



Quoted Companies Alliance

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To whom it may concern,

Market Consultation Paper

We welcome the opportunity to respond to your Market Consultation Paper.

The Quoted Companies Alliance *Primary Markets Expert Group and Secondary Markets Expert Group* has examined the proposals and advised on this response from the viewpoint of small and mid-size quoted companies. A list of Expert Group members can be found in Appendix A.

Overall, we are generally supportive of AQSE as an alternative growth market, and we broadly agree with the proposals set out in the consultation paper on the enhancements to the markets. In particular, we welcome the proposal to create two new segments of the market – APX and AXS – within the existing Growth Market, as this will help tailor the markets to facilitate the growth and development of smaller companies.

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

Yours sincerely,

A handwritten signature in blue ink, appearing to read "Tim Ward".

Tim Ward
Chief Executive

Q1 Do you agree the creation of APX and AXS will improve recognition that companies listed on the AQSE Growth Market are not all at the same stage of their growth and that this will better serve stakeholders?

Yes – we agree that the creation of APX and AXS will improve recognition that companies listed on the AQSE Growth Market are not all at the same stage of their growth. This will serve to better distinguish between micro, small-medium and large growth companies, allowing the markets to be tailored to their needs and size constraints.

Most importantly, the creation of a proportionate set of rules that are specifically tailored to suit the different growth phases of companies will help enable and facilitate the growth of these companies. At the early stages in a company's growth journey, it is fundamentally important that they focus on growth, without being crowded out by disproportionate requirements. As a company develops and grows it is important that they begin to adopt stronger standards of governance which will enhance their ability to attract additional sources of investment, such as from the institutions, which will improve the liquidity of the market.

Furthermore, not only will the creation of the two new segments help foster the growth and development of a company, but it should also help increase the attractiveness of seeking a listing. This is important as having a deeper and more diversified pool of companies on markets provides greater investment opportunities.

Q2 Do you agree with the proposed eligibility criteria for APX and AXS? If not, what criteria would you suggest?

On the whole, we agree with most of the proposed eligibility criteria for APX and AXS. However, we have the following points to raise regarding certain aspects of the criteria:

APX

- We believe that the free float requirement of 35 percent, is too high. Noting that the free float requirement for both premium and standard listing on the FCA Official List is set at 25 percent, this seems particularly high. A free float requirement of 25 percent would be more appropriate.

AXS

- We believe that increasing minimum fund-raising on admission from £500,000 to £2,000,000 for investment vehicles and companies with less than a two-year trading record is especially high. It is seldom the case that investors would invest such high amounts, with many preferring to release funds in stages once the company and its management has demonstrated its performance and development. As such, we suggest that the figure remains at £500,000.

Q3 Do you agree that encouraging companies on APX to engage an AQSE broker member firm for secondary placings will improve the allocation of securities and support liquidity?

Yes – companies listed on APX should be encouraged to engage an AQSE broker member firm for secondary placings. We believe that they should be required to retain a broker as well as a Corporate Adviser.

Q4 Do you agree that using the Growth Prospectus would be beneficial for APX applicants by broadening public participation in IPOs?

Yes – we wholeheartedly support the idea of APX applicants producing a Growth Prospectus in order to increase and broaden public participation in IPOs. It is currently the case that smaller quoted companies rarely offer shares to the public due to the complexity and costs associated with producing a prospectus. A Growth Prospectus, however, which is both more practical and easy to produce, will see more companies incorporating a public component in their equity fundraisings. This will be hugely beneficial to the market as retail investors are key to helping price formation and thus improving liquidity for smaller quoted companies.

Q5 Do you have any suggestions on how the costs of preparing a Growth Prospectus could be reduced to bring it in line with the cost of an admission document?

In order to reduce the costs of preparing a Growth Prospectus to bring it in line with the cost of an admission document, we believe that the AQSE should adopt a series of standardised documents and agreed contract standards. This would serve to ensure that investors have confidence that a Growth Prospectus has been produced to a particular standard and will allow the Corporate Advisers to feed in standardised text, thus minimising costs.

Q6 Do you agree that an admission document in a template format, if supported by reduced fees from advisers, would be beneficial for AXS applicants, investors and other stakeholders?

Yes – we believe that this would be beneficial for AXS applicants and investors. An admission document in a template format should require less work and thus the fees from advisers should be reduced commensurate to this.

Q7 AQSE welcomes any feedback on the proposed progression route for companies on AQSE Markets.

Progression from AXS to APX could require a Growth Prospectus to be prepared, and following the fundraising conducted as a result of producing the Growth Prospectus, require the £10 million market capitalisation and a 25 percent free float.

Q8 Do you agree that requiring corporate advisers to inform AQSE about the particulars of their clients' fundraising activities is reasonable to support AQSE's efforts to maintain or improve secondary market liquidity, and if not, why?

Yes – we believe that this will help draw institutional investors and private client brokers into the market.

Q9 Do any of your funds, or your clients, hold any securities in AQSE companies? If not, are there any internal policies or restrictions within your firm that have made this difficult?

We have no comments.

Q10 What is most important when considering a potential investment in an AQSE company? For example - management team, free float, minimum size, governance standards, reputation of advisers, research?

We have no comments.

Q11 Are you more likely to consider an investment in a growth company that prepares a Growth Prospectus over an admission document?

We have no comments.

Q12 Do you support the introduction of an AoD facility for trading in AXS companies?

Yes – we support the introduction of the AoD facility for trading in AXS companies. At present, the spreads of the smaller companies that occupy the AQSE Growth Market are a barrier to trading. As such, any measures focused on improving price discovery and tightening spreads to enhance trading, and thus increasing secondary market liquidity, are welcomed.

Q13 Do you believe an AoD facility should also be made available for trading in APX companies?

Yes – please see answer to Q12 above. There is no reason to limit the AoD facility to AXS companies only as the APX segment would also benefit from this facility.

Q14 Do you support a continuous trading order book for AQSE Main Market companies?

No – we do not support a continuous trading order book for AQSE Main Market companies. As AQSE Main Market companies are still likely to be at the smaller end, we believe that AoD and a Quote Driven Market that involves the market makers would work better.

Q15 Would you like AQSE to consider further alternative trading systems? If so, what systems would you suggest?

No – in order to avoid adding complexity, we are opposed to the idea of AQSE considering alternative trading systems. Instead, we believe that utilising the AoD alongside a Quote Driven Market would be most appropriate.

Q16 Do you agree the proposed restrictions on short selling would improve market stability and reduce the undesirable outcomes set out above (such as excessive price declines)?

Yes – given the size of the companies on both the APX and AXS segments of the market, we welcome the proposed restrictions on short selling in order to improve market stability. Short selling is, on the whole, a useful tool for larger, more liquid stocks where institutions can provide stock lending.

However, for smaller companies, where stock lending is not realistic, it can result in disruptions to the orderly functioning of the market, leading to a decrease in investor appetite. Accordingly, implementing restrictions on short selling is likely to ensure stability and certainty.

Q17 Which is your preferred option to restrict short selling? Would you like to see other alternatives considered, and if so, what would you propose?

As an alternative, AQSE could consider only allowing short selling when it is provided through a stock lending facility by a regulated entity that has an at least equivalent long position in the stock.

Q18 What costs (IT, compliance and legal, opportunity cost etc) might you incur in order to comply with the each of the proposed measures?

We have no comments.

Appendix A

The Quoted Companies Alliance *Primary Markets Expert Group*

Andy Crossley (Chair)	City of London Group PLC
Azhic Basirov (Deputy Chair)	Cenkos Securities PLC
Colin Aaronson	Grant Thornton UK LLP
Stuart Andrews	finnCapp PLC
Andrew Buchanan	Peel Hunt LLP
David Coffman	Cairn Financial Advisers LLP
Richard Crawley	Liberum Capital Ltd
David Foreman	Cantor Fitzgerald
Chris Hardie	W.H. Ireland Group PLC
Samantha Harrison	Grant Thornton UK LLP
Stephen Keys	Cenkos Securities PLC
Katy Mitchell	W.H. Ireland PLC
Nick Naylor	Allenby Capital
Jeremy Osler	Cenkos Securities PLC
Niall Pearson	Hybridan LLP
Mark Percy	Shore Capital Group Ltd
Tom Price	Arden Partners PLC
Tony Rawlinson	Cairn Financial Advisors
George Sellar	Peel Hunt LLP
James Spinney	Strand Hanson
Stewart Wallace	Stifel
Christopher Wilkinson	Numis Securities Ltd
David Worlidge	Allenby Capital

The Quoted Companies Alliance *Secondary Markets Expert Group*

Jon Gerty (Chair)	Peel Hunt LLP
Mark Tubby (Deputy Chair)	finCapp PLC
John Beresford-Peirse	Hybridan LLP
Jasper Berry	W.H. Ireland PLC
Andrew Collins	Charles Russell Speechlys LLP
Miles Cox	Hybridan LLP
Sunil Dhall	Peel Hunt LLP
Nick Dilworth	Winterflood Securities Ltd
Fraser Elms	Herald Investment Management Ltd
William Garner	Charles Russell Speechlys

Mitchell Gibb	Stifel
Keith Hiscock	Hardman & Co.
James Lynch	Downing LLP
Jeremy Phillips	CMS
Katie Potts	Herald Investment Management
Simon Rafferty	Winterflood Securities Ltd
James Stapleton	Winterflood Securities Ltd
Stephen Streater	Blackbird PLC
Peter Swabey	ICSA
Amber Wood	Cenkos Securities Plc

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