23 January 2018

London Stock Exchange Group

LSEG Response to the European Commission Consultation on Building a Proportionate Regulatory Environment to Support SME Listing

Introduction

- **LSEG is delighted to respond to this consultation.** We fully support the SME Growth Market (SME GM) concept and to our knowledge are the only current operators of authorised SME GMs (AIM and AIM Italia). We welcome the objectives of the European Commission to seek further ways to enhance the regulatory framework to ensure that SME GMs are a success and support Capital Markets Union (CMU) and the EU growth, jobs and innovation agenda.

- **We believe that the key benefit of getting the regulatory framework right is an <u>increased investor pool</u>.** We urge against any focus on a simple reduction in standards because companies will generally be willing to meet higher standards of regulation if the benefits warrant the investment. We would encourage the Commission to take a more ambitious approach in order to introduce significant policy actions aimed at fostering listings on SME growth markets. However, ensuring the benefits of the regime are truly valued will not be achieved through changes to the regulatory framework alone and will require the stimulation of the wider SME ecosystem. We provide further detail on this in the paper.

<u>LSEG Key Positions</u>

SME ecosystems	• It is essential that vibrant ecosystems develop around growth markets to help ensure their success and create an enduring identity for such markets. Alongside comprehensive support and mentoring programmes such as ELITE, it is essential that all growth market participants have reasonable commercial incentives (e.g. brokers) to participate in equity capital markets compared to other forms of finance.
Prospectuses	• The 'restricted circle' to whom a public offer can be made without a prospectus should be increased from 150 to at least 500, not counting existing shareholders and employees. Secondary issuances should be completely exempt.
Attracting investors	• Increasing research coverage; SME fund of funds and embedding SME GM in regulatory regimes (e.g. UCITS)
Definitions	• We have no objection to raising the €500m threshold however we do not believe that the 50% threshold needs to be changed. Debt SME GM threshold should be €30m capital raised.
Key advisors	• We believe that markets should have the flexibility to be able to mandate whether or not a key adviser is required, taking into account local ecosystems.
Delisting	• We consider that it is important for rules around delisting, whether voluntary or mandatory are clear in their operation and that market operators are able to take measures to protect investors and preserve the integrity of markets.
Transfer of listings	• We believe that mandating transfers should be avoided and issuers should have the choice and flexibility to make decisions about when to move markets so that they are best served at each stage of their development.
Administrative burdens	• Alleviations should be available for all SME GM issuers. MAR imposes burdens (e.g. management transactions; PDMR; insider lists). PRIIPs are causing uncertainty for some issuers.
Tick Sizes	• We believe that the minimum tick size regime in MiFID II will have a reduced impact on the liquidity of shares traded on SME GM however market operators should be given full flexibility.
Free Float	• We do not believe that prescriptive free float requirements should be set and a qualitative consideration is essential to ensure there is an appropriate balance between existing

	shareholders retaining their desired stake at IPO and liquidity post admission.

About AIM, AIM Italia and ExtraMOT Pro

AIM UK was launched in 1995 as a market for smaller and growing companies. It has enjoyed considerable success over the past 22 years, helping over 3700 companies raise over £106bn of capital during that time. There are currently 956 companies admitted to trading on AIM with primary operations in 87 countries and 40 sectors.

AIM has successfully developed a vibrant ecosystem to support the market – involving nominated advisers, brokers, research analysts, lawyers, accountants and specialist investors with knowledge and expertise in dealing with smaller companies to name but a few.

AIM's 22 year history has been characterised by strong growth in issuer numbers and is an increasingly mature market. We are encouraged by the quality of companies who are joining the market; for instance the market capitalisation on admission has risen in the last 10 years from £58m in 2007 to £78m in 2017 with companies raising significantly greater amounts at admission – £34m vs £43m. AIM has been approved as an SME Growth Market, coinciding with the introduction of MiFID II on 3 January 2018.

AIM Italia is the equity growth market managed by Borsa Italiana devoted to the Italian small and medium enterprises with a high growth potential. The MTF was launched in December 2008 and subsequently merged in 2012 with the MAC market, for the purpose of rationalizing the offer of the markets dedicated to SMEs and proposing a single market conceived for Italy's more dynamic and competitive SMEs. AIM Italia enables smaller size companies to access the market in a short time and at lower cost with respect to the main market, ensuring in the meantime transparency and liquidity for investors. In December 2017 AIM Italia obtained by Consob the SME Growth Market registration pursuant to MiFID II, effective from 3 January 2018.

AIM Italia is a growing market with currently 95 issuers representing 9 different industries having €5.6bn total market capitalisation and 33% average free float at IPO with total capital raised since inception at €2.3 bn. During 2017 the market has seen an increase of liquidity and of money raised at IPO also due to the introduction in Italy of a new investment product in 2017 linked to fiscal incentives, the "Piani individuali di risparmio" (PIR) (Individual savings plans). The purpose of PIRs is to stimulate the growth of Italian enterprises with a focus on Italian SMEs by granting investors significant fiscal benefits.

ExtraMOT Pro: With respect to our bond MTF, in February 2013 Borsa Italiana launched the new Professional Segment of ExtraMOT market dedicated to listing of bonds, commercial papers, project bonds born to offer to corporates and, in particular to SMEs a flexible, and a cost effective access to capital markets. The regulatory infrastructure of the new segment foresees simplified requirements, both in the listing phase, as well as on-going.

To date 194 companies have approached the bond market raising a total of about €15.9bn euro while the number of listed financial instruments on ExtraMOT Pro is 298, of which 75 new instruments were admitted in 2017.

Part 1 Questions on challenges faced by public markets for SMEs

1. In your opinion, what is the importance of each of the factors listed below in explaining the weakness of EU SME-dedicated markets

- ***low number of companies coming to the public markets***
- ***decline of local ecosystems***
- ***lack of retail and institutional investors***
- ***Other – please specify in the textbox below***

Please explain and describe the current situation of SME-dedicated markets in your own jurisdiction or countries of operations.

- **The relative strength or weakness of EU SME-dedicated markets is influenced by a number of factors, from those at a macro level affecting economies around the world to specifically domestic developments**. It is therefore important to recognise the overall context and trends affecting equity markets around the globe which have seen declining issuer numbers and/or fewer IPOs for a number of years on not just growth markets but also some of the largest markets around the world. A number of possible reasons have been put forward for this trend, such as declining allocations to equities, reduced attractiveness of a listing given increased focus on regulation and enforcement, historically low interest rates (increasing the relative attractiveness of debt and private equity in comparison to equity), ageing populations impacting on investing styles, and the favourable fiscal treatment of debt in comparison to equity. These issues are relevant for SME-dedicated and larger equity markets alike, meaning that the low number of companies coming to public markets cannot explain a perceived weakness of EU SME-dedicated markets alone.

- **Notwithstanding the above, the number of companies coming to market can be a useful key performance indicator for many markets when considered as part of a wider set of performance metrics.** Evidence of companies having success in completing an IPO and raising healthy amounts of capital can provide the best advert for equity growth markets over other competing forms of finance. It is critical for companies that they have on-going access to capital when using public markets. A survey conducted for LSEG by YouGov found that 70% of respondents had raised follow-on capital on AIM, 4 times on average and raising an average total of £15m. Of the existing AIM issuers looking to raise further finance, 86% said they intended to complete a further offer on AIM. Over the lifetime of AIM, £63bn or 59% of the £106bn raised by companies has come from further issues – demonstrating AIM's success in helping companies access the capital they need not just at IPO but also on an ongoing basis.

  The importance of a high *number* of admissions should not be overstated and it is usually one of many KPIs which need to be looked at in aggregate to assess performance. For instance, whilst a higher number of admissions can be seen as a sign of the popularity of SME-dedicated markets, this does not mean that the overall quality of the market is necessarily improving. For example, in economically favourable conditions where investors' risk appetites are higher, companies with less proven business models may have greater success in raising funds where they would otherwise fail.

  AIM Italia can be considered, compared to AIM UK, to be facing a relaunch phase, having a less mature history, being launched only in 2008. The smaller number of issuers and entities belonging to its ecosystem reflect the different structure of the Italian market, characterised mainly by micro and family-led entities and by the less consolidated base of SME dedicated investors. Despite that, the last year (2017) can be seen as a record year for Borsa Italiana equity markets on many metrics: on AIM Italia 26 companies have been admitted in 2017 with €1.3 billion raised. The introduction of the PIR individual savings plans incentives undoubtedly can be considered as a game changer for smaller companies:

they made possible placements, increased the number of listings, generated significant liquidity, expanded a base of domestic and foreign investors who had expectations on positive performance on Italian small caps. Despite this positive trend, the main problem resides on the need to establish a solid investor base focused on the SME asset class.

- **It is essential that vibrant ecosystems develop around growth markets to help ensure their success and create an enduring identity for such markets**. From a company's perspective, given the significance of making the transition from being a private to a public company, private companies will evaluate the decision to join a growth market and the various financing options available and process for accessing those options over an extended period of time, seeking advice from a number of different sources before committing to the formal process of joining. Ensuring companies know where to go to obtain such advice and that it is available from a number of different actors is crucial in helping companies realise their growth ambitions. In this respect, ELITE is an increasingly important contributor to the SME advisory ecosystem. Launched by Borsa Italiana in 2012, ELITE aims to help growth companies navigate the funding ladder and help them prepare and structure for the next stage of growth through the access to long term financing opportunities. It is dedicated to growth businesses, with a sound business model, clear growth strategy and a desire to obtain funding in the near future. ELITE offers an innovative approach, including a training programme, a working zone supported by a tutorship model and direct access to the financial community through dedicated digital community facilities. The long term objective of ELITE is to improve access to more sophisticated skill-sets, networks and a diversified capital pool in order to accelerate growth opportunities.

- **To support the development of supportive ecosystems it is vital that there are reasonable commercial incentives for the different actors involved in growth markets**. In this regard, the current regulatory framework has contributed to an environment where advisers are increasingly recommending only the largest and most liquid stocks (for example due to a perception of increased compliance risk in justifying investments in smaller companies). This is in danger of creating a feedback loop where activity and liquidity migrates towards investments in larger companies; reducing the capital available to smaller companies looking to raise finance.

- **In general, we believe that the key benefit of getting the regulatory framework right is an increased size of the investor pool.** We are against a simple reduction in standards because companies will be willing to meet higher standards of regulation if the benefits warrant the investment. In this respect, a key benefit is the extent to which complying with such higher requirements makes it easier for such companies to obtain the level of funding they require in comparison to other funding options. As such, achieving those benefits is necessarily wider than removing administrative barriers for companies through amendments to the regulatory framework and requires the stimulation of the wider SME ecosystem.

2. What are the main factors that can explain the low number of SMEs seeking an admission of their shares or bonds to trading on EU public markets?

- ***Availability of alternative sources of financing for SMEs (including bank finance):***
- ***Lack of awareness of SMEs on the benefits of public markets***
- ***High (admission and ongoing) compliance costs due to regulatory constraints***
- ***Lack of preparation from companies' management as regards the implication of a listing***
- ***Reluctance of SMEs' owners to relinquish a stake in the capital of their company (for equity)***
- ***Other***

- **We believe that relevant factors include the following:**

  i. **Companies staying private for longer** - increases in the scale and availability of funding through venture capital and private equity mean that companies are increasingly obtaining capital much earlier in their lifecycle. There is an increasing perception that regulation within the public markets adds to the cost and complexity of access to finance, discouraging companies from going public early in their growth journey.[1]

  ii. **Transaction and pricing risk:** a private sale can provide greater certainty on short-term valuation in comparison to an admission to a public market, where investor risk appetites can be more susceptible to a wider range of factors such as macroeconomic conditions and ongoing liquidity considerations.

  iii. **Regulatory risk**: increases in the number and volume of disclosures required for private companies (e.g. through company law) may lead to companies already feeling stretched and having the perception that they are not sufficiently mature enough to access public markets. Companies may feel that they will be unable to deal with any additional regulatory burden, or assume this will be the case without investigating their options.

  iv. **Loss of control** - increased scrutiny from investors and the wider market may deter companies from accessing public markets. In particular, companies that have received PE/VC funding and have experienced increased levels of oversight and intervention from such investors may have a perception that accessing public markets and adding a wider set of investors may lead to management having to spend a disproportionate amount of time managing a wide range of investors rather than running the business.. Please also see our answer to question 1.

3. What are the main factors that inhibit institutional and retail investments in SME shares and bonds?

- ***Lack of visibility of SMEs (including lack of financial research and credit information) towards investors***
- ***Differences in local accounting standards hindering cross-border investments***
- ***Regulatory constraints on investors as regards investments in SMEs***
- ***Lack of liquidity on SME shares and bond markets:***
- ***Lack of investor confidence in listed SMEs***
- ***Lack of tax incentives***

- We believe that assigning values to the above factors is problematic given that each may have more or less significance to individual investors; whether they are institutional or retail.

There are a number of reasons why institutional investors may be disincentivised from investing in SME shares and bonds:

- **The economics of investing in smaller companies:** appraising an investment in a smaller company can take an investor a significant amount of time; in often the cost of undertaking due diligence will be similar to investing into a much larger company. However unlike in larger companies, investors may not be able to deploy capital in scale and may be limited in terms of the size of investment they can make in a smaller company without taking a controlling stake. From an institutional investor perspective, it is critical such investors have confidence that there will be sufficient liquidity in a stock for them to be able

[1] See private market trends, page 11 of 20. http://www.ey.com/Publication/vwLUAssets/an-analysis-of-trends-in-the-us-capital-markets/$FILE/ey-an-analysis-of-trends-in-the-us-capital-markets.pdf

to react to events which may be outside of their control (for example if a receipt or redemption of funds from an underlying client requires them to purchase or sell securities). Where institutional investors do not have confidence that they will be able to move in and out of a holding in a smaller company due to a lack of liquidity, (particularly if the holding is material), they will be less willing to invest in that stock. At IPO, investors may therefore be naturally more selective before investing and may wait for evidence of success in the secondary market before committing time to perform due diligence. The lack of a strong index benchmarking culture in growth markets also means there are limited passive investors in smaller companies.

- **Cross-border capital raisings are relatively infrequent for smaller companies**; particularly at IPO. The costs of ensuring companies have met all appropriate legal requirements may be prohibitive. Furthermore, whilst IFRS is well embedded in the UK, local investors may wish to see information in local accounting standards. AIM Italia, also with the aim of attracting foreign investors, allows issuers to use either domestic or international accounting standards.

- **Investor perceptions of risk associated with investing in securities which are not on Regulated Markets can reduce capital available for Asset Managers to allocate to SMEs.** For example, well-intentioned restrictions placed in individual investor mandates may be designed to reduce risk, but may prevent managers from investing in high quality SMEs on MTFs solely on the basis of regulatory classification rather than the inherent risk attached. By differentiating SME Growth Markets from other MTFs, action can be taken to promote the inclusion of SME growth markets in individual investor mandates.

- **More structural regulatory issues can also reduce capital available to be invested in SMEs.** Capital charges under the Solvency II regime act as a disincentive to invest in equities and high growth firms rather than bonds from a capital perspective. Life insurers hold assets of £1.81tr and only 16% of UK pension funds are currently invested in UK equities, down from 56% in 1994. Encouraging DC pension funds to allocate a percentage of capital to patient capital funds would stimulate further long-term investment.

We believe the following steps can specifically help improve the attractiveness of SME growth markets for investors:

- **Increasing research coverage** can help to highlight opportunities for investment which may not otherwise be as visible, particularly where the research goes beyond traditional valuation metrics. Research can provide investors with a valuable consolidated source of information not found in a company's own filings i.e. a second opinion that can support or challenge a company's claims, as well as provide important industry context. Many SMEs, particularly at smaller market capitalisation sizes, have little research other than the house broker written on them. As research is generally only made available to institutional audiences (unless paid for by the issuer), a lack of research reduces the likelihood of securing institutional investment.

  In order to address the lack of research coverage for SMEs, AIM Italia recently introduced the obligation for specialists to publish an investment research on the occasion of the publication of the results for the year and the half-year. However, the research availability should in our view be driven by market appetite rather than by rulebook provisions and to be provided on an independent basis (see below).

- **Lack of dedicated investors for SMEs: establishment of domestic SME Funds of Funds.** We believe that a solid base of institutional investors and asset managers is vital for the consolidation of a SME Growth market. From our perspective, the European Commission should consider our suggested initiative regarding the establishment of several dedicated Funds of Funds at domestic level, specifically investing on small caps quoted on SME Growth Markets. We believe that initiatives provided at local level will be more effective as they will be customised on the specificities of the local SMEs and able to solve existing equity gaps. The main benefits of such initiative would be the creation of a catalyst for private sector investment in order to attract international and local pension funds, insurers and sovereign wealth funds in directing funds to high-growth SMEs, helping to develop a quoted SME investment ecosystem with a strong base of expertise and skills (which takes time.)

- **Features of the proposal:**

  - Masterfund: we would welcome a model consisting of seed investment backed by EU budget as well as private contributors (i.e. pension funds, banks and insurance / institutional investors). This initiative should be complemented by multiple investment vehicles - to allow investment in other more liquid assets and apply leverage to the fund. We believe that the key objectives can be met starting with €1-2bn for each fund implemented at Member State level, according to financing needs and SMEs equity gaps across the different geographies.

  - Fiscal incentives – we believe that such model may work to the extent that appropriate fiscal incentives are granted, in particular to attract institutional investors such as pension funds, and insurance companies.

- **To increase the awareness of SME growth markets amongst institutional investors**, **the SME Growth Market concept needs to be embedded in regulatory regimes which are relevant to such investors**. For example, UCITS funds hold EUR 9.7trillion of assets.[2] The UCITS regime places restrictions on the type of securities and eligible markets such funds can invest in. Recognising SME Growth Markets as being specifically eligible for investment by all UCITS funds (rather than making determinations for specific markets) could help enhance the depth of liquidity on SME growth markets and de-risk investment into such shares by individual funds.

- We believe this is important given that investors who are motivated by fiscal incentives have proven to be particularly supportive for growth companies during times of economic uncertainty. Additionally, they can have a powerful crowding in effect given their expertise in investing in companies with nascent technologies and of smaller sizes.

4. In your opinion, what participants of the ecosystems surrounding local exchanges for SMEs are declining the most?

Brokers, market-makers, liquidity suppliers
Financial research providers
Credit Rating Agencies
Investor base
Investment banks
Boutiques specialised in SMEs and offering several services (brokerage, research, underwriting…)

[2] AUM as at the end of November 2017
http://www.efama.org/Publications/Statistics/Monthly/Monthly%20Fact%20Sheets/180129_EFAMA%20Fact%20Sheet_November2017.pdf

Legal and tax advisers
Accountants
Others (please specify)

- **The group which we understand to be facing the most significant pressures is the small and mid-cap broker community**. Increasing requirements, for example the introduction of product governance requirements and settlement discipline for less liquid stocks under CSD-R, increase pressures on time and regulatory risk for firms. For some firms the commercial benefits are now no longer commensurate with the risks – particularly if serving SMEs is not a core part of the firm's offering. Future reduction in research coverage as a result of MiFID II may lead to further consolidation. In this regard, we understand from market participants that the MiFID 2 constraints on paying for research may deter brokers from providing SME research coverage, exacerbating the existing lack of coverage. Research providers for SMEs need to provide investors a value adding overview of the whole story about a company rather than just provide key financial metrics that are generally publicly available. For high quality analyst research to be available, there needs to be sufficient liquidity in the market for commissions to support the cost of research production and distribution. Another unintended consequence would be that SMEs issuers may be forced to pay for their own research which can be considered less favourably than independent research coverage.

  The Commission should therefore revise the MiFID2 framework by setting that the research referred to SME securities, whether investment or non-independent research, does not constitute an inducement. This could be achieved by eliminating the conditions which currently provide that, the receipt of research by portfolio managers from any third-party entities would not constitute an inducement provided that portfolio managers: (i) can either pay directly from their own resources; (ii) pay for research from a separate research payment account controlled by the portfolio manager and funded by a specific research charge to the client (unbundling).Without addressing the above issues, the barriers to entry for new entrants are significantly increased. Increasing the depth and breadth of such ecosystems can only be beneficial to the success of the SME GM concept.

5. What are the main reasons behind the decline of the ecosystems surrounding the local exchanges?

Impact of low level of liquidity on brokers' business models
Impact of low level of investors' appetite for SME instruments
Regulatory constraints on investment services providers specialised in SMEs
Lack of profitability of the SME segment
Other (please specify)

We believe that ensuring SME Growth Markets are liquid is critical for their success. Liquidity is extremely important for issuers, investors and intermediaries. Liquidity acts as a signal of investor interest, helps reduce volatility and acts as a key differentiator from being private. A survey of issuers on AIM identified that the top three areas issuers would prioritise for development were access to capital, liquidity and availability of research. When assessing the factors that are important in a vibrant growth market, 24% of respondents felt that liquidity was of critical importance, 55% considered it to be very important, 15% reasonably important, 5% slightly important and 1% not at all important. For issuers, liquid markets lead to more robust valuations helping to reduce their cost of capital and increase their ability to raise finance.

For investors, it is critical they have confidence that there will be sufficient liquidity in a stock for them to be able to react to events which may be outside of their control (for example if a receipt or redemption of funds from an underlying client requires them to purchase or sell securities). Where institutional investors do not have confidence that they will be able to move in and out of a holding in a smaller company due to a lack of liquidity, (particularly if the holding is material), they will be less willing to invest in that stock. Liquidity also helps reduce the likelihood of a volatile share price in turn contributing towards more robust valuations of investments.

For intermediaries such as brokers/market makers, liquidity is especially important as dealing commissions can be a significant revenue stream for such businesses. Their activities are key components of the infrastructure supporting growth markets, attracting involvement of a wider community of market participants. Where there is insufficient liquidity, such intermediaries are likely to focus their activities on larger, more liquid stocks with knock on effects for issuers and investors as noted above.

Part 2 Questions on specific regulatory barriers

A. Making a success of the 'SME Growth Market' concept

Definition of an SME Growth Market and SME Growth Market issuer (MiFID II – Articles 4 and 33)

6*. Given the considerations mentioned above, do you consider that the criteria used to define an SME Growth Market[18] should be modified?*
Yes
No
Don't know/no opinion
Please explain your reasoning.

- **We believe that it is important that the SME GM threshold provides scope for high growth companies to grow on market.** Whilst valuations can change quickly, e.g. due to innovative technologies/commercial breakthroughs, companies can still find themselves in a growth stage requiring the more flexible access to capital provided for under the SME GM framework. As such, market capitalisation is not always the most appropriate measure. It is also important that the threshold is set at a sufficiently high level to avoid the perception that the SME GM regime is only appropriate for "micro-cap" securities, making them less attractive for example to large institutional investors and Private Equity houses looking at the capital markets as a potential option to exit their investments.

From a market perspective, it is also there is appropriate headroom for participants to be certain of their regulatory treatment on market.

- **We have no objection to the threshold being raised** to bring it in line with these other thresholds – for example to €500m. This would provide the greatest amount of flexibility for the regime going forwards and ensure the regime remains attractive. We do not think that it should be reduced; particularly as the new regime has not yet bedded down.

7. Should the market capitalisation threshold of EUR 200 million defining SMEs under MiFID II be:
raised (please specify an appropriate market capitalisation threshold)
decreased (please specify an appropriate market capitalisation threshold)
left unchanged

replaced by another criterion (Please specify below – e.g. turnover, number of employees…)
Other (please specify)
Don't know / No opinion

- **We have no objection to the threshold being raised** to bring it in line with thresholds used in other regulations/directives. See response to question 6.

8. Bearing in mind your answer to the previous question, should the proportion of SMEs on SME Growth Markets (currently 50%) be:
Below 25%
Between 25%-49%
Unchanged (50%)
Between 51%-74%

- **We do not believe that this needs to be changed** noting the comments above.

Definition of an SME debt issuer for the purpose of an SME Growth Market (MiFID II – Article 4)

9. Should the criteria used to define an SME Growth Market[22] non-equity issuer be modified?
Yes
No
Don't know/no opinion
Please explain your reasoning. If you answered affirmatively, please provide appropriate criteria (turnover, outstanding issues of debt securities, size of the bond issuance…) and thresholds to define an SME Growth Market debt issuer.

- **In our view, an alternative criterion to define a bond SME Growth Market issuer could be to consider the size of the amount raised through the bond issuance**. Based on the average statistics of ExtraMOT issuers, we believe a capital raised threshold of **€30m** would be more appropriate. Since the launch of ExtraMOTPro in 2012, 70% of the issuers raised an amount below €30m with a limited investor base (normally 1 or 2 bondholders). Another option could be to consider as parameter an amount of €20m raised which is in line with the consideration provided by Prospectus Regulation for issuers wishing to publish a SME Growth prospectus under the proportionate disclosure regime pursuant to article 15 of the mentioned Prospectus Regulation.

Key adviser requirements

10. Please indicate whether or not you agree with the following statements regarding minimum requirements and obligations of key advisers for firms listed on SME Growth Markets (please rate each proposal from 1 to 5, 1 standing for "completely disagree" and 5 for "fully agree"):

A key adviser should be imposed for equity issuers on an SME Growth Market
A key adviser should be imposed for bond issuers on an SME Growth Market
A key adviser should be mandatory during the whole period an SME is listed
A key adviser should only be mandatory during a limited period after the first listing of a firm (please specify below the relevant period (1 year, 3 years; ….)
Minimum requirements regarding the mission and obligations of key advisers on SME Growth Markets should be imposed at the EU level (Please specify)
Minimum requirements regarding the mission and obligations of key advisers on SME Growth Markets should be imposed by individual stock exchanges

Please explain your reasoning and provide supporting evidence on the costs associated with the appointment of a key adviser. If appropriate, please specify the mission and obligations that should be placed on key advisers at EU level.

- **We believe that markets should have the flexibility to be able to mandate whether or not a key adviser is required**, taking into account the skills, knowledge and ability of firms in the local market to be able to fulfil the role. Flexibility is key for SME Growth Markets to be successful – particularly given the diversity of size and strength of individual economies. For instance, whilst our AIM market mandates the retention of a nominated adviser, on our ExtraMOT PRO market we believe requiring the retention of a particular adviser is less appropriate given it is a professional-only markets dedicated to sophisticated investors.

- **For more fledgling growth markets where issuers are generally smaller in size, mandating an adviser may represent an unreasonable cost burden for issuers.** Furthermore, mandating an adviser in markets where there is not a community with the knowledge and experience able to service issuers may damage the initial growth of such markets. However, as markets grow in size, it is natural for there to be an evolution in the type and quality of advisers. For example, the AIM Rules for Nominated Advisers have been developed over time as the market has matured to ensure that the community serving AIM meet the high standards required to ensure the overall integrity of the market is preserved.

Delisting rules on SME Growth Markets

11. In your opinion, are there merits in imposing minimum requirements at EU level for the delisting of SME Growth Market Issuers?

- **We believe that the framework for growth markets should allow for both mandatory and voluntary delistings** and we propose the following framework. Where cancellation is voluntary, we believe that this should require shareholder approval where it leads to a potential reduction in shareholder rights. In this regard, market rules can provide protections for shareholders which would not otherwise be afforded to them if the company cancels its listing. However, we believe that mandatory delistings should also be allowed for as a tool for markets – particularly in circumstances where there are breaches of the market rules and such cancellation is necessary to protect investors (e.g. due to uncertainties in disclosure) or in order to preserve the reputation of the market.

- **We also consider that it is important for market operators to retain flexibility** and avoid prescriptive rules which bind either the market or issuers. For example, arbitrary thresholds can create market uncertainty and prove to be a blunt tool in times of market uncertainty, as was seen where the operation of delisting rules based on stock price were suspended by Nasdaq in 08-09[3]

[3] https://uk.reuters.com/article/businesspro-us-nasdaq-listings/nasdaq-to-extend-listing-rule-suspension-idUKTRE4BI36020081219

Transfer of listings

12. In your opinion, are there merits in introducing harmonised rules at EU level on voluntary transfer of listing from a regulated market to an SME Growth Market?

- **We believe it is important that issuers and their investors have choice and are able to move between markets so that they are best served at each stage of their development.** We do not believe that harmonised rules are necessary as SME GMs should be afforded the flexibility to respond to local market conditions and expectations. In our experience, issuers and investors can have a number of different motivations for wanting to transfer between markets.

13. In your opinion, should the transfer of issuers from an SME Growth Market to a regulated market be:

required when the issuer exceeds some thresholds
(such as the market capitalisation)
incentivised through regulatory measures when they exceed some thresholds (such as the market capitalisation)
always left to the discretion of issuers and not required or incentivised by regulatory measures
Other (please specify in the textbox below)
Don't know/no opinion

Please explain your reasoning and supporting arguments/evidence. When relevant, please indicate appropriate thresholds or possible incentives for SME Growth Market issuers to move to a regulated market.

- **We believe that transfers should not be mandated.** We do not believe that companies should be penalised for growth; a decision to transfer to a Regulated Market should be at the choice of the issuer with feedback from investors, not forced upon them. An important consideration for many companies when deciding which market is most appropriate for them will be where their peers (by sector, jurisdiction and size) are also listed.

- **We believe that harmonised rules on the transfer of issuers from SMEGM to Regulated market should not be required**. A specific issue with this is how a regulation would practically legislate for this, given that no one metric can reasonably identify when a company is ready to make the next step on its financing journey. For instance, market capitalisation may be a market measure of valuation, however a higher market capitalisation does not necessarily correlate with higher standards of governance or that the issuer has developed the systems, procedures and controls which are expected from firms on Regulated Markets. If a transfer were to be required where an issuer exceeded a market capitalisation, this could create significant market uncertainty, particularly where a company has experienced high share price growth in the short term. It is important to recognise that the type of companies SME GMs are designed for are more likely to experience significant changes in valuation in both directions.

  From an investor perspective, this could have unintended consequences, for example in relation to any fiscal incentives, for example if investors owned a holding in a stock admitted to AIM that benefitted from a fiscal incentive which was forced to become non-qualifying as a result of moving from AIM. This could also have a negative effect on the potential development of products such as SME Growth Market based funds or indices - where the relative performance and comparability of such products with Regulated Market focused products may be compromised given the consistent loss of an SME GM's best performing companies to the Regulated Market.

Mandatory moves could also have a significant cost impact for the issuer and inhibit growth, for example where a mandatory transfer from an SME Growth Market to a regulated market triggered the requirement to publish a prospectus in accordance with Prospectus Regulation with the compliance costs attached thereto. Moreover, the success of the admission procedure and criteria may understandably involve different requirements to the mandatory transfer thresholds, meaning the guaranteed admission to the Regulated Market could not be taken for granted.

Alleviating the administrative burden on SME Growth Market issuers

How can the commission identify the scope for reducing obligations placed on future SME Growth Markets issuers while maintaining a high level of investor protection and market integrity?

14. Please indicate whether you agree with the statements below (please rate each proposal from 1 to 5, 1 standing for "completely disagree" and 5 for "fully agree"):

Regulatory alleviations should be restricted to:
SMEs listed on SME Growth Markets
All SME Growth Markets issuers
No regulatory alleviations should be granted for any kind of firm

- **We believe that exemptions should be available to all issuers on an SME Growth Market** because companies shouldn't be penalised from growing; company market caps can change quickly and if tax incentives are linked to companies at particular market capitalisations then this can create uncertainty for investors.

Impact of MAR

Following the entry into force of the Regulation (EU) n. 596/2014 (hereafter "MAR"), as from 3 July 2016, the issuers negotiated with the SME MTFs managed by Borsa Italiana (AIM Italia and ExtraMot Pro) recorded a significant increase in terms of compliance costs in order to adapt to the MAR discipline.

This problem is particularly relevant for the companies traded on **ExtraMot Pro**; the excessive increase of compliance costs was one of the determining factors for some issuers of the request to exclude bonds from trading on this market. It should be noted that the issuers traded on ExtraMot Pro typically have a rather limited and stable number of bondholders (it is frequent that the subscribers are limited in number, even only one or two, and that they remain bondholders for the entire life of the instrument). Such investors have mainly a professional nature (consisting of investment funds and investment firms) and have a high level of direct knowledge of the main corporate events related to the issuer.

15. For each of the provisions listed below, please indicate how burdensome the EU regulation associated with equity and bond listings on SME dedicated markets is (please rate each proposal from 1 to 5, 1 standing for "not burdensome at all" and 5 for "very burdensome"):

- **We consider that it would be too arbitrary** to indicate this information because different types of companies will have different difficulties.

Management's transactions (Market Abuse Regulation – Art. 19)

16. Does the management's transactions regime represent a significant administrative burden for SME Growth Markets issuers and their managers?

- We believe that management's transactions regime represents a significant administrative burden for SME Growth Markets issuers and their managers. Compliance with the regime is particularly acute for newly admitted companies where MAR has a significant operational impact on their business. We understand that companies which were already on market had to invest significant resources on the implementation of the relevant systems, procedures and controls to ensure they could comply with MAR. As an exchange we also fielded a significant number of queries from non-EU prospective applicants of all sizes who provided feedback that having to comply with MAR would lead them to list on exchanges outside of the EU.

  Please see more detailed in our answer to Question 17 below.

17. Please indicate if you would support the following changes or clarifications to the management's transactions regime for SME Growth Markets:

a) The time limit (i.e. currently 3 days) for PDMRs and person closely associated to notify their transactions to the issuer should be extended	***Please indicate the appropriate notification period length***
b) The threshold (i.e. EUR 5,000) above which managers of SME Growth Markets Issuers should declare their transactions should be raised	***Please indicate the appropriate threshold***
c) The national competent authorities (NCA) should always be made responsible for making public the managers' transactions	
d) The trading venue should be made responsible for making public the managers' transaction	
e) The time limit for issuers to make management's transactions public (or notify the NCA when the latter is made responsible for making the manager's transaction public) should start as of the date the transactions have been notified to issuers (and not as from the date of transactions)	***Please indicate the appropriate time period length***
f) other (please specify)	

- **We believe the PDMR disclosures are a burden for issuers.** Raising the threshold to a meaningful level may be helpful: We would propose to raise the threshold at least to €50,000 in line with AIM Italia Rulebook provisions which were in force before the entry into force of MAR provisions. Market abuse threshold could still preclude dealings in prohibited periods.

  We do not believe that NCAs should be responsible for making the disclosures public, nor that trading venues should be responsible. We believe it continues to be the case that it is best that the disclosure originates from the issuer. However, the materiality of the disclosures could be reviewed to ensure it is at the appropriate level where it is meaningful to the market. For smaller PDMR transactions, some of the disclosures could distract from more meaningful news flow.

We believe that disclosures should be made within a timeframe where they are relevant. It is important that when transactions do happen these are disclosed to enhance integrity of the market. There is also limited benefit in waiting to disclose such information when an event has happened and the information is available. With respect to MAR, we understand the difficulties encountered by the issuer community in dealing with the initial implementation. Whilst companies have now adjusted it remains to be seen whether the increased administrative requirements have materially improved competent authorities' abilities to detect market abuse. Moreover, there is a significant inconsistency in that the three day maximum timeframe to disclose transactions applies from the time of the transaction for both communication from the management to the issuer and from the issuer to the NCA. Aligning this deadline may give rise to the unintended consequence that the issuer may not be able to inform the NCA within this deadline in the event the issuer receives the information from management in close proximity to the expiry of the three days deadline from the date of the transaction.

Insider lists (Market Abuse Regulation – Art. 18)

18. What is the impact of the alleviation provided by MAR for SME Growth Market issuers as regards insider lists? Please illustrate and quantify, notably in terms of reduction in costs
(one-off and ongoing) /in time spent (number of hours)/in number of people needed (in full-time equivalent) resulting from the alleviation.

- **We believe that it is of limited benefit given that a list still needs to be provided on request however we have no cost estimates available.** The SME GM exemption allows the insider list to be drawn up only on the request of an NCA. The justification for this is that, SMEs will have to put in place systems for insider lists on an ongoing basis and be subject to rules that require the same level of information and processing as for larger companies with more resources available. These undue costs for SMEs are estimated by the European Commission's own impact assessment for MAR at €1.8m every year for SMEs across the Union. They include IT system set up and licensing costs; legal fees to advise on MAR compliance and staff costs to administer and maintain the list.

19. Insider Lists. Please indicate whether you agree with the statements below (please rate each proposal from 1 to 5, 1 standing for "completely disagree" and 5 for "fully agree"). SME Growth Market Issuers should be:

Obliged to maintain insider lists on an ongoing basis
Obliged to submit insider lists when requested by the NCA (as provided by MAR)
Obliged to maintain a list of 'permanent insiders' (i.e. persons who have a 'regular access to insider information')
Exempted from keeping insider lists
Other (please specify)

- **We believe that all issuers listed on SME Growth markets should have systems, procedures and control in place to ensure they can effectively manage inside information as this helps preserve the integrity of markets**. However, we believe that the prescriptive requirement to keep insider lists is disproportionate for many smaller issuers and may act as a disincentive to joining public markets, particularly for growth issuers.

ExtraMOT Case Study: MAR burden on Bond MTFs

The market abuse regime is placing a high burden on SMEs listed on MTFs and in particular on bond MTFs. From 2013 Borsa Italiana started the Professional Segment of ExtraMOT where trading is allowed only to professional investors. The market is thought to be the ideal first stage for corporates and SMEs to gain visibility among potential investors thanks to its international brand and the wide network of domestic and international intermediaries connected. As trading is professional only, the need for protection is lower than in retail markets. However, a full and strict application of MAR to such instruments is dramatically putting such listings at risk without a real rationale. We strongly call for a fast revision of such regulation, since the extension of MAR to such category of MTFs has determined in a significant increase of compliance costs for issuers listed on these markets that represent an important alternative funding model. Justification of the delay in disclosing inside information (Market Abuse Regulation – Art.17)

20. Please indicate whether you agree with the following statements (please rate each proposal from 1 to 5, 1 standing for "completely disagree" and 5 for "fully agree"):

The written explanation justifying the delay to communicate inside information by SME Growth Market issuers should be submitted only upon request from the NCA
SME Growth Market issuers should be exempted from the obligation of keeping a 'disclosure record'

- LSEG believe that SME growth market issuers should be exempted from the obligation.

Market soundings (Market Abuse Regulation – Art. 11)

21. Should private placement of bonds on SME Growth Markets be exempted from market sounding rules when investors are involved in the negotiations of the issuance?
Completely disagree
Rather disagree
Neutral
Rather agree
Fully agree
Don't know / No opinion

- **In our view, private placement of bonds on SME Growth Markets should be exempted from market soundings rules in case of professional-only markets or segments** such as ExtraMOT Pro, in light of the characteristics of the investors of such markets. In particular, the investors of such markets: (i) are limited in number and stable (one or two bondholders on average) (ii) have mainly a professional nature (consisting of investment funds and investment firms) and (iii) have a high level of direct knowledge of the main corporate events related to the issuer.

Disclosure of inside information for SME Growth Markets Issuers of bonds only

22. Please indicate whether you agree with the following statements (please rate each proposal from 1 to 5, 1 standing for "completely disagree" and 5 for "fully agree"):

- ***SME Growth markets issuers that only issue plain vanilla bonds should… … 1 (completely disagree)***
- ***have the same disclosure requirements as equity issuers on SME Growth markets disclose only information that is likely to impair their ability to repay their debt: 5 (fully agree)***

Please explain and illustrate your reasoning, notably in terms of costs (one-off and ongoing costs)/time spent (number of hours)/number of people needed (in full-time equivalent).

We believe that bond MTFs where plain vanilla bonds are traded should be subject to different and proportionate disclosure regimes due to the different nature of the financial instruments traded and of the bondholders, which in case of ExtraMOT Pro have a professional nature. While the disclosure of certain information regarding shares (e.g., any change to the shareholder base, the amendments on incentives plan, the resignation of the CEO) are an important element contributing to influence the price of those financial instruments, the most valuable and material information for bondholders mainly reside on the issuer's creditworthiness, and in particular in the ability for the issuer to repay the debt. Therefore, we would strongly welcome that the scope for disclosure requirements be differentiated and targeted to the specific nature and characteristics of the traded financial instruments.

Half-yearly reports for SME Growth Market Issuers

23. Should the obligation of SME Growth Market issuers to publish half-yearly report be (you may select several answers):

Mandatory for SME Growth Markets equity issuers
Mandatory for SME Growth Markets debt issuers
Left to the discretion of the trading venue (through its listing rules) for SME Growth Markets equity issuers
Left to the discretion of the trading venue (through its listing rules) for SME Growth Markets debt issuers
Removed for all the SME Growth Market equity issuers
Removed for all the SME Growth Market debt issuers
Other
Don't know / No opinion
Please explain and illustrate your reasoning, notably in terms of costs/time spent (number of hours)/number of people needed (in full-time equivalent).

- **LSEG believe this should be left to the discretion of the trading venue** (through its listing rules) for SME Growth Markets issuers, taking into account the normal market practice for particular asset classes. For equity, both the AIM and AIM Italia market requires the publication of a half yearly report.

C. Fostering the local ecosystems for SME Growth Markets and enhancing liquidity

'Tick size' regime of SME Growth Markets (Art. 49 – MiFID II)

24. Which of the following options best reflect your opinion on the impact that the minimum tick size regime provided by MiFID II would have on the liquidity and spreads of shares traded on SME Growth Markets:
No impact
Lead to minor increase
Lead to significant increase
Lead to minor decrease
Lead to significant decrease
No opinion
Impact of the minimum tick size regime on the liquidity of shares traded on SME Growth Markets
Impact of the minimum tick size regime on the spreads of shares traded on SME Growth Markets
Please explain your reasoning and provide supporting evidence.

- **We believe that the minimum tick size regime in MiFID II would have a reduced impact on the liquidity of shares traded on SME Growth Markets.** Of the 1100 AIM securities, only the 166 most liquid are traded on the fully electronic order book (those include the FTSE AIM 50 plus the 5 reserve stock for the index and other more liquid AIM securities). Some issuers also make particular requests to be traded on the order book, typically where they are seeking to attract overseas investors who are more familiar with quote mechanisms. The tick size regime does have an impact for order book traded securities in a way it does not have for the other trading system (SETSqx) which supports the majority of AIM securities (a hybrid system including periodic auctions but where the majority of trading is traded with reference to screen based Market Maker quotes – although all trades take place under the rules of the London Stock Exchange and are reported to LSE as such.)

- **With order book securities there is a dynamic whereby excessively granular tick sizes can reduce the size of trades available at quoted prices**, undermining the ability to get larger trades completed. So whilst the bid / offer spread may be narrower and appear more efficient however it will lack depth.

- Borsa Italiana report that the observation period since the introduction of MiFID is not significant to deduct consequences on volumes and spreads (also given the increase in volatility during the last weeks).

25. Please indicate whether you agree with the following statements (please rate each proposal from 1 to 5, 1 standing for "completely disagree" and 5 for "fully agree"):

Market operators should be given the flexibility not to apply the minimum EU tick size regime on their SME Growth Markets
Market operators should be given another form of flexibility as regards the EU minimum tick size regime on their SME Growth Markets
Please explain your reasoning. If appropriate, please describe the form that this flexibility should take.

- **We believe that market operators should be given flexibility not to apply the minimum tick size regime and should also have the ability to introduce other forms of flexibility**. For example, LSE runs a scheme called 'Minimum Quantity at Touch' for order book traded securities whereby broadly there is at least a minimum £1000 size requirement before a new resting order can set a higher best bid price or lower best bid quote, in order to ensure that trading participants are delivering true value and not just the technically best price. What is important here is the economic value of the trade to the market and therefore it is instructive to consider the volume as well as the price in order to ensure effective commercial execution.

- **The harmonization of ticks is an important factor in the context of more liquid markets, therefore typically on blue chips rather than SMEs**. Moreover the harmonization introduces a criterion of complexity of management of the market, and a result is probably sub-optimal. On small caps and especially on high-growth markets, it make more sense to allow the individual trading venues to experiment with the models that can maximize the liquidity of the segment living aside.

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Creating a liquidity provision contract available for all SME Growth Market Issuers across the EU (MAR - Accepted Market Practice – Art. 11)

26. Building on the ESMA's opinion44, would there be merits in creating an EU framework on liquidity contracts that would be available for all SME Growth Market issuers across the EU?
Yes
No
Don't know/no opinion
Other
Please explain your reasoning and provide supporting arguments/evidence. If you answered affirmatively, please describe the conditions for such EU framework for liquidity contracts

- **We believe that liquidity provision contracts do not contribute meaningfully to liquidity** at the SME end of the market and these are not a barrier for market making.

Free float requirement on SME Growth Markets

27. Which of the following options best reflects your opinion on the application of a rule on minimum free float:
A rule on minimum free float should be introduced in the EU legislation with criteria and thresholds determined at EU level
A rule on minimum free float should be introduced by the EU legislation with criteria and thresholds left to the discretion of the SME Growth Market operator (through its listing rules)
No rule on minimum free float should be introduced in the EU legislation
Other – please specify in the textbox below
Don't know / No opinion
Please explain your reasoning, notably on the advantages and disadvantages of the introduction – at the EU level – of minimum free float requirements. Specify appropriate criteria and thresholds if you consider that such minimum free float rule should be introduced and determined at EU level.

- **We do not believe that prescriptive free float requirements should be set.**

This question was asked as part of AIM's recent AIM discussion paper published on 11 July 2017. The AIM Rules for Companies do not include a specific numerical or percentage threshold for free float. We do not consider a prescribed threshold is appropriate for AIM companies and instead consider that a qualitative approach is more meaningful, taking into account factors such as:

- the range and spread of shareholders on admission, including the participation of recognised institutional shareholders;
- the influence and visibility of any major shareholder;
- any measures in place, at admission, to enhance liquidity; and
- the existence of concentrated shareholdings (e.g. connected due to family, business or other interests) and
- what measures are in place, at admission, to address these.

We believe that the benefit of this approach is that it takes into consideration factors such as the nature and spread of the investor base, recognising that a company which may technically have a high free float at admission may not automatically have higher levels of trading, for example if specific investors buy and hold shares for the long term.

A recent QCA and RSM report “Small and Mid-Cap investors survey 2017”[4] had similar findings, noting that the majority of investors interviewed thought there should not be any kind of enforced minimum free float as it is unnecessary and burdensome.

As noted in the feedback statement[5] to the consultation 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.

Last year AIM Italia discussed the merits of increasing its free float requirements (currently set as 10% of capital) with the members of its advisory board: according to the stakeholders’ feedback, the increase of the free float threshold could restrict access for listing of smaller issuers. As an alternative solution, AIM Italia decided to raise the minimum number of institutional investors who subscribe an amount equal to at least the minimum float represented by 10% of the capital, as a measure aimed at strengthening the price formation process by increasing the relevance of investors with specific skills.

Institutional investors' participation in SME shares and bonds

28. Please describe any regulatory barriers to institutional investments in SME shares or bonds listed on SME Growth Markets or MTFs.

Please refer to our detailed response to question 3.

Credit assessments and ratings for SME bond issuers

29. Which steps could be taken to facilitate SME bond issuances on SME Growth Markets without incurring high costs for assessing creditworthiness of issuers?

- ExtraMOT have developed an algorithmic ratings system for listed bonds, whereby results from the model can be used to understand a company’s creditworthiness relative to others in their grouping. The main idea is compare the financial profiles of Italian SMEs, which have either defaulted or not in the past, in order to build a multivariate model for predicting the probability of default of those firms who have already, or could potentially, tap the mini-bond market for debt financing. The model(s) also can indicate the relative health of firms within specific sectors. The model is a powerful tool that provides an assessment of company’s risk profile based on the last two years of financial information. Based on four separate models, each specifically developed for a major industrial sector category, the family of models successfully classified and predicted default or non-default on large samples of Italian SMEs. The results can be used to understand a company’s creditworthiness relative to others in their grouping.

30. What would be the risks associated with a more flexible approach to 'unsolicited credit ratings' by market players other than CRAs and what might be done to mitigate them?

No LSEG view

[4] http://www.theqca.com/news/briefs/128121/qca-rsm-small-and-midcap-investors-survey-2017.thtml
[5] http://www.londonstockexchange.com/companies-and-advisors/aim/advisers/aim-notices/feedback-statement-and-consultation.pdf

31 – Please indicate the areas and provisions where policy action would be most needed and have most impact to foster SME listings of shares and bonds on SME Growth Markets (please rate each proposal from 1 to 5, 1 standing for "no positive impact" and 5 for "very significant positive impact"):

n/a	***Criteria to define an SME Growth Market***
2	***Market capitalisation threshold defining an SME debt issuer***
n/a	***Key adviser requirement***
n/a	***Delisting rules on SME Growth Markets***
n/a	***Transfer of listings from a regulated market to an SME Growth Markets***
n/a	***Transfer of listings from an SME Growth Market to a regulated market***
3	***Management's transactions***
1	***Insider lists***
4	***Justification of the delay in disclosing inside information***
5	***Market soundings***
6	***Disclosure of inside information for bond issuers***
n/a	***Half-yearly reports for SME Growth Market issuers***
n/a	***Tick size regime for SME Growth Markets***
n/a	***Liquidity provision contracts***
n/a	***Free float requirements***
n/a	***Institutional investors' participation in SME shares and bonds***
n/a	***Credit assessments and ratings for SME bond issuers***

32 – Additional comments.

- **State Aid.** We believe that the Commission should take the opportunity to examine some of the restrictions around state aid policies that may impact the success of SME Growth Markets. The specification of such an enquiry though would merit a separate consultation.

- **EU Growth Prospectus.** With respect to the EU Growth Prospectus provided under the Prospectus Regulation which may be prepared by SMEs and mid-caps issuers in cases of offer of the public, we believe that this measure may represent a welcome alternative to the current rules, provided its format and content is well calibrated. The Level 2 measures expected to be adopted by the Commission through Delegated Acts, will therefore play a key role in shaping the final SME Growth market prospectus content. We believe that the regime needs to provide the appropriate balance between removing unnecessary disclosure in the growth prospectus and ensuring the disclosed information promotes confidence amongst investors when investing in SMEs. In order for this review to have the intended effect, it is crucial that the regulatory framework allows producing prospectuses that are as accessible and digestible as possible for the investor.

- **Packaged Retail Insurance-based and Investment Regulation Regulation (PRIIPs),** came into effect from the beginning of January 2018. We believe it is very important that the Commission is aware of implementation difficulties which have been encountered on SME Growth Markets. For example market participants have felt unable to deem warrants and rights issues traded on our markets as out of scope of the Regulation. There is a need to provide further clarification on the scope of application of the definition of PRIIPs, by explicitly excluding all financial instruments with characteristics that do not meet the requirement of “packaging”. In particular, PRIIPS rules requiring publication of a KID should be limited to products manufactured by the financial industry, as referenced in recital (12) of PRIIPs Regulation, which identifies the "creators" ("manufacturers") of PRIIPs as “fund managers, insurance companies, credit institutions or investment firms”. Therefore, we believe that financial instruments issued by entities that are not within the financial industry, i.e. those issued by corporate issuers, should not be included, being direct investments and not intermediated by pre-assembled product manufacturers.

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- We do not believe that warrants and rights issues, traded for example on AIM Italia, are intended to be included in the definition of PRIIPS. Without a limitation of scope, intermediaries will restrict the offer of such financial instruments only to professional investors to reduce costs, liabilities and to prevent legal risks. The legal uncertainty related to the PRIIPs application scope will have the unintended consequence that the range of asset classes which retail investors will have access to will be unnecessarily reduced, as access to corporate issuances will be inhibited as far as warrants, rights issues or plain vanilla bonds where a KID has not been provided is concerned. Vice versa, access by retail investors would be allowed for products that have elements of complexity deriving from the assembly of a PRIIP, provided that they will be equipped with a KID. We would also urge the Commission to consider practical steps to resolve conflicting interpretations on the application of PRIIPs between manufacturers and distributors. This is an issue in particular in the case of securities where there is an active secondary market, for instance where there activities can be considered akin to but not necessarily always meeting the definition of a PRIIP (for example companies with AIM investing company status) or for securities representing an underlying holding such as Depositary Receipts.

Two key recommended enhancements to the Prospectus Regulation

1. **A targeted change to the 'restricted circle' exemption in the Prospectus Regulation.** We suggest that businesses (especially SMEs) should no longer be denied an exemption for the requirement to produce a prospectus where their offer is addressed to more than a 'restricted circle' of 150 investors (Art. 1.3(b)). Instead, the investor limit should be set **at least 500** to allow companies to tap into a wider investor base and therefore reduce their cost of capital**.** The increase from 100 to 150 at the time of the last review in 2010 was not sufficient to make a meaningful impact. A larger increase would allow for a step change in companies' approach to fundraising, bearing in mind the recent innovations around crowdfunding and the increasing importance of syndicates of knowledgeable business angels in providing non-bank finance. In addition the 'restricted circle' should include both employees and existing shareholders. Excluding existing employees and shareholders from the calculation would be consistent with the fact that existing employees or shareholders are not 'members of the public' in terms of a public offer - they have a much bigger incentive and ability to understand the issuer and the security concerned. Appropriate investor protection will continue to be provided by MiFID II suitability rules, NCA distribution oversight and trading venue admission rules under the MiFID II framework.

2. **Removing the requirement for a prospectus in the case of secondary issuance.** We support removing altogether the requirement to produce a prospectus in the case of secondary issues. This makes sense because ongoing disclosures under the Transparency Directive/Market Abuse Regulation already apply and therefore there is little risk that investors will not have access to the information they need to make appropriate decisions.

Key Benefits of further enhancements to the Prospectus Regulation:

- **Enabling early stage investors to support SMEs as they grow and enter public markets** (especially business angels and investors who participate in initial funding rounds via equity crowdfunding). An increasing number of innovative SMEs, for whom equity financing is often the best option, are using crowdfunding for early funding rounds before advancing to the public markets at a later stage of growth. The average number of investors per project in the largest equity crowdfunding platforms in the Union is around 700[6] (and the number of crowdfunding investors is doubling in size every year[7] . There is also strong growth in business angel investing, particularly in syndicates, resulting in private companies being backed by a wider range of founding investors than has historically been the case (e.g. Brandwatch, a social analytics company backed by Partech Ventures, Highland Europe, Nauta Capital, Gorkana and independent investors). When these seed investors are aggregated with the employees and founders of the SME, the SMEs which the regulation is intended to exempt are increasingly being caught within the scope, should those early stage investors want to make further investments or maintain their percentage stake at IPO. The consequence of this is a sub optimal capital markets environment for those early stage investors, dissuading them from being owners of equity in the first place or encouraging them to seek an early exit via a trade sale rather than support the company all the way through to the public markets.

- **Ensuring that the funding escalator is joined up.** All stages of the equity funding escalator are interdependent, and a thriving IPO sector is both reliant upon and contributes to a well functioning environment for early stage investors. This proposal is intended to help join up different stages of the funding ladder. For the avoidance of doubt, it is not mainly aimed at facilitating crowdfunding.

- **Increase access to public markets in the Union rather than trade sales.** As noted above, the current limitation provides a disincentive for SMEs to access public markets within the Union, providing an additional incentive for founder investors to prefer an early trade sale or to examine international options (particularly the United States). When these companies take the former route the growth potential can be lost and if the latter, over time the benefits shift to those third country markets.

- **Support liquidity and a lower cost of capital.** Providing some release for SMEs from the current constraint on the diversification of their shareholder base would enable them to start their life as public companies with a wider and more diverse shareholder register. This would help to increase free float and the likelihood of greater liquidity in the secondary trading market. In turn this would increase the confidence of incoming investors that they will have the ability to trade their investment post-IPO. This increased confidence in liquidity would reduce the discount investors require to invest at the time of IPO and would therefore lead to a reduction in the issuer's cost of capital.

- **Incentivise entrepreneurs and employees.** The ability to issue share options (not only to management but also to all employees) is cited as a significant reason for a company to go public, to reward employees and to ensure that their incentives are aligned to the growth of the company. This is vital for "new economy" companies in the high tech and med tech sectors that are increasingly important for the EU innovation, growth and employment. These companies must compete for increasingly scarce talent, often against a US incentivisation model.

We hope that the European Commission finds this submission useful and we look forward to engaging further as policies are developed. Should you have any questions on the response or wish to discuss it in detail, please do not hesitate to contact us at Corentine Poilvet-Clediere: cpoilvetclediere@lseg.com; Martin Koder: mkoder@lseg.com; Tom Simmons tsimmons@lseg.com ; Paola Fico: paola.fico@borsaitaliana.it.

[6] Sources: Crowdsourcingweek; CrowdCube; BNP Paribas; www.seedmatch.de
[7] BusinessZone

Statistical Appendix

SME GM Data Survey	• Please refer to our separately submitted datasets for AIM and AIM Italia detailing number and volumes of issues; percentage of investor types; time on market; dual listings; liquidity contracts; free float requirements and number of advisors and brokers; liquidity enhancing measures; volume of transactions.
SME GM Definitions	• Based on the average statistics of ExtraMOT issuers, we believe a capital raised threshold of **€30m** would be more appropriate. Since the launch of ExtraMOT Pro in 2012, 70% of the issuers raised an amount below €30m with a limited investor base (normally 1 or 2 bondholders). Another option could be to consider as parameter an amount of €20m raised which is in line with the consideration provided by Prospectus Regulation for issuers wishing to publish a SME Growth prospectus
Liquidity	• A survey of issuers on AIM identified that the top three areas issuers would prioritise for development were access to capital, liquidity and availability of research. When assessing the factors that are important in a vibrant growth market, 24% of respondents felt that liquidity was of critical importance, 55% considered it to be very important, 15% reasonably important, 5% slightly important and 1% not at all important
Investor Research	• A decline in global research spend of up to 25-30% by 2020 is foreseen (Quinlan & Associates). Larger companies, which are often of more interest to a wider pool of investors, are likely to suck up budgets for research, as firms become more selective about the companies and sectors they want to cover. Some reports claim that there is no commercial sense in brokers covering non-corporate companies with less that £200,000 daily turnover in their shares (Hardman & Co). A survey of independent research brokers conducted by Bloomberg in January 2016 indicated that two thirds expected budgets to decline as a result of the impact of MiFID II.
MAR	• ExtraMOT Pro saw at least 6 delistings in 2017 believed to be the result of the introduction of MAR.
Prospectus Thresholds	• The investor limit should be set at least 500 to allow companies to tap into a wider investor base and therefore reduce their cost of capital. The average number of investors per project in the largest equity crowdfunding platforms in the Union is around 700[8] (and the number of crowdfunding investors is doubling in size every year[9]
Transfer of listings	• Between 2006 and 2017, 74 AIM companies transferred to the Main Market and 90 companies transferred from the Main Market to AIM.
Secondary Issuances	• A survey conducted for LSEG by YouGov found that 70% of respondents had raised follow-on capital on AIM, 4 times on average and raising an average total of £15m. Of the existing AIM issuers looking to raise further finance, 86% said they intended to complete a further offer on AIM. Over the lifetime of AIM, £63bn or 59% of the £106bn raised by companies has come from further issues
Tick Sizes	• Of the 1100 AIM securities, only the 166 most liquid are traded on the fully electronic order book (those include the FTSE AIM 50 plus the 5 reserve stock for the index and other more liquid AIM securities). We therefore consider that change to the tick size regime would have limited impact.
Fiscal Incentives	• On AIM Italia, over half of the total €2.3bn capital raised since inception in 2008 was raised in 2017 (€1.3bn). One of the key factors supporting this was the introduction of the Piani individuali di risparmio (PIR) individual savings plan.
Free Float	• On 11 July 2017, London Stock Exchange published a discussion paper seeking views from a wide range of AIM market participants and stakeholders on core areas of the AIM Rulebooks. We received 53 formal responses to the discussion paper from a broad cross-section of stakeholders including nominated advisers, investors, AIM companies and trade bodies. During the consultation period we held discussions with many of these stakeholders. • In response to this, 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.

[8] Sources: Crowdsourcingweek; CrowdCube; BNP Paribas; www.seedmatch.de
[9] BusinessZone