

July 2020

Euronext Response to ESMA Consultation on SME Growth Markets

1. Introductory remarks

Euronext welcomes the opportunity to comment on the SME Growth Market (SME GM) regime. We believe there is a lot of potential for this regime but that more needs to be done to make it a more attractive proposition for SME issuers. While the intention behind creating SME GMs was to attract smaller companies to listing, feedback from the market indicates that there is no real increased interest from issuers to list on an SME GM compared with MTFs, since the difference in requirements is limited, making it hard to make the distinction and promote SME GMs.

We believe it is important to ensure the right balance between minimising the burdens and costs for issuers while still maintaining the integrity of the market and ensuring robust levels of investor protection. If this can be achieved, SME GMs have the potential to develop an ecosystem across the EU that benefits smaller issuers, enabling them to raise money, grow, create employment and generate value for investors and the wider society.

Set out below are some key points from our response:

- **SME issuers wishing to list on public markets** currently experience many challenges, including high compliance costs to be listed on a market, a lack of institutional and retail investments and often a visibility and liquidity deficit. These obstacles often make other financing options a more preferable alternative. More needs to be done to address these issues to make listing on an SMEGM an attractive option for SME issuers.
- For **bond issuers** in particular, the public market requirements imposed are often considered prohibitive, particular as many are geared towards equity issuers, rather than being tailored appropriately to bond issuers. Specifically we would highlight the Market Abuse requirements as being very onerous and suggest amendments need to be made to make them more appropriate for bond issuers.
- Regarding the **SME GM provisions set out in MiFID II**:
 - We believe the criteria of 50% remains an appropriate threshold to qualify as an SME GM, but we think the market cap threshold for SMEs of €200m is too low as it only takes into consideration small enterprises and not mid-caps. Our proposed increased market cap threshold to at least €500m would help contribute to a strengthening of an SME GM's ability to attract more companies, with the potential to increase liquidity on these markets.
 - In relation to the general admission and on-going requirements, we do not believe it is necessary to harmonise these further as there is a risk that it would increase costs for issuers and could compromise the proportionate approach that is intended for SME GMs, therefore lessening the benefit intended for SME issuers.
- **MiFID II's new unbundling rules has led to a decrease in overall equity research coverage** on all listed companies on our capital markets. We suggest a number of proposals should be explored further to increase the production of SME research, notably via: (i) authorising the bundling of SME research; (ii) the creation of a program to finance SME research; (iii) subsidised SME research

through a partially public funding programme; and (iv), the creation of a public EU-wide SME research database.

- We welcome the new regime for **issuer liquidity contracts** on SME Growth Markets introduced under the Market Abuse Regulation as this should contribute to supporting and increasing liquidity for SME trading. However, there are certain aspects of it that are concerning for market operators, in particular the requirement to agree to the terms of the contract between the issuer and the liquidity provider. We question the legal basis of this requirement given market operators are not party to the contract and we ask that this should be looked into further and addressed.
- Lastly, we support the proposal to reduce the details required on the **insider list under MAR**. However, we would also suggest that further consideration should be given to what other support could be provided to SME issuers to make it easier for them to comply with the MAR requirements.

2. Overview of the current state of play of the SME GMs regime

Q1 - 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?

In Euronext's view, there are a number of reasons why SME activity in bonds may be limited.

Firstly, SMEs generally have smaller size financing needs compared with bigger corporates, and therefore their capacity to gain **financing from the banking channels is easier, faster and cheaper**. They are closely connected with bank managers and do not normally know the capital market dynamics as there still tends to be a lack of financial knowledge and education. Stock exchanges are often seen as something unreachable and too complex.

When this is combined with **SMEs' concerns with the cost of a capital market transaction and the post listing publicity** that it brings, it is often the case that bank financing is seen as a much more preferable option. If an SME can secure bank financing, it only has to disclose its books to the bank. For smaller entities, who are not so used to public transparency and reporting, this element is extremely important.

In addition, there are a smaller amount of arranging banks for smaller bond issuances. In many cases, they may be less experienced compared to their bigger counterparts and **do not have a massive incentive to push for capital market deals**. Very often the same arranger can in parallel offer bank financing, which is perceived as an easier and more profitable route.

It should also be highlighted that **continuing obligations that apply post-listing on the capital market side are very intrusive and costly**. For example, the requirement to publish regular market announcements and disclose financial statements are often disincentives to issue bonds and are a key reason why issuers choose not to list on a public market. While it is important that certain requirements apply to ensure investor protection, the more regulation that is imposed on issuers (at the initial admission stage and in relation to the continuing obligations to maintain the admission), the more cumbersome it is to issue bonds. This potentially makes bonds less competitive from a cost perspective versus bank financing. **We suggest a better balance needs to be reached between ensuring integrity of the market and investor protection, and reducing the regulatory costs for issuers on SME GMs. In particular, the Market Abuse Regulation regime is particularly onerous and cumbersome for SMEs.** SMEs often have few employees which makes it even more challenging to meet the regulatory requirements, and alleviations still remain quite poor for the SME GM. Feedback from the market indicates that there is no real added value to be listed on a SME Growth Market compared with MTFs in general.

Furthermore, the **legal costs in preparing the bond documentation and carrying out the required due diligence for listing on a public market is often prohibitive**. Contractual documentation in private placements is standardised and much more cost effective.

Lastly, **initial bond pricing for a smaller entity is often more expensive than for a bigger company, due to the risk associated with the SME**. This factor is crucial when banking finance pricing is really competitive nowadays. In addition, there is often **little liquidity in SME bonds** so again some believe there is no strong incentive for a public listing.

Recommendations:

Given all the above points, there seems to be quite a substantial impetus for SMEs not to list on SME GMs. However, that said, in our view there are potentially a number of solutions to the problem. We set out below a number of specific amendments to the current SME GM requirements that Euronext would suggest may improve the SME GM and make it a more attractive regime for bond issuers:

- If **SMEs were exempted from the heavy MAR obligations**, with a lighter market abuse regime applying, they would have an incentive to issue fixed income securities. The MAR provisions, in general, are deemed to be too onerous for issuers of bonds as they are not sufficiently tailored to the characteristics of debt securities. While we agree there needs to be adequate regulation in order to ensure the quality of the market, we need to find the right balance. **We therefore urge ESMA and the European Commission to undertake further analysis to make this regime more appropriate for fixed income.**
- There is currently a general obligation to publish the Admission Document. One possible suggestion is whether **this obligation to publish the Admission Document could be relaxed** - i.e. market operators may choose to waive the obligation to publish an information document - in case of admission of bonds with a denomination of over €100,000 and/or limited to qualified investors, as issuers are sometimes reluctant to publish sensitive information to a wider public.
- We support the new provision for bonds to include a **cumulative issuance criterion** not exceeding €50 million over a period of 12 months. However, it is difficult for a market operator to verify if an issuer of bonds is or is not an SME because they do not have (full) access to the nominal value of the debt issuances of an issuer on all trading venues across the EU so **we suggest this should be undertaken by ESMA.**
- We welcomed the possibility for market operators to exempt issuers of bonds with a denomination of at least €100,000 from the requirement to publish half-yearly financial reports and believe this **should be extended to annual financial reports** – otherwise, the SME GM regime continues to be stricter for these bond issuers, than the Regulated Market regime, which goes against recital 112 of the Commission Delegated Regulation (EU) 2017/565.
- **Issuers of bonds should not be required to make a statement on working capital** in the admission document (Article 78(2)e) of Regulation 2017/565) – notably because issuers of bonds are not required to mention this information in a prospectus pursuant to the prospectus regime.
- As a more general point on SMEs, if there were **more Arranging Banks for SMEs**, there would be more competition between them and better pricing for the placement.
- Lastly, potentially there could be some **tax incentives** created to stimulate SME activity.

Q2 - 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?

Euronext believes it is important to increase the visibility of SME Growth Markets in general; therefore the focus should be on attracting SMEs to the market by both supporting local eco-systems that generate conditions for listing of companies and also enabling cross-border listings for issuers where this provides further opportunities.

Key challenges

In our view, SMEs opting for public financing in the European Union, face many challenges. SMEs wishing to list on public markets often currently experience:

- **High compliance costs to be listed on a market** - making other financing avenues,

primarily bank and private equity based, a strong alternative across Euronext locations. IPOs are considered the most cumbersome and expensive of these options;

- **A lack of institutional and retail investments** – this is not helped by certain restrictions in UCITS and Solvency II limiting institutional investment in SME shares and bonds - more needs to be done to create incentives for investors; and,
- **A visibility and liquidity deficit in SME/Mid-cap financing** – it is widely accepted that a key issue is there is insufficient research coverage, and this has worsened following the implementation of MiFID II.

It is important to note that there are also relevant differences between national financial markets which have an impact on SME access to public market financing. Each market has a different ecosystem, with corresponding impacts on SMEs considering an IPO as a financing option.

Euronext has a fundamental interest in both the development of local capital markets as well as pan-European cross-border integration, delivering economic benefits to companies and investors and contributing to the strengthening of European competitiveness on a global level. In order to achieve this outcome, an appropriate balance must be found between policies designed to facilitate both cross-border integration and develop, as well as sustain, local capital markets.

In particular, **care must be taken to ensure that local capital markets and ecosystems are not disproportionately impacted by excessive 'one-size-fits-all' models.** A good example of this are the MiFID II inducement rules:

- These rules appear to have created unintended consequences for SME access to public capital markets by significantly reducing the **investment research of SMEs and mid-cap companies.** This has follow on impacts for these companies, as when a firm withdraws from research they typically will facilitate less trading in the stock and will not be involved in market making hence resulting in less liquidity. For example, in our smaller markets (Belgium, Ireland and the Netherlands), banks have withdrawn from advising and supporting SMEs. As a result, in the Netherlands, the main commercial banks no longer undertake any advice or support for companies with a market capitalization below €250 million.
- Euronext believes it is important that the Commission prioritises the current review of these rules, assessing in particular their impact on SME access to public capital markets. Further detail on our position on SME research is set out in Q. 14.

In addition, there is a **growing importance of private equity in the earlier stages of financing.** These days, private equity funds are focused in valuing the ability to entirely exit from an investment, instead of being partially locked into their investment and subject to public markets price fluctuations (unlike IPOs). We suggest more needs to be done on highlighting that an IPO should be considered as a viable option when they are exiting. This is an area that Euronext is very engaged in currently.

Over the long term, the IPO is the most sustainable financing option for companies and allows real growth; however as the hurdle is so high, companies often go for an alternative as they are focused more on short / medium term.

The current challenges SMEs face in the EU, coupled with the ongoing global and structural trends, are making the EU's capital markets less attractive for SME listings. In our assessment, both the shift from public to private equity and the decreasing interest in the listed SME ecosystem are significantly impacting the EU's IPO market and is making it subject to a stronger negative IPO decline compared to other jurisdictions. Europe is losing out to the US and the gap is getting wider; it is clear the US is gaining critical mass in some sectors and we need to address this as a matter of priority.

Current SME GM Regime

Euronext **fully supports the goal to increase the visibility of SME Growth Markets** and to ensure easier access to capital markets for SMEs. We welcomed the amendments to the Market Abuse and Prospectus Regulation and the MiFID II Delegated Regulation that were recently adopted to alleviate

administrative burdens and regulatory costs on issuers listed on SME Growth Markets in order to facilitate access to capital for SMEs by introducing more proportionate rules for SME GMs.

In particular, the revision of the prospectus rules was a very important step to reduce costs and burdens for companies whilst improving their access to financing.

We also support the amendment that allows issuers listed on SME GMs for at least two years who intend to transfer to the Regulated Market, to only have to produce a simplified prospectus. This will be very beneficial for smaller companies in earlier stages of growth that are more dependent on local investors for financing.

In addition, Euronext welcomed the inclusion of an EU liquidity contract for SME Growth Market issuers' equity shares as well as the proposals to create a tentative market capitalisation criterion (for unlisted SMEs to gain access to the SME Growth Markets).

However, while the intention behind creating SME GMs was to attract smaller companies to listing, indications from issuers are that there is no real increased interest to list on an SME GM compared with MTFs, as the difference in requirements is very limited, making it hard to promote and distinguish SME GMs. Some of the **regulatory burdens are still prohibitive for many SMEs**.

Proposed Recommendations

To deliver on the policy objective, we therefore consider that there should be **further benefits for the SME GM label**. It is important that the approach on regulatory alleviations should strike the right balance between reducing obligations on SME Growth Market issuers, maintaining a high level of investor protection and market integrity on these markets but also by supporting healthy ecosystems for public markets. In addition, legislative efforts should be undertaken to improve the ability of institutional investors to invest in SME shares at both a national and EU level.

Our proposals for further alleviations are in line with FESE's and areas where further clarity would be beneficial are set out below:

Market Abuse Regulation (MAR)

We consider the alleviations available to issuers through the amendments recently made to MAR to be of limited or marginal advantage to issuers. We believe that more significant alleviations are required to achieve the intended effects.

MAR obliges all issuers of financial instruments to notify the market of inside information. A more proportionate approach may be needed going forward as SMEs may be disincentivised by the comparatively high regulatory burden. Therefore, MAR should be further adjusted to allow for greater differentiation for SME GMs, including:

- the disclosure requirements, notably around information dissemination;
- the duty to react on rumours related to inside information;
- the level of detail of insider lists;
- requirements in relation to managers' transaction reporting;
- the interpretation of the necessary speed around an ad hoc announcement, depending on the actual announcement; and
- the very high level of sanctions.

In addition, Euronext wishes to underline the importance of ensuring that bond-only issuers benefit from the Commission's broad approach to improve the regime for all issuers of securities within the SME Growth Markets. As referenced in Q. 1, from our perspective, this is an important element to address in MAR as there needs to be a tailored regime for small bond-only issuers on SME Growth Markets.

Prospectus Regulation

We welcome the provision to allow an issuer whose securities are admitted to trading on an SME GM continuously for at least the last 18 months to benefit from a simplified prospectus when raising further issuances. We suggest to clarify that this is calculated as of when the issuer was admitted to trading on the MTF (even without SME GM label at that time) rather than from the moment that the MTF obtains

the SME GM label, as this will ensure issuers that meet this criteria can benefit from this provision as soon as possible.

3. Criteria for the percentage of issuers that should qualify as SMEs at the time of MTF registration as SME GM (Article 33(3)(a) of MiFID II)

Q3 - 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?

Yes Euronext believes the 50% threshold remains appropriate, and we do not see the need for this threshold to increase in the medium-term as we don't believe the threshold is an issue.

In addition, we do not support the idea of creating a different, more specialised SME GM regime – instead we think further work is required to be undertaken with respect to the current SME GM regime and the specific alleviations that apply so that it becomes a more attractive proposition for SME issuers.

Q4 - 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?

Yes, Euronext supports the proposal to further align the definitions of SME in different pieces of regulation and suggest the threshold for companies qualifying as an SME should be increased from an average market capitalisation of €200 million to €500 million, and this would align it with the definition in the ELTIF Regulation.

The current qualifying threshold for SMEs of €200m is too low as it only takes into consideration small enterprises and not mid-caps. Our proposed increased threshold would help contribute to a strengthening of SME GM's ability to attract more companies, with the potential to increase liquidity on these markets.

4. Criteria for initial and ongoing admission to trading of financial instruments of issuers on the market (Article 33(3)(b) of MiFID II)

Q5 - 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?

In relation to bond issuers, there are a few amendments to the requirements that we propose should be made as set out in our response to Q. 1 in order to make the regime more attractive to bond issuers.

However, as a general point Euronext does not agree that the SME GM regime should be amended to introduce further harmonised requirements in relation to the initial and ongoing admission to trading obligations. It is important to consider that the local dimension, especially for smaller markets, is essential to cater for the specific needs of SME companies and therefore exchanges should retain some flexibility to apply rules best suited to local market conditions.

While we acknowledge the intention to improve cross-border listings, the reality is that for many SMEs, they will continue to remain local so a balanced approach is required. If the requirements are harmonised further there is a risk that it would increase costs for issuers and could compromise the proportionate approach that is intended for SME GMs therefore lessening the benefit intended for SME issuers.

Q6 - 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?

Euronext is of the view that it is important to maintain flexibility in this area so that, should issuers seek cross-border listings, they can choose to adhere to the more harmonised standards; however, many SME issuers will always remain local and they should still be allowed to apply the local national accounting standards if they wish to do so. This is a very important element that should be retained.

5. Criteria for the disclosure of appropriate information to the public (Article 33(3)(c), (d) and (f) of MiFID II)

Q7 - 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)?

Euronext's view is that the SME GM regime should not be amended to create homogenous admission requirements for trading. It is important to consider that the local dimension, especially for smaller markets, is essential to cater for the specific needs of SME companies, and therefore exchanges should retain some flexibility to apply rules best suited to local market conditions.

If the requirements are harmonised further there is a risk that it would increase costs for issuers and could compromise the proportionate approach that is intended for SME GMs therefore lessening the benefit intended for SME issuers.

Regarding the proposal to tailor the requirements for micro-SMEs, we suggest that this could over-complicate the current regime and that the focus should be on applying the most appropriate alleviations to make the current regime a more attractive one for all SME issuers.

Q8 - 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?

No, we believe there should not be 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.

There can be an element of corporate reorganisation ahead of being admitted to trading and a new company may be established. Under these and other circumstances it would not be appropriate to require financial reports so far in advance. Also from a practical perspective a company may not be planning an IPO for a year in advance and financials may have to be converted to IFRS as part of the preparation process.

Q9 - 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?

Euronext does not support the proposal to make periodic financial information available in a more standardised format as we agree with ESMA's assessment that this could represent a burden for smaller SMEs.

While we acknowledge the intention for standardisation is to improve cross-border listings, the reality is that for the majority of SMEs, it's likely they will continue to remain local so a balanced approach is required, as this may result in increased IPO costs for the company.

6. MAR provisions and system and controls to detect market abuse (Article 33(3)(e), (g) of MiFID II)

Q10 - 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?

Instead of trying to create a two-tier SME regime, Euronext suggests the focus should be on creating one regime with the most appropriate alleviations for all SMEs so that the current regime can be developed into a more attractive proposition for SME issuers in general, that delivers real practical benefits.

7. Other possible amendments to the SME GMs regime

Q11 - 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?

While Euronext fully supports the objective of increasing liquidity in trading in SME securities, we do not believe there should be a mandatory liquidity provision scheme that is required to be implemented by the market operator. We believe it should be for the operator of the SME GM to determine the most appropriate scheme for its market.

In addition, we welcome the new regime for issuer liquidity contracts on SME Growth Markets introduced under the Market Abuse Regulation as this is another element which should contribute to supporting and increasing liquidity for SME trading. Further details of our views on this regime are set out below in Section 8 – Q. 15.

Q12 - 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?

Yes, Euronext supports the proposal to extend the 'issuer non-objection requirement for admission to trading' of SMEs to Regulated Markets and MTFs as this should help SME issuers ensure there is minimal market fragmentation in trading of their stock, in order to enhance liquidity as much as possible.

Q13 - 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?

The issuer is subject to these requirements when their security is first admitted to trading. In cases where another trading venue admits the security to trading (and it is not at the initiation of the issuer), then our understanding is it is up to the market operator to determine that the disclosures are adequate. There should be no additional or duplicated disclosure requirements imposed on the issuer from multiple jurisdictions, unless the issuer itself has specifically requested the admission.

Q14 - How do you think the availability of research on SMEs could be increased?

MiFID II / MiFIR introduced new rules on the unbundling of research and execution services to increase the transparency of research prices, prevent conflict of interest and ensure that research costs are incurred in the best interests of the client. However, its entry into force has led to a decrease in overall equity research coverage on all listed companies on our capital markets. While coverage was already in long-term decline, it has been observed that since MiFID II a greater number of companies have fewer analysts covering their stocks, with some having been left with no analyst at all.

Euronext believes a number of options could be considered, and we welcome the proposals in the Commission's recent MiFID consultation to increase the production of SME research, notably via: (i) authorising the bundling of SME research; (ii) the creation of a program to finance SME research; (iii) subsidised SME research through a partially public funding programme; and (iv), the creation of a public EU-wide SME research database.

I. Authorising the bundling of SME Research

Euronext believes that the Commission's proposal to authorise the bundling of SME research would be the fastest way to increase the production and distribution of independent equity investment report. Revising the scope of MiFID II (Article 13) may have the most positive effect on the coverage and the liquidity of SMEs.

II. EU SME Research Program

Euronext sees benefits in a pan-European program being set up by several market operators (on a voluntary basis), allowing trading venues to address their issuers' research coverage issues and meet investors' demands, both of which differ across national and local ecosystems.

This could be part of the measures dedicated to facilitating SMEs' access to public capital markets. For example, the EU program could be used to cover the costs of research coverage of newly listed SMEs via public financing from the EU (e.g. within the scope of the Commission's InvestEU Programme) and could be used as part of the new 'private-public fund' for SMEs' IPOs.

Euronext believes this program should focus on strengthening listed SMEs' access to non-quantitative and tailored equity research which considers local specificities and market context.

III. EU Funding of SME Research

If research were to be subsidised through a partially public funding program for SMEs and midcaps listed on both regulated markets and MTFs, the costs should be shared by issuers, institutional investors (investment funds, insurance companies, etc.) and public institutions.

If such an EU funded programme were to be set-up, we suggest it should:

- Ensure access to research for all eligible listed SMEs
- Focus on providing non-quantitative research to meet investor demand
- Provide research on eligible SMEs for all EU investors (in a common format, language, etc...)
- Provide research reports that satisfy certain criteria to be developed by national or European associations for financial analysis.

IV. EU SME Research Database

Euronext supports the creation of a public EU-wide SME research database to facilitate access to research material on SMEs, provided that it does not introduce additional cost or administrative burdens for the listed companies covered.

In addition, Euronext believes that the Commission should also design a harmonised framework and best practices guidance at EU level for **sponsored and independent investment research**. This would also facilitate the launch of an EU publicly-funded pan-European program to cover the costs of research and incentivize Member States to participate in the funding of equity research for the companies affected by the MiFID II regime.

8. RTS on liquidity contracts

Q15 - Do you agree with the proposed limits on resources or would you propose different ones? If so, please provide a justification.

As a general comment, Euronext is very supportive of the new SME GM Issuer liquidity contract regime as this should help create additional liquidity for illiquid security markets, notably those dedicated to SMEs. We would like to take this opportunity to highlight some particular points in relation to the regime as we believe there is an issue in the regime on which we would welcome clarification by policymakers and regulators.

- **MAR requirement and the role of the market operator**

The new MAR provisions, aimed at promoting the use of SME Growth Markets, stipulate that an issuer admitted to trading on an SME Growth Market may enter into a **liquidity contract** for its financial instruments if a certain set of conditions are met. One of these conditions is that the market operator (operating the SME Growth Market) acknowledges in writing to the issuer that it has received a copy of the liquidity contract and **agrees to that contract's terms and conditions**. This also is referenced in ESMA's proposed template in this consultation.

Euronext questions the legal basis for this requirement given the fact that the **market operator is not a party to the issuer liquidity contract**: it is unclear how regulatory compliance with the condition for market operators to *agree to the contracts' terms and conditions* can be delivered.

While trading venues have a **responsibility to ensure fair and orderly markets** and in this respect, they continuously **monitor the quality and liquidity of its market**; this does not involve agreeing to any commercial contracts between issuers and investment firms.

- **Clarification on the role of market operators**

We believe it is important to highlight that these issuer liquidity contracts are entirely different to the market making agreements or liquidity provision contracts signed between trading venues and investment firms which set out obligations for trading members to provide liquidity in the markets and a

continued presence during the trading day. Such agreements are focused on ensuring the continued liquidity in the market operated by the trading venue and are monitored accordingly.

Therefore, we believe clarity is required on this new MAR provision and would welcome consideration of our view that the obligation on the trading venue with respect to these issuer liquidity contracts only relates to the trading venue ensuring that the issuer liquidity contract would not impede the orderly functioning of the market.

Alternatively, if there is a need for the market operator to undertake any type of review of the provisions, market operators could **only envisage ensuring the contracts meet the specific template defined by ESMA in the RTS**. The market operator cannot be expected to give any consent to any (commercial) provisions added by the issuer and the broker that are not within scope of the legislation.

- **MAR Accepted Market Practice Regime**

We believe it would also be helpful to provide further clarity on how the new regime interacts with the current **Accepted Market Practices** regime already in place and that will continue to exist under MAR. In particular, we would welcome clarification that:

- An issuer traded on an SME Growth Market should still be able to benefit from a liquidity contract under an Accepted Market Practice and that, in such cases, the issuer should not be covered by the obligation of the new legislation; and
- Given many issuers traded on SME Growth Markets have already signed a liquidity contract with investment firms and these contracts are known by the relevant NCA, it should be clarified that should issuers wish to move into the new regime, that these contracts can continue to be accepted under this new regime. These issuers should not be required to replace the existing contract by a “new contract” as this would lead to increased costs and burdens for issuers on SME Growth Markets.

Q16 - 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.

Q17 - 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?

Q18 - Do you agree with ESMA's view that the liquidity contract may cover large orders only in limited circumstances as described in paragraph 118?

9. ITS on insider lists

Q19 - 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.

Yes, Euronext agrees with the proposal to reduce the details required on the insider list. However, we would also suggest that further consideration should be given to what other support could be provided to SME issuers to make it easier for them to comply with the MAR requirements as they do not have the same resources to dedicate to this area, and these requirements continue to be cited as a significant obstacle to listing on public markets.

10. Preliminary high-level cost-benefit analysis, ITS on Insider List

CBA Q1 - Can you identify any other costs and benefits? Please elaborate.