

The corporate governance reporting landscape continues to evolve, albeit slowly

In line with increased scrutiny from the Financial Reporting Council (FRC), levels of corporate governance reporting from small and mid-size quoted companies have continued to evolve over the last 12 months, according to a report published today by the Quoted Companies Alliance, the independent membership organisation that champions the interests of small to mid-size quoted companies, and the top 15 UK accountancy firm UHY Hacker Young.

This is the third annual report that benchmarks corporate governance disclosures amongst small and mid-size quoted companies. The message from investors has remained consistent throughout: the annual report is key and is often an investor's only effective source of company information. Given investors' reliance on the report, companies must continue to see this as their, sometimes only, opportunity to set the tone and to attract and influence shareholders.

The most obvious theme across the three years of this review has been companies' apparent difficulty in linking governance with corporate strategy. The reasons for this are unclear, particularly given that the number of companies disclosing their corporate strategy has more than doubled from only 41% in 2014 to an impressive 92% in 2015. However, the number of companies that actually explain how corporate governance structures and behaviours align with strategy remains consistently low in all three years, reaching a peak of only 7% of companies providing an explanation this year. While this link is hard to describe, it is something that institutional investors told the authors that they need to see.

The review benchmarks 100 small and mid-size quoted companies' corporate governance disclosures in annual reports and accounts and on corporate websites against the minimum disclosures of the QCA Corporate Governance Code for Small and Mid-Size Quoted Companies.

A positive note from this year's report is the continued upward trend in the number of companies reporting audit issues, with 41% of companies detailing significant issues that were considered by the committee – an increase from 36% in 2014 and 20% in 2013. Companies also continue to improve their explanations of how audit objectivity and independence are safeguarded, with levels of disclosure increasing year-on-year since 2013.

Disclosure of the directors' roles and the relevant skills and experience that they bring to the company has also remained consistently high and reached a peak this year, with 94% disclosing roles and 92% detailing directors' relevant skills. However, this is at odds with the same disclosure requirements for the senior leadership team, where disclosure of their roles and responsibilities drops to an all-time low of 30%. This falls under the report's recommendation to "make the 'boring' information more interesting" – which the Quoted Companies Alliance and UHY Hacker Young thinks is an 'easy win' for companies.

Another notable improvement over the past three years has been the presentation of companies' corporate governance disclosures. During the collation of data for the 2015 report, the disclosures were far easier to locate and generally there was much better signposting throughout the annual reports and websites. As in prior years, the authors of the report shared the results of the findings with a group of institutional investors at a roundtable discussion and drew on their feedback and comments to identify



recommended reporting tips and easy reporting wins for companies. Looking forward to the next 12 months, the recommended 'top five governance reporting tips for 2016' are:

- Link strategy and corporate governance
- Focus on the bumps in the road ahead
- Tell your company's story
- Make the 'boring' information more interesting
- Ensure that there is consistency

Colin Jones, Head of London Audit at UHY Hacker Young and Deputy Chairman of the Quoted Companies Alliance Corporate Governance Expert Group, said: "Good governance should be part of the fundamental identity of any company that espouses it – something inherently linked into its growth strategy. Good corporate governance can be a foundation upon which sustainable progress in the post-financial crisis market will be delivered."

Tim Ward, Chief Executive of the Quoted Companies Alliance, said: "Effective governance is essential considering its importance to both professional and private investors. Investors appreciate that directors must concentrate on delivering the goods. But, directors must remember who provides the capital to enable them to do so. Good practice includes good reporting. Good governance reported well demonstrates sound stewardship. This report adds to our efforts to promote good governance throughout the small and mid-size quoted company sector."

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Notes to editors:

1. The third QCA/UHY Hacker Young Corporate Governance Behaviour Review 2015 is available at: www.theqca.com/ccgreview2015
2. The analysis was conducted by UHY Hacker Young in July and August 2015 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 2015 is different to those analysed in 2014 and 2013. 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 2015 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 more than 100 partners and 490 professional staff working from 26 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 9th 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.