IA Response to LSE's Consultation

Shaping the Future of AIM

About the Investment Association

I am writing to you on behalf of The Investment Association (the IA). The Investment Association (IA) champions UK investment management, a world-leading industry which helps millions of households save for the future while supporting businesses and economic growth in the UK and abroad. Our 250 members range from smaller, specialist UK firms to European and global investment managers with a UK base. Collectively, they manage £9.1 trillion for savers and institutions in the UK and beyond. The UK asset management industry is the largest in Europe and the second largest globally.

We have read with interest London Stock Exchange's (LSE) consultation on the future of AIM, following changes to the Main Market listing regime.

Response

As a major allocator of capital, the investment management sector has a strong interest in, and a direct impact on, the UK's economic prosperity and competitiveness and the IA welcomes the London Stock Exchange's (LSE) initiative to shape the future of the Alternative Investment Market (AIM).

AIM has long been vital for the UK's capital markets, providing a dynamic and flexible platform for high-growth and innovative companies to access public equity. Its role in supporting entrepreneurship, job creation, and regional economic development cannot be overstated. With over £39 billion raised in long-term capital over the past five years and a significant contribution to UK GDP and employment, AIM remains a vital platform for companies seeking to scale and innovate. Members continue to feel that AIM must be clearly differentiated from the Main Market, particularly given the increasing ability of growth companies to raise capital privately for longer periods.

However, in consulting with our membership, we note that AIM's relative attractiveness has diminished in recent years. The number of companies listed on AIM has now declined to just 679—the lowest level since 2001. This represents a significant contraction from the market's peak in 2007, when 1,694 companies were listed. [1]

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While initiatives such as the Mansion House Compact and the Government's Pensions Investment Review are welcome, we are not yet convinced that this will significantly increase investment into AIM companies without structural changes to the market.

Companies are delisting, shifting to the Main Market, or being acquired by overseas private equity firms. This contraction in the investible universe is making it increasingly difficult for investors to identify viable opportunities, thereby eroding AIM's fundamental strengths. As a result, UK small- and mid-cap fund managers are becoming more hesitant to invest in AIM-listed companies, with some even advising firms to consider alternative listing venues.

While the government's encouragement of investment in infrastructure, renewable energy, and housebuilding is commendable, it is important to recognise that many unlisted investments in these sectors are characterised by illiquidity, limited transparency, and high fee structures. We are concerned that these developments could impact the health of AIM by directing flows of capital away from AIM companies. We encourage Government to consider how to ensure a level playing field between public and private markets.

The IA supports the ongoing efforts to improve AIM's framework, including initiatives to enhance liquidity, broaden investor access, and reduce regulatory friction. These developments are essential to ensuring that AIM remains an attractive venue for ambitious companies and a compelling opportunity for long-term investors. We therefore broadly agree with the proposals in this consultation.

However, we believe it may be premature to implement overly significant changes to AIM before the full impact of the recent reforms to the Main Market is understood. The regulatory landscape is still evolving, and it is important to avoid unintended consequences that could arise from overlapping or misaligned reforms.

Nonetheless, we feel that there are a number of reforms that could be made to help revitalise AIM and restore confidence and stability in the market.

Key areas of focus

There is a strong view that it needs to be easier for AIM companies to transition to the Main Market. The current process demands significant management time and incurs high legal costs. A "passporting" mechanism could help streamline this transition, positioning AIM as a gateway to the Main Market.

We encourage consideration of fiscal incentives, particularly around Inheritance Tax (IHT), to support the growth and progression of companies within public markets. Currently, IHT relief is lost when a company transitions from AIM to the Main Market—unlike Venture Capital Trust relief, which offers a two-year runway. This creates a disincentive for larger AIM companies to progress, despite being of a size and maturity more suited to the FTSE 250. As a result, some companies remain on

AIM purely for tax reasons, which stagnates capital movement and distorts market dynamics.

Introducing a time limit on how long companies can remain within AIM, or extending IHT relief during transitions, could encourage natural progression and enhance the functioning of interconnected markets.

We encourage the London Stock Exchange to advocate for equal treatment of AIM and unlisted investments under business relief. Aligning tax treatment would help level the playing field and reduce market distortions.

The proposed cut in business relief from 100% to 50% on the first £1 million invested in AIM has had a disproportionately negative impact. While IHT portfolios represent only around 10% of AIM investment, the broader consequences on share prices, market liquidity, and investor confidence have been significant. This relief was not a loophole for the wealthy, but a vital support mechanism that encouraged long-term investment in small, ambitious companies, helping them access the capital they need to grow.

Furthermore, the disparity between AIM and unlisted investments is now distorting the market. Unlisted investments continue to benefit from full business relief on the first £1 million, before falling to the same 20% rate that will be applied to AIM. With pensions set to be included in estates for IHT purposes from 2027, demand for unlisted portfolios is likely to increase, further exacerbating this imbalance.

In terms of regulatory design, we support efforts to streamline the admission process. We feel that the current Admission Document and all reports produced are necessary and are a valuable reference for IPOs. However, there may be scope to reduce disclosure and avoid duplication in reverse takeovers by focusing disclosure on the newly acquired business. Similarly, we support the use of incorporation by reference where it avoids unnecessary repetition.

We also recommend including a concise summary of the key business risks that are critical to the company at the front of the risk section. This would enhance clarity and focus for investors.

Working capital statements have been retained by the Main Market, both for IPOs and for follow-on offerings (expected in new prospectus rules; currently required by existing rules). What has changed is that for the Main Market, a clean working capital statement is no longer required. It would make sense to mirror this final outcome on AIM but not to dispense with the requirement entirely.

In relation to companies transitioning from AIM to the Main Market, to encourage and reduce the burden of such a move, it would be sensible to remove the requirement for a working capital statement in the prospectus where the company is simply changing its listing venue.

There is room to reduce disclosures on the pre-existing listed business, but there should be proper disclosure on any assets being acquired, particularly given their size. Furthermore, shareholder approval should be retained in such cases, as evidenced by recent developments on the Main Market.

With further regard to divergence between listings regimes, AIM Rule 11 is overseen by AIM Regulation (LSE), while MAR is governed by the FCA. We also believe that this split has often been seen as unhelpful, as both regimes typically capture the same disclosures. For clarity and consistency, it may be more effective to consolidate the AIM rule 11 more closely with MAR to reduce duplicative burdens, provided that the role of the NOMAD in guiding disclosure is preserved. This is particularly important given the critical nature of disclosure obligations.

On corporate governance, we support the existing “comply or explain” approach and do not believe an additional simplified governance code is necessary. Flexibility should be maintained, especially for earlier-stage companies We note that the QCA Corporate Governance Code already provides an appropriate, proportionate simplified framework for smaller and growth-focused companies.

Feedback also reflected that AIM should adopt an equivalent route for the admission of dual-class shares as for Main Market companies, if the AIM rules reflect the Main Market.

We also support flexibility in the use of equity-based remuneration for non-executive directors (NEDs), particularly for early-stage and growth companies that are less cash generative. We generally accept NEDs building equity ownership, but caution is advised around performance-related equity to manage potential conflicts of interest.

In terms of the 25% substantial transaction threshold (25%), we feel that the 10% threshold on AIM should remain. Given AIM’s lighter disclosure regime, this level ensures shareholders are informed without being overly burdensome. AIM is often used by buy-and-build businesses, so regular updates on smaller deals are valuable for transparency.

Finally, members noted that while the profits test remains relevant, it could be removed for consistency with the Main Market. However, we note that AIM has shown flexibility in adjusting or interpreting the test when it produces anomalous results, which has worked well in practice.

We thank LSEG for their consultation on this topic and would be happy to discuss further any of the issues raised in our response. We look forward to continuing to work with all key stakeholders to drive growth in the UK economy and to ensure a healthy, vibrant listings market.