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London Stock Exchange

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Dear Roger

Following our constructive meeting in September, we agreed it would be helpful to send a note summarising the areas we discussed, including further background on the operation of AIM and recent developments in the market; and respond to your recommendations published last year.

First, I want to reiterate the importance we place on supporting individual investors and enabling your members to invest in companies that match their risk profile across our markets. By definition investment capital carries risk as well as reward and we recognise the significant source of capital that your members represent and the daily liquidity they provide for companies of all sizes, particularly smaller companies, who need access to capital and are vital for the growth of the UK economy.

That is why we have effectively worked with UK Government over recent years to ensure the regulatory and tax frameworks support your members. We believe changes such as the eligibility for ISA inclusion and abolition of stamp duty on shares admitted to growth markets have been beneficial for your members, and specifically address previous feedback that measures to improve the liquidity of smaller company shares would be welcomed.

We continue to appreciate such feedback.

AIM turned 21 last year and continues to evolve. Starting in 1995 with ten companies valued at only £100m it now reflects a broad range of sectors and household names, with a combined value of over £80bn. Unlike most growth markets globally, this diversity has resulted in a market that is more robust through economic cycles. Post financial crisis, levels of further issuance and the increased valuation of new companies joining AIM indicate ongoing investor support for AIM.

In fact, I am pleased to say companies that have floated over the last three years have delivered a return of +**16 per cent on average and compared to 10 years ago, the average new AIM company is significantly larger - £88m market cap versus £17m in 2005 – and is typically raising more capital at IPO: £30m versus £5m in 2005.**

We are committed to continuing to work with you to build on AIM's core strengths. We remain conscious of the necessity to balance the needs of different users of the market. We could not run a vibrant market if it did not satisfy the needs of both investors and companies.

We must ensure that investors have the information they need to understand individual companies and make informed investment decisions whilst trying to ensure that the costs and reporting requirements that apply to AIM companies are appropriate and reflect their stage of development. Whilst the AIM market framework is not dissimilar to that of the Main Market with a high level of disclosure ensuring investors have the information they require to understand the companies they are investing in, AIM companies are frequently either smaller, less diversified, or at an earlier stage of development.

Given the nature of a high growth market, there are undoubtedly risks that require investors, both institutional and individual to make sure they understand the businesses in which they are investing, consider their appetite for risk and spread their risk across a portfolio of investments.

AIM has developed into a diverse market that is currently home to almost 1000 companies. Investors have a wide choice of company size, sector and jurisdiction, as well as market liquidity. From household names to innovative companies at the cutting edge of IP commercialisation, many of these businesses have the potential to produce significant returns but may face technological, business and financing challenges during their development.

Having a market where these companies have the chance to access long-term equity investors, both individual and institutional is critical for the UK economy. Indeed, the latest numbers available demonstrate that the UK companies admitted to AIM alone provide a £25bn contribution to UK GDP and over 470,000 jobs and we look forward to continuing to work with you as we develop this market further.

Recent regulatory developments

As you would expect, we constantly monitor market trends and admissions activity, as well as AIM company performance to ensure the framework remains appropriate. Consequently, since 2007 we have instituted a number of changes including:

- 2007 – AIM Rules for Nominated Advisers introduced; codifying the standards expected when they bring new companies to AIM and support they provide on an ongoing basis.
- 2007 – Introduced requirement for AIM companies to disclose regulatory information in a dedicated section of their website (AIM Rule 26). This level of disclosure is greater than required on the Main Market and includes a description of the board and their responsibilities; details of its committees; its constitutional documents and, in the event that the company's home law differs from UK law, a description of this.
- 2010 – Introduced a requirement to disclose directors' remuneration in the company's annual report.
- 2010 – Issued 'Inside AIM' guidance and education about the importance of corporate governance on AIM, supporting the use of Quoted Companies Alliance Corporate Governance Code for Small and Mid-Sized Quoted Companies.

- 2014 – Introduced additional Rule 26 website disclosure, to provide details of the corporate governance code that each AIM company adopts (and a description of how it complies with such code), or if no code has been adopted this should be stated together with its corporate governance arrangements. The intention behind this was to enable investors to make informed choices based on the corporate governance arrangements and disclosure of any AIM company;
- 2015 – Issued 'Inside AIM' guidance on financial reporting procedures and free float, including how these should be considered in conjunction with issues of undue influence, control and ongoing corporate governance arrangements;
- 2015 –Introduced changes to the AIM Rules to improve the quality of investing companies; increased the fundraising requirement for new investing companies from £3m to £6m; and
- 2016 – Introduced a requirement for AIM companies to have a dealing policy to ensure a consistent benchmark for all companies and to support them with the new requirements contained within the Market Abuse Regulation (introduced in July 2016) which designated the FCA as competent authority for compliance with MAR in the UK.

AIM companies also became subject to the requirement for timely and accurate disclosure of inside information under the EU Market Abuse Regulation in 2016. As part of this, we have developed with the FCA co-operation arrangements to assist the FCA in the fulfilment of its duties.

The wider regulatory framework

Any view that AIM is 'self' regulated or regulated in a 'lax' fashion is demonstrably untrue, with the same statutory bodies having the same role as they do in the regulation of the Main Market.

We understand that for some it may not be clear which regulators have jurisdiction over the different elements of AIM and how the AIM Rules for Companies and Nominated Advisers operate alongside other parts of the UK regulatory framework. Because AIM has successfully developed a brand which is distinct from the Main Market, it is often (incorrectly) assumed that the regulatory structure is completely distinct whereas most of the regulatory agencies that have a role in the functioning and oversight of the Main Market have a similar, if not identical role in AIM. Each of them play their role upholding the reputation of UK public markets including AIM. An overview of the regulatory organisations and their responsibilities is available on our website and we believe a direct link is now on the ShareSoc website.

As outlined above, the changes to AIM demonstrate our desire to continually adapt the market to ensure appropriate standards. We take disciplinary action wherever evidence allows and circumstances merit. On any market, instances of fraud or market abuse clearly have the potential to have a disproportionately negative impact on the overall reputation of the market and can overshadow the successes. Whenever we have concerns or evidence of such activity on AIM, we purposefully work with the relevant authorities, such as the FCA, SFO, FRC or police, under whose remit such serious activity rests, and who have statutory powers to carry out criminal investigations and impose criminal sanctions against companies or individuals.

We would add that any perception that AIM is run for the commercial benefit of London Stock Exchange at the expense of regulation is simply inaccurate. The potential reputational risks associated with operating a

growth market such as AIM, clearly do not provide any incentive to operate AIM in a manner that may damage the reputation of the market or the Group as a whole.

London Stock Exchange Group operates the market as it is committed to supporting high growth companies develop as we firmly believe that innovative high growth companies are the key to future economic growth, productivity and job creation and they need supporting with appropriate risk capital. Our commitment to developing the ecosystem is further demonstrated through our 1,000 Companies to Inspire Britain and Europe reports; our successful and growing ELITE programme – which supports nearly 500 private companies in the UK and Europe.

AIM enforcement activities

You have suggested that an area of frustration amongst your members is that the outcome of complaints is not publicised unless there is a public censure, formally notified to the market. This approach mirrors that of other regulators and is designed to protect the integrity of our regulatory and investigative work. For example, our enquiries and findings may involve information which is confidential, commercially sensitive, legally privileged or contains personal data.

Other factors, such as the risk of prejudicing, by inappropriate public comment, any separate or parallel enquiries being undertaken by other bodies, are also relevant. Furthermore, given the potential for speculation across social media channels, we are also acutely aware of the potential for complaints to be made that are sometimes driven by commercial or employment related factors or designed to cause market volatility. In common with other financial regulators, we must remain committed to maintaining the confidentiality of the investigations process unless the outcome warrants a public censure.

When a rule breach is established, we have various sanctions available. Some are private, such as warning notices and private censures. Only public censures name a company or Nominated Adviser. Where we identify non compliance with our rules, we also require companies and Nominated Advisers to undertake remedial work and we provide substantive education and guidance so as to prevent future rule breaches. Accordingly, we undertake preventative measures to combat future non compliance as well as punitive measures (such as fines) to deter poor standards and behaviour.

Nominated Advisers

You have asked whether the role of the Nominated Adviser should be distinct from that of a Corporate Broker. Firms are approved to act as Nominated Advisers based on whether they meet the eligibility criteria set out in the AIM Rules for Nominated Advisers. The authorisation and regulation of such firms is considered by the Exchange at the time of approval. Where firms provide both Nominated Adviser and broking services, such firms are required under the FCA handbook to draw up policies to identify circumstances which give rise to a conflict of interest and procedures to manage such risks. This is also true where a firm may act as an FCA Sponsor for a Premium Listed company on the Main Market and as its corporate broker. The majority of Nominated Advisers are also authorised by the FCA as Sponsor firms.

In practice this means such functions will be separate within a firm and ethical walls exist between the two to restrict the communication of information. This is common within financial services, as can be seen in the case of an investment bank acting as a sponsor and corporate broker on the Main Market. To ensure that the Exchange is aware of any changes to a firm which could impact on their suitability, we formally monitor them on a continuing basis.

The AIM Rules for Nominated Advisers also include provisions governing independence and conflicts of interest with respect to clients. The combination of these checks and balances and the fact that Nominated Advisers rely in large part on their market reputation to be able to bring IPOs to AIM and raise further capital for their clients, creates a strong reason for any conflicts to be managed effectively. Indeed, many investors tell us a combined role provides comfort that the same firm has its reputation invested in an AIM company at admission and on an ongoing basis.

While Nominated Advisers do have a central role in the AIM framework, the primary responsibility for an AIM company's compliance with the AIM rules rests with the quoted company.

AIM admissions

The contents of the prospectus or listing particulars for admission to the Main Market and an AIM admission document are broadly similar. Documents for both markets are subject to obligations contained within the Financial Services and Markets Act relating to misleading statements and impressions. Furthermore, the issuer and its directors declare that they are complete, factual and not misleading and are liable for this.

Additionally we require AIM admission documents to include the following declaration:

> *"AIM is a market designed primarily for emerging or smaller companies to which a higher investment risk tends to be attached than to larger or more established companies. AIM securities are not admitted to the Official List of the UK Listing Authority. A prospective investor should be aware of the risks of investing in such companies and should make the decision to invest only after careful consideration and, if appropriate, consultation with an independent financial adviser."*

The AIM Rules require that this document is made available on the AIM company's website (AIM Rule 26). Accordingly, before undertaking any investments, investors should do their own research about the business and risks associated with it by reference to the admission document as well as the Company's other regulatory notifications and information made available on the company's AIM Rule 26 website.

Corporate Governance

Corporate Governance is an area where we have made a number of changes to disclosure over the years.

We agree that appropriate corporate governance arrangements are essential to provide shareholders with confidence that a company Board is acting in their best interests. They need to be based on a combination of factors including the nature, stage of development and complexity of a particular company's business. For example, a company operating across a number of different sectors and in multiple geographies is likely to

require a more comprehensive set of management capabilities and governance structures than a business with a simpler structure.

In 2014 we updated the AIM Rules for Companies to require companies to provide details via their website of the corporate governance code that they have chosen to adopt so that investors are further supported when making investment decisions. At the same time, companies are not just prescribed a code which may be unduly onerous for some but not extensive enough for others.

This approach is the same as that adopted by the FCA for companies admitted to the Standard listing segment of the Main Market and is designed to enable investors to understand the approach a company has to Corporate Governance and engage with them based on the information provided.

'Inside AIM' guidance states that a good starting point for AIM companies is the QCA code which is tailored for growth companies. As AIM companies grow, shareholders often engage with management to agree a future strategy regarding how corporate governance arrangements can be developed, resulting in larger companies electing to comply with the UK Corporate Governance Code.

Remuneration and capital raising

Regarding your suggestion about remuneration reporting, in response to investor feedback we introduced a requirement in 2009 for AIM companies to provide disclosure of individual directors' remuneration in their annual report (AIM Rule 19). This applies to all AIM companies and goes beyond UK company law requirements, which only require details of aggregate board remuneration for companies that are not 'officially listed'. This is in addition to the Directors' Remuneration Reporting Regulations 2013 (which introduced a binding vote on directors' remuneration policy).

You have raised a concern about share placings and further capital raisings by AIM companies. Clearly a key feature of a growth market like AIM is to provide companies with ongoing access to equity finance. One of the strengths of AIM, particularly since the financial crisis, has been the ability for AIM companies to access the market to raise further capital. **Since its launch in 1995, almost 60 per cent of the £100bn raised on AIM has been by existing AIM companies through further issues** reflecting also the strong institutional investor support for AIM.

As you will be aware, existing shareholders are protected by pre-emption rights. In the UK these rights are set out in section 561 of the Companies Act 2006. However, recognising the need of many companies to raise funds quickly without shareholder approval, most companies' shareholders will agree on an annual basis that an agreed number of shares which can be issued by the company on a non-pre-emptive basis.

We recognise that fewer AIM companies undertake open offers than was the case prior to 2005 when the Prospectus Directive was first introduced in the UK. The current thresholds require companies to produce a prospectus where they undertake offerings over €5m to more than 150 investors. The cost and time associated with producing a prospectus, which would need to be vetted by the UK Listing Authority, significantly increases the cost of capital and has resulted in the majority of capital raisings by AIM companies not including an open offer in order to control costs and timing. In the current review of the Prospectus

Regulation, we have campaigned for the exemption thresholds to be raised to €20m and 500 investors to facilitate the more frequent use of open offers and have been informed that the monetary exemption threshold will be increased to €8m.

In relation to some of your additional suggestions regarding director's training, AGM location and language capabilities, it may be that these areas are better addressed through changes to market practice and by commercial training providers or as part of ongoing dialogue between shareholders and management but we look forward to working with you on these issues in future months.

We are grateful to you and your members for your ongoing support and the investment your members make in AIM companies. We also appreciate the time you have taken to provide us with feedback and look forward to a constructive future dialogue.

Best regards

Marcus Stuttard
Head of AIM & UK Primary Markets
London Stock Exchange plc

Attached:
Press Release: AIM Reaches £100 Billion Raised Mark
Stock Exchange Notice: Recent Disciplinary Action