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The Quoted
Companies Alliance

Committee of European Securities Regulators
11-13 avenue de Friedland
75008 Paris, France

1 December 2009

Dear Sirs,

Call for Evidence: The Use of a Standard Reporting Format for Financial Reporting of Issuers Having Securities Admitted to Trading on Regulated Markets (CESR/09-859)

INTRODUCTION

The Quoted Companies Alliance (QCA) is a not-for-profit membership organisation working for small and mid-cap quoted companies. Their individual market capitalisations tend to be below £500m.

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

The QCA Financial Reporting Committee has examined your proposals and advised on this response. A list of Committee members is at Appendix A.

Our ID number for the European Commission's register of interest representatives is 45766611524-47.

RESPONSE

We welcome the opportunity to respond to CESR's call for evidence on the use of a standard reporting format.

Overall, we can see the value and benefit in having a standard reporting format for financial reporting for listed companies. However, these benefits are completely dependent on how it is mandated, implemented and taken-up by users. Please see our responses to the specific questions below:

Q1. *Do you consider that there should be a standard reporting format for financial reporting of issuers having securities admitted to trading on a regulated market? What kind of pros and cons would a standard reporting format have?*

In theory, a standard reporting format for financial reporting of issuers having securities admitted to trading on a regulated market would be beneficial. It would provide for easy access to aggregated information on company accounts and more comparability of accounts among investors and users of accounts. This increased comparability could lead to more investment. Although in the short-term it will have implementation costs for companies to adjust their accounting systems, in the long-term it could improve efficiency and cut costs for both companies and regulators.

With all EU listed companies using IFRS as the standard financial reporting standard and the current advances in technology and software, requiring companies to report using a standard reporting format and language, such as XBRL, theoretically makes sense as a next step in terms of technological progression.

The cons of a standard reporting format for financial reporting come mainly with how it is implemented. Firstly, voluntary take-up of reporting in XBRL has been low and the success of XBRL will only be realised when there is a critical mass using it. As such, for XBRL to catch on, regulators will most likely have to mandate it or incentivise companies that opt to use it. The problem with mandating it is that many companies will view it solely as a regulatory cost, which is why mandating it will need to be backed up with evidence for why it will be useful for both users and companies. This is an issue that the UK is experiencing currently with HM Revenue & Custom (HMRC) requiring Corporation Tax returns and company accounts to be filed online in XBRL format for accounting periods, ending after 31 March 2010. As it is being mandated by HMRC and not Companies House[1], the official UK government register of UK companies, the benefit of reporting in XBRL will only be realised by HMRC only and not to the wider public/investors.

Secondly, regulators need to be cognizant of the fact that any mandating of a standard reporting format cannot occur before proper software has been developed. Again, this is a problem that the UK is experiencing, where many accountants and software developers have raised concerns that the implementation date is too early - not allowing enough time for testing and development. The regulators that mandate any standard reporting format would have to work closely and consultation thoroughly and regulatory with software developers and preparers to ensure that implementation is not occurring before everyone is ready for it. Regulators must be realistic and flexible.

Thirdly, in relation to software development, there are many difficulties associated with developing unique identifying tags and a standard format to work across each set of accounts. In a flexible chart of accounts, as there is now under IFRS, it is possible for businesses to analyse data in a way that is most informative for their business. The risk is that there is not an appropriate XBRL tag/or other standard reporting tag to reflect the way that a business wants to analyse its data. Accounts are a complex story, and by taking bits out of context it is easy for users to get the wrong impression.

The final con would be the cost of implementation for companies. Whether companies use commercially available software to add the tags automatically in the preparation phase of the accounts or whether they convert accounts prepared using Word or Excel, there will be costs associated with adjusting in-house practices and purchasing the appropriate software, training and advice. There would also be costs to companies associated with checking that the company accounts validate and that the information has been tagged correctly. There is a risk, as with any new technological development, that information may be mis-tagged, and as such there is the question of who would be liable for this. As such, there is the outstanding issue of whether or not the standard reporting format would have to be audited, which would also add costs to issuers. We would be particularly concerned about the impact

[1] However, Companies House has announced that it will accept company accounts in XBRL for accounting periods ending after 31 March 2010, in order to reduce potential administrative burdens on business (for more visit: http://www.companieshouse.gov.uk/about/pdf/hmrcCommonFiling1.pdf).

of implementation on smaller listed companies, who already have limited resources to deal with the production of their financial information.

Finally, there is a general lack of information/understanding about standard reporting formats such as XBRL in the marketplace. If a standard reporting format were to be mandated, regulators would need to engage with and educate companies about the process of producing financial information in a standard format and the long-term benefits of doing so, as well as come up with a cost-effective way for companies to implement it.

Q2. *If yes to Q1, do you consider that XBRL would be an appropriate format? Are there any other reporting formats that CESR should consider in this context?*

XBRL would be the most sensible format, as it is the most widely used and developed language available.

Q3. *What kind of benefits would you consider a standard reporting format to bring for issuers, investors, auditors, analysts, OAMs or other users of financial information?*

This is discussed in our response to Question 1.

Q4. *What kind of disadvantages would you consider a standard reporting format would cause to issuers, investors, auditors, analysts, OAMs or other users of financial information? Do you see any obstacles to such reporting?*

This is discussed in our response to Question 1.

Q5. *What kind of costs (one-off or recurring) would you consider a standard reporting format would impose on issuers, investors, auditors, analysts, OAMs or other users of financial information? Please provide estimated costs, if possible.*

This is discussed in our response to Question 1. Issuers would have a one-off cost in adjusting in-house accounting systems to produce financial information in the standard format and training the appropriate personnel in the use any new software/systems. Issuers would also have ongoing costs associated with the validation and auditing of the standard reporting format.

There would be minimal costs to investors, analysts and other users of financial information in learning how to search and compare financial information (produced in the standard format). OAMs would need to adjust their in-house systems and IT platforms to accommodate the new reporting language.

Q6. *Are the above benefits, disadvantages, obstacles and costs different if the standard reporting format would only cover income statement, balance sheet and cash flow statement instead of full financial report? Please explain the differences.*

Yes, the costs may be lower for companies producing the financial information. It would most likely be easier to develop the software to deal solely with the information contained in income statements, balance sheets and cash flow statements, as most of the information in them is relatively standardised already. However, it all depends on how the software is developed to tag the financial information. This would require testing amongst users and consultation with software developers to understand how the tagging process would work.

Q7. *How would you assess the benefits of the use of standard reporting formats against the costs?*

The long-term benefits of a standard reporting format (e.g. increased comparability, more investment for companies, and potentially more efficiency in producing and disseminating accounts for companies and processing accounts for regulators) may outweigh the initial costs of implementation.

However, the benefits depend completely on the widespread take-up of the reporting language and the availability of the information to users (e.g. analysts and investors), especially in terms of how market data providers make this information available to the wider public. As such, it is difficult to ascertain whether the costs outweigh the benefits.

We believe that the EU should progress cautiously with the adoption of a standard reporting format. We would recommend some form of phased implementation for smaller listed companies, as has occurred in the United States, if a standard reporting format is to be implemented in the EU. This will allow for proper post-implementation analysis to be carried out for the larger listed companies, which will give a better indication of whether the costs would outweigh the benefits for smaller issuers.

Q8. *Do you envisage any liability and/or audit issues arising from the use of standard reporting format?*

Yes, there are liability issues, surrounding who is responsible for any information that is not tagged correctly. As discussed in Question 1, there is also the issue of whether or not accounts will have to be audited to ensure that the information is correctly tagged, which would add to the costs of implementation and ongoing costs for issuers. These liability issues will need to be examined in-depth and reconciled before mandating a reporting format.

Q9. *Are there any other issues CESR should take into account in the analysis of the issue?*

We would suggest researching and examining more in-depth the various issues and problems that have arose with the HRMC's implementation of iXBRL (inline XBRL) for Corporation Tax returns and company accounts in the United Kingdom, and compare that with how the US has mandated the use of XBRL (which does differ to the UK's approach).

If you wish to discuss these issues with us, we will be pleased to attend a meeting.

Yours sincerely,

Tim Ward
Chief Executive

APPENDIX A

THE QUOTED COMPANIES ALLIANCE FINANCIAL REPORTING COMMITTEE

Anthony Carey (Chairman)	-	Mazars LLP
Peter Chidgey	-	BDO Stoy Hayward LLP
Sarah Cox	-	Ernst & Young LLP
David Gray	-	DHG Management
Shane Horsell	-	Ultimate Finance plc
Chris Ogle	-	SQC Consultant
Paul Watts/Bill Farren	-	Baker Tilly LLP
Nick Winters/James Lole	-	Vantis plc
Tim Ward	-	The Quoted Companies Alliance
Kate Jalbert*	-	The Quoted Companies Alliance

*Main Author

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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