QUOTED COMPANIES ALLIANCE

The QCA Corporate Governance Code

Good governance, growing influence

Contents

Introduction

In its ten-year history, the QCA Corporate Governance Code (QCA Code) has grown in significance and importance. When it was formally established in 2013, changing from the QCA Corporate Governance Guidelines for AIM Companies, the QCA Code aimed to fill the void left by the UK Corporate Governance Code (UK Code), which applies to companies that have a Premium Listing of equity shares on the Main Market, in providing a corporate governance framework for smaller growth companies.

Since then, its adoption has increased substantially, and it is now widely regarded as the corporate governance code of choice for small and mid-sized growth companies.

At the end of 2017, there were approximately 950 companies on AIM, with over 400 companies applying the QCA Code (approximately 45% of companies). Of the remaining companies, many did not apply a corporate governance code at all and a handful either adopted, in whole or part, the UK Code or a jurisdictional code. Following the revision of the QCA Code in 2018, and the change to AIM Rule 26, over 89% of companies on AIM chose to adopt the QCA Code.

Now, in 2023, and as the QCA Code is undergoing its latest update, we believed it would be an appropriate time to consider in some detail the current state of play on levels of adoption and the subsequent application of the QCA Code.

In June 2023, we analysed corporate governance code adoption on AIM, AQSE and the Standard Listing segment of the LSE Main Market. The annual reports and accounts and corporate governance statements of all companies on these markets were reviewed, covering the previous 12-month period. The objective was to understand the extent of adoption and compliance with corporate governance codes, with a particular focus on the QCA Code.

What we found

Our research has demonstrated that QCA Code adoption has reached a record level, we believe both in absolute terms and in overall market share. The level of adoption by companies across AIM, AQSE and the Standard List makes the QCA Code the most widely-used corporate governance code for small and mid-sized quoted companies in the UK.

In addition, a function of the QCA Code's growing adoption and the contraction of the Premium Listing segment means that it is very nearly used by as many companies as the Financial Reporting Council's UK Corporate Governance Code. If we were able to track reliably the number of private companies known to use the QCA Code as a point of reference, we believe it could be the most pervasive overall.

The key findings of the research on the QCA Code include:

On adoption:

- Over 93% of AIM-quoted companies adopt the QCA Code (744/798 companies).
- Over 76% of AQSE-quoted companies adopt the QCA Code (74/98 companies).
- Approximately 27% of Standard List companies adopt the QCA Code (71/264 companies) [1].
- Overall, the QCA Code has been adopted by 889 companies compared with 913 companies for the UK Corporate Governance Code.

On application:

- Of the 744 AIM-quoted companies adopting the QCA Code, under one-tenth state they do not fully comply.
- Of the 77 AQSE-quoted companies adopting the QCA Code, over a third state they do not fully comply.

By market capitalisation:

- Of the 761 AIM-quoted companies with a market capitalisation below £500 million, nearly 95% apply the QCA Code.
- Over 8 in 10 of the 25 AIM-quoted companies with a market capitalisation between £500 million and £999 million adopt the QCA Code.
- Of the 11 companies on AIM with a market capitalisation above £1billion, four choose to adopt the QCA Code, with four also choosing to adopt the UK Code.

By jurisdiction:

- On AIM, the majority of companies headquartered outside the UK adopt the QCA Code.

[1] Limitations existed on collecting information on certain Standard List companies.

The full market picture

Before we take a deeper look at the adoption and application of the QCA Code across AIM, AQSE and the Standard Listing segment, it is interesting to consider how corporate governance code adoption looks across the broader market spectrum.

Figure 1 – Code adoption across all markets [2] [3] [4]

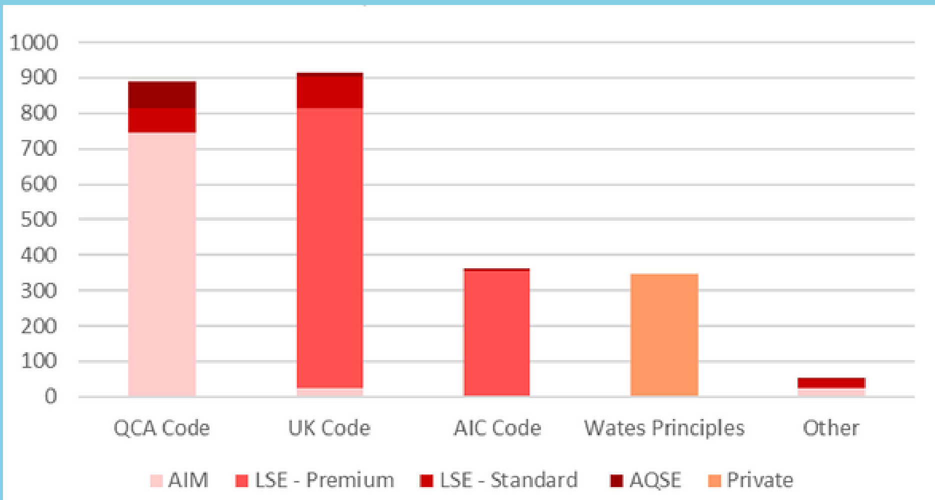


Figure 1 shows the level of code adoption across each market segment. As shown in the graph, the QCA Code and UK Code are by far the most widely adopted codes in the UK, with 889 and 913 companies adopting each code, respectively.

As already highlighted at the beginning of this report, the QCA Code's heartland is AIM, with 744 companies on this market adopting it, but there is also a strong number of companies following it on both AQSE and the Standard List.

The UK Code's heartland is the Premium Listing segment of the LSE, whereby all 789 companies are required to follow it.

The third most widely used code is the AIC Code, with 360 companies adopting this. The vast majority of companies adopting this code are on the Premium Listing segment (350). These companies are all closed-ended investment funds and choose to voluntarily apply the AIC Code in addition to the UK Code. There are only 22 closed-ended investment funds that choose not to apply both the UK Code and AIC Code.

Whilst not technically a code as such, it is also interesting to consider the practices of the private markets. The Wates Principles represent the fourth most widely adopted approach to corporate governance in the UK, with 348 private companies adopting them.

[2] Please note that, as at the end of July 2023, there were a total of 789 companies on the Premium Listing segment, with many companies choosing to apply both the UK Code (as required to do so) and voluntarily adopting the AIC Code.
[3] Please note that the data for the Wates Principles was collected and published in a report produced by the FRC in 2022. The report finds that of the 1,815 companies within scope of the Wates Principles, 348 companies were determined to have followed them. The report is available here.
[4] It should be noted that the actual level of adoption for the QCA Code, UK Code and AIC Code may be higher as information was only collected on these codes for companies on public markets. The QCA Code, for instance, is applied by multiple private companies but no exercise was undertaken to assess this.

The QCA Code and how it has evolved

The QCA Code

The QCA Code is a practical, outcome-oriented and principles-based approach to governance that is tailored for small and mid-sized quoted companies. It is a valuable reference for growing companies wishing to follow good governance practice. Through its ten principles, its approach is to facilitate and enable companies, rather than prescribing them to adhere to set requirements.

The QCA Code is now 10 years old, having first been published in 2013. It 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 proportionate approach.

The QCA Code is currently undergoing its latest revision, which will be published later this year.

Application of the QCA Code and how it has changed over time

When we have sought feedback in the past, the vast majority of companies believe that the process of applying the QCA Code is manageable, requiring some resources but having a minimal impact on company operations [5]. Most companies also 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 [6]. This is in contrast to the UK Corporate Governance Code, which is deemed to be too onerous by a majority of companies [7].

[5] QCA/YouGov, 2019, Corporate Governance on AIM: How 900 companies adopted a corporate governance code for the first time, available at: https://www.theqca.com/shop/guides/208746/research-report-corporate-governance-on-aim.thtml
[6] Ibid.
[7] Ibid.

With this in mind, many companies have indicated how the QCA Code has helped improve the running of their business, citing that it has:

- Encouraged good communication and better engagement with shareholders and stakeholders
- Improved conversations around board performance and succession planning
- Formalised board processes
- Helped improve disclosures

Moreover, when looking back at how application of the QCA Code has changed over time, we see improvements in the number of companies reporting against each of the principles. Looking back at the first year of adoption in 2018/19, compared with 2021/22, we see that disclosures have improved under nearly every one of the ten principles [8]. This has meant improvement in processes and increases in the level of information available to the market, helping to increase transparency and accountability, allowing investors and other stakeholders to assess companies more easily.

The QCA Code has, therefore, been a force for good on AIM, and begs the question of whether it could be applied more broadly across different asset classes and on different markets.

Throughout the next few sections in this report we assess the levels of adoption and application of the QCA Code across AIM, AQSE and the Standard Listing segment of the LSE.

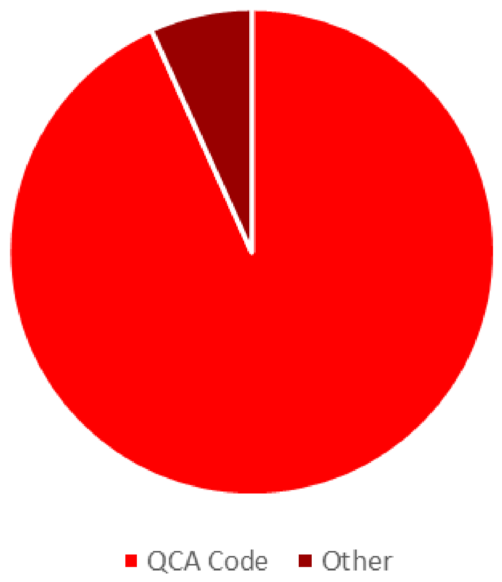
[8] QCA, 2023, The QCA Corporate Governance Code: 10 years on, available at: https://www.theqca.com/news/briefs/472016/the-qca-corporate-governance-code-10-years-on.thtml

AIM

Breakdown of Code adoption

At the time of conducting the research, in June 2023, there were 798 companies quoted on AIM. Of these companies, 744 have chosen to adopt the QCA Code, equating to over 93% of all companies on the market. Compared with 2018, when the exercise was last conducted, there has been an increase of four percentage points in the level of adoption. It should be noted, however, that in 2018, there were 928 companies on AIM, with 818 of these applying the QCA Code (89%). Therefore, as a result of the number of companies on the market shrinking, the number of AIM companies applying the QCA Code has fallen.

Figure 2 – Code adoption by AIM-quoted companies [9]



As highlighted in Figure 2, the QCA Code is, by far, the most widely used governance code that companies on AIM have chosen to apply. The change to AIM Rule 26 [10] in September 2018 resulted in significant uptake of the QCA Code, and its use has only grown since.

The UK Corporate Governance Code (UK Code), published by the FRC, is the second most widely-used governance code for AIM companies, with 25 companies (3%) choosing to adopt it. Other codes adopted by a handful of companies are a mix of jurisdictional and sector-specific codes. These include the ASX Corporate Governance Principles and Recommendations, the AIC Code of Corporate Governance, the King IV Code, Hong Kong Corporate Governance Code, Bangladesh Securities and Exchange Commission Code, Guernsey Financial Services Commission Code, and the Corporate Governance Code of Canada.

[9] "Other" refers to the UK Code (25), the ASX Code (11), Corporate Governance Code of Canada (8), AIC Code (3), King IV Code (2), GFSC Code (2), HKEX Code (1), and BSEC Code (1)
[10] AIM Rules for Companies, available at: https://docs.londonstockexchange.com/sites/default/files/documents/aim-rules-for-companies-march-2018-clean.pdf

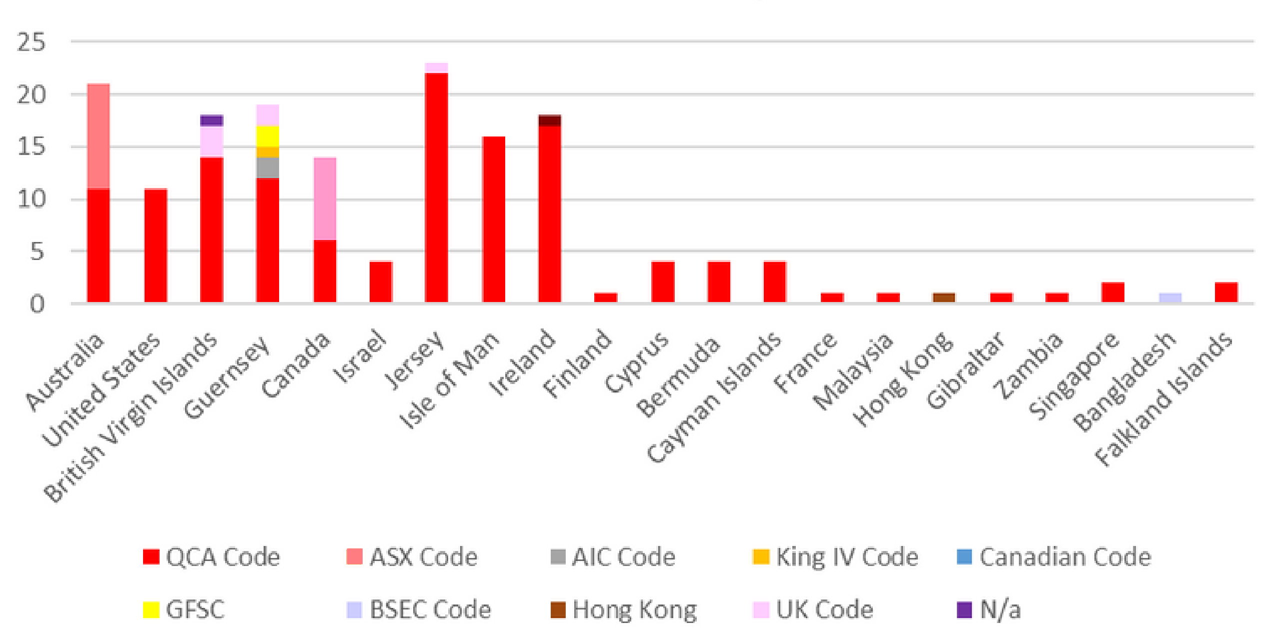
Code adoption by location and market capitalisation

Location

The majority of companies quoted on AIM are based in the UK, with 629 (79%) of the 798 companies having their operations headquartered here. Only 21 of these 629 UK-based companies choose not to apply the QCA Code (19 adopt the UK Code, with the ASX Code and King IV Code being adopted by one company each).

In terms of international companies, the majority of companies also adopt the QCA Code. For instance, all companies located in the United States, Israel, Isle of Man, Finland, Cyprus, Bermuda, Cayman Islands, France, Malaysia, Gibraltar, Zambia, Singapore and Falkland Islands follow the QCA Code.

Figure 3 – Code adoption for non-UK-based companies



As highlighted in Figure 3, code adoption varies depending on where the company is incorporated. On the whole, the QCA Code remains the most widely-used code of choice in most jurisdictions. However, the governance codes of Australia and Canada both have high levels of adoption by companies that are incorporated there and quoted on AIM.

For instance, over half (52%) of the 21 Australian companies trading on AIM apply the ASX Code. The situation is similar for Canadian companies, with 57% of the 14 companies following the Canadian code. Many of these companies have a dual listing in their own jurisdiction and on AIM.

Market capitalisation

There is often an assumption that the QCA Code is appropriate for small companies only. It is therefore worthwhile considering how the QCA Code is adopted across various market capitalisation bands on AIM. For simplicity, three size segments were considered:

Figure 4 – Code adoption by market capitalisation

Market Capitalisation	No. of companies	% adopting QCA Code	% adopting a different code
<£500m	761	95%	5%
£500m - £999m	25	84%	16%
>£1b	11	36%	64%

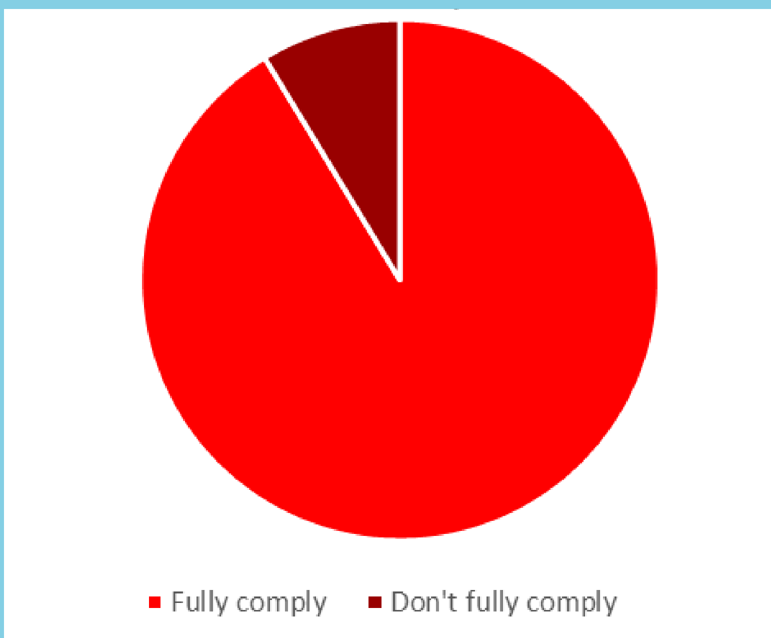
Despite the large difference in the number of companies with a market capitalisation below £500 million and those with a market capitalisation between £500 million and £999 million, levels of adoption of the QCA Code are broadly similar. However, there is an evident drop off in the number of companies with a market capitalisation above £1 billion.

On the face of it, it might be assumed that the lower take up of the QCA Code for these companies is a reflection of expectations that, for instance, the UK Code is more appropriate or desirable for larger companies. However, of the 11 companies with a market capitalisation of over £1 billion, the same number of companies (four) adopt the UK Code as they do the QCA Code.

QCA Code application

Now that the level of adoption of the QCA Code has been considered, it is important to consider how the QCA Code is applied by those applying it on AIM. Of the 744 companies adopting the QCA Code, 71 companies (<10%) state that they do not fully comply with the Code [11]. Whilst the number of companies stating that they do not fully comply is relatively small it is useful to consider the issues and/or Principles that these companies struggle to comply with.

Figure 5 – QCA Code compliance

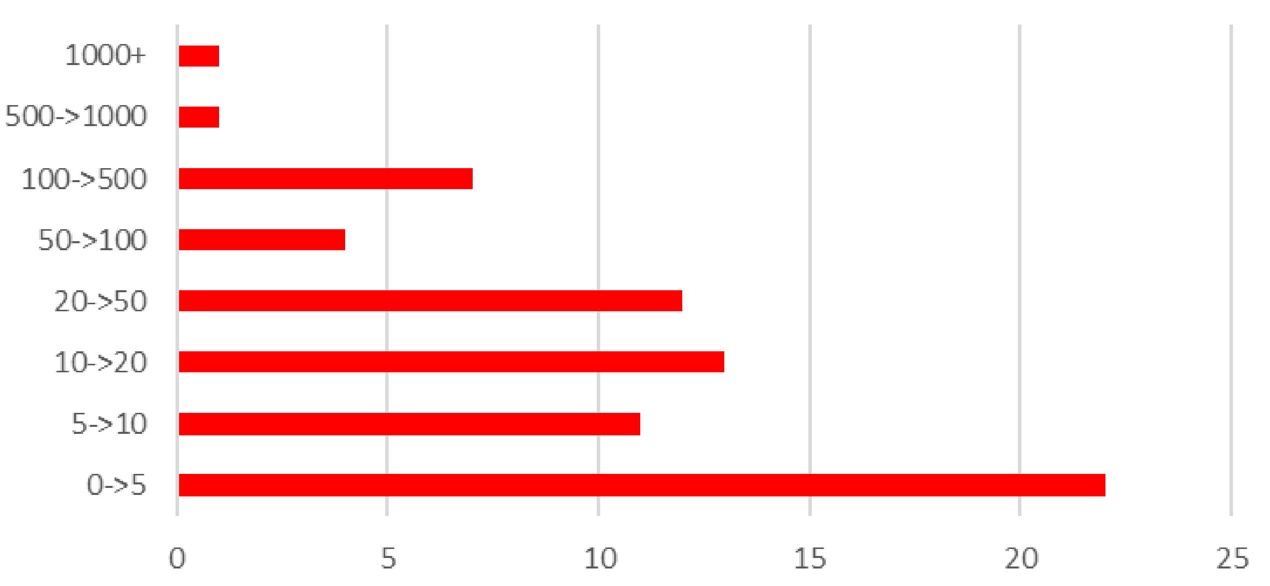


[11] It should be noted that this figure only covers companies who have publicly stated that they diverge from the QCA Code and/or its Principles. There may be instances where it could be considered that companies who do not state they diverge from the QCA Code are not applying the Code and/or its Principles appropriately/fully.

In a recent report looking at the history of the QCA Code [12], we highlighted how the disclosures of a range of AIM-quoted companies had improved over time. Under almost all of the Code's Principles and recommended disclosures, application had improved. However, there were two Principles in this research – Principle 5 and Principle 7 – where levels of application were slightly lower. This analysis also produced similar findings. Certain issues arose with some other Principles, but these were rare.

Generally, for companies that declare a degree of non-compliance, the main reason given was in relation to the smaller size of their company.

Figure 6 – Market capitalisation (£m) of companies who state they do not fully comply with the QCA Code



A short breakdown of some of the issues encountered by companies are detailed below.

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

Several companies who have a large impact on the environment, and particularly those within the basic materials and energy sectors, highlighted that they were aware they could be doing more to address their environmental impact. More specifically, with investors and wider society taking an increased focus on these issues, these companies recognised that they needed to do more to reduce their carbon footprint.

In a similar vein, and whilst diversity and inclusion is not explicitly referred to in this Principle, several companies also recognised that this too is an increasing focus of shareholders and they acknowledge that their efforts could be improved in this area.

[12] QCA, February 2023, The QCA Corporate Governance Code: 10 years on, available at: https://www.theqca.com/article_assets/articledir_944/472016/qca%20corporate%20governance%20code%20report_asset_63f750da764ac.pdf

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

Overall, this Principle was complied with well, with only a few companies stating difficulties with applying it. This was often in relation to not having an internal audit function, with companies stating that they do not deem it necessary for their size and that the day-to-day control function can be sufficiently completed by the company's directors.

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

Of the companies which stated they were not fully compliant with the QCA Code, several state that they struggle to apply Principle 5 in full. Many companies highlighted that, due to their smaller nature, this Principle was not in line with their size of operations, particularly in relation to having independent non-executive directors (iNEDs), with some not fulfilling the requirement for a minimum of two iNEDs on the board.

In a small number of cases, companies stated that their chair also fulfilled the role of chief executive, which they believed to be appropriate for their current stage of development.

Principle 7 – Evaluate board performance based on clear and relevant objectives, seeking continuous improvements

Under this Principle, many companies highlighted that they had no formal board evaluation taking place or a self-evaluation process. This was particularly evident amongst companies with a smaller market capitalisation.

Several companies also mentioned that they did not have a policy in place for succession planning.

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

There were very few instances where companies stated that they did not comply with this Principle. However, those that did, mentioned that it was due to having no formal statement on culture or ethics.

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

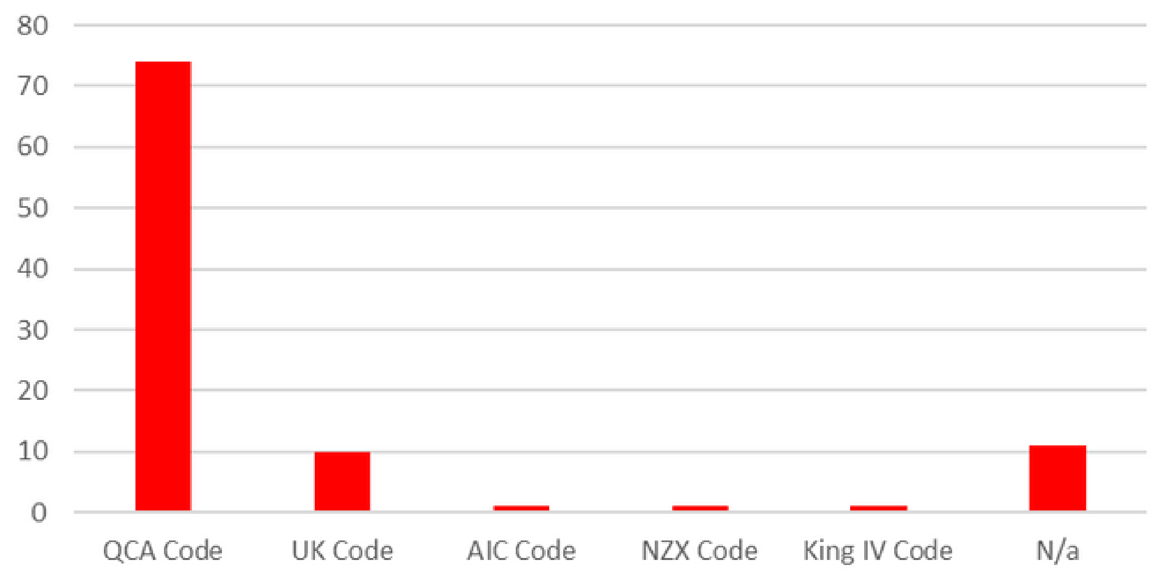
Our research indicated that this Principle was the third highest in terms of non-compliance. The reason being was that companies often did not set out the roles of its committees (e.g. audit, remuneration and nomination committees).

AQSE

Breakdown of code adoption

At the time of conducting the research, there were 98 companies listed on the AQSE. Of these companies 74 adopted the QCA Code, representing 76% of companies. A full breakdown is provided below [13]:

Figure 7 – Code adoption by AQSE companies



QCA Code
74 companies (76%)

UK Code
10 companies (10%)

AIC, NZX, and King IV Code
1 company each (1% each)

N/A [14]
11 companies (11%)

In a similar vein to AIM, the QCA Code is adopted by the majority of companies on AQSE, with the UK Code being the second most common code. However, despite the requirement of Rule 2.7 of both the Access and Apex Aquis Growth Market Rulebooks [15], there are 11 companies where there is no information on corporate governance readily available on either their websites or in annual reports and accounts.

QCA Code application

Of the 74 companies on AQSE that currently adopt the QCA Code, over a third state that they diverge from the Code in some way. As with AIM companies, this often pertains to Principles 5 and 7.

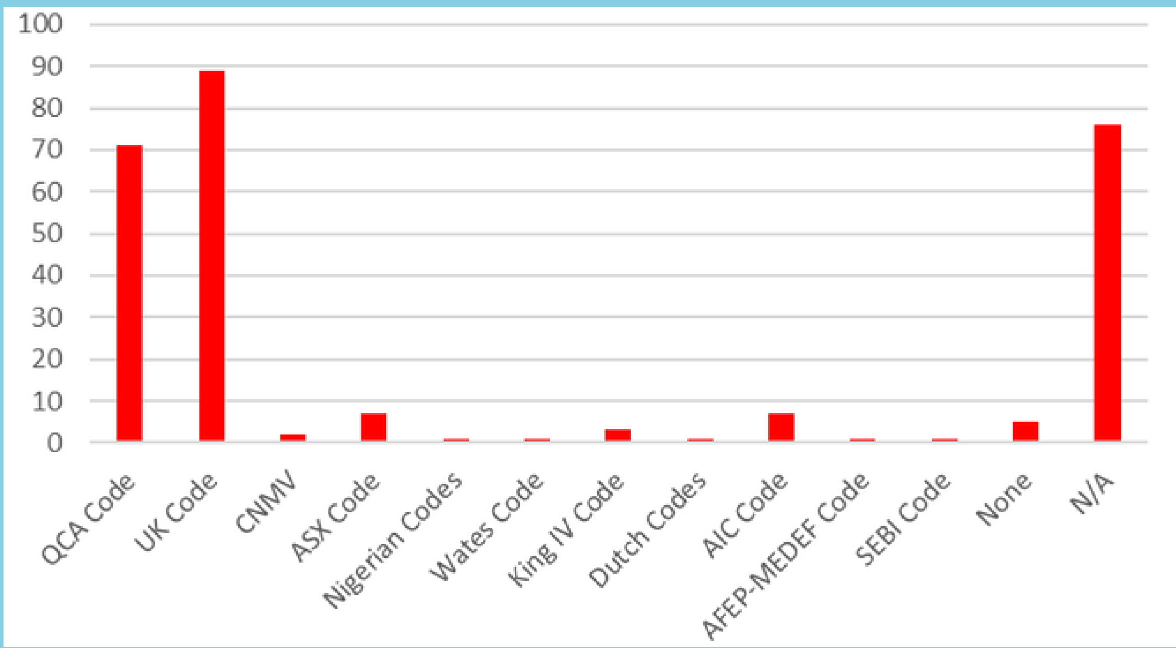
[13] There were a total of 103 companies listed on the AQSE at the end of June 2023. However, in order to conduct this exercise, duplicates were removed to leave 98 companies.
[14] No corporate governance information was available for these companies.
[15] AQSE Growth Market Access Rulebook, available at: https://aqx-web-prod-s3-public-read.s3.eu-west-2.amazonaws.com/access_rulebook_a1f84d3e12.pdf and AQSE Growth Market Apex Rulebook, available at: https://aqx-web-prod-s3-public-read.s3.eu-west-2.amazonaws.com/apex_rulebook_2ef0c6b236.pdf

Standard List

Breakdown of code adoption

Contrary to AIM and AQSE, the most widely-used code on the Standard Listing segment of the London Stock Exchange is the UK Code, with 89 companies applying it. The websites and annual reports and accounts of 264 Standard Listed companies were reviewed [16].

Figure 8 – Code adoption by Standard List companies



UK Code 89 companies (34%)	No Code/N/a 81 companies (31%)
QCA Code 71 companies (27%)	Other codes 23 companies (8%)

Unlike the Premium Listing segment (Listing Rule 9 [17]), AIM (AIM Rule 26) and AQSE (AQSE Rule 2.7), there is no such requirement on the Standard Listing segment for companies to formally apply a corporate governance code. Some Standard Listed companies are subject to, or required by the Listing Rules to comply with the DTR 7.2 [18], which concerns corporate governance statements. As a result of this, code adoption on the Standard List is more widely dispersed than on other markets, with a large number of companies (76) with no readily available information on their corporate governance practices, and five companies stating they have not adopted a code at all [19].

[16] Certain types of companies were excluded from this analysis to include only equity instruments on the Standard List. Duplicates and companies under the Standard Debt and Standard GDRs FCA Listing Categories were removed.
[17] Listing Rule 9, FCA Handbook, available at: https://www.handbook.fca.org.uk/handbook/LR/9/?view=chapter
[18] Disclosure Guidance and Transparency Rules (7.2), FCA Handbook, available at: https://www.handbook.fca.org.uk/handbook/DTR/7/2.html
[19] Given this, and that many Standard List companies who do apply a code only state that they apply it as far as is relevant without providing any further detail, an analysis of the application of the QCA Code was not undertaken.

What next for the QCA Code

The importance of the QCA Code to the UK's public equity markets is substantial.

Adoption continues to grow, we believe both in relative and absolute terms. It is widely used throughout the UK's markets (Standard List, AIM and AQSE), and by companies in different sectors and of different sizes.

The Code's application is considerable, and also continues to grow. Divergence from the Code's Principles is typically by the smallest companies, which in most cases explain their position.

In updating the QCA Code this year, we strive to reflect capital markets developments, corporate governance practices and expectations. But we do so eager to hold onto the Code's core tenets of helping companies improve how they operate while also allowing entrepreneurialism to flourish.

We think the Code could have even wider application. If the UK wants to offer flexible and dynamic markets that allow companies to mature through a proportionate and non-prescriptive governance framework so that they can start, scale, grow and thrive here, we should allow for more choice when it comes to governance.

We identify three constituencies which we think would benefit from the application of the QCA Code:

1

For companies with a market capitalisation of less than £500 million trading on the LSE Main Market's proposed equity shares in commercial companies (ESCC) single listing category.

As part of our response to the FCA's Primary Markets Effectiveness Review (PMER) [20], we have proposed that companies below this threshold, many of which must migrate across from a Standard Listing, should be exempt from applying the UK Code as is currently suggested. We are concerned this code is too onerous for smaller, growth companies, many of which could be lost from the market as a result – or fail to seek a listing in the first place.

We would like the FCA to put forward a list of corporate governance codes it deems acceptable for these companies to follow and recommend that the QCA Code is one of them.

2

For companies that gain admission to the LSE's proposed Intermittent Trading Venue [21].

This new market is intended to bridge the gap between public and private ownership. It is hoped that it will act as a gateway for companies to progress from intermittent trading to a full listing.

Applying the QCA Code on admission or prior to admission to this market would give investors, however sophisticated, comfort that companies seeking new investment subscribe to a baseline level of transparency and good behaviour.

3

For private companies

We have long said the QCA Code has application to pre-IPO companies and those that one day aspire to list their shares. We believe it could also be adopted by smaller private companies on a voluntary basis in the same way that some larger private companies choose to follow the Wates Principles.

---

[20] See: FCA Consultation Paper (CP23/10), Primary Markets Effectiveness Review: Feedback to DP22/22 and proposed equity listing rule reforms, available at: https://www.fca.org.uk/publication/consultation/cp23-10.pdf
[21] See: The Edinburgh Reforms, available at: https://www.gov.uk/government/collections/financial-services-the-edinburgh-reforms

Contributors

This report was authored by Jack Marshall, Head of Policy, QCA, and Iqra Ahsan, Policy and Research Manager, QCA, with primary research conducted by Amelia Rowe.

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.

The Quoted Companies Alliance champions the UK's community of 1000+ small and mid-sized publicly traded businesses and the firms that advise them. It is a company limited by guarantee registered in England under number 4025281.