

Aquis Stock Exchange (AQSE) is issuing this consultation paper to seek opinion on the initial enhancements it proposes to the markets it operates. We very much look forward to receiving your comments and to developing this market into a future-facing home for quality growth businesses. We ask that responses are directed to **AQSEBusinessDevelopment@aquis.eu** by no later than **15 June 2020**.

Executive Summary

Aquis Stock Exchange (formerly named NEX Exchange) recognises that great companies will start small, grow and mature. To support this growth cycle, AQSE proposes to create two new segments – **APX** (apex) and **AXS** (access) within the existing growth market.

APX would be for larger companies with a more established market cap and a strong growth strategy, which publish a Growth Prospectus, allowing retail participation in small-mid cap IPOs.

AXS would be for companies that are at an earlier stage in their growth, or appeal to investors that are likely to take a longer-term view; consequently, the stocks are naturally less liquid.

APX and **AXS** will be segments of the AQSE Growth Market, and investors may therefore benefit from certain tax reliefs that support investment in entrepreneurial growth companies.

To broaden the range of advisers available to companies looking at admission to AQSE, Nomads will be immediately eligible for AQSE Corporate Adviser status. To encourage fair participation in post-IPO equity fundraising and to support liquidity, AQSE proposes that Corporate Advisers must keep AQSE informed of the details of placings, including the pricing and allocation of securities, how the allocation might support secondary market liquidity and details of any other relationships that may have influenced the terms and/or allocation of the placing.

Brokers and small/mid-cap institutional asset managers will be consulted on their parameters for investing in AQSE companies in an effort to facilitate greater alignment with the investment strategies of this sector and small/mid-cap companies seeking capital. AQSE is of the view that institutional support can assist validate market valuations and are a source of secondary market liquidity.

To better facilitate trading, price discovery and tighter spreads in AQSE securities, AQSE is reviewing the trading systems deployed by its markets, including the introduction of auction on demand and continuous trading order books systems.

AQSE is also examining options to manage the impact of institutional short selling on the trading profile of small-mid cap companies that are in their growth phase.

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Background and Purpose

In March 2020, NEX Exchange was pleased to announce it had become part of the Aquis Exchange PLC group (Aquis Group) and rebranded as Aquis Stock Exchange (AQSE).

The Aquis Group is the 7th largest stock exchange group by value traded in Europe, trading over 1,500 equity securities across 14 markets on its low latency and high-performance trading platforms. The technology division of the Aquis Group creates and licenses cutting-edge, cost-effective matching engine and trade surveillance technology for banks, brokers, investment firms and exchanges across the globe.

AQSE is today issuing this consultation paper to seek opinion on the initial changes it proposes to the markets it operates.

AQSE believes that radical change is needed to tackle the challenges confronting small companies in the UK and across Europe, both at IPO and in the secondary trading market. These challenges include high compliance costs and insufficient liquidity – leading to a reluctance to invest. The UK and Europe have produced only half of the SME initial public offerings generated before the financial crisis.

Now, as part of the Aquis Group, AQSE is able to draw on the group's entrepreneurial approach to markets and technology to change and improve the SME sector of public markets on behalf of all participants.

To achieve this ambition, AQSE has developed three key points of action:

1. Market Segmentation

Develop clear market segments that are specifically tailored for well-managed micro, small-medium and large growth companies

2. Institutional Engagement

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

3. Increase liquidity

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

This consultation paper sets out how AQSE will look to address each of these key areas.

AQSE recognises the market is best served through broad stakeholder engagement and welcomes feedback on the proposals set out in this paper.

The Aquis Exchange Group

Our Values: Transparency, Fairness, Simplicity

Our Tools: Technology, Protections, Innovation

Our Aims: Liquidity, Growth, Competition

1. MARKETS TAILORED FOR MICRO, SMALL/MEDIUM, AND LARGE GROWTH COMPANIES

AQSE Markets

AQSE currently operates the three legacy markets of NEX Exchange:

- **AQSE Main Market:** a regulated market for securities which are admitted to the official list maintained by the FCA;
- **AQSE Growth Market:** a “recognised growth market” for the purpose of the Finance Act 1986 and a registered “SME growth market” in accordance with Article 33 of Directive 2014/65/EU (MIFID II), as applied in the UK; and
- **AQSE Trading:** a multilateral trading facility designed for secondary trading in securities admitted to other UK and EU markets (such as AIM).

The primary focus of this paper is the AQSE Growth Market. While all the markets operated by AQSE play a key function in enhancing the capability of the Aquis Group, companies quoted on the AQSE Growth Market and their investors can benefit from certain tax reliefs, including stamp duty and the stamp duty reserve tax relief, capital gains tax investor’s relief, EIS, SEIS and VCT reliefs, inheritance tax (business property) relief and share losses relief. Greater advantage must be taken of the support Government has made available to companies quoted on the AQSE Growth Market.

In order to better tailor the AQSE markets for micro, small-medium, and large growth companies, AQSE will look to section the AQSE Growth Market into two new segments - **APX** (apex) and **AXS** (access). AXS will focus on companies earlier in their development and APX will focus on companies already executing on clear growth strategies.

Through this segmentation, AQSE can create proportionate rules that are specifically tailored to suit the different growth phases of quoted companies.

APX (apex)

Mission Statement

APX is aimed at companies with a larger market cap, a proven growth strategy, larger free float, broader retail access and higher standards in governance leading to increased institutional investment. These strong fundamentals will create opportunity for greater liquidity for companies in this segment

Market detail

To be eligible for APX, applicants must meet the following new criteria:

- a trading history of no less than two years;
- no fewer than 25 shareholders;
- maintain 35% or more of their securities in public hands;
- maintain a market capitalisation of £10 million or more;
- maintain a minimum of two market makers;
- comply with either the Quoted Companies Alliance’s (QCA) corporate governance code (QCA Code) or the UK Corporate Governance Code (UKCG Code); and
- publish a Growth Prospectus

Companies currently admitted to trading on the AQSE Growth Market (the legacy NEX Exchange Growth Market) that have a market capitalisation of £10 million or more, and maintain 35% or more of their securities in public hands, will automatically be promoted to APX.

AQSE proposes to meet with the executive management of each applicant to discuss their growth strategy, business plan, the board’s skills and experience and their objectives in seeking admission to APX. As part of the

application process, AQSE may ask applicants to share with the admissions assessment team profit forecast or estimates.

Companies that qualify for APX will recognise that active engagement with the investment community is essential and will commit to publishing regular market updates and maintaining news flow. They will be open to participating in new and innovative initiatives facilitated by AQSE that assist market analysis and the provision of quantitative research involving data analytics. To facilitate such analytics, AQSE will work with companies to make machine readable financial data readily available.

To support a strong secondary market, companies on APX and their founding shareholders will appreciate the need for brokers and market makers to have access to stock to facilitate trading activity. For future capital raisings, companies will be encouraged to ensure securities are allocated across a range of investor types that will facilitate liquidity and support secondary market trading, including provision for market maker interest. The corporate advisers for companies on APX will be asked to advise APX as to how the company sought to meet this objective.

By setting a new standard of free float, broader retail access facilitated by the Growth Prospectus and higher standards in governance, AQSE believes it is establishing the fundamentals that will support greater liquidity for growth companies.

The Growth Prospectus

AQSE wants to foster broader public participation in SME IPOs. To facilitate such participation, AQSE proposes that companies seeking admission to APX must publish a Growth Prospectus, prepared in accordance with the Prospectus Regulation (Regulation (EU) 2017/1129) and approved by the FCA.

The Growth Prospectus has less complex requirements than those of a full prospectus, without compromising integrity and standards. Less disclosures are required on the history of the company's business; investments; research and development, patents and licences; corporate governance arrangements; employees and material contracts. An operating and financial review, working capital statement and a statement of capitalisation and indebtedness are only required where the company's market cap is over £200m. Historical information need only cover the most recent two years and certain information can be incorporated by reference, including annual financial statements and articles of association.

Note that, although the FCA is responsible for approving the Growth Prospectus, companies will not have to comply with the FCA's listing rule requirements as these only apply to a listing on a regulated market, such as the standard or premium segment of the AQSE or LSE Main Market.

It is recognised that a prospectus has traditionally been more costly to produce than an admission document. AQSE will endeavour to work with all stakeholders and regulators to streamline the drafting and approval process in an effort to lower the cost of this new admission standard to the same level as an admission document.

It is envisaged that the publication of a Growth Prospectus will allow companies to access a much broader range of investors, including retail investors, and utilise new forums for its fundraising activities, such as crowdfunding platforms. An IPO supported by a broad range of investors should encourage an active secondary market, leading to improved liquidity.

AXS (access)

Mission Statement

The aim is for AXS to be a market segment for companies that are at an earlier stage in their growth, or appeal to investors that are likely to take a longer-term view; consequently, the stocks are naturally less liquid. The market will be supportive of these types of companies, providing access to the capital markets within a framework that is practical, allowing them to thrive and ultimately progress to APX.

Market detail

The eligibility criteria that applied under the legacy NEX Exchange Growth Market will continue to apply to AXS. Applicants must publish an admission document, maintain at least one market maker and 10% or more of their securities must be in public hands.

In respect of investment vehicles or companies that do not yet have a two-year trading history, AQSE proposes increasing the minimum fund raise on admission from £500,000 to £2,000,000.

Companies in this segment will have the opportunity to participate in market analysis and quantitative research facilitated by AQSE. AQSE will also develop a programme of special initiatives to assist companies in this segment to engage with the investment community.

AXS Admission Document

AQSE recognises the cost of preparing an admission document can be relatively high for early stage companies. To support a proportionate admission regime for SMEs, AQSE proposes revising the admission document to template its format such that investors gain the information relevant to their investment decision in as simple a format as possible. AXS will focus on reducing the costs of access to public markets without compromising integrity and standards.

AQSE welcomes feedback on the introduction of APX and AXS, in particular:

1. *Do you agree the creation of APX and AXS will improve recognition that companies listed on the AQSE Growth Market are not all at the same stage of their growth and that this will better serve stakeholders?*
2. *Do you agree with the proposed eligibility criteria for APX and AXS? If not, what criteria would you suggest?*
3. *Do you agree that encouraging companies on APX to engage an AQSE broker member firm for secondary placings will improve the allocation of securities and support liquidity?*
4. *Do you agree that using the Growth Prospectus would be beneficial for APX applicants by broadening public participation in IPOs?*
5. *Do you have any suggestions on how the costs of preparing a Growth Prospectus could be reduced to bring it in line with the cost of an admission document?*
6. *Do you agree that an admission document in a template format, if supported by reduced fees from advisers, would be beneficial for AXS applicants, investors and other stakeholders?*

Creating a route for progression

AQSE believes its markets must be the right fit for the companies it serves and recognises that great companies will start small, grow and mature. The redesigned markets of AQSE are intended to serve this growth cycle. Companies that start on AXS will be automatically promoted to APX once they have achieved a market capitalisation of £10 million and can support the free float and other criteria of this market. Similarly, companies that have reached maturity with a market capital of over £1 billion will be encouraged to join the AQSE Main Market.

AQSE recognises that the tax advantages and other government incentives available to growth companies are not to be taken for granted. Market practice must adapt to ensure these incentives remain available to benefit investors in small-medium, entrepreneurial companies as they were intended.

7. *AQSE welcomes any feedback on the proposed progression route for companies on AQSE Markets.*

Corporate Advisers

Nomad Equivalence

Companies quoted on the AQSE Growth Market must appoint a corporate adviser that meets the eligibility criteria of AQSE as set out in the AQSE Corporate Advisers Handbook.

AQSE recognises that many investment firms in the SME public market sector hold nominated adviser status granted by the London Stock Exchange. AQSE recognises that the eligibility criteria for nominated adviser status is

in line with the corporate adviser membership requirements of AQSE. It is therefore proposed that on application to AQSE, firms which remain in good standing as a nominated adviser will automatically be granted status as an AQSE corporate adviser.

Responsibilities

AQSE recognises that corporate advisers play a critical function in advising companies on the application of the rules and regulatory standards of AQSE and the broader regulatory framework within the UK.

AQSE believes that a key role of corporate advisers should also be the provision of advice to companies on how to develop an investor base that cultivates secondary market liquidity. AQSE wants to ensure that there is a reasonable expectation that newly issued securities will be regularly traded.

On placings, it is proposed that corporate advisers will be asked to inform AQSE on the procedures a client issuer and its brokers have followed in respect of its fundraising activities, including the pricing and allocation of securities, how the allocation might support secondary market liquidity and details of any other relationships that may have influenced the terms and/or allocation of the placing.

AQSE welcomes feedback on these proposals, in particular:

8. *Do you agree that requiring corporate advisers to inform AQSE about the particulars of their clients' fundraising activities is reasonable to support AQSE's efforts to maintain or improve secondary market liquidity, and if not, why?*

2. SUPPORTING INSTITUTIONAL AND ASSET MANAGERS' SMALL/MID-CAP INVESTMENT STRATEGIES

AQSE recognises that institutional and asset manager support is key for companies looking to raise capital and set an appropriate valuation on IPO.

AQSE is working with brokers and small/mid-cap institutional asset managers to establish their parameters for investing in AQSE companies. AQSE will draw on this engagement to ensure that companies quoted on AQSE take into account the investment strategies of this sector. For example, the proposed new eligibility criteria for APX reflect the need of institutions for a liquidity by requiring a greater free float and retail participation on IPO.

AQSE welcomes any feedback that may inform aspects of this review.

In particular, institutions and asset managers are invited to provide feedback on the following questions:

9. *Do any of your funds, or your clients, hold any securities in AQSE companies? If not, are there any internal policies or restrictions within your firm that have made this difficult?*
10. *What is most important when considering a potential investment in an AQSE company? For example - management team, free float, minimum size, governance standards, reputation of advisers, research?*
11. *Are you more likely to consider an investment in a growth company that prepares a Growth Prospectus over an admission document?*

3. DRIVE LIQUIDITY THROUGH NEW TRADING METHODOLOGIES, INCREASE ACCESS AND EASE OF TRADING

AQSE understands that brokers and investors need greater access to facilities that support trading in AQSE securities. AQSE wants quality secondary liquidity, with better price discovery and tighter spreads.

Trading systems

Currently, trading in AQSE securities is facilitated by way of a quote-driven market in which market makers offer prices that are displayed by AQSE and on RSP networks operated by third parties, of which Fidessa is the most well-known.

Brokers use these third-party networks to agree trades with market makers. If these trades are agreed in accordance with the rules of AQSE, AQSE will publish details of the trades on the AQSE website and supply live trade data to third parties who subscribe for this data (such as Bloomberg, Morningstar, ADVFN).

AQSE is undertaking a comprehensive review of the infrastructure that facilitates trading activity, including dependencies on third parties, and is exploring the introduction of order book and auction on demand trading systems to certain AQSE market segments.

Auction on Demand (AoD)

AQSE observes that small and micro-cap companies on the AQSE Growth Market often have wide spreads and low trading volumes. AQSE believes companies and shareholders in this category may be better served if alternative trading systems are available, such as an AoD facility.

Under an AoD facility, AQSE member firms would submit their trading interest throughout the auction period. A 'call period' would trigger every time a pair of opposing orders can be matched (i.e. there is an order to buy and an order to sell, where the selling price is not higher than the buying price). During the call period, AQSE would distribute information about the indicative uncrossing price and the number of shares expected to be executed. Other participants can then decide to submit their own buy and sell orders into the auction.

The auction period and its regularity (which could be daily, weekly or monthly) would be tailored to the liquidity profile of the company.

It is proposed that an AoD trading system will be available to companies admitted to AXS alongside the existing quote-driven market maker model. The view of market participants is also sought as to whether this trading model should be made available to APX companies.

Continuous Trading Order Book

AQSE also proposes to introduce a continuous trading order book for securities admitted to the AQSE Main Market. Under this system, an AQSE member firm may send a buy order to AQSE and if there is a matching sell order on the order book, the trade will execute instantly in accordance with the time at which the order is received.

Tighter Spreads

AQSE will consult with AQSE market makers to identify how best to facilitate tighter spreads. Early indications are that, in addition to demand for the securities, an important factor is the availability of securities to the market makers for the management of their settlement risk.

AQSE seeks to address this concern with the new admission criteria for APX set out above, including increased minimum free float, opportunity for broader retail participation and an admission standard that caters to institutional participation. It is expected that these features will improve the volume of securities available to support market makers in the provision of liquidity.

AQSE is also examining the difficulties of securities lending in small-mid caps and exploring what role it may play in mitigating such difficulties.

A number of other mechanisms to promote market maker liquidity and reduce spreads are also under review, and a further consultation paper is to be published on this topic in due course.

Retail Access

AQSE will focus on growing the number of retail participants that have access to AQSE trading facilities. The display and distribution of price and trade data to retail brokers and trading platforms is now expected to accelerate when coupled with Aquis Group technologies. AQSE will closely review developments in this area, and keep stakeholders updated.

AQSE welcomes feedback on the introduction of new trading systems, in particular:

12. *Do you support the introduction of an AoD facility for trading in AXS companies?*
13. *Do you believe an AoD facility should also be made available for trading in APX companies?*
14. *Do you support a continuous trading order book for AQSE Main Market companies?*
15. *Would you like AQSE to consider further alternative trading systems? If so, what systems would you suggest?*

Short selling and orderly markets

AQSE wishes to consult on the introduction of rules and mechanisms that prohibit or restrict short selling in securities admitted to trading on APX and AXS. AQSE believes its growth markets must attract the right type of investors, which recognise that APX and AXS are specifically for companies in the growth stage of their development and are unique in their trading profile.

Any short selling restriction would not apply to market makers undertaking market making activities in the securities in which they are registered.

Short selling can disrupt an orderly market in a number of undesirable ways, for example it can lead to:

- misleading signals about the real supply, or the correct valuation of a security, sometimes in conjunction with other scaremongering tactics such as the dissemination of negative rumours about the company;
- over-reaction to the signs of short selling, leading to excessive price decline or prophecies of financial difficulties that can become self-fulfilling;
- implications for market confidence, leading to contagion in related stocks; and
- information asymmetries between informed short sellers and uninformed market participants.

These issues can too often be a feature of SME growth market securities, discouraging investors and eroding support in the capital markets as a means of funding for growth companies. AQSE sees exploitative short selling in small cap securities as contrary to its objective of operating a stable, orderly growth market for the UK.

AQSE is examining three possible options to manage the undesirable outcomes of short selling:

1. prohibit short selling of all stocks;
2. prohibit short selling in a stock for a limited period following a significant price fall; or
3. allow short selling in a stock only where the last sale price is higher than the sale preceding it.

1) Prohibit short selling of all stocks

A general prohibition on short selling would apply to all securities traded on APX and AXS. A blanket ban would eliminate the negative impact of short selling and further protect against abusive trading strategies during market soundings, book building activities and rights issues.

AQSE sees a general prohibition as the mechanism which is likely to have the most impact towards the objective of ensuring stability and certainty and will best allow members to develop informed trading strategies that accommodate the prohibition.

This restriction would not apply to market makers undertaking market making activities in the securities in which they are registered.

2) Prohibit short selling in a stock for a limited period following a significant price fall

Alternatively, AQSE could introduce a temporary short selling ban that will apply when the price of a share has fallen significantly when compared to the last traded price on a prior trading day. The short selling prohibition would apply to that share for the remainder of that trading day and the following trading day – effectively an extended circuit breaker that would give companies the opportunity to address any information asymmetries or negative rumours and market participants time to react to the price fall, reducing possible over-reactions.

The circuit breaker would not apply if AQSE considers there to be a legitimate cause for the price fall in the security, such as the announcement of poor financial results.

AQSE proposes that a significant fall in the price of a security during a trading day would mean a decrease when compared to the last trade price on a prior trading day of 20% or more where the share price is 40p or higher or 30% or more in all other cases. In determining these parameters AQSE considered the analysis undertaken by the European Securities Market Authority (ESMA) when determining the definition of significant price fall for illiquid shares for the purpose of Regulation EU 236/2012 on short selling.

3) Allow short selling in a stock only where the last sale price is higher than the sale preceding it

A further option to mitigate the undesirable consequences of short selling is to introduce an “up-tick” rule which would provide that the last sale must have been at a higher price than the sale preceding it before a share can be short sold. An up-tick rule would act to temporarily decelerate share price declines, providing companies an opportunity to address any information asymmetries or negative rumours, and market participants time to react to the price fall.

AQSE welcomes feedback on the proposals to introduce rules and mechanism to prohibit short selling, in particular:

16. *Do you agree the proposed restrictions on short selling would improve market stability and reduce the undesirable outcomes set out above (such as excessive price declines)?*
17. *Which is your preferred option to restrict short selling? Would you like to see other alternatives considered, and if so, what would you propose?*
18. *What costs (IT, compliance and legal, opportunity cost etc) might you incur in order to comply with the each of the proposed measures?*

Next Steps

AQSE would like to thank all market participants for the time taken to review this consultation paper and the constructive feedback we hope you will provide.

We would also like to thank you for your continued support over the last year whilst the transaction with Aquis Exchange completed.

We very much look forward to receiving your comments and to developing this market into a future-facing home for quality growth businesses during the year ahead.

We ask that responses are directed to AQSEBusinessDevelopment@aquis.eu by no later than **15 June 2020**.

Following review of the feedback, AQSE will consult further on any changes necessary to its rulebooks to implement the final proposals.

Summary of Questions

1. Do you agree the creation of APX and AXS will improve recognition that companies listed on the AQSE Growth Market are not all at the same stage of their growth and that this will better serve stakeholders?
2. Do you agree with the proposed eligibility criteria for APX and AXS? If not, what criteria would you suggest?
3. Do you agree that encouraging companies on APX to engage an AQSE broker member firm for secondary placings will improve the allocation of securities and support liquidity?
4. Do you agree that using the Growth Prospectus would be beneficial for APX applicants by broadening public participation in IPOs?
5. Do you have any suggestions on how the costs of preparing a Growth Prospectus could be reduced to bring it in line with the cost of an admission document?
6. Do you agree that an admission document in a template format, if supported by reduced fees from advisers, would be beneficial for AXS applicants, investors and other stakeholders?
7. AQSE welcomes any feedback on the proposed progression route for companies on AQSE Markets.
8. Do you agree that requiring corporate advisers to inform AQSE about the particulars of their clients' fundraising activities is reasonable to support AQSE's efforts to maintain or improve secondary market liquidity, and if not, why?
9. Do any of your funds, or your clients, hold any securities in AQSE companies? If not, are there any internal policies or restrictions within your firm that have made this difficult?
10. What is most important when considering a potential investment in an AQSE company? For example - management team, free float, minimum size, governance standards, reputation of advisers, research?
11. Are you more likely to consider an investment in a growth company that prepares a Growth Prospectus over an admission document?
12. Do you support the introduction of an AoD facility for trading in AXS companies?
13. Do you believe an AoD facility should also be made available for trading in APX companies?
14. Do you support a continuous trading order book for AQSE Main Market companies?
15. Would you like AQSE to consider further alternative trading systems? If so, what systems would you suggest?
16. Do you agree the proposed restrictions on short selling would improve market stability and reduce the undesirable outcomes set out above (such as excessive price declines)?
17. Which is your preferred option to restrict short selling? Would you like to see other alternatives considered, and if so, what would you propose?
18. What costs (IT, compliance and legal, opportunity cost etc) might you incur in order to comply with the each of the proposed measures?