

PRACTICE NOTE:

APPLICANT SUITABILITY FOR THE NEX EXCHANGE GROWTH MARKET

1. INTRODUCTION

The purpose of this note is to give guidance to NEX Exchange Corporate Advisers on the key factors relevant to the suitability of an applicant seeking to admit securities to the NEX Exchange Growth Market (an “**Applicant**”) and, in an effort to improve transaction certainty, a process to facilitate early engagement with the NEX Exchange Regulation Team.

Unless otherwise defined, terms in bold in this note shall have the same meaning as set out in the NEX Exchange Growth Market Rules for Issuers (the “**Rules**”).

2. SUITABILITY LETTER – A PROCESS TO IMPROVE CERTAINTY

At an early stage of a potential application for **admission**, **NEX Exchange Corporate Advisers** (“**Corporate Adviser**”) have the option to submit on behalf of the Applicant a suitability letter containing the information set out in Schedule 1. The suitability letter is a means of facilitating early engagement with the NEX Exchange Regulation Team in an effort to reduce unexpected final-hour issues or delays with regards to suitability. Submission of the letter is optional, however, we hope that Corporate Advisers will take advantage of this additional step in the admissions process.

The NEX Exchange Regulation Team will carry out an initial review of the suitability letter and bring to the attention of the Corporate Adviser any potential high-level issues it foresees with their assessment of the **Applicant’s** suitability. Note that NEX Exchange will not formally approve an **Applicant** until such time as the application requirements set out at Appendix 2 of the **Rules** have been satisfied. Corporate Advisers are also reminded that it is their responsibility to assess the suitability of an **Applicant** following satisfactory due diligence and suitability checks of their own.

3. SUITABILITY FACTORS

Corporate Advisers should take into account the key matters set out in this note when determining an **Applicant’s** suitability. These matters are not exhaustive and a Corporate Adviser should apply their independent judgement to ensure that investors are safeguarded against fraud and misconduct. There should be a clear commercial rationale for the **Applicant’s** motivation to seek admission.

Suitability of Relevant Individuals

A Corporate Adviser should be concerned to identify whether an Applicant’s directors, proposed directors, and substantial shareholders (being a shareholder holding 10% or more of the voting rights) (together “**Relevant Individuals**”) have been the subject of disciplinary action by government, regulatory or other public bodies or have any previous criminal convictions. In the event of such circumstances, Corporate Advisers are advised to carefully weigh up the seriousness of any offence (e.g. a criminal conviction for fraud is likely to be more relevant than a sanction by a professional body) and when the offence was committed. Details of any offences must be disclosed to the NEX Exchange Regulation Team, regardless of a Corporate Adviser’s view as to their impact on an **Applicant’s** suitability. The **Applicant** will not be suitable if any of its Relevant Individuals are the subject of an active criminal investigation into serious and relevant matters.

In the case where there is speculation, intelligence or allegations rather than conviction, sanction or disciplinary action, whether spent or pending, the judgement of the Corporate Adviser should take into account the reliability of the source of information, whether a public conviction or other public action is likely (e.g. is this merely a suspicion or allegation of misconduct?) and the relevance of the allegation (e.g. does the allegation, if it is true, represent a serious risk to investors).

An **Applicant's** directors or proposed directors are unlikely to be suitable where they have been the subject of multiple bankruptcies or involved in a number of companies that have been declared insolvent in circumstances that suggest recklessness, negligence, incompetence or other misconduct on their part.

Suitability of the Corporate Structure

The capital structure of an **Applicant** should be rational, transparent and appropriate. Minority shareholder rights should not be at risk of abuse.

The structure should be sufficiently clear such that investors can understand the key risks associated with investing in the **Applicant**. If the corporate structure of an **Applicant** is complex, the need for such complexity should be apparent. If the structure has changed significantly, or multiple times, the reasoning for such changes should stand up to close scrutiny.

Suitability of the Jurisdiction

The geographical location of an **Applicant's** management, core operations and country of incorporation will be relevant to an **Applicant's** suitability. Relevant matters to be taken into account include the strength of the rule of law in the jurisdiction of the **Applicant's** operations, whether international sanctions apply, and whether the jurisdiction makes oversight and due diligence of the application difficult to the extent that investors could face unacceptable risks.

The constitution and law governing the Applicant must be sufficient robust to ensure minority shareholder rights are not at risk of abuse.

Working Capital

Corporate Advisers are reminded of the NEX Exchange Practice Note on Working Capital (available on our website), which sets out the matters to be considered when assessing the required level of working capital. Particular diligence should be undertaken in respect of bond issuers to ensure that there is a credible plan for the payment of coupons and the repayment of the debt on maturity.

Audited Financial Statements

If an **Applicant's** last audited financial statements contain an audit report which has been qualified or modified for whatever reason, NEX Exchange will not ordinarily admit an **Applicant** until it receives appropriate confirmation from the Corporate Adviser that the matters identified in the qualification or modification have been adequately dealt with or cease to apply.

SCHEDULE 1 – SUITABILITY LETTER

A suitability letter in the form set out below may be submitted to the NEX Exchange Regulation Team by email to regulation@nexexchange.com.

[Letterhead of Corporate Adviser]

To: NEX Exchange – Growth Market
 The Regulation Team
 Email: regulation@nexexchange.com

Date:

Dear Sirs

APPLICANT EARLY SUITABILITY REVIEW

Please find below details relevant to the suitability of a potential applicant seeking to admit securities to the NEX Exchange Growth Market. We believe the applicant is suitable for your market and would welcome your review.

If there are any update to these details, we may submit a further suitability letter for your attention.

Full name of Applicant	
Country of Incorporation	
Registered Office address	
Website Address	
Describe the Applicant’s business and corporate structure, including the background to any recent re-structure.	
Details of any qualification or modification to the Applicant’s last audited financial statements and the current status of such qualification or modification.	
Target fund raise and target market for raise (if applicable)	
Investing Policy (in respect of investment vehicles only).	

<p>Details of securities to be admitted to trading (i.e. ordinary shares).</p>	
<p>Names, date of birth, function and background of the directors and (if applicable) proposed directors.</p>	
<p>Details of substantial shareholders, their anticipated interest pre and post-admission and any connection between them, the directors and the proposed directors.</p>	
<p>Details of how any conflict of interest, controlling shareholders or relate party matters may be managed (i.e. relationship agreements, orderly market agreements, constitution of the board and/or committees).</p>	
<p>In respect of the directors, proposed directors and significant shareholders (together the “Relevant Individuals”), details of any previous criminal convictions or disciplinary actions undertaken by governmental, regulatory or other public bodies.</p>	
<p>Details of any bankruptcies, receiverships or liquidations with which a director, proposed director has suffered.</p>	
<p>Details of any matter known to you or discoverable in the media pertaining to the good repute (whether spurious or otherwise) of a Relevant Individual.</p>	
<p>Any other matters concerning the suitability of the application for the attention of the Regulatory Team.</p>	

Signed by:

Duly authorised officer of
[Corporate Adviser]