



Outstanding Questions on AIM

6 December 2013

Memorandum concerning the second evidence session for the BIS Select Committee's inquiry into the extractive industries sector

As an organisation that examines the conduct of extractive companies, and that has made detailed submissions on AIM-traded mining companies, RAID welcomes the initiative by the BIS Select Committee to inquire into the Extractive Industries Sector.

A number of concerns raised by Committee members in the recent 26 November evidence session in relation to the Main Market apply more so to AIM, London's junior market. We would encourage the Committee to undertake further scrutiny of the lax regulation of AIM and consider calling the Head of AIM Regulation to give evidence.

There is a permissive pathway by which mines and minerals from zones of conflict and weak governance are transferred to companies trading on AIM who, in turn, through a process of acquisition, transfer these tainted assets to companies in the premium segment of the main market. This process can only be described as asset laundering. Certain of ENRC's Congolese and Zimbabwean assets, at the heart of the SFO criminal investigation, were derived from the acquisition of AIM-traded Central African Mining and Exploration Company Limited (CAMEC), which was allowed to flourish unchecked on the junior market, despite a myriad of compliance issues that have never been addressed by AIM Regulation. CAMEC was acquired by ENRC in November 2009.

Moreover, this legacy is set to continue: the same directors and executives who ran CAMEC – Philippe Edmunds (chairman), Andrew Groves (managing director and chief executive), and Andrew Burns (chief financial officer) – have been allowed to set up a new shell company on AIM, Africa Oilfield Logistics Limited (AOL). Moreover, AOL shares the same advisory team (known as a nominated adviser or 'nomad', akin to a sponsor), which bought CAMEC to market.

AOL's admission document makes no reference to the raft of serious compliance issues (all submitted by RAID to AIM Regulation in May 2011 and now in the public domain) about CAMEC whilst under the leadership of Edmunds and Groves. Neither has AOL's nomad (Cantor Fitzgerald, the successor company to Seymour Pierce Limited, CAMEC's adviser) nor the Exchange seen fit to alert the market to the ongoing SFO investigation into ENRC's acquisition of assets in DRC, which must include those obtained in deals engineered and approved by directors who sat on CAMEC's board and who now sit on the board of AOL. Another current director of AOL, Jonathan Wordsworth Wright, was a former director at Seymour Pierce.

The Exchange's Head of AIM Regulation ought to explain to the Select Committee:

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- Why AIM Regulation failed to deal with compliance issues concerning CAMEC and its nomad, raised by RAID in its a 162 page dossier? Indeed, the Exchange has gone out of its way to ensure that the disciplinary action that it did agree with Seymour Pierce was based on other 'illustrative' cases of misconduct, an approach that actively excluded an examination of the CAMEC case and wiped the slate clean, so that such cases would not be re-opened.
- Why the Exchange has allowed AOL to be admitted to AIM when it knew of serious concerns raised about CAMEC's conduct under the same leadership? Does the Exchange believe that the nomad team, which had previously acted for CAMEC, used the due care expected of them as gatekeepers when probing the track-record of AOL directors?
- Why AIM operates a system whereby private companies as nomads, rather than an independent body akin to the listing authority, vets companies for admission to AIM? There is a conflict of interest at the heart of this relationship whereby such advisers as supposed gatekeepers are at the same time incentivised through large fees and commission to bring companies to market. This gravy train overrides considerations of the suitability of applicants.
- Why the Exchange does not use its formal power under AIM rule 9 to refuse a company admission to AIM, but instead chooses to exert influence behind closed doors on nomads to withdraw their support? This has led to inconsistent and perplexing decisions: in 2000, Oryx Diamonds was rightly blocked from trading on AIM by this opaque process, whereas CAMEC was able to bring to market Congolese mineral assets with a parallel disreputable provenance because it already existed as a company on AIM.

A further question supplements the Select Committee's exchange with David Lawton, Director of Markets at the FCA:

- Why has the FCA – simultaneously notified of the compliance issues surrounding CAMEC, its nomad and the ENRC takeover – not seen fit to intervene and hold the Exchange to account for its failure to deal with the CAMEC case and its legacy?

Moreover, RAID has called upon HM Treasury to investigate information on aspects of ENRC's takeover of CAMEC, as well as the latter's prior transactions with the Mugabe regime, under sanctions against Zimbabwe.

- This is another area, also highlighted by ENRC's former legal advisers, which may warrant the Select Committee's attention given the failure of the Treasury to act or account for its licensing of share transfers when ENRC acquired CAMEC.

In 2007 a senior US regulator described AIM as 'a casino' and warned: 'It is a losing proposition to tout lower standards as a way to promote your markets.' Securities law and stock market regulations are designed to protect shareholder interests and an orderly market in shares; yet evidence from AIM suggests that even these rules are being flouted. The laundering of assets on AIM and their transfer to the premium segment of the main market risks damaging London's reputation further. The pendulum has swung too far towards attracting companies – however unsuitable – to access London-based capital at all costs; but without moves to increase market integrity, the risk is a repeat of recent scandals and a loss of investor confidence. The irony is that the promotion of lower standards does not result in a gain in business, but rather a loss of a

competitive advantage because such advantage must ultimately rest on London's reputation as an appropriately regulated market where disreputable companies are not welcome.

Further documentation, including RAID's correspondence with AIM and the FSA, is available at:

http://raid-uk.org/work/aim_2012.htm