



Bourse de
Luxembourg

SME Financing – An Alternative View

Robert Scharfe, CEO Luxembourg Stock Exchange

UPGRADE IN BELGRADE 2012

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A brief overview of the Luxembourg Stock Exchange

- Founded in 1928 and still an independent exchange
- Internationally recognised as a leader for listing
 - First Euro Bond in 1963
 - First European GDR in 1990
 - First European Sukuk loan in 2002
- Service to international capital markets
- Advanced infrastructure for trading
 - UTP technology for trading (NYSE Euronext)
 - LCH Clearnet for central counterparty
 - Euroclear Bank or Clearstream for settlement

Key Figures

(end October 2012)

3,100 issuers from 100 countries
42,500 lines (admission to trading)

Bonds: 28,400

Warrants: 7,600

Shares / depositary receipts: 338

Investment funds: 6,300

Listing in 53 currencies

Meeting point for capital markets

LuxSE offers the platform for issuers
and investors to fund the economy
and its enterprises



What are SMEs?

- EU recommendation 2003/361
 - Definition fixed by EU member states, the European Investment Bank (EIB) and the European Investment Fund (EIF)
- The main determining factors
 - number of employees
 - turnover or balance sheet total

	Employees	Turnover	OR	Balance Sheet Total
Medium-sized	< 250	≤ EUR 50 m		≤ EUR 43 m
Small	< 50	≤ EUR 10 m		≤ EUR 10 m
Micro	< 10	≤ EUR 2 m		≤ EUR 2 m

Source: Summaries of EU Legislation website

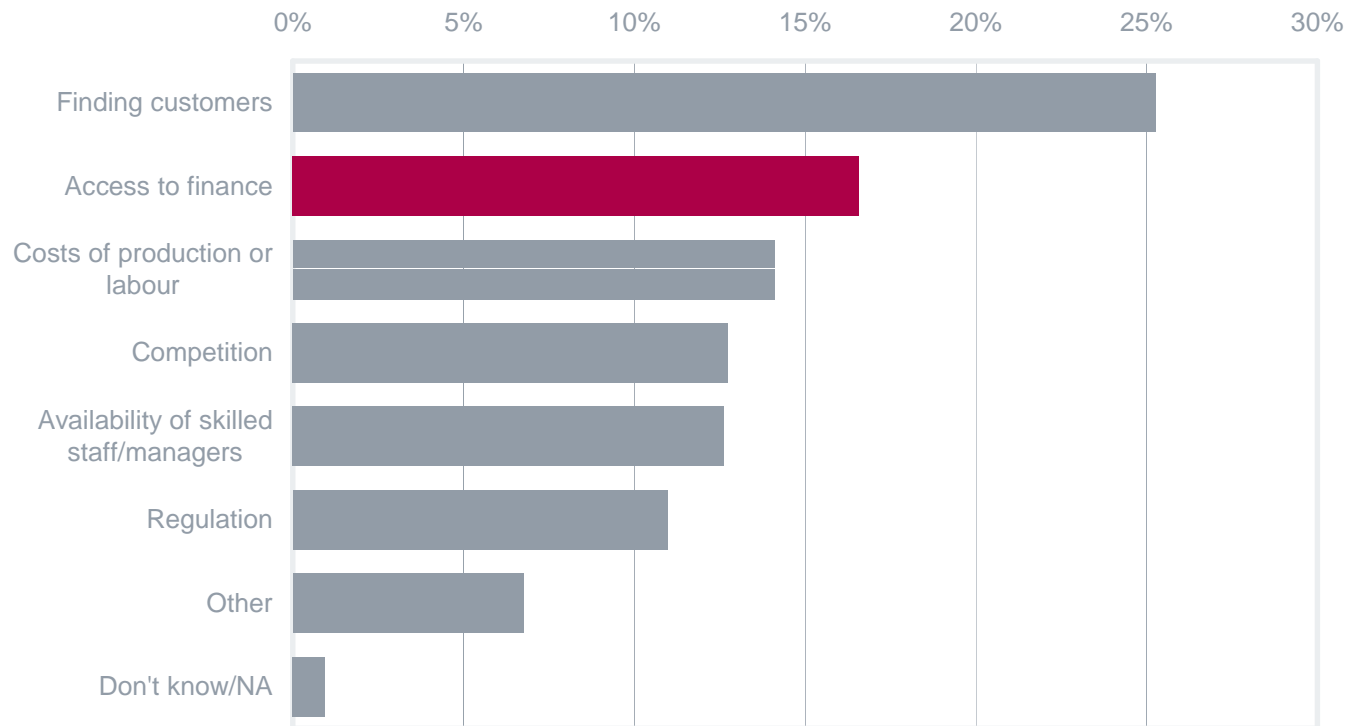
Importance of SMEs

- Represent 98% of all enterprises in the EU
 - 23 million small and medium-sized enterprises
 - 65% of total private employment and 80% of new jobs created over the past five years
- EU programmes to support development of SMEs, to encourage entrepreneurship and to facilitate ‘funding’
 - The Small Business Act for Europe (2008)
 - JEREMIE project of the EU/EIB group (2009)
 - The European Small Business Portal
 - Loans or participation in specific programmes (EIB / EIF)
 - Proposals for Social Entrepreneurship Funds / Venture Capital Funds (2011)
 - ESMA proposals for helping SMEs access funding (October 2012)



Financing: the No 2 problem for SMEs

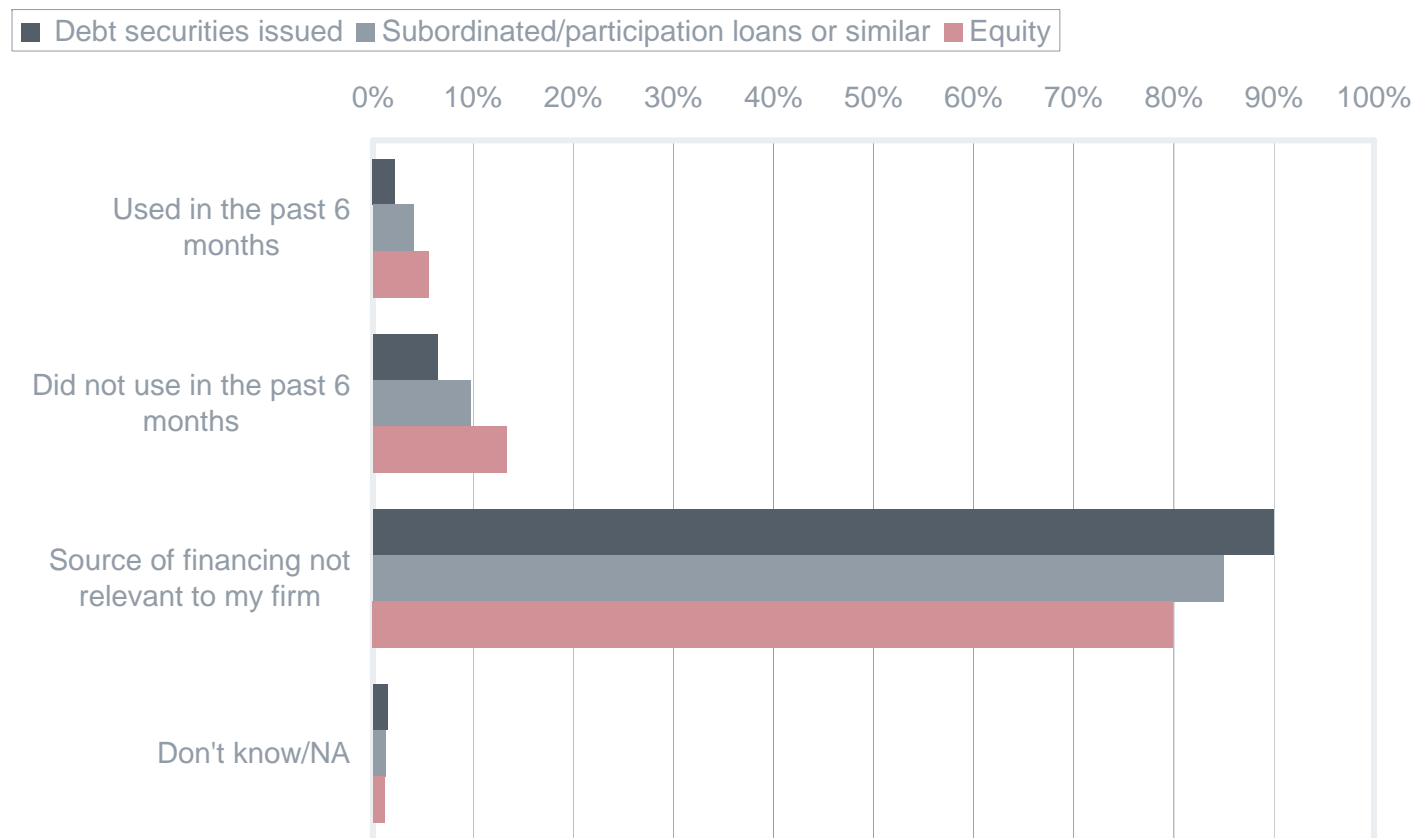
What is currently the most pressing problem your firm is facing?



Source: ECB Survey on the access to finance of 7,514 firms (93% had less than 250 employees) in the euro area (April-September 2012)



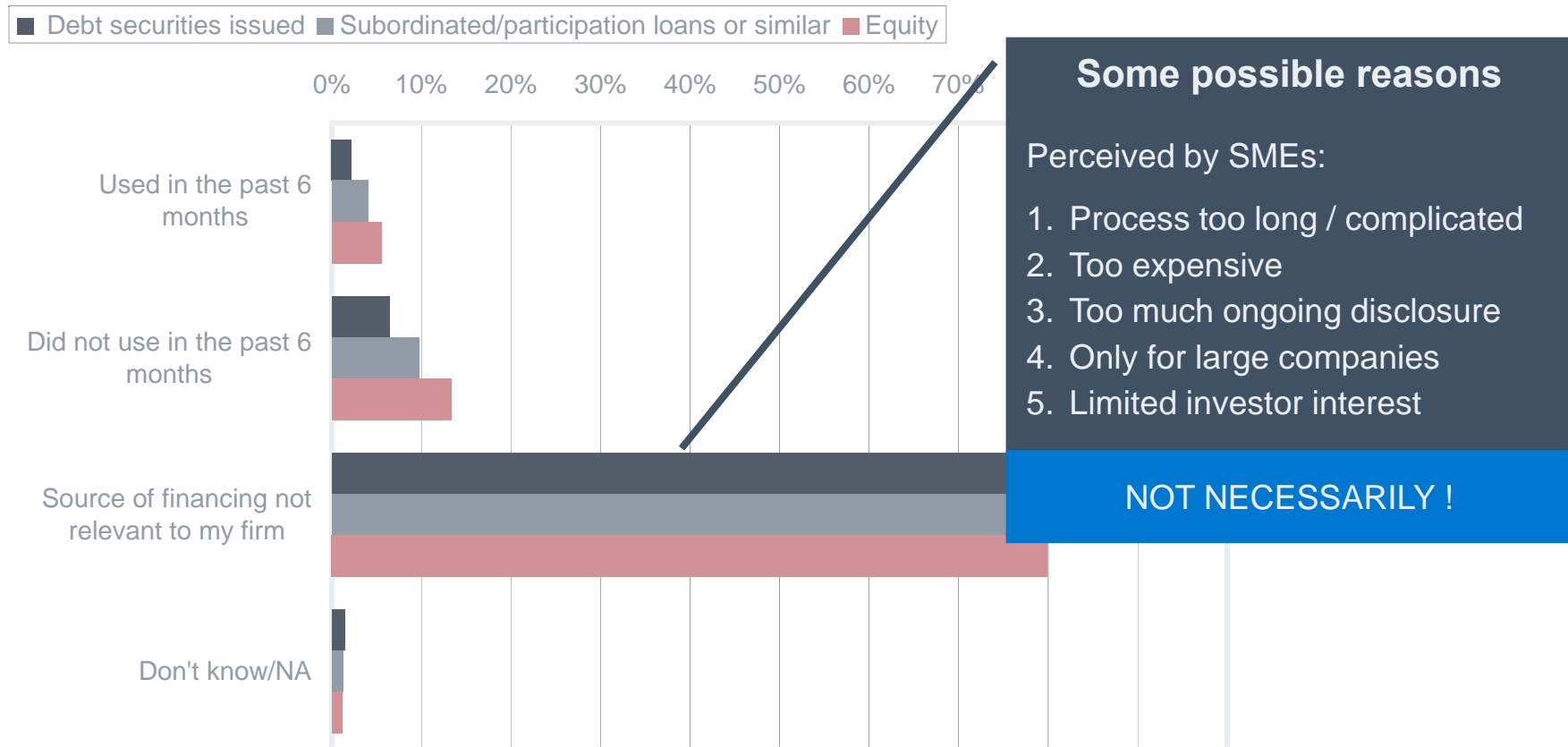
Financing: SMEs rarely use the capital markets



Source: ECB Survey on the access to finance of 7,514 firms (of which 6,959 (93%) had less than 250 employees) in the euro area (April-September 2012)



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SME Financing The View from the Luxembourg Stock Exchange

INDIRECT

European Investment Bank

KfW Bankengruppe

DIRECT

Depository Receipts

High Yield Bonds

Euro MTF Market



LuxSE and the European Investment Bank



- EIB earmarked EUR 30 billion for SMEs between 2008 and 2011
 - Intermediated through commercial banks
 - EIB allocated EUR 1 billion for hybrid capital (mezzanine) through the EIF
- In 2011, the EIB financed 120,000 SMEs in Europe
 - EUR 13 bn mostly through intermediated lending
 - EUR 1 bn in new venture capital investment via the EIF

The EIB has listed 424 bonds on LuxSE for a nominal amount of 395 bn €



LuxSE and KfW Bankengruppe



- KfW's main objective is to finance SMEs in Germany
- Also finances projects of German and European companies so they can compete in global markets
- Supports economic and social progress in developing and transition countries worldwide

KfW has listed 259 bonds on LuxSE for a nominal amount of 256 bn €.



Examples for direct SME financing at the Luxembourg Stock Exchange

- **Listing of equity instruments** (mostly depositary receipts) from 292 companies in 23 countries.
 - 199 companies have a market capitalization of less than 100 million EUR
 - 171 companies have a market capitalization of less than 50 million EUR
 - 148 companies have a market capitalization of less than 25 million EUR
 - 116 companies have a market capitalization of less than 10 million EUR
- Luxembourg is the leader in the listing of **high yield bonds**
 - These bonds are typically issued by Mid Cap corporates
 - About 60% of the listed European high yield bonds are listed in Luxembourg
- Listing of Small Caps on **Euro MTF market**

Euro MTF Market: An Alternative for SMEs

- A Multilateral Trading Facility and an exchange-regulated market
 - Not a European regulated market as defined in the European Directive 2004-39-EC
 - Under the prudential supervision of the Luxembourg regulator (CSSF)
- One-stop shop for the approval of the prospectus and admission to trading
 - Ensures rapidity and reasonable direct and indirect costs of listing
- The Euro MTF is outside the scope of some EU regulations including the IAS accounting rules, prospectus and transparency Directives

Flexible, simple and cost efficient access to international investors

Looking to the Future

ESMA Report on Helping SMEs Access Funding

- A report from the Securities Markets Stakeholder Group on request of the ESMA Board of Supervisors (published on 12 October 2012)
- An effective overall funding environment in Europe must seek to:
 - Ensure an appropriate regulatory framework for issuers and also investor
 - Attract more investors through reduced regulatory and fiscal burdens
 - No ‘one-size fits all’ solution
- The report proposes
 - a distinct SME market regime under MiFID II and the MAD
 - a ‘light’ prospectus regime for SMEs
 - to reduce the actual costs of access / maintenance of listing
 - to increase investment research and ratings information

While it helps reduce administrative burden,
it does not solve the issue of market acceptance



EU plans to help SME access the IPO market

- Targetted funding programs aimed at SMEs have had a mixed outcome
- EU is looking at new ways of providing market access to SMEs
- EIF is considering taking direct equity stakes in selected SMEs pre-IPO to help them prepare for capital markets

EU needs to bridge the gap between the risk profile of SMEs lacking maturity and investor risk acceptance levels.

In the meantime, adequate lending programs need to ensure access to funding and help develop the very important SME segment.