

**EC CONSULTATION  
BUILDING A PROPORTIONATE  
REGULATORY ENVIRONMENT  
TO SUPPORT SME LISTING  
AMAFI comments**

Association française des marchés financiers (AMAFI) is the trade organisation working at national, European and international levels to represent financial market participants in France. It acts on behalf of credit institutions, investment firms and trading and post-trade infrastructures, regardless of where they operate or where their clients or counterparties are located. AMAFI's members operate for their own account or for clients in different segments, particularly organised and over-the-counter markets for equities, fixed-income products and derivatives, including commodities. Nearly one-third of its members are subsidiaries or branches of non-French institutions.

For over two years, AMAFI has been paying close attention to progress in the Capital Markets Union (CMU) initiative and within such initiative, to the proposals which aimed to support SME listing on public markets. AMAFI considers that the question of the listing of SMEs is crucial at the moment when Europe sees its model of financing the economy giving a much wider place to market financing. The challenge is to allow companies to finance their development at different stages of their growth. And thus create value and jobs within the EU.

AMAFI would also like to stress that primary markets for SMEs are currently essentially domestic. As a consequence, there are two issues at stake: (i) alleviating EU regulatory constraints and (ii) recognising, in accordance with the subsidiarity principle, that national authorities are best placed to determine how face-to-face financing needs and savings needs.

Having contributed to the two EC Consultations of May 2015 on its Green Paper on Capital Market Union ([AMAFI / 15-28](#)) and on the review of the Prospectus Directive ([AMAFI / 15-27](#)) in which a proportionate disclosure regime was proposed for small and medium-sized companies and having then contributed to the three ESMA consultations on Prospectus of September 2017 ([AMAFI / 17-61](#)) which included a consultation on the content and format of the EU Growth Prospectus ([ESMA31-62-649](#)), AMAFI is now keen to contribute to the consultation launched by the European Commission on 18 December 2017 until 26 February 2018 - on building a proportionate regulatory environment to support SME listing.

You will find below, AMAFI's answers to the questions raised by the EC.

## I. Questions on challenges faced by public markets for SMEs

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

1 (not important) to 5 (very important)	1	2	3	4	5	No opinion
Low number of companies coming to the public markets				X		
Decline of local ecosystems			X			
Lack of retail and institutional investors			X			
Other (please specify below)				X		

In addition to the factors listed above, AMAFI considers that another significant factor, which can explain the weakness of EU SMEs dedicated markets, is missing in the above list: it is the administrative burden which is placed by current legislation (in particular by Market Abuse Regulation regulation – MAR) on SMEs (*see particularly Questions 19 and 20 below*). AMAFI considers that some of this administrative burden could be alleviated, while keeping the market integrity unharmed.

**Question 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?**

1 (completely irrelevant) to 5 (highly relevant)	1	2	3	4	5	No opinion
Availability of alternative sources of financing for SMEs (including bank finance) <b>for equity</b>					X	
Availability of alternative sources of financing for SMEs (including bank finance) <b>for bonds</b>					X	
Lack of awareness of SMEs on the benefits of public markets <b>for equity</b>				X		
Lack of awareness of SMEs on the benefits of public market <b>for bonds</b>				X		
High (admission and ongoing) compliance costs due to regulatory constraints <b>for equity</b>					X	
High (admission and ongoing) compliance costs due to regulatory constraints <b>for bonds</b>					X	
Lack of preparation from companies 'management as regards the implication of a listing <b>for equity</b>	X					
Lack of preparation from companies 'management as regards the implication of a listing <b>for bonds</b>	X					
Reluctance of SME's owners to relinquish a stake in the capital of their company		X				
Other (please specify below)						

AMAFI considers that the “*lack of preparation from companies’ management*” is not an issue. When the management of a company sees the benefits of public markets, it gets all the necessary professional advice to be properly prepared for the listing.

Regarding the last factor listed above (the “*reluctance of SME’s owners to relinquish a stake in the capital of their company*”), its impact may vary considerably from one company to the other. While its impact may be significant in a family business, it is quite irrelevant for *Fintechs*.

AMAFI would like to point out to another factor, the valuation of SMEs, which could explain the low number of such entities seeking to be listed on a public market: indeed, there may be a significant valuation gap (or at least a belief in a significant valuation gap) between what the owner of a company could expect to receive if it sells its company by way of a private deal, as opposed to what it could expect to receive as result of an IPO. The extensive disclosure requirement in the context of an IPO (compared to the lighter disclosure requirement in the context of a private transaction) may also deter an owner from pursuing the IPO route.

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

1 (completely irrelevant) to 5 (highly relevant)	1	2	3	4	5	No opinion
Lack of visibility of SMEs (including lack of financial research and credit information) towards investors <b>for equity</b>					X	
Lack of visibility of SMEs (including lack of financial research and credit information) towards investors <b>for bonds</b>					X	
Difference in local accounting standards hindering cross-border investments	X					
Regulatory constraints on investors as regards investments in SMEs				X		
Lack of liquidity on SME shares and bond markets <b>for equity</b>			X			
Lack of liquidity on SME shares and bond markets <b>for bonds</b>	X					
Lack of investor confidence in listed SMEs	X					
Lack of tax incentives			X			
Other (please specify below)						

AMAFI would like to point out that this question should have been split in two as the concerns and issues raised by institutional and retail investment are quite different. For instance, the regulatory constraints on investors as regards investments in SMEs are an important factor for an institutional investor subject to prudential regulation which, of course, is not the case for a retail investor.

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

1 (completely irrelevant) to 5 (highly relevant)	1	2	3	4	5	No opinion
Brokers, market-makers, liquidity suppliers					X	
Financial research providers				X		
Credit Rating Agencies	X					
Investor base		X				
Investment banks	X					
Boutiques specialised in SMEs and offering several services (brokerage, research, underwriting...)					X	
Legal and tax advisers	X					
Accountants	X					
Other (please specify below)						

AMAFI considers that the evolution of the regulatory environment over the past few years has had a significant impact on the brokers, market makers, liquidity suppliers, financial research providers and on certain boutiques specialized in SMEs, who are all key actors of the ecosystems surrounding local exchanges for SME.

Historically, the business model of the ecosystem surrounding SMEs was based on equalization between various activities and between large and small caps. This model has been weakened by MIF 1. But now MIF 2 is making things worse. Several factors contribute to this process but the main one is the new framework on inducements which applies to investment research activities. As investors are going to pay significantly less for investment research, it means that fewer resources will be allocated to promote SMEs. And this, at the very moment where it is urgent to give SMEs a smooth access to market financing.

**Question 5: What are the main reasons behind the decline of the ecosystems surrounding the local exchanges?**

1 (completely irrelevant) to 5 (highly relevant)	1	2	3	4	5	No opinion
Impact of low level of liquidity on brokers' business models <b>for equity</b>					X	
Impact of low level of liquidity on brokers' business models <b>for bonds</b>					X	
Impact of low level of investors' appetite for SME instruments <b>for equity</b>						X
Impact of low level of investors' appetite for SME instruments <b>for bonds</b>						X
Regulatory constraints on investment services providers specialised in SMEs					X	
Lack of profitability of the SME segment <b>for equity</b>					X	
Lack of profitability of the SME segment <b>for bonds</b>					X	
Other (please specify below)						

The evolution of the regulation from MiFID 1 to MiFID 2 has drastically changed the business model for a number of key actors (*see **Question 4 above***). Today, it becomes very unlikely that they will be able to release a profitability justifying the risk taken, even over a long period of time. In the best case scenario, there will be a concentration of specialized players, devoting fewer human and technical resources but at the same time, looking after a broad range of entities. Ultimately, it is the ability of this ecosystem to help SMEs finance their development which is at stake, at a time where it is particularly critical for most of them.

## II. Questions on specific regulatory barriers

**Question 6:** Given the considerations mentioned above, do you consider that the criteria used to define an SME Growth Market should be modified?

**Yes**

No

Don't know / no opinion / not relevant

An "SME Growth Market" is currently defined as a MTF, where at least 50% of the issuers whose financial instruments are traded on it are SMEs. MiFID defines an SME as a company that "had an average market capitalization of less than EUR 200 million on the basis of end-year quotes for the previous three calendar years".

AMAFI considers that an SME Growth Market should be defined as a MTF where at least 50% of the issuers whose financial instruments are traded on it SMEs with a market capitalization below one billion euros, for the reasons mentioned below (see Question 7).

**Question 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 below)~~

~~Don't know / no opinion / not relevant~~

AMAFI supports a significant raise of the EUR 200 million market capitalization threshold defining SMEs to EUR 1,000,000,000 (EUR 1 billion). Indeed, AMAFI considers that on the most mature markets in the EU (such as France), this threshold would better reflect the reality of mid-sized companies seeking to access capital markets but for whom the obligations currently in force or envisaged (in the Prospectus Regulation for non SMEs) are too burdensome and not attractive enough.

Having said that, AMAFI is aware of the fact that given the significant differences that exist between the different markets in the EU (notably as regards the size of the companies which are listed or could be interested in becoming public), imposing such a threshold at EU level would be unacceptable for a number of Member States. Therefore, AMAFI would suggest that an option be given to Member States to raise the capitalization threshold above EUR 200 millions. This could be achieved in the same way as the new 2017 Prospectus Regulation (PR), while setting the EU threshold, under which the PR does not apply to an offer of securities to the public, at EUR 1,000,000, has given Member States the option to exempt offers of securities to the public, up to a yearly amount of EUR 8,000,000, from the obligation to publish a prospectus (Prospectus Regulation, art. 1(3) and 3(2)). AMAFI suggests that this option be given to Member States, in coordination with their local SME Growth Market operators.

**Question 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%~~
- ~~75% or above~~
- ~~Don't know / no opinion / not relevant~~

AMAFI considers that the requirement of having at least 50 % of SME issuers should be maintained in order to ensure a sufficient level of liquidity and profitability of those platforms.

**Question 9: Should the criteria used to define SME Growth Market non-equity issuer be modified?**

- Yes**
- ~~No~~
- ~~Don't know / no opinion / not relevant~~

AMAFI agrees with the EC's analysis of the current SME bond markets which indeed could face difficulty in registering as SME Growth markets, as their issuers could most likely not meet the criteria set in MiFID II level 2, despite their relatively small size. AMAFI considers therefore that it is necessary to modify the criteria used to define an SME Growth Market debt issuer.

It would suggest adding to the current criteria a criterion based on the size of the bond issuance which could be set at EUR 100 million per year. Thus, a debt issuer, meeting the existing criteria or issuing each year bonds for an amount up to EUR 100 million, could fall under the definition of a SME debt issuer and this could make it easier for an SME bond market to register as an SME Growth Market.



**Question 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

1 (completely irrelevant) to 5 (highly relevant)	1	2	3	4	5	No opinion
A key adviser should be imposed for equity issuers on an SME Growth Market	X					
A key adviser should be imposed for bond issuers on an SME Growth Market	X					
A key adviser should be mandatory during the whole period an SME is listed	X					
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...))	X					
Minimum requirements regarding the mission and obligations of key advisers on SME Growth Markets should be imposed at the EU level (Please specify)	X					
Minimum requirements regarding the mission and obligations of key advisers on SME Growth Markets should be imposed by individual stock exchanges					X	

AMAFI considers that minimum requirements regarding the mission and obligations of key advisers for firms listed on SME Growth markets should be imposed by individual stock exchanges. Indeed, this solution is the most appropriate considering the lack of homogeneity in market sizes throughout Europe. Regarding the extent of the missions to be defined by the local stock exchanges, AMAFI considers that they should include obligations extending beyond the first listing of the firm for a duration of 1 to 3 years.

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

**Completely disagree**

Rather disagree

Neutral

Rather agree

Fully agree

Don't know / no opinion / not relevant

AMAFI considers that it should be left to individual stock exchanges to set some minimum requirements for the delisting of SME Growth Market issuers, having regard to the specifics of the market concerned. Attracting issuers assumes that if they find that the listing does not meet their expectations, they can go back on their choice without insurmountable difficulty.

**Question 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?**

**Completely disagree**

Rather disagree

Neutral

Rather agree

Fully agree

Don't know / no opinion / not relevant

For the same reasons as those mentioned above, i.e. the lack of homogeneity among the markets throughout the EU, AMAFI considers that the rules on the voluntary transfer of listing from a regulated market to an SME Growth Market should be left to the appreciation of individual stock exchanges.

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

1 (completely disagree) to 5 (fully agree)	1	2	3	4	5	No opinion
Required when the issuer exceeds some thresholds (such as the market capitalisation)	X					
Incentivised through regulatory measures when the key exceed some thresholds (such as the market capitalisation)	X					
Always left to the discretion of issuers and not required or incentivised by regulatory measures					X	
Other (please specify)						
Don't know / no opinion / no relevant						

AMAFI considers that the transfer from an SME Growth Market to a regulated market should be left to the discretion of the issuers concerned. For an issuer initially listed on an SME Growth Market who has developed to a point where it could envisage its transfer to a regulated market, it may be part of its commercial strategy to decide whether or not such a transfer would be appropriate and fit in with its development plans.

**Question 14:** Please indicate whether you agree with the statements below:

**Regulatory alleviations should be restricted to**

1 (completely disagree) to 5 (fully agree)	1	2	3	4	5	No opinion
SMEs listed on SME Growth Markets	X					
All SME Growth Markets issuers					X	
No regulatory alleviations should be granted for any kind of firm	X					

Regulatory alleviations are important to encourage SME listing. If some alleviations are granted, they should benefit all SME Growth Markets issuers, failing which the functioning of those markets may be very complicated.

**Question 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:

1 (not burdensome) to 5 (very burdensome)	1	2	3	4	5	No opinion
Management 's transactions						X
Insider lists					X	
Justification of the delay in disclosing inside formation					X	
Market soundings					X	
Disclosure of inside information by non- equity issuers						X
Half-yearly reports for SME Growth Market issuers						
Other (please specify)						
Dont know / no opinion / not relevant						

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

- Completely disagree
- Rather disagree
- Neutral
- Rather agree
- Fully agree
- Don't know / no opinion / not relevant**

**Question 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 3days) for PDMRs and person closely associated to notify their transactions to the issuer should be extended
- b) The threshold (i.e. EUR 5,000) above which managers of SME Growth Markets Issuers should declare their transactions should be raised
- 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)
- f) other (please specify)

AMAFI is not in a position to comment on the above proposals. Furthermore, as a professional organization, it is unable to provide an assessment of the costs involved in the proposed changes to currently applicable rules.

**Question 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.**

AMAFI is not in a position to respond to this question. Furthermore, as a professional organization, it is unable to provide an assessment of the reduction in costs/time spent in the alleviation at stake.

**Question 19: Please indicate whether you agree with the statements below:**

**SME Growth Market issuers should be:**

1 (completely disagree) to 5 (fully agree)	1	2	3	4	5	No opinion
Obligated to maintain insider lists on an ongoing basis	X					
Obligated to submit insider lists when requested by NCA (as provided by MAR)	X					
Obligated to maintain a list of permanent insiders (i.e. persons who have a 'regular access to insider information')			X			
Exempted from keeping insider lists					X	
Other (please specify)						
Don't know / no opinion / no relevant						

**Question 20: Please indicate whether you agree with the following statements:**

1 (completely disagree) to 5 (fully agree)	1	2	3	4	5	No opinion
The written explanation justifying the delay to communicate inside information by SME Growth Market issuers should be submitted	X					
SME Growth Market issuers should be exempted from the obligation of keeping a "disclosure record"					X	

**Question 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 / not relevant~~

AMAFI believes that while **these transactions may be subject to MAR** (in particular when the bond resulting from such transaction is listed), this does **not make them automatically subject to article 11 of MAR** relating to “*market soundings*”. They would only be subject to this article if they were to give rise to a “*market sounding*” as precisely defined in the said article (please note that for that reason, it is inaccurate, from a legal standpoint, to state that “*they do fall under the scope of market sounding rules as the privately placed bonds are admitted to trading on an MTF*”, as the admission to trading makes them subject to MAR but not necessarily to the “*market sounding*” rules which require the characterization of a “*market sounding*”).

Precisely, regarding **whether or not these transactions can be considered as giving rise to “market soundings”**, AMAFI **answers negatively** as it strongly believes that the second condition set by this article (“... *communication of information... its potential size or pricing*”) is not met. Indeed, in the context of this type of transaction, the few investors which are contacted are not contacted in order to identify with them specific terms of a possible transaction (notably its price) with a view to maximizing its chances of success with the many other investors to which it will be offered. It is rather to identify potential investors with which all the terms of a future transaction may be negotiated. The involvement of investors is a necessary and integral part of preparing the transaction. It is only because the investors are participants in the discussions that the transaction may be put together and executed.

AMAFI believes therefore that, as rightly pointed out by the EC in its Q.21, **the key differentiating element is the negotiation element**. In a “*market sounding*”, as the word “*sounding*” indicates, a few investors are “*sounded*”, i.e. interrogated, to assess whether they would potentially be interested in subscribing to a proposed issue – whose terms, or most of them, have already been defined. This enables the issuer to finalise its terms and launch the issue *vis-à-vis* other investors who will subscribe without having been part in any negotiation. Conversely, in those private placements of debt with negotiation, investors are not “*sounded*”. They are approached to see if they would be interested in entering into a negotiation process that could lead to a transaction;

This is why AMAFI is strongly in favour of **an official recognition by the EC of the fact that these transactions do not fall within the scope of article 11 of MAR** (please note that strictly speaking, these transactions should not be “*exempted*” from market sounding rules – because an “*exemption*” would implicitly mean that they normally fall under the scope of such rules. Based on the developments above, it should rather be recognized that these transactions do not fall within the scope of market sounding rules because they do not meet the criteria set by article 11. As the EC points out on p.17 of its consultation document, this analysis was confirmed in France by the French competent authority in 2014 in the context of the “*Norme Professionnelle AMAFI relative aux sondages de marché et aux tests investisseurs*”).

Naturally, **this would not exclude the application of the other MAR rules** relating particularly to “*inside information*” if, in the context of such a transaction, information which could be characterized as such, were to be communicated by the issuer to the potential investors (the Model form of Non

Disclosure Agreement which exists, for instance, both in France and in the UK, provides specifically for this situation and the commitment of the parties, in that case, to abide by applicable legislation).

AMAFI believes that this is a subject of **major concern** for the participants in this type of transaction, (known in France as “Euro Private Placements” or “Euro PP transactions” and in the UK as “ECPP transactions”) notably because of the very heavy obligations imposed on the “persons receiving market soundings” which have a deterring effect for the potential investors who might otherwise have been interested in entering into a negotiation process with the issuer with a view to concluding such a transaction.

Finally, AMAFI would like to point out the concern raised by this question **does not affect only SMEs** as this type of transactions is an alternative means of financing used by a variety of issuers, a significant part of them being outside the scope of the SME definition. Therefore, **any positive solution** to this difficulty **should be extended** to all private placements of debt when investors are involved in the negotiation, **irrespective of the size of the issuer**.

**Question 22: Please indicate whether you agree with the following statements: SME Growth markets issuers that only issue plain vanilla bonds should**

1 (completely disagree) to 5 (fully agree)	1	2	3	4	5	No opinion
Have the same disclosure requirements as equity issuers on SME Growth markets	X					
Disclose only information that is likely to impair their ability to repay their debt					X	

The main concern of an investor subscribing to an issue of plain vanilla bonds is whether anything could affect the issuer’s ability to repay its debt. There is no point therefore in imposing on a debt issuer the same disclosure requirements as those applying in case of equity issuance.



**Question 23: Should the obligation of SME Growth Market issuers to publish half-yearly report be?**

**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 (please specify below)~~

~~Don't know / no opinion / not relevant~~

While half-yearly reports are common practice and appear generally useful to potential investors in an equity issuance on SME Growth Markets, the interest of such reports should be balanced against the constraints and costs of their preparation and publication by debt issuers and such assessment should be conducted per market. This is why AMAFI considers that for SME Growth Markets debt issuers, this matter should be left to the discretion of the trading venue, through its listing rules.

**Question 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	X					
Impact of the minimum tick size regime on the spreads of shares traded on SME Growth Markets'				X		

In the frame of this consultation, AMAFI and one of its members decided to conduct a study with regard to "the impact that the minimum tick size regime provided by MiFID II would have on the liquidity and spreads of shares".

Obviously, only limited time has elapsed since the implementation of MiFID II / MiFIR, making it difficult to draw definitive conclusions. Still, it can be considered that (i) the impact of the implementation of the new tick size regime can be precisely measured by comparing similar situations during short periods just before and after the implementation date and that (ii) the depth of the sample considered in the study (2,705 EU shares) is sufficient to provide a good level of comfort with regard to the conclusions of the study.

Generally speaking, the implementation of MiFID II / MiFIR tick regime led to significant changes for European shares, with only 24% of unchanged tick sizes on the 3<sup>rd</sup> of January, and a trend clearly orientated towards the increase of tick sizes (55% of shares).

In that global frame, shares with a market cap below EUR 1bn have been significantly more subject to (i) change in the tick size (84%), (ii) decreases of tick sizes (26%) and (iii) extreme changes in tick sizes (25%) than shares with a market cap above EUR 1bn (64%, 15% and 9% respectively).

From a bid-offer spread perspective, the new tick size regime seems to have had a globally positive impact for small cap shares:

- the bid-offer spread decreased for a majority of small cap shares,
- the decrease in tick size did effectively waive a constraint on the bid-offer spread for the targeted small cap shares,
- conversely, the increase in tick size appear not to have created a significant new constraint on the bid-offer spread for the targeted small caps.

With regard to available liquidity, the implementation of the new tick size regime confirmed the “classic” strong correlation between the liquidity available at the best bid / offer and the level of tick sizes. It also appears that small cap shares have experimented an increase in available liquidity at the beginning of 2018, on the back of factors unrelated to the change in tick sizes. The combination of both factors led to a general increase in the available liquidity for small caps, with two thirds of shares with a market cap below EUR 200m experiencing an increase in the liquidity available at the best bid / offer.

Last, it appears that the implementation of the new tick size regime was overall neutral with regard to the trading volume for shares with a market cap below EUR 1bn.

AMAFI's study (*AMAFI / 18-11*) is available on [www.amafi.fr](http://www.amafi.fr).

**Question 25: Please indicate whether you agree with the following statements:**

1 (completely disagree) to 5 (fully agree)	1	2	3	4	5	No opinion
Market operators should be given the flexibility not to apply the minimum EU tick size regime on their SME Growth Markets					X	
Market operators should be given another form of flexibility as regards the EU minimum tick size regime on their SME Growth Markets						X

**Question 26: Building on the ESMA's opinion ('Points for convergence in relation to MAR accepted market practices on liquidity contracts' in May 2017), 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 / not relevant~~

**Other**

In France today, more than half of the listed companies – mainly SMEs but not only – use a liquidity contract, which shows that this technique is highly beneficial. Its framework has been standardized almost 20 years ago in close relation with the French market authority, and has been modified several times since. One of these modifications followed the entry into force of the Market Abuse Directive: in 2005, this framework was transformed into an Accepted Market Practice - AMP.

As AMAFI recently pointed out, there are several benefits attached to liquidity contracts in France as opposed to market-making which is often misrepresented as the only way to increase market liquidity without any risk in terms of market manipulation. These benefits, which are particularly important for SMEs in terms of reduction of volatility and spreads, explain why liquidity contracts expanded so much on the Paris regulated market. Specifically, AMAFI conducted a market study, which showed that:

- (i) The existence of a liquidity contract leads to a reduction in the volatility of stocks, by more than 25% for stocks with a free float below EUR 200m, and in the region of 10% for stocks with a free float between EUR 200m and EUR 5bn,
- (ii) The existence of a liquidity contract leads to a reduction in the bid-offer spread of stocks, by more than 50% for stocks with a free float below EUR 200m, and in the region of 20% to 40% for stocks with a free float between EUR 200m up to EUR 5bn,
- (iii) Market making agreements (where the market maker intervenes for its own account) do not provide such benefits in terms of volatility and bid-offer spread reduction, especially for SMEs.

But the importance of this practice is also the consequence of the experience gained over the years through a constructive dialogue between the national competent authority (AMF) and the market participants. These two factors, very specific to France, explain why liquidity contracts did not develop in the same fashion in others Member States. It also explains why ESMA, which has to assess the compatibility of an AMP with the new Market Abuse Regulation – resulting from article 13 of Regulation (EU) 596/2014 and from the Delegated Regulation (EU) 2016/908 –, issued against all logic and in a very questionable way from a legal standpoint, a very restrictive opinion on how liquidity contracts should be implemented by each national competent authority ([ESMA70-145-76](#)).

While the benefits of liquidity contracts are not understood by a number of Member States, AMAFI considers that the recognition at EU level of the benefits of liquidity contracts, particularly for all SME Growth Market issuers, would be beneficial. However, for the same reason, one can fear that the definition of a common framework will only lead to setting up a framework that is too rigid to be efficient for SMEs.

For AMAFI, there are more risks than benefits in seeking to create an EU framework on liquidity contracts.

**Question 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 below)~~

~~Don't know / no opinion / not relevant~~

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

AMAFI is not in a position to respond to this question which concerns mainly institutional investors.

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

AMAFI considers that no EU regulation is needed in relation to this matter (credit worthiness of the debt issuers).

**Question 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?**

AMAFI believes that no need has been expressed by the investors in that respect and therefore there is no need to provide for unsolicited credit ratings. And in any case, credit rating should only be carried out by regulated Credit Rating Agency (CRAs).

**Question 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:

1 (no positive impact) to 5 (very significant positive impact)	1	2	3	4	5	No opinion
Criteria to define an SME Growth Market					X	
Market capitalisation threshold defining an SME debt issuer						
Key adviser requirement						
Delisting rules on SME Growth Markets=						
Transfer of listings from a regulated market to an SME Growth Markets						
Management's transactions						
Insider lists					X	
Justification of the delay in disclosing inside information						
Market soundings					X	
Disclosure of inside information for bond issuers					X	
Half-yearly reports for SME Growth Market issuers						
Tick size regime for SME Growth Market issuers						
Liquidity provision contracts						
Free float requirements						
Institutional investors' participation in SME shares and bonds						
Credit assessments and ratings for SME bonds issuers						

**Question 32:** You are kindly invited to make additional comments on this consultation if you consider that some areas have not been covered above. Please include examples and evidence:

As stated in Question 4, AMAFI believes that one of the main issues facing SMEs that want to use the market to finance their development is the regime that obliges portfolio managers to treat the research they receive according to the inducement rules. It is already certain that this constraint will result in a drastic reduction of the amounts allocated by fund managers to acquire external research on SMEs.

This is particularly worrying in a market model where this external research is already too weakly developed given a particularly fragile business model while it is nevertheless absolutely essential to guide investors in their investments.

For AMAFI, it is therefore important for the European Union to conduct an impact study on this question in order to quickly draw the necessary consequences.

