# NOTA

## *Call for Evidence CESR, 3 giugno 2005*
## *Formal mandate to CESR for technical advise on a possible amendment to the requirement in Commission Regulation (EC) 809/2004 regarding the historical financial information which must be included in a prospectus*

As regards paragraph 3.2. "Possibility of an exemption for small and medium-sized enterprises", ABI offers the following observations:

- Italian SMEs have some difficult raising resources on the financial markets, in part because of high fixed costs for listing.[1] For the most recent listings of SMEs on the Expandi segment of the Italian stock exchange,[2] in fact, fixed costs came to no less than 13 percent of the amounts raised.

- One possible way of reducing these costs, and in particular those of drafting the prospectus, could be that adopted by Alternext,[3] namely to allow listing without a simultaneous IPO but with the simple preparation of an informative document underwritten by the sponsor and by the issuer for SMEs that in the two previous years have made a private placement of at least €5 million subscribed by at least 5 different professional investors. This listing procedure would enable SMEs to gain visibility among potential investors and thus facilitate the subsequent raising of capital on a public basis. Only in this second phase would a prospectus approved by the national supervisory authorities be necessary.

- As for the distribution of the prospectus, in the case of SMEs substantial recourse to "electronic" instead of paper-based distribution of the prospectus could be allowed, simply by requiring that the prospectus be "made available" on a website rather than "delivered" to investors. In this way the obligation to inform investors could be complied with but at a lower cost for the issuer.

[1] The fixed costs are the following: i) auditing firm's fee; ii) legal costs, consisting essentially in the costs of drafting and publishing the prospectus and due diligence for listing; iii) the costs of distributing copies of the prospectus.

[2] The Expandi market is the segment of the Italian Stock Exchange specialized in listing small companies in traditional business sectors with established positions in their markets and a good economic and financial track record. The listing requirements for Expandi are: i) an entry float equal to 10 percent of equity (and in absolute terms at least €750,000); ii) publication of at least two annual accounts and financial statements, the most recent of which (at least) must be audited by an auditing firm; iii) minimum capitalization of at least €1 million; iv) economic and financial requirements, such as positive consolidated ordinary operating profit and net profits – both solo and consolidated – for the last two years; a ratio of net financial debt to consolidated gross operating profit lower than 4-to-1, and net profit in the last year of at least €100,000.

[3] The Alternext regulations provide that: "…Applicants can follow one of two processes: i) **Admission with a public offer:** the company must place at least €2.5 million in public hands – an ideal free float for small and mid cap stocks – and publish a prospectus approved by the regulator pursuant to the EU's Prospectus Directive. Once the Directive has been implemented (by 1 July 2005), prospectuses will be approved by the home-country regulator, making it easier for eurozone stocks to list on Alternext; ii) **Direct admission following a private placement:** Companies can list directly on Alternext, without a simultaneous public offer, provided they have made a private placement of at least €5 million with five or more qualified investors within the two years preceding the listing application. Companies must publish an offering circular, which is not reviewed by the regulator. This process allows the company to become a public company with greater visibility, enables professional investors to create liquidity and facilitates a subsequent public offer by providing the issuer with experience as a listed company"