



**London**  
Stock Exchange

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# Discussion Paper

# AIM Rules Review



**London**  
Stock Exchange Group

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## 1.0 Purpose

London Stock Exchange is issuing this discussion paper to invite feedback regarding proposed changes to the AIM Rules for Companies and AIM Rules for Nominated Advisers (together the “AIM Rulebooks”). The proposals relate to: admission criteria; early clarity for applicants and nominated advisers in the admission process; consistency of approach across the nominated adviser community in respect of appropriateness considerations; and appropriate levels of corporate governance. The paper also sets out further detail about how we enforce the AIM Rulebooks and discusses the consideration of further supervisory powers and sanctions to ensure consistency of standards across the market within our remit.

This paper is the result of careful reflection based on London Stock Exchange’s experience of operating AIM and its ongoing engagement with stakeholders. It will be supported by wider market engagement over the coming months and sets out steps to further develop AIM to ensure its status as the pre-eminent international growth market for a wide range of UK and international growth companies.

## 2.0 Introduction

Since its launch in 1995, AIM has been a significant provider of capital and liquidity to over 3,700 small and medium sized growth companies across a wide range of sectors and countries.

By providing companies with earlier access to public equity capital than many other capital markets, AIM has played a key role in supporting economic development and employment, enabling companies to fund innovation and export growth. The most recent available data highlights AIM’s important role in the UK economy, with UK incorporated AIM companies alone providing a direct £15bn annual contribution to GDP and around 430,000 jobs.<sup>1</sup> Furthermore, at the start of 2017 AIM passed a significant milestone, with over £100bn being raised for AIM companies since its launch<sup>2</sup>. Demonstrating its important function as a growth market, nearly 60%<sup>3</sup> of that total has been raised by companies already admitted to AIM after IPO, also highlighting the long term nature of support provided by investors to companies on the market.

# £100bn

At the start of 2017 AIM passed a significant milestone, with over £100bn being raised for AIM companies since its launch

# £15bn

UK incorporated AIM companies alone providing a direct £15bn annual contribution to GDP and around 430,000 jobs.

The broad spread of sectors and international companies represented on AIM has also contributed to its international success. The continued provision of capital to companies with both domestic and international operations will be particularly important in the forthcoming period as the UK adjusts its global trading relationships.

Since AIM’s launch more than twenty two years ago, the wider funding landscape for businesses has evolved and continues to evolve considerably. There is a renewed focus on the importance of equity finance for growth businesses. Over recent years, there have been positive developments in the availability of angel finance for early stage businesses and innovation in areas such as crowdfunding and peer to peer lending. These developments in the provision of early stage finance should enhance the vitality of the future pipeline of AIM admissions.

<sup>1</sup> Source: Grant Thornton analysis: <http://www.grantthornton.co.uk/insights/how-much-is-aim-worth-to-the-uk/>

<sup>2</sup> See LSEG press release for further details: <http://www.lseg.com/resources/media-centre/press-releases/aim-reaches-%C2%A3100-billion-raised-mark>

<sup>3</sup> As at 30/04/17, £42billion had been raised by AIM companies from new issues, whilst £59billion had been raised from further issues. Data available on a monthly basis via the following link: <http://www.londonstockexchange.com/statistics/new-issues-further-issues/new-issues-further-issues.htm>

Companies should have better access to external financing at an earlier stage, allowing them to scale-up and also become more familiar with the benefits and disciplines of having external shareholders.

London Stock Exchange has continued to develop its offering to support growth companies. Initiatives such as its family of 'Companies to Inspire' reports<sup>4</sup> and ELITE programme<sup>5</sup> ensure that these companies have the support and confidence they need to progress to the public markets, should that be the most appropriate step for them. Against this backdrop, London Stock Exchange wants to use this opportunity to seek market feedback on proposals to support AIM's future development.

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### 3.0 Background

AIM has developed into the largest market for small and medium sized growth companies in Europe and is seen as the benchmark for growth markets globally. Its innovative model has helped bring together a whole community to support such companies and its framework has been replicated on other growth markets around the world.

AIM provides earlier access to the capital markets for companies compared to many other global markets and continues to retain key elements of differentiation from London Stock Exchange's Main Market, as was originally envisaged when it was launched in 1995. It primarily caters for equity securities of small and medium sized growth companies that may have less diversified business models or may not yet have the track record to qualify for the Main Market. In this regard, a higher investment risk can often attach to investment in an AIM company compared to the risk attaching to larger or more established companies. As with any equity investment, investors should be aware of the risk factors associated with any specific company, whether on AIM or the Main Market, and make the decision to invest only after careful consideration of these factors and their own risk appetite and, for retail investors where appropriate, after consultation with an independent financial adviser.

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# £25m

53% of companies now having a market capitalisation above £25m, compared to 33% in 2000

As referred to above there has been an increased focus on diversifying the sources of non-bank funding available to scale-up businesses. We believe these are contributing factors, combined with evolving investor preferences, that have led to businesses coming to AIM recently with larger market capitalisations and at a later stage of development, allowing them to raise larger sums of capital at admission. As AIM has matured, there has been an evolution in the size of companies using AIM, with 53% of companies now having a market capitalisation above £25m, compared to 33% in 2000<sup>6</sup>.

London Stock Exchange has always been mindful to retain AIM's distinct features, ensuring that AIM is a market accessible to small and medium sized growth companies and entrepreneurs, maintaining its clear points of differentiation from the Main Market. We remain convinced that maintaining a distinct growth market ensures that there is an efficient allocation of capital that supports the risk profile of companies at different stages of growth and maturity.

AIM's market model seeks to provide growth companies with the opportunity to join a public market. This allows them to develop, within a market with a balanced regulatory structure, which also provides investors with a fair, orderly and proper market that promotes investor confidence. In particular, the nominated adviser model requires AIM companies to access regulatory guidance from a choice of knowledgeable and experienced corporate finance advisers who are also AIM specialists and who have specialist sector knowledge. London Stock Exchange's AIM Rulebooks are designed to be tailored to the needs of such growth companies, whilst providing comprehensive standards of disclosure. This enables investors to fully understand the businesses in which they are investing and the relevant risks attached to such investments.

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<sup>4</sup> Reports available at: <http://www.lseg.com/resources/1000-companies-inspire>

<sup>5</sup> Further detail available at: <http://www.lseg.com/elite>

<sup>6</sup> Current monthly data available at <http://www.londonstockexchange.com/statistics/markets/aim/aim.htm> Historic company files available at: <http://www.londonstockexchange.com/statistics/historic/company-files/company-files.htm>

Where London Stock Exchange has made changes, for example, to accommodate developments elsewhere in the wider regulatory framework, such as the introduction of the Market Abuse Regulation in 2016, or where there have been certain types of companies such as those from the Mining, Oil and Gas sectors to which specific disclosure requirements apply, we have sought to retain a purposive and principles-based approach to regulation. We believe that this approach delivers better outcomes for companies and investors.

As well as continually reviewing standards, we have worked to ensure that the wider secondary market, tax and regulatory framework work together to support AIM companies and their investors. In particular, as with all growth markets, we recognise that providing adequate liquidity is important and remains a key focus for companies. This is why we have consulted with policy makers to enhance the fiscal incentives available to investors in AIM companies, including successfully campaigning for AIM shares to be eligible for ISAs and the abolition of stamp duty on the trading of AIM securities. Both of these changes have helped to stimulate liquidity across the market and ensure that AIM is supported by a vibrant mix of individual and institutional investors. From direct feedback and recent surveys of AIM companies, it is evident that the businesses that benefit most from being on AIM tend to be active users of the market and raise follow-on capital through the market.

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## 4.0 The role of London Stock Exchange

AIM is operated by London Stock Exchange in its capacity as a Recognised Investment Exchange under the UK's Financial Services and Markets Act. AIM is classified as a Multilateral Trading Facility (MTF). London Stock Exchange has obligations to ensure that business is conducted in an orderly manner and that it has clear and transparent rules concerning the admission to trading of financial instruments, such as AIM company shares.

London Stock Exchange meets these obligations by setting out rules in the AIM Rulebooks which form the basis of London Stock Exchange's operation of AIM. Similarly, London Stock Exchange sets out rules for member firms that trade AIM securities on the Exchange (the "London Stock Exchange Rulebook"). The various London Stock Exchange rulebooks are aimed at maintaining the integrity, orderliness, transparency and good reputation of its markets.

### AIM Rulebooks

The AIM Rulebooks combine a number of key elements:

- appropriate admission requirements for companies, including the content of the admission document which is based on similar requirements for the Main Market;
- continuing obligations on companies, mainly relating to on-market disclosure;
- obligations owed by nominated advisers to London Stock Exchange, in respect of considering appropriateness and providing ongoing advice and guidance to AIM companies; and
- a sanctions regime which seeks to deter non-compliance by issuers and nominated advisers.

London Stock Exchange expects AIM companies and nominated advisers when complying with the AIM Rulebooks to take into consideration the principles based nature of the rules.

London Stock Exchange's remit is limited to its rulebooks; i.e. a company's conduct in relation only to its AIM obligations, or in the case of a nominated adviser, the duties it owes to London Stock Exchange in its role as a nominated adviser. Actions of companies and directors that relate to wider legal duties and obligations are within the remit of the relevant competent body or regulator. We discuss the broader statutory regulatory regime and how we work closely and co-operate with relevant statutory authorities in section 7.

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**The various London Stock Exchange rulebooks are aimed at maintaining the integrity, orderliness, transparency and good reputation of its markets.**

## **The role of the nominated adviser**

Nominated advisers are corporate finance firms approved by London Stock Exchange and are solely responsible to the Exchange for advising and guiding AIM companies on their responsibilities under the AIM Rules for Companies and for assessing the appropriateness of companies to be admitted to AIM. The majority of nominated advisers are also authorised firms subject to regulation by the FCA.

The role of the nominated adviser in assessing a company's appropriateness for AIM remains key to ensuring the long term success of AIM. The assessment of appropriateness of a new applicant includes a range of considerations, including but not limited to:

- stage of growth of the business and its strategy;
- free float;
- reasons for wanting to join a public market;
- board skills, efficacy and individual suitability;
- systems and controls;
- corporate governance;
- risks; and
- maintaining the reputation and integrity of AIM.

London Stock Exchange retains the power to and does raise questions and challenges nominated advisers on proposed admissions. London Stock Exchange can stop an admission where it considers it may be detrimental to the orderly operation or reputation of AIM.

Currently, nominated advisers are required to approach London Stock Exchange at an early stage of a new application to discuss a company, where there are any atypical features or potential issues that may be of concern to London Stock Exchange. Where an issue is either not raised in a timely fashion or is identified towards the end of the application process, there can be a delay in, postponement or withdrawal of a proposed admission. Ensuring earlier visibility on forthcoming applicants for admission could reduce the risks of this occurring and provide greater clarity for the nominated adviser and the applicant as they prepare for an application for admission to AIM. A number of market participants have therefore suggested that we could formalise the process of holding early discussions about forthcoming admissions.

It is important to recognise that such a process is not intended to change the commercial business model and the risk for investors of whether the business will be successful.

Therefore, we would like feedback on the proposals set out below which relate to extending and formalising the current process of early discussions.

## **Formalising the early notification process**

At an earlier stage in the Schedule One process, the nominated adviser would be required to enter into confidential discussions with London Stock Exchange setting out key information regarding the company and its proposed admission to AIM. The main types of information that would be essential to these discussions, similar to those currently contained in the Schedule One form, include:

- details of the business and its country of incorporation and operation;
- details of any introducer;

- details of the proposed board of directors and any persons discharging managerial responsibilities (who are not directors);
- details of any proposed fundraising;
- significant shareholders pre-admission and expected post-admission, including details of any concentrated or connected shareholdings;
- names of the broker, reporting accountant and solicitors for the AIM company and nominated adviser being used for admission;
- details of the shares not in public hands and how the nominated adviser is satisfied that there will be adequate free float;
- details of other markets upon which the company has admitted securities; and
- details of any issue that has arisen as part of the nominated adviser's due diligence process that may give cause for London Stock Exchange to question whether the admission of the applicant may be detrimental to the reputation or integrity of AIM and how the nominated adviser has reached a view that this issue does not affect the applicant's appropriateness for AIM.

An early discussion of issues with London Stock Exchange is already a requirement for nominated advisers where an admission raises potential issues, as set out in guidance contained in Inside AIM (Issue 3)<sup>7</sup>. This proposal would extend this practice of early discussions to all proposed admissions and codify this into the rules. It would not diminish a nominated adviser's overall obligations to London Stock Exchange to be satisfied about a company's appropriateness or the nominated adviser's ongoing obligation to update London Stock Exchange about any new information or any changes of circumstances that arise during the admission process.

#### Questions

Q1	Do you agree that the proposed extension and codification of the existing early notification process would be beneficial?
Q2	At what point should this early notification be required in order to make it feasible for the nominated adviser to have identified the information required but also early enough in the process to enable the discussion to have a benefit to the parties in their preparation for admission?
Q3	Does the list proposed above cover the key information that should be set out in the early notification process and, if not, what additional information would be beneficial?

#### Guidance on when the Exchange may exercise its AIM Rule 9 powers

It remains an important aspect of the AIM model that the assessment of appropriateness of an AIM company remains, in the first instance, the obligation of the nominated adviser under the AIM Rules for Nominated Advisers. It is the nominated adviser who is required under the AIM Rulebooks to have an in depth understanding of the company as part of its due diligence and other preparation work during the IPO process.

However, if there are issues identified prior to admission which London Stock Exchange considers the nominated adviser has not properly addressed or reconciled, London Stock Exchange has ultimate discretion to refuse or impose conditions on an admission should the issues identified remain unaddressed, if it considers that the admission may be detrimental to the orderly operation or reputation of AIM.

Notwithstanding the existence of this power, London Stock Exchange rarely needs to exercise this in practice, as issues are either addressed satisfactorily or the application is withdrawn.

<sup>7</sup> <http://www.londonstockexchange.com/companies-and-advisors/aim/advisers/inside-aim-newsletter/inside-aim-issue-3.pdf>

In order to ensure consistency of approach from nominated advisers and to provide further certainty about London Stock Exchange's expectations as to what nominated advisers should take into account when meeting their obligations, we propose to include in the AIM Rules for Nominated Advisers, a non-exhaustive list of factors, as set out below, as guidance to nominated advisers about the types of issues that may give rise to concerns:

- Concerns as to the good character, skills, experience or previous history of a director, key manager, senior executive, consultant or shareholder.
- Where the rationale for seeking admission to AIM is not clear.
- Formal criticism of the applicant and/or any of its directors by other regulators, governments, courts, law enforcement or exchange bodies.
- The applicant has been denied admission to trading on another platform or exchange.
- Corporate structure and business models that give rise to concerns regarding appropriateness for a public market.
- Where the applicant holds a derivative or economic interest in a material part of its assets or business operations via potentially risky contractual arrangements with the owner of the assets or operations rather than by owning them itself or through a subsidiary.

These factors can be of such importance that, each in their own right, may mean that a company is not appropriate for AIM. However, this is not always the case and in more complex cases, individual issues which have not prevented an admission for some issuers may be present in combination to make another issuer inappropriate for admission when the application is considered in the round. For this reason, a nominated adviser would be expected to consider the interaction of different factors when making an overall assessment of appropriateness.

Questions	
Q4	Do you agree that it would be helpful to publish a list of non-exhaustive examples of factors to be taken into account by nominated advisers when assessing appropriateness for AIM?
Q5	Do you agree with or have any comments on the proposed examples?

## 5.0 The development of AIM and eligibility criteria

AIM has developed significantly over the period since its launch. The chart below highlights the changing distribution of companies on AIM by market capitalisation since 2000. It also shows an evolution in the size of companies admitted to AIM, with 53% of companies now having a market capitalisation above £25m:

**Distribution of AIM companies (% of Total)**

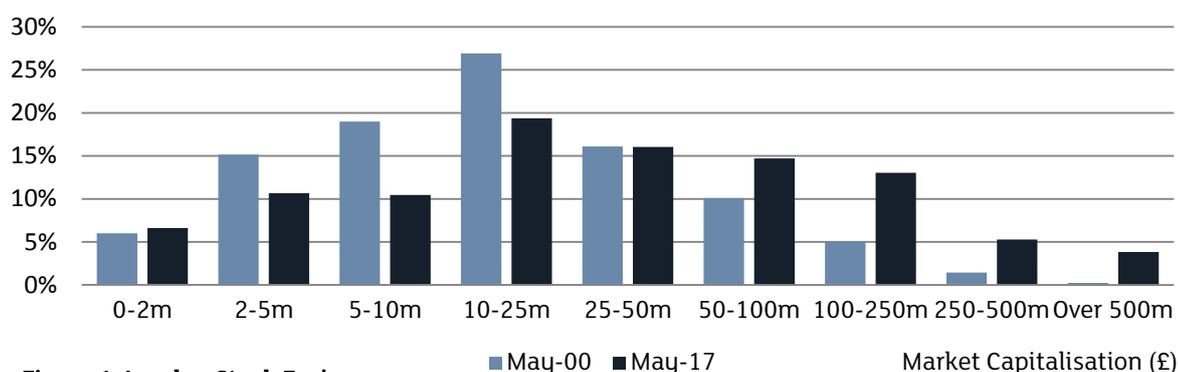


Figure 1: London Stock Exchange

As AIM has matured, London Stock Exchange has amended the AIM Rulebooks to reflect the development of the market with specific eligibility criteria. For example, the requirement for mining oil and gas companies to publish an expert report was introduced in March 2006<sup>8</sup>, and minimum fundraising rules for investing companies were introduced in April 2005<sup>9</sup>. As discussed above, the nominated adviser must consider these issues as part of its overall consideration of whether a company is appropriate for AIM.

Notwithstanding changes such as these, there are no specific eligibility criteria regarding minimum size, trading history or percentage free float. Rather these are matters that are considered in the broader assessment of a company's appropriateness for AIM.

As AIM has developed, the question of introducing minimum size and percentage free float criteria has been raised. For example, the QCA and RSM Small and Mid Cap Investor survey 2017<sup>10</sup> sought the views of institutional investors about whether such criteria should be introduced. Whilst the survey concluded that investors did not consider these criteria were necessary, we think this is a good opportunity to seek views from stakeholders about whether the current entry criteria remain appropriate.

### **Free float: maintaining an orderly market**

Sufficient free float is fundamental to the orderly trading and liquidity of securities once they are admitted to AIM, and therefore a key consideration of whether a new applicant is appropriate to be admitted to AIM.

The AIM Rules for Companies do not include a specific numerical or percentage threshold for free float. London Stock Exchange currently does not consider a prescribed threshold is appropriate for AIM companies and instead considers a qualitative approach to be more meaningful. We believe the guidance currently available (see Inside AIM – 1 June 2015)<sup>11</sup> together with early discussions with nominated advisers strikes an appropriate balance between supporting liquidity in the secondary market and supporting innovation and emerging growth companies.

On submission of an application for admission, amongst other factors, London Stock Exchange wants to understand the nominated adviser's consideration relating to free float, taking into account factors such as:

- the range and spread of shareholders on admission, including the participation of recognised institutional shareholders;
- the influence and visibility of any major shareholder;
- any measures in place, at admission, to enhance liquidity; and
- the existence of concentrated shareholdings (e.g. connected due to family, business or other interests) and what measures are in place, at admission, to address these.

The benefit of this approach is that it takes into consideration factors such as the nature and spread of the investor base, recognising that a company which may appear to have a high free float at admission may not automatically have higher levels of trading if specific investors buy and hold shares for the long term.

This view is supported by the QCA and RSM report "Small and Mid-Cap investors survey 2017"<sup>12</sup> which notes the majority of investors interviewed think there should not be any kind of enforced minimum free float as it is unnecessary and burdensome.

<sup>8</sup> Competent Persons Report – AIM Notice 16: <http://www.londonstockexchange.com/companies-and-advisors/aim/advisors/aim-notices/aim-notice-16.pdf>

<sup>9</sup> AIM Notice 13: <http://www.londonstockexchange.com/companies-and-advisors/aim/advisors/aim-notices/aim-13-final-clean.pdf>. Further rule changes were made to this rule under AIM Notice 43:

<http://www.londonstockexchange.com/companies-and-advisors/aim/advisors/aim-notices/aim43.pdf>

<sup>10</sup> <http://www.theqca.com/news/briefs/128121/qca-rsm-small-and-midcap-investors-survey-2017.html>

<sup>11</sup> <http://www.londonstockexchange.com/companies-and-advisors/aim/advisors/inside-aim-newsletter/consideration-of-free-float.pdf>

<sup>12</sup> see note 10

Questions	
Q6	Do you agree that the current approach to free float strikes the right balance or do you consider that London Stock Exchange should consider the introduction of a minimum “shares in public hands” requirement?
Q7	If you believe London Stock Exchange should consider introducing specific free float requirement, what would you consider to be an appropriate minimum and the reasons why? What types of shareholders should be considered as “shares in public hands”?

### Minimum fundraising requirement for new applicants to AIM

London Stock Exchange wants to ensure that AIM remains a vibrant market for growth businesses from a wide range of sectors and countries. Over recent years, the size of companies joining AIM and the average amount of capital they raise has increased. The current median company market capitalisation on AIM is £28m and the current average amount of new capital raised is £30m. London Stock Exchange wants to ensure that AIM remains a public market for small and medium sized growth companies, and does not currently believe that it would be appropriate to apply a minimum overall size of applicant criteria at admission or on an ongoing basis. However, from our experience of operating AIM, and supported by evidence of having introduced a minimum fundraising requirement for AIM investing companies, we believe it would be beneficial to introduce a minimum capital raising threshold to a wider set of new applicants.

Over recent years, the size of companies joining AIM and the average amount of capital they raise has increased.

**£30m**

The current median company market capitalisation on AIM is £28m and the current average amount of new capital raised is £30m

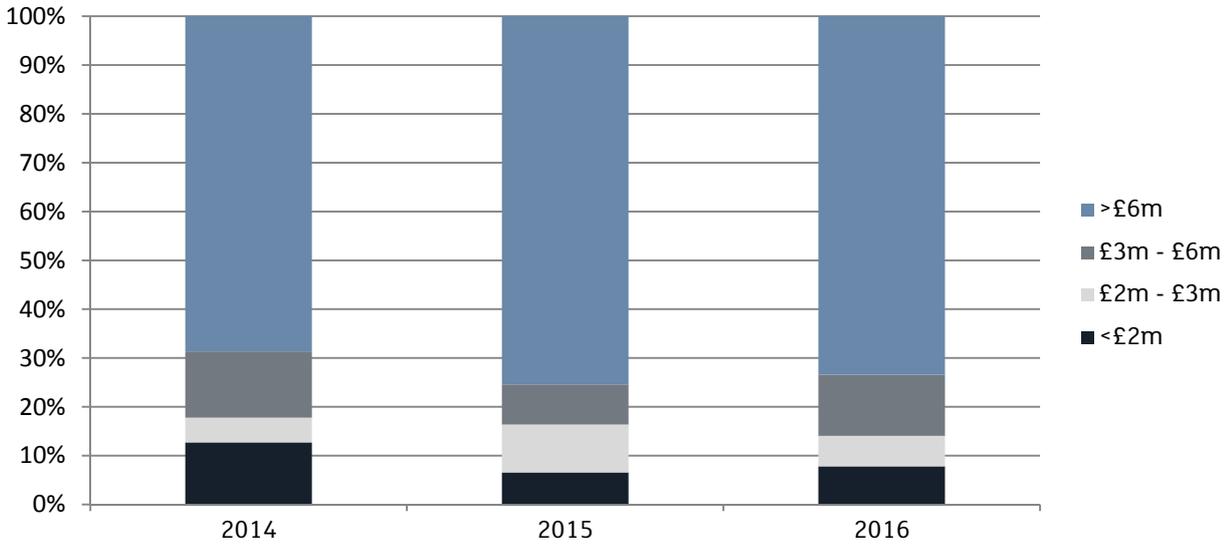
A new fundraising threshold could be similar to AIM Rule 8<sup>13</sup> that applies to investing companies, under which an applicant currently seeking admission as an investing company must currently raise a minimum amount in cash via an independent equity fundraising on, or immediately before, admission. A minimum fundraising requirement set at an appropriate level would necessitate external, often institutional participation, ensuring an extra level of scrutiny over the business proposition, the experience of the applicant’s directors and the company’s valuation on admission. As such, question 10 seeks responses on an appropriate minimum fundraising threshold. The thresholds suggested range between £2m and £6m<sup>14</sup>. The intention of the proposed threshold would not be to exclude companies where the purpose of the criteria can be met by other evidence, such as where a company is admitted to another market (and already has track record as a public company). Accordingly, if such a threshold were introduced we would propose to include some limited exceptions and welcome stakeholder responses.

We set out an analysis of new admissions and the level of fundraising over recent years to provide some context with respect to this proposal and to understand the potential effect on future new issues depending on the size of any proposed threshold criteria. It can be seen from the analysis below that the vast majority of AIM applicants would be in excess of the minimum fundraising required based on a range of £2-6m.

<sup>13</sup> This rule imposes certain admission conditions (including a minimum fundraising) on new applicants who are classified as investing companies on admission to AIM.

<sup>14</sup> When AIM Rule 8 was introduced in 2005, the threshold was £3m and this was increased to £6m in 2016. See note 9.

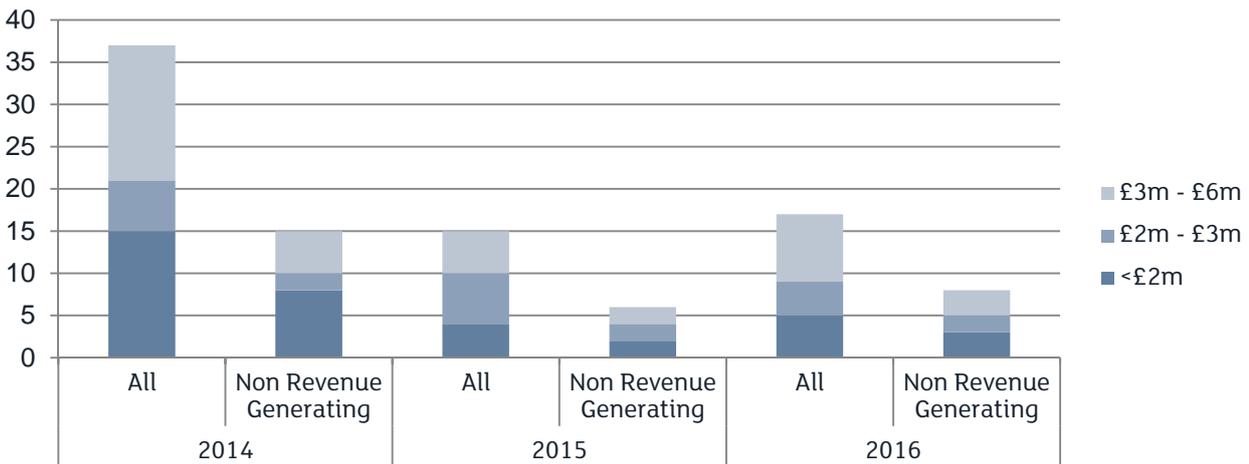
**Size of fundraise by new AIM applicants as a percentage of total admissions in that year**



**Figure 2: London Stock Exchange**

We believe that broadening the requirement for minimum fundraising could also translate into a better quality of trading in the secondary market. Increased certainty about the company’s financial resources should contribute to lower volatility in the company’s valuation. However, we recognise that valuations and trading in the secondary market is informed by disclosures in the admission document through, for example, the company’s historic track record. Therefore, in question 9 we ask whether the proposal should apply to all applicants or just non-revenue generating businesses at admission. In this regard, we set out an analysis below of those AIM admissions between 2014 -16 which raised less than £6m at admission, separating out the small number of companies which were non-revenue generating companies.

**Number of new applications affected by minimum fundraise threshold and revenue generating status**



**Figure 3: London Stock Exchange**

Furthermore, we believe that the benefits of being admitted to AIM are maximised where companies raise capital to support their future growth. If we were to introduce this requirement, we would expect it to be

satisfied by an independent fundraising and not by funds from related parties, unless the related party is a substantial shareholder only and an authorised person<sup>15</sup>.

Questions	
Q8	Do you believe that it would be beneficial to extend a minimum fundraising criteria at admission, or should it continue to only apply to AIM investing companies?
Q9	Do you agree that such a proposal should apply only to non-revenue generating companies? If yes or no, please explain why.
Q10	If a threshold is introduced, what level of minimum fundraising would be most appropriate on or immediately before admission and why? a) £2m          b) £3m          c) £6m   d) other
Q11	Are there any other circumstances where a company should not have to meet a minimum fundraising criteria, beyond those referred to above with respect to companies with a historic track record?

## 6.0 Corporate governance requirements for AIM companies

London Stock Exchange believes that companies benefit from adopting appropriate governance measures, but recognises that to be effective these measures should be tailored to a company’s individual requirements given its stage of development and developed through considered engagement with key stakeholders. Under the AIM Rules for Companies, an AIM company must consider corporate governance with its nominated adviser, which forms part of the nominated adviser’s wider considerations about the appropriateness of the company and obligations owed to London Stock Exchange. This allows a company to focus on what is meaningful and appropriate for its particular circumstances and also draws on the nominated adviser’s experience obtained from having worked with the applicant and other companies with similar business models or at a similar stage of development.

This principles-based approach to corporate governance is consistent with our overall approach to AIM, which recognises that a ‘one size fits all’ regime is not appropriate for small and medium sized growth companies. Over the past 10 years, London Stock Exchange has amended the AIM Rules for Companies requiring companies to consider their governance arrangements and to provide specific disclosures to investors. We have also issued guidance in Inside AIM (Issue 2)<sup>16</sup> setting out our views on the importance of corporate governance and AIM’s approach and published a guide to Corporate Governance for Main Market and AIM Companies<sup>17</sup>.

We are interested in stakeholder views on the following areas:

### Composition of boards

Whilst the AIM Rulebooks require nominated advisers to assess the efficacy of boards on admission and on an ongoing basis, they do not mandate specific composition requirements, such as requiring an AIM company to have a specific number of non-executive directors. Nor do they mandate that these directors be independent of the AIM company. We consider that the roles of the Chairperson, Finance Director and Non-Executive directors are integral to a well composed board, whilst recognising that good board composition is no guarantee against corporate failure.

<sup>15</sup> As defined in the Glossary to the AIM Rules for Companies: a person who, under European Union directive or United Kingdom domestic legislation, is authorised to conduct investment business in the United Kingdom.

<sup>16</sup> <http://www.londonstockexchange.com/companies-and-advisors/aim/advisors/inside-aim-newsletter/inside-aim-issue2.pdf>

<sup>17</sup> <http://www.londonstockexchange.com/companies-and-advisors/aim/publications/documents/corpgov.pdf>

It should only be in exceptional circumstances that a board of an AIM company does not contain these roles. However, we want to maintain a framework in which companies have choice and actively consider their specific governance requirements with the support of their nominated adviser. Meaningful consideration of these issues is more important than standardised disclosure.

## Disclosure

The current corporate governance disclosure requirements for AIM companies are set out in AIM Rule 26. It requires disclosure by an AIM company of the “*details of the corporate governance code that the AIM company has decided to apply, how the AIM company complies with that code, or if no code has been adopted this should be stated together with its current corporate governance arrangements*”. This allows the board to consider and balance the needs and resources of the business at its particular stage of growth, with the need to have an effective governance system that delivers transparency and trust between the board and shareholders.

London Stock Exchange welcomes feedback on whether the corporate governance arrangements currently applicable to AIM companies are appropriate or should be revised. An option includes making it mandatory for AIM companies to comply and explain against one of the industry codes of their choosing. In this regard there are existing codes that are well established benchmarks for AIM companies such as the Quoted Companies Alliance Corporate Governance Code for Small and Mid-Size Quoted Companies and the UK Corporate Governance Code. However, we believe that it remains preferable for AIM companies to have a range of options to suit their specific stage of development and size. For example, for an international company that is also admitted to an international market, it may be more appropriate to report using its home jurisdiction standards.

Questions	
Q12	Do you consider the current requirements set out above, including duties of the nominated adviser at admission to consider the efficacy of the board and the adoption of appropriate corporate governance standards and disclosure under AIM Rule 26, to be effective? If not, please explain why?
Q13	Do you believe that AIM companies should be required to report annually against a governance code?

## 7.0 Standards of conduct and approach to non-compliance with the AIM Rulebooks

The integrity and reputation of AIM is important to both market participants and London Stock Exchange as its operator. As described in section 4, London Stock Exchange sets out rules in relation to the admission and orderly trading of AIM securities in the AIM Rulebooks (for AIM companies and nominated advisers) and London Stock Exchange Rulebook (for member firms that trade AIM securities on the Exchange). The various London Stock Exchange rulebooks are aimed at maintaining the integrity, orderliness, transparency and good reputation of its markets. London Stock Exchange seeks to maintain compliance with these rules through awareness and education, monitoring of behaviour, and disciplinary action where necessary. The approach to investigation of breaches under the remit of London Stock Exchange’s AIM Rulebooks is discussed further below.

**The integrity and reputation of AIM is important to both market participants and London Stock Exchange as its operator.**

London Stock Exchange’s remit is often perceived to be wider than it is, extending to matters which are subject to legal and often criminal sanctions. However, London Stock Exchange’s remit is limited to its rulebooks i.e. a company’s conduct in relation only to its AIM rules obligations, or in the case of a nominated adviser, the duties it owes to London Stock Exchange in its role as a nominated adviser. Matters such as directors’ duties,

shareholder rights, takeover obligations, short selling, prosecution of market abuse cases and fraud in relation to AIM companies fall within the remit of the appropriate statutory authority such as the Department for Business, Energy and Industrial Strategy, the Panel on Takeover and Mergers the Financial Conduct Authority (FCA) or the Serious Fraud Office, as is the case for Main Market companies. The remit of London Stock Exchange and various statutory authorities is set out in more detail on our website at this [link](#).

Whilst the nominated adviser's role is important to the AIM model, through its consideration of appropriateness and the ongoing advice and guidance it provides to an AIM company on compliance with the AIM Rules for Companies, the nominated adviser cannot guarantee an AIM company's compliance either with the AIM Rules for Companies or its wider statutory responsibilities. Additionally it cannot guarantee an AIM company's commercial success or share price performance. The AIM Rules for Companies are focused on disclosure to ensure investors have the relevant information to make informed investment decisions. They do not duplicate statutory obligations, for example, in areas such as market abuse, short selling, fraud, directors' duties, takeover code obligations and financial reporting standards.

The introduction of the Market Abuse Regulation in July 2016 also extended the FCA's remit directly to AIM issuers for the disclosure of inside information and the control of directors' dealings for companies who are UK incorporated.<sup>18</sup>

Inappropriate or fraudulent behaviour has a detrimental impact on market participants and the reputation of AIM. Where such activity is not within London Stock Exchange's remit, we work closely with all of the relevant statutory authorities that have powers to undertake investigations and impose penalties to deter such behaviour. In this regard, London Stock Exchange makes referrals to and co-operates closely with the relevant statutory authority so that the investigation and enforcement of matters relating to AIM companies, their directors or potentially abusive trading in AIM securities, is undertaken by the authority that has the most appropriate remit and investigation and enforcement powers.

## Questions

Q14

Are there further ways London Stock Exchange can helpfully educate market participants, particularly individuals, as to what London Stock Exchange can and can't do in respect of its remit, beyond the information already available on its website?

## Breaches of the AIM Rulebooks

London Stock Exchange takes seriously all potential breaches of the AIM Rulebooks. We receive information from a variety of sources in respect of alleged breaches of our rules. Our approach is to consider all enquiries and referrals we receive. Given the variety of information we receive and our approach of considering all matters that are brought to our attention, upon review, a considerable number of these enquiries either do not fall within the remit of London Stock Exchange, or where they do, often do not show evidence of a breach of the AIM Rulebooks. Where a review of an enquiry indicates the activity is not within London Stock Exchange's remit, as appropriate and as discussed above, we make referrals to and co-operate closely with the relevant statutory authorities.

Where there is sufficient evidence to support a finding of a breach of the AIM Rulebooks, our approach is to seek to achieve regulatory outcomes taking into account, amongst other factors, the seriousness of the breach and to seek to prevent future non-compliance. In addition to remedial action that may be required, London Stock Exchange has a variety of private and public sanctions it can use in respect of the enforcement of its various rulebooks. This range of sanctions enables London Stock Exchange to take the most appropriate action taking into account the circumstances of each case. Through the use of these sanctions, London Stock Exchange seeks to achieve its objectives of bringing to account those who do not comply, providing education to the market to

<sup>18</sup> See link to the EU Market Abuse Regulation - <http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32014R0596&from=EN> London Stock Exchange issued Inside AIM guidance on preparation for Market Abuse Regulation on 29 April 2016 at <http://www.londonstockexchange.com/companies-and-advisors/aim/advisors/inside-aim-newsletter/prepformar.pdf>

ensure changes in future behaviour and to deter future breaches. Indicators which London Stock Exchange takes into account when considering what action to pursue include, amongst other things:

**Our approach is to seek to achieve regulatory outcomes taking into account the seriousness of the breach and to seek to prevent future non-compliance.**

- the nature and seriousness of the breach;
- how the breach came to light;
- the duration and frequency of misconduct;
- the actual or potential market impact of the rule breach, and any other repercussions; and
- the responsiveness and conduct of the AIM company or nominated adviser in relation to the matter under investigation

The above factors are also taken into account when considering the behaviour of member firms in relation to their compliance with the London Stock Exchange Rulebook which sets out rules for firms trading AIM securities.

Where we find evidence of a breach of the AIM Rulebooks, London Stock Exchange has several tools available:

- A breach may be recorded and details will be kept on the AIM company or nominated adviser’s compliance record. This will be taken into account when considering any future action.
- Recorded breaches are usually accompanied with education and/or requirements for remedial action, in order to prevent future non-compliance.
- For rule breaches that are not sufficiently serious to merit a censure/fine, London Stock Exchange may take disciplinary action in the form of a private warning notice. Such an action is a warning to the company or nominated adviser to ensure future compliance and consequently should future breaches occur, more serious disciplinary action will be considered.
- Where the breach is sufficiently serious to merit a censure/financial penalty, London Stock Exchange may bring a private censure and a fine. In order to provide broader education and prevent future breaches, private censures may be published on an anonymised basis.
- In serious cases, London Stock Exchange will bring an action for a public censure and fine which is determined by the AIM Disciplinary Committee which is comprised of members independent of the Exchange.

Between 2013 and 2016, London Stock Exchange conducted on average 190 reviews per annum in respect of compliance of its AIM Rulebooks. Of these, on average in each year, 81 of these matters either did not fall within the remit of London Stock Exchange<sup>19</sup>, or where they did fall within the remit of London Stock Exchange, they did not evidence a breach of the AIM Rulebooks. The remainder resulted in the following outcomes.

Outcomes of investigations (AIM Rulebooks)	Average per year 2013-2016
Recorded Breach and Education	93
Warning Notices and Private Censures/Fines	16

London Stock Exchange recognises that there is an interest in greater understanding around the number and type of its investigations. Accordingly, we also intend to undertake a further review of the AIM Disciplinary Procedures and Appeals Handbook (“the Disciplinary Handbook”) with a view to considering proposals to enhance understanding about the outcome of the work we do.

London Stock Exchange also intends to review its supervisory powers and sanctions policy as part of its continuing efforts to ensure consistency of standards across the market. We will also consider whether there is merit in introducing automatic fines for non-compliance with rules such as late filings of accounts and disclosure of regulatory information on an AIM company’s website.

<sup>19</sup> where appropriate, referrals were made where the matters fell within the remit of other regulators or authorities.

London Stock Exchange expects to issue a consultation on proposed changes to the Disciplinary Handbook where further details will be provided.

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Questions	
Q15	Do you agree with automatic fines for explicit breaches of the AIM Rules for Companies? If so, what types of breaches should the fine be applied to?
Q16	In respect of Q15 what do you believe is the appropriate level of fine?
Q17	Are there other changes to the Disciplinary Handbook that you think London Stock Exchange should consider?

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## 8.0 Next steps

Responses should be sent to AIM Regulation at [aimnotices@lseg.com](mailto:aimnotices@lseg.com)

We welcome responses to the questions raised in this document by 8th September 2017.

Once the discussion period has ended we will consider the feedback and evaluate whether any changes to the AIM Rulebooks should be drafted for consultation.

## ANNEX 1 – LIST OF QUESTIONS

Q1	Do you agree that the proposed extension and codification of the existing early notification process would be beneficial?
Q2	At what point should this early notification be required in order to make it feasible for the nominated adviser to have identified the information required but also early enough in the process to enable the discussion to have a benefit to the parties in their preparation for admission?
Q3	Does the list proposed at section 4 cover the key information that should be set out in the early notification process and, if not, what additional information would be beneficial?
Q4	Do you agree that it would be helpful to publish a list of non-exhaustive examples of factors to be taken into account by nominated advisers when assessing appropriateness for AIM?
Q5	Do you agree with or have any comments on the proposed examples at section 4?
Q6	Do you agree that the current approach to free float strikes the right balance or do you consider that London Stock Exchange should consider the introduction of a minimum “shares in public hands” requirement?
Q7	If you believe London Stock Exchange should consider introducing specific free float requirement, what would you consider to be an appropriate minimum and the reasons why? What types of shareholders should be considered as “shares in public hands”?
Q8	Do you believe that it would be beneficial to extend a minimum fundraising criteria at admission, or should it continue to only apply to AIM investing companies?
Q9	Do you agree that such a proposal should only apply only to non-revenue generating companies? If yes or no, please explain why.
Q10	If a threshold is introduced, what level of minimum fundraising would be most appropriate on or immediately before admission and why? a) £2m          b) £3m          c) £6m   d) other
Q11	Are there any other circumstance where a company should not have to meet a minimum fundraising criteria, beyond those referred to above with respect to companies with a historic track record?
Q12	Do you consider the current requirements set out in section 6, including duties of the nominated adviser at admission to consider the efficacy of the board and the adoption of appropriate corporate governance standards and disclosure under AIM Rule 26, to be effective? If not, please explain why?
Q13	Do you believe that AIM companies should be required to report annually against a governance code?
Q14	Are there further ways London Stock Exchange can helpfully educate market participants, particularly individuals, as to what London Stock Exchange can and can't do in respect of its remit, beyond the information already available on its website?
Q15	Do you agree with automatic fines for explicit breaches of the AIM Rules for Companies? If so, what types of breaches should the fine be applied to?
Q16	In respect of Q15, what do you believe is the appropriate level of fine?
Q17	Are there other changes to the Disciplinary Handbook that you think London Stock Exchange should consider?

**ANNEX 2 – DATA SOURCES**

**Distribution of AIM companies (% of Total)**

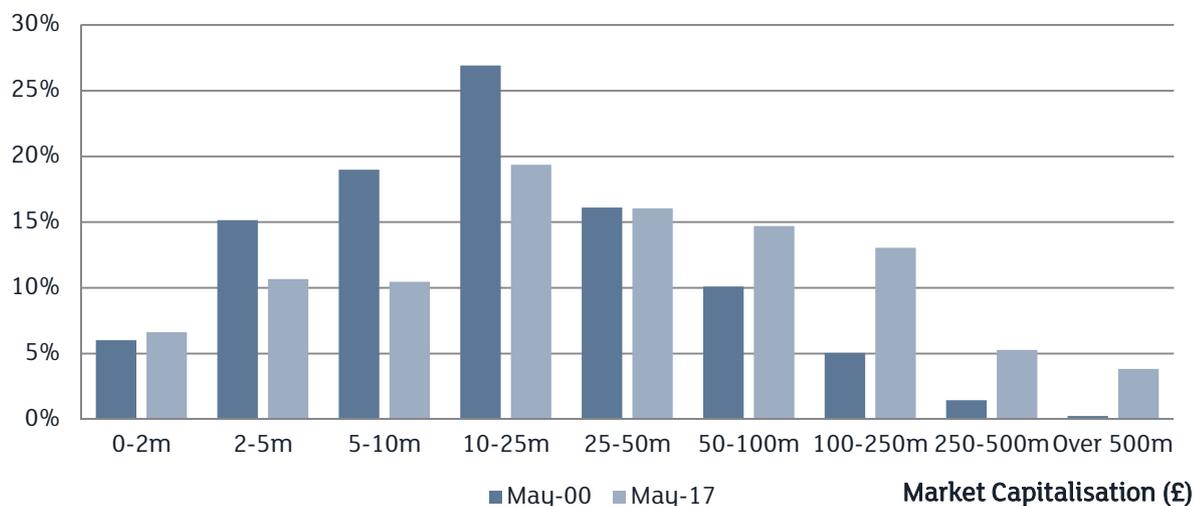


Figure 1 - Data sourced from AIM monthly statistics for May 2017 and May 2000 published on London Stock Exchange website, showing the distribution of companies on market by equity market value at the time.

**Size of fundraise by new AIM applicants as a percentage of total admissions in that year**

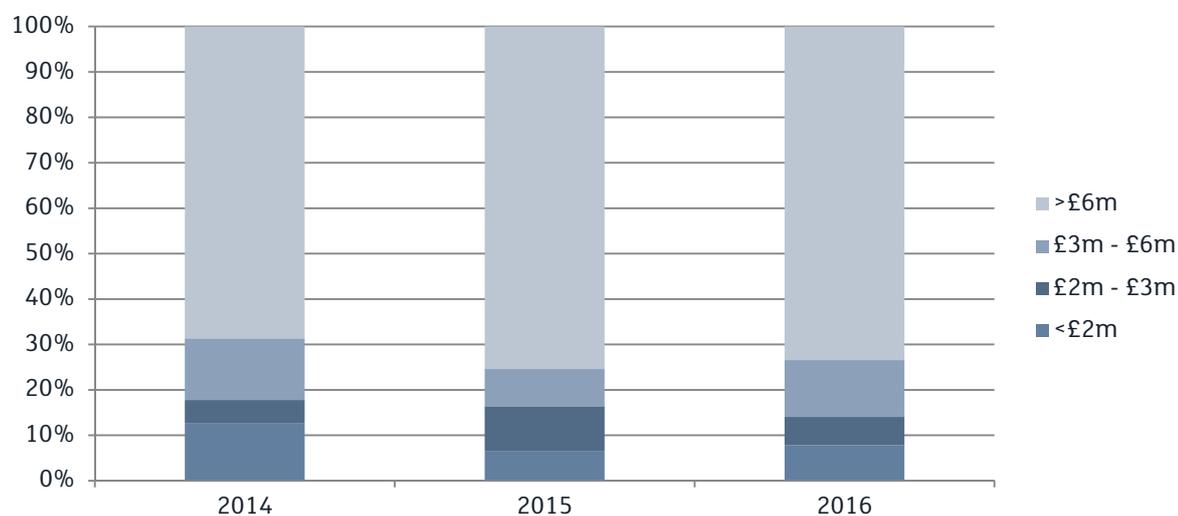


Figure 2 - Fundraising data sourced from a combination of published Schedule 1s (final Schedule One update) or companies' first day of dealings notifications.

### Number of new applications affected by minimum fundraise threshold and revenue generating status

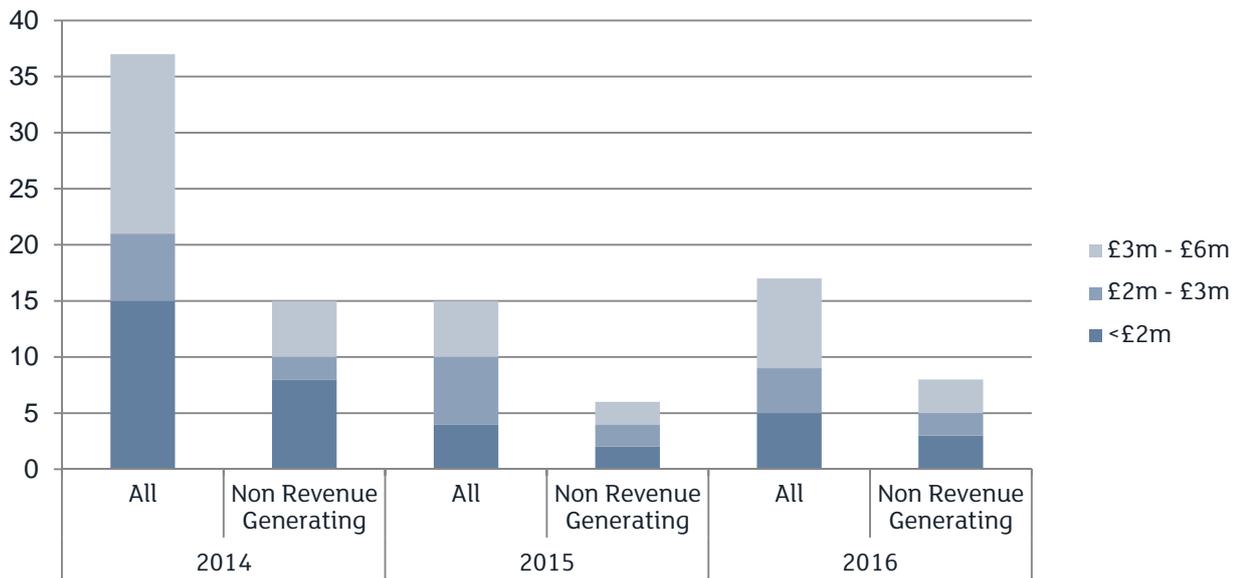


Figure 3 - Data is sourced from public source information and is based on an assessment of whether the company is generating revenues, that are not deminimis, from its main activity at the time of admission.