



CAPITAL MARKETS UNION

#CMU

'History inspires the future', Athex Stock Exchange

Athens, 16 May 2017



Purpose of CMU:

Policy objective:

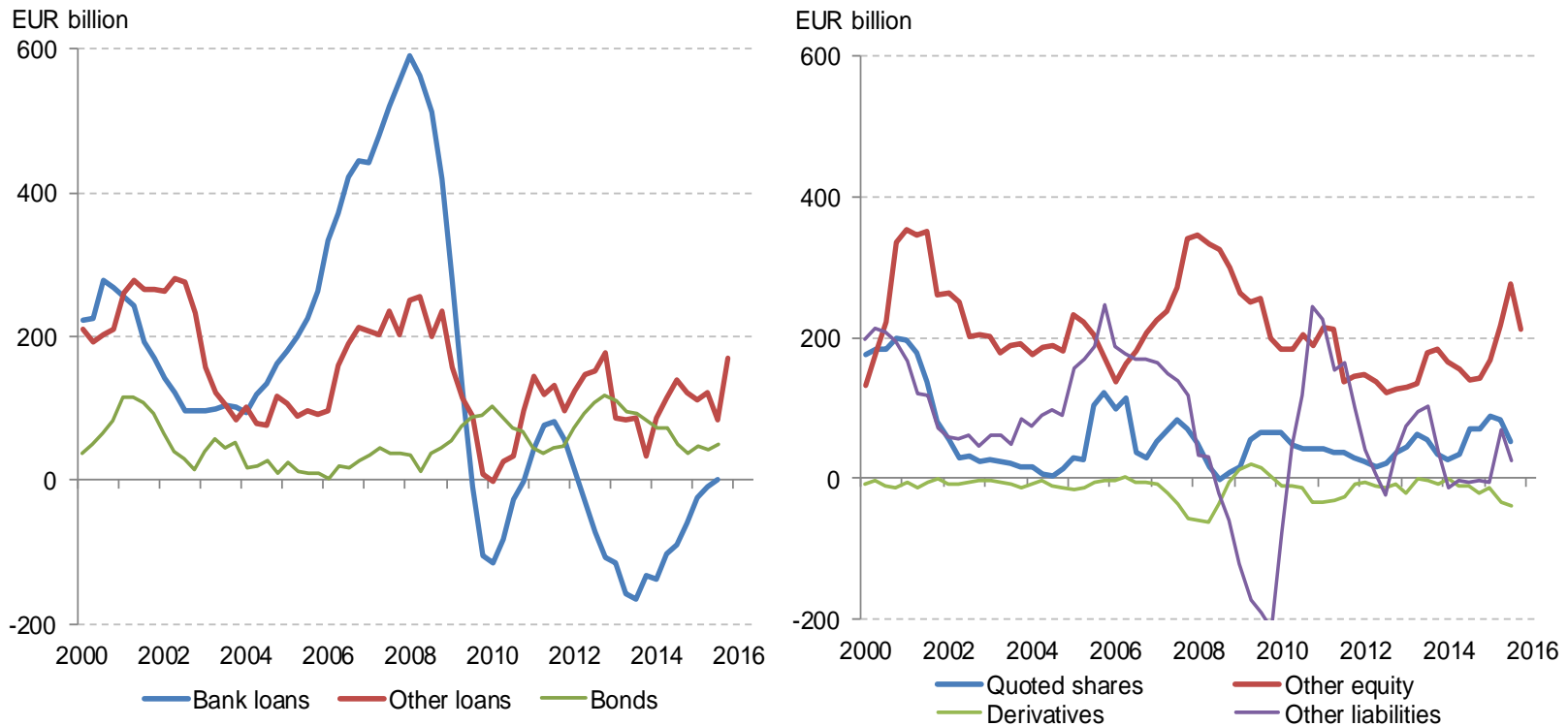
- Regulatory reform programme to diversify the funding of EU economy, reduce over-dependence on bank loans.

Why?

- Increase market-based finance from various sources and building a stronger equity culture to complement bank lending;
- Stimulate long-term finance for infrastructures and SMEs;
- Strengthen risk diversification and shock absorption by removing barriers to cross-border capital flows and investment.

Bank loans more pro-cyclical than market funding

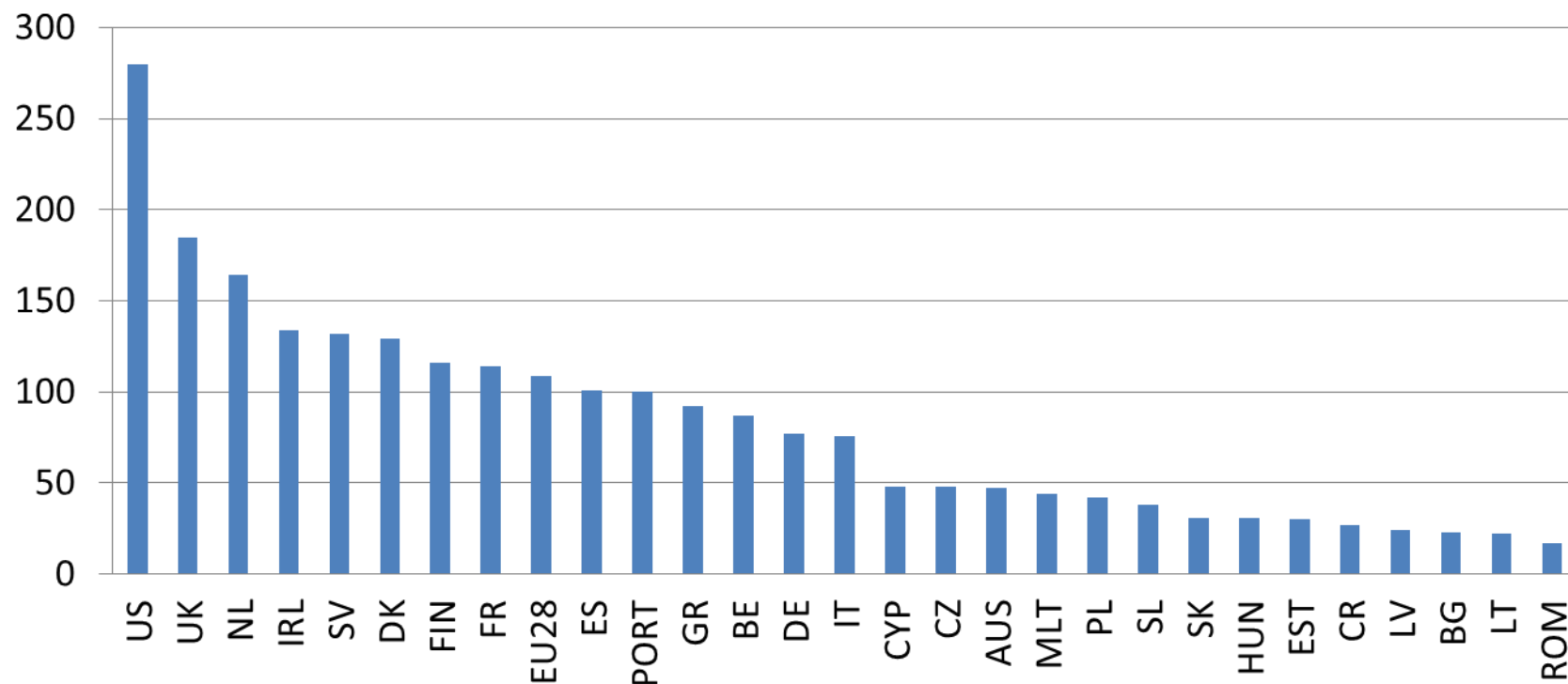
Chart 2.13: Dynamics in NFCs' sources of funding (liabilities) in the euro area



Source: ECB, Eurostat and own calculations

Depth of capital markets across EU

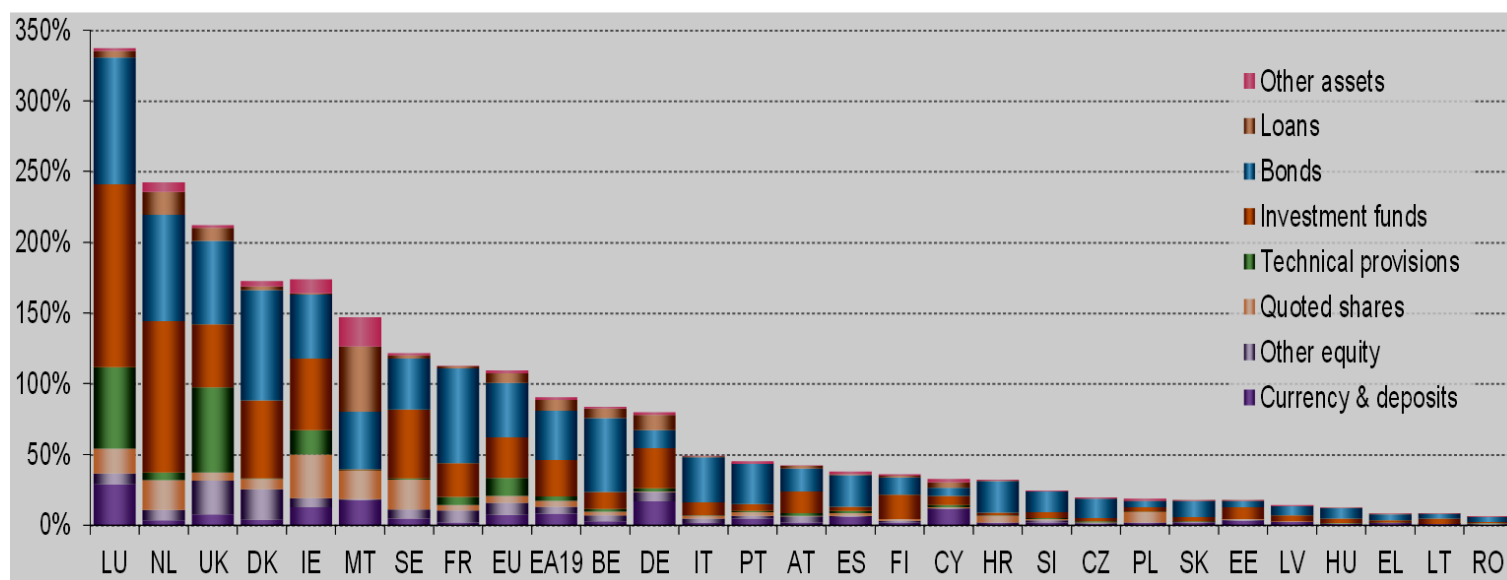
EU average 2011-14 = 100



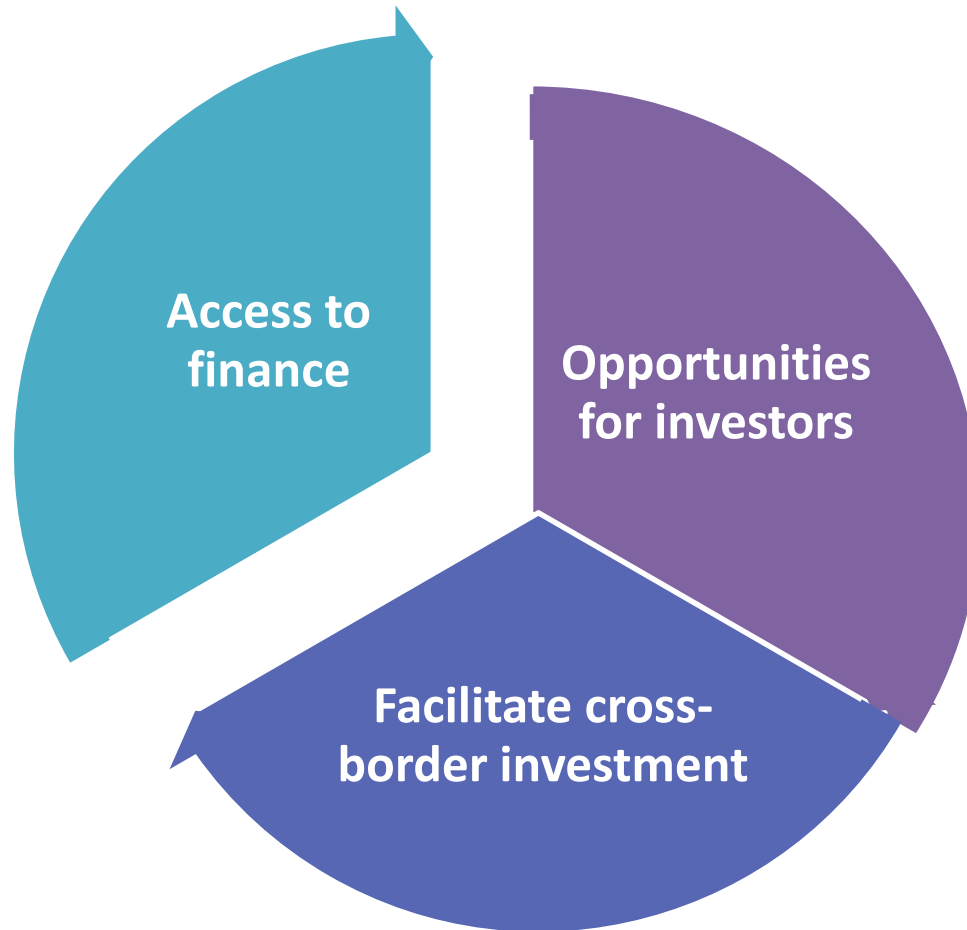
Source: New Financial 2016

Availability of capital: institutional

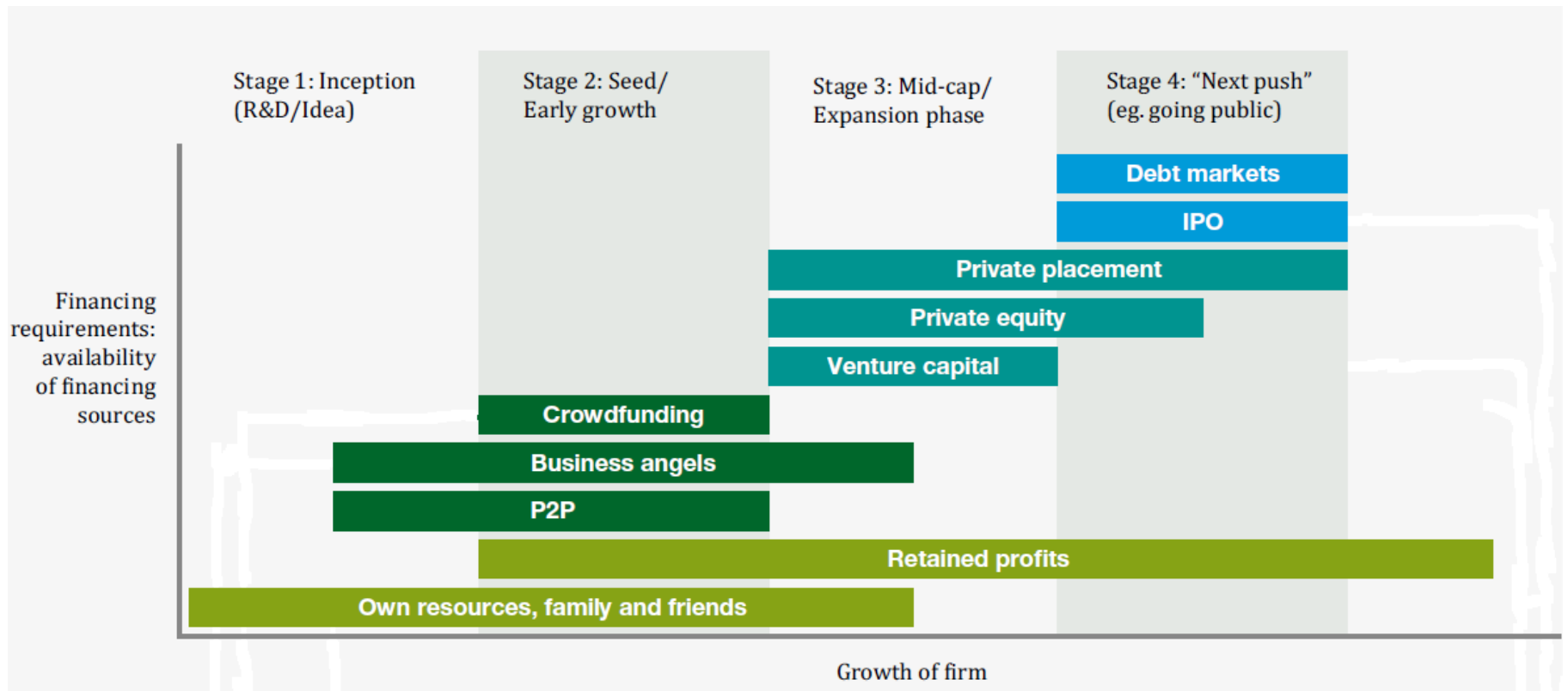
Insurance Corporations and Pension Funds' Assets (share of GDP, Q3 2015)



CMU = finance for investment & growth



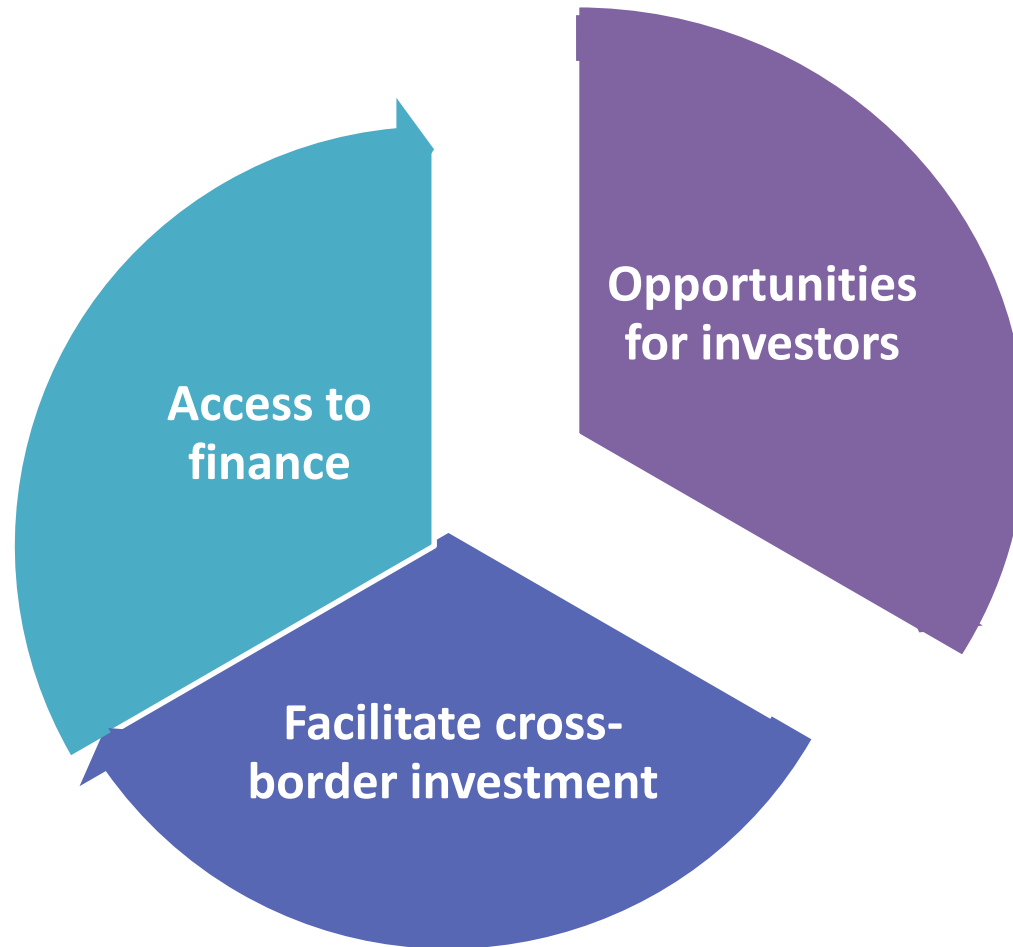
Corporate finance from inception to going public



The CMU pipeline is delivering

	<u>Policy Action</u>	<u>State of play</u>
VC funds-of-funds	Establish Pan-European venture capital funds-of-funds	Call for applications of managers closed at end January 2017
EuVECA	Revise EuVECA legislation	Council general approach agreed in December 2016
Private placements	Identify regulatory and market barriers to the development of PP; Support to best practice	Study on PP to be published in Q3 2017
Junior markets	Review of regulatory barriers to SME admission on public markets	Workshops organised in October and December 2016
Prospectus Regulation	Proposal to streamline public offer of securities	Agreement by the co-legislators in December 2016
Corporate bonds	Review of the EU corporate bond markets, focusing on market liquidity	Ongoing study and Expert Group
Debt-equity bias	Address debt-equity bias in national corporate tax systems	CCTB proposal adopted in November 2016

CMU = finance for investment & growth



The CMU pipeline is delivering

	<u>Policy Action</u>	<u>State of play</u>
Risk calibration - Insurance	Adjust Solvency II calibrations for insurers' investment in infrastructure and ELTIFs	In force since April 2016
Risk calibration - Insurance	Examining case for revision of Solvency II calibrations for private debt/equity	Call for advice sent to EIOPA in Q1 2017; Potential review in 2018
VC tax incentives	Exchange of best practice on tax incentives for VC and business angels	Study to be published in June 2017; Meetings with MS experts
Personal pensions	Underpin the the development of personal pensions across the EU	Possible legislative proposal (2017)
Retail financial services	Open up EU market for retail financial services	Action Plan published in March 2017



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Public markets for SMEs

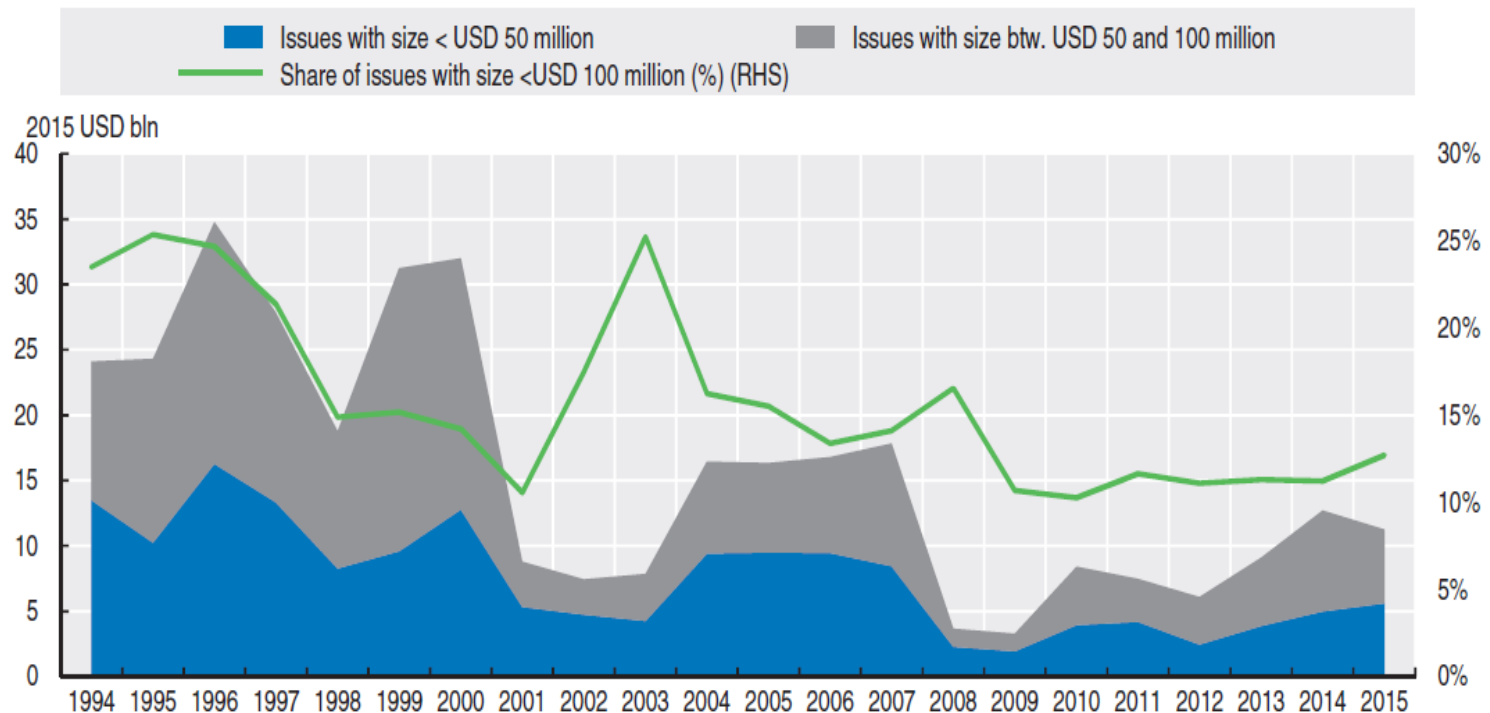


Why are SME-dedicated Markets important?

- The 'SME Growth Markets' are a new category of multilateral trading facilities that are being created under MiFID II and will apply from 2018.
- There are currently different SME-dedicated MTFs within the EU. Those junior markets are home to over 3,000 companies with a combined market capitalisation of over EUR 200 billion. Some examples:



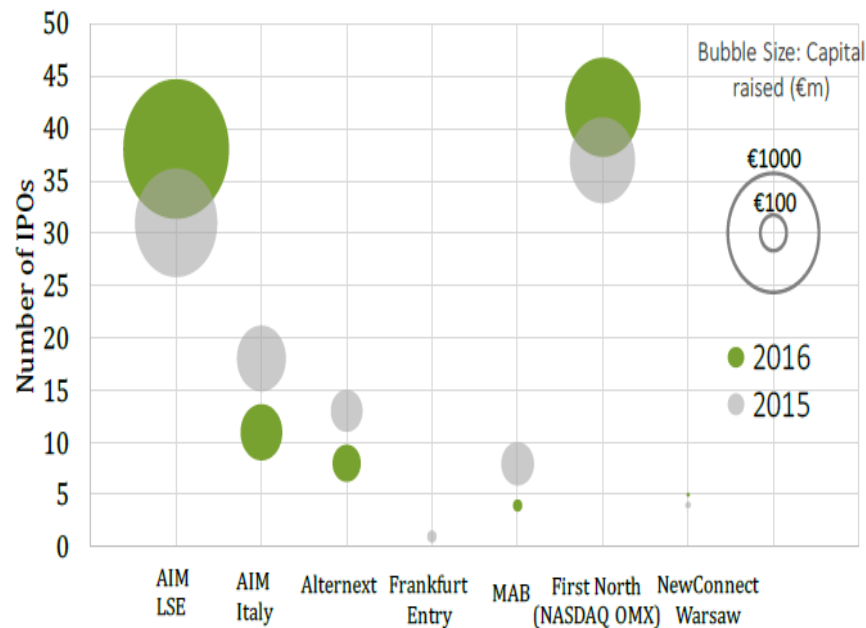
Declining in SME IPOs in the advanced economies



Source: Thomson Reuters, OECD calculations.

SME Markets in 2016: less IPOs, more proceeds

IPOs on Jr markets (number of deals and capital raised, €m)



- **151 IPOs in 2016 vs. 172 in 2015**
- **2,360 M€ raised in 2016 vs. 2,045 M€ in 2015**
- **Strong IPO originations on AIM London and First North**

Source: Dealogic

Why are SME-dedicated Markets important?

Benefits

Issuers

Less dependency on bank finance, higher investor base diversification, "follow-on" issuances, increased brand recognition, shares as an alternative to cash

Investors

Higher return and higher level of portfolio diversification; exit opportunity for private equity investors

Stock-Exchanges

Pipeline of companies that may graduate to the regulated market

Jobs and Growth

Increase in workforce after IPO; Potential huge contribution to GDP and State budget.

Legislative Framework of 'SME Growth Markets'

EU Texts

MiFID II

Definition of a SME GM; Admission criteria for issuers seeking a listing on a SME Growth Market; Ongoing disclosure requirements

Prospectus

EU Growth Prospectus; Secondary issuances

Market abuse

No insider list on an ongoing basis; Possibility for issuers to post their inside information on the trading venue's website

CSDR

Extension period to initiate a buy-in procedure (15 days vs. 7 days for illiquid securities)

EuVECA proposal

Expansion of eligible assets to SME listed on SME GM

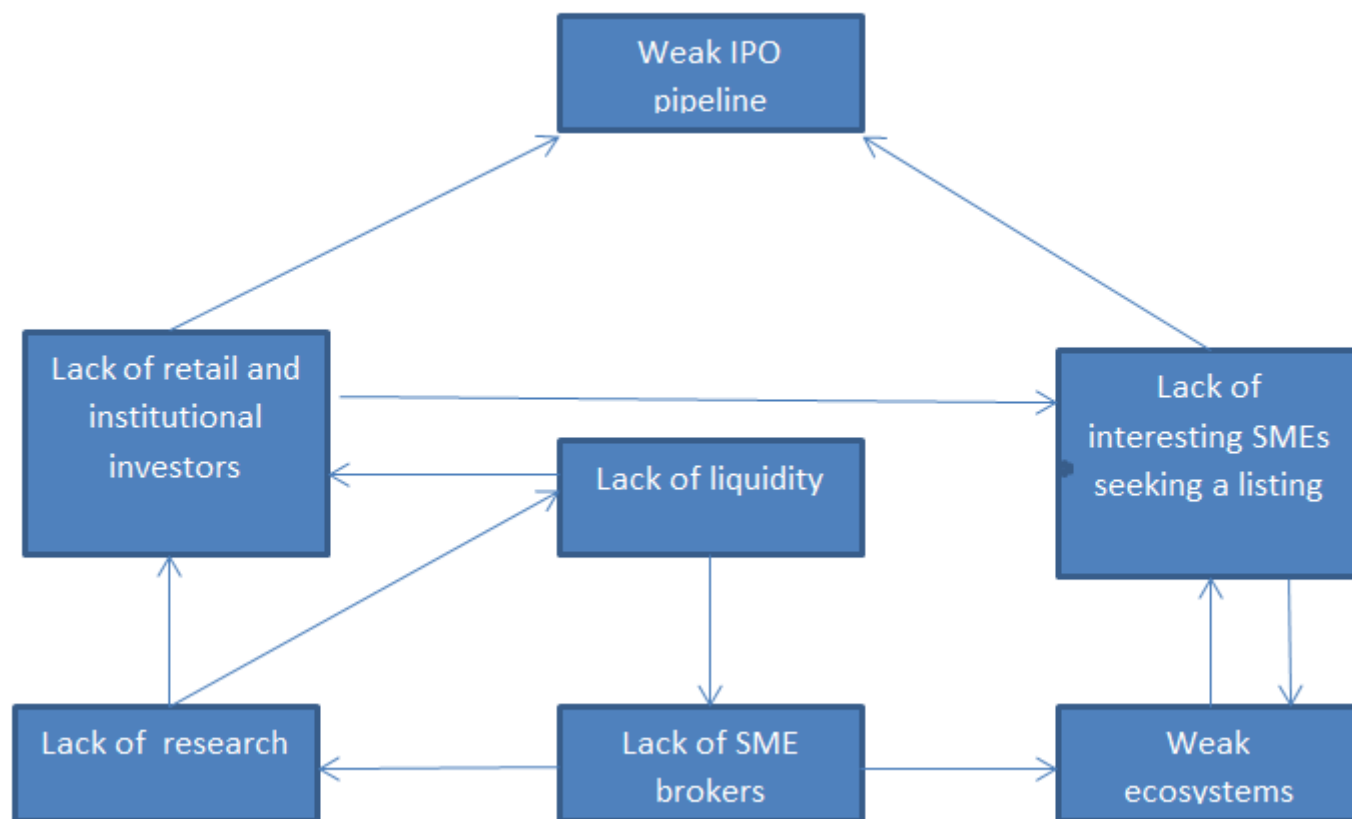
ELTIFs

Applicable to all MTFs (incl. SME GM). 70% of the portfolio can be invested in SMEs on a MTF (with market cap. < €500 million)

Solvency II DA

Equities traded on MTFs or held through ELTIFs the same capital charge as equities traded on regulated markets

Figure 1: The SME-dedicated markets conundrum



1/3 – Lack of investors

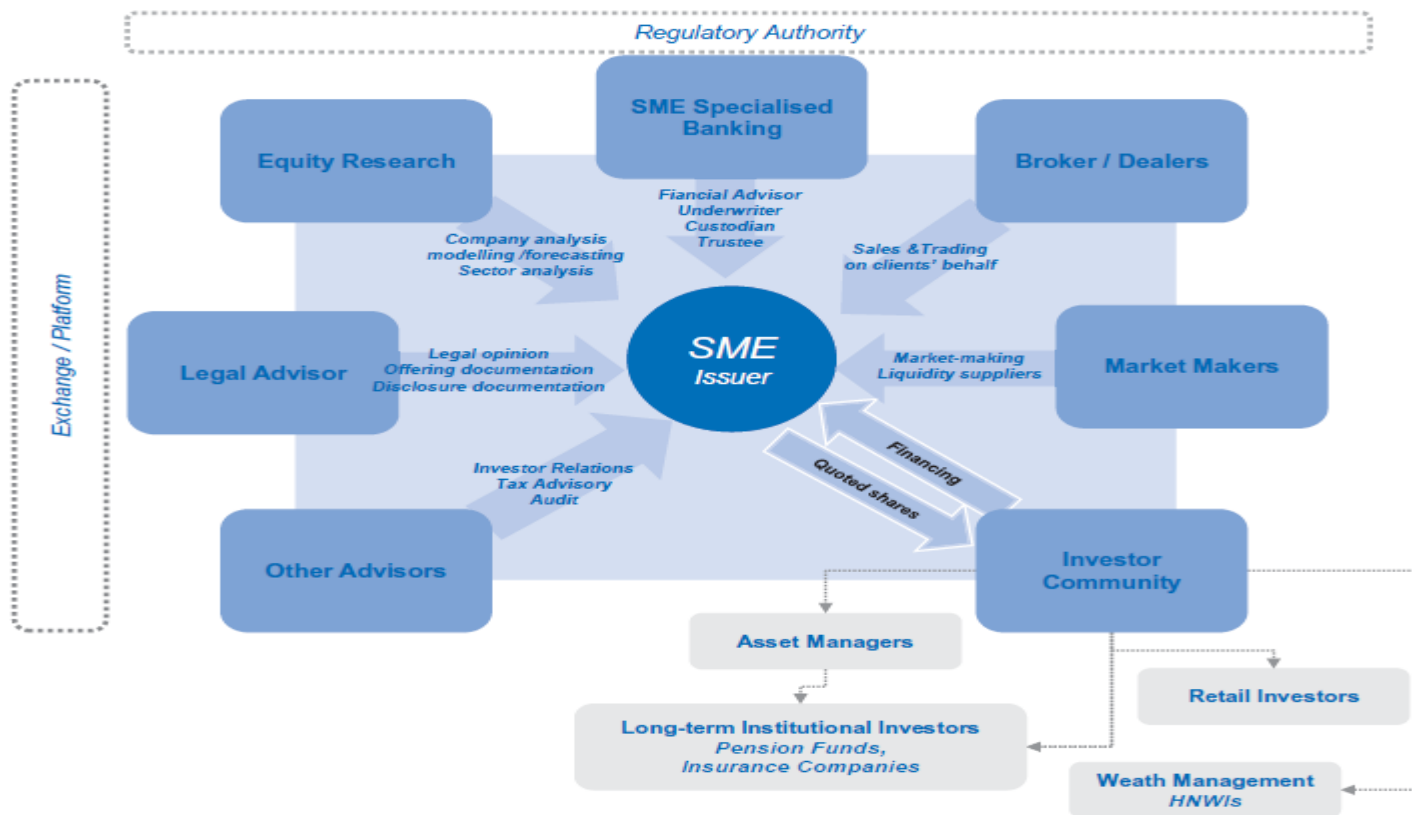
Issues	Policy Challenge	Potential Best Practices
Lack of retail investors	German investors (e.g.) directly or indirectly exposed to public equity markets stands at 14% and 7% vs. 50% in the US.	Tax incentives (e.g. GSK in Sweden, PEA-PME in FR., ISA in UK); promotion of financial literacy; book-building services by exchanges for retail investors
Lack of institutional investors	94% of European pension funds do not invest in SME shares. 1,004 investment funds specialised in EU small and midcaps (with EUR 192 billion of AuM) vs. 5,370 specialised in large caps (with EUR 1,689 billion of AuM).	More equity investment from pension funds; Tax incentives for ELTIFs; Listed funds investing in listed and unlisted SMEs; Direct public investments; Business Growth Fund in the UK
Lack of foreign investors	e.g. domestic investors account respectively for 79% on AIM (UK) and 95% on New Connect (PL)	Right market infrastructure in place (e.g. CCP); understandability of accounting standards

2/3 – Weak pipeline of SMEs seeking a listing

Issues	Policy Challenge	Potential Best Practices
Education and financing at pre-IPO stage	Few companies with the potential to access capital markets are aware of the pros and cons of listing. They are insufficiently skilled to tap alternative sources of financing or for a listing.	Incubators for SMEs (such as the Elite Programme, IPO Ready, Venture Network, EnterNext, Listing Support programme...)
IPO and ongoing listing costs	Costs of an IPO can account for up to 12-15% of the capital raised by an SME (vs. 2.5-3.5% for large corporates). After the IPO, the midcaps face high compliance costs (EUR 150 000 to 500 000 a year for firms with a market cap. < EUR 150 million).	Subsidies for IPO costs (non-refundable grants in PL; loans by ENISA in Spain at IPO stage). Providing flexibility in terms of accounting standards (IFRS vs. National GAAPs)
Compliance with ongoing requirements – Corporate governance	SMEs can struggle with heavy requirements associated with the listing of shares. Thus, investor confidence in SME markets can be lower and therefore investor participation remains restrained.	Role and control of authorised advisors; Corporate governance code promoted by stock exchanges

Importance of ecosystems surrounding local exchanges

Figure 11. A valuable ecosystem for SME equity offerings



Source: OECD Secretariat.

3/3 – declining ecosystems

Issue	Policy Challenge	Potential Best Practices
Weak liquidity	About 93% of listed companies that are not in the top capitalisation (below EUR 1 billion) only benefits from less than 7% of the liquidity. This low liquidity can deter investors from investing in SME shares. As liquidity is weak, brokers specialised in SMEs do not generate enough fees to provide services to SMEs (notably research). This increases the IPO costs for SMEs.	Use of different trading models; reduction of fees for market-makers; liquidity provision contracts; SEE-Link (order-routing system)
Lack of investment research	e.g. only 10% of listed companies on First North (NASDAQ OMX) were covered by financial analysis in 2013. Investors would not invest SMEs without relevant investment research. The absence of research negatively impacts liquidity.	Research financed by the exchanges; Reduction of fees for brokers

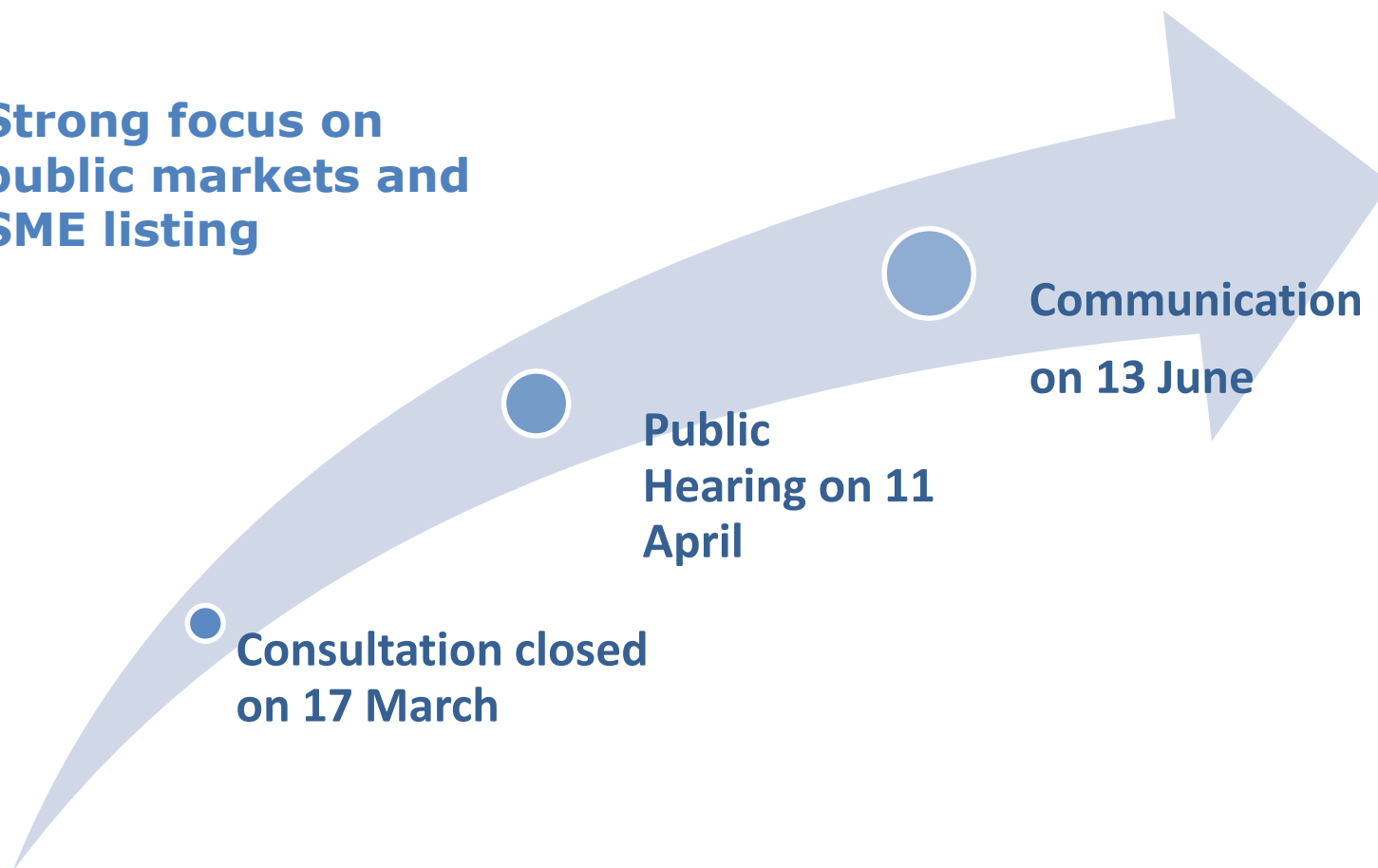
Feedback from the public consultation:

Stakeholders called for/highlighted:

- More proportionate regulatory environment for SMEs seeking a listing (e.g. MAR) and for their investment services providers (e.g. MiFID II)
- Potential impact of MiFID II rules on the provision of investment research on SMEs
- Direct involvement of public institutions (EIB/EIF, national promotional banks) as investors in listed SMEs

CMU mid-term review for June 2017

**Strong focus on
public markets and
SME listing**





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Thank you!

16 May 2017