ICAEW
REPRESENTATION 60/19

AMENDMENTS TO THE NEX EXCHANGE GROWTH MARKET RULES FOR ISSUERS

Issued 5 June 2019

ICAEW welcomes the opportunity to comment on Amendments to the NEX Exchange Growth Market Rules for Issuers published by NEX Exchange on 30 April 2019, a copy of which is available from this link.

This response of 5 June 2019 has been prepared by the ICAEW Corporate Finance Faculty. Recognised internationally as a source of expertise on corporate finance issues and for its monthly Corporate Financier magazine, the Faculty is responsible for ICAEW policy on corporate finance issues including submissions to consultations. The Faculty's membership is drawn from professional services groups, advisory firms, brokers, companies, banks, private equity, law firms, consultants and academics.

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KEY POINTS

1. We do not agree with the proposal that a working capital statement should no longer be required for a NEX Exchange admission document. In our view, removal of the working capital statement would be inadvisable given the stage of growth of companies eligible to apply for admission.
2. In the marked-up Glossary, securities in public hands are to exclude an interest in 10% or more of shares of the relevant class. The existing threshold is 5%. This change is not consulted on but, in our view, ought to be.

ANSWERS TO SPECIFIC QUESTIONS

Question 1. Do you agree that a working capital statement should no longer be required for a NEX Exchange admission document?

Question 2. Alternatively, do you believe a working capital statement should be required in certain circumstances and if so, what criteria might apply?

3. We do not agree with the proposal that a working capital statement should no longer be required for a NEX Exchange admission document. In our view, removal of the working capital statement would be inadvisable given the stage of growth of companies eligible to apply for admission.
4. Very early-stage companies are often susceptible to working capital difficulties. The requirement to make the statement forces directors to give careful consideration to cash flows, and this will be more pertinent with the abolition of the trading history requirement. The directors' process gives the corporate adviser valuable insights as part of its due diligence of a company, and advisers will continue to require it to be undertaken.

Question 3. Do you believe that NEX Exchange should consider a further revision to Rule 66 to mandate an increase in the minimum number of independent non-executive directors an issuer must appoint to two (or more) to support adequate constructive challenge and management oversight?

5. We do not think that the paper explains why it might be a good idea to increase the minimum number of independent non-executive directors. By contrast, it seems particularly onerous for the early stage companies that are now to be eligible for admission. As a company develops, in consultation with the corporate adviser, it might decide it is appropriate to increase the number of independent NEDs on its board.