



**Good governance wins investor backing and cuts the cost of capital, says QCA/UHY Hacker Young
Corporate Governance Behaviour Review**

Ambitious companies should forge closer links with their investors by using plain language and clear reporting that ‘tells a story’, according to a report by the chartered accountants UHY Hacker Young and the Quoted Companies Alliance, the independent membership organisation that champions the interests of small to mid-size quoted companies.

Conveying a strong, clear story in a growth-company’s annual report and accounts as well as on its corporate website builds trust among investors, potentially lowering the cost of capital, according to the Corporate Governance Behaviour Review 2016.

To cope with growing business complexity, directors should explain their business model and key performance measures in clear, concise terms to financial backers. Companies can improve their reputation and credibility by constructively engaging with investors and facilitating interaction and dialogue, producing high-quality reports that are full of clear narrative. “The value of this should not be underestimated.”

The report highlights five governance reporting recommendations – arrived at after discussions with institutional investors:

- Demonstrate clear links between strategy, performance and remuneration;
- Keep your reporting concise and transparent – tell your story;
- Demonstrate that you understand your shareholders’ and other stakeholders’ interests;
- Publish the results of shareholder votes on your website; and
- Describe and explain how board performance is evaluated.

Growth companies are cautioned against using phrases such as ‘in so far as is practicable’ in describing how they comply with the QCA’s standard corporate governance code; ‘Quoted Companies Alliance Corporate Governance Code for Small and Mid-Size Quoted Companies 2013’ (‘the QCA Code’), a document based on broad and accessible principles that helps companies lacking a large investor relations and reporting infrastructure.



“All too often, phrases such as ‘in so far as is practicable’ are used to convey the fact that not all the specific requirements and procedures have been addressed, but without any analysis of what may be practicable,” says UHY Hacker Young Partner, Colin Jones. “To a reader of the annual report and accounts this creates uncertainty and confusion. No reader of such phrases can determine what is practicable, relevant or appropriate without adequate explanation. Such a report loses impact and fails to build trust between a company and its existing and potential investors.”

To secure the trust and confidence of investors and other stakeholders, boards should establish good behaviours, providing for proportionate risk appraisal and management, prudent decision making and open communication.

Applying a “comply or explain” approach with a set of principles creates a corporate culture of high standards, helping secure investment necessary for long-term success – as long as good behaviours are properly reported.

As private investors have fewer opportunities to meet small and mid-size companies, the annual report and accounts represents an important communication medium, providing boards with a unique opportunity to communicate progress, culture and objectives.

The quality of the narrative explanations provided in the company’s messages to the market is paramount, says Quoted Companies Alliance Chief Executive, Tim Ward. “The key media for small and mid-size quoted companies is the annual report and accounts and the corporate website. If companies get this right, then trust is built between the company and its investors. With investor confidence comes a lower cost of capital.”

The QCA Code is structured to enable quoted companies to adopt appropriate governance arrangements. It requires clear explanations that convey the approach and ethos of a company’s governance arrangements. Effective reporting involves a clear understanding of the corporate governance arrangements and an appreciation of the culture established by directors. With this information investors can appreciate how a company’s strategy is managed and developed through its business.

The annual review identifies key areas for improvement for company directors as they seek to enhance the quality of their annual reporting and connect more effectively with stakeholders. The report provides an



opportunity for both self-reflection as well as benchmarking against peers with a view to encouraging companies to make changes for the 2017 reporting season.

As in previous editions, the review benchmarks the corporate governance disclosures made from a random selection of 100 small and mid-size quoted companies taken from the Main List, AIM and ISDX, comparing these against the minimum disclosures set out in the QCA Code.

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Notes to editors:

1. The fourth QCA/UHY Hacker Young Corporate Governance Behaviour Review 2016 is available at: www.theqca.com/ccgreview2016
2. The analysis was conducted by UHY Hacker Young in July and August 2016 on 100 small and mid-size companies with equity securities admitted to trading on a London market (the Main Market of the London Stock Exchange, AIM and the ISDX Growth Market) across all sectors. The sample of companies analysed in 2016 is different to those analysed in previous years. UHY Hacker Young assessed these companies' corporate governance disclosures in their annual reports and accounts and corporate websites against the minimum disclosures of the Quoted Companies Alliance Corporate Governance Code for Small and Mid-Size Quoted Companies 2013 (QCA Code). The assessment was completed on a straightforward binary measure: did the company disclose the minimum disclosures of the QCA Code or not. UHY Hacker Young and the Quoted Companies Alliance did not seek to judge the qualitative nature of the disclosures. The conclusions of this exercise were then presented to a roundtable discussion in October 2016 with institutional investors who provided feedback on the aspects they consider to be significant.
3. The Quoted Companies Alliance is the independent membership organisation that champions the interests of small to mid-size quoted companies. We campaign, we inform and we interact to help our members keep their businesses ahead. Through our activities, we ensure that our influence always creates impact for our members. For more information please visit www.theqca.com.

4. UHY Hacker Young is one of the UK's Top 15 accountancy networks with 109 partners and more than 590 professional staff working from 27 locations around the country. The offices within the Group provide a wide range of accounting, tax and business advisory services, with a reputation for integrity and reliability within the financial community, and particularly with London's Stock Markets. UHY Hacker Young are ranked 11th in the ARL Corporate Advisers Rankings Guide amongst other UK audit firms for advising London Stock Exchange listed companies. UHY Hacker Young is a founder member of the UHY International network with offices in every major financial centre in the world. Further information can be found at www.uhy-uk.com.