Plenary 4

Capital Markets and Economic Development - New Avenues for the Financing of Small and Medium Enterprises (SMEs)

Mr. Marcus Stuttard

Deputy Head of AIM, United Kingdom

12 April 2007
AIM - New Avenues for SMEs

Marcus Stuttard
Deputy Head of AIM

IOSCO April 2007
Outline of remarks

The importance of funding innovation

The risk capital financing chain in London

What Exchanges can do to ensure innovation and growth is funded efficiently

Small and Medium Sized Enterprises (SMEs)

A recent OECD paper found that:

- SMEs account for between 95% and 99% of businesses in OECD Economies
- SMEs account for between 60-70% of net job creation
- SMEs are vital for economic growth and development in both industrialised and developing countries
- Financing gaps more of a problem in emerging markets
Number of admissions 1995 to 2006

Source: London Stock Exchange statistics
Top 10 sector distribution of AIM companies by market value
Distribution of companies by equity value $m

111 | 0 - 4
175 | 4 - 10
227 | 10 - 20
377 | 20 - 50
252 | 50 - 100
222 | 100 - 200
155 | 200 - 500
50  | 500 - 1000
17  | 1,000 - 2,000
5   | Over 2,000
International companies on AIM account for 18% of the total by number and 34% of the total by value.
19% of all AIM companies are incorporated overseas - many more have an overseas business but join via a UK holding company
In 2006, companies on AIM raised 77% more capital than in 2005.
Preferred stock market of UK private equity-backed companies looking to List

Percentage of respondents

AIM: 68%
Main Market: 24%
NASDAQ: 3%
Other: 5%
Comparison of first-year returns of PE and non-PE backed IPOs

Source: average returns weighted by market value; Thomson Financial Datastream
Admission to AIM

Admission Rules

- No minimum size to be admitted
- No trading record required
- No minimum amount of shares to be in public hands
- In most cases, no prior shareholder approval required for transactions
- Admission documents not pre-vetted by Exchange or UKLA but by Nominated Advisor
- Nominated Advisor required at all times
### Continuing obligations

- Nomad to be retained at all times
- All price sensitive information announced in a timely manner
- Half yearly and annual report and accounts required
- All directors accept full responsibility for the AIM Rules
- Directors and key employees subject to share dealing code
- Investors require UK Corporate Governance standards
AIM’s “market driven” regulation is widely considered to be the key to its success

AIM perceived as well-regulated market with very few company failures

AIM is the only major growth market not to prescribe minimum free float or impose size restrictions

Scope for greater visibility of company information
Recent AIM Rule changes

Codification of Nomad rules

- Clarification of Nomad responsibilities for assessing suitability and ongoing compliance with AIM Rules
- Implemented through rule amendments and supplemented by guidelines
- Nomad Annual Return introduced

Enhanced disclosure of company information

- All AIM issuers to display core information on a website to include board details, latest announcements, financials, recent documentation

Both measures are designed to reflect market best practice and protect AIM’s unique regulatory framework for the future
A growing base of institutional investors

Institutional investment in AIM as a % of total investment

- 2003: 35%
- 2004: 38%
- 2005: 40%
- 2006: 56%
Our strategy for developing AIM:

- Steering AIM through its unprecedented growth period
- Greater internationalisation
- Broadening and deepening the investor base
- Maintaining quality and integrity as we go