QUOTED COMPANIES ALLIANCE

The QCA Corporate Governance Code

10 years on

Contents

Introduction

The QCA Corporate Governance Code (the QCA Code [1]) turns 10 years old this year, having first been published back in 2013. The QCA Code underwent a revision in 2018, which coincided with the London Stock Exchange's (LSE's) change to its rules (AIM Rule 26) that required all companies to apply a recognised corporate governance code. This saw the vast majority of AIM companies choose to apply the QCA Code, demonstrating a recognition of its practical, outcome-oriented approach that is specifically tailored for small and mid-sized quoted companies.

As we enter the 10th anniversary of the QCA Code (and it now being 5 years since the last revision), the QCA will be updating the Code again.

However, it is important to look back and reflect on the QCA Code and the impact that it has had on governance on AIM [2].

A (brief) history of the QCA code and its adoption

The QCA Code has witnessed significant take up over its ten-year history.

Pre Code (2004 - 2005)

The QCA's Guidance for Smaller Quoted Companies was published in August 2004 and the following year, in July, the QCA published its Corporate Governance Guidelines for AIM Companies.

Post - 2013

The QCA Corporate Governance Code was formally established, changing from the QCA Corporate Governance Guidelines for AIM Companies. The QCA Code aimed to fill the void left by the UK Code, which applies to companies that have a Premium Listing of equity shares on the Main Market.

Pre - 2018 (prior to the change to AIM Rule 26)

At the end of 2017 / beginning of 2018, there were around 950 companies on AIM, with over 400 companies applying the QCA Code (approximately 45% of companies).

Of the remaining companies that did not apply the QCA Code, many issued boilerplate statements on why they do not follow a corporate governance code due to their size and stage of development. Some companies followed, in whole or part, the UK Code, with a small number of companies following the corporate governance code of their home country.

Post - 2018 (following the change to AIM Rule 26 and the revision to the QCA Code)

At the end of 2018 / beginning of 2019, there were over 900 companies on the AIM market, with just under 90% of these companies choosing to apply the QCA Code.

[1] Note: throughout this paper we refer to the "QCA Code", which is the QCA Corporate Governance Code, and the "UK Code", which is the UK Corporate Governance Code published by the Financial Reporting Council (FRC).

[2] The QCA produced a research report on a survey of companies following the last revision of the QCA Code and have conducted multiple reviews looking at the governance practices on AIM, which have been used in the drafting of this paper.

It is extremely rare that so many companies in one country adopt a governance code at the same time and is testament not only to the enabling nature of the QCA Code, but also that it has helped to improve the perception and integrity of small-cap markets in the UK.

How the QCA Code is percieved

Choosing which corporate governance code to adopt

For most AIM companies the QCA Code is deemed to be much more suited to their needs, particularly when compared with the UK Code. This is, on one hand, due to the flexible, principles-based nature of the QCA Code, as well as it being tailored for small and mid-sized quoted companies, and on the other hand, the onerous and one-size-fits-all prescriptive approach of the UK Code.

Many market participants state how the QCA Code is much more appropriate for smaller, growing companies, as opposed to the UK Code which is perceived as being aimed at the largest companies.

How companies find adopting the QCA Code

When considering the level of resource required to adopt the QCA Code, the majority of companies believe that the exercise is manageable, requiring some resources to be diverted but having a minimal impact on company operations. Many consider that the disclosure requirements under the QCA Code are at the appropriate level, and that it is easy to use and explain to other board members.

The impact of adopting the QCA Code

Many companies believe that adopting the QCA Code has helped the running of their company. In particular, companies have cited that following the QCA Code has:

- Encouraged good communication and better engagement with stakeholders;
- Triggered important conversations around board performance and succession planning; and
- Helped formalise board processes and encourage improved disclosures.

How reporting and disclosures have changed over time

We take a look back at how reporting against the 10 principles of the QCA Code has changed over time, looking at the first year of adoption in 2018/19, compared with 2021/22 [3].

Under virtually each of the 10 principles of the QCA Code and the subsequent disclosure requirements, there has been improvements in the number of companies reporting against the principles. This is important for multiple reasons. Most notably, it increases the level of information available to the market, helping to increase transparency and accountability, allowing investors and other stakeholders to assess companies more easily. It also means companies have adopted new and improved processes and systems to help ensure they're achieving good practice and have the best people in place.

[3] A full breakdown can be found in Annex 1 to this paper.

We detail below the key areas where disclosures have improved under the principles of the QCA Code:

Delivering growth

- Principle 2 – seek to understand and meet shareholder needs and expectations – there has been a noticeable increase in companies disclosing information about the ways in which they engage with shareholders and describe how successful these interactions have been.

Maintaining a dynamic management framework

- Principle 5 – maintain the board as a well-functioning, balanced team led by the chair – companies have taken a closer look at identifying directors who are considered to be independent and providing explanations around where there are grounds to question the independence of a director.
- Principle 6 – ensure that between them the directors have the necessary up-to-date experience, skills and capabilities – companies have been providing better descriptions of the relevant experience, skills and personal qualities and capabilities that each director brings to the board and how this helps to deliver the strategy of the company for the benefit of shareholders over the medium to long-term. Companies have also included more disclosures around internal advisory responsibilities, such as that performed by the company secretary and the senior independent director.
- Principle 7 – evaluate board performance based on clear and relevant objectives, seeking continuous improvement – overall, there has been significant improvement on the number of disclosures around board performance and board performance evaluations. Typically, companies are providing more information around how an evaluation has taken place and the results and recommendations of it. Companies have also taken a much greater focus on succession planning and the processes they use to determine board and other senior management appointments.
- Principle 9 – maintain governance structures and processes that are fit for purpose and support good decision-making by the board – many more companies have provided disclosure around plans for the evolution of their governance framework in line with the company's plans for growth.

Building trust

- Principle 10 – communicate how the company is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders – there has been a marked increase in companies describing the work of their various board committees, as well as including an audit committee report. Furthermore, a greater number of companies are making disclosures explaining what actions they are taking following a situation where a company has received a significant proportion of votes against a resolution.

How the QCA Code has benefited the market

Companies

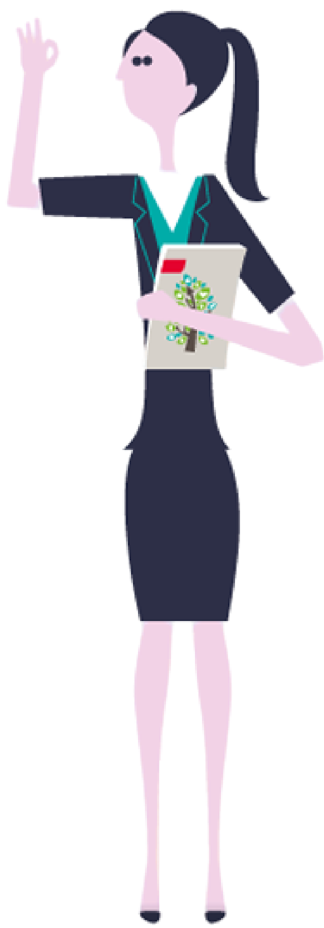
Adoption of the QCA Code has benefited companies in a number of ways. In particular, companies have:

- Formalised new processes and developed improved governance structures
- Had better boardroom discussions and decision-making
- Taken a greater focus on boardroom composition and performance evaluations
- Ensured better succession planning
- Disclosed more to the market around strategy and business model
- Improved connections between Executive and Non-Executive Directors
- Developed better connections with shareholders and other stakeholders

Investors (institutional and retail)

Adoption of the QCA Code has benefited investors in a number of ways. In particular, investors have:

- Benefited from greater levels of information on governance structures, boardroom experience and decision-making processes
- Witnessed improved access to management and the board, as well as being able to challenge them and hold them to account
- Developed a better understanding of the business due to more information being provided around business model, strategy, and culture
- Been able to measure progress of investee companies to great levels



Annex 1

The analysis was conducted on 50 annual reports and accounts and their corporate websites of a range of small and mid-sized quoted companies with securities admitted to AIM across all sectors [4].

Deliver growth

Principle 1 – establish a strategy and business model which promote long-term value for shareholders

	2021 / 22	2018 / 19
Explain the company's business model and strategy, including key challenges in their execution (and how those will be addressed).	100%	78%

Principle 2 – seek to understand and meet shareholder needs and expectations

	2021 / 22	2018 / 19
Explain the ways in which the company seeks to engage with shareholders and how successful this has been. This should include information on those responsible for shareholder liaison or specification of the point of contact for such matters.	98%	56%

Principle 3 – take into account wider stakeholder and social responsibilities and their implications for long-term success

	2021 / 22	2018 / 19
Explain how the business model identifies the key resources and relationships on which the business relies.	98%	86%
Explain how the company obtains feedback from stakeholders and the actions that have been generated as a result of this feedback (e.g. changes to inputs or improvements in products).	90%	56%

Principle 4 – embed effective risk management, considering both opportunities and threats, throughout the organisation

	2021 / 22	2018 / 19
Describe how the board has embedded effective risk management in order to execute and deliver strategy. This should include a description of what the board does to identify, assess and manage risk and how it gets assurance that the risk management and related control systems in place are effective.	98%	92%

[4] Note that the companies covered during the 2018/19 period may not be the same as those covered during the 2021/22 period.

Maintain a dynamic management framework

Principle 5 – maintain the board as a well-functioning, balanced team led by the chair

	2021 / 22	2018 / 19
Identify those directors who are considered to be independent; where there are grounds to question the independence of a director, through length of service or otherwise, this must be explained.	98%	58%
Describe the time commitment required from directors (including non-executive directors as well as part-time executive directors).	38%	80%
Include the number of meetings of the board (and any committees) during the year, together with the attendance record of each director.	82%	58%

Principle 6 – ensure that between them the directors have the necessary up-to-date experience skills and capabilities

	2021 / 22	2018 / 19
Identify each director	100%	100%
Describe the relevant experience, skills and personal qualities and capabilities that each director brings to the board (a simple list of current and past roles is insufficient); the statement should demonstrate how the board as a whole contains (or will contain) the necessary mix of experience, skills, personal qualities (including gender balance) and capabilities to deliver the strategy of the company for the benefit of the shareholders over the medium to long-term.	94%	26%
Explain how each director keeps his/her skillset up-to-date.	14%	32%
Where the board or any committee has sought external advice on a significant matter, this must be described and explained.	36%	8%
Where external advisers to the board or any of its committees have been engaged, explain their role.	26%	14%
Describe any internal advisory responsibilities, such as the roles performed by the company secretary and the senior independent director, in advising and supporting the board.	88%	28%

Principle 7 – evaluate board performance based on clear and relevant objectives, seeking continuous improvement

	2021 / 22	2018 / 19
Include a high-level explanation of the board performance effectiveness process.	86%	42%

Where a board performance evaluation has taken place in the year, provide a brief overview of it, how it was conducted and its results and recommendations. Progress against previous recommendations should also be addressed.	**74%**	**8%**
Include a more detailed description of the board performance evaluation process/cycle adopted by the company. This should include a summary of: • The criteria against which board, committee, and individual effectiveness is considered; • How evaluation procedures have evolved from previous years, the results of the evaluation process and action taken or planned as a result; and • How often board evaluations take place.	**60%**	**12%**
Explain how the company approaches succession planning and the processes by which it determines board and other senior management appointments, including any links to the board evaluation process.	**70%**	**20%**

Principle 8 – promote a corporate culture that is based on ethical values and behaviours

	2021 / 22	**2018 / 19**
Include in the chair's corporate governance statement how the culture is consistent with the company's objectives, strategy and business model in the strategic report and with the description of principal risks and uncertainties.	**96%**	**62%**
Explain how the board ensures that the company has the means to determine that ethical values and behaviours are recognised and respected.	**86%**	**80%**

Principle 9 – maintain governance structures and processes that are fit for purpose and support good decision-making by the board

	2021 / 22	**2018 / 19**
Describe the roles and responsibilities of the chair, chief executive and any other directors who have specific individual responsibilities or remits (e.g. for engagement with shareholders or other stakeholder groups).	**88%**	**70%**
Describe the roles of any committees (e.g. audit, remuneration and nomination committees) setting out any terms of reference and matters reserved by the board for its consideration.	**94%**	**98%**
Describe which matters are reserved for the board.	**90%**	**42%**
Describe any plans for evolution of the governance framework in line with the company's plans for growth.	**56%**	**9%**

Build trust

Principle 10 – communicate how the company is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders

	2021 / 22	2018 / 19
Describe the work of any board committees undertaken during the year.	**86%**	**42%**
Include an audit committee report (or equivalent report if such committee is not in place).	**68%**	**32%**
Include a remuneration committee report (or equivalent report if such committee is not in place).	**80%**	**66%**
If the company has not published one or more of the disclosures set out under Principles 1-9, the omitted disclosures must be identified and the reason for their omission explained.	**6%**	**12%**
Disclose the outcomes of all votes in a clear and transparent manner.	**40%**	**54%**
Where a significant proportion of votes (e.g. 20% of independent votes) have been cast against a resolution at any general meeting, the company should include, on a timely basis, an explanation of what actions it intends to take to understand the reasons behind that vote result, and, where appropriate, any different action it has taken, or will take, as a result of the vote.	**30%**	**2%**
Include historical annual reports and other governance-related material, including notices of all general meetings over the last five years.	**100%**	**92%**

About the QCA

The Quoted Companies Alliance champions the UK's community of 1000+ small and mid-sized publicly traded businesses and the firms that advise them.

We believe the public markets can be the best place for companies to source the funds to grow, operate transparently and distribute wealth, fairly.

The QCA seeks to inform policy in dialogue with regulators and government, showcase the latest thinking on leadership, investment, technology and governance through our events and research, and to provide a forum to share good practice among members, who are quoted on the Main Market, AIM and the Aquis Stock Exchange.

For more information, please visit www.theqca.com.