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Thinkpiece

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LSE Listing Reform:
A Saga of Opportunity Missed

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LSE Listing Reform

A Saga of Opportunity Missed

- + The LSE has tried, rather lamely, to reform its listing rules for junior markets
- + The FCA, unprompted, has signaled an interest in reforming the egregious research "payment" component of the odious MIFID2
- + The new Labour government has been mouthing sympathies and good intentions towards the City
- + Some of the companies that took the "easy option" of US listings are finding that they may love New York, but New York does not love them
- × Most of the changes made by the LSE make things tougher rather than easier
- × Dirigiste tendencies die hard
- × It seems like the LSE neither cares for, nor wants, small investors nor small companies
- × The mining market is ill-served by the latest measures, continuing the trend of erasing London's historical primacy in mining finance

Stockbroker, Heal Thyself!

The London Stock Exchange has concocted new listing rules and they leave us rather underwhelmed. The new rules cover the Main market, AIM and two other (Beyond here, there be Dragons) markets.

Ostensibly the FCA and the LSE are supposedly protecting investors. The investors (particularly the small ones) might be excused for feeling like they have been crushed beneath the feet of stampeding brontosauri so few are persuaded that their interests have been protected in the last quarter century. The vast horde of "self-serving" individual members of the Stock Exchange per-1986 have been replaced by a much, much, much smaller clique of self-serving investment banks who have rearranged the market in their image, and it is not a pretty one.

In this thinkpiece, we shall focus on the AIM, where the bulk of mining companies have been corralled for three decades like cattle at the abattoir. We shall look firstly at the Way We Were and what went wrong, then the way things were around a decade ago and then what is proposed as an "improvement" these days, with a new codification of the rules for listed companies on the AIM.

Bang on Time

For those with long enough memories that decline of the London Stock Exchange might be dated back to the **Big Bang** reforms of late October 1987. We actually worked for the LSE on the day in question and

arrived at work to find a mug on everyone's desk with the lettering "SEAQ - Bang on Time". SEAQ stood for Stock Exchange Automated Quotation. Despite best efforts to preserve it the mug (like the market) was broken across the millennia, and all that remains is the memory of what the LSE had been and the vain hope of what it might have been.

Why should dragging the exchange into the late 20th century have proven so retrograde? Nostalgists would wax lyrical about the *esprit du corps* of the floor, which died a swift death, being effectively finished within weeks as traders decamped to their desks and their screens. It was not technology that that killed the exchange, just as introducing telephones to the floor in the 1890s improved activity rather than harmed it.

The real problem, and one that reigns to this day, was that the brokers who had zealously guarded their prerogatives and practices for hundreds of years were removed from the decision-making process. Firstly, all the "heavyweights" in the "heavyweight" partnerships grabbed the 30 pieces of silver from foreign banks to give up their ownership. Almost all of the top firms had both institutional and private client business. The private client business was the first to be shut down, immediately divorcing the institutional from the retail and diminishing the placing power of institutional firms.

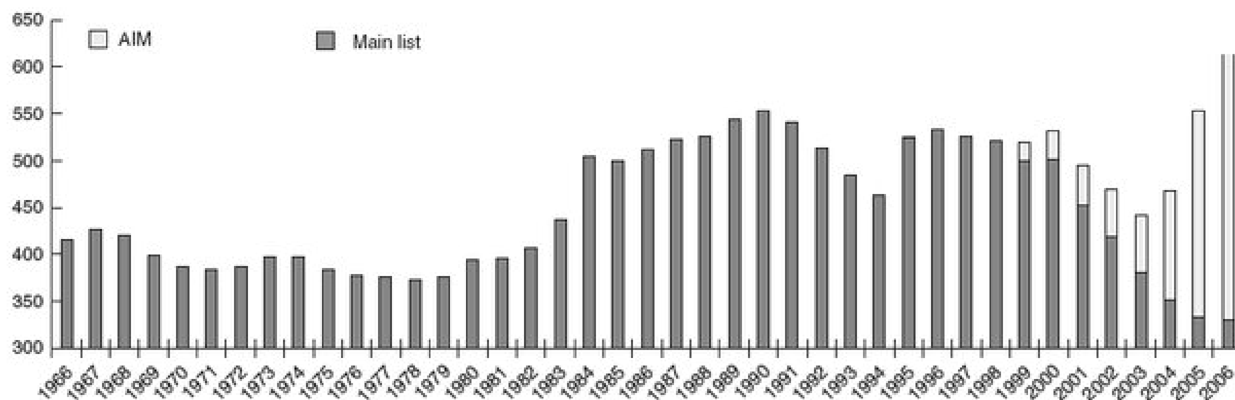
As a side note, it is said that Hallgarten was one of the first of the US firms (back in the 1960s) that had tried to join the LSE as a corporate member. This was *verboten* and the exchange resisted taking the matter up to the courts to teach the interlopers that the LSE was "not having it". It required action by Margaret Thatcher in the mid-1980s to crack open the nut of foreign members and memberships by corporate entities (compared to the hitherto dominance of individual members and partnerships).

Holier Than Thou

Under the old mutual status of the exchange (i.e. member-owned) there was a massive weighting towards individual members and their interests. And their interests were primarily fixed, and high, commission rates. While this discriminated against institutional investors it also brought a certain visceral connection with the vast mass of holders in the vast mass of companies (which were not institutions). With the breaking of that nexus, we saw the rise of the Age of the Brontosauri. Essentially the big brokers (largely foreign banks), the big institutions (an increasingly focused group due to mergers of insurers/asset managers and the passing of the corporate pension schemes to a much-diminished category) and in a distant third position, large, listed corporates.

The corporatization exchange of the exchange resulted in the shots being called mainly by foreign banks, but then even that category went into severe decline as many of the operations bought at the time of Big Bang were shuttered and foreign players themselves were ravaged by the effects of the Crash of 1987.

Ironically the opening to international players produced a surge in foreign listings and then it totally wilted as the chart below shows:



A somewhat nefarious conjunction of events then conspired to create the situation we have today. This included:

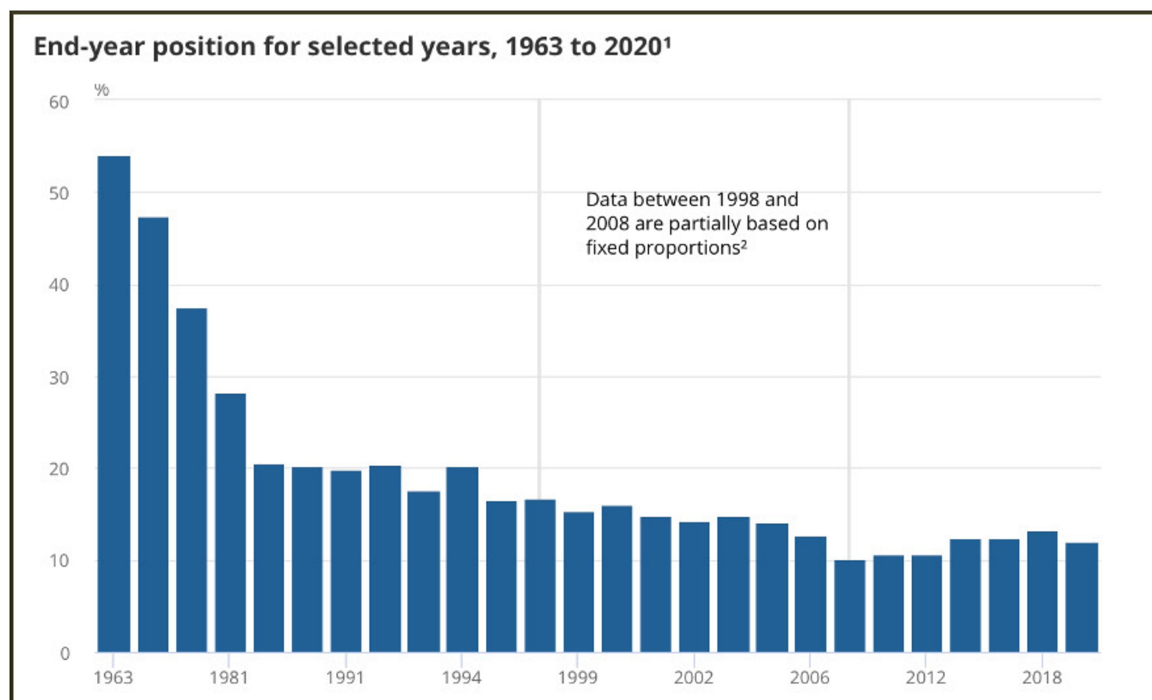
- Demutualisation and then listing of the LSE
- The end of self-regulation at the exchange and the rise of the FCA
- The need/wants of a handful of US investment banks achieved primacy in opinion-making at the exchange, at the FCA and in the corridors of Brussels
- The EU meddling in capital markets, firstly with MIFID, and secondly with the disastrous MIFID2
- The FCA became the enforcer and mouthpiece of the EU as bureaucrats circled the wagons to protect their perquisites

Brexit was supposed to deliver side-benefits for UK capital markets, but the Powers-That-Be ensured that MIFID2 remained *virgo intacta* and the UK equity markets wilted under the sheer dead weight of both UK and EU rule-making.

The irony of all this is that it was dressed up as “protection of investors”, and yet, small investors had not been calling for this protection. To further add insult to injury many of the foreign investment banks that had positioned themselves as calling the shots were not paragons of virtue and indeed disproved, over the decades, the thesis of too big to fail. Collapses stretched from the demise of Kidder Peabody and Drexel Lambert in the 1980s, the “rescues” of Merrill Lynch and Bear Stearns around the 2008 crash, through to Credit Suisse in recent times. Physician, heal thyself.

Recent times have seen a relative paralysis in new listings of all size categories, the AIM has been subject to severe and prolonged criticism, an existential crisis spurred by a perception that the sexiest listings were leaking across the Atlantic, while institutional investors were perceived to be shy with regard to investing in UK equities.

Below we can see the "progress" of UK resident's individual shareholdings from 1963-2020 in a particularly damning graphic:



Source: Office of National Statistics

And this is despite the popular capitalism espoused by the Thatcher government, from around 1985 onwards, which had been fed by a steady flow of massive privatisations (e.g. BT, British Gas, TSB etc).

It is useful to repeat here (verbatim) the section on the AIM that we published as part of our London Primer in April of 2013. When comparing and contrasting, one notes how little positive has been done by governments, the exchange or regulators to move this market forward… and in light of the new rules, how a determined effort to hobble the market, has born fruit…. for nobody.

"The AIM – A Defective Construction

The AIM bears quite a few likenesses to the Toronto Venture but alas is merely a shadow of its Canadian alternative. The London Stock Exchange in recent memory used to have scores of companies with market capitalisations of less than GBP£10mn. Many were hangovers from previous eras or formerly large companies down on their luck. In the 1980s the Unlisted Securities Market (USM) was invented to be a NASDAQ-like generator of new small cap stories. It had a variable history but was not as bad as many painted it. It gave birth to a number of oil & gas stocks and tech stories that went on to greater glory. The USM was never much of a haven for mining stories. It was eventually retired and replaced in 1995 with the Alternative Investment Market (AIM) and was given the added impetus of having smaller listings almost exclusively pushed its way and not going to the LSE's main listing. Some 3,000 companies

have listed since its beginnings though many are now gone to greater or lesser fates. As at the end of 2012 there were 145 miners listed with a combined market cap of US$11.8bn. There were 15 new mining listings in 2012, not exactly a vintage year anywhere. It is worth noting that the LSE (with its multi-listed entities) had 40 listed stocks in the same period (with only two IPOs) and yet with a collective market cap of $420bn, just a tad ahead of the TSX/TSXV total of CAD$400.4bn and behind the ASX's US$440bn.

The AIM has run hot and cold over the years and has been subject to considerable myth-making in North America in particular. It was common to hear it described as a graveyard in New York, and Canadians largely echoed that view. Even many London players would admit that there was a phase where new listings hit the AIM in relatively successful launches and were then cast adrift by their original promoters/sponsors and allowed to float off like spacemen cut loose from the mother-ship, waving their arms in silent and futile agony as weightlessness carried them away. There was considerable error in the interpretation by both insiders and outsiders of what the officially appointed broker go-betweens (NOMAD – short for Nominated Advisor) were supposed to do. Some saw them as being market-makers while some viewed them as promoters for the fledgling stock. In reality the role is more akin to a cross between go-between with the Exchange and Father Confessor to the company's management.

The process of listing is straightforward and some Canadian miners have made the jump but more Australians have been tempted by the idea of cross-listing. According to Baker & McKenzie of the 83 ASX-listed companies with dual listings, there were 9 with AIM listings (compared to 27 on the OTCQX and 26 on the TSX). So neither is the number all that overwhelmingly either.

The conditions for listing are clearly not onerous, they are:

Share price. *There is no minimum closing or offering price for shares to be listed.*

Distribution. *There is no requirement to have a minimum public float at the time of admission or from time to time after admission.*

Accounting standards and reports. *Financial statements generally must be prepared in accordance with International Financial Reporting Standards. AIM companies are required to produce annual audited accounts and half-yearly financial reports.*

Financial statements. *The admission document must generally include audited accounts for the last three financial years (or less if the company has been in existence for less than three years) and an audit report in respect of each year.*

Market capitalization. *There are no minimum size or market capitalization requirements for resources companies. All companies must have sufficient working capital for their present requirements (at least 12 months from the date of admission of the shares).*

Operating history. *There are no requirements to demonstrate any length of operating history.*

Management continuity. *No specific period of continuity of management is required.*

Corporate governance. *There are no corporate governance requirements that a foreign company must meet for its securities to be admitted to trading on AIM, save declaring the extent of its compliance with its country of incorporation's corporate governance regime in its Admission Document. However, it would certainly help companies for them to be seen to comply with the principles of the UK Corporate Governance Code.*

Nomads. *All companies applying for admission to AIM must appoint and retain a nominated adviser at all times. Nomads are corporate finance firms, accountants or brokers that are approved by the LSE.*

Brokers. *A company must also appoint and retain an AIM broker at all times. This broker may be the same entity as the Nomad and is responsible for facilitating dealings in the company's shares.*

Minimum holders or trading price. *There is no requirement for foreign companies to have or maintain a minimum number of security holders or a minimum trading price.*

Lock-in. *The AIM Rules provide that "where an applicant's main activity is a business which has not been independent and earning revenue for at least two years, it must ensure that all related parties and applicable employees as at the date of admission agree not to dispose of any interest in its securities for one year from the admission of its securities.*

Currency settlement. *There are no restrictions on the currency denomination of securities. There is no requirement for securities to be settled within a particular clearing system or registered with a particular share transfer agent. However, all shares (or AIM depositary interests in the case of Australian companies) must be capable of electronic settlement.*

It seems few foreign-listed entities though have raised money via AIM secondary listings. If anything it would appear to be an extra stage on which to show one's wares in the London market. We have not heard comments either for or against from any of the companies listed. The thing that is clear though is that foreign miners do NOT need to AIM-listed to attract London investment or do financings in London. In fact, it may even be simpler to do raisings in London without having an AIM listing due to prospectus rules."

The rest is, alas, history as the combo of LSE maximizing its bottom line, apathy & City-shyness from the now undearly departed Tory government and the rampant supremacy of Brussels in rule-making (even post-Brexit) e.g. MIFID2, bound the junior market at ankles and wrists before it was tossed over Niagara.

The Hill Dickinson Summation

In recent weeks, we received a summary of the new regulations produced by the well-known capital markets law firm, Hill Dickinson. They covered all the categories including the main market. That did not interest us as the companies that dwell in that elevated market can look after their own interests, in theory.

But then again, there is the on-going existential crisis at the exchange that big listings are avoiding the

London IPO market, or decamping to other markets if they are already listed and not getting the love they feel they deserve.

The new UK listing rules (UKLR) came into force on 29 July 2024 and will create a new single listing category for shares in commercial companies (ESCC). Hill Dickinson in their note on the subject noted that all premium listed companies would be automatically mapped to the ESCC, whilst standard listed companies, that are not designated as a SPAC or cash shell or an overseas company with a secondary listing in London, would be mapped to the new transition category unless the issuer elects to join the ESCC and is capable of meeting the requirements for that category.

Companies mapped to the transition category (which is closed to new applicants) will remain subject to the same listing regime as prior to the introduction of these changes. SPACs and cash shells will be mapped to a separate category.

Some Comments

In the tables on the following pages, we have reproduced here the changes for the AIM, sometimes viewed, particularly from outside the UK, as the elephants' graveyard for miners.

The three "alternative" markets are:

- The AIM
- The AQSE
    - Apex
    - Access

Minimum Raise: The requirement for a GBP£6mn raise for investment companies (essentially cash shells – similar to CPCs or SPACs) like at the get-go seems somewhat designed to work against this category. The CPC structure has been a fast-track in Canada to listing for many miners with the hurdle on the initial listing being quite low. This will drive stocks to those other markets where mining gets traction. How persuasive does an exploration story need to be to raise that type of money before drills have even started turning?

Maybe the LSE might have looked at the exchange rate tables before coming up with this number. While daunting in pounds sterling, in CAD it is CAD$10.5mn and in AUD it is AUD$11.7mn. The LSE has set a so high a bar that even Olympic high-jumpers would blanch. This appears consistent with the view held by many that the LSE does not actually want listings on the AIM and that its Fawltyesque "no riff-raff" attitude is exclusionary of up and coming companies, particularly in tech and junior explorers.

It's poignant that the long sad decline of the British High Street has a correlation with the lack of listings of retailers on the AIM (which has spawned a flock of innovative firms in the 1980s and 1990s).

We enjoy the phrase “Nomad to assess suitability” as if anyone has assessed the Nomads.

Free float: If anything, this lack of a minimum free float requirement is actually a negative. The AIM has long suffered from illiquidity so a listing where 75% or more may be in the hands of escrowed founders/insiders/major holders (of reportable size) with black out periods restricting their room to move/trade means that companies can be hobbled from the get-go on the liquidity front and, indeed, never escape from this liquidity trap.

Sponsor/Nominated Advisor: This is one of the most controversial aspects of the AIM vis a vis other markets. Essentially all markets have a listing cost and annual fees, but the AIM adds an extra £50-80K on top for this “function”. Unkind souls have seen it as a means of shutting up brokers on the receiving end of these fees and having them acquiesce with all the rest of the baggage that the Exchange imposes upon the listed entities and to hush their mouths on “reform”.

Prospectus/Admission Document: The experience we have of London is not that the prospectus is any more weighty or detailed than say the TSX-v or CSE but rather that the nit-picking by the regulators makes the project into one where the versions multiply. With each multiplication, time and events move on and thus rewrites are required (over and beyond demanded corrections/clarifications or amplifications). All of this sends the legal fees spiralling and can actual derail the whole IPO if metal prices move adversely over the period of gestation.

The admission document is a slimmed down version as it does not involve a raise. Clearly this is less fraught but what is not stated here is the time between admission/listing before a raise can be undertaken. If a company comes out of the gate well-cashed up by founders or seed investors then eschewing a raise is attractive. However, the nit-picking of the Admission Document can be as torturous as that of a prospectus.

Selected Financial Information: No requirement for historical financial information but three years of audited statements is somewhat typical of the doublespeak inherent in LSE processes. Particularly for a mining or tech start-up, the three-year requirement can be the kiss of death.

Working capital for next 12 months: Makes sense, but what happens if cash runs out? Implies also some sort of budget for the first year to ascertain what amount is adequate.

Lock-in: Effectively the same as Canadian escrow “rules” which often rely upon insiders/founders/execs voluntarily offering to put their stock in escrow to give comfort to underwriters and public that they won’t be swamped by stock. This is not overly onerous. The “soft” vs “hard” aspect is rather a bit of an equivocation.

Controlling Shareholder: This seems very liberal. Theoretically one party could own all of the float and the float could be less than 25%. We do not see a requirement for a majority of non-executive, non-related directors. There is ample scope here to create an oppressed minority.

Issue	AIM Market
Comparison – Minimum Criteria	
Minimum Market Capitalisation and Capital to be raised:	No. If the issuer is an 'Investing Company' it must raise at least £6 million in cash on, or immediately prior to admission. Nomad to assess suitability.
Minimum Free Float (i.e. the amount of the company's shares to be in public hands):	No prescribed levels but Nomad is obliged to review free float and can insist on up to 25%.
Sponsor/Nomad/ Corporate Adviser required:	Nominated adviser and broker required.
Prospectus/ Admission Document:	Admission document or prospectus (if public offer) required. Content requirements for admission document are scaled back version of the PRR.
Selected Financial Information:	No requirements for historical financial information, revenue track record but up to three years audited historical financial information required.
Working capital for the next 12 months:	Required in an admission document.
Lock-in:	No mandatory lock-up but where company has not been independent and earning revenue for at least two years then there a mandatory 1 year lock up on certain parties (Rule 7 Lock-in). Market practice is normally 1 year hard and 1 year soft for at least those who would be affected by Rule 7 Lock- in if it applied.
Controlling Shareholder:	No mandatory requirements. Nomad almost certainly insist on a relationship agreement.
Dual/multiple class share structures:	No specific regime.

Continuing Eligibility Requirements	
Significant transactions:	Transaction (excluding transactions of a revenue nature in ordinary course & transactions to raise finance which do not change fixed assets) that exceeds 10% in any of the class tests there are specific disclosure requirements.
Related Party Transactions (RPT):	Where an RPT exceeds 5% of any class test Nomad has to give fair and reasonable opinion.
Other Non related party transactions less than 25%:	General duty of disclosure
Reverse Takeovers RT:	RT (transactions ≥100% class test or involving a fundamental change in business and depart materially from its investing policy if investing company): • Shareholder approval; • Specified disclosure; and • Publish admission document.
Retention of corporate adviser:	Must retain a Nomad at all times to advise on listing and ongoing obligations.
Corporate governance:	Comply or explain against a recognised corporate governance code commonly the Quoted Companies Alliance which is less extensive than the Corporate Governance Code.
Pre-emption Rights:	Not mandatory. Market practice to include.
Discounted share issuances:	No specific requirements.
Share buy-backs:	No specific requirements.
Cancellation of listing:	75% shareholder approval required.
Pre-vetting of Prospectus/ Admission Document:	Admission document not pre-vetted by LSE or FCA but Early look and Schedule 1 to be submitted.

Source: Hill Dickinson

Dual/Multiple Class share structure: Does this mean they are allowed?

Significant Transactions: In the AIM context this does not actually say shareholder approval is required. The 10% limit seems a rather low threshold particularly as dilution at in the financing/share issuance is open-slather (see anon). In all cases involved parties should not be voting on the board decision. We also wonder why there is no fairness opinion required? Once again, we do not approve of the endless suspensions that the LSE applies when these situations arise. Companies should have ready some sort of Due Diligence/Opinion document available when deal is announced not start thinking of preparing one after announcement. We have seen stocks suspended for a over a year in the context of transactions with major shareholders.

Related Party Transactions: The 5% number appears rather low but be that as it may. Requesting a fairness opinion of the Nomad is rather a bit like asking a loaded question. What happens if Nomad does not recommend? Is the non-recommendation made public should Nomad be fired?

Reverse Takeovers: Makes sense. RTOs have been the busiest part of the AIM in recent years as clapped-out companies are recycled to avoid the onerous listing process. RTOs in London come with excessive periods of suspension of trading, which is a big negative for shareholders, restricting them from "voting with their feet" on highly unattractive corporate reorientations. This also allows managements to move at their own pace, and market time, then return to trading status. In reality, enough information should be provided by the corporate at the time of the deal announcement that investors can make an informed decision on whether to stay or go.

Retention of corporate advisor: Once again, Nomads are given a vested interest in the *status quo*, particularly in their on-going ability to charge AIM-listed companies for a service with little value-added for corporate or its shareholders. This is the "thirty pieces of silver" clause.

Corporate Governance: "Explain against….."?? Not a good look!

Pre-emption rights: In fact, this could be tightened. There should be pre-emption rights for shareholders if the degree of dilution, if egregious. In our humble opinion, anything more than 20% qualifies as excessive.

Discounted share issuance: This "deciding not to decide" combined with the pre-emption rights *laissez-faire* attitude allows for deep discount changes of ownership without triggering bids. There is no reason for discounts to exceed 20%. The Canadian markets have more cogent rules on the issue of minimum pricing and discounts than the AIM does.

Share buybacks: We do not believe in share buybacks. With the LSE having an opinion on everything under the sun, well may we ask why there is no policy here. Buybacks discriminate against individual shareholders (and others) that may have capital gains crystallised (thus creating a tax liability) if they avail themselves of the buyback. Dividends should always be the preferred means of distribution.

Cancellation of listing: We would agree with the 75% threshold. There has been recent negative publicity about AIM delistings perpetrated in recent years that have cast public shareholders into a

"lobster trap" situation where it was easy to get into a AIM-listed stock and impossible to exit a delisted one. We have seen egregious examples of companies' managements using this to perpetuate their control, sinecures and perquisites.

Pre-vetting of prospectus/Admission Document: "Early Look"? Really…?!. Say no more…

The Issue Left Moot

Over and beyond all these "rules" the one missing which we would like to see is some automatic trigger for consolidation of shares on issue, when a stock price falls below a certain level, or moreover when shares on issue breach some upper limit. The situation in the AIM is a constant subject for mirth but actually detracts mightily from pricing fairness (allowing excessive spreads on minuscule quotations) and credibility.

Rethinking the AIM

The USM was the Unlisted Securities Market.. a total misnomer. The AIM is the Alternative Investment Market…. an alternative to what?

The Toronto Stock Exchange took over the Vancouver Stock Exchange and made it "respectable" (please, no sniggering in the cheap seats) whereas setting the AIM free from the LSE might make the AIM respectable. The fear of the LSE management would be that the progeny might show up the torpidity of the parent. The brokers would have a vested interest in seeing the thing prosper, though the Nomads (who are neither loved by corporates or plain vanilla brokers) might suffer the unkindest cut of all.

The corporates would have an interest in seeing the entity prosper, as they have gone unconsulted, and buffeted over decades by market conditions, compounded by the unsympathetic management at the LSE.

Could the AIM stand on its own two legs? Of course… it could do a trading system deal with the likes of the CSE so hit the ground running. Indeed, we wouldn't be surprised to see it receive a bid from the NASDAQ or TMX, or even ASX, within the first 12-months. Hopefully, which would be rebuffed by the new exchange and/or denied by the regulators.

As they say in the classics, if you love them set them free….

Conclusion

It might be said that capital markets are Darwinian. The adage of survival of the fittest rules. There may appear to be unfit participants in these markets, and they may indeed thrive and prosper for a while, but in the end nature will take them down and extinction is their fate.

The capital markets are definitely an ecosystem, with all levels of creatures at all levels from the forest-floor upwards. No ecosystem survives only on alpha predators and that is where the London Stock

Exchange encounters its fatal flaw. In trying to emulate the New York Stock Exchange it fails to note that US capital markets have the different layers of the forest embodied in other markets. The forest canopy may be on the corner of Wall and Broad, but the mid-levels are in the NASDAQ and the lower levels are the various nuanced OTC categories.

The LSE has long subordinated the AIM and has tried to corral it and clip its wings. Maybe, it has been afraid that killing it off would only open the field for a real challenger. So, the AIM has been kept in a sort of undead status since the 1990s. If Margaret Thatcher was still around, she would realise that **Big Bang** was not "Mission Accomplished ", because the mediocre have once more circled their wagons and sabotaged the popular capitalism she espoused, while undermining the capital markets as a shop window for small and medium enterprises to the investor world. Out when the old LSE motto of "*Dictum Meum Pactum*" and in came Basil Fawlty's war-cry "*No Riff-Raff*".

If the LSE will not make the AIM an effective vehicle for mid-tier and small-cap stocks, then the not so hidden hand of government must take action as Thatcher did to roust dead hand of the vested interests. The LSE is besieged at various levels, losing listings (both actual and potential) at its highest levels while an unknown amount of potential smaller entities are being turned away by the hostile, overpriced and over-complicated procedures at the AIM. Indeed, these are the 90% of the iceberg we are not seeing.

Important disclosures

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