



Quoted Companies Alliance

6 Kinghorn Street
London EC1A 7HW

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

www.theqca.com

The Quoted Companies Alliance is the independent membership organisation that champions the interests of small to mid-size quoted companies.

A company limited by guarantee registered in England
Registration Number: 4025281

fisma-mifid-r-review@ec.europa.eu

Monday 18 May 2020

To whom it may concern,

Public consultation on the review of the MiFID II/MiFIR regulatory framework

We welcome the opportunity to respond to your consultation on the review of the MiFID II/MiFIR regulatory framework.

The Quoted Companies Alliance *Secondary Markets Expert Group* has examined the proposals and advised on this response from the viewpoint of small and mid-size quoted companies. A list of Expert Group members can be found in Appendix A.

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

Yours sincerely,

A handwritten signature in blue ink, appearing to read "T. Ward".

Tim Ward
Chief Executive

Q1 To what extent are you satisfied with your overall experience with the implementation of the MiFID II/MiFIR framework?

- A. Very unsatisfied
- B. Unsatisfied**
- C. Neutral
- D. Satisfied
- E. Very unsatisfied
- F. Don't know/no opinion/not relevant

Q1.1 Please explain your answer to question 1 and specify in which areas would you consider the opportunity (or need) for improvements:

Since its implementation in 2018, MiFID II has exacerbated the reduction in both the quantity and quality of research. We believe that this is particularly the case for research on small cap-securities, which has, as a result, had an adverse impact on liquidity within these securities.

As a general comment, we note that independent research on small and mid-size quoted companies is essential for increasing visibility and stimulating trading in their shares. Research eases price discovery and enhances liquidity, which in turn reduces the cost of capital for companies and encourages their growth.

MiFID II has undoubtedly further reduced the amount of research on small-cap securities. This viewpoint is exemplified by investors and companies alike who have particularly negative perceptions around MiFID II in the small-cap segment of the market. For instance, the results of the QCA/Peel Hunt *Mid and Small Cap Survey* reiterate this¹. The percentage of investors that believe that MiFID II has had a negative impact on liquidity for small and mid-cap stocks has grown from 54 per cent in 2017, to 63 per cent in 2018, to 79 per cent in 2019. As a result of MiFID II, less research is being produced and there are fewer brokers participating in the small-cap segment of the market, which has led to lower liquidity, greater share price volatility and higher-bid offer spreads. This has resulted in increased costs associated with raising finance coupled with reduced institutional access.

As a result, we believe that the European Commission should seek to amend MiFID II to exempt small and mid-size quoted companies from certain aspects of the regulation. Doing so will make the regulation more proportionate and will ensure that companies of varying sizes can access the capital markets. This is broadly in line with what the Commission seeks to achieve as the consultation states that "all companies, both small and large, need access to the capital markets".

Q2 Please specify to what extent you agree with the statements below regarding the overall experience with the implementation of the MiFID II /MiFIR framework?

¹ Quoted Companies Alliance and Peel Hunt, 2020, Mid and Small Cap Survey, https://www.theqca.com/article_assets/articledir_395/197511/To%20Be%20or%20Not%20To%20Be_QCA%20PeelHunt%20Survey%20Booklet%202020.pdf

	Disagree	Rather not agree	Neutral	Rather agree	Fully agree	N/A
The EU intervention has been successful in achieving or progressing towards its MiFID II/MiFIR objectives (fair, transparent, efficient and integrated markets).			X			
The MiFID II/MiFIR costs and benefits are balanced (in particular regarding the regulatory burden).		X				
The different components of the framework operate well together to achieve the MiFID II/MiFIR objectives.			X			
The MiFID II/MiFIR objectives correspond with the needs and problems in EU financial markets.		X				
The MiFID II/MiFIR has provided EU added value.			X			

Q2.1 Please provide qualitative elements to explain your answers to question 2:

Whilst the MiFID II/MiFIR objectives have been achieved in some respects, we believe that this has been offset by the negative implications of the regulations. Firstly, we do not believe that the costs and benefits of MiFID II/MiFIR are balanced, particularly when considering the additional regulatory burden that they have produced, which is especially pronounced for small and mid-size quoted companies.

We are of the opinion that the definition of an SME under MiFID II does not accurately reflect current realities or the growth company ecosystem. The regulatory focus in the European Union is too often centred on the largest companies at the expense of their smaller counterparts. This has deterred many smaller, growing companies from seeking a listing on a public equity market, or maintaining their listing on a public market. Any regulation applying to smaller companies must be appropriate for their needs and stage of growth and development. That is, the needs and size constraints of smaller companies at different stages of their growth and development needs to be recognised in order to establish and facilitate a proportionate regulatory regime for these companies.

Secondly, and in addressing the needs and problems in EU financial markets, MiFID II has inadvertently created further problems for smaller quoted companies. This has created a considerable imbalance between

the professional investment community and other investors. The nature of small and mid-size quoted companies dictates that research coverage is the only realistic and affordable means by which they can increase their visibility to the market through the provision of quality investment research. This has been significantly impeded by the introduction of MiFID II.

Q3 Do you see impediments to the effective implementation of MiFID II/MiFIR arising from national legislation or existing market practices?

- A. Not at all
- B. Not really
- C. Neutral
- D. Partially
- E. Totally
- F. Don't know/no opinion/not relevant

We have no comments.

Q3.1 Please explain your answer to question 3:

We have no comments.

Q4 Do you believe that MiFID II/MiFIR has increased pre- and post-trade transparency for financial instruments in the EU?

- A. Not at all
- B. Not really
- C. Neutral
- D. Partially
- E. Totally
- F. Don't know/no opinion/not relevant

Q4.1 Please explain your answer to question 4:

Whilst increased pre- and post-trade transparency for financial instruments is a key objective of MiFID II/MiFIR, the evidence remains uncertain as to whether this has been achieved. MiFID II and MiFIR have created huge compliance and cost burdens while contributing little to improving pre- and post-trade transparency. In particular, there are a number of shortcomings with respect to the transparency regime and the quality and accessibility of pre- and post-trade data.

Q5 Do you believe that MiFID II/MiFIR has levelled the playing field between different categories of execution venues such as, in particular, trading venues and investment firms operating as systematic internalisers?

- A. Not at all
- B. Not really
- C. Neutral
- D. Partially
- E. Totally
- F. Don't know/no opinion/not relevant

Q5.1 Please explain your answer to question 5:

The systematic internaliser regime has thus far failed to create a level playing field between different categories of execution venues.

Q6 Have you identified barriers that would prevent investors from accessing the widest possible range of financial instruments meeting their investment needs?

- A. Not at all
- B. Not really
- C. Neutral
- D. Partially
- E. Totally**
- F. Don't know/no opinion/not relevant

You are kindly invited to make additional comments on this consultation if you consider that some areas have not been covered above.

As a result of MiFID II, there are significant barriers that have prevented investors gaining access to the widest possible range of financial instruments, which has meant that both investors and companies have encountered difficulties in gaining access to one another. This issue is particularly pertinent for smaller, growth companies, and often leads to them questioning their rationale for maintaining their listing or seeking a listing in the first instance.

MiFID II has significantly reduced the ability of investors to gain access to companies to invest in within the small-cap space. As a result of inhibiting access to companies, investors are unable to obtain the requisite information to make informed investment decisions about smaller companies. This viewpoint was reflected in the QCA/Peel Hunt *Mid and Small Cap Survey*, where investors indicated the negative implications that MiFID II has had on both the quantity and quality of research being produced. For instance, 82 per cent of the investors surveyed reported that less and less research was being produced each year on mid and small-caps and 77 per cent of investors believed that the volume of research produced will decline further over the next 12 months. In addition, 48 per cent of investors believe that the quality of small and mid-cap research had declined². Furthermore, MiFID II has limited the possibilities that investors can engage with company management, further restricting their ability to make an investment decision. As a result of the above, this often means that investors are either unwilling or unable to invest in smaller companies.

Correspondingly, this also has implications for companies as they are unable to locate the capital that is so crucial in their early stages of development. Smaller companies will inevitably face increased difficulties in obtaining the breadth and depth of investors needed to ensure liquidity, as well as an inability to access the type of investor base that they require to grow. In order to mitigate the impact of MiFID II and the resulting lack of visibility, companies have had to explore using alternative means to improve their saliency. Most commonly, companies are holding capital markets days; investing in, and making improvements to, their

² Quoted Companies Alliance and Peel Hunt, 2020, Mid and Small Cap Survey, https://www.theqca.com/article_assets/articledir_395/197511/To%20Be%20or%20Not%20To%20Be_QCA%20PeelHunt%20Survey%20Booklet%202020.pdf

corporate websites; seeking media coverage; and releasing information to the market through less-used channels, such as social media.

Despite these measures, companies are still unable to get the requisite visibility they need to attract the capital they need to grow. Investor preferences reiterate this, highlighting that there are certain thresholds deemed appropriate for companies to maintain. Over three quarters (78%) of investors surveyed in the QCA/Peel Hunt *Mid and Small Cap Survey*³ indicated that it was acceptable for a company to have two or more brokers. Yet 54 per cent of small and mid-cap companies indicated that they had only one broker, or no broker at all, thus demonstrating the imbalance.

It is clear, therefore, from the perspectives of both investors and companies, that MiFID II is continuing to have a negative impact on small and mid-cap markets and that action is required. Exempting smaller quoted companies from certain requirements relating to the distribution of investment research would go some way in making information on small-cap securities more widely available, thus enhancing liquidity and stimulating trading, helping to encourage their growth.

³ Ibid.

Appendix A

The Quoted Companies Alliance *Secondary Markets Expert Group*

Jon Gerty (Chair)	Peel Hunt LLP
Mark Tubby (Deputy Chair)	finCapp PLC
John Beresford-Peirse	Hybridan LLP
Jasper Berry	W.H. Ireland PLC
Andrew Collins	Charles Russell Speechlys LLP
Miles Cox	Hybridan LLP
Sunil Dhall	Peel Hunt LLP
Nick Dilworth	Winterflood Securities Ltd
Fraser Elms	Herald Investment Management Ltd
William Garner	Charles Russell Speechlys
Mitchell Gibb	Stifel
Keith Hiscock	Hardman & Co.
James Lynch	Downing LLP
Jeremy Phillips	CMS
Jack Phillips	Cenkos Securities Plc
Katie Potts	Herald Investment Management
Simon Rafferty	Winterflood Securities Ltd
James Stapleton	Winterflood Securities Ltd
Stephen Streater	Blackbird PLC
Peter Swabey	ICSA