

3 JANUARY 2017 (EFFECTIVE 23 MARCH 2015)

**NEX EXCHANGE GROWTH
MARKET PRACTICE NOTE
DUE DILIGENCE BY NEX
EXCHANGE CORPORATE
ADVISERS**

OVERVIEW

The NEX Exchange Corporate Adviser has a duty to maintain and uphold the reputation and integrity of the NEX Exchange market. It plays a crucial role in maintaining the quality of the market and, in particular, is responsible for critically assessing the appropriateness of an issuer for admission to NEX Exchange. An NEX Exchange Corporate Adviser is also responsible for advising its client on its obligations and guiding it through the admission process.

One of the most important duties of a NEX Exchange Corporate Adviser is to ensure that its client meets the eligibility criteria, and is otherwise suitable for the NEX Exchange market as an admission is likely to affect the orderly operation or integrity and reputation of NEX Exchange.

A vital component of that determination is the due diligence process. This process will vary in terms of its content and approach, depending on the stage of development and nature of the prospective issuer's business. Most importantly, the process should be undertaken using a risk based approach.

One area which requires scrutiny in relation to a public market relates to individuals, particularly directors, shareholders or individuals associated with companies whose interests may run counter to or undermine the reputation and integrity of a public market. In addition, other areas may constitute an identifiable threat to the market's reputation and integrity depending on the nature of the company and its business. Hence the need for a risk-based and tailored approach to due diligence. In circumstances where a NEX Exchange Corporate Adviser is required to conduct due diligence into substantial shareholders or an individual able to exert significant influence or control over the company, the principles regarding due diligence on directors should be equally applied.

DUE DILIGENCE ON ADMISSION

An NEX Exchange Corporate Adviser has ultimate responsibility for overseeing the entire due diligence process (including both financial and legal). Furthermore, it must ensure that such due diligence is undertaken by appropriate professional firms, where applicable. An NEX Exchange Corporate Adviser must review and assess the due diligence, consider any issues that may arise and satisfy itself that appropriate action has been taken to remedy any issues.

An NEX Exchange Corporate Adviser should visit the issuer's material site(s) of operation and meet the directors and key managers. Consideration should also be given as to whether to meet any other relevant material stakeholders (e.g. significant shareholders).

The nature and breadth of due diligence should be determined by the NEX Exchange Corporate Adviser and tailored to the specific risks posed.

LEGAL DUE DILIGENCE

An NEX Exchange Corporate Adviser should satisfy itself that, *inter alia*, statements and material included in an issuer's prospectus or admission document relied on for the purposes of admission have been legally verified by appropriate professional advisers as accurate, complete, relevant and fairly presented. An NEX Exchange Corporate Adviser should satisfy itself that legal due diligence appropriate to the circumstances of the issuer has been undertaken with due skill and care.

FINANCIAL DUE DILIGENCE

An NEX Exchange Corporate Adviser is expected to ensure that, *inter alia*, financial due diligence is appropriate to the circumstances of the issuer. In particular, a NEX Exchange Corporate Adviser must be satisfied that appropriate working capital and financial reporting systems and controls reviews have been undertaken by appropriate professional advisers including the review and assessment of accountants' reports and adviser comfort letters.

DUE DILIGENCE ON DIRECTORS

It is vital that a NEX Exchange Corporate Adviser conducts rigorous due diligence on directors and substantial shareholders or individuals able to exert significant influence or control involved in the business of a prospective issuer.

Due diligence on directors should be applied consistently during an NEX Exchange admission, the take-on of an existing NEX Exchange admitted company from another NEX Exchange Corporate Adviser and the appointment of a new director to an existing NEX Exchange issuer.

Due diligence on directors should be based on an NEX Exchange Corporate Adviser's reasonable judgement as to what information it requires in order to make an informed decision on an individual's suitability and experience to be a director of an NEX Exchange company.

In assessing the suitability of directors, proposed directors and composition of the board, a NEX Exchange Corporate Adviser should consider the efficacy of the board as a whole and in light of the company's specific requirements and the fact that the company is or will be admitted to a UK-based, English-language public market.

NEX Exchange Corporate Advisers are expected to utilise a broad range of sources to properly assess suitability when undertaking due diligence and to conduct investigations and enquiries to mitigate (if possible) any concerns before assessing whether the issues is appropriate for admission to NEX Exchange including:

- a suitable director's questionnaire
- web-based general searches
- Companies House or similar overseas checks
- interviews
- press searches
- taking-up references etc.

The NEX Exchange Corporate Adviser should extend these investigations and considerations as appropriate to key managers and personnel who are named in the prospectus or admission document.

The NEX Exchange Corporate Adviser should evaluate this information and consider whether it is appropriate to undertake further investigative enquiries and due diligence from independent, third party sources such as specialist companies, particularly in respect of overseas directors, which may include commissioning a detailed investigative third party report (e.g. specialist firms specialising in screening and background checks). NEX Exchange would normally expect a NEX Exchange Corporate Adviser to undertake third party checks in respect of directors of trading companies that are seeking admission to NEX Exchange.

