



## Advisory: The Revised QCA Corporate Governance Code (2023)

8 January 2024

### Introduction

On 13 November 2023, the Quoted Companies Alliance (QCA) published a revised Corporate Governance Code 2023 (the 2023 Code). The QCA's aims for the 2023 Code are to create a practical, outcome oriented and principles-based approach to governance for small to medium companies in the U.K.

Following demands of investors and stakeholders, the 2023 Code implements environmental and social considerations (primarily relating to diversity and climate-related issues) throughout. Climate-related principles are now embedded in almost half of the principles and companies are encouraged to ensure that there is adequate oversight and appropriate disclosures on such issues.

The 2023 Code will apply for financial years beginning on or after 1 April 2024, meaning the first disclosures will be made in 2025. Companies are being given a transitional period of 12 months to adjust to the new requirements and update their corporate governance disclosures appropriately. Companies currently applying the 2018 Code are encouraged to migrate to the new 2023 Code.

### Summary of Key Changes

Some of the key changes made in the 2023 Code include:

- **Wider Stakeholder Interests and Environmental, Social and Corporate Governance (ESG) Responsibility (Principle 4)**

Updates to Principle 4 require companies to take into account wider stakeholder interests, including its workforce. Companies will be required to ensure that their practices towards employees are consistent with its values and to incorporate appropriate feedback systems e.g. satisfaction surveys, regular feedback meetings and whistle-blower processes that allow staff to report issues and feel supported through the process.

The principle on social responsibilities has also been expanded to include issues stemming from climate change and makes clear that companies should provide qualitative and quantitative disclosure in their annual reports and accounts regarding any ESG issues it has identified as being material to it, with reference to a company's purpose, strategy and business model.

- **Risk Management (Principle 5)**

The 2023 Code expands the language in Principle 5 to include a focus on internal controls and assurance, highlighting the important of establishing effective risk management. A company's risk management framework should now also include any climate-related risks.

- **Board Composition (Principle 6)**

The updates to Principles 6 focus on board independence and largely reflect previous guidance on this area. It is recommended that at least half of the board is comprised of independent non-executive directors (INEDs), with a minimum of two INEDs. Key board committees should comprise a majority of INEDs and should aim for full independence.

## Advisory: (continued)

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The principle notes a number of indicators that should be taken into consideration by the board when determining independence. Such factors include length of board tenure, size of shareholding, commercial relationships with the company and/or significant incentive pay agreements.

The 2023 Code requires increased annual reporting on board composition, including identifying which board members are independent and any restrictions on both executives and non-executives in connection with external roles.

- **Succession and Contingency Planning (Principle 8)**

The 2023 Code reiterates the importance of succession and contingency planning, extending Principle 8 to cover contingency planning for the absence of key members of staff. No member of the board should become indispensable and board membership should be periodically refreshed. Increased reporting on this area is also required and companies are expected to provide indicative timelines for expected appointments.

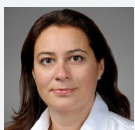
- **Remuneration (Principle 9)**

A new Principle 9 has been included in the 2023 Code which largely mirrors the previous QCA Remuneration Committee guidance published in 2020. Companies are encouraged to establish an effective remuneration policy which aligns with the values, purpose and culture of the company. The annual remuneration report should be put to an advisory shareholders vote, as should the establishment or amendment of share schemes and the company's remuneration policy (some companies may be required or choose to table the policy to a binding vote).

#### New QCA Code Badge

The QCA has also introduced a new QCA code badge which will be used to indicate an official user of the 2023 Code. This trademark code badge is given to companies that purchase a verified electronic version of the 2023 Code and is intended to become a recognisable mark for investors and wider stakeholders in order to improve the integrity of the QCA Code.

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