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Public Companies and Equity Finance

2024

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Public Companies and Equity Finance

Colour Coding Guide	❖ Blue Text – Reference to statutes, the Listing Rules and case law. ❖ Green Text – Reference to textbook[1] paragraphs, workshop tasks[2] and other notes in this guide. ❖ Orange Text – Forms.

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***Disclaimer**: This guide was is prepared in line with the CLP textbook, Public Companies 2023, which is the forms the basis of the University of Law syllabus for the 2024 syllabus. The textbook was published in advance of the Financial Services and Markets Act 2023 becoming law. This guide therefore does not take into account any changes implemented by the 2023 Act (though the majority of these are being introduced incrementally over time by way of regulations that have yet to be drafted).*

[1] Textbook references are to the CLP Legal Practice Guides by CLP Publishing.
[2] References to Workshop tasks are to University of Law workshop tasks (which may be adopted by other LPC institutions). The content and structure of Workshops is subject to change at short notice and so task references should be treated as a general guide only.

1. Regulation and Eligibility Requirements

Public Companies and Listed Companies

❖ *Public Companies & Equity Finance, Chapter 1*

Overview	❖ This note provides an overview of the **advantages, disadvantages and regulatory implications of a company gaining public status**. ❖ It also considers the difference **between a "public" company** (that is, a company that is able to offer its shares to the public), **and a "listed" company** (which goes a step further by meeting the criteria for securities to be admitted to the Official List, thus enabling trading on stock exchanges).

Public Companies

❖ *Public Companies & Equity Finance, 1.2*

What is a public company?	❖ A public company is a company which has complied with the relevant requirements of the Companies Act 2006 (CA 2006) to allow it to be **registered as a company that can offer its shares to the public.** ❖ This is in contrast to a *listed* company which is a type of public company that has met the relevant requirements to allow its securities to be **admitted to the Official List maintained by the Financial Conduct Authority**. ❖ A public company **may be listed and have shares traded on an exchange**, but it does not have to.
Why go public?	❖ The main advantages of a company going public are that: ➢ The company is able to **offer its shares to the public,** enabling the company to raise **finance through share issues to the public.** Private companies are **prohibited from doing so** under s755 CA 2006. ➢ The company may also **benefit from a level of prestige**, conferred by the letters "plc" after its name. ❖ However, the **disadvantage** of **public company status** is that public companies are much **more strictly regulated than private companies.** This adds to the cost of running the company, and can restrict what the company wishes to do and how it operates. ❖ A summary of the main differences in regulation between private and public companies is below.

Regulation of Public Companies vs Private Companies

- *Public Companies & Equity Finance, 1.6*

	Public Company	Private Company
Accounts	❖ Must **file accounts** with Companies House **within 6 months** after end of accounting reference period (s442(2)(b) CA 2006).	❖ Must **file within 9 months** after end of accounting reference period (s442(2)(a) CA 2006).
	❖ Must **file full accounts** with Companies House (s446 and s447 and s384 and s467 CA 2006).	❖ Requirements to file full accounts can be **relaxed for small and medium-sized companies** (s444 and s445 CA 2006).
	❖ Accounts **must be laid before a General Meeting** no later than 6 months after end of accounting reference period (s437 CA 2006).	❖ **No requirement** to do so.
Administration	❖ **Must** hold an **Annual General Meeting** (AGM) (s336 CA 2006).	❖ **No requirement to hold an AGM** unless articles require it (Sch 3, para 32(1), The Companies Act 2006 (Commencement No. 3, Consequential Amendments, Transitional Provisions and Savings) Order 2007 (SI 2007/2194)).
	❖ The requisite percentage for holding a General Meeting on short notice is **95%** (s307(6)(b) CA 2006).	❖ The requisite percentage for holding a General Meeting on short notice is **90%** (s307(6)(a) CA 2006).
	❖ **Cannot** use the written resolution procedure (s288 CA 2006).	❖ **Can** use the written resolution procedure (s288 CA 2006).
Directors	❖ Minimum of **2** (s154(2) CA 2006).	❖ Minimum of **1** (s154(1) CA 2006).
	❖ **Restrictions** apply on voting for the **appointment of more than one director** in just one resolution (s160 CA 2006).	❖ **No equivalent** restriction applies.
	❖ A public company can only make a quasi-loan and a credit transaction with one of its directors provided **prior shareholder approval has been obtained** (s198 and s201 CA 2006).	❖ The need for shareholder approval for quasi-loans and credit transactions with a director will be required only if the private company is "associated with a public company", as defined in s256 CA 2006 (s198(1) and s201(1) CA 2006).
Financial Assistance	❖ "Financial assistance", that is a company giving financial help to a person who wishes to buy shares in the company, is **prohibited** (s678 CA 2006), subject to s681 and s682 CA 2006.	❖ Generally **permitted**. ❖ Restrictions apply to private companies which are subsidiaries of public companies.
Secretary	❖ A secretary is **required** (s271 CA 2006). ❖ s273 sets out qualifications required.	❖ A secretary is **not compulsory** (s270(1) CA 2006).

	Public Company	Private Company
		❖ If a company chooses to have one, there are **no qualification requirements.**
Share capital.	❖ The company **must** have allotted share capital **at least up to the value of the authorised minimum.** ❖ The company must **maintain this** as its minimum share capital (s650 and s662 CA 2006).	❖ **No restriction** on allotted share capital.
	❖ Each share allotted must be **paid up to at least one-quarter of its nominal value** together with the whole of any premium on it (s586 CA 2006).	❖ **No equivalent restriction** applies. Can allot shares nil paid, partly paid or fully paid.
	❖ s561 CA 2006 pre-emption rights on allotment can be: ➢ **Disapplied** under s570 or s571 by **special resolution**; or ➢ **Excluded and replaced by articles** conferring a corresponding right under s568.	❖ s561 pre-emption rights on allotment can be **disapplied** under: ➢ s569 (by **special resolution or provision in the articles**); ➢ s570 or s571 by **special resolution**; or ➢ Excluded under s567 (by provision in the articles).
	❖ **Restrictions apply on consideration** for allotment of shares (s585, s587 and s598).	❖ These sections **do not apply**.
	❖ **A valuer's report** is required to **value non-cash consideration** for the allotment of shares (s593).	❖ **No equivalent** requirement applies.
	❖ **GM required** in the event of a **serious loss of capital** (s656).	❖ **No equivalent** requirement applies.
	❖ **Charges on own shares are void,** subject to certain exceptions (s670).	❖ **Charges on own shares are permitted**, subject to certain requirements in s670(2).
	❖ Can **redeem and purchase shares** out of distributable profits or the proceeds of a fresh issue, but **not out of capital** (s687 and s692).	❖ Can redeem and purchase shares out of **distributable profits, the proceeds of a fresh issue, or out of capital** (s687 and s692).
Shareholders	❖ Has **disclosure obligations** under DTR 5 and Pt 22 CA 2006.	❖ **No equivalent restrictions** apply.
Takeovers	❖ Subject to the City Code on Takeovers and Mergers.	❖ Typically, **not** subject to the City Code on Takeovers and Mergers.

How does a company achieve public company status?

❖ *Public Companies & Equity Finance, 1.9*

Overview	❖ A company can achieve public company status in two ways; it can either:

	➢ Register as a public company **on original incorporation**; or ➢ Register as a private company on original incorporation then **re-register as a public company**.

Incorporation as a public company.	❖ The company must send to the Registrar of Companies documents that meet the requirements of: ➢ s9 CA 2006 (which sets out the documents required to register as any company); and ➢ Various other provisions of the CA 2006 required to register as a public company.

S9 **Documents**	❖ **Memorandum of association**; ❖ **Application for registration** (Form IN01) containing: ➢ A statement of share capital and initial shareholding; ➢ A statement of the proposed first officers of the company; and ➢ A statement of the intended registered office; ❖ A **copy of the articles of association**; ➢ For a public company, these must be in a form suitable for a public company; ➢ On registration of a public company a default set of model articles will apply, save to the extent that they are excluded or modified. ❖ A **statement of compliance** that all requirements of the CA 2006 have been met. ❖ A **registration fee.**
The company name must end with "plc"	❖ The company name must end with "public limited company" or "plc" (s58).
The company must meet the share capital requirements	❖ The company must have allotted shares of **at least the authorised minimum value** (currently £50,000) (s761(2)). ❖ Each allotted share must be **paid up to at least one-quarter of its nominal value** together with the whole of any premium on it (s586).

	The registrar issues a certificate of incorporation.	❖ If the registrar is satisfied, the company will be registered as a public company on original incorporation.
	The company must apply for a trading certificate.	❖ A public company must not begin business or exercise borrowing powers until it has a "trading certificate" issued under s761 CA 2006. ❖ To obtain the certificate, an application must be made (accompanied by a statement of compliance) to the Registrar under s762 CA 2006. ❖ The certificate will confirm that the company has met the allotted share capital requirements stated above.
Re-Registering as a Public Company	❖ If the company has **already registered** as a private company, it can re-register as a public company if it does the following:	
	The company must pass a special (or written) resolution.	❖ The shareholders must, by special resolution, vote to: ➢ **Approve the re-registration of the company** (s90(1)(a) CA 2006); ➢ **Alter the company's name** so it is in a form suitable for a public company (must end with "public limited company" or "plc" (s58(1))); and ➢ **Alter the articles so that they are in a form suitable for a public company** (the existing private company articles will normally require substantial amendment, so are often disposed with altogether).
	The company must comply with certain share capital requirements.	❖ At the time the shareholders pass the special resolution, the company must have satisfied the following conditions as to its share capital: ➢ The company must have allotted shares of **at least the authorised minimum value** (currently £50,000, or €57,100) (s91(1)(a)); and ➢ Each allotted share must be **paid up to at least one-quarter of its nominal value** together with the whole of any premium on it (s91(1)(b)).
	The company must appoint a company secretary (if it does not have one).	❖ s271 CA 2006: a public company **must** have a company secretary.
	The company must apply to	❖ The application is made on Form RR01.

	be re-registered as a public company.	❖ This must be accompanied by: ➢ The **revised articles** (s94(2)(b)); ➢ A **balance sheet** prepared **not more than seven months before the application**, containing a report by the company's auditors that is not subject to any qualifications (s94(2)(c); s92(1)); ➢ A **written statement by the auditors regarding the level of the company's net assets** (as revealed by the balance sheet) in comparison to the company's called-up share capital and undistributable reserves (s92(1)(c)); ➢ A **valuation report on any shares** which have been allotted for **non-cash consideration** between the date of the balance sheet and the date the special resolution was passed (s93(1)(a), s93(2)(a)); and ➢ A **statement of compliance** in the prescribed form (s90(1)(c)(ii)). ❖ A **fee** is payable.
	Admin	❖ The company must **update its stationery, websites, signs and documentation, etc.** to reflect its new identity, in advance of re-registration in order to meet with the requirements of the Company, Limited Liability Partnership and Business (Names and Trading Disclosures) Regulations 2015 (SI 2015/17).
	The registrar issues a certificate.	❖ If the registrar is satisfied, it will **issue a certificate of re-registration on incorporation as a public company**, at which point the company becomes a public company.

Listed Companies

❖ *Public Companies & Equity Finance, 1.3-1.4*

What is a listed company?	❖ A listed company is, in overview, a public company which has met the relevant requirements to allow its securities to be **admitted to the Official List maintained by the Financial Conduct Authority.** ❖ One of those requirements is that the **company's shares must be admitted to trading on a stock market**, such as the Main Market of the London Stock Exchange, or the Alternative Investment Market (AIM). This **enables the company's shares to be admitted to and traded on that market.** ❖ A public company **may have shares traded on an exchange**, but not all public companies will do so. ❖ The main significance of the distinction is in the **amount of regulation the company is subject to**:

	➢ Public companies are more heavily regulated than private companies; ➢ Listed public companies are more heavily regulated than unlisted public companies. ❖ The Official List is further subdivided into a "standard list", and a "premium list": ➢ Companies which seek admission to the premium list must **comply with more rigorous rules** (set out in the Listing Rules); ➢ In return for this, the company benefits by showing investors that it is adhering to the **highest possible standards** and is likely to be a **safer investment** as the controls placed on it are more stringent.
How does a company list?[1]	❖ If the company wants to list its shares on the Main Market, it must apply to both: ➢ The **FCA for admission to listing**; and ➢ The **LSE for admission of company's shares to trading;** ➢ (LR 2.2.3 and ADS 2.1) ❖ In order for the FCA to be able to grant an application for listing, it must be satisfied that the company has: ➢ Complied with **all relevant eligibility criteria laid down in the** Listing Rules. ➢ Complied with any other requirements imposed by the FCA. ➢ s75(4) FSMA 2000 ❖ The eligibility criteria set out in the Listing Rules are set out in the note on *Eligibility for Listing.* In overview, however, the Main Market is split into two sections, **the "standard list"**, and the **"premium list":** ➢ If the company seeks admission to the **standard list**, the company must comply with the eligibility criteria set out in Chapter 2 of the Listing Rules. ➢ If the company is seeking admission to the **premium list**, the company must, in addition to complying with the requirements of Chapter 2 of the Listing Rules, comply with Chapter 6 of the Listing Rules. ❖ In order to be ***admitted to trading***, the company must comply with the requirements of the LSE's Admission and Disclosure Standards. ➢ However, these are not onerous, as the process of admission to trading is closely tied with the admission to listing;

[1] Workshop 1, Prep Task, Part 2

	➢ The Stock Exchange "piggy-backs" onto the requirements for listing, and will normally admit companies on the basis that they have complied with the onerous regulatory requirements for listing. ❖ A company will **list on the AIM by applying to the LSE for admission to trading on the AIM**. ➢ The company **must comply with the eligibility criteria set out in the** AIM Rules (it does not need to comply with the Listing Rules) (see notes on *The AIM*). ➢ An applicant for listing must **produce an admission document** disclosing the information required by Sch 2 AIM Rules (see separate notes on *Admission Documents*) (Rule 2, AIM Rules).

Advantages and Disadvantages of Listing

❖ *Public Companies & Equity Finance, 1.7 – 1.8*

Advantages	Disadvantages
❖ **Providing a market for shares**: A listing provides a market where the public and financial institutions can buy and sell shares of the company, making **it easier to invest, and for the original owners to sell their shares and exit the company.**	❖ **Increased regulatory regime:** The regulatory regime of a listed public company is stricter than that of an unlisted public company in order to protect members of the public, which means: ➢ Higher costs; ➢ A greater administrative burden; and ➢ Restrictions on the company's actions. ❖ A Listed Company must comply with: ➢ The Prospectus Regulation Rules; ➢ The Listing Rules; ➢ The Transparency Rules; ➢ The Corporate Governance Rules; ➢ UK MAR; ➢ The UK Prospectus Regulation / Prospectus Regulation Rules; and ➢ Certain statutory provisions which only apply to listed companies, including certain provisions of the Companies Act 2006, FSMA 2000, as well as the CJA

Advantages	Disadvantages
	1993 (which contains the UK insider dealing regime).
❖ **Easier access to capital:** Listing enables the company to raise finance through issuing new shares, **giving it access to a huge supply of capital available on the stock market**.	❖ **External forces can affect the company's value**: E.g., market conditions, rumours, and sector developments.
❖ **Access to acquisition opportunities**: A listed company can more easily raise cash or offer new shares in itself as consideration, affording it the **opportunity to expand through acquisitions of other companies or businesses**.	❖ **Increased shareholder power**: A large number of outsiders will become shareholders when the company lists. Equity held by the company's management will generally be diluted, and the approval of "outsiders" will be needed for certain transactions and decisions. Overall, this leads to a **decreased level of control by the company's management.** ❖ The pressure to keep shareholders happy may result in management focusing on short-term performance instead of the long-term.
❖ **Prestige:** Listing can **enhance the prestige of public company status** as the company has gone through regulatory approval and scrutiny.	❖ **Loss of privacy**: the various regulations which a listed company is subject to, along with the company's higher profile and greater accountability to shareholders means there is a much greater level of scrutiny of the management's decisions.
❖ **Profile:** Listed companies **receive more press coverage and analyst reports**, raising the profile and demand for the company and its products.	❖ **Cost and time**: various processes involved in listing are onerous, including listing itself, raising equity finance, complying with continuing obligations of a listed company., and maintaining good relations with investors.
❖ **Employee Incentives**: Listed companies can offer share ownership schemes to employees, which can be used to motivate employees, and make employees easier to recruit and retain.	❖ **De-Listing:** if the disadvantages of the company being listed outweigh the advantages, then the company may need to de-list.
❖ **Increased efficiency**: Listed companies are strictly regulated, meaning the company will normally have to improve its existing internal regulatory checks and controls, potentially improving the overall operating efficiency of the company.	

The London Stock Exchange

❖ *Public Companies & Equity Finance, Chapter 2*

What is the LSE?	❖ The London Stock Exchange (LSE) is a listed company which **provides the principal stock exchange for trading of shares and bonds in the UK**. ❖ It is **authorised by the FCA** as a recognised investment exchange (which means, amongst other things, that it is exempt from the General Prohibition on carrying out Regulated Activities in FSMA 2000 (s286 FSMA 2000)). ❖ Its main function is to provide the main **market places for trading in company securities**. There are two markets for shares: ➢ **The Main Market:** The Stock Exchange's principal market for listed companies; and ➢ **The Alternative Investment Market (AIM):** a separate market designed to meet the needs of smaller, growing companies. In general, it provides a more flexible regulatory environment. ❖ An important distinction, therefore, is that the LSE is **not** a market in and of itself, but is a company which provides and facilitates markets for public securities in the UK.
The mechanics of trading.	❖ Trading takes place on the LSE's markets **electronically:** ➢ For most companies an electronic system (the Stock Exchange Electronic Trading Service) matches buy and sell orders for shares. This executes the trade automatically. ➢ Once a share has been traded, a paperless system (CREST), "settles" the trade, i.e., it enables shares that have been agreed to be sold from one CREST member to another, to **be transferred by means of electronic messages without the need for paper certificates or stock transfer forms.** ➢ If the investor is a non-CREST member (which will be most retail investors, for instance), the CREST member will hold the shares as nominees for individual clients. This means that: ▪ It is the name of the **CREST member** (normally a stockbroker) that gets entered into the company's register of members as the l**egal owner of the shares** ▪ **The investor will be the beneficial owner**.
Investors	❖ Investors in the stock market can broadly be categorised as either: ➢ **Retail investors**: i.e., members of the public who invest directly in listed shares, or indirectly via pensions, employment incentive schemes, etc. ➢ **Institutional Investors**: i.e., banks, insurance companies, pension funds, and investment funds who invest in companies, and who will often hold the majority of the share capital.

	➢ Influential institutional investors have formed representative bodies known as **Investment Protection Committees** (such as the Investment Association), who set down guidelines (covering matters such as, for instance, when institutional investors are likely to consent to a disapplication of pre-emption rights). Whilst not having force of law, these have **significant weight and influence how a company does things.**
Regulation	❖ The Stock Exchange must comply with various regulatory requirements drafted under s286 FSMA 2000, including: ➢ The Financial Services and Markets Act 2000 (Recognition Requirements for Investment Exchanges and Clearing Houses) Regulations 2001 (SI 2001/995) ➢ The rules in "*Recognised Investment Exchanges*" which forms part of the FCA Handbook of Rules and Guidance. ❖ These require the Stock Exchange to: ➢ Ensure that business conducted by means of its facilities is **conducted in an orderly manner** and so as to afford proper protection to investors; ➢ Make **arrangements for the provision of pre-trade and post-trade information** about share trading; ➢ Make **clear and transparent rules concerning the admission of securities to trading** on its financial markets; and ➢ Be able to **promote and maintain high standards of integrity and fair dealing** in the carrying on of regulated activities by persons using facilities provided by the Stock Exchange.
On flotation…	❖ In addition to a company's shares being admitted to *listing* on the Official List, (which requires approval *by the FCA*), the company's shares must also be *admitted to trading* on the Main Market, which requires **approval by the LSE.** ❖ Companies that wish to join the Main Market (not the AIM) must comply with the Admission and Disclosure Standards.

The Financial Conduct Authority (FCA)

❖ *Public Companies & Equity Finance, Chapter 3*

What is the FCA?	❖ The Financial Conduct Authority (FCA) is the main regulator of UK financial markets, including regulating: ➢ The **issuers of securities** that are subject to listing, and ➢ **Trading platforms and Recognised Investment Exchanges**, such as the LSE.
Responsibilities	❖ The FCA's main responsibilities, set out in Part VI of FSMA 2000, include: ➢ Maintaining **the Official List** (s74(1));

	➢ **Drafting** the Prospectus Regulation Rules, the Listing Rules, the Transparency Rules and the Corporate Governance Rules (s73A); ➢ Determining **applications for admission to listing**, which includes reviewing the documentation which a company must produce to have its shares listed (s75); ➢ Ensuring that listed companies **comply with their continuing obligations** under the Listing Rules, the Transparency Rules, the Corporate Governance Rules and the Prospectus Regulation Rules, which includes approving documentation prepared by listed companies, such as circulars; and ➢ Having the power to **sanction any listed company** which does not comply with the Prospectus Regulation Rules, the Listing Rules, the Transparency Rules and the Corporate Governance Rules (or any director of such a company) (e.g., s91).

The AIM

❖ *Public Companies & Equity Finance, Chapter 24*

<table>
<tr>
<td>What is the Alternative Investment Market (AIM)?</td>
<td colspan="3">❖ The Alternative Investment Market (AIM) is a securities market established by the London Stock Exchange (LSE).

❖ Its intention is to meet the needs of smaller, growing companies which might not meet the full criteria for admission to the Main Market or for whom a more flexible regulatory environment is more appropriate.</td>
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<tr>
<td>The AIM Rules</td>
<td colspan="3">❖ The Listing Rules do not apply to companies listed on the AIM (on the basis that the AIM is not a “regulated market”).

❖ AIM companies are, instead, regulated by the LSE and are governed by the AIM Rules, which aim to provide a simpler regulatory framework, avoiding technical jargon.</td>
</tr>
<tr>
<td rowspan="3">Why list on the AIM?

Public Companies & Equity Finance, 24.3</td>
<td>General Advantages of Listing</td>
<td colspan="2">❖ The company will obtain the advantages of listing generally, including:
➢ A market for the company’s shares to be traded;
➢ Easier access to capital;
➢ Access to acquisition opportunities;
➢ Can enhance the prestige of the company;
➢ Can enhance the profile of the company, increasing press coverage etc;
➢ Allows the company to offer share ownership schemes to employees; and
➢ Can potentially result in improvement of the operating efficiency of the company.</td>
</tr>
<tr>
<td rowspan="2">Advantages of the AIM</td>
<td colspan="2">❖ In addition to the above, listing on the AIM specifically provides the company with the following benefits:</td>
</tr>
<tr>
<td>The AIM is easier to access as it has reduced eligibility requirements:

The AIM has a more relaxed regulatory regime.</td>
<td>❖ However, the company is required to retain a “Nomad” who advises and guides the company on the admission process.

❖ A company does not need to instruct a Nomad for admission to the Main Market, however the role of the “Nomad” should mean that the admission process is more straightforward.

❖ In particular:
➢ There are reduced disclosure requirements;
➢ Shareholder approval is required only for a reverse takeover and a disposal</td>
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			resulting in a fundamental change of business (on the Main Market, shareholder approval is required for a broader range of transactions as classified under the Listing Rules); ➢ The **brevity of the AIM Rules** means that **the day-to-day regulatory work required for an AIM company costs less**; and ➢ The requirement for a prospectus is **confined to circumstances where there is a public offer.**
		The AIM offers **tax advantages** which the Main Market does not.	

Eligibility Criteria[1]	❖ In order to seek admission to the AIM, the company must comply with the following eligibility requirements:

Incorporation	❖ The company must be: ➢ **Legally established** under the laws of its place of incorporation; ➢ Be able to **offer shares to the public** (i.e., it must be a public company).
Transferability	❖ Shares admitted to AIM must be **freely transferable** (Rule 32, AIM Rules).
Whole Class to be Listed	❖ All issued shares of the same class must be admitted (Rule 33, AIM Rules). ❖ Only securities which have been unconditionally allotted can be admitted as AIM securities i.e., they cannot have conditions attached.
Electronic Settlement	❖ All shares admitted must be eligible for electronic settlement (Rule 36, AIM Rules).
Accounts	❖ If the company is incorporated in an EEA country, it must have **published accounts which conform with International Accounting Standards** ("IFRS") (Rule 19, AIM Rules).
Nominated Adviser	❖ The company must appoint and retain a nominated adviser (Nomad) at all times (Rule 35, AIM Rules) (see below).
Admission Document	❖ An applicant for listing must **produce an admission document** disclosing the information required by Sch 2 AIM Rules (see separate notes on *Admission Documents*) (Rule 2, AIM Rules).

[1] Workshop 1, Workshop Task

	Businesses Trading for Less than 2 Years	❖ If a company's main activity is a business that has been generating revenue and/or been independent for less than two years, the company will be subject to a condition that: ➢ All directors (and their families) and employees who hold an interest in the company and ➢ Certain substantial shareholders ➢ Must agree **not to dispose of their interests** for at least **one year** following admission to AIM (Rule 7, AIM Rules).
An AIM Company must retain a "Nomad"	❖ Every AIM company must retain a Nominated Adviser, or "Nomad" (Rule 1 AIM Rules).	
	What is a Nomad?	❖ The Nomad is an adviser (usually a corporate finance firm, investment bank, accountancy firm or a broker) that has been approved by the LSE and are responsible to the LSE for: ➢ Assessing the **appropriateness of a company for admission to AIM;** ➢ **Advising and guiding a company on the admission process** and its continuing obligations under the AIM Rules; and ➢ Confirming to the Stock Exchange that any admission document or prospectus **complies with the requirements of** Sch 2 to the AIM Rules.
	The AIM Rules for Nominated Advisers	❖ The nomad must comply with the AIM Rules for Nominated Advisers (the "Nomad Rules"), which sets out the responsibilities that the Nomad must perform, based on overriding "principles" accompanied by supporting "actions": ➢ The principles **must be complied with in all cases**. ➢ Although the Stock Exchange usually will expect all the actions listed to be taken, a Nomad **can take alternative action** if it feels it is better suited to achieving the principle. ➢ This does NOT provide an exhaustive list of the actions a nomad should take.
	Key Responsibilities	❖ The Nomad will have the following responsibilities, in particular: ➢ In preparation for admission of the new applicant company to AIM the Nomad must: ▪ Gain a **sound understanding of the company and its business** before admission to AIM (which

		usually requires the Nomad to visit the material places of operation of the company); ▪ **Assess the suitability of the board of directors** (individually and collectively); ▪ Oversee the **due diligence** procedure leading up to flotation; ▪ Satisfy itself that the **admission document complies** with Sch 2 to the AIM Rules; and ▪ Ensure that **procedures are in place** for the new company and its directors to comply with the AIM Rules. ➢ Once the company has been admitted to the AIM, the Nomad must: ▪ **Consult regularly** with the company; ▪ **Review announcements** before they are released to the market; ▪ **Monitor trading in the company's shares**, particularly when there is unpublished, price-sensitive information in existence; and ▪ **Advise on any changes to the board of directors** to the company and their impact.
An AIM company must retain a "Broker"	❖ An AIM company must retain a broker at all time (Rule 35, AIM Rules) who acts at the company's main interface with the market. ❖ The broker will assess market conditions, demand for the company's shares, and **actively market the shares to investors**.	