Quoted Companies Alliance

6 Kinghorn Street
London EC1A 7HW

T +44 (0)20 7600 3745
F +44 (0)20 7600 8288
mail@theqca.com

www.theqca.com

Directorate-General for Financial Stability, Financial Services and Capital Markets Union
European Commission
1049 Bruxelles/Brussel
Belgium

fisma-listing-smes@ec.europa.eu

26 February 2018

Dear Sirs,

Public consultation on building a proportionate regulatory environment to support SME listing

We welcome the opportunity to respond to the European Commission's public consultation on building a proportionate regulatory environment to support SME listing.

The Quoted Companies Alliance Legal, Primary Markets and Secondary Markets Expert Groups have examined your proposals and advised on this response. A list of Expert Groups members is at Appendix A. We have responded below in more detail to the specific questions from the point of view of our members, small and mid-size quoted companies.

Response

I. Questions on the challenges faced by public markets for SMEs

Q1 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					X	
Decline of local ecosystems					X	
Lack of retail and institutional investors					X	
Other – please specify in the textbox below			X			

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

Small and mid-size quoted companies play a significant role in the United Kingdom's economy; they contributed £14.7 billion to its GDP in 2013 and directly supported more than 430,000 jobs. However, they

are also the very companies which have the most difficulties in accessing capital markets and complying with burdensome regulatory requirements. [1]

The regulatory focus too often targets the largest companies at the expense of the smallest ones. This results in smaller companies rejecting public markets in favour of cheaper alternatives such as trade sales or private equity. The costs of listing, which are disproportionately high for smaller companies, particularly act as disincentives.

The European Commission should prioritise the needs of smaller companies when considering any new legislation. Measures deemed suitable for the largest companies are often ill-suited for small, growing companies and put disproportionate requirements on these companies creating unnecessary barriers to growth. Any impact analysis on any market changes should consider small and mid-size quoted companies as a distinct asset class.

i. Low number of companies coming to the public markets

The number of companies accessing UK public markets has declined steadily over the past ten years. Compared to 2007, there are now 31% fewer companies listed on the Main List of the London Stock Exchange and 41% listed on the Alternative Investment Market (AIM).[2]

Fewer companies on public markets has led to fewer companies being included within indices. Pension funds and other long-term investment vehicles therefore have less choice as to what is included in their portfolios. These investment portfolios are then less able to effectively spread their risk.

The number of delistings has played a large role in the fall in numbers of companies using the stock market to raise money. OECD research has found that a dearth of smaller companies joining the markets has led to the general decline in companies on the stock market.[3] Similarly, increasing regulatory costs have contributed to more companies delisting from AIM.

At the same time, the average size of IPO companies has risen significantly, indicating that the cost of accessing public equity capital is becoming too high for the smaller growth companies that previously would have been able to benefit from such finance. This is reflected by the fact that more and more companies are either opting for alternative sources of funding, such as private equity, or are delisting or delaying their decision to come to the market.

We consider these trends to be deeply worrying. They conflict with the policy objectives of the UK government – and the European Commission – to nurture growing companies which generate long-term, sustainable economic growth.

ii. Decline of local ecosystems

Any company seeking to list on AIM must appoint a Nominated Adviser and retain one throughout their admission to the market. A Nominated Adviser is responsible for assessing the appropriateness of an

---

[1] http://www.londonstockexchange.com/companies-and-advisors/aim/publications/documents/gteconomicimpactofaim2015.pdf

[2] http://www.londonstockexchange.com/statistics/historic/main-market/main-market.htm; http://www.londonstockexchange.com/statistics/historic/aim/aim.htm

[3] http://search.oecd.org/daf/ca/BFO-2016-Ch4-Stock-Exchanges.pdf

applicant to AIM, or an existing AIM company when appointed as its Nominated Adviser, and for advising an AIM company on its responsibilities under the AIM Rules.

However, the number of Nominated Advisers in the UK has halved since the 2008 financial crisis – there are 35 as of 26 February 2018[4]. This represents a significant impact on the support available to smaller quoted companies.

iii. Lack of retail and institutional investors

The number of investors specialising in smaller growth companies has generally been shrinking – primarily due to declining institutional investor interest.

The reduced deployment of pension funds has played a key role in holding back SME-dedicated markets in the UK. The proportion of pension funds invested in companies listed on the London Stock Exchange by value has declined from 21.7% of quoted shares in 1998 to just 3% in December 2016. On AIM, they constitute just 2.8% of total holdings.[5]

It is worth noting that the individual retail investor is the second most important investor (after investors from the rest of the world – that is non-UK shareholders) on AIM (as well as on other indices such as the FTSE 100).

iv. Other – reputational issues

Whilst serious failures due to poor oversight or lack of proper diligence on the part of advisors or poor internal controls on the part of issuers are rare, they often attract much coverage in the financial press and media. Such failures rarely result from lack of regulation and the operation of the existing legislative machinery to deal with them is invariably preferable to enacting additional and more complex provisions to the statute book thereby increasing the burden on SMEs.

[4] http://www.londonstockexchange.com/exchange/companies-and-advisors/aim/for-companies/nomad-search.html

[5] https://www.ons.gov.uk/economy/investmentspensionsandtrusts/bulletins/ownershipofukquotedshares/2016

Q2 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					X	
• For bonds						X
Lack of awareness of SMEs on the benefits of public markets:						
• For equity				X		
• For bonds						X
High (admission and ongoing) compliance costs due to regulatory constraints:						
• For equity					X	
• For bonds						X
Lack of preparation from companies' management as regards the implication of a listing:						
• For equity issuance			X			
• For bonds issuance						X
Reluctance of SMEs' owners to relinquish a stake in the capital of their company (for equity)				X		
Other (please specify)						X

Please illustrate by providing evidence from your own jurisdiction.

i. ***Availability of alternative sources of financing for SMEs (including bank finance) for equity***

In the UK, despite the regulatory capital adequacy burdens placed on banks seeking to lend to SMEs since the financial crisis, the past three years have seen lending to SMEs increase significantly. However, this lending has been primarily focused on medium-sized enterprises and not smaller companies.

A similar picture is evident in the private equity sector; this sector invested over £7 billion in the UK in 2016 – much of this directed at SMEs. This compares with the £4.8 billion raised by AIM companies in the same year.

The strength of the private equity industry in the UK does mean that SMEs have a diverse range of funding available to them, although this availability must be caveated by the general paradigm that SME investment represents a higher risk for investors and so inevitably it is unlikely to obtain the level of supply that is available to larger companies, whether public or private.

ii. Lack of awareness of SMEs on the benefits of public markets for equity

A key issue affecting the ability of the economy to finance itself is the lack of promotion of public equity as a viable form of finance for companies, especially when compared to other financing options. IPOs are also often perceived as being for large companies, rather than SMEs. This prevents SMEs from accessing equity finance even if it could be the best option for their growth plans.

The number of companies on equity markets in the EU has fallen over the last ten years. The IPO Task Force report[6] found that the number of IPOs in recent years has been very modest, particularly for smaller companies. It also noted that stock exchanges believed that, "the main factor explaining the decline of number of IPOs is the decline of smaller companies coming to the market".

iii. High (admission and ongoing) compliance costs due to regulatory constraints

AIM IPOs are seen as a one-off transaction. However, it is actually the entrance fee to what should be seen as a long-term presence on the stock market. Accounting and tax rules treat the costs of an IPO as a transaction to be written off in the year in which it has been incurred. In reflecting a long-term presence, those costs, from an accounting or tax perspective, should at the very least be spread over a number of years; we would recommend five years.

Below, we outline the estimated costs for companies seeking to list and maintain a listing on AIM, which does not include the cost of substantial management time.

Table 1 – Estimated Costs of Floating on AIM[7]

Reporting accountants	£100,000 - £200,000
Company lawyers[8]	£120,000 - £180,000
Nominated adviser's lawyers	£40,000 - £60,000
Nominated adviser/broker corporate finance fee[9]	£100,000 - £250,000
Broker's commission[10]	3% - 4% of funds raised **or** 0.5% - 1% of funds not raised
Printing	£10,000
Registrars[11]	Minimum annual charge £4,000 - £5,000
Public relations	£36,000 - £72.000
London Stock Exchange AIM admission fees[12]	£8,700 - £97,500

[6] http://www.europeanissuers.eu/_mdb/spotlight/44en_Final_report_IPO_Task_Force_20150323.pdf

[7] Quoted Companies Alliance research conducted in February 2018.

[8] These costs are associated with producing the admission/placing document and exclude other costs, such as due diligence/corrective agreements.

[9] This can vary depending on market capitalisation/size of the company.

[10] This can vary depending on market capitalisation/size of the company.

[11] Excludes other charges such as the AGM.

[12] AIM - Fees for companies and nominated advisers, 1 April 2017: http://www.londonstockexchange.com/companies-and-advisors/aim/publications/aim-fees.pdf

Table 2 – Estimated Costs of Maintaining a Quotation on AIM[13]

Financial public relations	£25,000 - £43,000
Broker/nominated adviser annual fee (including analyst research)	£50,000 - £90,000
Investor relations press cutting service	£5,400
Basic website service	£6,000
London Stock Exchange Regulatory News Service	£13,500 - £25,000
Analysis of share registrar	£1,500
Registrar	£8,500
Auditors	£10,000
Legal advice on regulatory issues	£10,000 - £50,000
Annual report design	£5,500
London Stock Exchange AIM annual fee[14]	£6,050
London Stock Exchange AIM further issues fee[15]	£0 - £49,000
Share option service	£15,500

Moreover, the introduction of the Market Abuse Regulation (MAR) in July 2016 increased the regulatory burden on MTF quoted SMEs disproportionally for the reasons set out below:

– MAR updated and codified the definition of inside information that had developed since the original Market Abuse Directive was introduced, reflecting a number of cases that had been brought over the years.

  Widening the scope of what might be defined as inside information may well have served a useful purpose in bearing down on insider dealing in the secondary market but has made operating in the primary market onerous for smaller companies and their intermediaries and advisers, as explained further in the other points below.

– The highly prescriptive requirements for wall-crossings (that is – an individual being made an 'insider' having been provided with inside information) have resulted in a distinct change in practice in the UK for smaller company fund raisings in the capital markets. Previously, most secondary fund raisings for smaller companies would be carried out by a confidential pre-placement process, where a book was built confidentially and only made public when the fund raising target had been achieved.

  Since July 2016, the demand from investors to avoid being wall-crossed has resulted in a move towards accelerated book-builds whereby the company has to announce its intention to seek funding from the market before the book can be built.

  As smaller companies represent a higher than normal investment risk, the release of an earlier intention to raise funds announcement exposes smaller companies to the possibility of not being able to raise the

[13] Quoted Companies Alliance research conducted in February 2018.

[14] This can vary depending on market capitalisation/size of the company.

[15] AIM - Fees for companies and nominated advisers, 1 April 2017: http://www.londonstockexchange.com/companies-and-advisors/aim/publications/aim-fees.pdf

required amount of funds in a public forum so as to create a potentially damaging loss of reputation and confidence in the market place if the intended fund-raise is not successful.

In addition, the onerous wall-crossing procedures inhibit the ability of the management of smaller companies from raising follow-on funding from existing or potential investors known to them, which was previously a common approach of smaller quoted companies.

– The highly detailed record keeping requirements with respect to the maintenance of insider lists are particularly onerous on smaller quoted companies, which do not have the resources available to maintain the added level of administrative process. This is one of the hidden costs of being listed.

  In particular, the requirement to define the precise time when inside information arises not only creates additional record keeping requirements but also potentially additional costs for smaller companies incurred in taking advice from legal advisers. This was significantly compounded for a period of 18 months from July 2016 to January 2018 due to the delay in MiFID II coming into force.

  Post-MIFID II and notwithstanding the designation of AIM as an SME Growth Market, the problem persists given that, whilst AIM companies are no longer required to maintain insider lists in real time, they are still required to produce such lists to the FCA upon request.

– The PDMR notification regime set a minimum financial threshold for disclosure of dealings by PDMRs. Whilst this would seem to be a measure that should make the regulations less onerous, particularly for smaller companies, in practice this serves to increase the procedures required to ensure that no errors arise. Companies need to keep track of all PDMR dealings to establish when the minimum level has been reached and so ensure that the relevant notifications are made.

  This creates a more complex record keeping and monitoring process than simply requiring all PDMR dealings to be notified (note that the practice generally adopted, with the sanction of the FCA, is to disclose all dealings by PDMRs regardless of size). In addition, the requirement to notify national competent authorities (NCAs), as well as the market via an RIS, increases the notification obligations significantly.

iv. Lack of preparation from companies' management as regards the implication of a listing for equity issuance

It has always been challenging for the management of smaller quoted companies to fully comprehend the change in culture and practice required for taking their company onto a public capital market, particularly if they have had no previous experience of managing a public company or even dealing with external shareholders (such as private equity companies).

This also represents a hidden cost of listing; management time and effort is often diverted from more productive areas through complying with legal and AIM requirements, debating these areas with Nominated Advisers and lawyers and/or responding to regulatory queries over non-substantive but technical breaches of law/rules.

It is only with the acquisition of experience over a period of time that management can become fully prepared for life as a public company and this experience can only be obtained after an IPO. This problem

has been heightened by the highly regulated nature of capital markets today, compounded with the inclusion of the MTF primary markets into the MAR requirements.

v. Reluctance of SMEs' owners to relinquish a stake in the capital of their company (for equity)

In the UK, the investor-led status quo – marshalled behind the "one share, one vote" principle – has resulted in many entrepreneurs being reluctant to relinquish control and thus to reject the opportunity for their company to join a public market. This impedes smaller companies from obtaining new sources of long-term capital that can then be used to grow the company. Enabling founders and entrepreneurs to retain control for longer (for example, through variable voting shares) could help to remedy this short-term approach.

Q3 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					X	
• For bonds						X
Differences in local accounting standards hindering cross-border investments		X				
Regulatory constraints on investors as regards investments in SMEs						X
Lack of liquidity on SME shares and bond markets:						
• For equity					X	
• For bonds						X
Lack of investor confidence in listed SMEs			X			
Lack of tax incentives			X			
Other (please specify)					x	

Please illustrate by providing evidence from your own jurisdiction.

i. Lack of visibility of SMEs (including lack of financial research and credit information) towards investors for equity

Independent investment research is an invaluable source for investors to learn more about a company's financial performance and status. It is also of particular value for small and mid-size quoted companies, as it is the most effective method of promoting themselves to potential investors.

Research enhances the quality of portfolios by increasing the asset managers' ability to discover varied and different perspectives on a wider variety of companies. Research coverage also increases visibility and trading in small and mid-size quoted companies' shares, thus creating liquidity and enabling growth.

Independent investment research on SMEs has experienced a significant drop since 2007 when the original MiFID directive was introduced. This has hindered the ability of SMEs to attract a broad range of investors and thus secure capital to fit their growth ambitions.

The research product has become a marketing communication and, in the UK due to its financial promotion rules, cannot be made generally available. This has created a considerable informational imbalance between the professional investment community and other investors. The economics of SMEs dictate that sponsorship of coverage is the only realistic means by which the market can be provided with quality investment research. Our QCA/BDO Small and Mid-Cap Sentiment Index found that one in five companies had had no research written on them by their own broker or Nominated Adviser in the previous two years.[16]

ii. Differences in local accounting standards hindering cross-border investments

We do not consider differences in local accounting standards to be a factor in inhibiting institutional and retail investments in SME shares.

iii. Regulatory constraints on investors as regards investments in SMEs

We have no comments.

iv. Lack of liquidity on SME shares and bond markets for equity

New investment techniques and instruments – led by a shift in investment from innovative, growth companies to low-risk, steady yield investments, such as ETFs – have triggered this trend. They favour larger listed companies – especially those in the FTSE 100 – as there is high liquidity in these stocks, a key requirement for an ETF activity. These companies are generally not at a high-growth stage of development and do not principally require public equity markets to finance their growth or working capital – they generally issue bonds and have extensive bank facilities.

This market development has been unfavourable to small and mid-size quoted companies as investors are potentially less interested in holding and trading less liquid stocks. This constrains these companies' ability to attract the investment they need to grow, innovate, create jobs and contribute to sustainable economic growth.

The marked decline in bespoke private client stockbroking services has also exacerbated this problem. By increasing the use of model portfolios to iron out differences in investment performances in similar risk, but distinct, portfolios, brokers have opted to invest in safer, lower-risk companies instead of smaller, growth companies.

Furthermore, the decline of independent investment research means both investors and providers of liquidity have far less information, and virtually no independent information, on which to base decisions, leading to a conservative approach.

[16] http://www.theqca.com/article_assets/articledir_171/85657/QCABDODPULSE_Issue13Final.pdf

v. Lack of investor confidence in listed SMEs

The failures due to poor oversight or lack of proper diligence on the part of advisors or poor internal controls on the part of issuers, which we cited in our answer to Q1, may result in unfavourable media coverage leading to reduced institutional and retail investor confidence in listed SMEs. This may be, in part, due to a lack of education of investors in the nature of the risk profile of small and mid-size quoted companies.

vi. Lack of tax incentives

Successive UK governments have taken a number of measures which have incentivised investment by institutional and retail investors in SME shares. These include allowing investors to include small and mid-size quoted companies' equities in their ISAs, exempting investment in these companies from income and capital gains taxes and abolishing stamp duty on the trading of growth market shares such as those on AIM and NEX Exchange. These measures have encouraged further investment and stimulated liquidity in small and mid-size quoted company shares.

Nonetheless, focussing tax incentives on all unlisted companies has led to the government being unable to control which companies benefit from tax reliefs. This has too often resulted in investment being diverted toward lower risk 'capital preservation' investments, such as some venture capital schemes.

vii. Other

The short-term horizons of investors and their clients is also a factor that inhibits institutional and retail investments in SME shares. Small and mid-size quoted companies are frequently under pressure to achieve growth forecasts and deliver immediate returns for their investors.

In some cases, directors over analyse the fluctuations in their company's share price instead of focussing on the company's long-term interests. This leads to smaller quoted companies being unable to make strategic investments in the long-term interest of both the company and investors, who would benefit from higher returns over a longer time horizon.

Furthermore, the general UK investment culture has meant that there is a tendency – particularly in the case of science and technology companies – for UK investors to exit their investments at a much earlier stage then in other jurisdictions, such as the US.

Enabling founders and entrepreneurs to retain control for longer (for example through variable voting shares) could help to remedy this short-term approach.

Q4 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					X	
Financial research providers					X	
Credit Rating Agencies	X					
Investor base			X			
Investment banks	X					
Boutiques specialised in SMEs and offering several services (brokerage, research, underwriting…)					X	
Legal and tax advisers	X					
Accountants	X					
Others (please specify)						X

Please illustrate by providing evidence from your own jurisdiction.

As we noted in our answer to Q1, the number of brokers advising AIM companies (Nominated Advisers) has halved since 2008. Most of these Nominated Advisers provided corporate broking and research services as well. This represents a significant impact on the support for smaller quoted companies.

During the period from 2009 to 2017 approximately £46 billion has been raised for companies quoted on AIM. A similar amount was raised on AIM between 2005 and 2008.

Furthermore, during the early 2000's, there were for two successive years over 100 separate law firms in the UK who had advised the company on an AIM IPO. Although the number of IPOs has dropped, the number of law firms in the UK which offer this service has not diminished. At the same time, there are around 10 accounting firms that habitually advise on AIM IPOs, this number has not changed significantly since AIM started in 1995.

Q5 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					X	
• For bonds						X
Impact of low level of investors' appetite for SME instruments:						
• For equity					X	
• For bonds						X
Regulatory constraints on investment services providers specialised in SMEs					X	
Lack of profitability of the SME segment:						
• For equity				X		
• For bonds						X
Other (please specify)						X

Please illustrate by providing evidence from your own jurisdiction.

The costs and pressures of regulation could be driving advisers towards higher margin, lower risk work in the private company sector. The high cost of training staff to meet regulatory standards, along with the general paucity of work, means some senior advisers could crowd out junior staff so that they can retain their currency and relevant expertise.

Similarly, as we mentioned in our answers to Q1 and Q3, the rare failures due to poor oversight or lack of proper diligence on the part of advisors or poor internal controls on the part of issuers can cause market operators to become zero tolerant of even the smallest breaches. This in turn contributes to an adverse opinion of the market, leading to fewer IPOs and market delistings.

II. Questions on specific regulatory barriers

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

Q6 Given the considerations mentioned above, do you consider that the criteria used to define an SME Growth Market should be modified?

Yes	X
No	
Don't know / no opinion	

Please explain your reasoning.

We do not believe that the definition of an SME under MiFID II reflects the current economic realities. The regulatory focus in the European Union is too often focussed on the largest companies at the expense of their smaller counterparts. This deters many smaller, growing companies from seeking to list, or maintaining their listing, on a public market. Any regulation applying to smaller companies must be appropriate for needs and stage of growth and development.

Q7 Should the market capitalisation threshold of EUR 200 million defining SMEs under MiFID II be:

Raised (please specify an appropriate market capitalisation threshold)	X
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

In order to achieve a well-functioning Capital Markets Union, the different needs and constraints of companies at different stages of growth should be recognised. A definition of a small and mid-size quoted company is required to facilitate a proportionate regulatory regime for these companies.

We believe the European Commission should establish a definition of a small and mid-size quoted company – which could be used to define SMEs under MiFID II and all other EU regulations – so that these companies can have a regulatory environment tailored to their growth needs.

We acknowledge that a single definition is unlikely to work for all EU countries, so some flexibility with an upper limit might need to be left to individual Member States. Nonetheless, **we propose an individual upper market capitalisation threshold of €500 million**; this would align with other EU regulation, such as the new Prospectus Regulation.

We consider such a threshold modest; it would be both less than the US JOBS Act[17] and a number of industry small-cap funds, which define small and mid-size quoted companies as having a total market capitalisation of between €1 billion and €7 billion[18].

As of 31 January 2018, the largest company on the UK's FTSE All-Share index – HSBC – has a market capitalisation of £150.6 billion. Meanwhile, the smallest company in the index has a market capitalisation of £26 million – 0.02% of its size. The top 10 companies in the index account for 35% of the index's market capitalisation, which comprises 638 companies in total.[19]

To reflect the diversity of EU markets, EU Member States could be given the flexibility to adjust this threshold for their own individual markets. All companies below this threshold should then be exempted from certain EU disclosure requirements, and should be allowed access to SME Growth Markets.

Q8 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%	X
75% or above	

Please explain your reasoning.

If the size limit by total market capitalisation was raised then it would seem appropriate to increase the threshold from 50% to 75%, to avoid inappropriate regulatory arbitrage by the largest companies. We note that approximately 94% of AIM companies would still qualify as an SME, if an individual upper market capitalisation threshold of €500 million was adopted.

However, if the definition was retained at €200m, we would suggest a much lower threshold of between 25% and 49% (88% of AIM companies would qualify as an SME at the current €200m level).

Q9 Should the criteria used to define an SME Growth Market non-equity issuer be modified?

We have no comments.

---

[17] Emerging Growth Company (EGC) A new category of issuer created under the Jumpstart Our Business Startups (JOBS) Act of 2012, an emerging growth company is a company with annual gross revenues of less than $1,070,000,000 (initially $1 billion, but adjusted for inflation in April 2017) during its most recent fiscal year. We have translated it to an approximate market capitalisation value.

[18] (See Staff working paper to EU IPO Task Force report for more information).

[19] http://www.ftse.com/Analytics/factsheets/Home/Search

Q10 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					X	
A key adviser should be imposed for bond issuers on an SME Growth Market						X
A key adviser should be mandatory during the whole period an SME is listed					X	
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; ….)					X	
Minimum requirements regarding the mission and obligations of key advisers on SME Growth Markets should be imposed at the EU level (Please specify)	X					
Minimum requirements regarding the mission and obligations of key advisers on SME Growth Markets should be imposed by individual stock exchanges					X	

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.

The success of AIM demonstrates that having a key adviser in place to advise and guide a company has been a key contributor to AIM's success. It is a model that has served AIM well.

As noted in our response to Q2, a Nominated Adviser can cost between £100,000 and £250,000 for a company choosing to float on AIM, and between £50,000 and £90,000 per annum to maintain a quotation on AIM.

Investor protection would be best served if the requirement to take expert advice and guidance was preserved until such time as a company is ready to operate on a Regulated Market.

However, we believe that any minimum requirements regarding the mission and obligations of key advisers on SME Growth Markets should be defined by individual stock exchanges.

Q11 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	X
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.

SME-dedicated markets across the EU are heterogeneous and regulated in such a way that suits their respective local markets. This flexibility has been essential in ensuring that the needs of local small and mid-size quoted companies, and their investors, in each EU Member State are met.

We are concerned that imposing minimum requirements at the EU level for the delisting of SME Growth Market issuers could result in requirements which do not reflect the needs of the local markets. Therefore, instead of imposing minimum requirements at the EU level, there should be an overarching principle agreed at the EU level which ensures that all market operators of SME Growth Markets have appropriate delisting requirements, so that companies are able to easily move from one market to another.

We believe that any delisting should only be permitted with the consent of the majority of the company's shareholders. Arrangements for shareholders to realise their investments should also be required. Such arrangements may be provided by the company buying back shares, an offer for minority shareholdings being made by a controlling shareholder or the provision of an effective off-market trading facility/order book. In exceptional circumstance, an alternative may be the solvent liquidation of the company.

Q12 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	X
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.

There should be as few "cliff edge" regulatory burdens as possible for SME Growth Market issuers wishing to transfer, on a voluntary basis, to a Regulated Market. We would echo our comments to Q11, whereby rather than introducing harmonised rules on voluntary transfer of listing from a Regulated Market to an SME Growth Market at the EU level, there should be an overarching principle which ensures that all market operators of SME Growth Markets have appropriate arrangements to facilitate these transfer of listings.

Q13 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)		X				
Incentivised through regulatory measures when they exceed some thresholds (such as the market capitalisation)		X				
Always left to the discretion of issuers and not required or incentivised by regulatory measures					X	
Other (please specify in the textbox below)						X
Don't know/no opinion						X

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.

Public capital markets work best when appropriate incentives are in place. However, all companies are different; local capital markets also differ in terms of size and maturity. There should therefore be maximum flexibility in determining when a company may choose to transfer from an SME Growth Market to a Regulated Market.

Setting a threshold, such as by market capitalisation, would be counter-productive and not beneficial for public markets.

Instead, there should be clear and specific transitional arrangements for a period of five years to allow companies choosing to transfer from an SME Growth Market to a Regulated Market.

For example, the new Prospectus Regulation prevents small and mid-size quoted companies from easily moving from an SME Growth Market to a Regulated Market. Issuers on SME Growth Markets should not have to produce a full prospectus when joining a Regulated Market (unless they fall into another regime or if there is a public offer).

Transitional arrangements should be available to issuers whose shares have been traded on an SME Growth Market for at least three years. The issuers would then be allowed to join a Regulated Market by issuing an information document providing all the information required to be included in a prospectus that has not already been disseminated to the market, including a working capital statement.

A national competent authority would then have to approve that document, so that investors and the standard of disclosure on regulated markets would be protected accordingly through the national competent authority ensuring that the necessary additional information has been disclosed.

SME Growth Market issuers will already be compliant with ongoing disclosure obligations which are known to investors, analysts and regulators, and which are required by EU Directives. The need to produce a full prospectus repeating that information when deciding to join a regulated market would result in unnecessary costs, deterring issuers from accessing further capital and restricting their growth.

B. Alleviating the administrative burden on SME Growth Market issuers

Q14 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	X					
All SME Growth Markets issuers					X	
No regulatory alleviations should be granted for any kind of firm	X					

Please explain your reasoning.

In order to fully maximise the potential of SME Growth Markets in the European Union, there must be a clear, material advantage for companies considering a listing on such a market and for companies already listed on such a market. Therefore any regulatory alleviations must be available to all issuers listed on SME Growth Markets.

Restricting regulatory alleviations to SMEs listed on SME Growth Markets would create a two-tier market which would be confusing for market participants and not necessarily effective for investor protection.

Providing regulatory alleviations and incentives (particularly retail investors) to attract smaller companies to finance their growth and development on any public capital market – regardless of whether it has applied for SME Growth Market status – will support the development of healthy and thriving capital markets in the European Union.

Q15 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		X				
Insider lists					X	
Justification of the delay in disclosing inside information					X	
Market soundings					X	
Disclosure of inside information by non-equity issuers						X
Half-yearly reports for SME Growth Market issuers	X					
Other (please specify in the textbox below)						

Please explain your reasoning

The Market Abuse Regulation (MAR), which came into force on 3 July 2016, has created several issues for market participants. In particular, there has been a disproportionate impact on smaller companies who have chosen to admit their securities to trading on multi-lateral facilities (MTFs) in order to be subject to a simplified and more flexible regulatory framework. There have been substantial concerns regarding whether these companies will be able to cope with certain onerous provisions in MAR in the long-term, thus casting doubt on the sustainability of MTFs themselves.

It is very difficult to make an accurate assessment of the additional costs which SMEs are incurring as a result of the need to comply with these additional record keeping, notification and other requirements.

However, as a practical issue:

- Many SMEs are having to invest additional time and resource into training directors and administrative staff;
- Additional legal fees are being incurred in seeking advice on the application of the provisions;
- In some cases, additional staffing costs are being incurred as issuers take steps to ensure that they have appropriately qualified staff to administer the requirements of MAR; and
- Additional costs are being incurred in investment in compliance software and relating training costs.

i. Management's transactions

The requirement in Article 19(3) of MAR for the issuer or emission allowance market participant to ensure that the notification of the PDMR dealing is made public within three business days after the transaction is problematic in practice, given that this is the same time period required for the PDMR to notify the issuer or emission allowance market participant.

Many issuers in the UK have adopted a provision in their share dealing code requiring PDMRs to notify them of dealings within one or two business days to give the issuer sufficient time to notify the FCA and disclose to the market. This is particularly important for smaller companies who have fewer resources and, consequently, may require sufficient lead-in time to make accurate and timely disclosures to the market in accordance with MAR.

ii. Insider lists

The requirement to create and keep an insider list in accordance with the provisions of Article 18 of MAR is onerous and burdensome for small and mid-size quoted companies given the level of resources available to such companies and the purpose for which insider lists are kept. In particular, being required to include an insider's place of birth, personal phone number and email address is especially onerous, as such details are not required to be kept by organisations in some EU Member States. Moreover, this could create potential problems relating to personal data protection rules.

Although the SME Growth Market exemption in MAR (not implemented due to the delay of MiFID II's implementation) allowed for a more proportionate regime to apply, there will, in practice, still be a need for such issuers to have sufficient systems and procedures in place quickly to produce an insider list if requested by the competent authority. This may lead to the requirement for such issuers to establish costly internal systems and / or processes, which increases administrative burdens. The benefit of the exemption is therefore misleading.

Companies on SME Growth Markets and all small and mid-size quoted companies should be altogether exempted from the requirement of creating and maintaining insider lists which would take into account the level of resources available to small and mid-sized quoted companies and how this will affect them as a result.

iii. Justification of the delay in disclosing inside information

ESMA's guidelines remain overly restrictive in relation to legitimate interests for delaying disclosure of information. The removal of "*impending developments that could be jeopardised by premature disclosure*" from the list of illustrative examples is unhelpful to issuers. We believe that the aforementioned statement is helpful as a statement of principle. Its removal could cause issuers to assume that impending developments are incapable of constituting a legitimate interest justifying delayed disclosure. The European Commission should consider providing more clarity as to what will constitute a legitimate interest in delaying disclosure.

Under the new market abuse regime, issuers deciding to delay disclosure of inside information are required to record specific detailed information at the relevant time of delay. Consequently, smaller issuers need to make sure that they have sufficient resource within their organisations and/or seek costly professional advice, in order to meet this requirement which significantly increases their administrative burden and,

consequently, increases their costs. We would strongly recommend that SME Growth Market issuers are exempt for the obligation of keeping a 'disclosure record'. Instead, these companies should be permitted to choose how to utilise their available resources in order to comply with MAR.

iv. Market soundings

There is concern that the requirement to maintain internal procedures to deal with market soundings may be overly burdensome for some market sounding recipients (MSRs). Whilst many MSRs will be regulated entities who frequently receive market soundings and have appropriate measures in place, others will be individuals or small companies that rarely receive such information.

Current ESMA guidelines stipulate that an MSR's internal procedures should be "appropriate and proportionate to the scale, size and nature of their business activity"; however, no practical guidance is given. We would welcome further clarification as to the steps that should be taken by these 'smaller' MSRs.

We note ESMA's proposed requirement to specifically note discrepancies of opinion between disclosing market participants (DMPs) and MSRs. We consider this to be excessively onerous for DMPs and suggest that any discrepancy is recorded as a subsidiary matter in the MSR's assessment of whether it has received inside information.

v. Disclosure of inside information by non-equity issuers

We have no comments.

vi. Half-yearly reports for SME Growth Market issuers

We do not consider that the preparation of half-yearly reports for SME Growth Market issuers is unduly burdensome on issuers. Most MTFs require the publication of half yearly reports and, consequently, smaller issuers have established systems and controls in place in order to disclose half yearly financial updates to the market. Additionally, half yearly reports are considered to provide a valuable insight into the performance of a company for institutional investors and, consequently, the removal of a requirement to publish these updates would disrupt an established market practice and may deter investors from investing in these companies due to lack of sufficiently detailed information.

Removing the need for interim financial reports could mean that the market could be deprived of detailed financial information for around 18 months – that would be too long for a securities market.

Q16 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	X
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 fulltime equivalent)

For many issuers, the increased formality of the regime has required expansion of compliance teams and secretarial functions and the creation of board committees with a remit to consider matters relevant to the regime. However the increased formality has not materially altered; thus the point at which they consider seeking external advice and assistance has not changed.

Q17 Please indicate if you would support the following changes or clarifications to the management's transactions regime for SME Growth Markets

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.

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**

I support	
I don’t support	X
Don’t know / no opinion / not relevant	

We do not agree that the time limit for PDMRs and PCAs to notify transactions should be extended beyond three business days.

The requirement that the notification of the PDMR dealing is made public within three business days after the transaction can be problematic in practice, given that this is the same time period required for the PDMR to notify the issuer. Accordingly it can lead to an issuer being under significant pressure to notify if a PDMR should fail to notify it until the latter stages of the three days the PDMR has to notify.

We are aware of a number of issuers who have adopted a provision in their applicable internal policy requiring PDMRs to notify them of dealings within two business days (a one business day time limit for PDMRs being thought impracticable) to seek to prevent the issuer being placed in the situation where it must provide notice in less than one business day. The policy could be developed such that the PDMRs

have up to two business days to notify and that the issuer, once notified, would then have whatever time is left up to the three business day deadline (to allow the issuer the maximum time should the PDMR be swift in notifying). Compliance with this, of course, would remain an internal matter for the issuer and not have any bearing on compliance with the regime itself.

We recognise that the regime potentially places the issuer with a challenging administrative burden; however, we do believe the burden placed on the issuer should be balanced against the need for the market to be notified promptly in the interests of transparency. As such we think it would not be preferable to allow the overall time that may be taken to put information of a trade into the market to extend beyond three days.

b) The threshold (i.e. EUR 5,000) above which managers of SME Growth Markets Issuers should declare their transactions should be raised

I support	
I don't support	X
Don't know / no opinion / not relevant	

In practice, we believe the majority of issuers have settled on a policy requiring PDMRs to disclose all transactions regardless of value – this was foreseeable as a result of the threshold being set at a relatively low level. We believe an increase in the threshold by any amount that is meaningful would increase the incidence of differing practice across the market which is not thought to be desirable.

c) The national competent authorities (NCA) should always be made responsible for making public the managers' transactions

I support	
I don't support	X
Don't know / no opinion / not relevant	

Making the NCA responsible in all cases would amount to such a shift in the disclosure model that exists (which all in the market understand, especially so in the case of the "exchange regulated model" where the role of the NCA is more limited), that it would be undesirable. In any event even if such a change did result in more timely and more consistent notification it is thought that the benefits would not warrant the disruption that would accompany moving toward such a change. We would be in favour of an increase in the capacity of the market supervision function of NCAs to monitor compliance with their rules by market participants.

We also believe that NCAs would resist the additional costs with regards to administration and manpower which this would entail.

d) The trading venue should be made responsible for making public the managers' transaction.

I support	
I don't support	X
Don't know / no opinion / not relevant	

It is not thought to be pragmatic to require the trading venue to assume the aggregate responsibility of compliance by all participants in its market. If the exchange regulated model is used as an example then to impose direct responsibility on to exchanges would bring into question the commercial viability of the market.

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)

I support	x
I don't support	
Don't know / no opinion / not relevant	

Our support for this proposal is qualified in so far as we would not support time limits that would result in a longer overall timetable. It is also worth noting that while this change may resolve some potential issues created by the time periods for the PDMR and the issuer running concurrently the proposed change may render the regime complex and harder to police.

f) Is there any other change or clarification to the management's transactions regime for SME Growth Markets that you would support?

While there are various minor changes or clarifications which could, in our view, improve the regime, we do not consider that these are material for the purposes of this consultation and such changes are unlikely to significantly affect the administrative burden on issuers.

Q18 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 (one-off and ongoing) /in time spent (number of hours)/in number of people needed (in fulltime equivalent) resulting from the alleviation.

As the alleviation provided by MAR for SME Growth Market issuers with regards to insider lists has only been in place since 3 January 2018 – when AIM became an SME Growth Market upon implementation of MiFID II – it is impossible to assess and/or quantify the impact at this time.

In the limited discussions we have had on the topic with SME Growth Market issuers to date, many have indicated that they will reluctantly maintain the majority of their existing procedures so as to be able to comply with a request from the NCA to produce an insider list. Therefore, as with the SME Growth Market exemption for insider list, any benefit is somewhat misleading.

Q19 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	X					
Obliged to submit insider lists when requested by the NCA (as provided by MAR)		X				
Obliged to maintain a list of 'permanent insiders' (i.e. persons who have a 'regular access to insider information')			X			
Exempted from keeping insider lists					X	
Other (please specify)			X			

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.

The requirement to keep an insider list in accordance with the provisions of Article 18 of MAR is onerous and burdensome for small and mid-sized quoted companies given the level of resources available to such companies and the purpose for which insider lists are kept.

Although Article 18(6) of MAR exempts issuers on SME Growth Markets from the requirement to produce insider lists on an ongoing basis, the requirement that they produce an insider list if requested by the NCA means that in practice there remains a need for such issuers to have sufficient systems and procedures in place to comply with the requirement.

Being required to include an insider’s birth surname, date of birth or national ID number, personal telephone number and address is especially onerous, as such details are not likely to be available to the issuer without contact with the insider either directly or through the relevant adviser. Issuers will therefore still be required to spend resource collecting responses from insiders and collating the data, as well as periodically ensuring that it is up to date.

The exemption from provision of an insider’s personal address and telephone number if they are not available to the issuer at the time of request is helpful, but the exemption does not apply to the requirement to note an insider’s birth surname and date of birth or national ID number, and so in practice responses from insiders will usually be required.

Greater clarity is also required as to whether personal addresses and telephone numbers are considered available to the issuer if they could be obtained from a source other than the insider, for example another point of contact within an adviser’s organisation, or a publicly available source.

Information regarding name, position within the issuer (or adviser), work address and work email address should be sufficient to identify an insider, which is the requirement in Article 18(3)(a) of MAR. The production of a list containing these details on request from the NCA would accomplish the aims of the MAR regime, in a manner more proportionate to the resources available to SME Growth Market issuers.

Even this level of administrative burden will require many small and mid-sized issuers to establish internal systems and / or processes which are disproportionately costly given their size and available resource. Therefore, all companies on SME Growth Markets should ideally be exempted entirely from the requirement of creating and maintaining insider lists.

Q20 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 submitted only upon request from the NCA					X	
SME Growth Market issuers should be exempted from the obligation of keeping a 'disclosure record'					X	

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)

Reducing the burden of record keeping will improve the environment for small and mid-size quoted companies. This would enable companies to think about the merits of a situation rather than worrying about compliance for its own sake.

Q21 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	X

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)

We have no comments.

Q22 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						X
disclose only information that is likely to impair their ability to repay their debt						X

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).

We have no comments.

Q23 Should the obligation of SME Growth Market issuers to publish half-yearly report be (you may select several answers)

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	X
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).

AIM companies are required to “prepare a half-yearly report in respect of the six-month period from the end of the financial period for which financial information has been disclosed in its admission document and at least every six months thereafter”.[20]

Thus, as we noted in our answer to Q15, we do not consider it to be burdensome for SME Growth Market issuers to publish half-yearly reports.

[20] AIM Rules for Companies: http://www.londonstockexchange.com/companies-and-advisors/aim/publications/rules-regulations/aim-rules-for-companies.pdf

However, we do believe that the way a company meets this obligation should not be prescriptive and that a "trading update" might suffice.

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

Q24 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					X	
Impact of the minimum tick size regime on the spreads of shares traded on SME Growth Markets					X	

Please explain your reasoning and provide supporting evidence.

We consider the reduction in tick sizes that has been an ongoing feature of equities trading over recent years to be significantly detrimental to the ecosystem required to support a healthy equity market in SME securities.

The bid-ask spread is essential for providing revenue for liquidity providers such as market makers and acts as an economic incentive to provide two-way bid and ask prices on an ongoing basis. The ability for liquidity providers to remain profitable is therefore of key importance to the market for SME securities as the absence of such support leaves markets volatile and sets a minimum liquidity level below which securities cannot be effectively traded.

Where bid-ask spreads are reduced through market forces – for example due to greater liquidity which in the case of SME Growth Markets would encourage SME listings – this indicates a healthy market. It is therefore essential that tick sizes are appropriately calibrated to allow for effective trading and valuation of a security.

While this may be to the detriment of market makers/brokers, this is an indication that the security is less reliant on liquidity provision and that it has matured in its liquidity profile. It remains important, however, that tick sizes are not so small that participants are able to queue jump within order books without paying a suitable transaction cost for obtaining time priority.

With regard to SMEs, small tick sizes remove incentives to make markets where a narrower spread does not necessarily reflect the additional volatility often associated with SME stocks which tend to be lower-

priced securities. An illiquid stock usually has a wider spread to compensate the risk that the market-maker bears when taking a position in the stock.

Small tick sizes may artificially impact the bid/offer spread and destabilise the ecosystem by forcing persistent liquidity providers to withdraw and thus destabilising markets and ultimately leading to wider spreads and increased volatility. Reduction in tick sizes will thus act as a disincentive for market makers and brokers to become proactive parts of an ecosystem.

We believe that a small spread cannot be forced on an illiquid stock and that there is a case for larger minimums spreads for less liquid securities to ensure that a minimum level of liquidity can be sustained through all market conditions. We believe that the tick size regime should be flexible to adapt and reflect the difference liquidity amongst SMEs. The tick size regime should not adopt a 'one-size-fits-all' regime where the heterogeneous nature of SMEs is compromised for the sake of cross-market harmonisation.

Q25 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					X	
Market operators should be given another form of flexibility as regards the EU minimum tick size regime on their SME Growth Markets						X

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

The diversity of SMEs needs be recognised and welcomed to encourage more firms to float. As liquidity varies, we believe that flexibility should be given to market operators. More flexibility would facilitate proactive market-making activities and create a more dynamic environment for SMEs.

We ask the European Commission for further explanation on ''another form of flexibility'' that could be given to market operators other than the one aforementioned.

Q26 Building on ESMA's opinion, 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	X
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.

We believe that all EU Member States should allow liquidity contracts in law and that, ultimately, it should left for market operators to decide whether they should be applied to the SME Growth Market.

Q27 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	X
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.

We do not consider that there should be any minimum free float requirements determined at the EU level for any SME Growth Market in the European Union.

Imposing free float requirements would make listing on a public market unattractive to many companies, which would contradict the European Union's objective of making SME Growth Markets an appealing platform for companies to seek new capital. Any such discussion should be left to individual SME Growth Market operators, their issuers and other market participants.

Our Small and Mid-Cap Investor Survey[21] – which we jointly published with RSM in March 2017 – found that the majority of institutional investors in small and mid-size quoted companies believed that there should not be any kind of enforced minimum free float, either by value of company or size of shareholding floated, as it would be unnecessary and burdensome.

[21] Small and Mid-Cap Investors Survey 2017: http://www.theqca.com/article_assets/articledir_256/128121/QCA_RSM_Small_and_Mid-Cap_Investors_Survey_2017_Report.pdf

Q28 Please describe any regulatory barriers to institutional investments in SME shares or bonds listed on SME Growth Markets or MTFs.

We have no comments.

Q29 Which steps could be taken to facilitate SME bond issuances on SME Growth Markets without incurring high costs for assessing creditworthiness of issuers?

We have no comments

Q30 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?

We have no comments.

Q31 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				X		
Market capitalisation threshold defining an SME debt issuer						X
Key adviser requirement			X			
Delisting rules on SME Growth Markets			X			
Transfer of listings from a regulated market to an SME Growth Market			X			
Transfer of listings from an SME Growth Market to a regulated market				X		
Management's transactions		X				
Insider lists					X	
Justification of the delay in disclosing inside information					X	
Market soundings					X	
Disclosure of inside information for bond issuers						X
Half-yearly reports for SME Growth Market issuers		X				
Tick size regime for SME Growth Markets					X	
Liquidity provision contracts			X			
Free float requirements	X					
Institutional investors' participation in SME shares and bonds					X	
Credit assessments and ratings for SME bond issuers						X

Q32 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.

A. Central Securities Depositories Regulation (CSDR)

The Central Securities Depositories Regulation (CSDR) came into force in September 2014 (subject to a number of transitional provisions). However, the postponement of MiFID II to January 2018 delayed the implementation of provisions relating to settlement discipline and interpretation provisions to 2019.

In an attempt to minimise risk in settlement, the EU has increased the nominal minimum liquidity required to access equity capital markets, which will constrain the ability of small and mid-size quoted companies to raise the necessary capital to fund their growth. These companies tend to be issuers of low liquidity instruments and, as such, rely on their liquidity providers' support to maintain constant pricing to allow valuation.

Article 7 of CSDR introduces a new settlement discipline regime, whereby trades not settled at an agreed time will face daily fines until the trade is settled. These fines will pass along the chain of settlement so that only the initial failing part of the settlement chain will pay up.

Logically, this will always be the liquidity provider, as they are the only type of participant permitted to naked short sell under the Short Selling Regulation. Liquidity providers are thus fined for providing liquidity in periods where demand outstrips supply. In other words: fining them for performing the specific purpose for which they exist.

Penalising formal liquidity providers for not settling trades on time will lead to those very liquidity providers reducing their activities in smaller company securities, in order to avoid these additional costs. This will lead to a further reduction in companies' liquidity, therefore reducing their access to funding on public markets.

CSDR will therefore increase market volatility by creating an environment rife for abuse. Should a trade fail to settle by a certain extended date, the trade will be arbitrarily cancelled and the difference between the original price and the current price paid to the purchaser. This creates an opportunity to ramp up the market in less liquid securities via an abusive short squeeze.

For example, if a dishonest investor tries to buy shares in a security that is tightly held by the entrepreneur that created the business, they might enter into a trade to buy shares and either expect or recognise that the trade has not or will not settle.

The dishonest investor can then buy more shares or at least express an interest in doing so. This demand pressure on liquidity providers will force them to increase prices to try and locate sellers so that they can cover their short positions to prevent large losses. The continued pressure combined with a lack of settlement means prices will increase, resulting in huge profits to the dishonest abuser, and huge losses to the market maker.

It also denies investors the opportunity to own the security they have purchased, as this is driven by the inherent lack of liquidity in the instrument rather than any deliberate act or omission by the liquidity provider.

This leads to liquidity provision and market making becoming uneconomical. As smaller liquidity providers will be unable to continue to profitably trade**,** they will withdraw their liquidity from a security / securities,

which will reduce liquidity in the market for small and mid-size quoted companies. This will in turn concentrate activity on a few significant providers, which is damaging for price formation and contradicts the desire to create a healthy environment for less liquid securities.

Ultimately, this can lead to all liquidity providers withdrawing, which will lead to little or no liquidity being available for SME stocks, as there is no two-way price. Holdings cannot be valued or, worse, have no value. **We would therefore urge the European Commission to remove all fines for failing to settle trades on time from securities of small and mid-size quoted companies irrespective of trading venue.**

Introducing common securities settlement standards across the EU will harm the ability of small and mid-size quoted companies to raise capital on public markets. **Different SME-dedicated markets will have different levels of liquidity depending on investor interest and trading volumes and there should therefore be flexibility for different markets to set their own appropriate securities settlement standards.**

If you would like to discuss our response in more detail, we would be happy to attend a meeting.

Yours faithfully,

Tim Ward
Chief Executive

APPENDIX A

Quoted Companies Alliance Legal Expert Group

Mark Taylor (Chair)	**Dorsey & Whitney**
Maegen Morrison (Deputy Chair)	Hogan Lovells International LLP
Murdoch Currie	Bates Wells & Braithwaite LLP
Martin Kay	Blake Morgan
Paul Arathoon David Hicks	Charles Russell Speechlys LLP
Gary Thorpe Andrew Chadwick	Clyde & Co LLP
Philippa Chatterton	CMS
Kate Francis	Dorsey & Whitney
Jane Wang	Fasken Martineau LLP
Paul Cliff	Gateley Plc
Daniel Bellau	Hamlins LLP
Nicholas Narraway	Hewitson Moorhead
Jaspal Sekhon	Hill Dickinson LLP
Danette Antao	Hogan Lovells International LLP
Donald Stewart	Kepstorn
Nicola Mallett David Willbe	Lewis Silkin
Tara Hogg	LexisNexis
Stephen Hamilton	Mills & Reeve LLP
Nicholas McVeigh	Mishcon De Reya
Simon Cox Julie Keefe	Norton Rose Fulbright LLP
Ashmi Bhagani	Pillsbury Winthrop Shaw Pittman LLP
Sarah Hassan	Practical Law Company Limited
Kieran Rayani	Stifel

Quoted Companies Alliance Primary Markets Expert Group

Richard Evans (Chair)	**Strand Hanson Limited**
Nick Naylor David Worlidge	Allenby Capital Ltd
Chris Hardie	Arden Partners PLC
Gavin Burnell	Beaufort Securities Ltd
Andrew Buchanan	Canaccord Genuity Ltd
David Foreman	Cantor Fitzgerald Europe
Stephen Keys	Cenkos Securities PLC
Peter Stewart	Deloitte
Stuart Andrews	finnCap
Samantha Harrison	Grant Thornton
Niall Pearson	Hybridan LLP
Richard Crawley	Liberum Capital Ltd
Tom Price	Northland Capital Partners Limited
Peter Whelan	PricewaterhouseCoopers LLP
Mark Percy	Shore Capital Group Ltd
Azhic Basirov	Smith & Williamson LLP
David Arch Stewart Wallace	Stifel
Andy Crossley	Stockdale Securities Limited
James Spinney	Strand Hanson Limited
Katy Mitchell	W H Ireland
Nicholas How	Zeus Capital

Quoted Companies Alliance Secondary Markets Expert Group

Jon Gerty (Chair)	**Peel Hunt LLP**
Mark Tubby (Deputy Chair)	finnCap
Jack Phillips	Cenkos Securities PLC
Andrew Collins William Garner	Charles Russell Speechlys LLP
Jeremy Phillips	CMS
James Lynch	Downing LLP
Stephen Streater	Forbidden Technologies PLC
Keith Hiscock	Hardman & Co
Shreena Travis	Janus Henderson Investors
Fraser Elms Katie Potts	Herald Investment Management Ltd
Claire Noyce	Hybridan LLP
John Howes	Northland Capital Partners Limited
Ann Whitfield	Panmure Gordon & Co PLC
Sunil Dhall	Peel Hunt LLP
Mitchell Gibb	Stifel
James Stapleton Simon Rafferty	Winterflood Securities Ltd