



**The Quoted
Companies Alliance**

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Peter Taylor, *The Daily Telegraph*

AIM Market: No time like now for Europe to deliver on rhetoric

THE European Commission has made no shortage of promises to help small business by cutting the red tape burden.

It was early in 2007 that the commission formally committed itself to a 25pc reduction in “administrative burdens on companies” by 2012, but it had waged a war of words against its own complex bureaucracy for years before that.

As far back as March 2005, Gunter Verheugen, the enterprise and industry commissioner, acknowledged that the European Union was seen as a “bureaucratic monster” and would-be entrepreneurs were “holding back in fear of the administrative jungle”.

In June 2006, personally pledging to deliver the one-quarter cut in red tape volumes, Mr Verheugen said: “At a time of great economic challenges, the commission is putting the needs of small business at the heart of everything we do”.

If mid-2006 was a time of great economic challenges for small businesses, mid-2009 is one of cataclysmic stresses. One of those is the dearth of financing available from banks as they rein in overdrafts and cut other lending while rebuilding their own balance sheets.

In doing so, banks have left countless cash-poor, if otherwise perfectly viable, businesses with little option but to seek financing from investors – with equity markets an obvious place to turn. And while the appetite for equities has waned since the onset of the economic crisis, it has by no means disappeared, even in the small-cap marketplace. The £200m placing carried out last month by Hansteen, the Aim-listed property group, is evidence aplenty of that.

The problem, as the Quoted Companies Alliance (QCA) points out, is that owing in large part to European regulations, raising money by issuing equities is disproportionately expensive for small businesses.

Under the European Commission’s Prospectus Directive, which member states were obliged to implement by July 1, 2005, any business that raises more than €2.5m (£2.15m) from equity issues in a 12-month period is required to publish a full prospectus.

The size of the business is irrelevant, as is the format of the fund raising. A prospectus must be published, for example, for a rights issue – despite the fact that the investors buying the equities should already have a thorough knowledge of the company and its performance – just as it must for an initial public offering.

But publishing an equity prospectus is not a cheap: a survey carried out for the commission last year put the average cost at €912,000 (£780,000). Legal and accounting expenses made up more than 80pc of those costs.

John Pierce, chief executive of the QCA, says that even for a small company the cost can easily amount at £400,000. As a consequence, a company seeking to raise just a few million pounds – in itself a difficult undertaking for many given that more than 30pc of the 1,438 companies listed on Aim have a market capitalisation of £5m or less – can lose 10pc in fees just on the prospectus's preparation.

It's an "absolute nonsense", Mr Pierce says, in the context commission's ambition to cut the cost of capital for business over the long term. "Through their own cumbersome regulations, they are making capital very expensive to raise by smaller companies."

All hope is not lost. The commission this year launched a review into how the Prospectus Derivative is working, and Mr Pierce says that in its defence, it is openly discussing the two issues the QCA is most concerned by: the €2.5m threshold and the requirement for a prospectus to be issued regardless of the nature of the fundraising.

The QCA, which represents small and medium-sized listed companies, is lobbying for the threshold to be increased to €10m, and for small companies that issue equity to existing investors to escape requirement.

It has a number of powerful allies supporting its campaign, not least the Treasury, the Confederation of British Industry (CBI) and European Issuers, the industry group for more than 9,000 companies in 14 states of the European Union, including the UK.

The commission expects to table any proposed changes as a result of its review in September, but even if the European Parliament does agree to any changes, they are unlikely to be implemented until next year at the earliest.

It's difficult to imagine more pressing circumstances for the commission to come good on the rhetoric it has been so deft at delivering and expedite the process. Similarly, the current climate dictates that it would be foolish to ignore the QCA's simple requests.

As Mr Pierce says, given the urgent need for many smaller companies to re-capitalise just to see themselves through the recession, and obvious consequences if they can't, the means of raising money should be as straight forward and cost-effective as possible.

"We are not saying we should enter the law of the jungle. It would still be a very highly regulated activity, but hopefully at a lot less cost," he says.