



Consultation on Nasdaq's First North Growth Market Rulebook

01 Apr 2022

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How to Respond

We are asking for comments on this Consultation Paper by 29 April 2022.

We would appreciate if you provide your comments using the Template response Document attached hereto as [Appendix 1](#).

You can send your comments to us by email in Swedish, Danish, Finnish, Icelandic or English to:
ExternalConsultation@nasdaq.com

1. INTRODUCTION

This paper summarizes recent improvements to the Nasdaq First North Growth Market Rulebook (the “Rulebook”) and aims at soliciting feedback on the proposed changes to continue to develop Nasdaq First North Growth Market.

The key potential changes described in this document include:

- Strengthening and clarifying the admission requirements.
- Enhancing quality, transparency and clarity to the Rulebook by structural changes, codification of current practices and additional guidance text.

In this consultation paper we refer to the revised Rulebook as the “Proposal”. The Proposal is described in summary in this consultation paper. For a detailed overview, we refer to the attached Proposal as well as attached comparative table between the current applicable Rulebook and the Proposal.

The Proposal is estimated to come into force as of July 1, 2022.

You are hereby welcome to provide comments on the Proposal. Please submit your comments to ExternalConsultation@nasdaq.com no later than 29 April 2022.

2. PROPOSED CHANGES

2.1 Revision of working capital (Rule 2.3.2)

Rule 2.3.2 in the Rulebook sets out the following:

If the Issuer cannot demonstrate profitability, it shall, at the time of admission, have sufficient working capital available for its planned business for at least 12 months after the first day of trading.

Proposed rule text:

2.3.6 Working capital

- a) At the time of admission to trading the Issuer shall be able to demonstrate sufficient working capital for at least 12 months.
- b) The Issuer shall have sufficient working capital on an ongoing basis following admission to trading.

In this context, "sufficient working capital" means that the Issuer shall demonstrate that it possesses sufficient financial resources in order to be able to conduct the planned business, in particular with reference to the Issuer's projected income and costs.

The Proposal aims to make the question of working capital more predictable for companies applying for admission to trading.

With this change issuers will need to have sufficient working capital regardless of the issuer's profitability. It is also clarified how "sufficient working capital" should be understood in this context.

We believe it is important to the investor protection and to the general confidence in the Nasdaq First North that Issuers have in place working capital for the coming 12 months at the point of the admission to trading. The working capital requirement can be fulfilled through capital raised in connection with the listing.

2.2 Revision of Business operations (rule 2.3.3)

Rule 2.3.3 sets out the following:

The Issuer shall be able to demonstrate ongoing business operations.

For the investors to make a well-founded assessment of the Issuer, the Issuer shall have ongoing operations. This means that it is not sufficient that the Issuer has a business idea and financial resources to commence the operations. The business operations may be at an early stage and do not need to be profitable or generate revenue, but must have commenced and, as a general rule, have been conducted

for at least six months. In exceptional cases, a shorter operating history may be accepted, for example where the business operations are linked to assets which are relatively easy to evaluate and where the Issuer has stable and predictable cash flows.

Proposed rule text:

2.3.7 Business operations

The Issuer shall be able to demonstrate ongoing business operations.

It is not sufficient that the Issuer has a business idea and financial resources to commence the operations. The business operations may be at an early stage and do not need to be profitable or generate revenue. At the time of the admission, the Issuer must have conducted its business operations for at least twelve months.

The purpose of the change in the explanatory text is to ensure that conditions exist for investors to adequately evaluate and assess the issuer and to make well-founded investment decisions. For that reason it is required that the issuer have a clear business idea and that the issuer has executed on that business idea by having conducted its business operations for a reasonable period of time. We believe a reasonable period time in this respect is at least 12 months.

2.3 Revision of the Issuer's organization (rule 2.3.4)

Rule 2.9 in the Rulebook sets out the following:

The Board of Directors and the management of the Issuer shall have appropriate qualifications and sufficient competence to govern and manage the Issuer and to comply with the obligations of being admitted to trading on Nasdaq First North Growth Market.

An overall assessment of the appropriateness of the management and the Board of Directors must be made in each individual case, considering for example the size of the Issuer and the business operations. In order for the Board of Directors to be considered appropriate, at least one of the Board members must be independent of the Issuer, its management, and the Issuer's major shareholders. In addition, as a general rule, not more than half of the number of Board members may serve in the Issuer's management, and the entire management may not serve on the Board of Directors. Furthermore, it is only in exceptional cases permissible for both the CEO and the CFO to serve on the Board of Directors. Exceptional circumstances applicable in an individual Issuer may necessitate a stricter requirement regarding independence. For the purpose of the aforementioned, independence shall be defined in the same way as in the corporate governance code in the jurisdiction where the Issuer's financial instruments are admitted to trading, or, if the Issuer applies an equivalent corporate governance code in the country of its incorporation, that code.

The Board of Directors and the management shall have a general understanding of securities market regulation, in particular such rules that are directly attributable to the Issuer and its ongoing admission to trading. Such understanding could be acquired by attending one of the training seminars that are offered by the Exchange, or an equivalent training.

The CEO shall be employed by the Issuer. This requirement may be waived for a shorter period, if duly justified. Only in exceptional situations will it be acceptable that the CEO works on a consultancy basis.

Proposed rule text:

2.3.9 The Issuer's organization

- (a) An overall assessment of the appropriateness of the management and the Board of Directors must be made in each individual case, considering for example the size of the Issuer and the business operations.
- (b) Members of the Board and the management shall have sufficient knowledge about the Issuer and its business and have appropriate understanding of the way the Issuer has structured its internal reporting lines, the management pertaining to financial reporting, its investor relation management and its procedures for disclosing ad hoc and regular information to the stock market.
- (c) The Exchange will consider the members of the Board and the management as being sufficiently familiar with such circumstances if: (i) they have been active in their respective current positions in the Issuer for a period of at least three (3) months; and (ii) they have participated in the production of at least one annual or other financial report issued by the Issuer, prior to the admission to trading.
- (d) Prior to admission to trading, members of the Board of Directors and persons in the management of the Issuer shall participate in a seminar provided by the Exchange concerning the obligations of a listed company.
- (e) The Issuer shall have a CEO. The CEO shall be sufficiently engaged in running and leading/managing the Issuer.

The CEO's role in the Issuer is of crucial importance. It is therefore essential that the CEO be sufficiently engaged in the running of the Issuer. Where the CEO is employed by the Issuer, or within the Issuer's corporate group, sufficient engagement can be presumed. If the CEO is not employed, then the Issuer must demonstrate to the Exchange that the CEO's engagement is nonetheless assured through contractual terms.

- (f) It is not permitted for the Issuer's entire management team to serve on the Board of Directors.
- (g) It is not permitted for both the CEO and the CFO to serve on the Issuer's Board of Directors.
- (h) Not more than half of the number of Board members may serve in the Issuer's management.
- (i) At least one of the Issuer's Board members must be independent of the Issuer, its management, and the Issuer's major shareholders.

Independence shall be defined in the same way as in the corporate governance code in the jurisdiction where the Issuer's Financial Instruments are admitted to trading, or, if the Issuer applies an equivalent corporate governance code in the country of its incorporation, that code.

The purpose of the change is to clarify and strengthen the requirements on the issuer's organization. From a material point of view the change, to a large extent, is a codification of current practices. However, a few new elements are added - see items b and c in the proposed revised rule.

2.4 Revision of Capacity for providing information to the market (rule 2.3.5)

Proposed rule text:

2.3.5 Capacity for providing information to the market

- (c) *The Issuer shall have prepared at least one financial report for publication in accordance with applicable legislation, although this information need not have been disseminated to the market.*

The purpose of adding this rule is to add a clear objective in the assessment of the issuer's capacity for providing financial information to the market.

2.5 Amendment to Content of the Company Description (Rule 3.2.1)

Proposed rule text:

3.2.1 The content of the Company Description

- (c) The Issuer's audited annual financial reports or audited annual financial statements for the last two financial years, as applicable, as well as the general financial trend over the last two years;

The last year of audited annual financial information may not be older than 15 months from the date of the publication of the Company Description, meaning if publication of the Company Description is within the second quarter or later in the financial year audited financial information for the immediate preceding financial year shall be included.

In respect of Issuers with a shorter financial history than two years the Issuer shall include;

- *last audited annual financial report if the Company Description is published in the second quarter or later of the second year of financial history or;*
 - *audited interim financial information covering at least the first six months of the financial year if the Company description is published within the first quarter of the second financial year.*
- (d) The Issuer's most recent financial report. If the Company Description is published more than nine months after the end of the last audited financial year, it shall contain interim financial information covering at least the first six months of the financial year. The financial information shall include comparative statements for the same period in the prior financial year, as applicable;
- (r) A description of potential conflicts of interest related to the listing;
- A description of any interest of natural and legal persons involved in the issue/offer, including a conflict of interest that is material to the issue/offer, detailing the persons involved and the nature of the interest;*

The purpose with the proposed amendments is to provide further clarity as to the required content of the Company Description. Item c) and d) addresses which historical financial information should be included in the Company description and how old the audited financial information can be. Item r) aims to increase transparency regarding potential conflicts of interests, in situation where there is a possible conflict of interest of CA or other advisor used by the issuer.

2.6 Content of Company Description vs SME Growth Prospectus

Since the First North rulebook was last revised in 2019, the EU has introduced the SME Growth Prospectus, which many companies make use of when listing on First North. In certain respects Nasdaq requires more information in a Company Description than what legislation requires in a SME Growth Prospectus. Nasdaq is therefore interested in gathering views as to whether Nasdaq's specific requirements for Company Descriptions should be removed in favour of a reference to the content of a SME Growth Prospectus, i.e. where

a company is underneath the prospectus thresholds and is therefore to prepare a Company Description, the content of that Company Description should be the same as a SME Growth Prospectus.

3. STRUCTURE AND CODIFICATION OF CURRENT PRACTICES

In addition to above specified changes to the admission requirements and contents of the Company Description, the Proposal includes structural changes, codification of current practices, and further guidance text.

3.1 Structural changes

To make the Rulebook more readable and easier to get an overview of some chapters have been restructured.

The Proposal include a new section, Chapter 1 – General provision, gathering general provisions of the Rulebook. The structure of the new section is in essence an alignment with the Main Market rulebook.

All provisions relating to the admission process, as well as the admission requirements have been gathered and restructured in Chapter 2 - Admission to and voluntary removal of financial instruments from trading.

To provide an overview of the different situations where the Issuer is under the obligation to provide information to the Exchange and its Certified Adviser a new Chapter 6 is included in the Proposal. Also, the provisions regarding Observation Status (surveillance actions) have been relocated to this chapter.

The rules applicable on First North Premier have also been moved and are now part of the Rulebook as a separate chapter. However, no changes have been made to the current provisions.

3.2 Clarifications and codifications

The Rulebook has been subject to a number of clarifications and codifications of current practices to make the application of the rules more predictable and transparent.

Some rules have been redrafted to improve the understanding of them and to clarify the purpose of the rules and how to apply them.

A list of definitions has been inserted.

To enhance predictability and transparency, existing practices have been codified – mainly by transforming guidance text that included actual obligations into rule text (Admission process, Sanction screening).

4. NEXT STEPS

This consultation, focused on the areas listed above, is open until 29 April 2022. Thereafter, responses will be compiled and used for articulating concrete drafts of adjusted listing rules and procedures. Our conclusions and final proposal will be communicated to respondents and the market through a response document. The potential changes would be implemented on 1 July 2022.