
26 July 2018

Inside AIM

Preparation for Corporate Governance Changes

From 28 September 2018, AIM companies will be required to disclose details of the recognised corporate governance code they have decided to apply. Companies will have to explain how they comply with their chosen corporate governance code and, where they depart from the code, provide an explanation of the reasons for doing so.

Good corporate governance is supported by a detailed explanation of a company's practices against the principles of a chosen code, in a manner that enables shareholders to evaluate how the principles have been applied, rather than simply identifying areas of non compliance. This principles-based approach to corporate governance is consistent with our overall approach to AIM. Accordingly an AIM company should exercise due care to ensure that the information in their corporate governance statement is informative and not misleading.

We have engaged with nominated advisers in preparation for the changes. The feedback has indicated that AIM companies are progressing well. The guidance below addresses some of the

common questions received from nominated advisers as part of our engagement.

Timing of disclosure

On 8 March 2018 the Exchange confirmed that it would introduce a requirement for AIM companies to disclose on their website how they 'comply or explain' against a recognised corporate governance code. To provide AIM companies and nominated advisers with adequate time to prepare for the change, we confirmed that AIM companies have until 28 September 2018 to implement the new corporate governance disclosure requirements.

After 28 September 2018, an AIM company will have to review its corporate governance disclosures annually. We expect that in most cases this review will take place at the same time as the company prepares its annual report and accounts. An AIM company's website should include the date when it last reviewed its compliance with its chosen code and, in conjunction with this review, update its AIM Rule 26 disclosures to remain accurate.

Where to make your corporate governance disclosure

AIM Rule 26 requires an AIM company's corporate governance statement to be published on its website. The disclosure on its website should be clearly presented and easily accessible from the 'AIM Rule 26' landing page on its website. It is acceptable for the statement to incorporate by reference (for example disclosures that are provided in a clearly delineated corporate governance section of the annual report) provided that the material is freely available and the statement clearly indicates where interested parties can read or obtain a copy of that material (for example, the relevant pages or section of the annual report or the URL for the relevant web page).

If an AIM company has not yet made disclosure against a recognised code in its annual report, the corporate governance statement must be disclosed on its website by 28 September 2018, in accordance with AIM Rule 26.

Recognised code

The Exchange has not prescribed a list of recognised codes as it remains preferable for AIM companies to have a range of options to suit their specific stage of development, sector and size.

However, we have referred to established benchmarks for AIM company codes such as the QCA Corporate Governance Code and the UK Corporate Governance Code. Further, for AIM companies that have a dual listing in their home state, we have confirmed it is acceptable to report using an appropriate standard in their home jurisdiction. For example, an AIM company which is incorporated in Australia and listed on both ASX and AIM

is able to rely on its disclosures pursuant to the ASX Listing Rules (i.e. recommendations set by the ASX Corporate Governance Council) so long as this disclosure is available on its website and reviewed annually, in accordance with AIM Rule 26

It is important to note that the requirements of the code applied by AIM companies are not set by the Exchange, but by third parties. Accordingly, AIM companies should ensure they keep informed of any changes to the recognised code they apply.

Good corporate governance and investor engagement

Good corporate governance is not simply about codes or rules; it involves strong leadership, a positive culture, robust systems and risk management. These all encourage and reinforce behaviours that ensure company representatives act to protect the interests of the company and its shareholders. In order to facilitate discussions with investors, disclosure is essential. Accordingly, the new corporate governance requirements are intended to provide information to investors to enhance the engagement between investors and the boards of AIM companies. However, disclosure alone does not constitute good corporate governance.

It is for investors to determine whether the corporate governance policies, practices and any reasons stated for non compliance with the adopted code, are appropriate for the AIM company, taking into account factors such as its stage of development, sector and size.

Date: 26 July 2018