

Chapter 1

AIM

Martin Graham

Director of Markets and Head of AIM
London Stock Exchange Plc

1.1 Introduction

AIM, the London Stock Exchange's international market for smaller, growing companies, was launched in June 1995. Designed to balance the needs of smaller companies, with those of investors, AIM does not prescribe required levels of free-float (i.e. shares in public hands), minimum trading or revenue-generating periods, minimum size or fundraising. AIM is open to companies from any sector and geographic jurisdiction around the world.

1.2 A successful market for smaller growth companies

At the time of writing, almost 1,700 companies were quoted on AIM, and since its launch in 1995 companies on the market have raised €74 billion through a combination of new and further issues. More companies trade on AIM than all of the other European growth markets put together, and it has the most international of all growth markets with more than 340 overseas incorporated companies.

Trading in AIM securities has also continued to grow, with values increasing 37.6 per cent in 2006 from 2005 and 29.4 per cent in 2007, and volumes by 27.9 per cent and 11.1 per cent respectively in the same periods. Also, institutional investment in the market has continued its strong growth, with £55 billion of AIM now held by institutions, compared with £43 billion the previous year (*Source: GCI "Institutional Investors In AIM" 2007*).

1.3 An exchange-regulated market

In October 2004, AIM changed its regulatory status to become an exchange-regulated market. This change was important to preserve the unique regulatory structure and maintain the market's high standards of regulation that have played such an important part in AIM's development.

1.4 An evolving market

During 2006, the Exchange conducted a complete review of the way AIM is regulated. The purpose of this review was to ensure that with AIM's continuing success and evolving profile, the regulatory structure in place continued to be aligned with the needs of a market which has grown significantly and has become increasingly international. Through extensive review and consultation with market participants, it was concluded that the existing structure continued to be the most appropriate to support the balance of the needs of companies and investors. In 2007 a new rule book for nominated advisers ("Nomads") was introduced, codifying existing market best practice, while additional disclosure requirements for companies were introduced to improve transparency.

1.5 The role of the Nomad

All prospective and existing AIM companies must appoint and retain an approved nominated adviser ("Nomad"). These Nomads are responsible for warranting to the Exchange and the market that a company is appropriate for AIM, and for advising the company to ensure it complies with its obligations under the AIM Rules. A company must retain a Nomad at all times.

The AIM admission process is very straightforward and probably the least bureaucratic of any global market. Ordinarily, when a Nomad declares to the Exchange and the market that a company is appropriate for AIM, that company will be admitted to AIM by the Exchange three days later. It is hard to conceive of a more streamlined system. During the three-day period, the Exchange will set up all the necessary trading systems and notify various interested internal and external parties (such as market makers and index compilers) about a company's imminent admission.

In effect, Nomads act as the principal quality controllers for the market and put their reputations on the line when declaring companies suitable

for the market. Consequently, as outlined below, they will carry out exhaustive due diligence checks alongside other advisers on companies before they agree to sign such a declaration, and as such are crucial to the success of AIM.

Given the importance of the role and the level of trust imparted to Nomads, the Exchange is very selective about who it will allow to act in this capacity. Only those advisers approved by the Exchange and placed on the Register of Nominated Advisers may act as Nomads. A copy of this register is available on the Exchange's website, www.londonstockexchange.com/aim.

The background of the Nomads varies and they include:

- (a) investment banks;
- (b) the corporate finance arm of small and mid cap specialists or accountancy firms; and
- (c) corporate finance boutiques.

The Exchange welcomes applications from suitable advisers from around the world.

In order to be approved, all Nomads must meet the Exchange's criteria for eligibility. These are set out in full in the Rules for Nominated Advisers available on the Exchange's website. Broadly, the minimum criteria require that a prospective Nomad firm must have practised corporate finance for a minimum of two years, have undertaken, as a named principal corporate finance adviser, at least three major transactions on major stock exchanges and retain at least four similarly qualified full-time executives. Most importantly, the adviser must be able to demonstrate that it has a sound reputation for corporate finance and understanding of AIM.

Nomads have a number of specific responsibilities under the eligibility criteria. Above all, they have a duty to protect the reputation and integrity of the market. In short, this means that in addition to discharging their obligations under any specific rules, the adviser should use all reasonable endeavours to seek to ensure that the companies for which it acts conduct themselves in ways which benefit AIM.

Nomads are subject to regular reviews by the Exchange. Should a Nomad be found not to have acted with due skill and care, the Exchange has a range of sanctions available to it.

1.6 Checking whether companies are appropriate for AIM

Nomads are responsible for coordinating the due diligence work of other advisers including the accountants and lawyers involved in the transaction. This due diligence covers areas such as the background and qualifications of the company's directors, the company's financial position and the statements which the directors make about the company's prospects and future strategy.

Financial due diligence will be carried out by suitably qualified accountants, and legal due diligence by appropriate lawyers. Should the company operate in a specific sector, such as mining, a specialist report may be commissioned to support the assertions and strategy which the company proposes to include in its admission document.

Notwithstanding the expertise of the other advisers involved in conducting due diligence on a prospective AIM company, the Nomad must ensure it has in place sufficiently robust procedures and checks to enable it to make the decision that the company is appropriate for the market.

1.7 Ongoing role of a Nomad after admission

The second and in some ways most important responsibility of the Nomad is the role it plays in advising companies on the interpretation of the AIM Rules following admission. In many cases, companies admitted to AIM will have little or no experience of public markets and will need help to understand what their obligations are as a public entity. Nomads will normally charge a retainer fee for this ongoing service and it is in the interests of directors and their shareholders to ensure that they make full use of their Nomad once on the market.

1.8 The AIM Rules

The AIM Rules do not use legal or technical jargon and they are designed to be accessible to all types of companies including those from overseas. The AIM Rules are available on the Exchange's website with definitions and guidance notes to assist in the understanding of individual rules.

Generally, a company seeking admission to AIM will be required to produce an admission document, which will contain disclosures about areas such as background on the company's directors, the company's strategy, its financial position and its working capital. The contents required for an AIM admission document are based on a standard known as "AIM-PD" which is itself based on the Prospectus Directive, the standard applied to companies seeking admission of their securities to an EU-regulated market and the standard applied to any company carrying out a public offer above certain thresholds. AIM-PD was introduced by the Exchange in July 2005 and is based on the contents of the Prospectus Directive with certain sections "carved out" as they were deemed inappropriate for smaller companies.

Once admitted to AIM, a company will be required to disclose certain matters on an ongoing basis, such as major contracts, the appointment of directors and any matter which may be price sensitive.

Both the admission rules and the continuing obligations for AIM companies are based upon the principle of timely disclosure. Any failure to disclose material changes to a company's circumstances is treated very seriously by the Exchange.

1.9 Expedited admission: companies traded on other major markets

To make it easier for smaller growing companies across the world to join AIM, the Exchange developed a streamlined process focused on a number of AIM Designated Markets. These are NYSE, NASDAQ, Toronto Stock Exchange, Euronext, Deutsche Börse, Australian Stock Exchange, Johannesburg Stock Exchange UK Official List (as issued by the UK Listing Authority), the Swiss Exchange and Stockholm Börsen.

Provided that companies have been admitted to the main boards of these markets for at least 18 months, they may be exempted from the need to publish an AIM admission document. Instead, prior to admission they will be required to make a substantive announcement to the market about their working capital position, their strategy and certain other matters. In addition, they will require a Nomad to warrant their appropriateness for AIM. Several companies have availed themselves of this facility and the Exchange believes that it provides a cost-effective route for qualifying companies to obtain a complementary quotation on AIM.

1.10 Further information

Updated information on recent and forthcoming admissions, trading statistics, company announcements, Nomads, conferences and events is available on the Exchange's website.

As AIM celebrates its thirteenth year, it does so in good health, with a regulatory regime that continues to provide the balance between the needs of entrepreneurial businesses and the investors who support them. The Exchange is committed to ensuring that the AIM Rules remain as concise and clear as possible, helping to reinforce AIM's reputation as the most attractive market anywhere in the world for smaller, growing companies.