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FEEDBACK ON THE EC PROPOSAL ON SME LISTINGS PACKAGE: MIFID II LEVEL 2 ADJUSTMENTS

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We welcome the opportunity to provide feedback on the draft Delegated Regulation[1] bringing technical adjustments to MiFID II (Directive 2014/65/EU) aimed at promoting the use of SME growth markets. We would like to share some high-level comments on the Commissions' proposal for the SME Listing Package overall, as well as we are providing detailed comments on MIFID II level 2 adjustments. We will comment on the Commission proposals for changes under the Prospectus Regulation and under the Market Abuse Regulation at a later stage.

GENERAL COMMENTS ON THE SME LISTINGS PACKAGE

We welcome the Commission's intention to adapt existing EU rules to introduce a more proportionate regulatory approach to support listing of smaller companies. We applaud the aim to boost the number of initial public offerings (IPOs), reduce the administrative burden and the high compliance costs faced by SME growth market issuers, and to foster the liquidity of publicly-listed SME shares. We also welcome several specific proposals. Nevertheless, overall, we believe that more ambition is needed to achieve a fully proportional environment for smaller companies and healthy and thriving European capital markets.

We strongly believe that the SME listing package should provide a **definition of a small and mid-cap company**. A definition of small and mid-cap companies – that goes alongside with the definition of SMEs – is essential to enabling focussed and proportionate regulations. Small and mid-cap companies are fundamentally different from large blue-chip companies, as well as from SMEs (in terms of their growth potential, size, turnover, job creation, percentage shareholding of investors, and types of investors, among other things). As such, they require a different regulatory and market ecosystem, along with appropriate, tailored rules for these companies' growth needs.

Furthermore, the proposals will be a missed opportunity for the Commission if it does not at **least review the criteria used to define SME Growth Markets for equity**. While we appreciate the intention to make corporate bond markets more attractive, we fail to understand why some of the regulatory alleviations are restricted to bond issuance / issuers only. That is contrary to the Capital Markets Union principle of tackling and attempting to remove the bias against equity finance, which we believe should be addressed in this package.

Moreover, the proposals are restricted to companies on SME Growth Markets only; we strongly believe that to revive EU capital markets **smaller companies on the Regulated Markets should be also subject to less stringent regulatory requirements**.

[1] Amending Commission Delegated Regulation (EU) 2017/565 as regards certain registration conditions to promote the use of SME growth markets for the purposes of Directive 2014/65/EU

COMMENTS ON THE EC PROPOSALS FOR CHANGES UNDER MIFID II

1. **New definition of debt-only issuers**

The Commission proposes that an issuer that has no equity instrument traded on any trading venue shall be deemed an SME Growth Market issuer if the total size of its debt issuances does not exceed EUR 50 million over a period of 12 months on all SME growth markets across the Union.

While we very much support this proposal that will believe will contribute to promoting the SME Growth Markets concept and enable corporate bond issuer companies to benefit from a more proportionate regulatory framework, we regret that the criteria used to define SME Growth Markets for equity are not being reviewed.

As said above, we believe that the SME listing package should provide a **definition of a small and mid-cap company**, which is crucial to recognise the diverse nature of companies which are no longer SMEs but also very different from large blue-chip companies, and to enable focussed and proportionate rules for such companies. To facilitate healthy and thriving public capital markets, taking the example of the US JOBS ACT, we would propose an upper market capitalisation threshold of €1bn, although some flexibility with an upper limit might need to be left to individual Member States. **All companies below this threshold should be exempted from certain EU disclosure requirements and should be allowed access to the SME Growth Markets**. Consideration also should be given to a **transitional period exempting the newly listed smaller companies from some of the requirements for five years.**

2. **Minimum free-float criterion as part of the admission rules for SME Growth Market issuers**

We believe that **no rule on minimum free float should be introduced in the EU legislation**. As pointed out by the Commission, when an SME goes public, it is likely that there will be a low level of free float. Imposing free float requirements can make the listing unattractive for the company's owners. As the objective of the Commission's planned initiative is to make SME Growth Markets attractive and to facilitate SME listings, we believe it is best not to impose any EU rules on minimum free float. Such aspects will be more adequately addressed by the local markets and in discussions between investors and companies.

We note that, in the UK, the QCA-RSM Small and Mid-Cap Investors Survey 2017[2] found that a majority of institutional investors believed 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 found 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

[2] 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

has flexibility and is not hampered by numeric constraints which may result in potentially arbitrary outcomes for smaller companies.[3]

Please note that despite providing data at this stage from UK only, this concern is very much shared by all our members representing the interests of smaller issuers.

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[3] Feedback Statement and Consultation: AIM Rules Review, December 2017: http://www.londonstockexchange.com/companies-and-advisors/aim/advisers/aim-notices/feedback-statement-and-consultation.pdf