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Dear LSE colleagues,

Discussion Paper: Shaping the Future of AIM

We welcome the opportunity to respond to your Discussion Paper: Shaping the Future of AIM.

More than 30 years ago, the QCA's forefathers drew up a blueprint for "The Enterprise Market" as a model for a new smaller companies market that became AIM.

As its 30th anniversary nears, in many respects AIM has delivered on that original vision. It's been a launchpad for thousands of young companies and emerging sectors. But by common consent we urgently need to consider its future.

AIM's continued importance to our membership is underscored by every one of our seven Expert Groups - Accounting, Auditing & Financial Reporting, Corporate Governance, Legal, Markets, Share Schemes, and Tax Expert Groups, and our Investor Working Group – contributing to this submission. They are a unique set of stakeholders and a list of Expert Group members can be found in Appendix A.

In addition, this response follows recommendations the QCA has proposed through the QCA AIM Commission which published its final report on 4 June 2025[1]. That report provides the company perspective on the future of AIM and its findings and recommendations are supportive of our response to this Discussion Paper's 39 questions.

What came through strongly in this work is that there remains a market need for AIM. Below, we provide a number of recommendations relating to changes to the AIM Rules, costs and friction on the market, and the UK's broader investment environment.

Alongside this, we highlight the need for a cultural reset, greater guidance and support from the LSE as AIM's regulator and a restatement of its mission.

[1] QCA. *AIM Commission: Final Report.* (2025). Source: https://www.theqca.com/wp-content/uploads/2025/06/QCA-AIM-Commission-Final-Report.pdf

Just as the growing companies that use this market must do when trying to expand and break new ground, AIM must assert its offer in a competitive marketplace.

It is a crucial part of a funding continuum that supports scaling companies but within that continuum it must be competitive as well as collaborative to appeal to those that might otherwise pursue other funding options or come to market later. Anecdotally, our members hear of too many entrepreneurs that know too little about AIM, despite its 30 years of success.

It is incumbent upon everyone involved in the AIM ecosystem to explain its merits, but that marketing mission must be led by the market operator, here and abroad.

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

Yours sincerely,

James Ashton
Chief Executive

Q1 Do you believe that recent initiatives to increase investment in equities, including the Mansion House Compact, the Government's Pensions Investment Review and review of the Local Government Pensions Schemes will be effective in increasing investment into AIM companies? Please state your reasons and any suggestions for additional changes.

In our response to this question, we provide a range of proposals that we believe the LSE should support in order to boost investment in AIM companies, and UK quoted/listed equities more broadly.

Pensions Investment Review and Mansion House Accord

We support the Government's work towards increasing pension investment into UK specific assets and welcome the inclusion of unlisted (AIM and Aquis stocks) in the terms of the Mansion House Accord. As a next step we would be keen to see a specific percentage of these funds allocated specifically to unlisted (i.e. quoted) equity securities so that this element does not get subsumed by debt and equity investments in private enterprises.

Consistent with this, we would like to see the disclosures which are proposed to be introduced by the Pension Investment Review extended not just to geography but also to asset class (listed vs. unlisted) and then split further within unlisted to private vs quoted so that the destination of the new capital inflows can be monitored. Our measure of success would be the level of investment in small to medium sized quoted companies.

In general, we are concerned that, in spite of the express inclusion of AIM and Aquis within the Mansion House Accord, there is a lack of awareness that quoted shares qualify as part of the initiative. We have therefore requested that the government initiate a campaign to improve communications around the terms of the proposals. Support from the LSE in this area would be welcome.

Related to the above, any such campaign must also focus on the benefits of investment in AIM stocks across a number of metrics of importance to pension funds such as liquidity and transparency. AIM companies, as this discussion paper rightly highlights, contribute significantly to the UK economy.

In 2023, companies on AIM provided £35.7 billion Gross Value Added (GVA) to UK GDP; contributed £5.4 billion in corporation tax and employed 778,888 people[2]. On average, AIM companies are more productive than the national average at £87,100 GVA per employee (compared to £58,327), and drive sustained growth across a number of metrics after initial public offering (IPO) including 12.7% employee growth and 40.8% operating profit growth five years after IPO[3]. When assessing Compound Annual Growth Rate (CAGR) of revenue, AIM companies consistently outperform private companies across a number of key sectors including healthcare (17.2% vs. 11.1%), technology (14.0% vs. 10.8%), and industrials (10.0% vs. 8.3%)[4].

FCA Consumer Duty

Another area that is problematic for investment on AIM is the FCA's Consumer Duty which has deterred Independent Financial Advisers (IFAs) from providing advice and recommendations relating to AIM securities. While there are multiple reasons that IFAs no longer buy single stocks in AIM for their clients, a significant

[2] Grant Thornton. The Economic Impact of AIM companies. (2024). p.6.
[3] Ibid. p.10.
[4] Ibid. p.11.

factor is the Consumer Duty resulting in IFAs reducing their "benchmark risk". We would welcome the LSE's support in raising this issue with the FCA, particularly as areas of the Consumer Duty are currently being reviewed by the regulator.

Liquidity Management

The collapse of the Woodford Equity Income Fund in 2019 and the FCA's response to it in the form of liquidity constraints has generated apprehension and reluctance among the asset management industry to invest in smaller, less liquid stocks. The FCA's letter on effective liquidity management in 2019 and the liquidity management multi-firm review in 2023 both adopted a one-size-fits-all approach to the issue and failed to consider some of the unintended consequences of its response. For investment funds, the ability to allocate into AIM and FTSE small cap with a view to long-term capital growth is hindered by liquidity metrics that are geared towards large cap companies. These impose liquidity constraints that deter fund managers from investing in sub-£100 million market cap companies.

We would encourage the LSE to initiate and/or support initiatives to ensure that funding is channelled into AIM companies of all sizes and to engage with the FCA with a view to securing amendments to alleviate this issue.

UCITs Fund cost increases

Over the last 5 years, we estimate the cost of managing a UCITs Fund has increased by c250% meaning that to make a fund economically viable, it has to be circa £150m or above in size. In the past, this level used to be around £30- £50m. Therefore, smaller funds that tended to invest in smaller companies are now priced out the market. The causes of this increase relate to points made above around the increased analysis of risk and liquidity management.

Individual Savings Accounts (ISAs)

We would encourage the LSE to be pro-active in pursuing ISA reform with the Government, with a renewed focus on directing investment into companies traded on the UK Main Market, AIM and Aquis. The current cash ISA allowance rewards potential retail investors for saving cash at the expense of investment in our domestic capital markets and we suggest that the Government consider reducing, or removing altogether, the allowance for Cash ISAs to encourage more investment in Stocks and Shares ISAs.

Under the last Government there was a proposal for additional tax benefits being extended to a new category of UK invested ISA. We were and we remain strongly supportive of linking UK tax relief to investment in UK equities.

Finally, investments in cash products should be subject to similar "safety warnings" as equities highlighting the long-term impact of savings in cash in real terms.

National Wealth Fund Investment

Smaller quoted companies often miss out on passive fund investment due their size being below the market-cap weightings for these funds. This leaves an investment gap to be filled at the lower end of the market.

We would encourage the LSE to support the establishment of a mechanism to direct investment from the National Wealth Fund to businesses in this category. Under that mechanism, eligible Companies would be invited to authorise the sharing by HMRC with the National Wealth Fund of information on their contribution to the exchequer in terms of VAT, Corporation Tax, National Insurance, and PAYE. The

National Wealth Fund would then offer to invest an amount equal to 10% of that amount in the relevant eligible company, either as equity at the market price, or as a corporate bond paying a commercial rate of return.

British Business Bank's remit

As the UK's economic development bank, the British Business Bank (BBB) should have its remit expanded to include supporting small, growing companies on AIM (and Aquis) which are struggling to bridge a funding gap. Those private companies that accept its support should also commit to listing in London when the time comes to IPO.

Indexation

As noted above, one consequence of the growth of passive investment strategies is that many smaller AIM companies lose out on investment since they are not large enough to be included in index-tracked funds. We think there could be considerable benefit in the creation of new growth indices that include UK-focused, profitable or sectoral baskets for ETFs and trackers. This would create greater excitement around AIM and facilitate the channelling of passive funds into AIM stocks. We would encourage the LSE to actively support and explore the creation of these additional indices, either by working closely with its sister company, FTSE, or alternative index providers including MSCI, S&P Dow Jones and Wilshire.

Q2 Are there any changes that should be made to any of the fiscal incentives that we should be advocating for to support investment into AIM to make them more effective or to reduce uncertainty? Please provide views on the relative importance of the individual fiscal incentives, specific evidence and / or case studies to demonstrate the value of the incentives.

In addition to the tax-related suggestions made in our response to Q1, we have the following suggestions for changes in fiscal incentives to promote investment in AIM securities.

Business Relief on IHT

The recent reduction of business property relief to 50 per cent. is at odds with other initiatives being proposed by the Government to boost investment in the UK's capital markets including the Pension Investment Review and the Mansion House Accord and reduces the effectiveness of those proposals. Moreover, we understand that the change has not raised significant additional revenues for the Treasury.

We would therefore advocate for the return of this important relief to its original level at the earliest opportunity. At the very minimum, the Government should commit to making no further adverse changes to the relief until at least 2035 (as is the case for the venture capital schemes) so that IHT related AIM investments are not further discouraged. In addition, the Government should review the exclusion of AIM investments from the £1 million business property relief allowance and clarify whether eligible AIM companies held in SIPPs are allowed to receive the relief.

Reforms to Venture Capital Schemes

Consistent with the Government's objectives, it is important that all other reliefs for AIM investors are retained or enhanced. In particular:

- Current VCT investment thresholds are too low. Data from the AIC shows that almost £1 billion pounds was raised through VCTs in 2023/24. Qualification rules should be relaxed so that that money can be released, which would come at no cost to the Treasury.

- We also consider that the Government should remove the Finance (No 2) Act 2015 restrictions on EIS, SEIS and VCT reliefs. This would include the removal of (i) restrictions on the age of the company and (ii) the "restricted parties" concept for AIM and Aquis companies.

- There should also be a relaxation of the acquisition rules. This will help to ensure more institutional investment in AIM and Aquis companies that do not currently receive much institutional money and will allow these companies to attract and retain top talent.

Together, these reforms will help to boost the growth of the companies on these markets.

In addition, currently it is a challenge for company directors to benefit from EIS reliefs on investments in their own business. Previously, this restriction was alleviated by the availability of entrepreneurs' relief. However the extent of entrepreneurs' relief has been reduced to a level where it has ceased to provide any meaningful incentive to director-investors. Action is required in this area, either by opening up EIS tax breaks to directors or by restoring entrepreneurs' relief to its former level. Taking action here will greatly enhance the ability of start-ups and growth companies to attract and retain high quality managers who are prepared to venture their own capital in the interests of building companies on the UK capital markets.

Q3 Are there:

i. additional initiatives that we should consider to enhance liquidity in the trading of AIM securities? These could include changes to the AIM rulebooks, the Rules of the London Stock Exchange or the operation of the trading system

ii. additional products and services that we should consider that could enhance liquidity? For example indices or enhancements to our Issuer Services platform

iii. additional targeted interventions, such as the extension of the remit of the British Business Bank, to support investment into growth markets that would make a material impact?

Below, we set out a list of proposals that the LSE could support to boost liquidity on AIM:

<u>Make equity research more readily available.</u>

In order to boost liquidity, investment research should be made more accessible to the general body of retail investors, who have the potential to play a critical role in price formation and generation of liquidity.

Encouraging greater access to investment research in smaller cap stocks was highlighted as a key area of concern in Rachel Kent's Investment Research Review[5], while the FCA's reversal of the unbundling rules in July 2024 has had no discernible impact on the provision of UK equity research.

Our suggestion is that research, made available by brokers/investment banks and including issuer commissioned research, is posted on the LSE website, with an appropriate health warning and full disclaimer of liability. To enable this to happen it would be necessary for the FCA to create an exemption from COBS 4 for the communication of investment research by the LSE (noting that COBS restrictions and the financial promotion regime prohibit research aggregators from sharing research with investors other than

[5] Rachel Kent. *Investment Research Review.* (2023).

institutional, high net worth and sophisticated investors). It may also be necessary for a new financial promotion exemption to be created which would require a change to legislation.

One proposal from the Kent Review, the creation of a Research Platform, suggested the LSE as one possible source of seed capital to fund subsidised research. We would urge you to consider this route as one part of refreshed marketing activities for AIM.

Market AIM more effectively

We would encourage the LSE to engage in more and better marketing focused on smaller quoted companies - for example, by hosting targeted "smaller company" profile raising and networking events. These events could follow a similar pattern to those currently operated by NASDAQ North and should cover all regions of the UK.

The marketing of AIM was an issue raised by companies through the QCA AIM Commission. Specifically, the need for AIM to establish a clear USP following recent rules changes on the Main Market was considered vital[6].

In addition, in order to market AIM more effectively, AIM should not only update its website to improve access to information but also have a free-standing website separate from that of the LSE.

We also refer you to our comments in our response to Q1 regarding National Wealth Fund Investment, British Business Bank's remit and Indexation and to our comments at Q5 below on a more broadly-based "brand refresh" for AIM.

Liquidity provision

We suggest the following proposals to encourage greater liquidity in the trading of AIM stocks:

- While we consider that the rules of the exchange and operation of trading systems are largely adequate to allow liquidity providers to provide their service, we recommend that smaller companies remain on a quote driven platform until they reach the market cap equivalent of the FTSE 250 threshold.
- Including a minimum order book size for order driven stocks would improve liquidity and increase the capital that market makers would deploy across these stocks.
- Ensure that any company delisting has to provide an exit for existing shareholder via a tender offer or similar.

Q4 Are there features of other funding platforms or growth markets internationally that we should consider to enhance the operation or positioning of AIM?

One area that the LSE could explore is the use of trading halts. As was noted in the secondary capital raising review this concept is utilised in Australia to facilitate the extension of secondary issues to the retail investor community. It would allow for a temporary suspension whilst a company is conducting a bookbuild and is beneficial because there is no active trading during the period of the book build, which is helpful for more thinly traded/ volatile stocks and promotes an orderly market. We suggest that the trading halt would be for no more than two days as in Australia.

[6] QCA. *AIM Commission: Final Report*. p.4.

Given the lack of differentiation between AIM and the Main Market post-Listing Rule changes the availability of this mechanism to AIM companies could be a beneficial point of distinction which would facilitate broader retail investment in AIM.

Q5 We would appreciate thoughts on the positioning and marketing of AIM and the AIM brand and any specific ideas about how it should evolve in the future to ensure AIM retains a central position in the wider funding continuum, both in the UK and internationally.

Refresh or rebrand the Market

We suggest that this might be a good time to take stock of the AIM brand and consider whether there is benefit in either refreshing the brand with a "relaunch" or even rebranding the market with a name which more clearly reflects its status as the leading growth market and emphasises that rather than being "alternative", it is part of the funding continuum which the UK capital markets provide for publicly traded companies. One suggestion to emerge from the QCA AIM Commission was to reaffirm what the market offers: *AIM: For Growth*[7]. The reforms previewed by the AIM Discussion Paper will provide a good launch-pad for this exercise.

Events and campaigns to promote visibility

As mentioned above, we consider that the LSE should devote more time and resource to promoting AIM and connecting with existing and potential issuers and investors across the length and breadth of the UK. To this end, greater use should be made of events such as capital markets days and roadshows to promote the market and share its success stories. AIM needs to be more active in this regard to compete with the private equity houses who are adept at identifying and directly approaching companies across the UK and securing investment opportunities. Greater awareness of the benefits of AIM would assist in balancing out the decision-making process for those companies. To that end, the LSE should invest more resources in raising the profile of AIM companies and their success, both through its own platform and through the media. This could even extend to a consumer marketing campaign, in tandem with the Government's drive for greater retail investment and as revised FCA rules allow.

In addition to marketing and promotion events, we think it would be beneficial for AIM Regulation to engage directly with AIM companies to promote a wider and better understanding of the AIM Rules. Engagement could be facilitated by the QCA using a similar format to the events hosted by the Takeover Panel for QCA members which provide an opportunity for attendees to hear directly from the Panel on their obligations under the Takeover Code.

Website Improvements

We would encourage the LSE to review and update the current LSE/AIM webpages and to take steps to address the proliferation of outdated versions of the AIM Rules available online.

Inside AIM/Consolidation of Guidance

Despite its discontinuation a number of years ago, "Inside AIM" continues to be viewed as a useful resource for both companies and advisers. The revival of this or a similar publication would provide a useful tool for engaging with and updating market participants.

[7] QCA. AIM Commission: Final Report. p.4.

We also see considerable merit (particular in terms of benefit to companies and their advisers) in consolidating all guidance (including that currently residing in historic editions of "Inside AIM") into the AIM rule books and ensuring that additional stand-alone guidance when published is in a form that can readily be consolidated into the rule books.

Mission Statement

Finally, we believe that a definitive statement of the LSE's vision for AIM companies and how the LSE envisages AIM companies developing and growing on that market (including as part of a progression along the capital markets funding continuum) should be an important part of any relaunch or rebranding exercise. Issuers, advisers and investors need clarity on what opportunities AIM presents to them and why it is and will remain the world's most successful growth market.

Q6 Please rank the following areas, from high to low, that contribute to cost or friction and act as a potential impediment to companies joining AIM or impact companies admitted to AIM:

- Auditing and financial advisory costs in preparing the admission document
- Legal and due diligence costs in preparing the admission document
- Ongoing auditing fees
- Nominated adviser fees in connection with the admission process
- Nominated adviser fees on an ongoing basis
- Exchange fees
- Ongoing disclosure and associated compliance costs
- Corporate governance expectations and associated costs
- Capital raising costs - Costs of engaging with investors
- Equity research fees
- Availability of capital
- Liquidity and / or volatility

Other costs associated with the admission process and ongoing obligations (please provide details and rank accordingly)

Cost and Friction

We will consider the list set out above by reference to the following broad categories:

- Costs
    - Admission Costs (auditing and financial advisory, legal and diligence, nominated adviser, exchange fee)
    - Ongoing Costs (audit, disclosure and compliance, corporate governance)
    - Capital Raising Costs (legal, commissions, investor engagement)

- Friction (Market Efficiency)
    - Equity Research Fees
    - Availability of Capital
    - Liquidity and/or Volatility.

Costs

Within the small to medium size company contingent on AIM, the additional costs that companies are absorbing are widely viewed as being disproportionate to the benefits that accompany the obtaining and maintenance of a quotation on AIM.

As a general observation, these costs are, in part mandated by the AIM Rules, and, in part, generated by risk management considerations on the part of the nominated adviser (who will be the first in line if anything goes wrong). In order for costs to be reduced (in the latter category in particular) there needs to be a cultural shift in the concept of "acceptable risk" across a number of areas including ongoing obligations, engagement obligations, and admission obligations. Investment in AIM companies can never be risk free and, if the market is functioning properly, the expectation should be that the greater level of risk that accompanies any investment in a growth company is matched by the potentially greater return that this asset class can generate.

The adoption of even a moderately higher level of acceptable risk by the LSE will pave the way for a more proportionate process which does not require nominated advisers to commission extensive and costly third-party reports on prospective applicants in order to fulfil its due diligence requirements as set out in AIM Rule 3. In turn, this will reduce the costs of initial and ongoing admission to AIM. As a minimum, it would be beneficial if AIM Regulation could publish guidance as to their expectations, as market practice has evolved so that extensive reports are commissioned by Nomads in order to avoid liability, given the risk averse environment mentioned above.

We would invite the LSE to consider an approach similar to the model used in Australia, where greater emphasis is placed on directors and less on advisers in terms of due diligence. This approach reduces the financial due diligence costs as compared to those typically incurred on AIM.

In some cases, costs are duplicated. For example, on a change of nominated adviser, where the same director checks are required to be carried out by the incoming nominated adviser as those undertaken by the incumbent nominated adviser, notwithstanding that the incumbent is itself approved as a nominated adviser by the LSE.

As has been well publicised (including in the QCA's own published research), audit costs have increased at a rate and to an extent which is unsustainable. Reasons given for this increase include the introduction of new regulations and the increased risk exposure of auditors. We would encourage the LSE to work with the FRC to bring this particular element of costs under control. At this point in time it represents a significant disincentive to any company contemplating admission to AIM.

In terms of capital raising costs, we are hopeful that the impending introduction of the MTF Admission Prospectus and the simplification of the offering regime for securities which are already publicly traded will create cost and resource efficiencies. We believe that, provided that the MTF Admission Prospectus requirements are properly calibrated, the production of an MTF Admission Prospectus should not result in any appreciable increase in costs relative to those currently associated with the preparation of an AIM Admission Document.

With regard to ongoing costs, we have identified a number of aspects of Rule 26 which could be amended to achieve costs savings and/or greater clarity. Specifically:

- the Corporate Governance Code disclosure prescribed by Rule 26 largely duplicates information which is required to be contained in the annual report, a document which is itself required to be

posted on the Rule 26 website page. To eliminate this duplication, we would suggest removing the requirement for (i) a statement on how a company complies with a recognised corporate governance code and, (ii) where the company departs from its chosen corporate governance code, an explanation of the reasons for doing so. Instead, we suggest that Rule 26 should simply require a statement of the corporate governance code adopted by the company and a list of deviations from that code together with a note that a full commentary on the company's compliance with its chosen corporate governance code and explanations for any points of deviation can be found in the last published annual report of the company;

- the LSE should confirm that the Rule 26 requirement for an AIM company to include on its Rule 26 website page (i) all notifications made to the market in the past 12 months and (ii) all inside information required to be disclosed under MAR in the last five years, can be satisfied by including a link to the company's historic news feed (where the company has contracted for such service); and
- the LSE should consider amending AIM Rule 17 and the related requirements of Rule 26, which require disclosure of dealings by holders of 3 per cent. or more of any class of shares, so as to bring those AIM Rules into line with the requirements of the Disclosure Guidance and Transparency Rules (DTRs). Rule 5 of the DTRs (which applies to Main Market companies) contains a number of exceptions to the general notification requirements, for example for certain types of funds. These exemptions raise the minimum threshold percentage holding at which dealings by such funds become notifiable, to 5 per cent. This creates an anomalous situation for dealings by an "exempted" holder with 3 per cent. or more, but less than 5 per cent. of any class of AIM quoted shares. AIM Rule 17 would require disclosure of such dealings. However, DTR 5 would not. In practical terms disclosure may be difficult for the company because no legal requirement on the transacting parties exists to require them to notify the Company of the dealing (which is generally done using form TR1). Hence, the company may not even be aware of the dealing.
- Conforming AIM Rule 17 with the DTRs would, we believe, help to reduce costs and also correct a situation where the AIM Rules are more onerous than those of the Main Market.

A further anomaly is that the DTRs define interests in shares by reference to beneficial ownership (a logical approach given that beneficial owners generally have the power to direct voting of the shares) whereas AIM captures both beneficial and registered (legal) ownership. This presents AIM companies with a further practical issue in circumstances where there is no requirement on the shareholder to deliver a TR1 to the company since AIM companies are not readily able to access information on the ultimate ownership of securities within nominee structures. The suggestion above that AIM Rule 17 should be aligned with the DTRs would also remedy this anomaly.

<u>Friction (Market Efficiency)</u>

The two main friction items - availability of capital and illiquidity – stem from the same root cause, namely a lack of investor appetite for AIM securities. We believe that, second only to departures resulting from takeovers of AIM companies, lack of investor appetite is probably the single largest factor driving companies to exit the market and ranks ahead of cost of being on market (companies for whom the market is working are inevitably less likely to feel aggrieved by the level of costs that they are paying to remain on the market).

In some cases, that lack of appetite may be attributable to the perceived unattractiveness of the issuer as an investment proposition. However, in many cases, it appears to simply reflect a general lack of interest in AIM stocks (in smaller and medium size companies in particular) by the investment community.

We believe that this can only be addressed by a combination of "supply side" reforms (see our response to Question 1), fiscal incentives (see our response to Question 2) and regulatory reforms to "right-size" the cost and risk profile of the market.

These reforms cannot happen quickly enough and it is our hope that they will be implemented in time to stem and ultimately reverse the current direction of travel of AIM.

Q7 Please provide views on the regulation of AIM and areas where we can support the nominated adviser in providing guidance to reset market practice that has evolved over time to be unhelpful and unnecessarily burdensome.

There appears to be a general sense amongst the advisory community that AIM Regulation has become over-zealous over recent years, prompted by some high-profile failures on the market. As a consequence, nominated advisers have found themselves embroiled in costly and labour-intensive investigations for matters which can readily be shown not to have been of their making. Additionally, once commenced, investigations can remain inactive but open for an unnecessarily long period of time creating ongoing uncertainty for the nominated adviser. Whilst we strongly support a reasonable level of vigilance to maintain the integrity of the market, we would encourage the LSE to introduce more stringent timelines and processes for investigations and to give full consideration to the points mentioned in our response to Question 6 regarding the level of risk which should be accepted in a growth market. Nominated advisers ultimately rely on their AIM clients doing the right thing and there is a limit to what they can reasonably do to monitor and contain the behaviour of those clients.

In general, this view is also shared by companies. The QCA AIM Commission highlighted the increasing due diligence conducted by Nomads and considered that this was due to a more stringent approach being adopted by AIM Regulations[8].

A more measured approach by the LSE in this regard would be likely to yield cost-savings for AIM applicants because nominated advisers would be better placed to focus on specific compliance with the regulatory requirements rather than on managing their own potential downside risk in anticipation of a possible investigation by AIM Regulation.

The QCA Committee established to respond to the Discussion Paper (the Committee), also considered the Financial Position and Prospects Procedure (FPPP) requirements for AIM applicants. It was felt that the focus of FPPP on AIM should be primarily to ensure that the applicant company and its directors have the necessary knowledge and procedures in place to fulfil their roles and responsibilities (financial and otherwise) following admission. With this in mind the majority of the Committee agreed that it would be helpful for guidance to be issued to provide greater clarity on the FPPP items to be covered for AIM companies, particularly in relation to compliance with the AIM Rules and non-financial procedures such as corporate governance. It was felt that, whilst this greater emphasis appeared to be inconsistent with the general principle of maintaining proportionate regulation, the additional guidance would be beneficial in securing post-admission compliance and reducing over-dependence on the nominated adviser.

Q8 Please provide details of any reports that are part of the admission document process that are either duplicative or the cost outweighs the value. Are there other areas of the admission process that can be simplified?

[8] QCA. *AIM Commission: Final Report.* pp. 5-6

Working Capital Report

Please refer to our comments against Question 18 in respect of the Working Capital Report.

Long-Form Report

We would advocate flexibility in determining whether a long-form report should be regarded as an essential workstream. For example, for companies joining AIM from an AIM Designated Market it would be perfectly legitimate to rely on historical compliance by the company with local market requirements. Similarly where an admission document is required because the company is the subject of a reverse takeover, a long-form report on the original AIM company would seem to be unnecessary.

FPPP

For the reasons given in the answer to the preceding question, we believe that this is an important element of the admission process and should be retained.

Q9 Please provide views on the nominated adviser role including:

- **i. key aspects of the role that continue to provide value to companies and confidence to investors;**
- **ii. any aspects that result in disproportionate burden for the nominated adviser and / or company that outweigh the benefit; and**
- **iii. areas of the work performed by the nominated adviser that are duplicative with other advisers and where the nominated adviser's corporate finance experience is not necessary.**
- **iv. in respect of the Qualified Executive role.**

(i) The nominated adviser role is a defining feature of AIM. The nominated adviser plays an essential role as guide, project manager and moderator through the admission process. Thereafter the retention of the nominated adviser to provide compliance advice and monitor the performance of the AIM company provides confidence to investors.

(ii) This question is addressed variously in our responses to the questions raised in the Discussion Paper.

(iii) We are not aware of any obvious areas of duplication. Generally the nominated adviser's role is to oversee the process of commissioning external reports and to review them in the context of assessing the suitability of the applicant and its securities for admission.

(iv) We have no comments on the QE role.

Q10 Noting the obligations of an AIM company to comply with UK MAR:

- **i. does the obligation under AIM Rule 11 continue to be helpful or does it create an unnecessary and duplicative burden for companies?**
- **ii. If you consider that UK MAR disclosure is a sufficient standalone level of disclosure without the need for an additional AIM Rule obligation, please provide details of what the role of the nominated adviser should be (if any) in respect of supporting company disclosure.**

Overall, we consider that the existence of two parallel regimes covering market abuse under AIM Rule 11 and MAR is unhelpful, particularly given that AIM and the FCA are not always in alignment in their interpretation of market abuse. Moreover, the existence of both regimes is a clear example of AIM being

more onerous than the Main Market which only applies MAR. For all these reasons, and to remove the potential duplication of compliance costs, we recommend that MAR with its body of established case law and precedent should be the sole regulator of inside information.

This change will necessitate an amendment to the existing AIM Rule 11 to include guidance on the disclosure of inside information under MAR and a requirement that the company consult with its nominated adviser in the first instance in cases of uncertainty. Nomads may advise the company to seek legal advice, including on areas such as the MAR wording for announcements and the nomad would not be responsible for this advice.

Q11 We would welcome views on whether the current choice of corporate governance codes meets the needs of all AIM companies. We also welcome specific feedback:

- **i. from investors, the areas of the existing commonly used corporate governance codes that are important to you.**
- **ii. from companies, the areas of these codes that are challenging to comply with and why.**

The QCA Corporate Governance Code is designed specifically for smaller growth companies according to a set of 10 flexible and proportionate principles. These allow companies to communicate their governance arrangements to shareholders without being burdened by a one-size-fits-all approach while ensuring that smaller companies garner the trust and confidence of shareholders and other key stakeholders. The QCA Code is the most widely adopted corporate governance code on AIM, with 93% of companies applying it[9].

The QCA Code was most recently updated in 2023. The update was achieved through extensive consultation with the QCA membership. In particular, with corporate governance experts drawn from the QCA Corporate Governance Expert Group, but also through engagement with investors, and other experts and stakeholders from both within the QCA membership and externally. Its refresh was welcomed by the LSE and other key stakeholders.

After the Code's last update prior to 2023, we gathered the views of companies and investors on the Code's performance. The research found that 75% of companies surveyed regarded the disclosure requirements of the QCA Code as "just right", while adoption of the QCA Code had resulted in 40% of respondents having disclosed more information to the market across a range of corporate governance areas[10].

As a final point, it is important to highlight that whilst the provisions of the UK Corporate Governance Code are "comply or explain", they are used by proxy/voting agencies to benchmark companies and derogations, even where explained, are not always seen positively; a more appropriate and proportionate code for smaller companies is a better reference point for them.

In addition, greater awareness among proxy agencies around a company's right to explain against the QCA Code is needed. More often than not, proxy agents "redtop" (provide a high-level warning) AIM companies if they do not fully comply with the QCA Code, thereby ignoring the company's ability to explain. This leads to a fear among AIM company directors of being "redtopped", and subsequently committing excessive time and resources to complying when it is unnecessary.

[9] Quoted Companies Alliance. *The QCA Corporate Governance Code: Good governance. Growing influence.* (2023). p.2.
[10] Quoted Companies Alliance. *Corporate Governance on AIM: How 900 companies adopted a corporate governance code for the first time.* (2019). p.2.

More broadly, it is important that proxy advisers use the relevant Code to measure an AIM company's governance arrangements. More often than not, they apply the Main Market approach on areas such as independence of directors to make their recommendations, rather than the QCA Code. This gold plating is unhelpful and leads to a lack of clarity for companies in terms of the approach they should follow.

Q12 Do you consider AIM should also offer a simplified list of requirements for corporate governance as a further choice to existing codes? If so, please provide details of what you consider the key requirements should be.

Please see our response to Q11. In summary, we believe that the market is best served by the approach set out in the QCA Code, which offers a proportionate set of corporate governance principles that allows smaller growth companies on AIM to tell their own story using the "comply or explain" approach without having to disclose against a prescriptive set of corporate governance principles.

Q13 Please advise what you consider are:

- **i. the key elements of the current admission document that investors value; and**
- **ii. ii. the areas of the preparation of the admission document that should be modified or are not necessary (if any).**

Overall, we consider that the AIM admission document in its current form is largely fit for purpose and, as will be apparent, we are generally supportive of the modifications suggested in the Discussion Paper. We await with interest the publication of rules relating to the form and content of the MTF Admission Prospectus. Given the information currently required to be included in admission documents, we do not expect that the changes required to convert that document into an MTF Admission Prospectus will be substantial.

<u>Historical Financial Information</u>

We question the need for three years of reports, where the two most recent years should be sufficient. Currently, the earliest of the three years does not provide significant value to investors, particularly in a high growth company.

In instances where the sponsoring broker or fund managers do regard this third year as important for a particular company, then an enhanced financial track record could be volunteered in the admission document and/or analysed in the brokers research note.

We also suggest this would provide a clear and helpful distinction between AIM and the Main Market in terms of listing destination

We would also urge the LSE to consider providing applicants with the option to present a simplified admission document (see our comments at Q14 below).

<u>Disclosures required on appointment of new directors</u>

We have already mentioned a number of areas where the AIM Rules impose more stringent obligations on AIM companies than the Listing Rules and associated regulations impose on Main Market companies. Another such area is the disclosures concerning "business failures" required to be made in AIM admission documents and in announcements of board appointments. Paragraph (g) of Schedule Two of the AIM Rules and the content requirements in AIM Rule 17 for announcements of board appointments require disclosure of "receiverships, compulsory liquidations, creditors' voluntary liquidations, administrations, company

voluntary arrangements and compositions or arrangements with creditors of any company where such director was a director at the time of or within the twelve months preceding such events". However, in the case of Main Market companies, the analogous provision (under Listing Rule 9.6) requires such disclosure to be made only where the director was an *executive* director at the time of or within the twelve months preceding the relevant event. We recommend that the AIM Rules are amended to bring them into line with the Listing Rules in this regard.

Q14 If you consider that the option of a simplified admission document would be appropriate, please provide details of what it should look like.

We would support the use of a template admission document to facilitate the inclusion of all required information in a consistent manner. The Aquis-lite template admission document illustrates how this concept could work in practice.

Q15 If you agree with the use of incorporation by reference, please provide details of information in the admission document that should be permitted to be incorporated in this way.

We believe that the following areas of the admission document could be incorporated by reference: risk factors, material contracts, and the company's audited financial statements and information which is required to be included on the Company's website for the purposes of compliance with AIM Rule 26.

Q16 If you do not agree with the use of incorporation by reference, please explain the reasons for your view.

We support incorporation by reference.

Q17 Are there any further changes that could streamline the admission document contents, its format and / or style including the use of proforma/template sections (where applicable) that we should consider? Please provide details.

Please see our responses to Questions 12 and 13.

Q18 Please state which of the following approaches to working capital disclosure you consider most appropriate for AIM admission documents and the reasons why:

- **i. Applying the new Main Market equivalent requirements;**
- **ii. A statement in line with that currently required by applicants admitting to AIM via the ADM route; and / or**
- **iii. No working capital in specific circumstances.**

Our starting point here is that most potential investors are likely to want to have comfort on the working capital position of the AIM company at IPO. We also believe that the preparation of the working capital statement is an important discipline for prospective AIM companies. For this reason, a majority of the Committee supported the retention of the working capital statement whilst also agreeing that, as with the Main Market, AIM companies should benefit from ability to include qualified working capital reports in admission documents.

We did not see any particular advantage to adopting the "no reason to believe" approach available to companies joining AIM using the ADM route. For a regular applicant, it is hard to envisage the directors being

comfortable with making even that simpler form of statement without first undertaking a similar amount of work to that which they would take were they to give a conventional working capital statement.

Q19 If you agree that there are circumstances where no working capital statement should be required, please provide the circumstances you consider appropriate.

Notwithstanding our response to Question 18 we agree that it would be appropriate to dispense with the working capital statement entirely where either (i) the company is an investing company and the AIM Rules require a minimum of £6 million cash fundraise on admission and the investment strategy is disclosed and (ii) for R&D companies or mining and oil and gas exploration companies in respect of which the requirements for funding are inherent in the nature of the business and where the requirements and timing for future funding is disclosed. Views in relation to the second of these were, however, more equivocal than the first.

Q20 If you agree with there being no working capital statement where reliance is instead placed on the going concern statements included in past financial statements:

- **i. Do you agree that 3 years of 'clean' audited accounts is sufficient to rely upon?**
- **ii. When do you consider the last audited accounts would become stale for the purposes of relying on the going concern statement contained within the 'clean' audit report, noting that the AIM Rules allow the balance sheet date of the last audited accounts no older than a maximum of 18 months from the date of the admission document?**

Please see our response to Q18. As intimated in our response to that question, some members of the Committee argued that a working capital statement is unnecessary as an applicant to AIM would be likely to have audited financial records in place which, provided that they are sufficiently up to date, would provide sufficient information to investors. However, the overall view was that historic numbers would generally not be appropriate to provide comfort on the working capital position of the company at the time of publication of the admission document given that the exercise is essentially a "look-forward" test.

Q21 Do you agree with the proposal that we can dispense with an admission document and instead require AIM Rules Schedule Four disclosures, where a company is making an acquisition that is larger than itself but which does not result in a fundamental change of business? If you agree, please provide details of:

- **i. any further disclosures that would be appropriate in addition to those set out in AIM Rules Schedule Four;**
- **ii. whether a shareholder vote on the acquisition is necessary where the company is not undertaking a fundamental change of business and, if yes, please explain why; and**
- **iii. any thresholds / factors considered relevant to determining whether an acquisition gives rise to a fundamental change of business.**

Yes – we are in favour of retaining the requirement for a shareholder vote for any reverse takeover (including where the acquisition does not constitute a fundamental change of business). However, we consider that it would be unduly onerous for a company to have to prepare a full admission document in these circumstances and that a Schedule 4 disclosure should suffice provided that there is sufficient disclosure of the effect of the reverse takeover on the AIM company.

Q22 Please provide details of any other changes in relation to reverse takeover rules that could make it more efficient for AIM companies to undertake transactions.

In the event that the LSE decides to retain the requirement for the publication of a new admission document where an AIM company becomes subject to a reverse takeover (either in all circumstances or just in circumstances where there is a fundamental change of business), we would advocate that a derogation from the class test rules is applied to smaller AIM companies such that where the value of the acquisition is less than £5 million, with the sanction of a shareholder vote, the class tests may be disapplied entirely. In these circumstances, the transaction would be treated as a substantial transaction such that (i) no requirement to prepare an admission document would apply and (ii) a disclosure which complies with the requirements of Schedule 4 will suffice.

This proposal recognises that reverse takeovers can be a means to attract capital into smaller AIM companies and thereby enable them to secure investment for their growth.

Q23 Please state which of the following approaches to permitted accounting standards you consider most appropriate for AIM (in addition to the use of IAS):

- **i. Allow all local accounting standards, as permitted by the respective country of incorporation (which would include local accounting standards falling outside of those currently prescribed in the AIM Rules); or**
- **ii. Limit the list of local accounting standards to a prescribed list in the AIM Rules based on equivalency to IAS.**

The Committee was split on the response to this question.

Whilst the universal use of IFRS on AIM facilitates comparison of different companies on the market, there was also concern that for domestic companies the cost of converting from UK GAAP to IFRS could be significant and discourage applicants to the market.

On balance it was considered that option ii better reflected the international nature of AIM and would ensure a level of consistency in the presentation of financial information by applicants.

Q24 If you consider the list of permitted accounting standards should be prescribed in the AIM Rules, please provide details of the local accounting standards you consider acceptable and why.

Please see our response to Q23.

Q25 We welcome views on whether requiring a comparison of local standards against IAS would create costs that outweigh the benefits of providing companies the flexibility to use local accounting standards.

Please see our response to Q23.

Q26 Do you agree that admission of second lines of security to trading on AIM companies should not require the publication of an admission document? Please explain your views and whether it differs depending on the type of security.

Yes – we agree. Provided the essential rights and features of the security are accurately disclosed and all appropriate risk factors and health warnings are given in relation to investment in that security there should be no need for the company to go to the cost of preparing and publishing a further admission document.

Q27 Are there any further regulatory changes we should consider which may make it easier for AIM companies to admit to trading second lines of security on AIM?

There are no specific further regulatory changes we would like to raise here. However, we do consider that the second-line of securities facility should be widely drawn to encompass debt securities, convertible loan notes, simple loan notes and warrants.

Q28 Please provide details of the work a nominated adviser undertakes for an admission via the ADM route that could be streamlined or omitted relative to that undertaken for a standard AIM admission.

We believe that all, or substantially all, of the work of the nominated adviser, including the modified working capital statement and due diligence could be dispensed with for companies joining by the ADM route on the basis that such companies have previously been traded on one of the markets approved by AIM and will have complied with the applicable disclosure and other requirements associated with that market.

Q29 We welcome views on further ways in which the ADM route could be developed. For example:

- **i. Should the existing list of eligible markets be extended? If so, please provide details of which markets (including tiers of existing eligible markets) you think should be added and why you consider that they are appropriate for the ADM route.**
- **ii. Should the application of the market capitalisation of £20m test be changed?**
- **iii. Should the time period an applicant must be admitted, in its current form, to its ADM market be changed from the current 18 months?**

We recommend removing the £20million market cap test as we believe that this will aid simplicity and clarity for companies entering through the ADM route.

The time period for an applicant to be admitted through the ADM route could also be shortened to a minimum of 12 months provided that the company has produced at least one set of accounts in accordance with the regulations applicable to its market of origin.

Q30 If you do not agree that AIM should adopt an equivalent route for the admission of dual-class shares as for Main Market companies, please explain the basis for your view. Otherwise, please provide details of any changes to the Main Market approach to dual-class shares, that you would recommend for AIM companies.

Overall, the Committee considered that dual class share structures should be permitted on AIM in line with the approach taken for companies listed on the Main Market. However, representatives of the QCA investor community were against this proposal on the grounds that it compromised shareholder safeguards. We believe that this is indicative of the likely view of the market towards dual class share schemes. Essentially, the investment proposition for a company adopting a dual class structure will likely need to be a compelling one if it is to attract institutional capital.

Q31 Do you agree with the proposed AIM Rule 13 exemptions set out above, where there are other existing shareholder safeguards, in relation to:

- **i. the grant of options in accordance with a share scheme which has been approved by shareholders; and**
- **ii. a transaction that consists of granting an indemnity to a director in accordance with the Companies Act 2006.**

Are there other similar circumstances where existing shareholder safeguards are already in place that exemptions could be introduced?

We support these exemptions and an exemption for directors' remuneration in general on the basis that this should already be the subject of governance arrangements.

Q32 Do you agree that AIM Rule 13 should not apply to directors' remuneration but should be left to the corporate governance committee? Please explain your answer.

Please see our answer to Question 31.

Q33 Noting the importance for early stage and growth companies to be able to offer equity ownership to attract skilled and experienced non-executive directors:

- **i. do investors support non-executive directors building a degree of equity ownership provided the board retains sufficient independence?**
- **ii. do companies feel able to pay non-executive directors in the form of equity or do they feel hampered by the corporate governance codes (and if so which code)?**

In line with the QCA Corporate Governance Code, given that independence can be easily compromised, non-executive directors should rarely participate in performance-related remuneration schemes or have a significant interest in a company share option scheme. However, in instances where performance-related remuneration is regarded as beneficial, its use should be proportionate, and a decision on its use should be made in consultation with shareholders[11]. This said, we agree that it is often beneficial for non-executive directors to be long term holders of shares in the company.

Q34 If you agree that changes in remuneration can generally be left to governance committees:

- **i. do you consider that companies should notify a change of directors' remuneration without delay, or should the company be able to update this in the next annual accounts?**
- **ii. are there some specific circumstances where AIM Rule 13 protection should be retained, for example bonuses / share options arrangements not contingent on business-related performance? Are there other circumstances where it should apply on a limited basis?**

In the interests of reducing complexity and cost for companies, we believe that this information can be transmitted to shareholders through a company's annual report. We considered whether exceptional bonuses/share awards which are not subject to performance criteria should be caught by Rule 13. However, given the increasing move towards advisory votes on the remuneration policy and the disclosure requirements relating to remuneration, we concluded that such payments would inevitably be subject to shareholder scrutiny with adverse consequences for the directors where they are not considered to have been merited.

Q35 Please provide details of any other changes to this rule that you consider will support the reduction of burden whilst maintaining investor confidence.

We have no comments.

Q36 Please provide views on whether the threshold for a substantial transaction should be changed to 25%. Please explain your view.

[11] Quoted Companies Alliance. *The QCA Corporate Governance Code.* (2023). p. 12.

Yes – we agree with this proposal as it will allow greater flexibility in the content of disclosures. Moreover, we believe that the threshold of 25% strikes the right balance between reducing regulatory friction and providing shareholders with the necessary level of protection.

Q37 Please provide views on whether the Profits Test remains a relevant test for AIM transactions? If so, please explain why.

We recommend that the profit test be removed. AIM is a market for growth companies and the profit test effectively penalises companies for growing. Under the rules as currently applied, a company with a small profit may find itself being penalised in the class tests when compared to a company with a large loss.

Q38 Do you agree with the proposed change to the Gross Capital test to a pro-rated gross capital calculation where a company is only acquiring a minority stake? If you do not agree, please explain why.

Yes – we agree with this proposal.

Q39 Are there other changes to the class tests you think we should consider?

We have no comments.

General observation

During the course of our discussions we considered the potential for AIM Regulation to include representatives drawn from the practitioner community.

We concluded that there may indeed be benefits in adopting the model of secondments which is currently employed by the Takeover Panel in the interests of including as wide a range of relevant market experience as possible in the development and application of AIM regulations.

Appendix A

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