The QCA
Corporate Governance Code & the 2018/19 Behaviour Review

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QUOTED COMPANIES ALLIANCE

Quoted Companies Alliance

- Independent membership organisation championing the UK small and mid-size quoted sector. Campaign, inform, create interaction.

- Quoted companies and advisory firms as members.

- Impact through influence.

- We publish the QCA Corporate Governance Code.

The QCA Code

- Published in 2013, revised in 2018

- Adopted by the large majority of the 900+ companies on AIM

- Reference for growing companies as a recognised code

- Practical, outcome-oriented approach to corporate governance that is tailored for small and mid-size companies

- Proportionate code/flexible approach for growing companies, different from the UK Code (FRC)

- Comply and explain set of recommended disclosures in the annual report and/or website
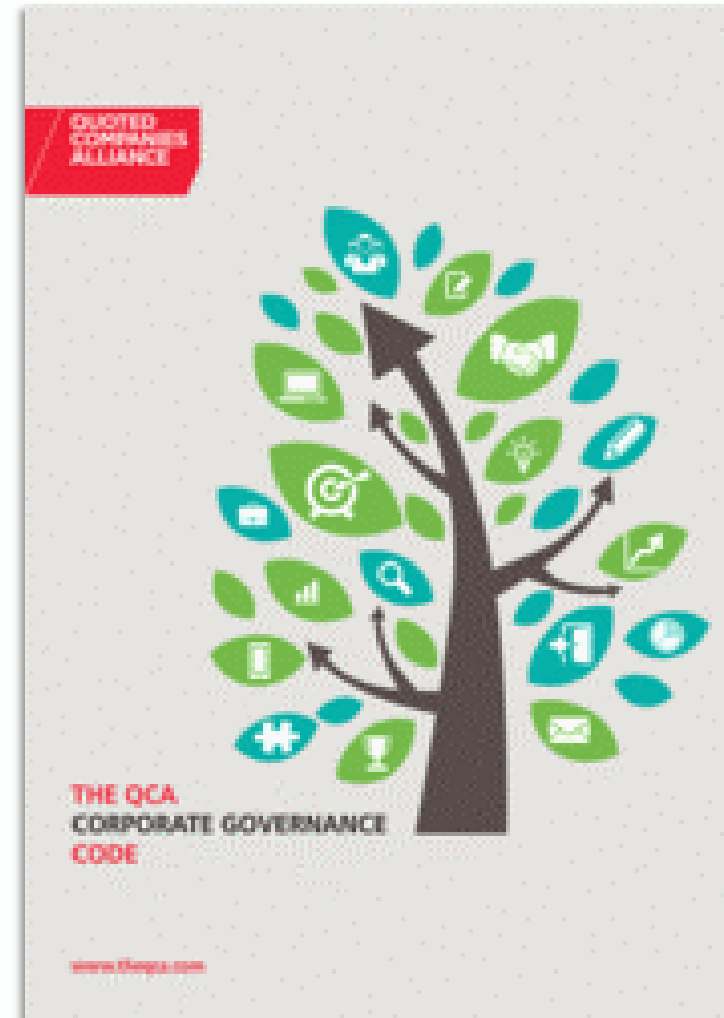
The QCA Code
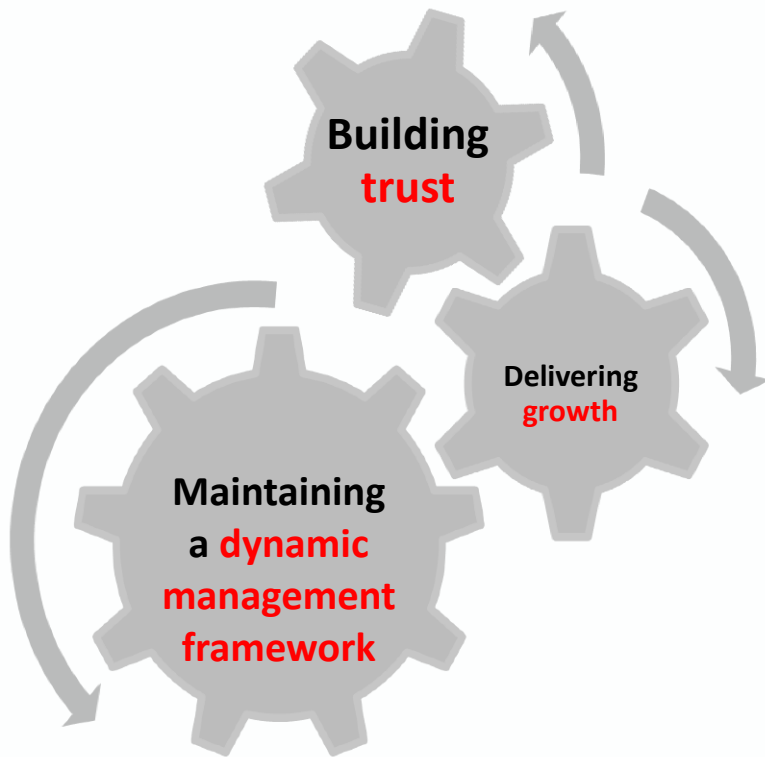
Structure of the QCA Code:

1. The effective application of the QCA Code
   - Explaining
   - Disclosures and signposting
2. Good Corporate Governance
3. The Principles of the QCA Code
4. Roles and Responsibilities

The QCA Code

10 Principles based on:

Building trust

Delivering growth

Maintaining a dynamic management framework

Companies need to deliver growth in long-term shareholder value. This requires an efficient, effective and dynamic management framework and should be accompanied by good communication which helps to promote confidence and trust.

DELIVER GROWTH

1. Establish a strategy and business model which promote long-term value for shareholders

2. Seek to understand and meet shareholder needs and expectations

3. Take into account wider stakeholder and social responsibilities and their implications for long-term success

4. Embed effective risk management, considering both opportunities and threats, throughout the organisation

MAINTAIN A DYNAMIC MANAGEMENT FRAMEWORK

5. Maintain the board as a well-functioning, balanced team led by the chair

6. Ensure that between them the directors have the necessary up-to-date experience, skills and capabilities

7. Evaluate board performance based on clear and relevant objectives, seeking continuous improvement

8. Promote a corporate culture that is based on ethical values and behaviours

9. Maintain governance structures and processes that are fit for purpose and support good decision-making by the board

BUILD TRUST

10. Communicate how the company is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders

The UK Code (FRC)

- "Gold standard"
- Most adequate for large companies aspiring to a Premium Listing/wishing to attract institutional investment
- Main Principles / Supporting Principles / Code provisions / Guidance

- Five Main Principles:
  - A: Board and Company Purpose
  - B: Division of Responsibilities
  - C: Composition, Succession and Evaluation
  - D: Audit, Risk, Internal Control
  - E: Remuneration

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UK Corporate Governance Principles for Large Private Companies

- Coalition Group Chaired by James Wates

- Government initiative / FRC support

- "The UK Code contains elements that are not appropriate for private companies, which – while representing a diverse set of ownership structures – often experience a **different set of governance challenges**."

- "Private companies constitute a **vast portion of the UK economy**, and they must recognise that their actions can have a **significant impact on their stakeholders**."

THE WATES CORPORATE GOVERNANCE PRINCIPLES FOR LARGE PRIVATE COMPANIES

Principle One – Purpose

An effective board promotes the purpose of a company, and ensures that its values, strategy and culture align with that purpose.

Principle Two – Composition

Effective board composition requires an effective chair and a balance of skills, backgrounds, experience and knowledge, with individual directors having sufficient capacity to make a valuable contribution. The size of a board should be guided by the scale and complexity of the company.

Principle Three – Responsibilities

A board should have a clear understanding of its accountability and terms of reference. Its policies and procedures should support effective decision-making and independent challenge.

Principle Four – Opportunity and risk

A board should promote the long-term success of the company by identifying opportunities to create and preserve value, and establishing oversight for the identification and mitigation of risks.

Principle Five – Remuneration

A board should promote executive remuneration structures aligned to the sustainable long-term success of a company, taking into account pay and conditions elsewhere in the company.

Principle Six – Stakeholders

A board has a responsibility to oversee meaningful engagement with material stakeholders, including the workforce, and have regard to that discussion when taking decisions. The board has a responsibility to foster good stakeholder relationships based on the company's purpose.

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The QCA Code

- The 2018 revision had the support of background analysis and surveys:

    - <u>QCA/UHY Hacker Young Corporate Governance Behaviour Review</u>
    - QCA/Peel Hunt Investor Survey

The QCA/UHY Behaviour Review

- 6 annual reviews since the first publication of the QCA Code in 2013

- Analysis of the disclosures of a sample of randomly selected companies against the QCA Code

- Includes Five Top Tips for company boards based on results and discussions with investors

- 2018/19 review analysed results following a AIM Rule change and the revision of the QCA Code

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UHY Hacker Young
Chartered Accountants

Corporate Governance
Behaviour Review 2018/19

Our sixth annual review identifies how directors can improve their corporate reporting to better connect with shareholders.

Helping you prosper

What trends can be seen from six years of examining mid and small-cap governance?

- Disclosures consistently difficult for companies to comply with:

  - describing how board performance evaluation takes place

  - linking the company's business plan with its corporate governance arrangements for long-term growth

  - Identifying independent directors

  - Describing Roles and Responsibilities of the Chair, Chief Executive and Senior Independent Director

- Disclosures where there has been improvement:

  - Articulating the strategy of the company

  - Explaining how risks align with the strategy, as well as linking into KPIs, remuneration policies and corporate responsibility activities

  - including a report by the Chair on how the QCA Code is applied

The QCA/UHY Behaviour Review: 2018/19

- Number of companies sampled that have chosen to adopt the QCA Code: 98%

Five top tips for AIM company boards

Nail your elevator pitch

Connect your company's strategy, business model and governance in a simple and straightforward manner, as you would in an elevator pitch.

Ask for feedback

Engage with shareholders and stakeholders and act on the feedback obtained, communicating effectively how this took place and what results it brought to help achieve the company's long-term success.

Know your board's purpose

Focus on how your board is built and how that is communicated – detail its composition, performance evaluation, succession planning and matters reserved for the board.

Show how you differ

Communicate clearly where your company's governance arrangements diverge from common practices – explain to investors why your approach is right for your company.

Celebrate your company culture

Explain how the company is promoting a sound corporate culture and how that is consistent with its objectives, strategy and business model.

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Thank you

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