AO2 LAW | Anaje Olumide Oke

ASeM at 5:

More Steps, Less Miles

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Introduction:

The Alternative Securities Market ("**ASeM**" or the "**Market**") was officially launched on April 23, 2013 and celebrates its 5th year in less than a month. We thought it best that the Market celebrates with a consideration of the advancement of its peers in a bid to spur it or any of its derivatives into greater exploits. We undertake a comparative review of its purpose and growth and those of its conceptual equivalents in London, Hong Kong and South Africa.

Background:

ASeM is a specialized board of the Nigerian Stock Exchange (the "NSE"), established to encourage the listing of small and medium-sized companies with high growth potentials. It forms a part of the NSE's initiative to develop a platform from which emerging businesses in Nigeria can access long-term capital. There is no limit to the amount of capital that companies listed on ASeM can raise from the public at less stringent conditions than is required to list on the Main or Premium Boards of the NSE. Given this background, one would readily expect that a fair percentage of the SMEs in Nigeria would be listed on ASeM. However, only 10 (ten) companies are currently listed on the ASeM Board. This dearth could be a result of several factors, which may include: the lack of proper sensitization of investee or investible companies on the benefits to be derived from being listed on the Board; Nigeria's recently-ended economic recession; the stringency of its Rules in meeting with the realities of its target small and medium companies; the unavailability of an affordable complement of professional services providers working with all of the investee, investor and regulator communities; the unavailability of sufficient retail and institutional investors to deepen activities in the Market; the list is endless. There should be one or two lessons **ASeM** may pick from its peers hence this brief; to tell in simple terms, the stories of each of London's AIM, Hong Kong's GEM, and Jo'burg's AltX.

London Stock Exchange's AIM

AIM (formerly the Alternative Investment Market) is a sub-market of the London Stock Exchange (the "**LSE**") that was launched on 19 June 1995. It allows smaller companies to float shares with a more flexible regulatory system than is applicable to the main boards on the LSE. AIM is the world's leading alternative securities market. Since its launch in 1995, 3,111 companies from across the globe have chosen to join AIM raising over £60 billion in new and further capital fund raisings. Currently, there are 950 companies listed on the AIM, operating in over 100 countries, across more than 40 sectors with a combined market capitalization of >£70 billion. AIM was created with the objective to offer smaller companies – from any country and any industry or sector – the opportunity to raise capital.

AIM has a large, diverse and committed community of stakeholders. Specialist advisers are crucial to the market's success, and range from dedicated Nominated Advisers who play a central role in the life of an AIM company, to lawyers, accountants and brokers. Other important participants include public relations and investor relations agencies who help companies join the market and make the most of their AIM quotation.

To join AIM, the company is required to work closely with a nominated adviser ("**NOMAD**") to ensure that its actions are fair and reasonable for shareholders. The company is expected to have such minimum market capitalization and offer such minimum shares to the public as may be deemed suitable by the NOMAD. AIM's success is underpinned by its regulatory framework, which has been specifically designed to meet the needs of small and mid-cap growing companies while offering appropriate investor protection and continues to provide ample scope for market-led innovation and flexibility.

Also, the Government of the United Kingdom has consistently backed AIM as a way for smaller companies to raise equity capital. It has sought to encourage more investors to provide larger amounts of that capital with a series of tax breaks. For example, in 2013, the market was given a boost with the announcement that AIM shares would henceforth be eligible holdings for investors' tax-free individual savings accounts ("ISA"). This was followed by a decision in 2014 by the Treasury not to charge stamp duty on purchases of AIM shares.

Hong Kong Exchanges' GEM:

Hong Kong Exchanges and Clearing Limited's Growth Enterprise Market (GEM) was launched in 1999 as a market for small to mid-sized companies. GEM operates on the philosophy of "buyers beware" and "let the market decide" based on a strong disclosure regime. Its rules and requirements are designed to foster a culture of self-compliance by listed issuers and sponsors in the discharge of their respective responsibilities. The following major features are to support this philosophy: Greater, More Frequent and Timely Disclosure, GEM Sponsor Scheme and Corporate Governance.

GEM requires a listing applicant to disclose in detail its past business history and its future business plans which are key components of the listing documents. After listing, a GEM issuer is required to make half yearly comparison of its business progress with the business plan for the first 2 financial years and publish quarterly accounts in addition to half yearly and annual accounts. From the time of listing, an issuer is required to establish a strong corporate governance base to facilitate its compliance with the GEM Listing Rules and adherence to proper business practices. These measures include the appointment of a qualified accountant to supervise its finance and accounting functions, designating an executive director as the compliance officer, appointment of two independent directors and the establishment of an audit committee. Furthermore, a GEM issuer is also required to retain a sponsor to advise and assist the company and its directors in the discharge of their listing obligations for the first two years after listing.

Johannesburg Stock Exchange's AltX:

AltX is an alternative public equity exchange for small and medium-sized companies in South Africa operated in parallel with and wholly owned by the Johannesburg Stock Exchange ("JSE'). It was launched in 2003 as a nursery for the JSE's Main board. As of July 2008 the shares of just over 80 companies listed on AltX had a combined value of over R30-billion (circa US$2.5billion). As a market for small to medium companies that are in a growth phase, applicants that meet the criteria for listing on the JSE Main Board or any other sector of the JSE will not ordinarily be granted a listing on AltX and the JSE reserves the right to request such applicants to route their applications to those other sectors of the List.

To be listed on AltX, a company must appoint a shareholder of the company as Designated Advisor ("DA"); and have share capital of at least R2m (circa US$171,000). The company must offer a minimum of 10% of each class of equity securities to the public and the number of public shareholders shall be at least 100. To guarantee proper corporate governance in the company, AltX requires that 25% of its directors shall be non-executive, its directors must have completed the JSE's Directors Induction Programme and the company must appoint an executive financial director whose expertise and experience shall be certified by the DA. As part of its financial obligations, the company must produce a profit forecast for the remainder of the financial year during which it will list and for one full financial year thereafter. It is further required that 50% of the shareholding of the directors and the DA shall be held in trust by its auditors or attorneys until the publication of the audited results for the two financial years.

What Take Away?

Comparatively, AIM has performed the best. Its featured pool of professionals positioned to guide the companies seeking to list, flexible regulatory framework which guarantees investor security and innovation for the market players at the same time, and evolving incentives and support from Government to boost investor confidence; are all learnable.

It is a good incentive that Government and its institutions are created and operated in a manner as to engender healthy trades among other considerations. It is an additional incentive, where Government uses fiscal policy to direct attention to an area of its interest; for example, towards a sector which significantly contributes to its gross domestic product ("GDP"). As at Q4 2014 2017, it was estimated that medium scale businesses contributed about half (48.4%) of Nigeria's GDP in nominal terms. Estimates put the number of Nigeria's medium scale businesses at about 4,760. These are businesses, each with between 50 and 199 persons in employment, with an asset base of a minimum N500million (circa. US$1.5million), excluding land and buildings. The current 10 businesses on ASeM are certainly not a fair representation of the class of high growth potential businesses in Nigeria. For example, Nigeria's fast-growth e-commerce/technology businesses have no representation on ASeM. Should more incentives be provided to attract these numbers to the Market, on the promise of more sustainable capital? Probably so. It may not be too much to ask for incentives such as: tax breaks, holidays, exemptions and or credits for retail and institutional investors on ASeM. Government must be part of the charge in the improvement of the fortunes of ASeM as the Government of the day stands the most to gain in terms of the increased employment that typically accompanies increased investments.

Still learning from AIM, there may be the need to harness the services of the various professional services providers who are required to midwife the capital raise process on the Bourse. A one-stop shop is not necessarily utopian. The ultimate result of such collaboration could be to unitize the fees payable by the investee company/issuer with a possible option to pay the greater part of the fees as a percentage of the proceeds of a successful capital raise. Even investors may be comforted by this option.

AltX also offers us good precedent with its approach of ensuring that directors of investee companies are properly educated on international corporate governance standards. It may also be a balancing act to require the promoters or the directing minds of the investee company not to offload their interests in the company until some other milestone, other than a time-cap, is met.

In conclusion, it is safe to conclude that the development of a capital market is the responsibility of all, not one or two, actors – Government/regulators, market owners/operators, investee companies, investors and professional service providers. That all hands can be on deck to celebrate ASeM and spur it unto greater exploits, is a deserving birthday gift. Happy Birthday, ASeM.

Credits:

A Guide to AIM, 2015. Available at http://www.londonstockexchange.com/companies-and-advisors/aim/publications/documents/a-guide-to-aim.pdf Last visited March 11, 2018.

Regulatory Philosophy and Major Features of GEM. Available at http://www.hkgem.com/aboutgem/e_default.htm Last accessed March 11, 2018.

For further information on the foregoing, please contact: Ifureuwem Udofa (*ifureuwem.udofa@ao2law.com*) or Bidemi Olumide (*bidemi.olumide@ao2law.com*) with the subject: "***ASeM at 5: More Steps, Less Miles***".