



REGULATORY BARRIERS TO SME LISTING – TECHNICAL WORKSHOP (28 NOVEMBER 2017)

INTRODUCTION

Purpose and structure of the document

The Capital Markets Union (CMU) Mid-term Review (MTR)¹ (published in June 2017) strengthens the focus on capital-raising by SMEs on public markets. The Commission has raised its level of ambition and sets in motion several legislative and non-legislative actions aiming to revive the public markets for SMEs and high growth companies. In particular, the Commission committed to *'exploring through an impact assessment whether targeted amendments to relevant EU legislation could deliver a more proportionate regulatory environment to support SME listing on public markets, which could lead to targeted changes in sectoral legislation in Q2 2018'*.

To deliver on this commitment, the Commission would like to collect the views of experts and practitioners in the field. Hence, in addition to a formal public consultation that will shortly be published, the Commission has decided to hold two technical workshops (the first one with representatives of EU stock-exchanges organised on 14 November 2017; the second one with representatives of issuers, investors, some investment services providers specialised in SMEs and key advisers on 28 November 2017).

The purpose of this document is to inform the workshop participants on how the Commission envisages implementing this workstream and to fuel the discussions at the workshops.

The document is structured in the following topics for discussion with the workshop participants:

- (1) Background of this initiative;
- (2) Objectives and scope of the review of regulatory barriers to SME listing;

¹ 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)

- (3) Consultation Strategy;
- (4) Content of the public consultation;
- (5) Next steps.

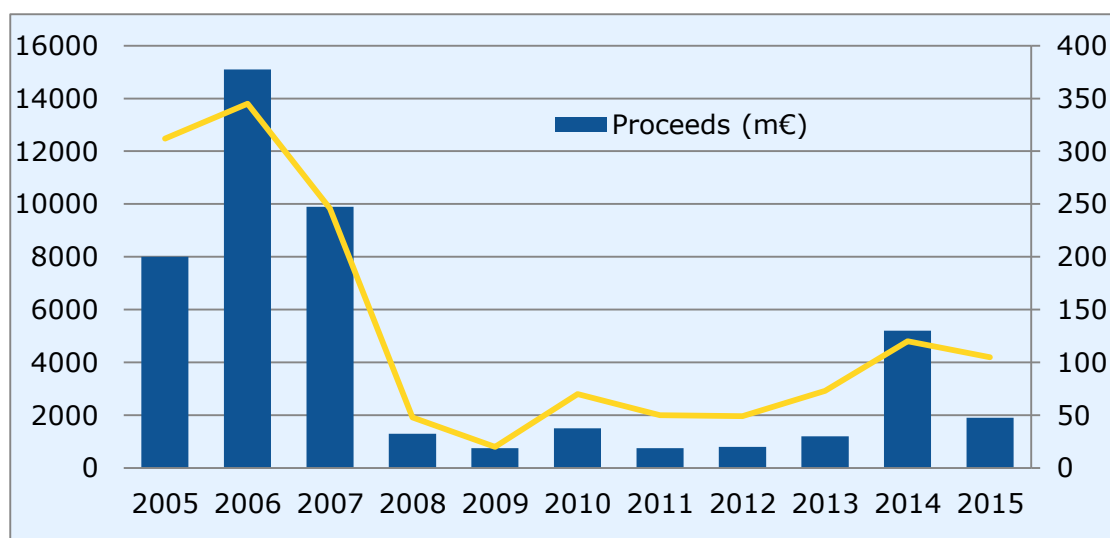
The workshop participants are encouraged to provide the Commission with data and anecdotal evidence on the development of their SME equity and bond markets.

1. BACKGROUND OF THIS INITIATIVE

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. The benefits of listing include a reduced dependency on bank financing, 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. 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 IPOs on average in the period 2005-2007 vs. 161 IPOs on average from 2008 to 2015). From 2005 to 2007, an average of EUR 11 billion was raised annually on European SME-dedicated Multilateral Trading Facilities (MTFs) through initial public offerings (IPOs). This fell to EUR 2.8 billion from 2008 to 2015. The situation is especially acute in some Central and Eastern (CEE) Member States, where the market capitalisation of all listed companies can sometimes account to less than 10% of the GDP and where the SME-dedicated MTF can count only one listed firm.

Exhibit 1: IPO proceeds and number of deals on European junior markets



Source: Dealogic

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 for venture capital (VC) and private equity funds which back high growth companies at an early stage in their development and "exit solutions" for their investments. 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) European markets.

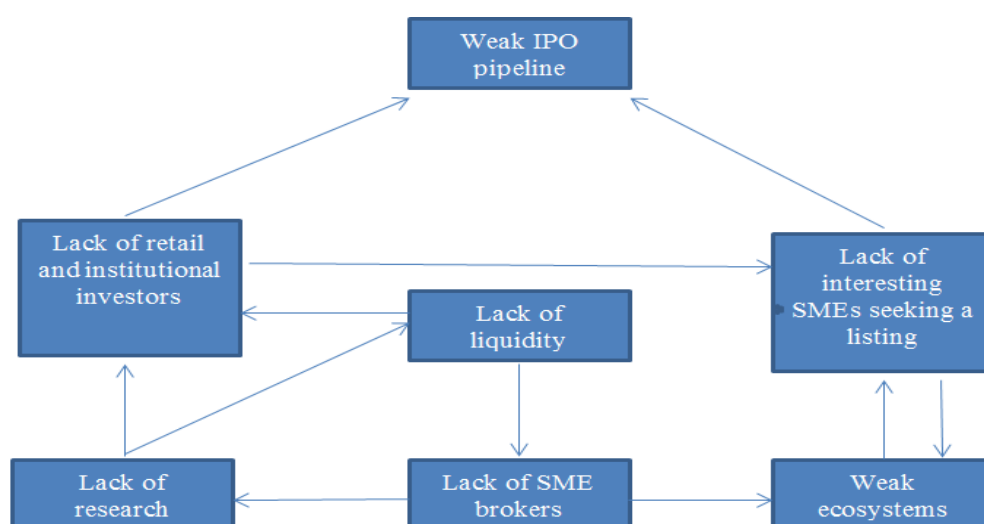
Three main drivers seem to explain this downward trend:

1. There is a weak pipeline of companies seeking a listing. Many SMEs still consider that the burden of being listed (such as admission and ongoing costs) will outweigh the benefits and so will not even consider this route. The lack of business education and awareness on alternative sources of finance also constrains the supply of companies seeking a listing.

2. The local ecosystems (i.e. the network of SME specialists surrounding the local exchanges) which are able to support companies at the IPO stage are under pressure in many Member States. The decline of ecosystems is 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. As liquidity is weak, brokers specialised in SMEs also experience a decline in their brokerage fees. One 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.

3. There is currently a mismatch between capital demand and capital supply for SME shares and bonds. European households and institutional investors have a lot of savings that are looking for attractive returns. Smaller listed companies typically outperform the benchmarks for large corporates. However, only a small proportion of investment is effectively channelled into SME shares. As a consequence, there is little motivation for small companies to list their shares on a stock exchange.

Exhibit 1: The SME-dedicated markets conundrum (Source: European Commission)



These challenges are not unique to the EU but they are also observed in other leading capital markets and in particular in the US. The substantial drop in the number of small IPOs in the US has led to policy recalibrations, such as the Jumpstart Our Business Startups (JOBS) Act, enacted in April 2012², as an effort to ease the burden

² <http://www.gpo.gov/fdsys/pkg/BILLS-112hr3606enr/pdf/BILLS-112hr3606enr.pdf>

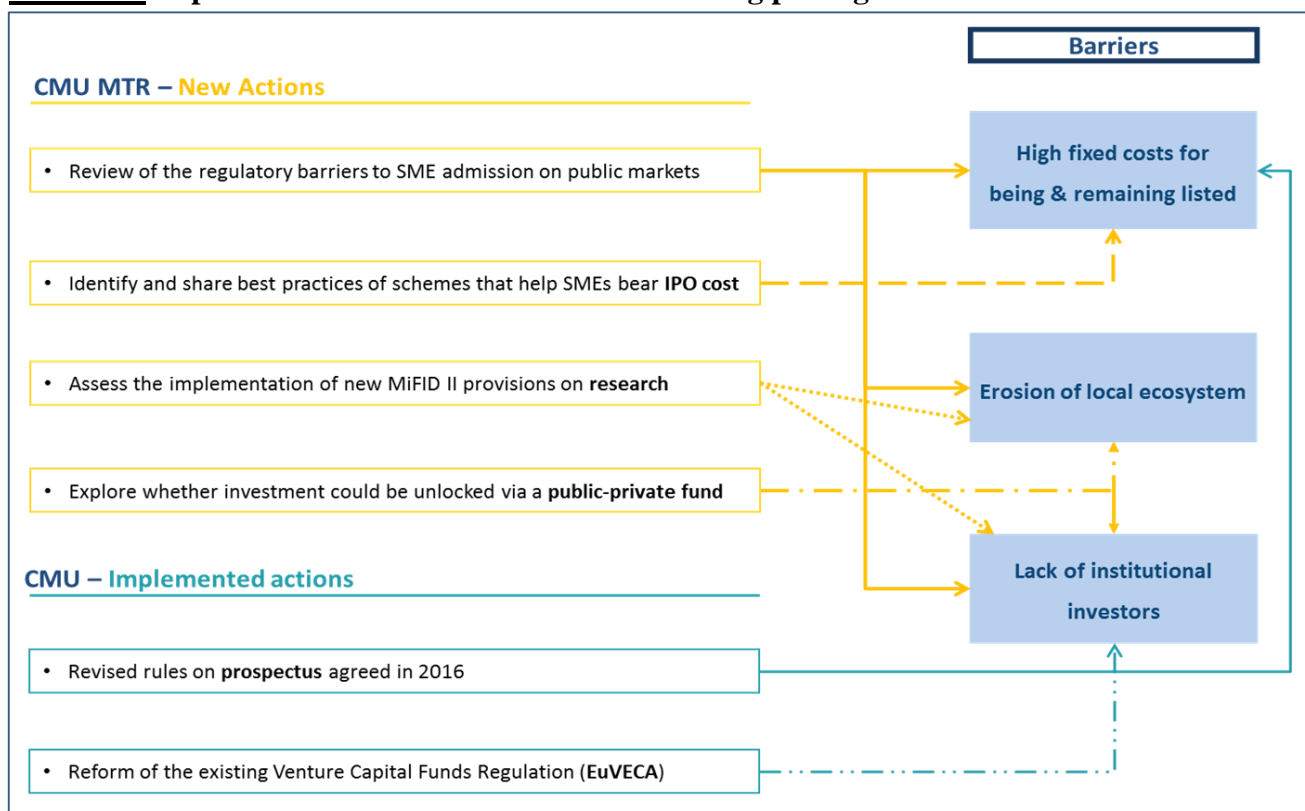
on smaller issuers and facilitate capital formation. The US Treasury has also recently released a report³, which identifies numerous ways to reduce the burden on companies that are looking to go public, while maintaining strong investor protection. This includes recommendations to tailor the disclosure requirements for companies based on their size, as well as a reflexion on tick sizes especially for less liquid shares.

The Commission is well-aware that there is no 'silver bullet' to restore the SME IPO markets across the EU. That is why the CMU MTR includes a comprehensive package of legislative and non-legislative measures to fix Europe's broken IPO pipeline:

1. Building on the conclusions of the Call for Evidence, **the Commission committed to assessing the impact of MiFID II level 2 rules requiring the unbundling of research from trading commissions on SME equity research coverage by Q1 2019.** This assessment will be carried out by an external contractor and the Commission will shortly publish a call for tender to select a contractor.
2. The Commission will identify and share best practices of financial schemes set up by national promotional banks and that help SMEs bear the IPO costs on public markets.
3. The Commission will explore how an EU financial support (from a public-private investment fund) can contribute to addressing the funding gap faced by SMEs at the IPO stage.
4. The Commission will continue working with the International Accounting Standard Board (IASB) and all interested stakeholders to improve IFRS acceptance by developing an application toolbox and by clarifying disclosures for SMEs through the IASB's Disclosure Initiative.
5. Last but not least, **the Commission has committed to publishing 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.**

³ 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>)

Exhibit 2: Expected outcomes of the CMU 'SME listing package'



2. OBJECTIVES AND SCOPE OF THE REVIEW OF REGULATORY BARRIERS TO LISTED SMEs (TOWARDS AN EU 'SMALL LISTED COMPANY ACT')

This review will have three distinct objectives.

First, it will aim to make a success of the 'SME Growth Market' concept, a new category of Multilateral Trading Facilities ('MTF') created by MiFID II, as of January 2018. This objective is in line with a resolution adopted on 19 January 2016 by the European Parliament that called *"on the Commission and the Member States to make active use of the SME Growth Market category in future financial services regulation"*.

We expect to improve and complement this regulatory framework, but also to make it more attractive and responsive to the situation of midcaps and SME-dedicated markets in Europe, especially those established in Member States with high catch-up potential. If the registration by SME-dedicated MTFs as SME Growth Markets is facilitated, this means that more issuers - and notably SMEs - will be able to benefit from the current regulatory incentives applying to SME Growth Markets issuers and the potential further alleviations that could be implemented through the 'Small Listed Company Act'.

Second, the aim of this review is to identify areas where the administrative burden placed on SMEs listed on SME Growth Markets can be lightened, while maintaining a high level of investor protection.

This review could lead to targeted changes principally to the Market Abuse Regulation (MAR). Since July 2016, the provisions of MAR have been applicable to MTFs which may seek a registration as SME Growth Markets. Lessons can be drawn from the Call for evidence as well as the experience of these MTF issuers in order to identify ways to

alleviate the administrative constraints on the future SME Growth Markets issuers. However, this review of regulatory barriers to SME listing should not undermine investor protection and market integrity or aim to modify core principles of MAR that were crucial in restoring confidence in financial markets (such, as the extension of the market abuse regime to MTFs).

Third, the review will aim to revive the local ecosystems (i.e. the network of specialist services providers, such as the brokers) surrounding the exchanges and that support listed SMEs. The review will explore whether some measures can enhance liquidity on SME instruments, as the lack of liquidity on SME markets is the main factor undermining the midcaps brokers' business models and can deter institutional investors from investing in this asset class. Furthermore, the Commission will also assess whether further targeted measures could foster institutional investor participation in SME securities and if the credit assessments and ratings of SME bonds could be facilitated.

The Commission considers that SMEs listed on regulated markets should remain outside the scope of this exercise. Requirements imposed on regulated market issuers should apply in a similar way regardless of the size of the company. Different requirements for SMEs compared to large caps are likely to confuse stakeholders (in particular investors). Therefore, this workstream will not interfere with the Rulebook applicable to regulated market issuers (such as the Transparency Directive, the Shareholders' Rights Directive, The Takeover Bid Directive...). **It will be strictly confined to SME Growth Markets and companies listed on those trading venues.**

Finally, apart from reviewing the scope of the SME Growth Market concept (in particular the definition of SMEs) and one operational provision (on tick sizes for SME Growth Markets), this workstream does not entail revisiting the MiFID II/MiFIR package.

3. CONSULTATION STRATEGY

To carry out this impact assessment, the Commission will rely on preparatory works that have already been conducted. For instance, the Commission will rely on the stakeholders' contributions to several previous public consultations, such as the CMU public consultation (Spring 2015), the Call for evidence on the EU regulatory framework for financial services (autumn 2015) and the CMU mid-term review public consultation (Winter 2017). The Commission will also use the valuable insights collected through two workshops organised in October and December 2016 on 'Barriers to listing for SMEs', which brought together trading venues, small issuers, investors, services providers specialised in SMEs (brokers, certified advisors, accountants....) and some representatives of public institutions (ESMA, OECD, EBRD and IASB).

To complement this, the Commission should also launch an open public consultation. It is needed to better secure an inclusive approach, where all concerned parties are given the opportunity to formally contribute, and rule out any possibility to question the robustness and credibility of the legislative process underpinning a potential legislative proposal. Furthermore, it will help collect additional relevant input to further support the impact assessment and test the merits or demerits of possible avenues for legislative amendments.

This public consultation should be launched in late November 2017. It would be opened for 8 or 12 weeks. **This public consultation would take place in parallel with the two workshops with market professionals organised on 14 and 28 November 2017.**

4. CONTENT OF THE PUBLIC CONSULTATION/TOPICS FOR DISCUSSIONS AT THE WORKSHOP

The public consultation and the technical workshops will focus on three broad categories of issues. They will seek to identify how the 'SME Growth Market' concept, created by MiFID II, can be further improved (4.1). The aim of the consultation will be to identify areas where the administrative burden placed on listed SMEs can be lightened (4.2) and where some targeted regulatory changes could help (re)build the local ecosystems surrounding SME-dedicated exchanges (4.3).

At workshops, the participants will be encouraged to express their views on those topics and mention any other aspects of the EU Rulebook applying to listed SMEs, SME Growth Markets and investment services providers specialised in small and midcaps that could be subject of the review.

4.1. Making a success of SME Growth Markets

Criteria and requirements in relation to the 'SME Growth Market' should be set in a way that makes it attractive for issuers, investors and stock exchanges but at the same time ensures investor protection and market integrity. The framework should also be sensitive to the specific needs of small and midcaps while minimising opportunity for regulatory arbitrage by larger companies. The Commission will seek stakeholders' views on five different issues:

1) Definition of SME Growth Markets: An 'SME Growth Market' is currently defined as an MTF, where at least 50% of the issuers whose financial instruments are traded on it 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'*. The Commission will welcome views on the impact of modifying the definition of SME Growth Market, and notably the definition of an equity issuer on SME Growth Markets.

2) Definition of an SME Growth Market debt issuer: The level 2 of MiFID II states that issuers which have no equity instrument traded on any trading venue shall be deemed an SME provided that, according to its last annual or consolidated accounts, it meets at least two of the following three criteria: (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. This can prove to be a restrictive set of requirements. The Commission will seek views on whether the definition of an SME debt issuer for the purpose of SME Growth Markets should be reviewed to accommodate SME Growth Markets that will list non-equity financial instruments.

3) Key advisors requirements: The vast majority of SME-dedicated MTFs across the EU requires that the companies are assisted by a key adviser. Those key advisers guarantee the quality of the companies quoted on the market and uphold the reputation and integrity of the market. A 'key advisor' on SME Growth Markets could boost investor confidence in securities listed on those trading venues that have no such requirement at

the moment. The Commission will seek views on potential benefits and drawbacks of imposing on SME Growth Market issuers the obligation to retain a key adviser. The Commission will also welcome views on what should be the obligations of 'key advisers'.

4) Delisting rules on SME Growth Markets: Voluntary delisting can be an important part of the regulatory landscape for investors and SMEs. Investors can be deterred from investing in the first place (especially in a cross-border context) because they might face difficulty to gain full control of a listed SME and delist its shares. Likewise, some companies can be deterred from going public because they consider that a listing of their shares is a 'one way ticket' and cannot come back to their previous (unlisted) situation. Even if a decision to delist is taken based on sensitive grounds, this raises some fundamental investor protection issues. Rules on delisting applying to companies listed on SME-dedicated MTFs vary from market to market or from country to country. The Commission will seek views on whether there are merits to consider minimum harmonised requirements when a delisting of an SME Growth Market issuer is envisaged.

5) Transfer of listings:

- **From a regulated market to SME Growth Markets:** 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 market with stricter listing requirements (i.e. a regulated market) to a market with a lighter regulatory burden (i.e. future SME Growth Markets). However, such transfer may imply some investor protection issues and can be complicated to organise for SMEs. Furthermore, the legal framework of such transfers can vary from country to country. The Commission will welcome views on whether common requirements on such voluntary transfer of listing should be introduced in the EU legislation.

- **From the SME Growth Markets to a regulated market:** 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 allow avoiding situations of regulatory arbitrage where large corporates remain listed on SME-dedicated exchanges for the purpose of benefiting from exemptions. The question arises as to whether the transfer of SME Growth Markets issuers to regulated markets should be required when those issuers have reached a certain size.

4.2. Alleviating the administrative burden on SME Growth Markets

It is critical 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 may be jeopardised and some investors might not invest in SME securities. The Commission will seek views based on experience with the implementation of MAR to MTFs whether some provisions can be reviewed. The objective is to identify scope for reducing obligations placed on the future SME Growth Markets issuers while maintaining a high level of investor protection on those markets.

Five different issues will be examined:

1) Insider lists: Under MAR, 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

NCA whenever requested. MAR already provides alleviations for SME Growth Markets Issuers. The Commission is interested in views on the impact of the alleviations provided by MAR for SME Growth Market issuers. The Commission will seek views on whether SME Growth Market issuers should be exempted from the obligation to maintain 'insider lists' or if their obligation should be limited to keeping a list of permanent insiders.

2) Management's transactions: Under MAR, the Person Discharging Managerial Responsibilities (PDMR) or associated person must notify the issuer and the national competent authority of every transaction conducted for their own account relating to those financial instruments, no later than three business days after the transaction. 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 law may provide that a competent authority may itself make public the information.

The Commission is seeking views on the management's transactions regime, its impact on SME Growth Market issuers and suggestions for targeted modifications (extension of the notification period, increased threshold above which the managers' transaction shall be declared, disclosure of the managers' transaction by the NCAs and not by the SME Growth market issuers...).

3) Delay in the disclosure of inside information: 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 the inside information, it must inform its national competent authority explaining the reasons which justify the delay. Depending on the option chosen by the Member State, this written explanation justifying the delay should be provided either: (i) in all circumstances, or (ii) only when the national competent authority requests it. The implementing legislation of MAR requires that those issuers who decide to delay the announcement of inside information record and document in writing a list of information ('disclosure record').

The Commission will welcome views on whether this regime, as framed, is adapted to the situation of SME Growth Market issuers. The Commission will welcome views on whether the written explanation justifying the delay to communicate inside information by SME Growth Market Issuers should only be submitted when a specific request has been sent by the NCA. Furthermore, the Commission will assess whether SME Growth Markets should be exempted from the obligation of keeping a 'disclosure record'.

4) Market sounding rules for private placements of bonds: Private placement transactions of debt instruments can sometimes take the form of listed bonds on SME-dedicated markets. This is the case notably in France (the 'Euro-PP' market when issued in a listed bond format), in Italy (the so-called 'Mini-bond' markets) and in Spain (*Mercado Alternativo de Renta Fija* – 'MARF').

In the definition of a market sounding, the purpose is to gauge the interest of potential investors in a possible transaction and the conditions relating to it (size, pricing etc.). 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, at least one Member State established an 'accepted market

practice' (under the 'Market Abuse Directive') recognising that private placement of bonds were outside the scope of market sounding rules.

The Commission is seeking views on the consequences of exempting private placement of bonds on SME Growth Markets from market sounding rules, when investors are involved in the negotiations of the contractual terms of the issuance.

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

Some market participants underline that plain vanilla bonds 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 not be justified and burdensome. Therefore, the Commission is seeking views on whether there would be advantages to require SME Growth markets issuers that only issue plain vanilla bonds to limit their disclosure requirements to information that is likely to impair their ability to repay their debt.

4.3. Fostering the local ecosystems for SME Growth Markets

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 SMEs) that brings small firms seeking a listing to the market and support them after the IPO. Those local ecosystems are struggling in many Member States. The decline is particularly acute for equity brokers specialising in SMEs that experience a decline in their brokerage fees due to low levels of liquidity. The Commission is interested in views about ways to improve the situation of local ecosystems surrounding SME-dedicated markets and notably: the brokerage ecosystems (by enhancing liquidity on those trading venues), the institutional investor base for SME shares and the credit assessments and ratings of SME bonds.

1) Enhancing liquidity on SME Growth Markets: The Commission will seek views on three different potential issues that might have an influence on liquidity of SME shares:

- **EU 'tick size regimes' for SME Growth Markets:** Tick sizes 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. MiFID II requires trading venues (including SME Growth Markets) to adopt minimum tick sizes. In the EU, market operators and investment firms operating an SME Growth Markets can decide to establish larger tick sizes than those specified by the MiFID II framework. In practice, this may be challenging for SME Growth Markets to depart from the minimum EU requirements and establish higher tick size standards. The Commission welcomes views on whether more flexibility should be granted to market operators and investment firms operating an SME Growth market as regards the EU minimum tick size regime and how this flexibility could be implemented.
- **Liquidity contracts for SME Growth markets:** A liquidity provision contract is an agreement by which an issuer entrusts a financial intermediary with the task of

enhancing the liquidity of the issuer's financial instruments'. For the time being, only five Member States have tried to make liquidity provision contract recognised as an Accepted Market Practice under MAR. It means that liquidity provisions contracts can still be qualified as a manipulative practice by certain in other Members States. The end result is that, in 23 Member States, some SME Growth Markets issuers are deprived from the possibility to establish a liquidity contract with an investment firm. The Commission is seeking views on whether a liquidity contract framework should be introduced in the EU legislation to allow all the SME Growth Market issuers to conclude this type of arrangements and enhance liquidity of their shares.

- **Free float requirements:** When an SME goes public on an SME-dedicated market, it is likely that there will be a low level of free float (i.e. the percentage of shares that can be freely traded). Limited free float may contribute to the low level of liquidity as it may limit the opportunities of day-to-day trading. Currently MiFID II does not require SME Growth Markets to impose a minimum free float (and/or a minimum capitalisation) criteria. The Commission is seeking views on whether such minimum requirements should be introduced when companies are seeking admission to trading on an SME Growth Market.

2) Institutional investors' participation in SME shares and bonds: The Commission has recently adopted regulatory initiatives (European Long Term Investment Funds, the review of EuVECA Funds) to improve the ability of institutional investors to invest in SME shares. However, some barriers to institutional investments in SME shares and bonds may still exist. The Commission would also like to assess whether further targeted measures could foster institutional investor participation.

3) Credit assessments and ratings for SME bond issuers: Credit assessments and ratings can facilitate SME access to bond markets. However, many SMEs seeking to issue bonds are not rated by Credit Rating Agencies (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. The Commission is seeking views on whether some investment firms 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.

5. NEXT STEPS

The public consultation on 'barriers to listing for SMEs' will be shortly available and will be opened for two or three months. The Commission will then analyse the feedback received from stakeholders and integrate their views in the impact assessment underpinning a potential legislative proposal. The Commission targets the publication of a potential legislative proposal either in May or September 2018.

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Annex: The current 'SME Growth Market' Regime

MiFID II provides for a new category of MTFs, the SME Growth Markets. Registration as an SME Growth Markets will be voluntary and will be available as of January 2018. The recitals of MiFID II indicate that attention should be focused on how future regulation should further foster and promote the use of that market so as to make it attractive for investors, and provide a lessening of administrative burdens and further incentives for SMEs to access capital markets through SME growth markets. Therefore, beyond MiFID II, several EU Acts refer to this new type of trading venues.

1. MiFID II

According to MiFID II, a SME Growth Markets is a MTF, where at least 50% of the issuers whose financial instruments are traded on are SMEs. SMEs are defined as companies that have an average market capitalisation of less than EUR 200 million. An Issuer that only issues non-equity instruments can also be considered as SMEs if, according to its last annual or consolidated accounts, they meet at least two of the following three criteria: an average number of employees during the financial year of less than 250, a total balance sheet not exceeding EUR 43 million and an annual net turnover not exceeding EUR 50 million.

The level 2 of MiFID grants SME Growth Markets flexibility in evaluating the appropriateness of issuers for admissions on their venue. For instance, an SME Growth Markets only needs to determine in their rulebook a regime of objective admission criteria (including a statement on the sufficiency of working capital) for issuers seeking the listing of their shares. When a prospectus is not needed, the admission document is drawn up under the responsibility of the issuer and clearly states whether or not it has been approved and reviewed and by whom.

The SME Growth Markets shall also impose on issuers admitted on their venue ongoing financial disclosure obligations. They shall require the issuers to publish annual financial reports within 6 months after the end of each financial year and half yearly financial reports within 4 months after the end of the first 6 months of each financial year.

2. Market Abuse Regulation

The Market Abuse Regulation (MAR) is applicable to MTFs, including the SME Growth Markets. However, this regulation includes two specific alleviations for SMEs whose shares are admitted to trading on SME Growth Markets. First, it exempts issuers from producing insider lists on an ongoing basis. MAR also intends to limit the burden for SME growth market issuers by allowing the posting of inside information on the SME growth market trading venue instead of the issuers' own websites.

3. Prospectus Regulation

The prospectus Regulation has created an alleviated 'EU Growth Prospectus'. This 'EU Growth prospectus' will be available for the following entities provided they have no securities admitted to trading on a regulated market: (i) SMEs⁴; (ii) non-SMEs traded on

⁴ Under the Prospectus Regulation, SMEs are (i) either defined as entities meeting at least two of the following three criteria: an average number of employees during the financial year of less than 250, a total balance sheet not exceeding EUR 43 million and an annual net turnover not exceeding EUR 50 million, or (ii) defined in accordance with MiFID (ie average market capitalisation of less than EUR 200 million).

an SME growth market with a market capitalisation of less than EUR 500,000,000; and (iii) issuers of securities with a public offer of less than EUR 20,000,000 whose securities are not traded on an MTF and with up to 499 employees.

In addition, issuers that have had securities already admitted to trading on an SME growth market (or a regulated market) continuously for at least the last 18 months will be able to benefit from a short form disclosure regime for secondary issuances.

4. Central Securities Depositary Regulation

The Central Securities Depositary Regulation ('CSDR') was adopted in July 2014. CSDR imposes a mandatory buy-in process on any financial instrument which has not been delivered within a set period from the intended settlement date (i.e. two days after trading, so called 'T+2' rule). This buy-in process is triggered after a period whose length is dependent on the asset type and liquidity of the relevant financial instruments i.e. up to four days for liquid securities, seven days for illiquid securities and up to 15 days for transactions on SME growth markets. The transitional provisions provide that multilateral trading facilities that fulfil the requirements for being qualified as SME Growth markets can benefit from this specific rule (i) until – upon their application – they are registered as such in accordance with conditions of MiFID II or (ii) until 13 June 2018, if they decide not to apply for such registration.

5. The Review of the European Venture Capital Fund (EuVECA) Regulation

The revised EuVECA regulation (approved by the European Parliament on 14 September 2017 and by the Council on 9 October 2017) will allow investment in SMEs listed on a SME growth market as defined by MiFID II, to allow growth stage entities that have already access to other sources of financing to also receive capital from EuVECA funds. This means that SMEs, listed on SME Growth Markets, with an average market capitalisation of less than EUR 200 million on the basis of end-year quotes for the previous three calendar years will be eligible for investments by EuVECA funds. The revised Regulation also permits follow-on investments in a given undertaking which after the first investment does not meet the definition of the qualifying portfolio undertaking any more.

6. Other texts that apply to MTFs including to SME Growth Markets

The recently created European Long-Term Investment Funds (ELTIFs) shall invest at least 70% of their money in certain types of assets, such as companies listed on regulated market or MTFs and with a market capitalisation below EUR 500 million. The amendments to the Solvency II Delegated Act that came into force in March 2016 grants ELTIF shares and equities traded on MTFs (including the future SME Growth Markets) the same capital charge as equities traded on regulated markets.