



Quoted Companies Alliance

6 Kinghorn Street
London EC1A 7HW

T +44 (0)20 7600 3745

F +44 (0)20 7600 8288

mail@theqca.com

www.theqca.com

Nilam Statham
Head of Primary Market and AIM Regulation
London Stock Exchange
10 Paternoster Row
London
EC4M 7LS

aimnotices@lseg.com

29 January 2018

Dear Nilam,

AIM Rulebooks consultation

We welcome the opportunity to respond to the AIM Rulebooks consultation. As we affirmed in our response to the September 2017 discussion paper, it is essential that London Stock Exchange maintains AIM's status as Europe's leading growth market, so that ambitious, innovative companies are incentivised to continue coming to London, in order to raise capital from public markets.

As a general comment, we welcome London Stock Exchange's decision not to take forward proposals at this stage relating to prescriptive criteria regarding free float, a minimum fund raise upon admission for AIM applicants and automatic fines for certain breaches of the AIM Rules. We believe that these measures would not have been beneficial to smaller companies seeking to list on AIM.

We have responded below to the specific proposed changes from the point of view of our members, small and mid-size quoted companies.

I. Formalising the early notification process

In principle, we support the proposed changes to AIM Rule 2 introducing a formal requirement for early notification. We believe that this will help to reduce the number of cases whereby obstacles to admission have not been identified until after a prospective applicant has incurred significant costs ahead of a proposed admission.

Nonetheless, we believe that AIM Regulation should commit to providing a response to a nominated adviser's early notification form within a clearly defined time period. This would ensure that there are no undue delays in the admission process.

Furthermore, as we noted in our response to the discussion paper, we strongly encourage London Stock Exchange to exempt some re-admissions – such as reverse takeovers under AIM Rule 14 and 'fast-track' admissions – from this new process.

The Quoted Companies Alliance is the independent membership organisation that champions the interests of small to mid-size quoted companies.

A company limited by guarantee registered in England
Registration Number: 4025281

A reverse takeover which does not result in a fundamental change in the issuer's business, board or voting control should be exempt from the early stage notification process, as it would be classified as a reverse solely due to the size of the acquisition in relation to the existing business.

Fast track admissions should also be excluded as they are designed to rely on the vetting provided by their home regulator. Introducing an early notification process would defeat the purpose of the rule which allows such admissions.

The proposed changes imply one-way disclosure to AIM without outlining how AIM Regulation will assess and respond to the information provided. There would be three potential outcomes:

- 1) AIM Regulation is satisfied with the information provided, in which case it needs to state clearly that on the basis of the information provided to date, the issuer can proceed to the next stage of the admission process (whilst reserving its position for the next disclosure stages, which are the submission of the Schedule 1 form and finally the publication of the admission document);
- 2) AIM Regulation has objections such that the process cannot continue; or
- 3) AIM Regulation requires further information to reach a decision. The process would then need to revert back to either 1) or 2).

Any regulation's purpose must be clear. It should also be equally clear what the outcome of disclosures will be. We believe that it would be damaging to AIM to introduce a new rule where the purpose and the consequences are not clear for the issuer and its advisers to understand.

II. Guidance to nominated advisers on appropriateness consideration and London Stock Exchange AIM Rule 9 powers

We support the proposal for a non-exhaustive list of examples of factors to be taken into account by nominated advisers when assessing appropriateness for AIM. All market participants will benefit from the additional clarity and transparency that having access to this information contained within Schedule Three to the AIM Rules for Nominated Advisers will bring.

We note that the wording of the draft guidance to AIM Rule 2 which is proposed to be included in the Guidance Notes to the AIM Rules for Companies. The guidance requires a Nominated Adviser (in addition to responding to prescribed information requests) to "fully disclose to the Exchange all matters known to it which may be relevant to the Exchange in considering the application for admission to trading and understanding whether admission of the AIM securities may be detrimental to the orderly operation, the reputation and/or integrity of AIM". Whilst we welcome the intention of this requirement it is a far-reaching obligation and lacks definition. We recommend that the guidance makes explicit reference to the new wording proposed to be included in Schedule 3 of the AIM Rules for Nominated Advisers, so that the list of examples provided in that schedule (albeit on a non-exhaustive basis) may serve as an initial reference point for Nominated Advisers.

III. Corporate governance requirements for AIM companies

We welcome the proposed changes to AIM Rule 26 which will require AIM companies to disclose details of a recognised corporate governance code that the board of directors has chosen to apply, as well as how the

company complies with the code. Not only do these revisions continue to afford AIM companies the flexibility to apply corporate governance arrangements that suit their needs given their individual stage of development, but they also enable investors and other stakeholders to benchmark a company's corporate governance arrangements.

We particularly welcome the inclusion of the requirement for AIM companies to explain how they comply with their chosen corporate governance code. This will prevent companies from providing a 'boilerplate' approach to disclosure, which in turn will enhance the overall integrity of the market.

However, we are concerned that the current drafting of AIM Rule 26 implies that an AIM company should continually consider its 'comply or explain' statement. This contrasts with the requirements for companies on the Main List of the London Stock Exchange, where DTR 7 only requires companies to place a statement in their annual report. We recommend that AIM Rule 26 adopts a similar approach by specifying that an AIM company should issue a statement on its website stating which recognised corporate governance code it follows along with the date on which the statement was last updated. There should also be a requirement to update the statement on at least an annual basis.

We would also encourage London Stock Exchange to clearly define what is meant by "a recognised corporate governance code". This would provide clarity for AIM companies and all other market participants. One suggestion would be to indicate the range of recognised corporate governance codes in Inside AIM from time to time, as has been the case in the past. We believe that the Quoted Companies Alliance Corporate Governance is sufficiently established within the market place to fall within this definition. We would welcome the opportunity to discuss this with London Stock Exchange.

If you would like to discuss our response in more detail, we would be happy to attend a meeting.

Yours sincerely,



Tim Ward
Chief Executive