



**The Quoted
Companies Alliance**

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The European Commission
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Dear Sirs,

Review of Directive 2003/6/EC on insider dealing and market manipulation (Market Abuse Directive)

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.

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

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

RESPONSE

We welcome the opportunity to respond to this important consultation, especially since its focus is on simplification and reducing regulatory burden. We hope that the objective of reducing 25% of regulatory burdens as part of the Action Programme for Reducing Administrative Burdens in the European Union will be strictly applied and that the 'Think Small First' motto in the Small Business Act for Europe will be considered in further amendments to the Directive.

Please find our answers to the consultation questions below.

Section 2.1 – The Scope of MAD

2.1.1 Question - Do you consider the scope of MAD should go beyond regulated markets? In particular, should it be extended to cover MTFs?

In principle, we support the extension of MAD to exchange regulated markets and MTFs in order to achieve more harmonisation in rules across and efficiency in markets. However, we would argue that there is a need to distinguish between the two levels of MTFs. If it were to be extended, we suggest putting in place a market abuse regime that is less burdensome and more flexible for those MTFs that operate as exchange regulated markets, such as AIM and PLUS markets in the United Kingdom.

2.1.2 Questions - Do you agree with an alignment of the MAD definition of financial instrument to the definition for the same concept provided for in MIFID? Do you think it could be useful to explain in more detail in the MAD what is meant by a financial instrument "whose value depends on another financial instrument" or to list asset classes, such as CFDs and CDS, which belong to this category?

Yes, we agree and think it could be useful to explain in more detail what is meant by a financial instrument.

2.1.3 The specific case of commodity derivatives markets

This is not an area that affects our membership, smaller quoted companies, and as such we have no comments.

Section 2.2 – Inside Information

2.2.1. Definition of inside information

Question – Do you share this view as far as insider dealing prohibition is concerned? If not, which concepts would you advise to modify and how?

Yes, we share this view.

Question - Do you support an alignment of the inside information definition for commodity derivatives with the general definition of the directive?

This is not an issue that affects our membership, and as such we have no comments.

2.2.2 Dissemination of inside information and deferred disclosure mechanism

2.2.2.1 General obligation of disclosure of inside information

Question - Do you consider that any changes to the definition of inside information for disclosure purposes is necessary?

We consider that the definition of inside information should not be amended - the subjective nature of what constitutes price sensitive information in any given circumstance is difficult to define and our concern would be that ill-thought out changes could make matters more difficult for companies and their advisors.

Question - Do you agree that the described deficiencies of the deferred disclosure mechanism need to be addressed, possibly by way of amendments to the MAD? Do you consider that Level 3 guidance could be sufficient?

We consider that these deficiencies do need to be addressed and that Level 3 guidance would be appropriate and hopefully the most effective and efficient way to introduce this.

Question - Do you agree that the issuer may be exempted from disclosing inside information in situations when that information concerns emergency measures being prepared in case the issuer's financial stability is endangered?

Yes. Clearly the conditions for the delay of inside information when the financial viability of an issuer is in danger need to be less stringent. The two conditions identified (not likely to mislead the public and duty to maintain confidentiality) are too stringent in such circumstances and need to be addressed by way of further qualifications or an overriding provision.

Question – What are other deficiencies in this area that raise major interpretation / application difficulties? What is the best way to address them?

We do not see any other deficiencies in this area that raise major interpretation / application difficulties.

2.2.2. Disclosure duty in commodity derivatives markets

This is not an area that affects our membership, smaller quoted companies, and as such we have no comments.

2.2.3 Prohibition of insider dealing

Question - Would you support this approach?

Yes, it would seem to be entirely sensible to await the outcome of the ECJ's preliminary ruling.

2.2.4 Three new tools to help detect suspicious transactions

2.2.4.1 Insider lists

Question - Do you consider that the obligations to draw up lists of insiders are proportionate?

This is quite a difficult question to address as for many smaller quoted companies affected the burden is arguably not disproportionate (provided the content requirements of such list is kept at a sensible level), whereas for large organisations this task clearly can be difficult and complex - although one might argue that the implementation of a cost effective method of maintaining such lists should not be beyond such large organisations.

2.2.4.2 Transaction reporting by managers and closely associated persons and subsequent disclosure

Question - Do you see a need for regulatory action in the above areas? Would you suggest further improvements?

We agree that closely associated persons should be required to communicate their transactions to the person discharging a managerial responsibility so that the latter can make the necessary calculation for shareholder threshold notification purposes. We also agree that it would be worthwhile clarifying the position with respect to transactions undertaken by portfolio managers.

2.2.4.3 Reporting of suspicious transactions

Question - Do you agree that rules on suspicious transactions reporting do not require modifications?

It would appear that they do not require any material modification, although a common format for reporting may enhance efficiencies.

2.2.5 The competent authorities' right of access to telephone and existing data traffic records

As this is not an area that directly affects our membership, we have no comments.

Section 2.3 - Market Manipulation

Section 2.3.1 Definition of market manipulation by transactions/orders to trade

Question - Do you think that the definition of market manipulation should be amended?

We consider that market manipulation should continue to be defined in broad terms and concepts, and we would agree that no legislative change would seem necessary at this point in time.

2.3.2 Accepted market practices

Question – Do you consider that the rules on accepted market practices should be amended in the MAD? Do you think there is room for greater convergence among competent authorities in this area?

We have no objective to this being considered further, although we doubt this is an area that affects our membership significantly.

2.3.3 Exemption for buy-back programmes and stabilisation activities

As this is not an area that directly affects our membership, we have no comments.

2.3.4 Short selling

As this is not an area that directly affects our membership, we have no comments.

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

Yours sincerely,



John Pierce
Chief Executive

THE QUOTED COMPANIES ALLIANCE LEGAL COMMITTEE

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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 the 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 the Accounting Standards Board
- 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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