

AQSE Consultation Response

On **1 May 2020** Aquis Stock Exchange (AQSE) issued a consultation paper seeking opinion on the changes it proposes to the markets it operates.

The paper focused on developing three key points of action:

1. Market Segmentation

To develop clear market segments that are specifically tailored for well-managed growth companies at all stages of development: micro, small- medium and large

2. Institutional Engagement

To cater for institutional and asset managers' small/mid-cap investment strategies

3. Increase liquidity

To support liquidity through new trading methodologies, tighter spreads, and increased retail access

AQSE was appreciative of the large number of responses received and the thoughtful engagement from a wide range of market participants - including issuers, investors, corporate advisers, lawyers, accountants, brokers, market makers, research houses and industry think tanks.

This paper sets out a summary of the responses received, AQSE's conclusion and next steps.

Market Segmentation

- The majority of respondents across all stakeholder groups supported the creation of the new market segments and agreed that the introduction of Access (AXS) and Apex (APX) will improve the focus of the AQSE Growth Market, and the recognition that companies are not all at the same stage of development.
- Respondents emphasised that it is crucial that early stage companies are able to focus on growth, without being overly distracted by disproportionate requirements. It was felt that the creation of the two new segments can help foster investor understanding and promote the development of public companies on AQSE.
- Some respondents were concerned about the requirement that corporate advisers inform AQSE about the particulars of their clients' fundraising. Other respondents were of the view that such reporting would help draw institutional investors and private client brokers into the market.
- Some respondents were concerned that without adequate support from the investing community, Access (AXS) could be seen as inferior and the companies on it at risk of being "below the radar".

Response:

- *AQSE is encouraged by the support received for market segmentation and wishes to reassure stakeholders that our vision to support our companies starts with the Access (AXS) market segment, which will form the foundation of the AQSE Growth Market. AQSE recognises that companies will start small, grow and mature and that being over-burdened by unnecessary rules and expense at this stage in their development is likely to be detrimental to achieving their growth ambitions.*
- *By sign-posting the market segments in this way with additional eligibility requirements for larger, more established companies and proportionate rules for smaller and earlier stage companies, we aim to increase investor understanding and participation, whilst providing all Growth Market companies with a regulatory framework and programme of support appropriate to them.*

- *AQSE would like to clarify that the obligation to report particulars of clients' fundraising arises on completion of the issue. The objective is to focus attention on the fundraising process such that stakeholders are able to consider the correlation between valuation, investor profile and liquidity.*

Eligibility Criteria

- In respect of Apex (APX), some respondents were concerned that the minimum free float requirement of 35% is too high.
- Some concerns were also raised regarding the requirement to maintain a market capitalisation of £10 million and what may be the immediate consequences for a company's eligibility for Apex (APX) should it no longer meet this requirement.
- A number of respondents sought clarification as to whether adoption of the corporate governance codes was on a strictly comply basis, or comply so far as appropriate and explain any reasons for non-compliance.
- Some investor respondents also felt it would be beneficial if companies on the Apex (APX) segment were required to make forecasts publicly available.

Response:

- *AQSE acknowledges the feedback on the free float eligibility criteria for Apex (APX) companies and proposes to reduce the threshold from 35% to 25%.*
- *With regard to the minimum £10 million market capitalisation requirement, AQSE's intention was to ensure that companies in this segment were of a sufficient size to generate meaningful liquidity. However, we can also appreciate that a cliff edge eligibility based on market cap may not best serve this intention, so instead we propose that companies whose market capitalisation is below £10 million may continue to be eligible for Apex if they have had third party research from a recognised analyst published within the last three months. This sets a bar for shareholder engagement which itself can foster liquidity.*
- *In respect of compliance with the corporate governance codes, we note that the Quoted Companies Alliance's (QCA) corporate governance code (QCA Code) and the UK Corporate Governance Code (UKCG Code) allow companies to adopt practices that depart from the respective code when appropriate for their particular circumstances. In the event of such departure, in accordance with the applicable code, companies are expected to explain why such departure is appropriate. AQSE will want to be sure such departures are carefully considered and stand up to critical analysis to ensure the interests of investors are not compromised.*

Growth Prospectus

Respondents were broadly supportive of the proposal to introduce the growth prospectus for companies joining the Apex (APX) segment.

There were some concerns that the growth prospectus would deliver only a minimum reduction in adviser costs compared with those for a full prospectus and that FCA involvement would increase scrutiny and prolong the admissions process.

However, many respondents supported the idea of Apex (APX) applicants producing a growth prospectus in order to increase and broaden public participation at IPO and to attract more investors. One respondent observed that smaller quoted companies rarely offer shares to the public due to the complexity and cost associated with producing a full prospectus and that as the growth prospectus is more practical and easier to produce, its adoption

would result in more companies incorporating a public component in their equity fundraisings, which in turn would benefit the market. It was suggested that retail investors are key to helping price formation and improving liquidity for smaller quoted companies.

Of note was the support for the growth prospectus amongst issuer respondents.

Response:

AQSE notes the reservations of some respondents regarding the growth prospectus requirement. However, it is expected that increased scrutiny by the FCA review process will raise the standard and provide better disclosure for investors. AQSE remains committed to the requirement for new applicants seeking admission to the Apex (APX) segment to produce an FCA approved growth prospectus for companies. To address respondents' concerns, AQSE will broaden its engagement with advisers and the FCA to be sure all stakeholders' views are represented.

Route for progression

Respondents raised concerns about the transition between the AQSE Growth Market segments, particularly in respect of the £10 million market capital requirement. Many felt progression to Apex (APX) should be more flexible and voluntary rather than automatic.

Response:

AQSE acknowledges respondents' concerns and agrees that a company that may be eligible for Apex (APX) should not automatically be transferred. Rather a company will be given the opportunity to apply if it sees benefit in joining this segment. There will be no requirement for existing AQSE issuers to produce a growth prospectus on transition to APEX.

Further, AQSE proposes that a company will only move from Apex (APX) to Access (AXS) in circumstances where it no longer meets the eligibility criteria for a 12-month period or, alternatively, at its request.

Trading Mechanisms - Auction on Demand (AoD)/ Continuous Order Book

Respondents were broadly supportive of the introduction of AoD for the Access (AXS) segment. Some respondents noted that an AoD may disincentivise market makers from providing consistently keen pricing and increased liquidity, yet were also appreciative of the need for structured auctions to stimulate activity in less liquid instruments. Clarity was sought on the frequency of auctions and if these would be imposed as the sole trading method for Access (AXS).

Response:

AQSE is encouraged by the support for AoD. The frequency of the facility will be the subject of further consultation when undertaking a detailed review of the trading rules and mechanisms. To clarify, it is proposed that the AoD facility will only be made available to securities in the Access (AXS) segment.

For Apex (APX), AQSE will maintain a quote-driven market and shall look to incentivise market makers to encourage greater liquidity and tighter spreads.

Short Selling

The majority of respondents were supportive of the introduction of short selling restrictions on small-cap securities. Of the options considered, a blanket ban received the most support (Option 1). Some respondents were of the view that a restriction on short selling may lead to a reduction in liquidity.

Response:

AQSE is encouraged by the feedback and proposes to proceed with option 1 (blanket ban) when introducing the revised trading system and rules. Protection of our companies and their investors is of paramount importance and it is AQSE's hope is that a ban on short selling will support this objective.

Next Steps

AQSE will now develop the detailed rules and guidance that support the undertakings set out in the consultation paper. Stakeholders will be invited to comment on the new rules and guidance, with a target publication date of July/August – subject to Covid-19.