

\* The costs of MMM could be covered with public money, which should prove much better spending than investing public money (directly or indirectly) in any particular enterprises; such a market could be based on the following principles:

- The EU authorities commission a Listing Service, which would be creation and maintenance of MMM
- The Listing Service should also embrace clearing and settlement, however, there should be no requirement to use licensed NDS or CCP – there should be a possibility to create systems based e.g. on blockchain technology
- Such a Listing Service could be rendered by any entity licensed by any EU NCA: exchange, ATM, investment firm
- The Listing Service should be commissioned for specified time (e.g. 5 years and revision every 3 years) and allow for equal competition, in particular the MMM should be created this way, that Listing Service could be easily transferred to other entity in case the market operator does not meet the requirements any longer
- The MMM should be licensed and supervised by ESMA
- The transactions on MMM should be free of charge to investors, which should stimulate higher liquidity
- The bidders for providing Listing Service should be asked for their ideas to stimulate liquidity (e.g. quotation system adjusted to volume of transactions, analytical research for listed companies, analytical tools for investors to allow them for individual research)
- The risk of retail investors should be mitigated by the size of listed companies – it shouldn't be higher than allowed by the regulations on crowdfunding (EUR 1 million annually), so there should be a requirement, that having reached the given size (e.g. market capitalization over EUR 5 million over 2 consecutive years), the company would be moved to other segment of the market run by the given market operator (where issuers and transactions would be charged on normal business conditions and subject to normal regulatory regime) or would be required to translist to a regulated ATM or to stock exchange
- The risk should be further mitigated by the direct participation principle (possibility of instant identification of particular investors) and by requirement of reporting insiders' transactions to ESMA
- There should be introduced minimum requirements limiting the risk of market manipulation – there could be some reference to MAR art. 12 and the entity responsible for detection of market manipulation would be the market operator
- The listed companies should be subject to minimal disclosure requirements, e.g. publishing the same reports and in the same dates and formats as they are required by their domestic regulations for unlisted companies; however, such reports should be easily available for investors on the website of MMM; alternatively there could be created special IFRS for microcaps (similar idea was expressed in consultations on modification of MiFID Growth Market regime) and listed companies could be required to report according to such an IFRS
- The listing on MMM should be free of charge to issuers thus allowing for higher numbers of listed companies, however delisted companies should not be allowed for listing for a specified period of time (e.g. 3 years)
- The MMM operator should be allowed to delist any company in case of non-compliance with MMM rules

# Microcap Market Model (MMM)

The underlying problems:

Microcaps have no access to capital market due to high compliance costs

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Microcaps have problems with financing their activity

Retail investors have no access to microcaps on organized market

Retail investors look for their opportunities on extremely risky markets (eg. cryptoassets, markets in risky jurisdictions)

The roots of the problems:

Extending regulations (in particular MAR) to Alternative Trading Systems resulted in overregulation of such markets, making the compliance costs too burdensome, preventing many companies from listing and causing many delistings

The costs of ATS have to be covered with listing fees paid by issuers and transaction fees paid by investors – since trading in microcaps is very limited, majority of the costs have to be covered by issuers, which implies that listing fees cannot be significantly lower

Microcaps usually do not have the possibility to get financing, pre-MAR capital market used to be important source of their financing and over last years this way of financing become extremely expensive

Regulators are trying to limit the risk for retail investors by imposing still more and more demanding regulations on new kinds of markets in many cases discouraging them from investment on capital market

Overregulation of capital markets pushes out retail investors towards extremely risky markets, where there are no barriers to entry (no suitability tests, very simple and intuitive transaction model, very positive customer experience), there are no visible risks (no need to publish any warnings), no visible transaction costs (although the real cost could be losing all the invested money) etc.

Proposed solutions to the problems:

We are witnessing some regulatory actions aimed at limiting the requirements towards microcaps, however, the approach should be changed – instead of deducting some obligations from regulatory market regime (“infinity minus x formula”), where the regulators do not see clearly, what requirements remain, there should be created minimum requirements for such microcap markets (“zero plus x formula”), where all the requirements would be clearly listed

There should be created a new kind of market for microcap companies. The costs of MMM could be covered with public money (e.g. with the IPO Fund for SMEs), which should prove much better spending than investing public money (directly or indirectly) in any particular enterprises; such a market could be based on the following principles\*

Raising capital on MMM would make it easier for microcaps to access other forms of financing (business angels, venture capital, private equity, bonds, banks) thus contributing to faster recovery of EU economy

Well organized and transparent MMM would be a place, which any retail investor could access and make free of charge transactions

Investors having access to MMM would be less tempted to leave for more risky markets.