

**QUOTED
COMPANIES
ALLIANCE**

AIM Notice 62

QCA Response to the LSE consultation on changes to
the AIM Rules for Companies

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AIM Notice 62 - Consultation on changes to the AIM Rules for Companies

Dear LSE Colleagues,

The Quoted Companies Alliance welcomes the opportunity to respond to AIM Notice 62. We represent the UK's community of small and mid-sized quoted companies and the firms that advise them, and the health of AIM sits at the centre of our work.

We welcome the Exchange's continued focus on ensuring that AIM remains a proportionate, effective and attractive market for growth companies. Many of the proposed changes are sensible and practical reforms that should reduce unnecessary friction for AIM companies while preserving appropriate standards of market discipline.

Two areas attract more substantive comment in our response: the proposed changes to AIM Rule 26 on governance disclosure, and the voluntary framework for proxy adviser disclosure.

On AIM Rule 26, we support the objective of moving away from governance reporting that is overly procedural or compliance led. However, we believe the accompanying guidance should provide greater certainty that recognised corporate governance codes remain an important and good-practice reference point for AIM companies when determining and explaining their governance arrangements. The revised framework should preserve flexibility for companies to apply governance practices proportionate to their circumstances, while avoiding any doubt that companies are expected to give meaningful consideration to a recognised code.

On proxy advisers, we welcome the Exchange's recognition of the issues faced by AIM companies, but we do not consider that the proposed voluntary disclosure framework addresses the structural problem. The most effective levers sit with the FRC and FCA, and we would welcome the Exchange using its influence in those directions.

If you would like to discuss our response in more detail, please do not hesitate to contact us.

Yours sincerely,

James Ashton.

Chief Executive
Quoted Companies Alliance

/ Our Response

1. AIM Rule 26 - Governance Disclosure

- 1.1. The QCA Corporate Governance Code is the most widely adopted governance framework on AIM, applied by 93% of AIM companies. The Code is proportionate, flexible and designed for the circumstances of growth companies and the market has endorsed it on that basis.
- 1.2. The QCA agrees with the Exchange that the current comply-or-explain model has prioritised procedural compliance over substantive governance disclosures. Companies have felt compelled to perform against a standard rather than explain how their governance arrangements serve their own circumstances. We support the LSE's direction in reforming that dynamic.
- 1.3. The proposed amendment removes the expectation that AIM companies comply or explain against a recognised code, while simultaneously requiring disclosure against five prescribed themes. Although we understand that the Exchange's aim is to move away from a prescriptive corporate governance regime to one with built in flexibility, it is our view that this can be done in a more balanced way.
- 1.4. Institutional shareholders and proxy advisers will continue to expect evidence of code adoption. A company that can no longer point to a formal obligation to report against a recognised code will find itself in a weaker position in those conversations. The risk is that the proposed change removes a reference point for companies without removing the market expectation built around it. This would be a step backwards that harms the companies the reform is intended to help.
- 1.5. The QCA has gathered the views of small-cap investors who collectively hold significant AIM assets under management. Their consistent assessment is that the proposed changes, if they proceed as currently drafted, will materially reduce investor engagement with AIM companies and damage confidence in the market. The Exchange's ambition to build a more dynamic and competitive AIM depends on attracting and retaining long-term institutional capital.
- 1.6. The five disclosure areas the Exchange has identified reflect what investors tell us they prioritise. We do not dispute their relevance. But they represent a subset of what a recognised code covers. Replacing the code requirement with five prescribed themes gives investors less assurance and removes the interpretive framework that gives both

companies and investors a shared understanding of what good governance reporting looks like on AIM.

1.7. Our position is that Rule 26 should require an AIM company to confirm that it has considered a recognised corporate governance code when determining the governance arrangements and related disclosures that are appropriate to its circumstances. The Exchange should also provide additional guidance clarifying the continuing role of recognised corporate governance codes. We do not seek to reverse the removal of the comply-or-explain requirement. However, we believe the proposed addition to Rule 26, together with the additional guidance set out below, would put beyond doubt that recognised codes remain an important reference point for AIM companies when determining and explaining their governance arrangements.

1.8. We recommend that the Exchange include the following additional guidance:

"AIM companies were formerly required to make disclosures on a comply or explain basis against a recognised corporate governance code. This requirement no longer applies. However, AIM places a high level of importance on good corporate governance and consideration of a recognised corporate governance code should be more than a nominal exercise. It should inform the company's assessment of the governance arrangements and related disclosures that are appropriate to its circumstances, including its size, stage of development, strategy, ownership structure and other relevant factors.

An AIM company should undertake this consideration with its nominated adviser and should be prepared to engage with shareholders on matters relating to its corporate governance arrangements generally."

1.9. This formulation aids the removal of the obligation that has generated excessive compliance focus, while preserving the role of recognised codes as a practical reference point for AIM governance. It allows companies to determine governance arrangements that are proportionate to their circumstances, while making clear that having regard to a recognised code requires meaningful consideration rather than a nominal statement.

1.10. It also resolves the uncertainty in the proposed wording of AIM Rule 26. We note that this concern about clarity extends beyond those who oppose the change: members who welcome the policy direction also consider that the guidance requires further clarification before it can be applied with confidence.

2. Proxy Adviser Disclosure

2.1. The Exchange proposes to give AIM companies the option to disclose details of their engagement with proxy advisers. We share the Exchange's recognition that proxy adviser influence on AIM companies operates without adequate accountability, and we support the intent of giving companies greater agency in that relationship. However, we are

concerned that the proposed mechanism does not achieve that aim.

- 2.2. We recognise the Exchange has no direct remit over proxy advisers. The effective levers sit with the Financial Reporting Council and the Financial Conduct Authority, which at present address transparency but not the accuracy of recommendations or the accessibility of reports to the companies they concern. We would welcome the Exchange using its influence to support reform through those channels.

3. Admission

- 3.1. We welcome the changes to reduce the burden of the admission process - removing the working capital statement requirement, permitting incorporation by reference, clarifying the AIM Rule 7 lock-in provisions, and removing the admission document requirement for a second line of securities - as proportionate and practical reforms. On the expansion of accepted accounting standards, we welcome the change and encourage the Exchange to extend the ability to use UK GAAP to companies incorporated outside the EEA, which could widen the benefit in a manner consistent with the international ambitions reflected in the Express Market route proposals.

4. Capital Access Window

- 4.1. The proposed Capital Access Window is welcomed. It addresses a practical need to support AIM companies in managing the fundraising process and approaching a broader investor base, including retail investors, during a temporary suspension period.
- 4.2. Further guidance on how this is expected to work in practice however would be helpful. For example, it is proposed that an AIM company would announce details of the proposed fundraise in order to cleanse the market so it could then speak to potential investors. If so, AIM companies may run the risk of announcing a fundraise and then failing to raise sufficient funds.

5. Acquisitions, Reverse Takeovers and Class Tests

- 5.1. We support the changes to acquisition activity. Removing the automatic classification of a transaction as a reverse takeover by size alone and removing automatic suspension on notification of a reverse takeover in contemplation subject to appropriate disclosure, are changes we welcome. The new framing under AIM Rule 12 enables companies to grow through smaller acquisitions without disproportionate procedural burden.

5.2. The QCA also supports increasing the substantial transaction threshold from 10% to 25%. The current level generates disproportionate regulatory complexity for relatively modest transactions. The clarifications to option agreements and class tests are also supported.

6. Governance Flexibility

6.1. We welcome the changes to AIM Rule 13 on non-standard director remuneration, including the removal of the fair and reasonable opinion requirement, on the basis that the subjectivity of that test served neither companies nor investors well. On special voting shares, the QCA supports their acceptability at admission but suggests such structures should carry a defined time limit, to ensure that the flexibility they provide remains proportionate as companies mature.

7. The Nominated Adviser Role and AIM Rule 11

7.1. The QCA welcomes the proposal to remove the existing AIM Rule 11 obligation and rely on UK MAR, supported by the nominated adviser's market expertise. The overlap between AIM Rule 11 and UK MAR has produced duplication and inconsistency in how disclosure thresholds are applied; removing it is the right approach.

7.2. We offer two points on implementation. First, the guidance to the new AIM Rule 11 could state more clearly that where there is an apparent breach of MAR, the company or nominated adviser should inform the Exchange. As currently drafted, this expectation is not explicit enough. Second, we note that a broader structural question has been raised about whether the nominated adviser role should be separated between corporate finance and ongoing compliance, and whether compliance advice should be open to wider competition. We raise this for the Exchange's awareness; it sits beyond the scope of this consultation and does not represent a settled QCA position, but it reflects a view among market participants that merits consideration in future.

8. Buyer Beware and Third-Party Commentary

8.1. We understand the Exchange's intent in both proposals. On the buyer-beware additions to the introduction, we question whether the AIM Rules for Companies is the appropriate instrument, given that the provision is directed at investor behaviour rather than issuer obligations. The Exchange may wish to consider whether alternative routes could achieve the same end more effectively. On the right of reply to third-party commentary, we support giving companies the option but share the concern that, as drafted, it is unclear

how the mechanism changes the practical position companies face. Further guidance on how the right of reply operates in practice could strengthen its utility.

9. Drafting and Coherence of the Rulebook

- 9.1. We consider that the value of these reforms will be realised most fully if they result in a clearer and more coherent rulebook. Two specific points arise. Where guidance is treated as informing whether a rule has been breached, it should sit within or alongside the relevant rule rather than at the end of the document, with a clear signpost to applicable guidance and any relevant AIM Notice. The distinction between a Note and a Notice in the context of Rule 42 also requires clarification.
- 9.2. On administrative changes, we ask that the new AIM Rule 20 specify clearly how companies are to submit documents to the Exchange - Whether via portal, email or through their nominated adviser - to remove any ambiguity. On block admissions, we ask that any changes align with the position for Main Market companies so that issuers and advisers face consistent obligations across both markets.
- 9.3. We note that the consultation is silent on the equal treatment of retail shareholders. If the Exchange's ambition is to make AIM more attractive to retail investors, the rulebook should reflect that. Extending guidance under Rules 24 and 25 to encourage companies to include retail investors in fundraisings, and to hold online presentations alongside those given to institutional investors, would be a practical and low-cost step toward that goal.

/ About the QCA

The Quoted Companies Alliance champions the UK's community of 1000+ small and mid-sized publicly traded businesses and the firms that support them: nomads, brokers, accountants, lawyers, registrars, consultants and investors.

We believe the public markets can be the best place for companies to source the funds to grow, operate transparently and distribute wealth, fairly.

The QCA seeks to influence policy in dialogue with regulators and government, showcase the latest thinking on leadership, investment, technology and governance through our events and research, and provide a forum to share good practice among our members, whose market capitalisations range from £1m to more than £1bn and are quoted on the Main Market, AIM and the Aquis Stock Exchange.

Informed by our seven Expert Groups drawn from the membership, we campaign to ensure that regulation is proportionate, while maintaining the necessary protections for investors. Our QCA Corporate Governance Code is followed by the majority of AIM companies.

Small and midcap companies represent 91% of the quoted sector. They employ around 2.1m people and contribute more than £25bn in annual taxation.

Our goal is to create an environment where their potential is fulfilled, helping to ensure a healthy and resilient UK economy.

Why join the QCA? Read more [here](#).

The QCA Code Badge: A sign of engagement

Launched in 2023, we intend the QCA Code Badge to become a recognisable mark for investors, governance experts, the media and wider stakeholders.

It is already catching on. **One in eight** of the companies that have begun applying the revised Code are also displaying the trademarked QCA Code Badge on their website or in their annual report. To obtain it, companies must either be QCA members or have acquired a copy of the QCA Code from us.



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