

AMAFI POSITION PAPER

SMEs FINANCING

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 regulations put more constraints on bank financing and clearly turn the European model of financing the economy towards 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.

Having contributed to the various initiatives from the European Commission (EC), AMAFI would like to stress three points related to the "Proposal for a Regulation of the European Parliament and of the Council amending Regulations (EU) n° 596/2014 and (EU) 2017/1129 as regards the promotion of the use of SME Growth market" (the « Proposal ») and one related to MiFID II / MIFIR it considers key:

1. The proposed exclusion from the scope of the market sounding regime should apply to all issuers

Considering Article 1 (1) of the Proposal, **AMAFI considers it cannot be validly restricted to SME growth market issuers only**. The proposed restriction cannot be supported given the analysis is rightly based on the fact that communication of information to qualified investors for the purposes of negotiating the contractual terms and conditions of their participation in an issuance of bonds does not constitute a market sounding. Consequently, in all similar circumstances, the same analysis should apply **to all issuers**, irrespective of where their financial instruments are traded. The argument that the proposed regulation is restricted to SME growth markets cannot prevail given that it proceeds by way of amendment to a piece of European legislation (MAR) which has a much broader scope.

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 where the issuer concerned listed its financial instruments.**

2. The benefits of liquidity contracts should be recognized for all issuers and the proposed template apply when there is no national accepted market practice

Considering Article 1 (2) of the Proposal, **AMAFI fully supports the EC Proposal in so far as it recognizes the benefits of liquidity contracts** and proposes a template allowing issuers who do not benefit from a national accepted market practice regarding liquidity contracts to enter into such an arrangement.

However, AMAFI disagrees with three aspects of the proposal:

- It should not be limited to issuers listed on SME growth markets;
- It should only apply to liquidity contracts which are not entered into in the context of a national accepted market practice as the Union framework on liquidity contracts should not replace but rather complement existing or future accepted market practices which are tailored to local specificities;
- The principles applicable to such template should be defined at Level 1 and not left to ESMA to propose.

3. Research plays a key role to attract SMEs

The entry into force of MiFID II / MIFIR at the beginning of 2018 has considerably modified the economic model of the production of research or financial analysis for equity markets. The former and largely used “bundled model” is no longer possible. Henceforth, research has to be paid by asset management companies independent of the transactions they carried out with their brokers, at least when acting on behalf of client portfolios.

There is a large consensus among issuers, asset management companies and research providers that, given the new rules, the total amount paid for research will dramatically diminish in the coming years and accordingly the supply of research. This will particularly affect the supply of research for SMEs because research providers will no longer be able to finance research on SMEs in a context where cross-subsidization is not possible. **However, research plays a central role to attract companies, and especially SMEs on public markets.**

Therefore, AMAFI considers that the Proposal **should also comprise amendments to MiFID II in order to introduce more proportionality in the inducement regime, adapted to the SME Growth Markets.** For instance, an option could be to explore the potential exoneration of small asset managers from the inducement regime given their focus on small-cap SMEs.

4. Facilitating access to capital to mid-sized companies

While SMEs growth markets certainly play a central role in facilitating access to capital for small-sized companies, **AMAFI considers that more reforms are needed in order to ease access to financial markets to mid-sized companies.**

As such, **AMAFI supports a significant raise of the EUR 200 million market capitalization threshold defining SMEs to EUR 1,000,000,000 (EUR 1 billion) under MiFID II.** 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. AMAFI would suggest an option is given to Member States **in coordination with their local SME Growth Market operators** to raise the capitalization threshold above EUR 200 millions.

However, further barriers have to be overcome for companies that have reached a larger size but for cost reasons are unwilling to move to a regulated market. **AMAFI is therefore encouraging the EC to go a step further in its reforms to notably broaden the range of financing instruments/options available for mid-sized companies with the objective to better address their financing needs across their growth cycle.**



About AMAFI

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 members are subsidiaries or branches of non-French institutions.