



*London*  
**STOCK EXCHANGE**

20 February 2007

10 Paternoster Square  
London EC4M 7LS  
Telephone +44 (0)20 7797 1000  
[www.londonstockexchange.com](http://www.londonstockexchange.com)

**For the attention of the Nominated Advisers/ Finance  
Directors/ Company Secretaries, all AIM Companies**

**AIM27**

## **STOCK EXCHANGE AIM NOTICE**

### **CONFIRMATION OF NEW AIM RULES AND FEEDBACK ON AIM NOTICE 24**

#### **1. INTRODUCTION**

On 2 October 2006, the London Stock Exchange ("**the Exchange**") issued AIM Notice 24, which consulted on:

- **Changes to the AIM Rules for Companies** including a requirement for each AIM company to have a website containing basic information about it and expanding the duties of AIM companies, particularly in relation to their Nominated Advisers ("**Nomads**");
- **Introduction of a new rule book, the AIM Rules for Nominated Advisers**, which updates and enhances the eligibility criteria and sets out the core responsibilities that the Exchange expects a Nomad to satisfy; and
- **Refinement of the AIM Disciplinary Procedures and Appeals Handbook** including new provisions outlining the rationale behind the Exchange's AIM disciplinary process and providing clearer guidance on the Exchange's approach to dealing with breaches of the AIM rules.

#### **2. IMPLEMENTATION OF NEW RULES**

This Notice confirms a number of changes to the AIM Rules for Companies and the AIM Disciplinary Procedures and Appeals Handbook and implements the new AIM Rules for Nominated Advisers. Each of these has immediate effect and the Nominated Adviser Eligibility Criteria are therefore repealed.

The new versions are available to download (in clean and marked-up versions in the case of the AIM Rules for Companies and the AIM Disciplinary Procedures and Appeal Handbook) from: [www.londonstockexchange.com/aimnotices](http://www.londonstockexchange.com/aimnotices).

3. **FEEDBACK ON RESPONSES RECEIVED TO AIM NOTICE 24**

The Exchange received nearly 50 responses from a variety of AIM participants. We would like to thank everyone who responded.

The objectives of the proposals made by the Exchange were positively welcomed as an evolutionary step for a market that has grown and developed significantly over the past eleven years.

Attached to this Notice is a statement which provides the Exchange's feedback on the areas of the consultation which attracted the most comment. This statement should also provide useful guidance to Nomads on the practical effect of some of the provisions in the new AIM Rules for Nominated Advisers.

The Exchange received a number of responses in relation to existing rules which it did not propose to amend as part of AIM Notice 24. As the Exchange did not consult on these matters, these responses have been retained for the next appropriate consultation.

4. **PROPOSED NEW WORDING IN SCHEDULE 2(e) OF THE AIM RULES FOR COMPANIES**

A number of responses were received on the proposals to introduce new wording on the front page of an AIM admission document. This wording aimed to summarise for market participants the role of the Nomad and to highlight the confirmation the Nomad gives to the Exchange in relation to the admission.

Some respondents felt that, even if the proposed new wording did not extend a Nomad's liability, it may lead to claims against Nomads which could be frivolous and costly.

In light of the responses received, the Exchange has amended this wording to state that each AIM company is required to have a Nomad and that the Nomad provides the Exchange with a declaration in the form found in the new Rules for Nominated Advisers.

5. **NOMINATED ADVISER ANNUAL RETURNS**

AIM Notice 24 explained that the Exchange would be introducing an Annual Return which was to be sent to all Nomads for the purposes of assessing ongoing eligibility. The Exchange confirms that Annual Returns were sent to Nomads in early January.

6. **PERMISSIBLE ACCOUNTING STANDARDS & IAS REMINDER FOR INTERIMS**

Further to the EU statement on accounting standard equivalency in December 2006, the Exchange confirms that it has added Japanese GAAP to the list of permissible accounting standards under rule 19 of the AIM Rules for Companies.

The Exchange takes this opportunity to remind AIM companies and their advisers of the permissible accounting standards in effect for accounting periods commencing on 1 January 2007, as set out in rule 19 of the AIM Rules for Companies.

In particular, UK companies which have to prepare group accounts will be required to produce their 2007 half-yearly report to IAS. The first effect of this is that such companies which have a 31 December year-end will have to produce their 30 June 2007 half-yearly report to IAS.

**7. QUERIES ON THIS NOTICE**

Queries from AIM companies on this Notice should be addressed to their Nomad.

Queries from Nomads and other advisers should be sent to:  
[aimregulation@londonstockexchange.com](mailto:aimregulation@londonstockexchange.com).

**Lucy Leroy**  
**Manager, AIM Regulation**

## AIM NOTICE 27: FEEDBACK STATEMENT IN RELATION TO AIM NOTICE 24

### GENERAL

#### **Basis of rules remains the same**

Some respondents asked for more specific rules in certain areas, such as the adequacy of staff or what constitutes regular contact under OR1 of Schedule Three of the AIM Rules for Nominated Advisers ("**Nomad Rules**"). Some also suggested more prescriptive drafting of the rules to try to capture a variety of possible scenarios. However, the Exchange believes that it is important that the AIM rules continue to be straightforward, principles-based and written in plain English.

The responsibility rests with the Nomad to provide advice on how the rules should be applied in particular cases, liaising with AIM Regulation as necessary. Whilst the new Nomad Rules provide more detail on what is expected from a Nomad, the significant discretion that a Nomad has (in relation to those companies it brings to AIM, for example) remains a key pillar of the AIM model. The new rules seek to ensure that there is a consistent level of good practice throughout the Nomad community.

#### **International matters**

The Exchange has received various comments from respondents on whether there should be separate or additional rules for overseas companies.

The Exchange believes that the new AIM Rules for Companies ("**Company Rules**") and Nomad Rules provide an appropriate framework for companies from outside the UK. For example, the principle in Schedule 3 of the Nomad Rules that a Nomad should gain a sound understanding of a prospective AIM company applies regardless of where the company operates. However, the nature and extent of tasks that a Nomad would have to undertake to satisfy that principle will vary according to where the company is based and also a Nomad's local capabilities.

### NOMAD RULES

#### **PART ONE: RULE 2 Nomad eligibility**

Respondents commented that the requirement for an applicant Nomad to have practiced corporate finance as "*its only or principal business*" for two years was too restrictive. In response to this feedback, the requirement has been amended and guidance has been included on what is meant by 'corporate finance'.

As with Rule 4 discussed below, the Exchange expects both applicants and Nomads to have acted in a lead role on transactions that they wish to cite. Where this relates to AIM admissions, whilst the applicant firm

clearly cannot act as Nomad, the Exchange acknowledges that it is possible for the applicant firm to stand behind and shadow a Nomad in order to be able to gain appropriate experience. In these instances, the work performed by both parties should be appropriately documented so that the applicant's role can be evidenced to the Exchange.

**RULE 4  
Qualified  
Executives**

The reference to a proposed Qualified Executive having to undertake "*the principal corporate finance role*" in a Relevant Transaction has been changed to a requirement to undertake "*a lead corporate finance role*".

Despite the change to this wording, the Exchange will only approve executives who have undertaken a senior, day-to-day management and advisory role on a transaction. In most cases, this will mean that only one executive can cite a particular transaction although the Exchange will exercise discretion where, for example, the transaction was sufficiently large or complex that two executives could perform that role.

**RULE 11  
Continuing  
Eligibility**

The Exchange received a few responses which commented that the ongoing client care that a Nomad provides to its AIM companies should be included in assessing a Nomad's continuing eligibility.

The Exchange views the ongoing role that a Nomad performs for its AIM companies as crucial to the proper operation of the market. This is part of the focus of the new Schedule Three and is reviewed as part of the Nomad visits that the Exchange undertakes. Given that the amount of advisory work required in performing this continuing role varies widely depending on the AIM company, it is not possible for the Exchange to specifically include this in the new rules. However, the Exchange retains the discretion under the Nomad Rules to vary any of its requirements on a case-by-case basis.

A provision has been added to this rule to formalise the implicit right of the Exchange in rule 11 to remove Nomad or Qualified Executive status if the eligibility criteria fail to be met on an ongoing basis.

**RULE 17  
Executive  
allocation**

Responses to the consultation suggested that the requirement to have two Qualified Executives responsible for each AIM company client was too restrictive. This has therefore been amended to be a requirement to have one Qualified Executive and one other appropriate corporate finance staff member. The objective of the requirement is to ensure that there is always someone appropriately qualified and with sufficient knowledge of the AIM company available to advise it and liaise with the Exchange.

**RULE 18 AND  
SCHEDULE  
THREE  
Nomad  
discretion**

Schedule Three is a key part of the new rules. Its objective is to ensure that all Nomads know what is expected of them in performing their Nomad duties. The over-arching principles set out in Schedule Three are the minimum matters that should be satisfied in all cases. Nomads can vary the actions that follow each principle as appropriate, but records should be kept of such decisions so that the Exchange can review and assess their conduct.

Whilst the majority of the wording in the draft provisions indicated that a Nomad could exercise discretion as to how it satisfies these lists of usual actions in Schedule Three, some respondents felt that the wording

implied that the actions were mandatory in all cases. This wording has therefore been revisited and a new opening paragraph to Schedule Three has been included. More detailed comments on Schedule Three are dealt with below.

**RULE 19  
Reporting rule  
breaches**

A few respondents commented that the requirement to inform the Exchange if it believes an AIM company “*may have*” breached the Company Rules was unclear. In addition some felt the requirement to inform the Exchange of any breach was inappropriate and may damage their client relationship.

However, the Exchange considers that Nomads have regulatory responsibilities to the Exchange which may take priority over those that they owe to their AIM companies.

There were also a few comments suggesting that the Exchange should not refuse to give ‘no-names’ guidance to Nomads. This provision was previously contained in the Company Rules and no changes are proposed to this practice. It is important that there are open communications between a Nomad and the Exchange. Nomads should be confident about sharing confidential information with the Exchange for regulatory purposes.

**RULE 20  
Ceasing to be  
Nomad**

A few respondents commented that they should not have to disclose the reason for them ceasing to be Nomad to a particular company. However, this requirement will be retained as the Exchange finds this information valuable in monitoring the behaviour of companies and Nomads.

**RULE 24  
Adequacy of  
staffing**

Some respondents asked for more detailed guidance on what the Exchange regarded to be adequate levels of staffing for a Nomad.

As this rule indicates, it is not possible to have a fixed metric as it will vary depending on the nature of the Nomad, its staff composition and the AIM companies for which it acts.

**RULE 25  
Record keeping**

A few respondents raised concerns that the record keeping requirements contained in the Nomad Rules were unnecessarily burdensome or overlapped with other duties they may have.

Appropriate record keeping is vital to enable the Exchange to monitor whether a Nomad is properly applying the significant discretions that it has under the AIM market model. The Exchange will not be providing general guidance on how firms should record such matters as this will vary between firms. The Exchange will, where relevant, provide individual feedback on this area as part of its Nomad visits.

**RULE 32  
Publication of  
removal of  
Nomad status**

As a result of feedback from several respondents, the Exchange has introduced an additional rule allowing it to publish the removal of Nomad status.

**SCHEDULE  
ONE  
Nomad  
Independence**

A number of different comments were received on this Schedule. The contents of this Schedule and rule 21 of the Nomad Rules were, however, previously contained in the Nominated Adviser Eligibility Criteria. Consequently, the Exchange is of the opinion that a more thorough review of these provisions is required and this will be conducted at the earliest appropriate opportunity.

**NOMAD RULES – SCHEDULE THREE (Nomad Responsibilities)**

Respondents' feedback on Schedule Three has resulted in the following clarificatory changes:

**AR1 – Nomad  
knowledge**

The Exchange expects all Nomads to have adequate knowledge of the business and sectors in which their AIM companies act. In some instances, this may require the involvement of third-party experts. This will particularly be in relation to technical or complex areas such as biotechnology but it could also extend to a wider range of sectors. The wording of the relevant action has therefore been changed to refer to "*knowledge*" rather than "*experience*". In addition, the requirement to consider the suitability of other advisers has been deleted, although the Exchange expects Nomads to provide advice to the company on the appointment of advisers.

**AR2 – Third  
party checks on  
directors**

The wording of the relevant action has been amended to clarify that the Exchange does not expect that third party checks on directors (e.g. investigation reports) are required in all instances. Circumstances where these may be required include where information on directors is not easily obtainable, where its reliability is questionable or where specific concerns have been raised about a director.

**AR2 – Checks  
on key  
shareholders**

The wording of the relevant action has been amended to clarify that it may not only be statutory directors who exert an influence over a company. Such matters should be investigated as part of the considerations as to whether a company is appropriate for AIM.

**AR2/OR4 –  
Advising on  
directors**

Wording has been added to make it clear that Nomads should advise the company on whether the directors are appropriate in the context of it being a company that is traded on a UK public market.

**AR4 –  
Admission  
document  
preparation**

Amendments have been made to the wording of the first action under this principle to require that the Nomad should usually "*oversee and be actively involved*" in the preparation of the front-end of an admission document, rather than "*lead*" its drafting. Notwithstanding this, Nomads should be aware that the Exchange regards the Nomad to be the key adviser on the document. Changes have also been made to the last action relating to the contents of the document to make it consistent with the nominated adviser's declaration.

<b>AR5 – Satisfaction regarding company’s ability to comply with AIM Rules</b>	The Exchange expects Nomads to advise company directors on how to comply in practice with the requirements of the Company Rules, particularly in relation to the disclosure of unpublished price sensitive information (notwithstanding that the legal advisers to the company may also provide information on the directors’ wider obligations). In addition, the Nomad should be satisfied that there are appropriate procedures in place within the company to enable it to have a clear understanding of the circumstances in which it should seek the advice of its Nomad.
<b>OR3 – Monitoring trading</b>	A few respondents were concerned about the obligations that this would impose upon them. The Exchange has not changed this provision as it believes the current wording allows sufficient scope for the task to be undertaken by a third party and it also emphasises the importance of this provision at times when the company is in possession of unpublished price sensitive information. Whilst the Exchange undertakes market monitoring as part of its regulatory function, the Nomad is uniquely placed to identify whether material disorderly trading is taking place at times when there is unpublished price sensitive information.
<b>ER1 – Contact with outgoing Nomad</b>	The Exchange acknowledges that the outgoing Nomad may need to consider its confidentiality obligations to the company when fulfilling this requirement. However, the Exchange suggests that confidentiality agreements with clients should be amended going forward to allow for such discussions to take place.
<b>ER1 to ER3 – Engagement responsibilities</b>	Some feedback was received that Nomads should not, on engagement, have to repeat work undertaken by the previous Nomad in relation to matters covered by ER1 - ER3. Given the declaration that the incoming Nomad has to give to the Exchange (including that the company is appropriate for AIM), the Nomad should always undertake appropriate enquiries to satisfy itself in that regard.
<b>Quoted Applicants</b>	The reference to quoted applicants in AR1-5 has been amended to confirm that, although an admission document will not be produced, the Exchange regards the level of Nomad work on such admission to be broadly the same as for a standard admission.

## COMPANY RULES

<b>Corporate Governance</b>	<p>Some respondents suggested that the Exchange should mandate particular corporate governance requirements for AIM companies.</p> <p>The Exchange recognises the importance of appropriate corporate governance for AIM companies. However, given the wide range of companies that admit to AIM, the Exchange believes that the corporate governance measures to be adopted remain a matter for the Nomad to provide advice about, on a company-by-company basis, both on admission and also on an ongoing basis as the company develops.</p>
-----------------------------	--



**INTRODUCTION** The preamble to the Company Rules has been updated to reflect the current format of the rules. The guidance at the back of the AIM Rules has been significantly expanded over the years and it now contains important detail on the rules. Therefore both of these parts of the Company Rules should be read together.

From time to time, the Exchange issues separate Guidance Notes on specific issues. The Guidance Note for Mining Oil & Gas Companies issued in March 2006 is the first example of this. These Guidance Notes should be regarded as supplementing the rules and as informing the interpretation of key rules (for example, rule 10 and Schedule 2(k) of the Company Rules and also the requirement for a Nomad to act with due skill and care).

**RULE 26**  
**Website**  
**requirement** **Period for compliance:** The Exchange expects all AIM companies to implement the requirements of rule 26 by 20 August 2007.

**Links to other sites:** The guidance to rule 26 has been expanded to provide more information on the expectations of the Exchange in relation to links to third party sites. The overriding principle is that all information required by rule 26 should be easily available on the company's website.

**Jurisdictional issues:** Some respondents raised securities law concerns regarding the requirement for admission documents to be available on a website. The Exchange understands that all such issues can usually be resolved, for example by the use of appropriate disclaimers and user residence confirmations.

**RULE 26**  
**Shares not in**  
**public hands** Some respondents questioned why the Exchange is requiring disclosure of the percentage of shares not in public hands, given that AIM does not have a specific free float requirement.

The Exchange considers this to be important information for investors but does not currently believe it is necessary to prescribe a minimum free float requirement for AIM companies. Please note that the Glossary to the Company Rules contains a definition of "*not in public hands*".

**RULE 31**  
**Company**  
**obligations to**  
**its Nomad** These provisions have been slightly extended to ensure that an AIM company has to provide information to its Nomad in order to enable its Nomad to comply with its duties under the Nomad Rules.

Notwithstanding rule 31, each Nomad should ensure that its engagement letter or Nomad agreement with each client company contains the provisions it requires in order for it to fulfil its duties.

**SCHEDULE 2(e)**  
**Disclaimer**  
**wording** Please see the AIM Notice for feedback.

**Reminder of other miscellaneous rule changes**

Aside from the main points of the consultation, several minor changes to the Company Rules will now also take effect, as discussed in AIM Notice 24 including:

- a new requirement in rule 17 to notify the market where there have been any changes to the directors' details that may have been disclosed in the admission document or subsequently pursuant to Schedule Two (g)(iii)-(viii) inclusive. This does not take effect retrospectively so only changes taking place from the date of this notice need be notified (although if a prior matter is material, this may need notifying in any event);
- the removal of the requirement for interims to be audited in the supplement to Schedule One, paragraph (l), which applies to quoted applicants; and
- additional detailed guidance to Rule 14 on the process for announcing a reverse takeover.

**AIM DISCIPLINARY PROCEDURES AND APPEALS HANDBOOK**

Only minor drafting comments were received on the AIM Disciplinary Procedures and Appeals Handbook.

Further to queries it has received, the Exchange confirms that the new warning notices are a private notice between the Exchange and the Nomad and/or relevant AIM company.