Governance in brief

The QCA updates its Corporate Governance Code as AIM tightens rules

**Headlines**

- The London Stock Exchange has announced that all AIM companies will need to report on their application of a recognised corporate governance code on their website with effect from 28th September 2018.

- The Quoted Companies Alliance (QCA) issued a revised and fully updated QCA Corporate Governance Code in April. The QCA Code is tailored to meet the needs of small and mid-size quoted firms. It is referred to by a substantial number of AIM companies on their websites, and is also used by a number of privately-owned companies.

**Changes to AIM Rule 26**
The updated AIM Rules for Companies state that each AIM company must from admission maintain a website on which the following information should be available, free of charge:

- details of a recognised corporate governance code that the board of directors of the AIM company has decided to apply;
- how the AIM company complies with that code; and
- where it departs from its chosen corporate governance code an explanation of the reasons for doing so.

This information should be reviewed annually and the website should include the date on which this information was last reviewed.

Until now, AIM quoted companies have had the choice of either noting on their website which corporate governance code they followed, or merely stating they did not follow a code and setting out their own arrangements. The new rules mean that this second option is no longer available.

The implementation of this requirement will take effect from 28 September 2018. However, all new applicants from 30 March 2018 will be required to state which corporate governance code they intend to follow but otherwise will have until 28 September 2018 to comply.
The QCA corporate governance code
Since its initial release in 2013, the QCA Code has been a valuable reference for growing companies wishing to follow good governance practice. It serves as a practical outcome-oriented approach to corporate governance for AIM quoted companies.

Now, to coincide with the changes to the AIM Rules, a revised version of the QCA Corporate Governance Code is available. It includes 10 corporate governance principles that companies should follow:

<table>
<thead>
<tr>
<th>Deliver growth</th>
<th>Maintain a dynamic management framework</th>
<th>Build trust</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Establish a strategy and business model which promote long-term value for shareholders</td>
<td>5. Maintain the board as a well-functioning, balanced team led by the chair</td>
<td>10. Communicate how the company is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders</td>
</tr>
<tr>
<td>2. Seek to understand and meet shareholder needs and expectations</td>
<td>6. Ensure that between them the directors have the necessary up-to-date experience, skills and capabilities</td>
<td></td>
</tr>
<tr>
<td>3. Take into account wider stakeholder and social responsibilities and their implications for long-term success</td>
<td>7. Evaluate board performance based on clear and relevant objectives, seeking continuous improvement</td>
<td></td>
</tr>
<tr>
<td>4. Embed effective risk management, considering both opportunities and threats, throughout the organisation</td>
<td>8. Promote a corporate culture that is based on ethical values and behaviours</td>
<td></td>
</tr>
<tr>
<td></td>
<td>9. Maintain governance structures and processes that are fit for purpose and support good decision-making by the board</td>
<td></td>
</tr>
</tbody>
</table>

In the updated Code each of these ten principles is accompanied by an explanation of what the principle is intended to achieve plus a suggested disclosure which companies are expected to tailor (either in the annual report or on the company website).

The correct application of the QCA Code requires a company to apply the ten principles and also to publish certain related disclosures. In addressing those requirements, emphasis should be on describing what is done and why it is done in a particular way; disclosures should not be approached as a compliance exercise.

In addition to the disclosures suggested below each principle, the correct application of the QCA Code also requires that the chair provides a clear explanation of how the company has applied the QCA Code. It is recommended that the chairman's statement covers the following:

- a clear articulation of the chair's role demonstrating his/her responsibility for corporate governance
- a high level explanation of how the QCA Code is applied by the company and how its application supports the company's medium to long-term success;
• a clear and well-reasoned explanation of any areas in which the company’s governance structures and practices differ from the expectations set by the QCA Code;

• an identification of any key governance related matters that have occurred during the year, including any significant changes in governance arrangements.

Other sections of the Code set out additional guidance that companies may find helpful when considering how to apply the QCA Code principles.

The QCA Code can be accessed here – http://www.theqca.com/shop/guides/. It is free for QCA members but a fee is payable by non-members.