

# An Overview of WFE SME Markets



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# 1. Introduction

Member exchanges of the World Federation of Exchanges (WFE) have long recognised the importance of small and medium-sized enterprises (SMEs) to the economies in which they operate. To support the growth and development of these firms, many stock exchanges have established dedicated SME markets or trading segments that cater for the specificities of these companies. The term “SME market” is used as a catch-all phrase to describe a dedicated platform, market segment or exchange with differentiated requirements typically aimed at smaller, sometimes younger firms. While these markets share many common features, there are also large differences.

The WFE collaborated with the World Bank in 2015 and 2016<sup>1</sup> to highlight stock exchange activity in this area. These papers identified points of commonality and difference in approaches to SME markets, with the intention of providing policymakers and market operators with insights into key aspects to be considered when designing these types of markets. This report (and the ancillary database: WFE SME Markets – Key Datapoints)<sup>2</sup> builds on this previous research in the following ways:

- It looks at a broader universe of WFE member exchange offerings<sup>3</sup>, rather than focusing on a few markets.
- It uses updated (as at end 2017) data and information to profile the range of SME markets across the WFE membership.
- It showcases recent innovations in exchange-supported SME finance offerings, beyond traditional equity markets.

This report is based on quantitative and qualitative information of 33 SME markets<sup>4</sup> (3 in the Americas, 14 in the Asia-Pacific region and 16 in EMEA) at 29 exchanges across the globe. The full set of contributing markets and the associated platforms is set out in Annex A. For purposes of this report, we use the term “SME” to refer to companies listed on these dedicated markets. As discussed in more detail later, market definitions of SMEs (where these exist) differ, and what may be an SME in one market, may be a large company in another.

<sup>1</sup> See “SME Exchanges in Emerging Market Economies – A Stocktaking of Development Practices” and “WFE Report on SME Exchanges”

<sup>2</sup> This is available in excel format on the WFE website.

<sup>3</sup> Throughout the report, we will use the terms “exchange offering”, “market” and “platform” interchangeably to refer to dedicated SME-focused offerings, with discrete rules and regulations. We also use the terms “main board” and “SME board” to differentiate between the more conventional listed market and the offering for SMEs, recognising that in Europe this may more accurately be categorised as a Regulated Market and a Multilateral Trading Facility.

<sup>4</sup> In the ancillary spreadsheet we include data from the Alternative Securities Market at the Bolsa de Valores de Lima. As this is a debt-only market, we do not include this in the analysis.

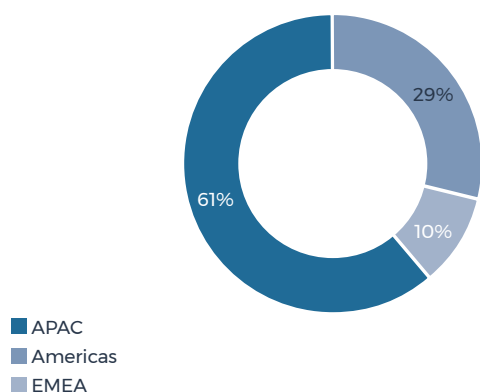
## 2. The Current State of SME Markets

### 2.1 Facts and Figures

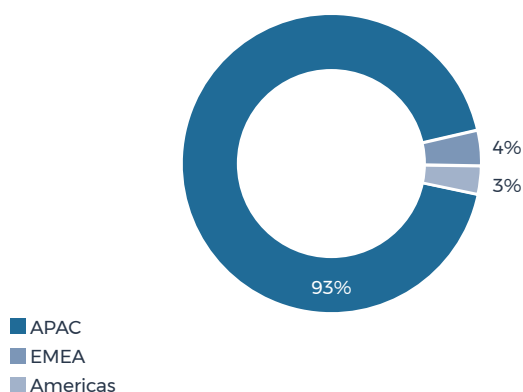
As at end 2017, 6,807 companies, with a total market capitalisation of over USD 1.3 billion, were listed on 33 SME markets across 29 WFE member exchanges.

Sixty one percent of these (4,112 companies) were listed on markets in the Asia Pacific (APAC) region, followed by 29% in the Americas (1,998 companies) and 10% in EMEA (697 companies).<sup>5</sup> The market capitalisation is distributed as follows: APAC accounted for 93% of the overall market capitalisation, amounting to USD 1.26 trillion as of end-2017. EMEA SME exchanges' market capitalisation stood at USD 46.97 billion (4% of total), closely followed by the Americas with a value of USD 43.43 billion (3% of total).

Number of Listed Companies by Region



Market Capitalisation by Region

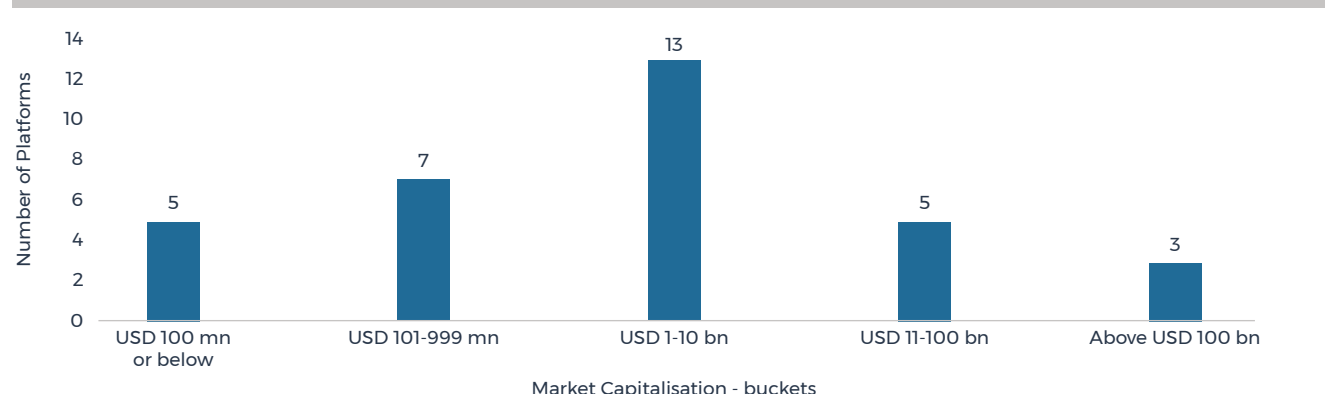


<sup>5</sup> This is largely aligned with the overall distribution of listings across a comparable dataset of WFE members.

The size of these SME platforms, as measured by market capitalisation and the number of listed companies, varied widely as at end 2017:

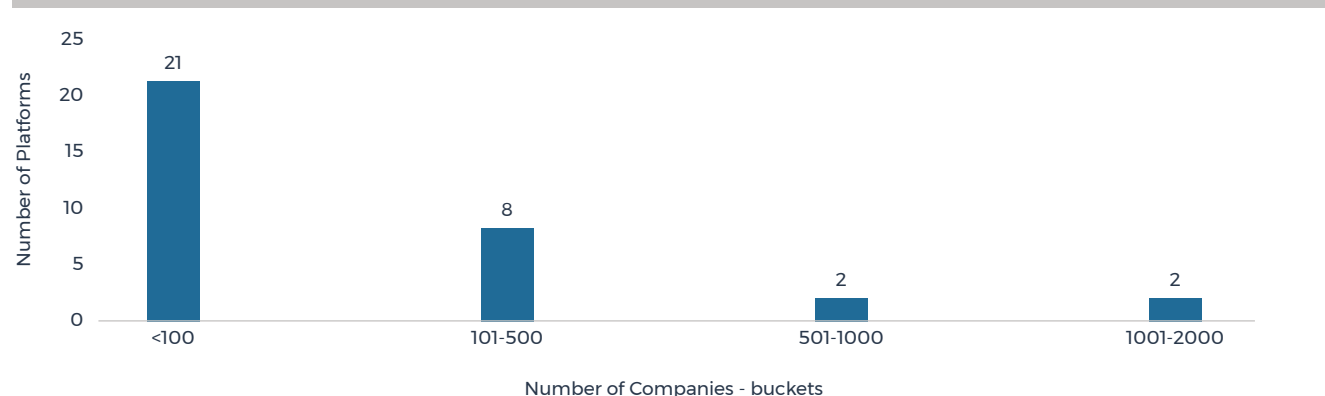
- Market capitalisation: Close to 40% of the markets covered (13/33 exchanges) had a total market capitalisation of between USD 1-10 billion; five platforms had a market capitalisation of less than USD 100 million, while on the other side of the scale, three SME exchanges were over USD 100 billion in size. All the exchanges in this latter group are in Asia-Pacific (*JASDAQ*, *KOSDAQ* and *ChiNext*<sup>6</sup>). It is worth noting that *ChiNext* does not allow graduation to another board. Thus, companies listed on this board will remain there, even if they have grown into companies of significant size.

### Distribution of Market Capitalisation - end 2017



- Listed companies: Over 60% (21/33) of the markets reviewed had fewer than 100 companies listed, while two exchanges (*TSX Venture* and *KOSDAQ*) had between 1,000 and 2,000 listed companies as at end 2017. With the exception of Nasdaq's *First North* market, most of the smaller exchanges (as represented by number of listed companies) are in the EMEA region.

### Distribution of Number of Listed Companies - end 2017



These (and other) variations in size of markets may be driven by a range of factors including size of the underlying economy, the relevant regulatory and policy environment, the pre-existing equity culture and shareholder base and the date of establishment of the SME market itself. On this last point, some of the SME boards were set up as early as 1996 while others were introduced as recently as 2017.

<sup>6</sup> Part of the Japan Exchange Group, the Korean Exchange and the Shenzhen Stock Exchange, respectively.

## 2.2 SME Markets in Context

SME markets are small relative to their main board counterparts. In two-thirds (22/33) of the markets covered, the SME boards' market capitalisation was less than one percent of the total market capitalisation of the exchange. Seven SME boards had a market capitalisation of between one and five percent of their exchanges' total market capitalisation while the remaining five exchanges had a ratio of between 15-30%. This proportionately smaller size may be expected, given the focus on smaller companies. When looking at number of listed companies on SME exchanges as a proportion of total listed companies, in 50% (17/33) of the markets covered the number of companies listed on the SME market was 10% or less of that of their exchanges' total. In seven markets, however, the ratio of SME board listed companies as a proportion of the total was over 30%. On the *KOSDAQ* market, the number of SME board listed companies was 62% of the Korea Exchange's total.

Liquidity is often cited as one of the biggest challenges facing SME boards. Lack of liquidity discourages investor participation and increases the costs of capital-raising for listed firms. If particularly pronounced, it may reduce the attractiveness of the market overall. Indeed, in 40% of the markets covered (14/33) turnover velocity ratios were below 15% in 2017. In 11 markets, however, this number was over 50%, and six exchanges (all in the Asia-Pacific region) had turnover velocity numbers of over 100%.

## 2.3 Bringing Companies to Market

### 2.3.1 An SME by Any Other Name

While the term "SME" is widely-used, as noted in previous research<sup>7</sup>, there is no globally consistent definition of an SME, either at a market level or at a national level.<sup>8</sup> National definitions typically refer to number of employees and/or turnover<sup>9</sup>. To the extent that they have a specific SME definition, exchanges use a market-linked figure (though often to set a lower, rather than an upper threshold), while others simply define SMEs by reference to business characteristics (covered in more detail later in the report).<sup>10</sup> Partly as a result of these differences in approach, the size of companies listed on SME markets (as measured by market capitalisation) can vary quite dramatically across markets, with some SME boards featuring relatively big companies among their listings.<sup>11</sup>

The average market capitalisation for companies listed on the SME markets covered ranged from under USD 2 million (Egypt's *Nilex* market) to over USD 1 billion (*ChiNext*). In just under half of the exchanges covered (16/33) the average market capitalisation of listed companies was USD 50 million, while on 11 exchanges (34%) the average market capitalisation was over USD 100 million.

<sup>7</sup> See the WFE's report on [SME Markets and Equity Finance \(2017\)](#) and the [2015 World Bank / WFE report](#)

<sup>8</sup> For purposes of creating a regulatory framework for SME Growth Markets, the EU has defined an SME as a company that had an average market capitalisation of less than two hundred million euro (EUR 200 000 000), on the basis of end-year quotes for the previous three calendar years.

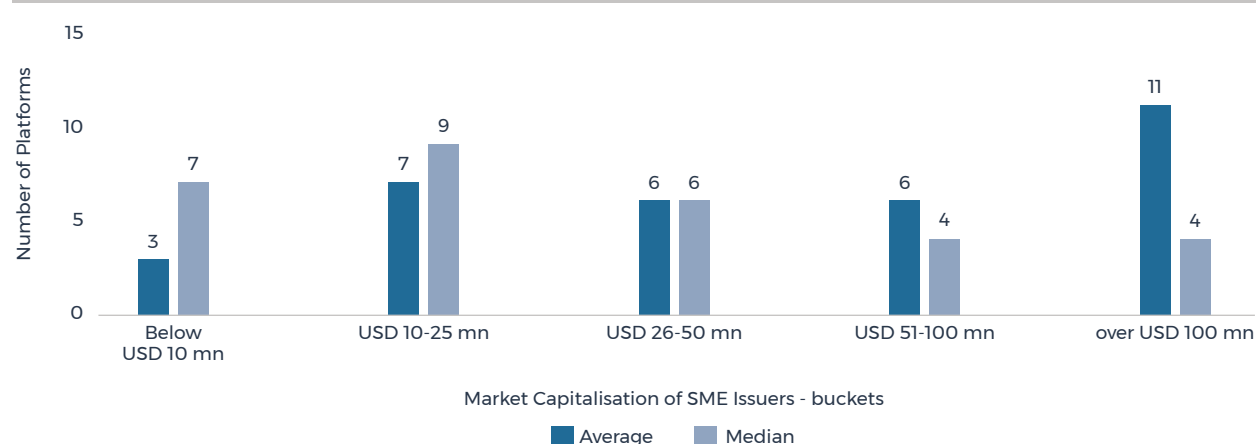
<sup>9</sup> The most commonly used upper threshold for an SME in the OECD is 250 employees. See the SME Finance Forum [MSME Country Indicators database](#) for the most comprehensive overview of national definitions of micro, small and medium enterprises.

<sup>10</sup> The Bolsa de Comercio de Buenos Aires is rather an exception in this regard as the exchange references the national definition by the National Securities Commission (CNV) of Argentina. The CNV gives detailed definition of micro, small and medium enterprises by industry, value of annual billing records and number of employees.

<sup>11</sup> This is also a function of some markets not allowing graduation, as already mentioned.

Averages can create a slightly distorted picture if viewed in isolation. Looking also at the median market cap, over 70% (22/30)<sup>12</sup> of markets had companies with a median market cap of below USD 50 million and only four markets had a median market capitalisation of above USD 100 million, indicating that on some markets, a few larger companies skew the average upwards.

### Distribution of Average and Median Market Capitalisation of SME Issuers - end 2017



### 2.3.2 Target Companies

As noted, member exchanges adopt different approaches to defining SMEs for purposes of deciding which companies to target for listing. In some instances, (e.g. Borsa Istanbul's *Emerging Companies Market* and the *Alternative Exchange* of the Kazakhstan Stock Exchange), SMEs are explicitly defined by exception i.e. companies that because of their size and/or years of operation do not meet the minimum listings requirements of the main board of the exchange. Some markets accept SMEs generally, regardless of industry, while others target companies with "high growth potential" and tied to specific innovative or growth sectors (such as information technology). Finally, some exchanges include "start-ups" in the target audience, while others focus only on medium-sized companies.

The initial equity capital requirements for companies listing on the SME market reflect the scale difference between companies to be listed on the SME boards and those on the main boards. All exchanges will stipulate minimum (book value) equity capital requirements for companies listing on the main market of the exchange, however, over 40% (14/33) of the SME boards covered in this report have no minimum capital requirements for companies to list. For those SME boards that do specify minimum capital requirements, these are all set at lower levels than their respective main boards. In three of the SME exchanges (the *Small and Medium Enterprises Board* of BSE Limited, *SME Emerge* of the National Stock Exchange of India and *NXT* of the New Zealand Stock Exchange) there are *upper* limits on equity capital of the companies listed on the SME exchanges. Companies which exceed the upper limit have to move to the main board.<sup>13</sup>

<sup>12</sup> Not all exchanges provided median market capitalisation figures.

<sup>13</sup> In most markets, SMEs boards are set up as a ladder for companies to progress in the equity funding pipeline. Graduation is rarely mandatory but it may be encouraged when a company reaches a certain size. Companies may also choose to move to the main board, attracted by the higher prestige and greater liquidity associated with a main board listing. Certain markets will facilitate this graduation by fast-tracking listings from the SME board and reducing the information requirements and/or costs for listing.

### 2.3.3 Catering to the Needs of SMEs and SME Investors

In addition to allowing smaller firms to list on the markets, SME exchanges commonly adjust both the initial and ongoing listing requirements to cater to the needs of SMEs. Given that SMEs are usually younger companies with shorter (if any) profit history, over half of the SME exchanges reviewed set looser business record and/or profit requirements than those required for the main board. Additionally, recognising the fact that ongoing reporting and compliance after the IPO can be costly and burdensome to SMEs, many exchanges require less frequent and/or simplified reporting and relaxed compliance with corporate governance codes and reporting/disclosure standards. Thus, for example, Nasdaq's *First North* market does not require companies to report in accordance with International Financial Reporting Standards.

Finding the balance between reducing costs for issuers associated with complying with initial and ongoing listing requirements and ensuring appropriate investor protection is always challenging. Many SME markets have addressed this by adopting an advisor-driven model for their markets. While the details of each exchange's model may vary, advisor-driven listing essentially uses authorised advisors to assume responsibility in assessing the company for listing readiness, guiding a company to listing and monitoring the company's ongoing compliance after listing. Other exchanges address this perceived riskiness by setting limits on who may participate in the market (i.e. limiting investment to only institutional or sophisticated/high net worth individuals).

Another frequently cited challenge with listing SMEs is ensuring sufficient liquidity in the shares, while addressing issuer concerns about loss of control. Some markets attempt to find this balance through the minimum free float requirements that they set. Twenty eight of the SME boards covered set a minimum free float requirement. Of these:

- Eighteen (64%) set lower minimum free float requirements than are found on the related main boards.
- Four (15%) have the same minimum free float requirement for both the SME and the main board.
- Six (22%) set higher free float requirements for their SME boards.

Five exchanges have no free float requirement for their SME board. Of these, two exchanges have no free float requirements for either their main board or the SME board.

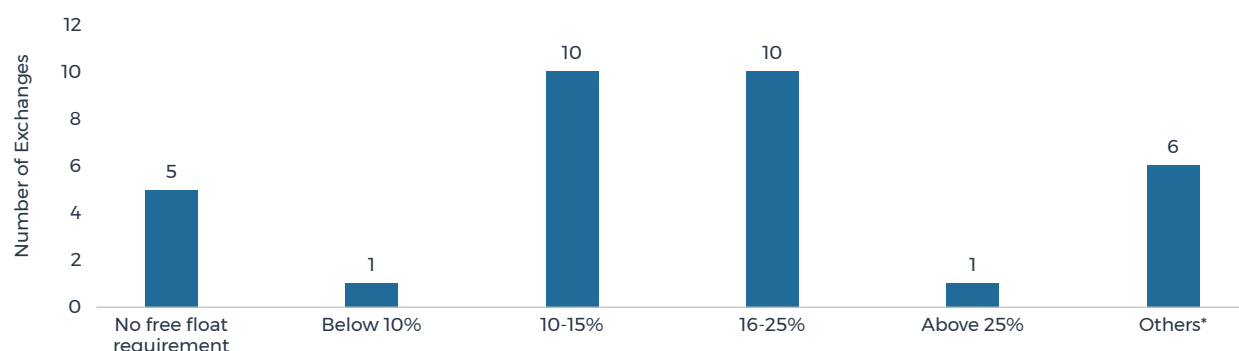
The most frequently adopted minimum free float levels are between 10-15% of share capital at the time of offering and 16-25% (about 30% of exchanges for each bucket). The Brasil Bolsa Balcao and the Athens Stock Exchange allow companies to reach the minimum free float level within a certain period of time instead of at the time of IPO.

While 'proportion of share capital' is the primary parameter for setting the minimum free float level, some set the requirement by value of shares or number of shares, or a combination of the three. For example, the Hong Kong Stock Exchange and Bourse de Casablanca both set minimum free float requirements by reference to both value of shares and number of shares.



In some cases the minimum free float levels are set according to the target companies. For instance, the minimum free float levels of companies listed on *TSX Venture* varies depending on what industries the companies belong to. The Moscow Stock Exchange meanwhile only sets minimum free float requirements for the iIM-Prime section of its *Innovations and Investments Market and Growth Sector* (which has lower equity capital requirements than the rest of the board).

### Minimum Free Float Level of SME Exchanges



\*Others: the exchanges set minimum free float level by value of shares and/or number of shares, or have different minimum free float requirements for different sections within their own SME board

### 2.3.4 Going Above and Beyond

SME exchange market operators are also aware that SME markets require support beyond market design to promote the creation of an effective SME listings environment. Prior WFE research has identified that SMEs are often not aware of the financing options that markets provide, while investors battle with the availability of information about SMEs. All market actors attach importance to secondary market liquidity of company shares.<sup>14</sup>

Consequently, all SME boards engage in some level of market outreach to raise awareness of equity financing opportunities amongst target companies. In addition, many markets also provide supplementary support, usually in partnership with other actors in the ecosystem. This includes:

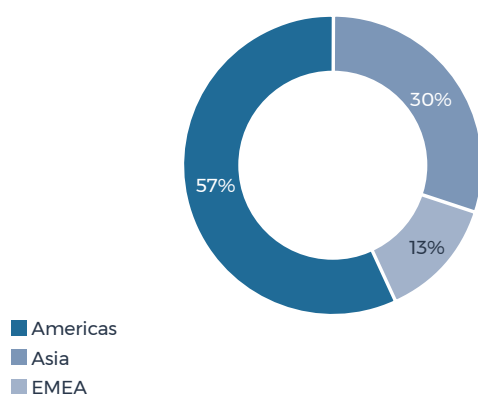
- Providing training on what is required to list
- Creating a dedicated index for SME companies (e.g. *TSX Venture*)
- Ensuring research coverage of companies listed on SME markets (e.g. *NXT* of NZX Limited)
- Requiring or encouraging the use of market makers to enhance liquidity of SME stocks (e.g. the BSE and the NSE of India)
- Holding regular sessions on issues such as corporate governance, investor relations and broader financial literacy (e.g. the *Alternative Board* of the Kazakhstan Stock Exchange)

<sup>14</sup> See WFE Report on [SME Financing and Equity Markets](#) (2016) and the [WFE's joint report with the Milken Institute](#) (2017)

## 2.4 Summary of Progress and New Developments

Based on data from 33 markets, 12,639 companies have listed on these markets since their establishment, raising a combined USD 251 billion.<sup>15</sup> Over the same period, these markets have had an average graduation rate of 16% with over 1,100 companies moving their listing from the SME market to the main board.<sup>16</sup> Graduations, broken out by region, are set out below.

### Number of Graduations by Region



In addition to equity markets, some WFE members provide dedicated debt platforms for SMEs. The *Alternative Securities Market* (MAV) of Bolsa de Valores De Lima is a debt-only segment for Peruvian medium-sized companies to issue debt-instruments in the exchange. The objective of MAV is to allow companies to obtain funding at more attractive rates compared to banking credit.

WFE members also continue to look for ways to enhance the quality of their SME market offerings and some exchanges have introduced new, innovative offerings that target pre-listing companies.

The KRX and Stock Exchange of Thailand (SET) have established the *KRX Startup Market (KSM)* and the *Launchpad and Investment Vehicle for Enterprises (LiVE)* offerings respectively. Both are start-up funding platforms with OTC trading facilities based on blockchain technology that allow direct exchanges between transacting parties. These platforms not only provide companies with wider access to capital but also enhanced liquidity through the dedicated OTC markets.

Another example is the *Deutsche Börse Venture Network*, an exclusive member community that provides high-growth companies with access to Europe's largest network of institutional investors, family offices and HNWLs for pre-IPO venture capital and private equity funding. The *Venture Network* is a comprehensive offering that provides networking, matching services and corporate finance training to companies.

All these pre-listing offerings are designed to cater to the early funding needs of start-ups and SMEs, with the objective of potentially accelerating the maturation of SMEs to the IPO stage. These efforts reflect exchanges are working at various parts of the funding value chain to enhance SME access to finance.

<sup>15</sup> Capital raised is based on data from 28 SME boards, as at end-June 2018.

<sup>16</sup> Based on data from 28 markets.

### 3 Conclusion

This report gives a consolidated overview of WFE member efforts to enhance SME access to finance. As demonstrated by the launch of five new SME boards in 2017, in both emerging and developed markets, and the introduction by the Colombo Stock Exchange of the *Empower Board* in July 2018<sup>17</sup>, these efforts are set to continue. In addition to refining market offerings, we anticipate that exchanges will increasingly expand their support of SMEs (beyond listing) and explore new offerings outside the traditional public fund-raising value chain.

Local considerations will continue to play a role in market design and performance but for all exchanges, finding the correct balance between reducing the costs of accessing the market and ensuring appropriate investor protection will remain paramount.

<sup>17</sup> Not included in the database as the market was only launched in 2018.

## Annex A: Exchanges Covered in This Report

Athens Stock Exchange

B3 SA Brasil Bolsa Balcao

Bolsa de Comercio de Buenos Aires

Bolsa de Valores de Lima

Borsa Istanbul

Bourse de Casablanca

BSE Limited

Bursa Malaysia

Cyprus Stock Exchange

Deutsche Börse AG

Hong Kong Exchanges and Clearing

Japan Exchange Group

Johannesburg Stock Exchange

Kazakhstan Stock Exchange

Korea Exchange

Moscow Exchange

Nasdaq Nordic Exchanges

National Stock Exchange of India

Nigerian Stock Exchange

NZX Limited

Oslo Børs

Saudi Stock Exchange

Shenzhen Stock Exchange

Singapore Exchange

Stock Exchange of Mauritius

The Egyptian Exchange

The Philippine Stock Exchange

The Stock Exchange of Thailand

TMX Group

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