



Quoted Companies Alliance

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Directorate-General for Internal Market, Industry, Entrepreneurship and SMEs
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4 May 2018

Dear Sirs,

Public consultation on the review of the SME definition

We welcome the opportunity to respond to the European Commission's public consultation on the review of the SME definition. We are responding on behalf of our members - small and mid-size quoted companies in the UK.

Although we believe that the criteria used in the EU recommendation 2003/361 to define SMEs in the EU are appropriate, we strongly encourage the European Commission to **revise the thresholds** so that an SME is defined as any small and medium-sized enterprise that satisfies **any two of the following criteria**:

- 1. staff headcount of under 500,**
- 2. turnover of equal to or less than €200 million, or**
- 3. a balance sheet total equal to or less than €100 million.**

This should be accompanied by proportionate revisions to the categories micro and small-sized enterprises.

To complement these revisions, we believe that **a bespoke definition of a small and mid-size quoted company is required** to enable focussed, proportionate regulations affecting these companies. However, we acknowledge that **a single definition is unlikely to work for all EU countries** and therefore some flexibility for an upper limit would be needed to enable individual EU Member States to adjust this threshold for their own individual markets.

With this in mind, **we propose an overarching individual upper market capitalisation threshold of €500 million**, which would sit alongside the revised thresholds for all SMEs. This aligns with other EU regulations, such as the new Prospectus Regulation. Companies below this threshold could then be exempted from certain EU disclosure requirements, and allowed access to SME Growth Markets.

We consider the definition of SMEs to be of significant importance; appropriate criteria setting out which companies qualify are essential for ensuring that any EU legislation facilitates a proportionate regulatory environment for small, growing companies.

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

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Review of the SME definition

Page 2

Please see our expanded answers to the questions below and we would be more than happy to be contacted to explain any of this further.

Yours faithfully,

A handwritten signature in blue ink, appearing to read 'TWL', with a horizontal line extending to the right.

Tim Ward

Chief Executive

Q2.1 How familiar are you with the EU SME Definition as set out in the Recommendation?

I have good knowledge of the EU SME Definition	X
I am aware of the existence of the EU SME Definition but not of its specific contents	
I do not know the EU SME Definition	

Q2.2 Please indicate whether you agree or disagree with the following statements on the EU SME Definition:

	I agree to a great extent	I agree to some extent	I don't agree	Don't know / No opinion
It allows the identification of enterprises facing potential market failure and particular challenges due to their size		X		
It helps to limit the proliferation of different "SME definitions" at European and national level		X		
It helps to make policies targeted at SMEs more effective and consistent across Member States and areas of intervention		X		
It is a useful tool to improve equal treatment of SMEs throughout the EU		X		

Q2.3 The current EU SME Definition is based on three criteria: staff headcount, financial parameters and independence/ownership. Do you think these criteria are appropriate to determine if an enterprise is a genuine SME?

Yes	X
No	
No opinion	

Q2.4 In the current EU SME Definition, meeting the staff headcount threshold is obligatory while the financial parameters can be chosen in order to cater for sectorial specificities. Do you think meeting any combination of 2 out of the 3 criteria (e.g. meeting only the 2 financial parameters, but not the headcount limit) would be more appropriate to determine whether a company is an SME?

Yes	X
No	
No opinion	

Q2.5 The current thresholds of the financial criterion were set in 2003. Since then, price levels and real labour productivity per hour worked have risen. Do you think that the financial thresholds should be raised to reflect this?

Yes, both factors should be considered	X
Yes, but only inflation should be considered	
Yes, but only labour productivity should be considered	
No, the thresholds should not be raised	
Don't know/No opinion	
Another factor should be considered	

Q2.6 The staff headcount criterion states that the average headcount (in full time equivalents) for an SME over a financial year should be below 250 employees. Should this threshold be:

Increased	X
Kept as it is	
Lowered	
Eliminated	
Don't know/No opinion	

Q2.7 The current SME definition distinguishes between 3 categories of enterprises: micro-sized (0-9 employees; ≤ EUR 2 mil turnover/balance sheet), small-sized (10-49 employees; ≤ EUR 10 mil turnover/balance sheet) and medium-sized (50-249 employees; ≤ EUR 50 mil turnover/< EUR 43 mil balance sheet). Do you think this categorisation is appropriate?

Yes	X
No	
No opinion	

Q2.8 Enterprises where a venture capital company owns a more than 50% share are not considered autonomous. The same applies to enterprises in which a business angel participates with more than EUR 1.250.000. These enterprises might therefore not be considered an SME, even if individually they meet the staff headcount and financial thresholds. What is your opinion on the following statements?

	Strongly disagree	Somewhat disagree	Somewhat agree	Strongly agree	Don't know / No opinion
These thresholds (50% and EUR 1.250.000) are appropriate		X			
These thresholds should be substantially increased			X		
These thresholds should be removed and a full exemption for venture capital and business angel investments should apply			X		
This rule may discourage SMEs from seeking private investment				X	
This rule may hinder venture capital investment in SMEs				X	

Q2.9 Enterprises in which a public authority controls more than 25% of the capital or voting rights are not considered SMEs. What is your opinion on the following statements?

	Strongly disagree	Somewhat disagree	Somewhat agree	Strongly agree	Don't know / No opinion
The threshold of 25% is appropriate		X			
The threshold should be substantially increased			X		
The threshold should be removed and public control should not have an impact on the SME status of an enterprise			X		
This rule puts publicly-owned companies at a disadvantage when competing with privately-owned businesses			X		
This rule puts privately-owned					X

companies at a disadvantage when competing with publicly-owned business					
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Q2.10 In order to determine the real economic capacity of an SME, the current EU SME Definition takes into account ALL (direct and indirect) partner and linked enterprises. Recent rulings of the Court of Justice suggest that only some relationships should be taken into account. This creates potential loopholes for large groups to artificially set up separate entities that would then be considered SMEs. Do you agree that all relationships should continue to be taken into account in order to determine if an enterprise is a genuine SME?

Yes	<input checked="" type="checkbox"/>
No	<input type="checkbox"/>
No opinion	<input type="checkbox"/>

Q2.11 The EU SME Definition establishes a 2-year 'grace period': enterprises only lose their SME status if they exceed the headcount and financial thresholds for two consecutive years. What is your opinion about this 'grace period'?

The length of the "grace period" is appropriate	<input checked="" type="checkbox"/>
The "grace period" is too short	<input type="checkbox"/>
The "grace period" is too long	<input type="checkbox"/>
I don't know/No opinion	<input type="checkbox"/>

Q2.12 To what extent would the following changes to the current EU SME Definition increase the risk of granting preferential treatment to enterprises that are not genuine SMEs and for which size does not represent a disadvantage?

	Not at all	To a small extent	To a large extent	I don't know / No opinion
Raising the staff headcount threshold	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Raising the financial thresholds	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Raising the threshold for venture capital fund participation	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Raising the threshold for business angel participation	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Raising the threshold for control by a public entity	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Extending the duration of the 'grace period'	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Limiting the relationships that are taken into account to determine whether an enterprise is part of a group	X			
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Q2.13 If you have additional comments or remarks please provide them here:

A bespoke definition of a small and mid-size quoted company is required to enable focussed, proportionate regulations affecting these companies. These companies differ, among other things, in terms of their growth potential, size, turnover, job creation, percentage shareholding of investors, and types of investors.

Establishing a separate classification would help the European Commission build a proportionate regulatory environment tailored to the growth needs of small and mid-size quoted companies and achieve a well-functioning Capital Markets Union. Such a definition could then be used to define SMEs under MiFID II, the Prospectus Regulation and all other EU regulations.

A homogenous definition is not appropriate across all EU Member States; some flexibility for an upper limit might be needed, so that individual EU Member States can adjust this threshold for their own individual markets. With this in mind, we would propose an overarching individual upper market capitalisation threshold of €500 million; this would align with other EU regulations, such as the new Prospectus Regulation. We consider such a threshold modest; it would be both less than the US JOBS Act¹ 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 billion².

Companies below this threshold could then be exempted from certain EU disclosure requirements, and allowed effective and meaningful access to SME Growth Markets.

Q2.14 Do you agree to be contacted by our consultant for an individual interview on your experience with the EU SME Definition?

We would be delighted to attend a meeting to discuss our experience with the EU SME definition.

¹ 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.

² (See Staff working paper to EU IPO Task Force report for more information).