EUROPEAN COMMISSION
Directorate-General for Financial Stability, Financial Services and Capital Markets Union

FINANCIAL MARKETS
Capital markets union

CONSULTATION DOCUMENT

BUILDING A PROPORTIONATE REGULATORY ENVIRONMENT TO SUPPORT SME LISTING

Disclaimer

This document is a working document of the Commission services for consultation and does not prejudge the final decision that the Commission may take.

The views reflected on this consultation paper provide an identification on the approach the Commission services may take but do not constitute a final policy position or a formal proposal by the European Commission.

Interested parties are invited to provide feedback on the questions raised in this consultation document between **18 December 2017** and **26 February 2018** at the latest to the online questionnaire available on the following webpage:

http://ec.europa.eu/info/consultations/finance-2017-barriers-listing-smes_en

Views are welcome, in particular, from Member States, national competent authorities and ESMA, market participants, such as SMEs (listed SMEs and those seeking a listing), stock exchanges, institutional investors, consumer and investor organisations, brokers specialised in SMEs, key advisers that support SMEs through the IPO stage and other services providers specialised in SMEs.

We invite you to add any documents that you would deem useful to your replies on this website. Please always use this questionnaire even if you would like to submit additional documents.

Please explain your responses and, as far as possible, illustrate them with concrete examples and substantiate them with supporting data. Where appropriate, provide specific operational suggestions to questions raised. Replies limited to "yes" or "no" will not be sufficient for further analytical elaboration.

Do not feel obliged to answer the complete questionnaire. Please select those questions which you deem relevant to answer.

Please note that in order to ensure a fair and transparent consultation process only responses received through the online questionnaire will be taken into account and included in the report summarising the responses.

This consultation follows the normal rules of the European Commission for public consultations. Responses will be published unless respondents indicate otherwise in the online questionnaire.

Responses authorised for publication will be published on the following webpage:

http://ec.europa.eu/info/consultations/finance-2017-barriers-listing-smes_en#contributions

You are invited to read the privacy statement attached to this consultation for information on how your personal data and contribution will be dealt with.

INTRODUCTION

1. Background of this public consultation

Newly listed small and medium-sized enterprises (SMEs) are a key motor of new investment and job creation. Companies recently listed outstrip their privately-owned counterparts in terms of annual growth and workforce increase[1]. The benefits of listing include a reduced dependency on bank financing, a higher degree of diversification of investors, easier access to additional equity capital and debt finance (through secondary offers) and higher public profile and brand recognition. In considering a listing, a firm needs to balance the economic advantages of being listed with both its initial and recurrent costs. From the investors' angle, small caps have a higher risk-return profile than large companies and allow for a higher level of portfolio diversification.

Despite the strong benefits of stock exchange listings, EU public markets for SMEs are struggling. Europe is producing only half of the SME IPOs that it generated before the financial crisis (300 on average from 2005-2007 *vs.* 172 in 2016). From 2005 to 2007, an average of EUR 11 billion was raised annually on European SME-dedicated Multilateral Trading Facilities (MTFs)[2] through initial public offerings (IPOs). This fell to EUR 2.8 billion on average from 2008 to 2015[3]. The situation is especially acute in some Central and Eastern Europe (CEE) Member States, where the market capitalisation of all listed companies can sometimes account for less than 10% of the GDP, and where the SME-dedicated MTF can sometimes count only one listed firm.

The funding gap at the IPO stage has wider consequences on the EU funding escalator. For example, ready access to public markets is an important consideration and can represent an "exit solution" for the investments of venture capital (VC) and private equity funds which back high growth companies at an early stage in their development. As the public markets for SMEs are weak, this deters VC funds from investing in the first place in SMEs. The low number of SME listings also decreases the number of companies that may graduate one day to the main (regulated) markets. Beyond equity markets, bond issuances are still far from widespread for the vast majority of SMEs, despite a number of specialised bond MTFs for smaller companies established in recent years[4].

2. The CMU Mid-term Review and the focus on public markets for SMEs

From the outset, facilitating access to finance for SMEs has been a key goal of the Capital Markets Union (CMU) in order to support jobs and growth in the EU. Since the publication of the Capital Markets Union Action Plan in 2015, many actions were taken to develop adequate sources of funding for SMEs through all their stages of development. For instance, the Commission has taken forward a comprehensive package of legislative and non-legislative measures to scale up Venture Capital financing in Europe.

In June 2017, the CMU Mid-term Review[5] raised the Commission's level of ambition and strengthened its focus on capital-raising by SMEs on public markets. The Commission is now setting in motion several legislative and non-legislative actions aiming to revive the public markets for high growth SMEs. These measures intend to build upon the creation of the 'SME Growth Market'

[1] For example, during the period 2006-2012, the annual turnover of companies listed on NASDAQ OMX's junior market - First North - grew by 25 %, compared to 10 % for private companies in the Nordics.

2 A Multilateral Trading Facility (MTF) is a trading venue where companies may list their financial instruments, with lower regulatory requirements than on main regulated markets.

[3] AFME, *The shortage of Risk Capital for Europe's High Growth Businesses*, 2017

[4] OECD, Opportunities and Constraints of Market-based financing for SMEs, 2015

[5] Communication from the Commission on the mid-term review of the capital markets union action plan ({SWD(2017) 224 final} and {SWD(2017) 225 final} – 8 June 2017) (https://ec.europa.eu/info/sites/info/files/communication-cmu-mid-term-review-june2017_en.pdf)

concept, a new type of MTF introduced by Markets in Financial Instruments Directive II[6] (and applicable as of January 2018). The SME Growth Market framework was developed to acknowledge the special needs of SMEs entering the equity and bond market for the first time. Several EU Acts already refer to this new form of trading venues in order to provide alleviations and ease the listing of SMEs.

The Commission has committed to conducting an impact assessment that will explore whether targeted amendments to relevant EU legislation could deliver a more proportionate regulatory environment to support SME listing on public markets. The objective of this work is to further alleviate the administrative burden on listed SMEs and revive the local ecosystems surrounding SME-dedicated markets, while keeping investor protection and market integrity unharmed. This workstream also aims to enhance the SME Growth Markets' prospects of success.

In the context of the CMU, progress has already been made in easing capital-raising by SMEs on public markets. The revised Prospectus Regulation[7] has created an alleviated 'EU Growth Prospectus'. The Commission is now working with the European Parliament, the Member States, and ESMA to put in place implementing measures on the content and format of this new form of prospectus.

However, more needs to be done on the regulatory side to ensure that SMEs can reap the full benefits of access to public markets, and especially to SME Growth Markets. In a resolution adopted on 19 January 2016, the European Parliament also called on the Commission and the Member States "*to make active use of the SME Growth Market category in future financial services regulation*". On 29 June 2017, the Council underlined that it *'welcome[d] the Commission's commitment to deliver a more proportionate regulatory environment to support SME listing on public markets, which – coupled with related non legislative actions – would further promote the development of equity capital markets across all Member States'*[8].

The Commission has therefore committed to exploring avenues to tailor and complement the provisions applicable to the future 'SME Growth Markets' and their issuers. While MiFID II legislation will enter into force in January 2018, the provisions of the Market Abuse Regulation[9] (MAR) are already applicable to MTFs which may seek registration as SME Growth Markets. Lessons can be drawn from the experience of these MTF issuers in order to identify ways to improve and complement the SME Growth Market framework. Apart from reviewing the scope of the SME Growth Market concept and one operational provision (on tick sizes for SME Growth markets), this workstream does not entail revisiting the MiFID II/MiFIR[10] legislation.

3. Responding to this consultation and follow up to the consultation

In this context and in line with Better Regulation principles[11], the Commission has decided to launch an open public consultation designed to gather evidence on regulatory barriers to SME listings.

This consultation document contains **two separate sections**.

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6 Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Directive 2002/92/EC and Directive 2011/61/EU

7 Regulation (EU) 2017/1129 of the European Parliament and of the Council of 14 June 2017 on the prospectus to be published when securities are offered to the public or admitted to trading on a regulated market

8 Council conclusions on the Commission Communication on the mid-term review of the Capital Markets Union Action Plan (11 July 2017) (http://www.consilium.europa.eu/en/press/press-releases/2017/07/11-conclusions-mid-term-review-capital-markets-union-action-plan/)

9 Regulation (EU) No 596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse (market abuse regulation)

10 Regulation (EU) No 600/2014 of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Regulation (EU) No 648/2012

11 https://ec.europa.eu/info/law/law-making-process/better-regulation-why-and-how_en

The **first section** aims to capture views from all stakeholders on the main challenges that SME-dedicated markets are currently facing. Stakeholders' responses will help identify the main drivers behind the downward trend of SME IPOs and bond issuances and estimate their scale. The replies will also help the Commission determine the priorities for policy actions (including regulatory ones).

The **second section** will allow the Commission to assess the impact of possible changes to EU legislation on the basis of proposals already put forward by stakeholders in the context of previous public consultations (the CMU public consultation[12], the Call for evidence on the EU regulatory framework for financial services[13] and the CMU MTR public consultation[14]) and technical workshops held in 2016 and 2017. This second section is therefore narrowly framed around a number of well-defined issues. Stakeholders are also invited to draw the attention of the Commission to any further regulatory impediments that would not be mentioned in this second part and that could be tackled through this initiative. The results should provide a basis for concrete and coherent action, by way of a legislative action if required.

While responding to the regulatory barriers consulted on, two principles should be kept in mind. First, this review of regulatory barriers to SME listing should not undermine investor protection and market integrity or aim to modify core principles of EU acts that were crucial in restoring confidence in financial markets (e.g. the extension of the market abuse regime to MTFs under MAR). Second, the focus of this public consultation is on "SME Growth Markets" as created by MiFID II and the companies that can be listed on those trading venues.

PUBLIC CONSULTATION

I. QUESTIONS ON CHALLENGES FACED BY PUBLIC MARKETS FOR SMEs

Extensive research and exchanges with stakeholders showed that three main drivers seem to explain the sluggish activity of EU public markets for SMEs.

First, there is a weak pipeline of companies seeking a listing. Many SMEs would still consider that the burden of being listed (such as admission and ongoing compliance costs) outweighs the benefits and therefore would not even consider this possibility. The lack of business education and awareness on alternative sources of finance would also constrain the supply of companies seeking a listing. Moreover, some owners are reluctant to raise equity finance on public markets by fear of losing control of their business to new shareholders.

Second, the local ecosystems that are able to support companies at the IPO stage (i.e. the network of SME specialists surrounding the local exchanges) are under pressure in many Member States. IPOs and debt offerings on public markets are the result of joint efforts between SMEs and investment banks, research analysts, brokers, market-makers, investors, credit rating agencies, lawyers and accountants specialised in SMEs and who support those companies at the IPO stage and throughout the floatation process. The decline of ecosystems seems to be particularly acute for equity brokers specialising in SMEs. Due to regulatory and technological changes, equity trading is focusing on large caps, thus leading to a decline in the liquidity of SME shares. This low liquidity can deter investors from investing in SME shares in the first place and drives the cost of capital up for SMEs. As liquidity is weak, brokers specialised in SMEs also experience a decline in their brokerage fees. One

[12] Green Paper on building a Capital Markets Union (http://ec.europa.eu/finance/consultations/2015/capital-markets-union/index_en.htm)

[13] Call evidence on the EU framework of financial services (http://ec.europa.eu/finance/consultations/2015/financial-regulatory-framework-review/index_en.htm);

[14] Public consultation on the capital markets union mid-term review 2017 (https://ec.europa.eu/info/consultations/public-consultation-capital-markets-union-mid-term-review-2017_en)

consequence of this decline in local ecosystems is the rise in the costs of SME IPOs, as SMEs are compelled to rely on larger market players' services when going public.

Third, there is a lack of institutional and retail investors for SME financial instruments. Several factors might explain this situation, such as regulatory barriers to investments in SMEs, lack of visibility of SMEs towards investors, lower investor confidence in this asset class and lack of tax incentives. As a small proportion of investment is effectively channelled into SME shares, there is little motivation for small companies to list their shares or bonds on a stock exchange.

In order to collect further evidence, the Commission is seeking general views on the main reasons behind the weakness of EU public markets for SMEs.

Questions:

1. In your opinion, what is the importance of each of the factors listed below in explaining the weakness of EU SME-dedicated markets (please rate each proposal from 1 to 5, 1 standing for "not important factor" and 5 for "very important factor"):

	1	2	3	4	5	No opinion
low number of companies coming to the public markets						
decline of local ecosystems						
lack of retail and institutional investors						
Other – please specify in the textbox below						

Please explain and describe the current situation of SME-dedicated markets in your own jurisdiction or countries of operations. **[textbox]**

2. What are the main factors that can explain the low number of SMEs seeking an admission of their shares or bonds to trading on EU public markets? (Please rate each proposal by level of relevance from 1 to 5, 1 standing for "completely irrelevant" and 5 for "highly relevant"):

	1	2	3	4	5	No opinion
Availability of alternative sources of financing for SMEs (including bank finance):						
• For equity						
• For bonds						
Lack of awareness of SMEs on the benefits of public markets:						
• For equity						
• For bonds						
High (admission and ongoing) compliance costs due to regulatory constraints						
• For equity						
• For bonds						
Lack of preparation from companies' management as regards the implication of a listing						
• For equity issuance						
• For bond issuance						
Reluctance of SMEs' owners to relinquish a stake in the capital of their company (for equity)						
Other (please specify)						

Please illustrate by providing evidence from your own jurisdiction. **[textbox]**

3. What are the main factors that inhibit institutional and retail investments in SME shares and bonds? (Please rate each proposal by level of relevance from 1 to 5, 1 standing for "completely irrelevant" and 5 for "highly relevant"):

	1	2	3	4	5	No opinion
Lack of visibility of SMEs (including lack of financial research and credit information) towards investors						
• For equity						
• For bonds						
Differences in local accounting standards hindering cross-border investments						
Regulatory constraints on investors as regards investments in SMEs						
Lack of liquidity on SME shares and bond markets:						
• For equity						
• For bonds						
Lack of investor confidence in listed SMEs						
Lack of tax incentives						
Other (please specify)						

Please illustrate by providing evidence from your own jurisdiction. **[textbox]**

4. In your opinion, what participants of the ecosystems surrounding local exchanges for SMEs are declining the most? (Please rate each proposal by level of relevance from 1 to 5, 1 standing for "completely irrelevant" and 5 for "highly relevant" – some options might not be mutually exclusive):

	1	2	3	4	5	No opinion
Brokers, market-makers, liquidity suppliers						
Financial research providers						
Credit Rating Agencies						
Investor base						
Investment banks						
Boutiques specialised in SMEs and offering several services (brokerage, research, underwriting…)						
Legal and tax advisers						
Accountants						
Others (please specify)						

Please illustrate by providing evidence from your own jurisdiction. **[textbox]**

5. What are the main reasons behind the decline of the ecosystems surrounding the local exchanges? (please rate each proposal by level of relevance from 1 to 5, 1 standing for "completely irrelevant" and 5 for "highly relevant"):

	1	2	3	4	5	No opinion
Impact of low level of liquidity on brokers' business models :						
• For equity						
• For bonds						
Impact of low level of investors' appetite for SME instruments						

• For equity						
• For bonds						
Regulatory constraints on investment services providers specialised in SMEs						
Lack of profitability of the SME segment						
• For equity						
• For bonds						
Other (please specify)						

Please illustrate by providing evidence from your own jurisdiction. **[textbox]**

II. QUESTIONS ON SPECIFIC REGULATORY BARRIERS

The second part of the public consultation is divided into three sub-sections. The first sub-section identifies provisions that could be changed in order to encourage SME-dedicated MTFs to seek a registration as an 'SME Growth Market' (**A.**). The second sub-section examines provisions that could be potentially modified in order to alleviate the administrative burden on small issuers of debt and equity instruments, thus making the listing of companies on an SME Growth Market more attractive (**B.**). The last sub-section explores barriers that may put the local ecosystems surrounding the SME-dedicated markets (notably the brokerage ecosystem) under pressure (**C.**).

A. Making a success of the 'SME Growth Market' concept

Criteria and requirements in relation to the 'SME Growth Market' should be set in a way that makes this segment attractive for issuers, investors and stock exchanges, while ensuring investor protection and market integrity. The Commission is seeking views to assess whether MiFID II rules on SME Growth Markets as currently framed are sufficiently well-calibrated to achieve their intended objectives.

1. Definition of an SME Growth Market and SME Growth Market issuer (MiFID II – Articles 4 and 33)

The criteria defining an SME Growth Market should be well-calibrated in order to facilitate the registration of SME-dedicated MTFs as SME Growth Markets. In turn, if the SME Growth Market framework is widely used, this will allow many SMEs across the EU to benefit from the regulatory incentives embedded in the EU legislation for those issuers and the potential further alleviations envisaged in this document (see sub-section B. below).

An 'SME Growth Market' is currently defined as an MTF, where at least 50% of the issuers whose financial instruments are traded on the MTF are SMEs. MiFID defines an SME as a company that *'had an average market capitalisation of less than EUR 200 million on the basis of end-year quotes for the previous three calendar years'*.

As regards the size threshold (i.e. EUR 200 million of market capitalisation), it should be noted that some EU Acts currently grant regulatory incentives to companies with a higher market capitalisation[15]. Furthermore, the definition of an SME under MiFID II does not correspond to the

[15] For instance, the alleviated 'EU Growth Prospectus', created by the revised Prospectus Regulation, is available (beyond SMEs) to companies listed on an SME Growth Market with a market capitalisation up to EUR 500 million. The European Long-Term Investment Funds Regulation allows those funds to invest into companies listed on a MTF (including SME Growth Markets) with a market capitalisation up to EUR 500 million.

definition of small and midcaps used by asset managers of equity funds[16] and in indexes[17]. If the market capitalisation threshold is set at a too low level, the SME Growth Markets risk capturing only smaller companies and this could reduce the interest of institutional investors in the shares traded on those trading venues. On the contrary, if the threshold is set at a too high level, this could create regulatory arbitrage opportunities for larger companies.

As regards the requirement of having at least 50% of SME issuers, it can be important to ensure that a proportion of large companies can be admitted to trading on SME Growth Markets so that a sufficient level of liquidity and profitability of those platforms is ensured. This allows successful companies that were SMEs at the time of the IPO but whose market capitalisation has increased beyond the EUR 200 million threshold to remain listed on an SME Growth Market. However, if the market capitalisation threshold (i.e. EUR 200 million) was raised to a significant extent, the question would arise whether the proportion of SMEs (at least 50%) should also be raised to avoid any regulatory arbitrage by non-SME issuers.

Questions:

6. Given the considerations mentioned above, do you consider that the criteria used to define an SME Growth Market[18] should be modified?
   - Yes
   - No
   - Don't know/no opinion

   Please explain your reasoning. **[textbox]**

7. Should the market capitalisation threshold of EUR 200 million defining SMEs under MiFID II be:

raised (please specify an appropriate market capitalisation threshold)	
decreased (please specify an appropriate market capitalisation threshold)	
left unchanged	
replaced by another criterion (Please specify below – e.g. turnover, number of employees…)	
Other (please specify)	
Don't know / No opinion	

   Please explain your reasoning. Where relevant, please specify appropriate market capitalisation thresholds or criteria to define an SME for the purpose of SME Growth Markets. **[textbox]**

8. Bearing in mind your answer to the previous question, should the proportion of SMEs on SME Growth Markets (currently 50%) be:

Below 25%	
Between 25%-49%	
Unchanged (50%)	
Between 51%-74%	

[16] See classification of Equity Funds by EFAMA (https://www.efama.org/Publications/Public/European_Fund_Classification/EFC%20Categories%20Report.pdf)

[17] For instance, the median capitalisation of companies in the Morgan Stanley Capital International (MSCI) micro caps index is EUR 100 million; EUR 1 billion for companies included in the small caps index and EUR 6.4 billion in the midcaps index (Source: MiddleNext, *The 2017 Small & Mid Cap Outlook*).

[18] An SME Growth Market is defined as a MTF, where at least 50% of the issuers whose financial instruments are traded on it are SMEs with a market capitalisation below EUR 200 million

75% or above	
Don't know / No opinion	

Please explain your reasoning. **[textbox]**

2. Definition of an SME debt issuer for the purpose of an SME Growth Market (MiFID II – Article 4)

There are several markets across the EU specialised in SME bonds[19]. SMEs tapping the bond markets have an annual turnover between EUR 19 million and EUR 400 million and the typical minimum issuance size is around EUR 17 million[20].

An issuer that has no equity instrument traded on any trading venue shall be deemed an SME according to level 2 of MiFID II[21] if it meets at least two of the following three criteria according to its last annual or consolidated account: (i) an average number of employees during the financial year of less than 250; (ii) a total balance sheet not exceeding EUR 43 million and (iii) an annual net turnover not exceeding EUR 50 million. Given these provisions, SME bond markets could face difficulty in registering as SME Growth Markets, as their issuers could most likely not meet the criteria set in MiFID II level 2, despite their relatively small size.

Question:

9. Should the criteria used to define an SME Growth Market[22] non-equity issuer be modified?
   - Yes
   - No
   - Don't know/no opinion

   Please explain your reasoning. If you answered affirmatively, please provide appropriate criteria (turnover, outstanding issues of debt securities, size of the bond issuance…) and thresholds to define an SME Growth Market debt issuer. [**textbox]**

3. Key adviser requirements

The vast majority of SME-dedicated MTFs across the EU require their issuers to be assisted by a key adviser[23], i.e. a market professional approved by the exchange. The key adviser plays a prominent role by assessing the company's suitability for the market, bridging the information gap between quoted SMEs and investors and upholding the reputation and integrity of the market. A 'key adviser' on SME Growth Markets could boost investor confidence in securities listed on those trading venues that have no such requirements at the moment.

However, the role of a key adviser can vary greatly from one SME-dedicated MTF to another. For instance, some markets do not require issuers to have a key adviser for SME listing (due to the costs of such advisers for SMEs).

Question:

[20] SME Finance Guide, Association for Financial Markets in Europe (AFME), 2015

[21] Art. 77 of the Commission Delegated Regulation (EU) 2017/565

[22] An SME Growth Market is defined as a MTF where at least 50% of the issuers whose financial instruments are traded on it are SMEs with a market capitalisation below EUR 200 million

[23] The name of this key adviser can vary from one MTF to another: Nominated Adviser or NOMAD, certified adviser, authorised adviser, listing sponsor…

10. Please indicate whether or not you agree with the following statements regarding minimum requirements and obligations of key advisers for firms listed on SME Growth Markets (please rate each proposal from 1 to 5, 1 standing for "completely disagree" and 5 for "fully agree"):

	1	2	3	4	5	No opinion
A key adviser should be imposed for equity issuers on an SME Growth Market						
A key adviser should be imposed for bond issuers on an SME Growth Market						
A key adviser should be mandatory during the whole period an SME is listed						
A key adviser should only be mandatory during a limited period after the first listing of a firm (please specify below the relevant period (1 year, 3 years; ….)						
Minimum requirements regarding the mission and obligations of key advisers on SME Growth Markets should be imposed at the EU level (Please specify)						
Minimum requirements regarding the mission and obligations of key advisers on SME Growth Markets should be imposed by individual stock exchanges						

Please explain your reasoning and provide supporting evidence on the costs associated with the appointment of a key adviser. If appropriate, please specify the mission and obligations that should be placed on key advisers at EU level. **[textbox]**

4. Delisting rules on SME Growth Markets

Delisting refers to cancelling a company's authorisation to be listed on a stock exchange. Delisting can be mandatory or voluntary. A mandatory delisting follows a decision of the stock exchange when the listing requirements are no longer met by a company. A voluntary delisting may be decided by a controlling shareholder, either after enhancement of control by a 'historical' controlling stakeholder or by a new owner after a takeover bid[24] or a merger. In general, such delisting decisions usually give rise to a 'squeeze out' procedure[25]. Voluntary delisting may also be decided by the management's company, and results in the company continuing as an unquoted company with the same shareholder register.

Voluntary delisting can be an important part of the regulatory landscape for investors and SMEs. The rules on delisting can vary from country to country or from market to market and investors can be deterred from investing in the first place (especially in a cross-border context) if they anticipate difficulties in gaining full control of a listed SME and in delisting its shares. Likewise, some companies can be deterred from going public because they consider a listing of their shares to be a 'one-way ticket' and that they cannot go back to their previous (unlisted) situation. However, even if a decision to delist taken by the management's company is based on sensible grounds, this raises some fundamental investor protection issues[26].

[24] It should be noted that the Takeover Bid Directive (Directive 2004/25/EC) does not apply to financial instruments traded on multilateral trading facilities, including SME Growth markets (http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=celex%3A32004L0025).

[25] Squeeze-outs can be described as transactions in which the controlling shareholder exercises a legal right to buy out the shares of the minority.

[26] For instance, some institutional investors may be prohibited from holding unquoted shares. A delisting also changes the way a company is run as going private implies a lower level of regulatory requirements. When the delisting decision is announced, shareholders may try to sell their shares as soon as possible, which can result in a decline in share price.

Question:

11. In your opinion, are there merits in imposing minimum requirements at EU level for the delisting of SME Growth Market Issuers?

Completely disagree	
Rather disagree	
Neutral	
Rather agree	
Fully agree	
Don't know / No opinion	

Please explain your reasoning. If you answered affirmatively, please indicate the scope (mandatory, voluntary delisting at the management's and/or controlling shareholders' initiative) and the features of such minimum requirements. **[textbox]**

5. Transfer of listings

Small caps listed on regulated markets can find it increasingly difficult to comply with some regulatory requirements (such as the Transparency Directive[27], the Shareholders Rights Directive[28]). Furthermore, many midcaps on regulated markets can feel that their market capitalisation makes them candidates for SME Growth Markets. In such a case, quoted SMEs may consider a voluntary transfer of their shares from a regulated market to a market with a lighter regulatory burden (i.e. the future SME Growth Markets). However, such transfers may imply some investor protection issues[29] and can be difficult to organise for SMEs. In addition, the legal framework of such transfers can vary from one Member State to another.

Question:

12. In your opinion, are there merits in introducing harmonised rules at EU level on voluntary transfer of listing from a regulated market to an SME Growth Market?

Completely disagree	
Rather disagree	
Neutral	
Rather agree	
Fully agree	
Don't know / No opinion	

Please explain your reasoning. If you answered affirmatively, please indicate examples of rules and their purpose. **[textbox]**

On the other hand, SME Growth Markets should only be a step in the growth path of SMEs. When their capitalisation has grown, SME Growth Markets issuers should be encouraged to graduate to a main/regulated market, in order to benefit from greater liquidity, investor pool, and credibility. This would also help avoid situations of regulatory arbitrage where large corporates remain listed on SME-dedicated exchanges for the purpose of benefiting from exemptions. The question arises if the

[27] Directive 2004/109/EC of the European Parliament and of the Council on the harmonisation of transparency requirements in relation to information about issuers whose securities are admitted to trading on a regulated market

[28] Directive 2007/36/EC as regards the encouragement of long-term shareholder engagement

[29] For instance, some institutional investors may be prohibited from holding shares listed on MTFs.

transfer of SME Growth Markets issuers to regulated markets should be required or incentivised (through regulatory measures) when those issuers have reached a certain size.

Question:

13. In your opinion, should the transfer of issuers from an SME Growth Market to a regulated market be:
(please rate each proposal from 1 to 5, 1 standing for "completely disagree" and 5 for "fully agree")

	1	2	3	4	5	No opinion
required when the issuer exceeds some thresholds (such as the market capitalisation)						
incentivised through regulatory measures when they exceed some thresholds (such as the market capitalisation)						
always left to the discretion of issuers and not required or incentivised by regulatory measures						
Other (please specify in the textbox below)						
Don't know/no opinion						

Please explain your reasoning and supporting arguments/evidence. When relevant, please indicate appropriate thresholds or possible incentives for SME Growth Market issuers to move to a regulated market. **[textbox]**

B. Alleviating the administrative burden on SME Growth Market issuers

Disclosure and transparency rules are the hallmarks of sound and fair market places. From the perspective of SMEs, those rules can be seen as burdensome and costly. It is critical to ensure that the benefits of being listed continue to outweigh the costs. If the standards are too strict, the resulting compliance costs may discourage listings by SMEs. On the contrary, if the standards are too lax, investor protection and confidence may be jeopardised and some investors might choose not to invest in SME securities. The objective of this sub-section B is to identify scope for reducing obligations placed on the future SME Growth Markets issuers while maintaining a high level of investor protection and market integrity on those markets.

Questions:

14. Please indicate whether you agree with the statements below (please rate each proposal from 1 to 5, 1 standing for "completely disagree" and 5 for "fully agree"):

Regulatory alleviations should be restricted to:	1	2	3	4	5	No opinion
SMEs listed on SME Growth Markets						
All SME Growth Markets issuers						
No regulatory alleviations should be granted for any kind of firm						

Please explain your reasoning. **[textbox]**

15. For each of the provisions listed below, please indicate how burdensome the EU regulation associated with equity and bond listings on SME dedicated markets is (please rate each proposal from 1 to 5, 1 standing for "not burdensome at all" and 5 for "very burdensome"):

	1	2	3	4	5	No opinion
Management's transactions						
Insider lists						
Justification of the delay in disclosing inside information						
Market soundings						
Disclosure of inside information by non-equity issuers						
Half-yearly reports for SME Growth Market issuers						
Other (please specify in the textbox below)						

Please explain your reasoning. **[textbox]**

For each of the following questions in sub-section B, you will be asked to provide cost estimates for the provisions you identified as burdensome, as well as estimate the reduction in costs for the alleviations you identified as meaningful.

1. Management's transactions (Market Abuse Regulation – Art. 19)

Under MAR, the Person Discharging Managerial Responsibilities (PDMR) or associated person must notify the issuer (either on a regulated market or an SME Growth Market) and the competent authority of every transaction conducted for their own account relating to those financial instruments, no later than three business days after the transaction. The obligation to disclose a manager's transaction only applies once the PDMR's transactions have reached a cumulative EUR 5,000 within a calendar year (with no netting). A national competent authority may decide to increase the threshold to EUR 20,000.

Issuers must ensure that transactions by PDMRs and persons closely associated with are publicly disclosed promptly and no later than three business days after the transaction. Alternatively, national laws may provide that a competent authority may itself make the information public.

Questions:

16. Does the management's transactions regime represent a significant administrative burden for SME Growth Markets issuers and their managers?

Completely disagree	
Rather disagree	
Neutral	
Rather agree	
Fully agree	
Don't know / No opinion	

Please explain your reasoning and provide supporting evidence, notably in terms of costs (one-off and ongoing costs)/time spent (number of hours)/number of people needed (in full-time equivalent)[30]. **[textbox]**

[30] In 2011, a study from EIM (Effects of possible changes to the Market Abuse Directive, p.39 - https://ec.europa.eu/info/file/32841/download_en?token=QuJ78GNo) estimated that for an SME, the annual average cost related to

17. Please indicate if you would support the following changes or clarifications to the management's transactions regime for SME Growth Markets:

	I support	I don't support	Justify
a) The time limit (i.e. currently 3 days) for PDMRs and person closely associated to notify their transactions to the issuer should be extended	Please indicate the appropriate notification period length		**[textbox]**
b) The threshold (i.e. EUR 5,000) above which managers of SME Growth Markets Issuers should declare their transactions should be raised	Please indicate the appropriate threshold		**[textbox]**
c) The national competent authorities (NCA) should always be made responsible for making public the managers' transactions			**[textbox]**
d) The trading venue should be made responsible for making public the managers' transaction			**[textbox]**
e) The time limit for issuers to make management's transactions public (or notify the NCA when the latter is made responsible for making the manager's transaction public) should start as of the date the transactions have been notified to issuers (and not as from the date of transactions)	Please indicate the appropriate time period length		
f) other (please specify)	**[textbox]**		

Please explain your reasoning and provide supporting arguments/evidence, in particular in terms of savings/reduction in costs, or in terms of additional costs, that any change of the currently applicable rules may induce. **[textbox]**

2. Insider lists (Market Abuse Regulation – Art. 18)

Issuers must draw up a list of all persons who have access to inside information. The 'insider list' must be regularly updated and transmitted to the National Competent Authority (NCA) whenever requested. Lists must be retained for at least five years.

The Market Abuse Regulation already provides for alleviations for SME Growth Markets Issuers[31]. Those issuers are exempt from keeping insider lists on an ongoing basis, as long as (i) the issuer takes all reasonable steps to ensure that any person with access to information acknowledges the legal and regulatory duties which follow and is aware of sanctions applicable, and (ii) the issuer is able to provide the NCA, on request, with the insider list.

Questions:

18. What is the impact of the alleviation provided by MAR for SME Growth Market issuers as regards insider lists? Please illustrate and quantify, notably in terms of reduction in costs

manager transaction reports was at EUR 135 per year (and 3 hours spent per issuer per year). In 2015, a study from Europe Economics (Data gathering and Cost Analysis on Daft Technical standards relating to MAR, p.59-60 - https://www.esma.europa.eu/sites/default/files/library/2015/11/cost_analysis_u_for_final_report_on_mar_technical_standards_0.pdf) estimated the one-off compliance costs for technical standards on management's transactions at between EUR 300 and EUR 500 for a small issuer and between EUR 3.400 and EUR 4.900 for a medium-sized issuer. The annual ongoing compliance costs were estimated at EUR 0 for a small issuer and at EUR 200 per year for a medium-sized issuer.

[31] Art. 18(6) of MAR

(one-off and ongoing) /in time spent (number of hours)/in number of people needed (in full-time equivalent)[32] resulting from the alleviation. **[textbox]**

19. Please indicate whether you agree with the statements below (please rate each proposal from 1 to 5, 1 standing for "completely disagree" and 5 for "fully agree"):

SME Growth Market issuers should be...	1	2	3	4	5	No opinion
Obliged to maintain insider lists on an ongoing basis						
Obliged to submit insider lists when requested by the NCA (as provided by MAR)						
Obliged to maintain a list of 'permanent insiders' (i.e. persons who have a 'regular access to insider information')						
Exempted from keeping insider lists						
Other (please specify)						

Please explain your reasoning and provide supporting arguments/evidence, in particular in terms of savings/reduction in costs, or in terms of additional costs, that any change of the currently applicable rules may induce. **[textbox]**

3. Justification of the delay in disclosing inside information (Market Abuse Regulation – Art.17)

An issuer shall disclose the inside information concerning its financial instruments as soon as possible. The issuer can delay the disclosure of this information in certain cases in order to avoid harming its legitimate interests. However, once it discloses inside information, it must inform its NCA and justify the delay. Depending on the option chosen by the Member State, this written explanation justifying the delay should be provided: (i) in all circumstances, or (ii) only when the national competent authority requests it.

The implementing legislation of MAR[33] requires that issuers deciding to delay the announcement of inside information record and document in writing a list of information ('disclosure record'), including – amongst many other facts and figures – the time and date when such information came to exist, when the decision was taken to delay its disclosure, the identity of the persons who adopted the decision and are responsible for constantly monitoring the conditions of the delay, and the manner in which the prerequisite conditions for such delay were met.

Question:

20. Please indicate whether you agree with the following statements (please rate each proposal from 1 to 5, 1 standing for "completely disagree" and 5 for "fully agree"):

	1	2	3	4	5	No opinion
The written explanation justifying the delay to communicate inside information by SME Growth Market issuers should be						

[32] In 2011, a study from EIM (Effects of possible changes to the Market Abuse Directive, p.39 https://ec.europa.eu/info/file/32841/download_en?token=QuJ78GNo) estimated that for an SME, the annual average cost related to insider lists was at EUR 945 per year (and 21 hours spent per issuer and per year). In 2015, a study from Europe Economics (Data gathering and Cost Analysis on Daft Technical standards relating to MAR, p.59-60 - https://www.esma.europa.eu/sites/default/files/library/2015/11/cost_analysis_u_for_final_report_on_mar_technical_standards_0.pdf) estimated the one-off compliance costs for technical standards on insider lists at between EUR 300 and EUR 600 for a small issuer and between EUR 3.300 and EUR 5.800 for a medium-sized issuer. The annual ongoing compliance costs were estimated at between EUR 600 and 800 for a small issuer and between EUR 3.300 and 5.500 per year for a medium-sized issuer.

[33] Commission Implementing Regulation (EU) 2016/1055

submitted only upon request from the NCA						
SME Growth Market issuers should be exempted from the obligation of keeping a 'disclosure record'						

Please explain your reasoning and illustrate the impact in terms of cost (one-off and ongoing costs)/time spent (number of hours)/number of people needed (in full-time equivalent)[34]. **[textbox]**

4. Market soundings (Market Abuse Regulation – Art. 11)

Market soundings are a communication of information, prior to the announcement of a transaction, in order to gauge the interest of potential investors in a possible transaction and the conditions relating to it such as its potential size or pricing, to one or more potential investors[35].

The market sounding rules could raise issues for SME issuers, in particular when they issue some privately placed bonds. Private placement transactions of debt instruments can sometimes take the form of listed bonds. This is the case notably in France ('Euro-PP' when issued in a listed bond format), in Italy (the so-called 'Mini-bond' markets) and in Spain (on the *Mercado Alternativo de Renta Fija* – 'MARF'). In general, such transactions are not subject to a prospectus requirement because they rely on the 'qualified investors' or high denomination bond exemptions. However, they do fall under the scope of market sounding rules as the privately placed bonds are admitted to trading on an MTF.

When a privately placed bond transaction is prepared, the goal is not to contact a few selected investors to identify certain specific terms of a transaction with a view to maximising its chances of success, but rather to identify potential investors with whom all the terms of the privately placed bond transaction (including contractual terms) will be negotiated. In the past, some Member States established an 'accepted market practice' (under the Market Abuse Directive) recognising that private placements of bonds were outside the scope of market sounding rules[36].

Question:

21. Should private placement of bonds on SME Growth Markets be exempted from market sounding rules when investors are involved in the negotiations of the issuance?

Completely disagree	
Rather disagree	
Neutral	
Rather agree	
Fully agree	
Don't know / No opinion	

[34] In 2011, a study from EIM (Effects of possible changes to the Market Abuse Directive, p.39 - https://ec.europa.eu/info/file/32841/download_en?token=QuJ78GNo) considered that, for an SME, the annual average costs related to administrative burdens related to reporting decision to delayed disclosure was estimated at EUR 1,755 per year (and 39 hours spent per issuer per year). For another cost estimate, see also: Europe Economics, Data gathering and Cost Analysis on Daft Technical standards relating to MAR, p.51.
https://www.esma.europa.eu/sites/default/files/library/2015/11/cost_analysis_u_for_final_report_on_mar_technical_standards_0.pdf

[35] Article 11 only applies to discussions regarding transactions in Article 2.1 of MAR, which provides that MAR applies to financial instruments admitted to trading on either a regulated market, an MTF or an OTF or for which a request for admission to trading on such a venue has been made.

[36] See 'Norme professionnelle AMAFI relative aux sondages de marché et aux tests investisseur' in France.

Please explain and illustrate your reasoning, notably in terms of costs (one-off and ongoing costs)/time spent (number of hours)/number of people needed (in full-time equivalent). **[textbox]**

5. Disclosure of inside information for SME Growth Markets Issuers of bonds only

MAR has extended the scope of the market abuse regime to MTFs, including those where debt instruments are traded. Some market participants underline that plain vanilla bonds[37] are less exposed to risks of market abuse due to the nature of the instrument. While the prices of equity financial instruments can be influenced by the publication of (negative or positive) inside information about the firm, the key variables that would impact the price of the plain vanilla bonds would be market risk, liquidity risk and credit risk. Bondholders would not be able to act on those variables while the only factor that could be influenced by the issuer is the likelihood of default. As a consequence, some stakeholders have argued that the disclosure of all inside information (either positive or negative) for debt issuers only would be burdensome and not justified.

Question:

22. Please indicate whether you agree with the following statements (please rate each proposal from 1 to 5, 1 standing for "completely disagree" and 5 for "fully agree"):

SME Growth markets issuers that only issue plain vanilla bonds should…	1	2	3	4	5	No opinion
have the same disclosure requirements as equity issuers on SME Growth markets						
disclose only information that is likely to impair their ability to repay their debt						

Please explain and illustrate your reasoning, notably in terms of costs (one-off and ongoing costs)[38]/time spent (number of hours)/number of people needed (in full-time equivalent). **[textbox]**

6. Half-yearly reports for SME Growth Market Issuers

The level 2 of MiFID II[39] requires SME Growth Markets issuers to publish annual financial reports within six months after the end of each financial year and half-yearly financial reports within four months after the end of the first six months of each financial year. MiFID II does not prescribe the form that such financial reporting should take. Financial reporting provided on a half-yearly basis is usually welcomed by investors and contributes to attracting interest in the company. In practice, the vast majority of SME-dedicated markets already ask for the publication of both annual and half-yearly reports. However, some market participants have indicated that the publication of such half-yearly information represents a time-consuming and costly obligation for SMEs.

Question:

23. Should the obligation of SME Growth Market issuers to publish half-yearly report be (you may select several answers):

[37] A plain vanilla bond is a bond without any unusual features; it is one of the simplest forms of bond with a fixed coupon and a defined maturity and is usually issued and redeemed at the face value. It is also known as a straight bond or a bullet bond.

[38] See cost estimates on technical means for disclosure for public disclosure of inside information and delays (Europe Economics, Data gathering and Cost Analysis on Daft Technical standards relating to MAR, p.51 - https://www.esma.europa.eu/sites/default/files/library/2015/11/cost_analysis_u_for_final_report_on_mar_technical_standards_0.pdf).

[39] Delegated Regulation (EU) 2017/565 Article 78(2) point g.

Mandatory for SME Growth Markets equity issuers	
Mandatory for SME Growth Markets debt issuers	
Left to the discretion of the trading venue (through its listing rules) for SME Growth Markets equity issuers	
Left to the discretion of the trading venue (through its listing rules) for SME Growth Markets debt issuers	
Removed for all the SME Growth Market equity issuers	
Removed for all the SME Growth Market debt issuers	
Other	
Don't know / No opinion	

Please explain and illustrate your reasoning, notably in terms of costs/time spent (number of hours)/number of people needed (in full-time equivalent). **[textbox]**

C. Fostering the local ecosystems for SME Growth Markets and enhancing liquidity

Public markets for SMEs need to be supported by a healthy ecosystem (i.e. a network of brokers, equity analysts, credit rating agencies, investors specialised in SMEs) that can bring small firms seeking a listing to the market and support them after the IPO. The decline of those local ecosystems that can cater to SMEs' specific needs impedes the functioning and deepening of public markets and reduces the willingness of SMEs to seek a listing. One reason behind this decline of ecosystems is often attributed to the low level of liquidity on SME-dedicated markets that can deter institutional investors from investing in SME shares and undermine the brokers' business model. As a consequence, this sub-section places a strong focus on how to foster liquidity on SME Growth Markets.

1. 'Tick size' regime of SME Growth Markets (Art. 49 – MiFID II)

MiFID II[40] requires trading venues (including SME Growth Markets) to adopt minimum tick sizes (i.e. the minimum increment in which a security can be traded) in relation to equity and certain equity-like instruments, in order to ensure the orderly functioning of the markets and mitigate the risk of an ever-decreasing tick size. The level 2 of MiFID II specifies the minimum tick size regime which applies to those instruments depending on their liquidity and price level.

While lower tick sizes would contribute to the reduction in trading costs, tick sizes also have an impact on the spread between sellers and buyers of securities and consequently may influence the incentives of intermediaries (brokers) to trade those instruments and earn income from their activity. In the US, the low tick sizes are seen as a potential reason behind the erosion of the ecosystem for listing SMEs, since they allegedly undermined the business models of the mid-cap brokers. This is why a new pilot project of larger tick sizes for smaller caps has been introduced in the US[41]. Based on the preliminary results of this pilot programme, the US Treasury has recently recommended that the Securities Exchange Commission evaluate allowing issuers, in consultation with their listing exchange, to determine the tick size for trading of their stock across all exchanges[42].

[40] Art. 49 of MiFID II in combination with Art. 18(5).

[41] https://www.sec.gov/news/pressrelease/2015-82.html

[42] US Treasury, A Financial System That Creates Economic Opportunities, October 2017 (https://www.treasury.gov/press-center/press-releases/Documents/A-Financial-System-Capital-Markets-FINAL-FINAL.pdf)

In the EU, SME Growth Markets can decide to establish larger tick sizes than those specified by the MiFID II framework. However, in practice, this may be challenging for SME Growth Markets to depart from the minimum EU requirements and establish higher tick size standards[43].

Questions:

24. Which of the following options best reflect your opinion on the impact that the minimum tick size regime provided by MiFID II would have on the liquidity and spreads of shares traded on SME Growth Markets:

	No impact	Lead to minor increase	Lead to significant increase	Lead to minor decrease	Lead to significant decrease	No opinion
Impact of the minimum tick size regime on the **liquidity** of shares traded on SME Growth Markets						
Inpact of the minimum tick size regime on the **spreads** of shares traded on SME Growth Markets						

Please explain your reasoning and provide supporting evidence. **[textbox]**

25. Please indicate whether you agree with the following statements (please rate each proposal from 1 to 5, 1 standing for "completely disagree" and 5 for "fully agree"):

	1	2	3	4	5	No opinion
Market operators should be given the flexibility not to apply the minimum EU tick size regime on their SME Growth Markets						
Market operators should be given another form of flexibility as regards the EU minimum tick size regime on their SME Growth Markets						

Please explain your reasoning. If appropriate, please describe the form that this flexibility should take. **[textbox]**

2. Creating a liquidity provision contract available for all SME Growth Market Issuers across the EU (MAR - Accepted Market Practice – Art. 11)

MAR prohibits market manipulation. Some practices are not qualified as market abuses where the transaction, order or behaviour was carried out for legitimate reasons and in accordance with an accepted market practice ('AMP') formally established by a national regulator.

For an accepted market practice to be established a national regulator must notify ESMA. ESMA then issues an opinion assessing whether the AMP would threaten market confidence in the EU's financial market. For the time being, only five Member States have tried to make liquidity provision contract recognised as an AMP under MAR. It means that liquidity provision contracts can still be qualified as a manipulative practice by certain competent authorities in other Members States. As a result, in 23 Member States, some SME Growth Markets issuers are deprived from the possibility to establish a liquidity contract with an investment firm. However, this mechanism could improve the liquidity of

[43] If a trading venue adopts higher tick sizes than those provided by the EU legislation, this decision only applies to the trading venue concerned and does not prevent other trading venues that quote the same shares to adopt lower tick sizes (in the limit of the minimum tick sizes requirements specified by MiFID II). Furthermore, it can be difficult for an SME Growth Markets to justify higher tick sizes than the EU minimum requirements towards its clients.

SME shares and attract the interest of new investors for SME shares, while creating more business opportunities for midcaps brokers.

Question:

26. Building on the ESMA's opinion[44], would there be merits in creating an EU framework on liquidity contracts that would be available for all SME Growth Market issuers across the EU?
    - Yes
    - No
    - Don't know/no opinion
    - Other

    Please explain your reasoning and provide supporting arguments/evidence. If you answered affirmatively, please describe the conditions for such EU framework for liquidity contracts **[textbox]**.

3. Free float requirement on SME Growth Markets

When an SME goes public, it is likely that there will be a low level of free float (i.e. the percentage of shares that can be freely traded)[45]. Limited free float may contribute to the low level of liquidity as it may limit the opportunities of day-to-day trading. To mitigate this risk, the listing rules of several SME-dedicated markets require companies to comply with free float requirements (expressed in a percentage of shares or in a fixed amount of capital, for instance) and/or a minimum capitalisation threshold before admitting SME shares to trading. Other SME-dedicated markets do not impose such requirements as this can make the listing unattractive for the company's owners. Currently MiFID II does not impose that SME Growth Markets impose a minimum free float (and/or a minimum capitalisation) criteria.

Question:

27. Which of the following options best reflects your opinion on the application of a rule on minimum free float:

A rule on minimum free float should be introduced in the EU legislation with criteria and thresholds determined at EU level	
A rule on minimum free float should be introduced by the EU legislation with criteria and thresholds left to the discretion of the SME Growth Market operator (through its listing rules)	
No rule on minimum free float should be introduced in the EU legislation	
Other – please specify in the textbox below	
Don’t know / No opinion	

Please explain your reasoning, notably on the advantages and disadvantages of the introduction – at the EU level – of minimum free float requirements. Specify appropriate criteria and thresholds if you consider that such minimum free float rule should be introduced and determined at EU level. **[textbox]**

[44] 'Points for convergence in relation to MAR accepted market practices on liquidity contracts' in May 2017

[45] This can be explained by different factors: (i) the smaller capitalisation of SMEs limits the total number of shares available to trade; (ii) smaller size also means that institutional investors' holdings tend to be large compared to the total number of shares issued and the 'buy and hold' strategy generally followed by those investors further reduces the available free float (iii) the percentage of shares in public hands can also be limited by the significant stake in the ownership that the company's founders retain.

4. Institutional investors' participation in SME shares and bonds

There is a need to consider what can be done to diversify and grow the investor base for SME shares. The Commission has recently adopted regulatory initiatives to improve the ability of institutional investors to invest in SME shares. For example, the revised EuVECA regulation[46] – recently approved by the co-legislators – allow EuVECA funds to invest in SMEs listed on an SME growth market. The recent European Long-Term Investment Funds (ELTIFs) shall invest at least 70% of their money in certain type of assets among which SMEs listed on regulated market or MTFs and with a market capitalisation below EUR 500 million. Finally, with regards to investments made by insurance companies, a recent amendment to the Solvency II Delegated Regulation[47] (that came into force in March 2016) grants equities traded on MTFs (including the future SME Growth Markets) the same treatment as equities traded on regulated markets. However, some barriers to investment in SMEs may still exist.

Question:

28. Please describe any regulatory barriers to institutional investments in SME shares or bonds listed on SME Growth Markets or MTFs. **[textbox]**

5. Credit assessments and ratings for SME bond issuers

Credit assessments and ratings can facilitate SME access to bond markets. They contain valuable information for participants in corporate bond markets, influencing profoundly investment decisions. They help investors assess credit risk and hence price in the probability of default. Therefore, many institutional investors have concentration limits in their portfolios based on credit assessments and ratings and require bonds to be rated, preferably by a Credit Rating Agency (CRA) – as regulated by the Credit Rating Agencies Regulation.

However, many SMEs seeking to issue bonds are not rated by CRAs. The costs SMEs have to bear for obtaining a rating from a CRA can be disproportionately high when compared to the average size of the issue. In the past, investment banks operating in some Member States used to issue "unsolicited ratings on SMEs". This practice increased the transparency and visibility of SMEs towards some institutional investors but was not compatible with the CRA regulation, as those investment banks were not registered as CRA. The Commission is seeking views on whether some market players should be allowed to publish "unsolicited credit ratings" on SME Growth Market issuers, provided that those ratings would not be used by institutional investors (such as insurance companies and credit institutions) for regulatory purposes.

Questions:

29. Which steps could be taken to facilitate SME bond issuances on SME Growth Markets without incurring high costs for assessing creditworthiness of issuers? **[textbox]**

30. What would be the risks associated with a more flexible approach to 'unsolicited credit ratings' by market players other than CRAs and what might be done to mitigate them? **[textbox]**

[46] Regulation (EU) 2017/1991 of the European Parliament and of the Council of 25 October 2017 amending Regulation (EU) No 345/2013 on European venture capital funds and Regulation (EU) No 346/2013 on European social entrepreneurship funds

[47] Commission Delegated Regulation (EU) 2016/467 of 30 September 2015 amending Commission Delegated Regulation (EU) 2015/35 concerning the calculation of regulatory capital requirements for several categories of assets held by insurance and reinsurance undertakings

General questions:

31. Please indicate the areas and provisions where policy action would be most needed and have most impact to foster SME listings of shares and bonds on SME Growth Markets (please rate each proposal from 1 to 5, 1 standing for "no positive impact" and 5 for "very significant positive impact"):

	1	2	3	4	5	No opinion
Criteria to define an SME Growth Market						
Market capitalisation threshold defining an SME debt issuer						
Key adviser requirement						
Delisting rules on SME Growth Markets						
Transfer of listings from a regulated market to an SME Growth Markets						
Transfer of listings from an SME Growth Market to a regulated market						
Management's transactions						
Insider lists						
Justification of the delay in disclosing inside information						
Market soundings						
Disclosure of inside information for bond issuers						
Half-yearly reports for SME Growth Market issuers						
Tick size regime for SME Growth Markets						
Liquidity provision contracts						
Free float requirements						
Institutional investors' participation in SME shares and bonds						
Credit assessments and ratings for SME bond issuers						

32. You are kindly invited to make additional comments on this consultation if you consider that some areas have not been covered above. Please include examples and evidence. **[textbox]**

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