



**The Quoted
Companies Alliance**

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France wants EU stock trading for 'high-growth' SMEs

French Finance Minister Christine Lagarde wants the EU to create a single access point for trading shares of young, high-growth businesses and has proposed a range of measures to encourage innovative companies to list on European stock exchanges.

Background

The number of small, medium and intermediate companies listed on European stock exchanges has fallen due to a marked decline in new initial public stock offerings (IPOs) and the decision by some firms to 'de-list' and go private.

The vast majority of new IPOs in recent years have been on Asian stock exchanges, suggesting the problem is structural rather than simply a result of the financial crisis.

French Finance Minister Christine Lagarde suggested in July 2009 that Europe should extend the Small Business Act to make it easier for young, high-growth businesses to list on stock exchanges.

She commissioned Fabrice Demarigny, a capital markets consultant, to write a report on ways to improve access to capital markets in Europe.

In his report, published last week (18 March) Demarigny uses the term Small and Medium-sized Issuers Listed in Europe (SMILEs) to describe the innovative companies Lagarde wants to help – a broader group than the EU definition of SMEs.

[Lagarde](#) is also keen to simplify market obligations for small, medium and intermediate companies, allowing them more time to publish quarterly reports, ease accounting standards and produce less detailed prospectuses when listing on stock markets.

"There are many things we disagree about but there is hardly ever disagreement on the importance of small businesses as drivers for growth, employment and R&D," she told a meeting in Brussels, hosted by the European Capital Markets Institute ([ECMI](#)).

The proposal for a joint EU system for trading shares in innovative companies is contained in a [report](#) by Fabrice Demarigny, a capital markets expert, who produced a detailed plan for Lagarde which she published last week (18 March).

The new system would make it easier for investors to access smaller "secondary" markets across Europe like the London Alternative Investment Market ([AIM](#)), most of which specialise in high-tech stocks. Listing functions and revenues would remain at national level and trading revenues would be shared by the joint owners of the platform.

The joint trading platform would be licensed and supervised directly by the European Securities Markets Authority (ESMA). Lagarde said the move would form part of a series of measures which, if adopted on an EU basis, would help small companies rapidly grow into bigger players.

Lagarde: Make life easier for publicly listed SMEs

She said a single definition of small listed companies was needed but that this should be broader than the definition of SMEs currently used in EU legislation.

The French minister said the term 'Small and Medium-sized Issuers Listed in Europe' (SMILEs) would be more appropriate and that any company meeting the definition should be subject to less demanding market obligations.

This would include using a simplified, harmonised prospectus – a key document outlining a company's business plan – before listing on a stock exchange. SMILEs would also have three months to prepare quarterly accounting, rather than the two months currently required of all publicly-listed firms.

A more "proportionate" level of regulation and accounting standards is at the heart of Lagarde's vision for encouraging high-growth companies to issue IPOs.

Lagarde said she hoped Demarigny's report would inspire the Commission to take a serious look at proposals to make it easier for smaller companies to list on stock exchanges.

She said several EU directives are currently under review and this would be an ideal time to rethink the rules under which smaller companies access capital markets.

The report was broadly welcomed by investors, although some expressed concerns that lowering the bar on accounting rules could hamper the flow of information to the market.

Positions

Georges Noël, director of the European Venture Capital Association ([EVCA](#)), said Lagarde's proposals are along the lines of what the industry is working towards. He said his association is working on an action plan to improve access to capital for smaller innovative businesses in Europe.

"We are broadly in line with Lagarde's aims although we would have a slightly different view on accounting standards because we would advocate keeping the highest possible standards," he said.

Noël said it has become harder to convince major investors to invest in Europe. "If I'm really frank, I'm amazed how worried institutional investors in Hong Kong and Singapore are about the European regulatory environment," he said.

There is a contradiction, he added, between the efforts of the EIB to promote innovation while the EU has been making it more difficult for some funds to enter the market.

Marco Natoli, principal for the lower mid-market team at the European Investment Fund ([EIF](#)), said entrepreneurs are more likely to choose venture capital as a source of long-term finance than to opt for an IPO.

He called for a holistic solution to making IPOs more attractive to high-tech companies. Natoli suggested reducing the administrative burden associated with listing on stock exchanges and cutting the cost of transactions.

Tim Ward, chief executive of the [Quoted Companies Alliance](#), said millions of jobs have been lost in the US due to a dramatic falloff in the number of companies listing on the stock exchange. This, he said, is a warning of what can happen when companies are not able to raise capital and invest in job creation.

Ward said the flow of information to the market is crucial to attracting investors and drew a distinction between "comprehensive disclosure and meaningful disclosure," adding that Lagarde's proposal for a 50-page prospectus is "music to my ears".

He also supported the idea of proportionate regulation for smaller firms. Larger companies should be more heavily regulated as their failure poses a systemic risk whereas SMILEs do not.

Marcus Stuttard, head of the Alternative Investment Market ([AIM](#)) on the London Stock Exchange, said a common definition of listed SMEs would be welcome and stressed the importance of getting capital to young companies.

"A lot of large cap companies are cutting back on R&D, so SMEs are even more vitally important for innovation," said Stuttard.

Hans van Damme, president of the Federation of European Accountants, said requiring less disclosure from smaller companies is broadly supported by many stakeholders but "the question is, who will decide what the right level of disclosure is?"

Van Damme said the EU's directives on accounting are out of date and welcomed the European Commission's decision to review legislation in this area.