



Quoted Companies Alliance

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

19 June 2018

Dear Sirs,

Promoting the use of SME growth markets - Level 2

We welcome the opportunity to respond to the European Commission's request for feedback on its draft legislative proposal which brings technical adjustments to MiFID II, in order to promote the use of SME growth markets.

We welcome the European Commission's overarching objective to develop a more conducive regulatory framework that supports and incentivises small and medium-sized enterprises to use public markets to access capital.

However, we believe that requiring SME growth market operators to impose minimum free float requirements on issuers seeking admission to trade their shares on its venue will dissuade smaller companies from using public equity markets to secure new capital. The draft delegated regulation should be amended to enable each individual SME growth market operator to be given the flexibility to determine whether such an approach is appropriate for their market.

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

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

Yours faithfully,

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

Tim Ward
Chief Executive

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

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Feedback on the proposal to require SME growth market operators to impose free float conditions on issuers seeking admission to an SME growth market

We do not agree that an SME growth market operator should be required to state the minimum amount of shares which can be placed in circulation for trading as a condition for admission – regardless of whether they have the flexibility to set an appropriate threshold based on the particular circumstances of the market, including whether the amount should be expressed in absolute value or in percentage of the total issued share capital.

Requiring SME growth market operators to impose free float conditions 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.

We note that the QCA-RSM Small and Mid-Cap Investors Survey 2017¹ found that a majority of institutional investors believed that there should be no enforced minimum free float – either by value of company or size of shareholding floated – as it would represent an unnecessary and punitive burden on the company in question.

Furthermore, after consulting a wide range of UK market participants on whether the AIM Rules for Companies should include a specific numerical or percentage threshold for free float in summer 2017, London Stock Exchange concluded that “There was strong support that the current approach to free float strikes the right balance and that a qualitative approach is of benefit to the market. Respondents also commented that it remains of fundamental importance that a growth market has flexibility and is not hampered by numeric constraints which may result in potentially arbitrary outcomes for smaller companies.”²

We therefore believe that the draft delegated regulation should be amended to give SME growth market operators sufficient flexibility to determine – following discussion with issuers and other market participants operating in its jurisdiction – whether introducing free float requirements is a suitable approach for its market.

¹ QCA-RSM Small and Mid-Cap Investors Survey 2017, March 2017:

http://www.theqca.com/article_assets/articledir_256/128121/QCA_RSM_Small_and_Mid-Cap_Investors_Survey_2017_Report.pdf

² Feedback Statement and Consultation: AIM Rules Review, December 2017: <http://www.londonstockexchange.com/companies-and-advisors/aim/advisors/aim-notice/feedback-statement-and-consultation.pdf>

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
Sunil Dhall	Peel Hunt LLP
Mitchell Gibb	Stifel
Jasper Berry	W H Ireland
James Stapleton	Winterflood Securities Ltd