



# THE QUOTED COMPANIES ALLIANCE CORPORATE GOVERNANCE CODE 2023

## COMPARISON OF 2023 QCA CODE WITH 2018 CODE

On 13 November 2023, the Quoted Companies Alliance (QCA) issued the third edition of its Corporate Governance Code. The new Code will be effective from 1 April 2024, so 2025 will be the first year that most companies report against it, although you can report earlier if you wish.

The QCA has not made too many changes in the new Code principles as it was keen not to add more, or duplicate, disclosure requirements for its members. The Code remains practical with companies being allowed to disclose according to their own circumstances. We state below a comparison to the previous 2018 Code and what those changes mean practically.

**The following sections have been updated to give more guidance on how the new Code should be applied:**

- **Section 1** provides an overview of how to apply the new Code. Each of the ten principles should be applied together with an explanation in a company's annual report and/or its website of how they have been applied. Where a principle is not being applied, a clear and well-reasoned explanation must be given;
- **Section 2** states what the QCA considers to be good governance, how to demonstrate it and why it adds value for companies; and
- **Section 3** states the new Code principles
- **Section 4** states what the roles and responsibilities for its board members and board committees should be. This will be especially helpful to those companies who are looking to be admitted to AIM for the first time.

The new Code has weaved reporting on climate risk into the Code with a specific requirement to report on environmental responsibilities under new Principle 4.

While there are no formal requirements to cover diversity and inclusion, this could be covered by new Principles 4 and 6 which concern reporting on ESG matters and the establishment and maintenance of the Board as a well-functioning, balanced, team respectively.

New Code Principle 9 refers to the introduction of a remuneration policy which is supportive of long-term value creation, the company's purpose, strategy and culture. This is a completely new principle for the QCA and reflects the increasing focus given to elements of directors' remuneration supporting ESG matters. The QCA has also recommended an annual non-binding vote for the Remuneration Report and is recommending a non-binding vote (and binding vote for larger companies) for approval of the Remuneration Policy.

## EXISTING STRAPLINE

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.

## NEW 2023 STRAPLINE

Companies need to aspire to deliver growth in long-term shareholder value having regard to the interests of other stakeholders. This requires an efficient, effective and dynamic governance framework and should be accompanied by good communication in order to promote and retain confidence and trust.

## NEW 2023 PRINCIPLE

### DELIVER GROWTH

#### 1. ESTABLISH A PURPOSE, STRATEGY, AND BUSINESS MODEL WHICH PROMOTES LONG-TERM VALUE FOR SHAREHOLDERS

### COMPARISON WITH 2018 CODE WHERE APPLICABLE

This is the same as Principle 1 in the 2018 Code.

The word "shareholder" rather than "stakeholder" has been retained to ensure that it reflects the position under s172 of the Companies Act 2006 (directors' duties to promote the success of the company).

### WHAT IT MEANS IN PRACTICE

This needs to be stated in the strategic report.

A Board should be able to explain, beyond a simple description of products and corporate structures, how the company intends to deliver shareholder value in the medium to long-term.

In explaining the strategy, the Board should have specific objectives against which it can determine if the company is succeeding in delivering on its purpose.

The Board should demonstrate that the delivery of long-term growth is underpinned by a clear set of values aimed at protecting the company from unnecessary risk and securing its long-term future.

#### 2. PROMOTE A CORPORATE CULTURE THAT IS BASED ON ETHICAL VALUES AND BEHAVIOURS.

This was Principle 8 under the 2018 Code and has been promoted to Principle 2 to give it more prominence and focus by a company's Board.

Details of the company's culture, and how the Board promotes it, needs to be included in the strategic report.

#### 3. SEEK TO UNDERSTAND AND MEET SHAREHOLDER NEEDS AND EXPECTATIONS

This is the same as Principle 2 of the 2018 Code. No change in wording.

The QCA is recommending that the Chair of a company should proactively engage with shareholders on governance matters. This can be done as part of the investor roadshows that follow the announcement of interim and final results, with the Chair attending meetings to meet with shareholders.

Where a company has a controlling shareholder (one which has 30% or more of the votes) companies may wish to consider putting in arrangements to protect minority shareholders.

The company's website needs to include details for how investors can get in touch with the company.

## NEW 2023 PRINCIPLE

## COMPARISON WITH 2018 CODE WHERE APPLICABLE

## WHAT IT MEANS IN PRACTICE

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**4. TAKE INTO ACCOUNT WIDER STAKEHOLDER INTERESTS, INCLUDING SOCIAL AND ENVIRONMENTAL RESPONSIBILITIES, AND THEIR IMPLICATIONS FOR LONG-TERM SUCCESS.**

This was Principle 3 of the 2018 Code.

The scope has been widened to include interests of stakeholders, as well as environmental responsibilities to reflect the greater prominence given to ESG matters, including climate change and the environment. Principle 4 also includes workforce engagement with companies expected to ensure that their approach to their workforce is consistent with their values. The new Code also expects there to be a method for employees to raise concerns in an appropriate manner, for example via a whistleblowing policy.

Boards will need to widen their commentary to include these but as a number of companies already report on ESG matters, there is no real practical change as you can cross refer.

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**5. EMBED EFFECTIVE RISK MANAGEMENT, INTERNAL CONTROLS AND ASSURANCE ACTIVITIES, CONSIDERING BOTH OPPORTUNITIES AND THREATS, THROUGHOUT THE ORGANISATION**

This was Principle 4 of the 2018 Code.

The scope has been widened to include internal controls and assurance activities to reflect the greater prominence given to this area. Reporting on this section should be covered by the risk management section of an annual report and can then be cross referred to.

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## MAINTAIN A DYNAMIC MANAGEMENT FRAMEWORK

**6. ESTABLISH AND MAINTAIN THE BOARD AS A WELL-FUNCTIONING, BALANCED TEAM LED BY THE CHAIR.**

This is the same as Principle 5 of the 2018 Code. However, in the application of the Principle, the QCA is recommending that each director stand for (re-) election at every AGM.

Even though there is no formal requirement, this could include reporting on diversity and inclusion on the Board, and senior management team, as there is growing demand from stakeholders for more reporting on this subject matter and the new Code recommends that companies consider diversity as part of their succession planning.

The new Code also gives more weight to a director's independence and sets out certain factors which may impact such independence and recommends that a Board be aware of the perception of impairment as well as reality.

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## NEW 2023 PRINCIPLE

## COMPARISON WITH 2018 CODE WHERE APPLICABLE

## WHAT IT MEANS IN PRACTICE

**7. MAINTAIN APPROPRIATE GOVERNANCE STRUCTURES AND ENSURE THAT INDIVIDUALLY AND COLLECTIVELY DIRECTORS HAVE THE NECESSARY UP TO DATE EXPERIENCE, SKILLS AND CAPABILITIES.**

Principles 6 & 9 of the 2018 Code have been combined to form this new Principle 7.

No real change from how companies were reporting before or on how they should apply the Principle.

**8. EVALUATE BOARD PERFORMANCE BASED ON CLEAR AND RELEVANT OBJECTIVES, SEEKING CONTINUOUS IMPROVEMENT.**

This is the same as Principle 7 of the 2018 Code. No change in wording.

The guidance now recommends that the performance review be undertaken on an annual basis. It further recommends that the review be undertaken by an external third-party reviewer on a periodic basis (but does not state what that period should be). To be consistent with main market companies, external reviews could be undertaken every three years.

**9. ESTABLISH A REMUNERATION POLICY WHICH IS SUPPORTIVE OF LONG-TERM VALUE CREATION AND THE COMPANY'S PURPOSE, STRATEGY AND CULTURE.**

This is a new Principle.

The new Principle recognises the growing focus on elements of directors' remuneration being de-pendent on ESG matters.

The QCA is recommending that the Remuneration Report be put to an annual advisory vote. It is further recommending that larger companies may wish put the remuneration policy to a binding vote. The guidance does not state the frequency for these votes and companies may wish to follow main market guidance as to the frequency of these votes which is annual for remuneration reports and every three years for remuneration policies.

## BUILD TRUST

**10. COMMUNICATE HOW THE COMPANY IS GOVERNED AND IS PERFORMING BY MAINTAINING A DIALOGUE WITH SHAREHOLDERS AND OTHER RELEVANT STAKEHOLDERS.**

This is the same Principle 10 as in the 2018 Code.

The application has been updated to include reporting on sustainability matters and refers readers to the QCA's Practical Guide to ESG as a useful tool to consider when reporting.

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