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| 06 May 2020 | ESMA70-156-2803 |

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| Reply form for the Consultation Paper on the functioning of the regime for SME Growth Markets under the Markets in Financial Instruments Directive and on the amendments to the Market Abuse Regulation for the promotion of the use of SME Growth Markets. |
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| Date: 06 May 2020  ESMA70-156-2803: |

Responding to this paper

The European Securities and Markets Authority (ESMA) invites responses to the specific questions listed in the Consultation Paper on the functioning of the regime for SME Growth Markets under the Markets in Financial Instruments Directive and on the amendments to the Market Abuse Regulation for the promotion of the use of SME Growth Markets.

*Instructions*

Please note that, in order to facilitate the analysis of the large number of responses expected, you are requested to use this file to send your response to ESMA so as to allow us to process it properly. Therefore, ESMA will only be able to consider responses which follow the instructions described below:

* use this form and send your responses in Word format (pdf documents will not be considered except for annexes);
* do not remove the tags of type <ESMA\_QUESTION\_CP\_SME\_1> - i.e. the response to one question has to be framed by the 2 tags corresponding to the question; and
* if you do not have a response to a question, do not delete it and leave the text “TYPE YOUR TEXT HERE” between the tags.

Responses are most helpful:

* if they respond to the question stated;
* indicate the specific question to which the comment relates;
* contain a clear rationale; and
* describe any alternatives ESMA should consider.

**Naming protocol**

In order to facilitate the handling of stakeholders’ responses please save your document using the following format:

ESMA\_CP\_MiFID\_EQT\_NAMEOFCOMPANY\_NAMEOFDOCUMENT.

e.g. if the respondent were ESMA, the name of the reply form would be:

ESMA\_CP\_SME\_ESMA\_REPLYFORM or

ESMA\_CP\_SME\_ANNEX1

***Deadline***

Responses must reach us by **15 July 2020.**

All contributions should be submitted online at [www.esma.europa.eu](http://www.esma.europa.eu) under the heading ‘Your input - Consultations’.

***Publication of responses***

All contributions received will be published following the end of the consultation period, unless otherwise requested. **Please clearly indicate by ticking the appropriate checkbox in the website submission form if you do not wish your contribution to be publicly disclosed. A standard confidentiality statement in an email message will not be treated as a request for non-disclosure.** Note also that a confidential response may be requested from us in accordance with ESMA’s rules on access to documents. We may consult you if we receive such a request. Any decision we make is reviewable by ESMA’s Board of Appeal and the European Ombudsman.

***Data protection***

Information on data protection can be found at [www.esma.europa.eu](http://www.esma.europa.eu) under the headings ‘Legal notice’ and ‘Data protection’.

# General information about respondent

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| --- | --- |
| Name of the company / organisation | Quoted Companies Alliance |
| Activity | Other Financial service providers |
| Are you representing an association? |  |
| Country/Region | UK |

# Introduction

Please make your introductory comments below, if any:

<ESMA\_COMMENT\_CP\_SME\_1>

We welcome the opportunity to respond to your consultation paper on the functioning of the regime for SME Growth Markets.

The Quoted Companies Alliance *Primary Markets Expert Group and Secondary Markets Expert Group* has examined the proposals and advised on this response from the viewpoint of small to mid-size quoted companies.

In general, we welcome ESMA’s work to review the functioning of the regime for SME Growth Markets under the Markets in Financial Instruments Directive and on the amendments to the Market Abuse Regulation for the promotion of the use of SME Growth Markets. SME Growth Markets, and the companies that operate on them, play a vital role in delivering economic growth, as well as creating employment and wealth. It is fundamentally important that these markets are effectively promoted to smaller quoted companies and that they continue to facilitate access to capital for them.

Overall, we have a few overarching comments to make regarding the functioning of the regime of SME Growth Markets:

* The development of a more conducive and proportionate regulatory framework that moves away from the current one-size-fits-all approach and further supports and incentivises SMEs to gain access to capital markets should be a priority.
* The 50 per cent threshold as set out in Article 33(3)(a) remains appropriate as it ensures the balance between attracting smaller companies and ensuring liquidity.
* There is an important distinction that needs to be made between SMEs and small and mid-size quoted companies, and SME Growth Markets should cater for the needs of both.
* The definition of an SME under MiFID II is inappropriate and does not accurately reflect current realities.
* Sufficient flexibility for each individual SME Growth Market operator should be granted in order to establish the appropriate market conditions specific to their own individual circumstances, such as in determining the initial and ongoing admission to trading of financial instruments.
* We support the creation of a two-tier SME regime with additional alleviations for micro-SMEs, as this would help to ensure that SME Growth Markets adequately cater for the needs of the smallest companies, thus helping to attract additional issuers to the market.
* Increasing the availability of research on SMEs, and reversing the decline in the quantity and quality of research in these companies, which MiFID II has contributed to, should be a priority.
* We welcome proposals exploring ways to reduce the burdens for companies associated with producing an insider list.

<ESMA\_COMMENT\_CP\_SME\_1>

1. Do you have any views on why the SME activity in bonds is limited? If so, do you see any potential improvements in the regime which could create an incentive to develop those markets?

<ESMA\_QUESTION\_CP\_SME\_1>

SME activity in bonds is limited for a host of reasons. For instance, SMEs do not typically have fixed assets or working capital to provide traditional asset backing. In addition, many investors associate SME bonds with a high level of risk, and therefore, require a higher interest rate. For smaller companies, and in particular, those at an early stage of development, the more appropriate financing structure is equity.

Eventually, when a company enters a high growth phase in its development and needs continuing and regular capital injections, the presence of bonds on a company’s balance sheet ranking ahead of equity will likely increase the risk for equity investors and may make them less inclined to provide further investment without a debt restructuring. For rapidly growing companies, equity is generally considered to be a more appropriate type of capital than debt.

As such, in small, risky, early-stage companies, a bond may appear unappealing to investors as they are only compensated by interest payments and do not have the potential to share in the future success of the company through ownership and dividends. In addition to the above, bond investors typically have a very high preference for liquidity, with most unwilling to participate if an issue is smaller than £100 million/€100 million, which tends to be too large for SMEs.

There are a multitude of other reasons as to why SME activity in bonds is limited. In particular, we believe that there are four overarching causes for a lack of SME activity in these markets, most notably:

* The significant costs, both in terms of admission fees and the costs associated with ongoing compliance;
* Onerous and overly burdensome requirements to comply with market regulations;
* The availability of alternative sources of finance, such as bank finance; and
* A lack of awareness amongst SMEs of the benefits.

We believe that, in order to improve the regime and facilitate the development and functioning of SME bond markets, the greater consolidation of the market can help achieve this. That is, enhancing the ability of all stakeholders to access these markets, as well as increasing the relative ease of gaining access, through the creation of one centralised entity. To do so, market participants, including investors and companies, should have the requisite access to information on offers of bonds and the ability to easily buy these bonds. This would also serve to facilitate the trading of bonds, as well as minimising fragmentation.

<ESMA\_QUESTION\_CP\_SME\_1>

1. In your view, how could the visibility of SME GMs be further developed, e.g. to attract the issuers from other members states than the country of the trading venue?

<ESMA\_QUESTION\_CP\_SME\_2>

In order to promote and develop the visibility of SME Growth Markets, the relative attractiveness of these markets for smaller companies, in addition to perceptions around their ability to facilitate worthwhile capital formation, needs to be improved. The environment for smaller companies to raise the growth capital they require needs to be emboldened and a more facilitative IPO market for SMEs needs to be fostered.

At present, the one-size-fits-all approach is concerning and means that the current market structure fails to meet the needs of all types of companies. This can be ameliorated through the development of a more conducive and proportionate regulatory framework that supports and incentivises SMEs to use public markets to gain access to capital.

One way in which this could be achieved is through re-visiting the Prospectus Regulation. At present, the Prospectus Regulation requires an issuer to have their prospectus vetted by the National Competent Authority in their own Member State. If the issuer then wishes to raise funds in another member state, they are required to passport. Not only does this correspond to creating additional costs during the IPO process, but it also minimises the likelihood of cross-border competition, thus limiting the attraction of issuers from other Member States to countries other than the country of the trading venue.

Furthermore, there are also issues of perception that mean issuers are seldom attracted to other member states. That is, there is a greater risk of financial misrepresentation. An issuer seeking to raise capital outside of its own domestic jurisdiction are often perceived as being unattractive in their own domestic market and only able to raise capital from a less discerning and well-informed investor base. Additionally, if the SME Growth Market is particularly small and lacks investors, it is understandable why SMEs may seek to raise capital outside its domestic market. This explains why there is a higher proportion of international issuers on AIM in the UK than on other European SME Growth Markets.

Finally, certain legislation restricts the interaction between brokers working with companies and investors from other Member States. For example, brokers are prohibited from supplying the research they have produced to an investor from another Member State to inform them about an SME unless there is a research agreement in place, or the broker is being paid by the SME to raise finance and the research is then not independent.

<ESMA\_QUESTION\_CP\_SME\_2>

1. In your view does the 50% threshold set in Article 33(3)(a) of MIFID II remain appropriate for the time being as a criterion for an MTF to qualify as an SME GM? Do you think that a medium-term increase of the threshold and the creation of a more specialised SME GMs regime would be appropriate?

<ESMA\_QUESTION\_CP\_SME\_3>

The QCA is of the opinion that the 50 per cent threshold as set out in Article 33(3)(a) should remain unchanged as the criterion for an MTF to qualify as an SME Growth Market. We believe that the current threshold of 50 per cent ensures the appropriate balance between attracting smaller companies and facilitating liquidity.

We do not believe that an increase in the threshold, with the intention of creating a more specialised SME Growth Market regime, would be appropriate. Our reasoning for this position is twofold. Firstly, we believe that increasing the threshold would serve to limit the access of these markets to small and mid-size quoted companies – which currently play a significant and important role on SME Growth Markets. There is an important distinction to be made between SMEs and small and mid-size quoted companies, and SME Growth Markets should accommodate and cater to the needs of both categorisations.

Secondly, establishing a higher threshold in order to make SME Growth Markets more specialised would inadvertently impact the liquidity available on these markets. A further reduction in liquidity on these markets could be particularly troubling, both in terms of reducing the attractiveness of seeking a listing or maintaining one. As the consultation correctly highlights, a substantial portion of the volume of shares traded on SME Growth Markets is by issuers who do not qualify as SMEs. Accordingly, this would limit the liquidity on these markets and have various negative consequences as a result.

That said, we believe there is merit in giving consideration to allowing more flexibility for each individual market operator to determine their own thresholds. This would serve to allow market operators to determine a fit-for-purpose threshold that reflects their specific market conditions. Different markets in different countries are of varying levels of maturity, which has connotations for the composition of the market and the size of companies that operate on these markets. As a result, we believe that consideration should be given to allowing market operators to determine their own thresholds.

<ESMA\_QUESTION\_CP\_SME\_3>

1. Do you consider that a further alignment of the definitions of an SME in different pieces of regulation with the MiFID II definition of SME would be helpful? Can you provide specifics of where alignment would be needed?

<ESMA\_QUESTION\_CP\_SME\_4>

As a general comment, we do not believe that the definition of an SME under MiFID II is appropriate and fit-for-purpose. That is, we do not believe that the definition accurately reflects current realities or the growth company ecosystem. The definition fails to capture small and mid-size quoted companies, as well as failing to reflect the developments within, and the maturing of, the growth company ecosystem. As a result, many small and mid-size quoted companies find that their growth and success inadvertently pushes them outside the limits of the current definition whilst they are still small and in a developmental phase.

Therefore, we strongly encourage ESMA and the European Commission to revise the thresholds and re-define the concept of an SME. We believe that a bespoke definition of an SME is required to enable focussed and proportionate regulation. We also acknowledge that a single definition is unlikely to be appropriate for all EU Member States, and as such, some flexibility for an upper limit would be needed to enable individual states to adjust the definition and the thresholds for their own individual markets. This will help to ensure that SME Growth Markets cater to the needs of small and mid-size quoted companies.

As such, we believe that an SME should be defined as any small and medium-sized entity that satisfies any two of the following criteria:

1. Staff headcount under 500;
2. Turnover of equal to or less than €200 million; or
3. A balance sheet total equal to or less than €100 million.

This should then be combined with an overarching individual upper market capitalisation threshold of €500 million to sit alongside the revised thresholds for SMEs. We believe that this more accurately reflects the nature of the companies that operate on SME Growth Markets.

Once the SME definition and thresholds have been adjusted within MiFID II, further alignment of the definition across different pieces of regulation, where appropriate, would be helpful. It is important to remain mindful that different definitions of an SME, however, may be appropriate depending on the nature and purpose of legislation, meaning that harmonisation is not always essential. If the definition can be made so that it is sufficiently flexible so that it can be used for different purposes in different pieces of legislation, then it would be more appropriate to harmonise the definitions.

<ESMA\_QUESTION\_CP\_SME\_4>

1. Which are your views on the regime applicable to SME GMs regarding the initial and ongoing admission to trading of financial instruments? Are there requirements which should be specified?

<ESMA\_QUESTION\_CP\_SME\_5>

We do not believe that changes to the approach of the criteria to be used by MTFs registered as SME Growth Markets for initial and ongoing admission to trading of financial instruments should be made. In particular, and given the existing diversity of models, it is important to not set stringent requirements regarding the initial and ongoing admission to trading of financial instruments as the flexibility offered is useful for SME Growth Markets. As such, we believe that SME Growth Markets should retain the ability to adjust their rules to the specificity of their markets.

In respect of the areas ESMA is seeking views, we have the following comments to make:

1. Minimum free float – should not be required.
2. Minimum capitalisation of the issuer – should not be required.
3. Specific features regarding corporate and governance code – should not be required.
4. Accounting standards – should not be required.
5. Disclosure of information to the public – some minimal disclosure could be required.

More specifically, we believe strongly that SME Growth Markets should maintain flexibility relating to the minimum free float requirement imposed on issuers requesting admission to trading on their venue. Requiring SME Growth Market operators to impose minimum free float requirements on issuers seeking admission to trade their shares on its venue will dissuade smaller companies from using public equity markets to secure new growth capital. This is in contradiction to the European Union’s objective of making SME Growth Markets an attractive platform for companies seeking capital. Introducing an enforced minimum free float would represent an unnecessary and punitive burden on companies. As such, we believe that each individual SME Growth Market operator should be given the flexibility to determine whether such an approach is appropriate for their market.

Similarly, we also do not believe that markets should be required to establish prescriptive requirements concerning acceptable financial reporting standards. The different accounting standards that companies choose to follow in different SME Growth Markets can help lower complexity and reduce the costs associated with preparing accounts. Moreover, establishing a European-wide corporate governance code would be inherently difficult due to the differences in national company law.

Regarding the disclosure of information to the public, we believe that some minimal disclosure requirements could be required. For instance, a requirement for information to be disclosed publicly on an issuer’s website could be established and would help increase transparency without being burdensome.

For the above reasons, we do not believe that a more harmonised approach amongst SME Growth Markets in the EU is appropriate. SME Growth Market operators should be granted sufficient flexibility to determine – following discussion with issuers and other market participants operating in its jurisdiction – its own regime regarding the initial and ongoing admission to trading.

<ESMA\_QUESTION\_CP\_SME\_5>

1. Do you think it could be beneficial to harmonise accounting standards used by issuers listed on SME GMs with the aim of increasing cross-border investment?

<ESMA\_QUESTION\_CP\_SME\_6>

No – we do not think that it would be beneficial to harmonise accounting standards used by issuers listed on SME Growth Markets. Whilst it may produce some minor benefits, such as slightly increasing cross-border listings and investments, there is little appetite amongst investors and other stakeholders for harmonised accounting standards and the negative implications of harmonising accounting standards outweigh the benefits.

Harmonised accounting standards will likely have a significant and disproportionate impact on smaller quoted companies. These smaller companies may typically only have a focus on their domestic economy and investors, meaning that local accounting standards are sufficient for them, as well as being easier to comply with. Therefore, we are of the opinion that the ability of issuers to adopt a flexible approach, whereby they have the option to choose, is more appropriate.

<ESMA\_QUESTION\_CP\_SME\_6>

1. Should ESMA propose to create homogeneous admission requirements for issuers admitted to trading on SME GMs? Should such requirements be tailored depending on the size of the issuer (e.g. providing less burdensome requirements for Micro-SMEs)?

<ESMA\_QUESTION\_CP\_SME\_7>

No – we do not believe it is necessary to create homogenous admission requirements for issuers admitted to trading on SME Growth Markets. However, if such admission requirements are established, we support the notion of tailoring these requirements to the size of the issuer. This would serve to ensure that smaller and micro-SMEs are not overly burdened by the requirements.

Any such developments should require sufficient consultation with stakeholders in order to ensure that the requirements are appropriately tailored to issuers of different sizes to ensure that the requirements do not become overly burdensome.

<ESMA\_QUESTION\_CP\_SME\_7>

1. Should ESMA suggest an amendment requiring an MTF registering as SME GM to make publicly available financial reports concerning the issuers admitted to trading on the SME GM up to one year before registration?

<ESMA\_QUESTION\_CP\_SME\_8>

A requirement for the disclosure of backward-looking information in the form of financial reports for new issuers admitted to trading on SME Growth Markets could be useful. For instance, this information could be of use to investors in helping them to ensure that they have enough relevant information in order to make an informed judgement on a financial instrument.

However, it is often the case that the smallest companies, such as micro-SMEs, or companies that have only recently been formed, such as start-ups, may not have historical financial reports. These companies should be exempt from this requirement.

<ESMA\_QUESTION\_CP\_SME\_8>

1. Is there any other aspect of the SME GMs regime as envisaged under MiFID II that you think should be revisited? Would you consider it useful to make the periodic financial information under Article 33(3)(d) available in a more standardised format?

<ESMA\_QUESTION\_CP\_SME\_9>

Whilst we are opposed to the implementation of harmonised accounting standards, as expressed in our response to Q6, a standardised format for periodic financial information would be sensible if harmonisation takes place.

<ESMA\_QUESTION\_CP\_SME\_9>

1. Do you think that in the medium term a two-tier SME regime with additional alleviations for micro-SMEs could incentivise such issuers to seek funding from capital markets? If so, which type of alleviations could be envisaged for micro-SMEs?

<ESMA\_QUESTION\_CP\_SME\_10>

Yes – we believe that a two-tier SME regime with additional alleviations for micro-SMEs could incentivise the smallest issuers to seek funding from capital markets. At present, we are of the opinion that SME Growth Markets do not adequately cater for the needs of the smallest companies, with many of these companies being pushed off the markets or unable to join these markets in the first instance. It is often the case that the burden and costs associated with complying with certain requirements are not commensurate to the ability of these companies to raise sufficient capital. As a result, companies will often look to alternative forms of funding.

To ameliorate this, SME Growth Markets should be required to establish a two-tier SME regime with the inclusion of a micro segment where the market can operate outside of the MiFID II regime. Having a two-tier regime would mean that micro-SMEs have the appropriate regulatory regime where they are not overburdened with requirements, helping to attract more micro issuers to capital markets.

The creation of a two-tier regime will also improve recognition that companies listed on SME Growth Markets are not all at the same stage of their growth. This will serve to better distinguish between micro, small, medium and large growth companies, allowing the markets to be more appropriately tailored to their individual needs and size constraints. Most importantly, the creation of a proportionate set of rules that are specifically tailored to suit the different growth phases of companies will help enable and facilitate the growth of these companies. For micro-SMEs at the early stages of their growth journey, for instance, it is fundamentally important that they focus on their growth and development without being crowded out by disproportionate requirements. Then, as a company begins to develop, it is important that they begin to adopt stronger standards of governance and comply with regulation in order to enhance their ability to attract additional sources of investment, such as from the institutions.

Furthermore, and not only will the creation of a two-tier SME regime help foster the growth and development of a company, but it should also help increase the attractiveness of seeking a listing. This is important as having a deeper and more diversified pool of companies on markets provides greater investment opportunities.

<ESMA\_QUESTION\_CP\_SME\_10>

1. Do you think that requiring SME GMs to have in place mandatory liquidity provision schemes, designed in the spirit of what is envisaged in Article 48(2) and (3) of MiFID II, could alleviate costs for SMEs issuers and provide them an incentive to go public? Do you think that on balance such provision would increase costs for MTFs in a way which encompasses potential benefits, resulting in reducing the incentive to register as an SME GM?

<ESMA\_QUESTION\_CP\_SME\_11>

Increasing liquidity, and thus enhancing the ability to execute a trade quickly and at a desirable price, is essential for incentivising issuers to go public. The provision of continuous liquidity lowers price volatility, shortens spreads and improves price formation, which, in turn, enhances investor confidence and encourages companies to explore a listing on a public market. Therefore, we welcome the exploration of ideas aimed at increasing liquidity, reducing costs, and thus, attracting more SMEs to public markets.

That said, there is mixed evidence on the effectiveness of introducing mandatory liquidity provision schemes, with the efficacy of these schemes being dependent on the nature of the market they are implemented on. Liquidity contracts, for instance, perform better on some markets than they do others. Introducing contrived means of producing liquidity within SME shares can generate additional costs and does not necessarily increase the volume of trading in these shares. As a result, we believe that ESMA should also consider other measures to stimulate higher liquidity. For instance, incentivising issuers by lowering their fees when there are improvements in the liquidity of their shares will stimulate issuers to enhance their engagement practices with investors.

<ESMA\_QUESTION\_CP\_SME\_11>

1. Do you think the requirement in Article 33(7) of MiFID II regarding the issuer non objection in case of instruments already admitted to trading on SME Growth Markets to be admitted to trading on another SME growth market should be extended to any trading venue? Should a specific time frame for non-objection be specified? If so which one?

<ESMA\_QUESTION\_CP\_SME\_12>

It is our belief that an issuer should have to give explicit consent to an SME Growth Market, or any other trading venue, that wishes to trade its shares. In the event that approval has not been received, it is possible that the issuer may unknowingly become subject to certain requirements, have to comply with unfamiliar market practices, or make additional disclosures that it is not used to producing. This would inadvertently multiply the burdens placed on the issuer, as well as increase costs and the level of risk encountered by the issuer.

<ESMA\_QUESTION\_CP\_SME\_12>

1. Do you think that it should be specified that obligations relating to corporate governance or initial, ongoing or ad hoc disclosure should still hold in case of admission to trading in multiple jurisdiction?

<ESMA\_QUESTION\_CP\_SME\_13>

No – we do not believe that multiple jurisdictional requirements regarding corporate governance should be applied to SMEs. With the exception of the circumstance when an issuer formally agrees to observe additional disclosures, SMEs should only be required to comply with the requirements in their own jurisdiction.

<ESMA\_QUESTION\_CP\_SME\_13>

1. How do you think the availability of research on SMEs could be increased?

<ESMA\_QUESTION\_CP\_SME\_14>

The introduction of MiFID II has heightened the lack of availability of research on SMEs, which has exacerbated the reduction in both the quantity and quality of investment research. We believe that this is particularly the case for research on SMEs and small and mid-size quoted companies, which has, as a result, had an adverse impact on liquidity in these securities.

As a general comment, we note that independent investment research on SMEs and small and mid-size quoted companies is essential for increasing visibility and stimulating trading in their shares. Research eases price discovery and enhances liquidity, which in turn reduces the cost of capital for companies and encourages their growth.

MiFID II has undoubtedly further reduced the amount of research on small-cap securities. The nature of small and mid-size quoted companies dictates that research coverage is the only realistic and affordable means by which they can increase their visibility to the market through the provision of quality investment research. This has been significantly impeded by the introduction of MiFID II. This viewpoint is exemplified by investors and companies alike who have particularly negative perceptions around MiFID II in the small-cap segment of the market. For instance, the results of the QCA/Peel Hunt *Mid and Small Cap Survey* reiterate this[[1]](#footnote-2). The percentage of investors that believe that MiFID II has had a negative impact on liquidity for small and mid-cap stocks has grown from 54 per cent in 2017, to 63 per cent in 2018, to 79 per cent in 2019. As a result of MiFID II, less research is being produced and there are fewer brokers participating in the small-cap segment of the market, which has led to lower liquidity, greater share price volatility and higher-bid offer spreads. This has resulted in increased costs associated with raising finance coupled with reduced institutional access.

We believe that MiFID II should be amended to exempt small and mid-size quoted companies from certain aspects of the regulation. Doing so will make the regulation more proportionate and will ensure that companies of varying sizes can access the UK’s capital markets.

For instance, exempting research in SMEs from the unbundling rules in MiFID II should be the key focus in order to increase research coverage and thus help to highlight opportunities for investment which may not otherwise be visible. The introduction of the unbundling rules substantially increased the cost for brokers coupled with a reduction in the number of their staff, meaning that it has become increasingly difficult for smaller quoted companies to obtain broker-coverage. As such, and at a minimum, we believe that research for smaller quoted companies who do not cross a market capitalisation threshold of £1 billion, should be exempt from the unbundling rules. However, we believe that the unbundling rules should be repealed in their entirety for smaller quoted companies.

More specifically, we have the following proposals to make that would increase the availability of research on SMEs:

* Remove the provisions that prohibit combining research with other services.
* Reduce the complexity and costs of complying with the regulation governing the dissemination of research by removing the need for a research contract.
* As already occurs in some regimes, exchanges should consider using part of the listing fee acquired from the issuer to pay for research.
* Requiring market operators to fund one piece of research per year for the companies that reside on its market.
* The establishment of a code of conduct, as currently being consider by the French regulator, would encourage sponsored research.
* Lowering fees for issuers who have contributed to research coverage.

Finally, we also encourage the National Competent Authorities to support and embrace the new landscape of research. That is, MiFID II has made redundant the old model of secondary trading revenues paying for broker research. Even if MiFID II provisions are rolled back, investors will not allow fund managers to use the fund to pay for research. As a result of this, the sponsored research market now includes houses that have significant teams of experienced analysts producing in-depth, quality research. In terms of reach, sponsored research not only matches brokers in the institutional market, but also informs other important pools of investors to whom broker research is not available.

<ESMA\_QUESTION\_CP\_SME\_14>

1. Do you agree with the proposed limits on resources or would you propose different ones? If so, please provide a justification.

<ESMA\_QUESTION\_CP\_SME\_15>

We have no comments.

<ESMA\_QUESTION\_CP\_SME\_15>

1. Do you agree with the proposed limits on volumes or would you propose different ones? If so, please provide a justification of the alternative proposed parameters.

<ESMA\_QUESTION\_CP\_SME\_16>

We have no comments.

<ESMA\_QUESTION\_CP\_SME\_16>

1. Do you think that specific conditions should be added as regards trading during periodic auctions? For SME GMs following different trading protocols, are there criteria or safeguards which should be considered in order to make sure that the liquidity contract does not result in a manipulative impact on the shares’ price?

<ESMA\_QUESTION\_CP\_SME\_17>

Whilst we believe that specific conditions should be added as regards trading during periodic auctions in order to prevent manipulation, we do not believe that this should be standardised at the European level. Rather, we believe that, due to the unique nature of specific markets, it is more appropriate for individual market operators to introduce additional market requirements.

<ESMA\_QUESTION\_CP\_SME\_17>

1. Do you agree with ESMA’s view that the liquidity contract may cover large orders only in limited circumstances as described in paragraph 118?

<ESMA\_QUESTION\_CP\_SME\_18>

As per our response to Q17, we believe that this should be a matter for individual market operators, as opposed to implementing this in a standardised format at the European level.

<ESMA\_QUESTION\_CP\_SME\_18>

1. Do you agree with the proposal described above regarding the template for the insider list to be submitted by issuers on SME GMs? If not, please elaborate.

<ESMA\_QUESTION\_CP\_SME\_19>

As a result of the significant administrative burden placed on issuers, as well as the need to establish costly internal systems and processes, we welcome proposals that explore ways to reduce the burdens associated with producing an insider list. Regarding this specific proposal concerning the reduced template for the insider list to be submitted by issuers to SME Growth Markets, we agree with this proposal. Limiting the number of required fields by removing “birth surname”, “company name and address” and “personal full home address”, is a welcome initial step.

However, we believe that this should go further by removing the requirement to collect “personal telephone numbers”, “date of birth”, “personal full home address” and “national identification number”. This received significant support in the MAR Review Consultation Paper.

<ESMA\_QUESTION\_CP\_SME\_19>

1. CBA: Can you identify any other costs and benefits? Please elaborate.

<ESMA\_QUESTION\_CP\_SME\_20>

We have no comments.

<ESMA\_QUESTION\_CP\_SME\_20>

1. Quoted Companies Alliance and Peel Hunt, 2020, Mid and Small Cap Survey, [https://www.theqca.com/article\_assets/articledir\_395/197511/To%20Be%20or%20Not%20To%20Be\_QCA%20PeelHunt%20Survey%20Booklet%202020.pdf](https://www.theqca.com/article_assets/articledir_395/197511/To%2520Be%2520or%2520Not%2520To%2520Be_QCA%2520PeelHunt%2520Survey%2520Booklet%25202020.pdf) [↑](#footnote-ref-2)