

Some personal reactions to the Proposal of the SME STRATEGIC PLANNING COMMITTEE on
'Creating the Entrepreneurial Exchange'
Prof. dr. Lutgart Van den Berghe

Preliminary remark: given the short notice for this reaction, no consultation with the different governance and advisory bodies of GUBERNA has been possible. Therefore this is a strictly personal reaction. A more in-depth reflection can be organised over the coming (two) months with the broad base of companies and individual members that represent GUBERNA, the Belgian Governance and Directors' Institute.

Whatever the outcome of this proposal may be, **the fact that it has been developed is in itself a valuable exercise**. Such reflections are essential, given the urgent need to look into the tarnishing attractiveness of the stock exchange for SME's as well as in light of the problematic funding of growth of such companies and of the economy more in general. Moreover, the fact that it is a pan-European (pan-Euronext) initiative is to be applauded in a time where doubt has been raised on the usefulness of the European common market.

There are **very interesting aspects** developed in this proposal. To name the most important ones:

- There is indeed an **urgent need to recognize the diversity of needs listed companies are confronted with**. Our long-standing research with listed companies has revealed over and over again the important divide there is within the Belgian landscape of listed companies between at the one hand the few large companies and at the other hand the numerous smaller and medium sized companies. Moreover the Belgian market parties, aside from very few larger ones, are relatively smaller than their counterparts in the neighbouring countries. Therefore international comparisons between mid- or small-caps should be treated with care.
- This proposal helps in **raising awareness**. Hopefully more publicity can be made for the work of this strategic committee to help create a better atmosphere with politicians as well as with the public at large. Without more trust in the stock exchange and the business world more in general, any new initiative is deemed to become unsuccessful.
- All **initiatives that help in creating a more liquid market for the SMEs** are more than welcome. This proposal gives quite a number of interesting routes to follow. We are convinced that a pan-European approach is a far better one, than limiting one's efforts to a single market. For the small Belgian market, this European approach is all the more important.
- Hopefully this pan-European approach will also help in **fostering more attention of financial analysts in following-up on these smaller companies**.
- The **attention for the complete (combined) funding aspects of the SME market** is to be applauded. The combination of external parties in the risk capital as well as in the long-term and short-term funding of companies helps to optimize the funding portfolio, in line with the specific

characteristics of the firm as well as in line with the attractiveness of the different funding vehicles at a certain point in time.

- **Eliminating the split between the continue and fixing market** seems a reasonable solution for this market segment.

However, we also would like to express **some criticism** on the proposal:

- First and foremost, we fear that **the note is too much oriented to improving the position of Euronext NYSE and of its main partners at the services side**, the financial institutions sensu lato (probably the composition of the strategic committee is to some extent related to this focus). Great attention has been paid to the specific role of the listing sponsors (crucial for the listing support) and the market partners (as market facilitators, crucial for the operation of the market). On the contrary, **not enough attention has been paid to embed the specific needs and challenges the SMEs are facing when it comes to their listing on a (regulated) exchange**. Moreover given this emphasis, it is normal that no attention has been paid to the underlying business model the modern stock exchanges are built upon (for more detail see article in Appendix *"Er is meer aan de hand dan beurscultuurpessimisme"* published in De Tijd).
- In my opinion, the SME's need another approach when it comes to opening up their capital for external parties. Their first worry is not about the liquidity of their shares, their main (controlling) shareholders are there for the longer term, a term that does not have the same connotation as the one used by institutional investors. **When family shareholders refer to longer term they refer to generations, when institutional investors refer to the longer term they refer to more than a year.**
- Controlling shareholders, even when entering the regulated stock market, still aim at **remaining in control**. The proposal completely ignores this element. No reference is made to any mechanism that could be developed and/or promoted to foster a combination between opening up the capital and remaining in control. May we refer to the numerous mechanisms in existence in the U.S. to facilitate this approach (look at examples such as Google or Facebook, to name but two very well-known names) or to the proposals GUBERNA developed quite some years ago (see report in appendix NL/FR on plural voting (2006)).
- Another important factor that plays an important role in the (diminishing) attractiveness of listing on a (Belgian) stock exchange is the **burden of layers of new legislation oriented towards listed companies**. Although we are fierce defenders of corporate governance, we do not agree that legislation is the best route to install a good governance climate. May we refer in this respect to the far more flexible approach offered to the French companies, with their option to choose between a Medef/Afep code, the Middlenext Code or any other model they choose to rely upon. The article joined in appendix (*"Een meer genuanceerde aanpak maakt governance performanter"* mei 2012) gives an overview of the fact that such differences **create all but a level playing field for listing, even within a Euronext context**. It is therefore all the more a pity that this proposal does not go into any relevant analysis of how to build a relevant European governance context for the Entrepreneurial Exchange under development.

- But there is more to reflect upon. If this new market approach presented in the proposal will have to work, much more attention will have to be paid to **changing the mentality of the investors**. Although we applaud the position taken vis-à-vis the high frequency trading (short-term trading, day traders, automated trading - although not with these connotations), we fear that a breed of new investors will need to be developed. The route towards stimulating the individual investor is to be applauded. However we fear that this will not be sufficient to create such pan-European exchange platform. More substantial funding will be necessary and to this end institutional investors will need to play a role, either directly or indirectly. Therefore we would like to refer to the famous 'Walker report' in the UK, which thoroughly has analysed the shortcomings of these capital market players, attitudes that greatly contributed to the financial crisis. Moreover, when it comes to the governance of companies (our field of interest and specialisation), we have been pleading for years that institutional investors, proxy voters and rating agencies should **focus more on the substance of good governance** rather than on the public window dressing which induces a mere formal compliance with governance recommendations.

Additionally we want to conclude with some more detailed remarks.

- The proposal includes a **complex web of sub-markets**, with a pre-access market (stricter than the Marchés Libres but less restrictive than the Alternext market), as well as a combination of the existing Alternext market with the newly to be created Entrepreneurial Exchange market. This seems very complex, also from a regulatory perspective. The fact that the proposal aims at attracting more private investors to the market is in my opinion incompatible with a complex web of different degrees of built-in regulation (3 levels of regulation) and 'security'.
- The **term 'Entrepreneurial Exchange'** is a good proposal, but the translation into French and Dutch should be rethought. The actual translations do not give the same connotation and aspiration as the English one. Why would you not use one term only, the English one?
- Although we understand the need for creating a dedicated company to host this new exchange, with all of its governance bodies and personnel we would like to promote that in total this does **not lead to yet another layer of bureaucracy and costs**. This will only hamper the smooth development of this initiative.

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