



# ShareSoc

UK Individual Shareholders Society

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30 January 2017

## Response to Your Letter dated 20 January 2017

Dear Marcus,

Thank you for your letter of the 20th January in response to our suggestions for improving the AIM Market. Here are some comments:

1. Some of the information you provide is helpful and may not be known to many of our Members. It is undoubtedly the case that AIM has been improving of late in terms of the general quality of companies listed on that market with many unsuitable companies departing. That may have contributed to the improved performance of the AIM market in the last year. However there still seem to be some problems that frequently recur.

Can we publish your letter?

Taking some of the points you make:

2. *The Wider Regulatory Framework*. I take your point that AIM is consistent with the wider regulatory framework in many regards, but you might like to read our recent submission to the FCA on its "Future Mission" where we point out the concerns we have with that organisation and the approach it has to some matters. It is on our web site here: <http://www.sharesoc.org/FCA-Mission-ShareSoc-Response.pdf> .

3. *AIM Enforcement Activities*. You are basically saying that your practice mirrors that of the FCA and we did complain about their approach in the document mentioned above. In addition I believe they are not compliant with the law in that they do not seem to be adhering to the "Code of Practice for Victims of Crime" which clearly requires that information be provided to those who complain to regulatory authorities. See this blog post which explains this point in some detail which I recently wrote: <https://sharesoc.wordpress.com/2017/01/29/obtaining-information-on-frauds/>

Although the LSE is not currently legally subject to that Code, perhaps it should be?

Now you may say that many of the complaints made to AIM about the activities of companies, their directors, Nomads, brokers, etc, are not criminal complaints. But in fact many are. False accounting, market abuse, making false statements that induce people to invest, insider trading, and many other complaints are criminal offences.

There may be some cases where premature disclosure of information to complainants would prejudice investigations, but to say that all investigations should be kept confidential is wrong and it is certainly not the practice followed by the police. Why should financial crime be treated differently to any other crime? You may care to comment further on this issue.

4. *Nominated advisers.* All I can say on this issue is that there seem to have been several past cases where Nomads have condoned breaches of AIM regulations, or turned a blind eye and the fact they also act as brokers to the company may have been the reason. It is better to avoid conflicts of interest rather than rely on "ethical walls" as you put it.

5. *AIM Admissions.* The level of disclosure on AIM is certainly good in some regards. Of course for many investors, the amount of information disclosed provides a barrier to understanding. In other words investors can suffer from "information overload". Relying solely on disclosure to investors in the hope that they will avoid investing in dubious businesses, as you seem to be suggesting in your letter, is not a reliable way to stop abuses. More disclosure will not help in essence.

6. *Corporate Governance.* Although some AIM companies have adopted corporate governance codes (e.g. the QCA Code), and it is helpful to have the relatively new AIM rule of disclosure of adopted rules on company web sites, I believe that there are many AIM companies who have not adopted any specific codes. In addition the QCA is of course a body that represents smaller companies, i.e. it is trade body, not a body that represents investors and hence their Code is quite loose. We do suggest that a simple governance code should be put forward by the LSE that everyone could and should adopt.

7. *Remuneration and capital raising.* As regards remuneration, disclosure of individual director remuneration may be helpful, but it is limited in scope and without any vote on remuneration at an AGM it still leaves it wide open to abuse. You mention the Director's Remuneration Reporting Regulations and binding votes on pay policy, but surely they do not apply to the smaller "unlisted" companies on AIM?

As regards capital raising and placings, the changes to the Prospectus Directive will certainly help as we recognise that the cost of producing a prospectus is an issue. But there were some other points which we made about placings which you have not commented upon.

8. You have not responded to a number of other comments and suggestions that we made. For example on:

- a - The number of roles that non-executive directors have and their relationships to other directors.
- b - The training and qualifications of AIM company directors and their fluency in English.
- c - The location and format of General Meetings.

You suggest that these might be better addressed "through changes to market practice" but how is that to take place unless a lead is provided by the LSE?

We would of course be happy to have a further meeting with you if you care to suggest some dates/times to discuss these matters in some detail. But we are somewhat disappointed in your response to date and the lack of commitment to specific action on some of the points we have raised.

Yours sincerely

Roger W. Lawson  
Deputy Chairman