

Developing Local Capital Markets

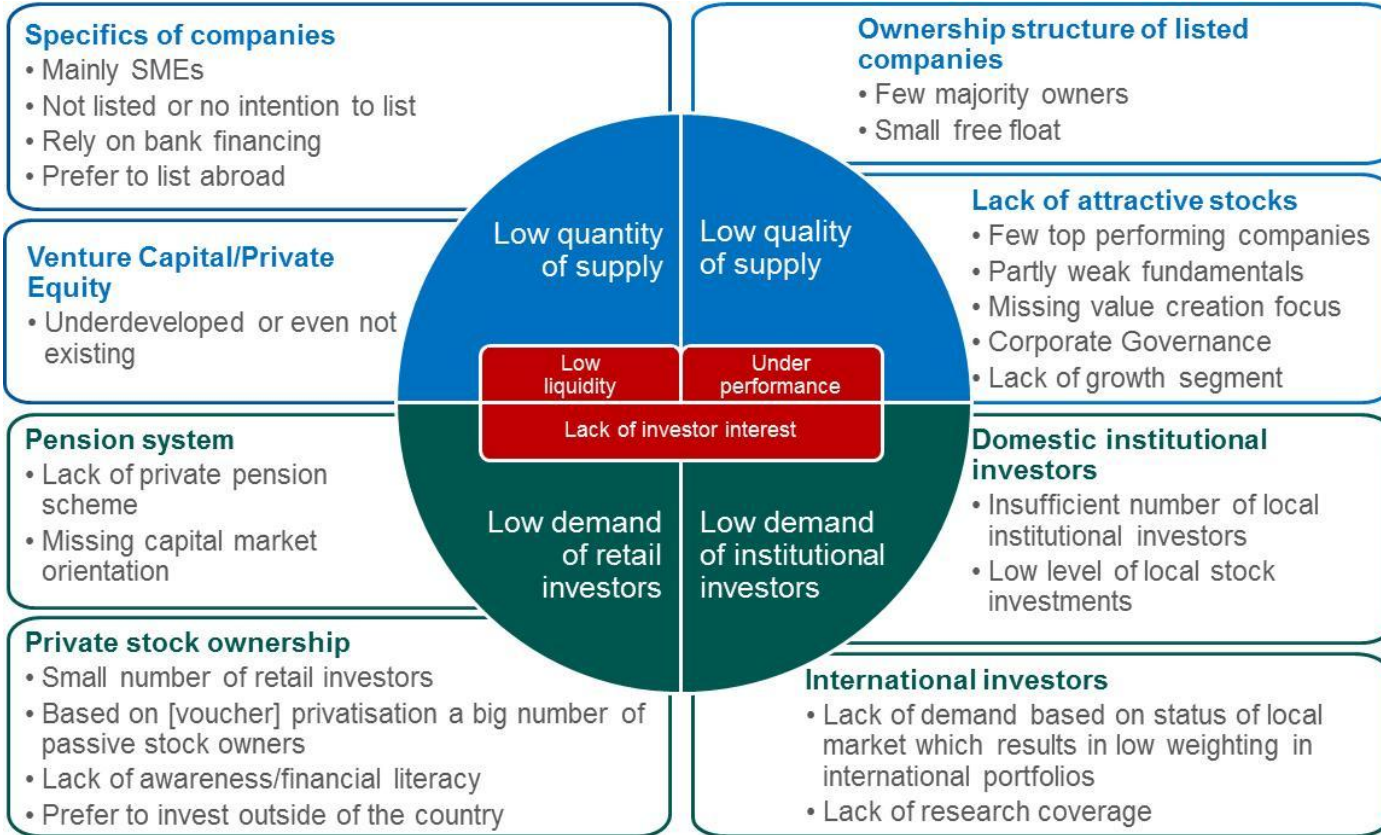
EBRD's Local Currency and Capital Markets Initiative

Peter Herczog | November 2016



European Bank
for Reconstruction and Development

Key Policy Challenges - Capital Markets Development



Fragmented/underdeveloped capital market infrastructure

- **SMEs face more severe credit conditions than larger companies**
 - Higher interest rates
 - Shorter maturities
 - Increased requests for collaterals

- **Major impediments for SMEs access to capital market financing**
 - SMEs in EBRD's region are rather „small“ than „medium“
 - SME deal size for investment banks/brokers normally too low
 - High regulatory burden and costs for small enterprises to list or issue bonds
 - One-size-fit-it-all approach does not work for SMEs

- **SME Market Segments of Exchanges can offer an alternative**
 - Tailored SME market segments required
 - Special regulatory regime
 - Conversion of exchanges to „Company Financing Hub“

What role can financial intermediaries play?

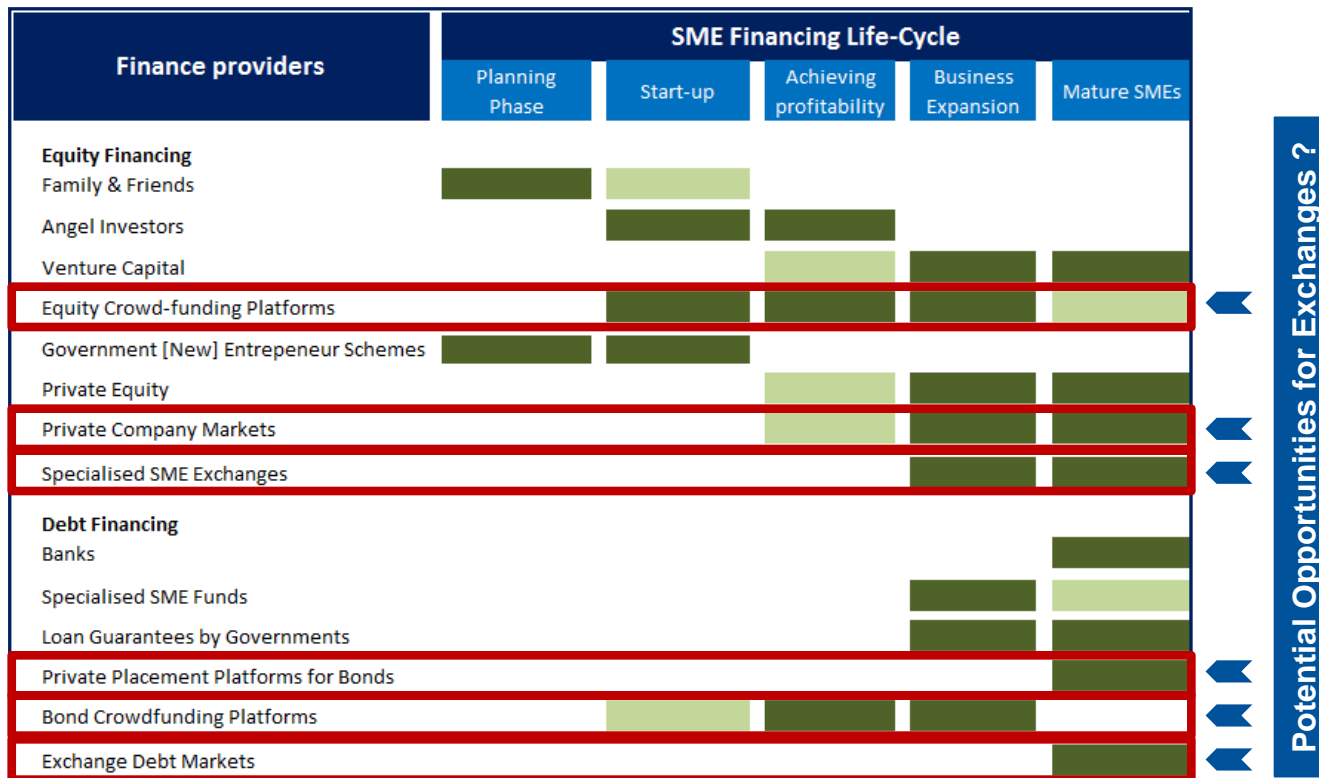
- **Specialist financial firms and the key intermediary between SMEs and capital markets**
 - Corporate finance specialists with proven track record and expertise
 - Operating based on the regulatory framework established by the Stock Exchange

- **Major responsibilities of the Nominated Advisers**
 - Assessing the suitability of the company for raising capital on the capital markets
 - Assisting the company in preparing all the trading admission documentation and reviewing all the relevant information
 - Responsible for the success of the initial offering: IPO or private placement
 - Continuous support for the company after the listing for compliance with Exchange regulations for listed companies: public communication, reporting

- **Specifics of the SME advisory activity**
 - Attracting and educating new market players: companies and investors
 - The relationship with the clients (SMEs) is not limited to an one-off event but is a long-term collaboration based on constant dialogue
 - Dual role of adviser and regulator, constant communication with the Stock Exchange in case of breaches of conduct or irregularities to ensure the stability and high level of investor protection

Increased access to finance for SMEs

- The financing life-cycle of SMEs and potential opportunities for exchanges



Exchanges as Corporate Financing Hubs

- Multi-tier Exchange structures can cover the financing life cycle of companies



- Post-trade infrastructure has to offer new services and products to cope with developments

Need for a flexible market approach

- **Target of a flexible market approach for multi-level exchange structure**
 - Increase attractiveness for SME to list
 - Increase transparency and liquidity of SME
 - Focus on primary market

- **SME market regulation**
 - Reduced regulatory burden/costs for SMEs up-to a specific threshold

- **Innovative exchange fee structure for SME Markets**
 - Adjustments in fee structures needed to reduce costs for SMEs.
 - Bonus scheme may be considered - Why? Active investor relation, good performance and better corporate governance of SMEs will increase trading volumes

- **Flexible trading scheme**
 - (Continuous) Auction-Trading based on Demand Aggregation
 - Increased tick sizes for companies listed in such a FLEX Market

- **EBRD supports local capital market development in its countries of operation**
 - Strategic initiative of EBRD
 - Full-time dedicated team focused on capital markets development
- **EBRD's activities strongly influence local capital market development**
 - Policy dialogue
 - Technical cooperation projects
 - Local currency lending
 - Guarantees
 - Asset Backed Securities/Covered Bonds
 - Unsecured Bond issues – senior/subordinated
 - Investments in Private Equity Funds
 - Investments/equity participation in companies, financial institutions and capital market infrastructures
 - Pre-IPO and IPO investments and exits via IPO
- **Local Currency and Capital Market Initiative (LC2)**

Contact



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