with little regard for the company's specific circumstances often referred to as "boilerplate".*

Q2. Do you consider that the actions proposed are (i) a proportionate response to the issues identified; and (ii) an adequate response to the issues identified?

A2. The proposed actions to help with communications with investors, resourcing, AIM companies and corporate governance, consistent financial reporting framework, consistency and comparability of the annual report, application of materiality and disclosures and the role of the auditor, are all commendable, albeit some will be harder to achieve than others.

The main complaint of smaller companies is the lack of resource or access to expertise and any help which the FRC can provide in this area is welcome. We await with interest the outcomes of the various discussions with the accountancy and audit professional bodies to assist with this issue.

We would support practical guidance from the FRC for audit committees and boards of smaller quoted companies.

With regard to the FRC encouraging AIM companies to consider the principles of accountability as set out in Section C of the UK Corporate Governance Code – would appear acceptable. If a similar requirement were to be mirrored in a separate Governance Code for AIM companies then careful consideration would need to be made as to impact on board composition/ director recruitment for smaller companies.

Conclusion

Many of the findings and conclusions made in the discussion paper are easily recognized and the intentions behind the proposals commendable. Further discussion and



investigation is necessary before final action is taken to ensure that the aims behind the proposals are achieved and that unintended consequences avoided.

We hope our feedback is useful and if you would like to discuss any comment in more detail, please contact me.

Yours faithfully

A handwritten signature in black ink, appearing to read 'Peter Swabey', with a large, sweeping flourish at the end.

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