

**EU Action Plan for SMEs –
EU smaller quoted companies' proposals for research and policy changes**

25 October 2011

1. Desired outcomes:

- **Better information about the regulatory landscape for small and mid-sized quoted companies in Europe and about their prospects for growth**
- **Review of the current regulatory regime for requirements applicable to quoted companies, with a recognition that different markets are suitable for different companies at different stages of growth, and that there is no one size that fits all – there are historical differences in national company law and corporate governance which should remain**
- **Proposals need to be based on real evidence, with an emphasis on how the proposals will deliver outcomes for the end users. This principle should be acknowledged by each of the various different workstreams designed for EU regulated v exchange-regulated markets.**
- **To achieve high-quality-regulation, we need qualitative research and comparative studies across different Member States on the above areas, including comparable statistics; collected data should reflect the costs of IPOs across different markets plus the ongoing costs of being listed (see below):**
 - **Exchange fees – both regulated markets and alternative markets**
 - **Regulatory fees e.g. approval of prospectus by securities regulators on main v approval by sponsors on alternative markets, costs and frequency of revisions to documentation**
 - **Brokerage fees**
 - **Legal fees**
 - **Accountancy and audit fees**
 - **Any other fees e.g. costs of publication in national newspapers**
- **Provision of educational materials for companies at EU level (stock exchanges have cut funding of support services to companies at national level)**

2. Background - What do we know about companies at EU level?

- There are approximately 12,000¹ quoted companies in Europe. However, statistics and research on quoted companies are often about members of the Eurostoxx50 - i.e. the effects of regulation on the other 11,950 companies are ignored
- Alternative markets had 2229² companies (19% of quoted companies) at the end of 2010. The Warsaw Stock Exchange had the largest IPO activity – 47% as at Q1 2011, while London was the largest by market value – 65% as at Q1 2011³
- Regulatory costs form a much higher percentage of the total costs of being listed for smaller companies.

3. Proposals for simplification of existing EU regulations

- Prospectus Directive⁴
 - proportionate prospectus
 - abolish requirement if issue over 10% of share capital over 12 months (Article 4.2(a))
 - Ceiling of 5m € - what companies will fall under the exemption?
- Market Abuse Directive^{5 6}
 - abolition of insider lists
 - simplify managers' transactions
- Transparency and accounting Directives simplification⁷
 - simplifying IFRS disclosures;
 - no new environmental, social and governance requirements
- MiFID⁸
 - investment research more widely available;
 - companies to know their share volume;
 - execution only trades essential for liquidity

¹ FESE / LSE figures

² ibid

³ PwC figures

⁴ See EuropeanIssuers response to ESMA consultation dated 15 July 2011 at:

http://www.europeanissuers.eu/_mdb/position/229_EuropeanIssuers_Final_Letter_ESMA_PD_110715.pdf

⁵ See EuropeanIssuers response to the European Commission dated 27 July 2010 at:

http://www.europeanissuers.eu/_mdb/position/211_MAD_EuropeanIssuers_final_version_100727.pdf

⁶ See letter to Commissioner Barnier dated 12 October 2011 at:

http://www.europeanissuers.eu/_mdb/position/232_Letter_Market_Abuse_New_Rules_FINAL_121011.pdf

⁷ See EuropeanIssuers' Corporate Reporting Charter and response to the European Commission at:

http://www.europeanissuers.eu/_mdb/position/227_Corporate_Reporting_Charter_final_20110318.pdf

and http://www.europeanissuers.eu/_mdb/position/212_Transparency_EuropeanIssuers_final_20100830.pdf

⁸ See EuropeanIssuers response to the European Commission dated 8 February 2011 at:

http://www.europeanissuers.eu/_mdb/position/224_MiFID_EI_FINAL_20110208.pdf

- Consider EU co-ordinated alternatives for support services to companies, given reduction in support from stock exchanges, due to MIFID-induced changes in their business model
- **Shareholder rights**
 - no new provisions on collective redress
 - no mandatory electronic processes
- **Internal Control and Risk Management**⁹
 - flexibility for smaller companies as to whether to have an audit committee and an internal audit department
- **Corporate governance**¹⁰
 - support for comply or explain against national codes rather than mandatory EU rules
 - proportionate approach to Board composition (no mandatory separation CEO/Chairman, no gender quotas, etc)
 - no powers to ESMA (national corporate governance commissions are usually separate to securities regulators)
- **Audit**¹¹
 - favouring growth for SMEs (simplified audit for SMEs; no detailed rules on audit committees)

4. **Research on quoted companies in Europe**

Beyond the obvious need for the above-mentioned regulatory simplifications which SMEs throughout the EU Member States have long been calling for, reliable research data is needed as a basis for detailed SME initiatives in the future. We need to know more about the factors that affect quoted companies across Europe and the environment in which they operate. The co-ordination or commissioning of research into these areas at EU level (some already exists at national level, but the methodology used may be different, which makes comparisons difficult) would be helpful, based on the principle that what gets measured gets managed.

What we don't know about quoted companies at EU level:

- How many quoted companies leave EU markets each year and why (merger, delisting, etc)?

⁹ See EuropeanIssuers' paper towards common principles on internal control and risk management systems at: http://www.europeanissuers.eu/mdb/position/200_Towards_Common_Principles_for_ICRM_European_Companies_final_100127.pdf

¹⁰ See EuropeanIssuers' responses to the European Commission on corporate governance dated 1 September 2010 and July 2011 at:

http://www.europeanissuers.eu/mdb/position/213_Corporate_Governance_Financial_Institutions_EuropeanIssuers_final_100901.pdf and http://www.europeanissuers.eu/mdb/position/231_EuropeanIssuers_Corp_Gov_Final_110722.pdf

¹¹ See EuropeanIssuers' response to the European Commission Green Paper on Audit at: http://www.europeanissuers.eu/mdb/position/219_Audit_Green_Paper_final_response_101222.pdf

- Given the need for companies to access different markets at different stages of growth, how easy is it to list and delist in different markets?
- What is a small or mid-cap company? (Different definitions for different stakeholders)
- How many people do they employ?
- How much growth do they bring to the national economies?
- How well does the equity market pipeline work? – business angels, venture capital, private equity, stock exchange listing

What we don't know about investors in small companies:

- Who are the top investors in EU small and mid-cap companies? What comparative data is available by type of shareholder (retail, institutional, UCITS, pension funds, etc) and by investment style (value, growth, special situations, etc) in such companies?
- Are smaller companies considered risky? Why? Does this vary across Europe?
- Why is there concentration of IPOs in Warsaw and London? What are the factors that bring success in those markets?
- What are the different costs of shareholder identification searches in different Member States and how many messages are sent on average per month to ask for details of shareholders?

What we don't know about market practices:

- What is the role of advisors in different markets?
- Does regulation discourage investors from investing in smaller companies?
- What disclosure rules operate in different exchange-regulated markets across Europe and how do the costs differ?
 - A comparison of the regulation of different alternative markets across Europe e.g. AIM, Alternext, etc to understand what similarities and differences there are would be useful e.g. non-application of corporate governance codes, non-application of IFRS, limited application of MIFID, Prospectus directive, etc
- Sponsor regimes (AIM/Stuttgart) – what are the factors of success?
 - Given the complexity of regulation, are sponsor regimes essential for newly quoted and growth companies?
 - Does the EU Prospectus directive undermine the role of sponsors in favour of regulators and what might be the consequences for companies?
- Indices – what are the main drivers?
 - Are current indices biased towards large-cap companies and how can small cap indices be encouraged?
- What will be the impact of the various financial regulations on non-Eurostoxx 50 companies?
- Are there problems with the care and audit of client assets across Europe¹²?

¹² See joint FRC/FSA report on enhancing the auditor's contribution to prudential regulation at: http://www.fsa.gov.uk/pubs/discussion/dp10_03.pdf

- **What data is available on the use and cost of segregated v omnibus accounts? What would be the costs and benefits of unbundling broker services?**
- **What are the examples of best practices for taxation policies that help growth companies? Can we promote good examples across the EU e.g. EIS, ISAs¹³?**

¹³ UK Enterprise Investment Scheme, Individual Savings Accounts