AIM governance – a quick code comparison

A high level overview of the two principal UK corporate governance codes

With effect from 28 September 2018, all AIM companies must adopt a recognised governance code and then 'comply or explain'. In practice, this means adopting either the FRC's UK Corporate Governance Code (FRC Code), the QCA Corporate Governance Code (QCA Code) or a recognised code in a foreign jurisdiction.

The QCA's Code is less prescriptive but there are common features in both that boards must explain: strategies, risks, culture, stakeholder communications, etc.

Theme	QCA Code (2018)	FRC Code (2016)	FRC Code (July 2018)
Compliance	A company must apply the ten principles and also publish certain related disclosures. A "comply or explain" approach is used with regard to the principles.	It consists of 18 principles, 26 supporting principles, 55 provisions and also uses the "comply or explain" approach.	The new Code is "shorter and sharper" with 18 principles to apply and only 41 provisions to "comply or explain" with.
Board composition	The board should be supported by committees (eg audit, remuneration, nomination) that have the necessary skills and knowledge to discharge their duties and responsibilities effectively.	There should be audit, nomination and remuneration committees. There are specific requirements for their membership and independence, including that the audit and remuneration committees should have at least three, or in case of smaller companies*, two, independent non-executive directors** (INEDs).	No change
Independence	The board should have an appropriate balance between executive and non-executive directors (NEDs) and should have at least two INEDs. Independence is a board judgement.	Except for smaller companies, at least half of the board, excluding the chair, should comprise NEDs determined independent by the board. A smaller company should have at least two INEDs.	Smaller companies exemption is removed. The chair should not remain in post beyond nine years from the date of their first appointment to the board.
Senior Independent Director (SID)	Companies should consider whether it is appropriate to have a SID. The SID should attend enough meetings with major shareholders and analysts to ensure a balanced understanding of shareholders' issues and concerns.	The board should appoint one of the INEDs to be the SID to provide a sounding board for the chair and to act as an intermediary for the other directors and shareholders when necessary.	No change
Board effectiveness evaluation	The board performance review may be carried out internally or, ideally, be externally facilitated from time to time (no mandatory period).	The board should undertake a formal and rigorous annual evaluation of its own performance and that of its committees and individual directors. Evaluation of FTSE 350 companies should be externally facilitated at least every three years.	The chair of any company should consider having a regular externally facilitated board evaluation.

* Smaller companies – those premium-listed companies that sit outside the FTSE 350. Includes AIM listed companies.

** Independent non-executive director – an "NED who is independent in character and judgement without any relationships or circumstances which may affect this" B.1.1 – UK Corporate Governance Code

Theme	QCA Code (2018)	FRC Code (2016)	FRC Code (July 2018)
Employees and other stakeholders	The company should explain how it obtains stakeholder feedback and the actions that have been generated as a result of this feedback.	The importance of effective engagement with key stakeholders is only mentioned in Preface.	More emphasis on stakeholder engagement. The board should establish a method for gathering the views of the workforce. This would normally be a director appointed from the workforce, a formal workforce advisory panel or a designated NED. The board should explain in the annual report how it has engaged with employees and other stakeholders, and how their interests and the matters set out in Section 172 of the Companies Act 2006 influenced the board discussion and decision-making.
Re-election	Not applicable	All directors of FTSE 350 companies should be subject to annual election by shareholders. For all other directors – at the first AGM after their appointment and re-election at intervals of no more than three years.	Smaller companies exemption is removed. The requirement for annual re-election is now applicable to all companies following the FRC Code.
Viability statement	Not applicable	Taking into account the company's current position and principal risks, the directors should explain in the annual report how they have assessed the company's prospects, over what period and why that period is appropriate. The directors should state whether they have a reasonable expectation that the company will continue to operate and meet its liabilities as they fall due over this period, drawing attention to any qualifications or assumptions as necessary.	No change

How can we help?

Have you decided which code to choose? Looking for an assessment of your current governance practices or gap analysis?

Governance is not one size fits all. We can advise on the features of different governance codes to help you identify which code is best for your business and how the design and application can support your strategy. We can check compliance with the chosen code, support its adoption and help with reporting against it.

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