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QCA Revises Corporate Governance Code for Small and Mid-Size Quoted Companies

New QCA code highlights the importance of relationships between companies and their shareholders and aims to provide clear, detailed guidance on the characteristics and composition of effective, independent boards.

On 1 May, the Quoted Companies Alliance (the QCA) released the "Corporate Governance Code for Small and Mid-Size Quoted Companies 2013" (the 2013 Code),[1] which replaces the "Corporate Governance Guidelines for Smaller Quoted Companies 2010" (the 2010 Code). The publication of a revised version has been driven by developments in corporate governance since the 2010 Code was published and in particular development of the UK Stewardship Code. While the revised guidelines for good corporate governance broadly follow the guidelines in the 2010 Code, they have been reordered to emphasise the importance of the delivery of growth in long-term shareholder value. A number of other changes have also been made in the 2013 Code to emphasise the importance of engaging with shareholders.

Background

The QCA Corporate Governance Code, which is endorsed by the Financial Reporting Council, is widely considered to be the industry standard guidance on good corporate governance practice for companies to which the UK Corporate Governance Code does not apply. Such companies include those with a standard listing on the Main Market of the London Stock Exchange and those on AIM and the ICAP Securities and Derivatives Exchange. The QCA Corporate Governance Code is based on 12 guidelines for good corporate governance, and it recommends that companies include a corporate governance statement in their annual report and accounts and/or on their corporate website. The QCA directs that the statement should show how the company has applied each of the guidelines in practice, and the QCA Corporate Governance Code sets out certain minimum recommended disclosures. The general approach of the code is to adopt a "comply or explain" model.

Importance of Clear Explanation and Engagement with Shareholders

The 12 broad guidelines for good corporate governance remain mostly the same in the 2013 Code (save for being reordered), as do the recommended minimum disclosures in the corporate governance statement. However, the 2013 Code emphasises the importance of providing proper, quality explanations of how the guidelines are implemented in practice, rather than formulaic reiterations of published guidance. The 2013 Code also places greater emphasis on the importance of the board of directors retaining the trust of the shareholders through constructive engagement.

Expansion of Characteristics of an Effective Board

One of the main additions in the 2013 Code is a new section on "effective boards". This sections details both the attributes of an effective board and underscores the importance of director independence.

1. A copy of the 2013 Code can be purchased at http://www.theqca.com/shop/guides/70707/corporate-governance-code-for-small-and-midsize-quoted-companies-2013.thtml.

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The QCA lists the following six attributes of an effective board:

- Works as a team led by the chairman.
- Has a chairman who demonstrates his responsibility for corporate governance.
- Develops and clearly articulates the strategy of the company.
- Evaluates its performance and acts on the conclusions.
- Regularly informs and engages with shareholders.
- Has a balance of skills, experience, and independence.

The new section also includes provisions relating to board independence, which were previously set out in a separate appendix in the 2010 Code, with greater emphasis on the need to consider whether being remunerated in shares or being a representative of a major shareholder may impact a director's independence and judgement. The 2013 Code suggests that a company should have at least two independent non-executive directors and states that companies should explain why specific directors are considered to be independent.

The 2013 Code has removed the 2010 Code's provision that, following an initial public offering, if non-executive directors can participate in a company's share option or performance-related pay schemes, the performance conditions should be different from those of executive directors and a minimum lock-in period of 12 months after leaving office should be imposed. The 2013 Code suggests that, due to the differing shareholder views on such arrangements, these situations should be dealt with on a case-by-case basis.

Contacts

If you have any questions or would like more information on the issues discussed in this LawFlash, please contact the following Morgan Lewis lawyer:

London
Iain Wright +44 (0)20 3201 5630 iwright@morganlewis.com

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