

Strategic Planning Proposal

CREATING "THE ENTREPRENEURIAL EXCHANGE"

Consultation period open

July 2012

"In a world constantly on the move, it is better to address change than to change the dressing."

Francis Blanche

Proposal

Time is running short. The most innovative, job-creating SMEs are dependent on bank lending, now becoming structurally scarce, and on domestic savings that are turning away from the real economy. Since the crisis, financial markets have become a source of uncertainty and additional cost for such companies, and less a source of financing. In addition, the competitive gap is widening, both with Germany and with the United States—which overcame partisan politics and passed the JOBS Act, opening up long-term financing for similar-sized US companies. If we fail to act, we will be putting our economy and the jobs of tomorrow at risk.

In view of the crisis, many observers and reports have, quite rightly, alerted political decision-makers to the need for a regulatory framework better adapted to the size of these companies. These observers have also called for regulation more in keeping with SME business models, plus a new approach to stock-exchange structures and services.

Our committee's aim was to imagine a stock exchange dedicated to the needs of SMEs that would enable them to come through the crisis and prepare for a return to growth. We started with an in-depth analysis of the business models of issuers, intermediaries, investors and the market operator, seeking a positive way to bring all of these stakeholders together and get the market functioning again following its seizure during the financial crisis.

We unanimously believe that a new stock exchange is needed, large enough to meet the challenge and serve all the companies and stakeholders using it. An exchange designed to address the financing needs of SME by offering bespoke products and services. An exchange attentive to their needs, providing personalized support and protecting them from financial market abuses. An exchange that is a natural meeting place for all those who, through its representative governance, resources, dedicated professionals and regional proximity, share an entrepreneurial spirit and identify with its name: the Entrepreneurial Exchange. An exchange that is the starting point for a new, post-crisis generation of stock exchanges, designed to bring together the financing needs of this segment of the real economy and long-term investment from every corner of Europe.

To accomplish this, we propose that the Entrepreneurial Exchange be articulated around the following principles:

- An ambitious initial set of listings composed of the companies currently listed on Euronext Segments B and C and on NYSE Alternext
- European aspirations and scale, with locations in France, the Netherlands, Belgium and Portugal as a first step
- A governance structure consisting of a Supervisory Board with 10-15 members representing all exchange stakeholders and an Executive Board with a full-time chairman
- A dedicated team specialized in the financing of and investment in Small and Mid Caps
- An appropriate regulatory framework combining the security of a regulated market and the flexibility of an organized market
- Certain functions, such as marketing and business development, positioned so as to encourage regional financial markets and local ecosystems to participate

- A dual member-intermediary status with rights and duties that make all their activities profitable and their relationship with issuers a long-term one
- A market model and listing techniques adapted to Small and Mid Caps so as to cultivate liquidity and make high-frequency trading (HFT) prohibitive
- Pricing that provides an incentive to develop the primary market and rebalance profitability in the secondary market
- A pre-access market for companies that wish to plan a future listing,
- Made-to-measure products, such as bonds that both raise funds and create a roadmap for opening capital
- A strong "issuer relationship" to provide information and services appropriate to the needs of SMEs
- Growth targets based on marketing and direct business development, and involving all market stakeholders
- A specific segment for research and development (R&D) companies
- Openness to business and capital partnerships that create value and nurture European expansion.

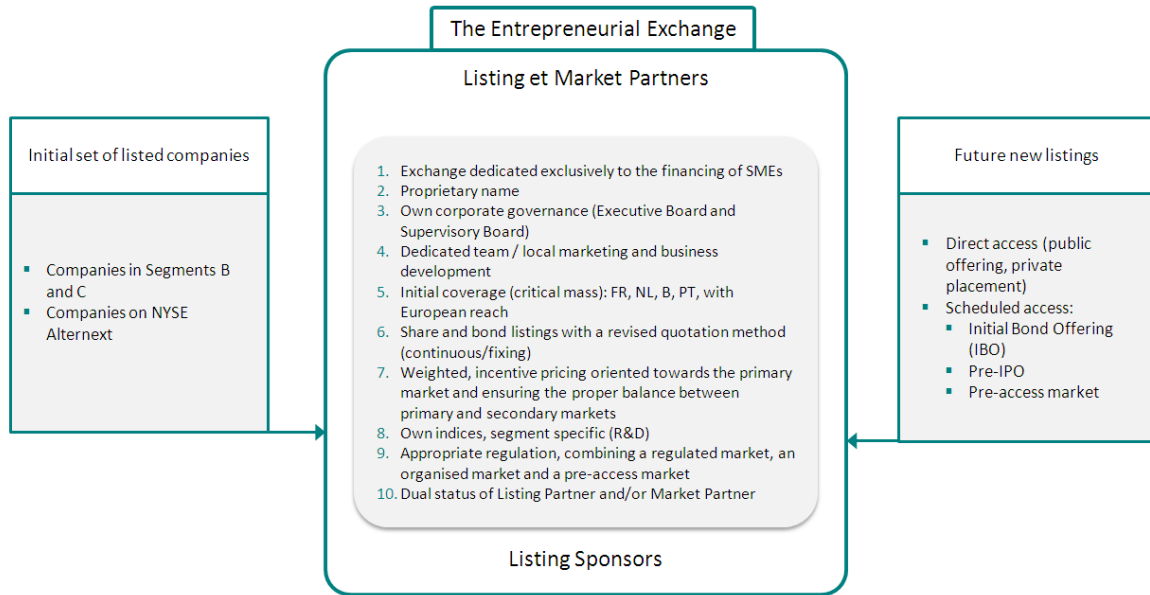
The Entrepreneurial Exchange would be oriented towards the domestic, European and international fund managers essential for its growth and who want to enjoy the benefits of entrepreneurial spirit. The Exchange would offer them critical mass and its own set of indices, making it possible to compare performance across a European base.

This ambitious project will become a reality if the government and competent domestic and European authorities take the necessary legislative, regulatory and tax decisions.

Our proposal must now be enriched by a broad-based, concerted effort on the part of all stakeholders. For this reason, publication of this report will be followed by a consultation period, with comments and feedback used to improve the recommendations before the report is officially submitted to NYSE Euronext in September.

Fabrice Demarigny

Chairman, SME Strategic Planning Committee



CONSULTATION PERIOD OPEN

The document is open to comment from all interested parties from the date of publication until Monday 17 September 2012.

A meeting of market professionals will be held on Wednesday 12 September from 3-6 pm at 39 rue Cambon, 75001 Paris to hear all opinions. In light of these written or oral comments, the Committee will continue to develop the content of this document on Wednesday 26 September in Amsterdam and will submit its final version to NYSE Euronext.

Any written feedback or request to attend the meeting of market professionals can be sent to the following address: consult@bourseentreprise.eu

Contents

Proposal	3
The work of NYSE Euronext's Strategic Planning Committee for SMEs	7
I – Creating the "Entrepreneurial Exchange"	8
II – Restoring a virtuous circle for intermediaries specializing in SMEs with a new membership category for the Entrepreneurial Exchange	13
III – Adapting exchange structures and services to help SMEs come through the crisis and prepare for the post-crisis period	18
IV – Channelling savings into entrepreneurial success	22
V – Financing Small and Mid Caps on the market: reinvigorated, direct and local promotion	23
VI – Attractive pricing, with incentives and a focus on developing primary and secondary markets	26
VII – Business and capital partnerships that create value	27
VIII – Optimizing the regulatory and tax framework	29
IX – Recommendations of the Strategic Planning Committee	31

The work of NYSE Euronext's Strategic Planning Committee for SMEs

The recommendations in this report are the result of an in-depth study carried out by NYSE Euronext's Strategic Planning Committee (SPC) dedicated to small and medium-sized enterprises (SMEs).¹ The Committee is composed of the following members:

- Fabrice Demarigny, lawyer, partner at Marccus/Mazars, Committee Chairman
- Jean-Baptiste Bosson, Chairman and CEO, PSB Industries
- Chris Buyse, CFO, ThromboGenics
- Rogério Carapuça, Chairman, Novabase SGPS
- Dirk Jan van der Hoeden, Chairman and CEO, SNS Securities
- Eric Le Boulch, Chairman and CEO, CM-CIC Securities
- Clément Lecuire, Head of Strategic Analysis, Innovation and Sustainable Development, Caisse des Dépôts et Consignations
- Denis Lucquin, Managing Partner, Sofinnova Partners
- Peter HJ Nederlof, Chairman and CEO, Keijser Capital N.V.
- Yannick Petit, Chairman and CEO, Allegra Finance
- Bruno Vanryb, Chairman and CEO, Avanquest Software

The Committee has worked closely with Roland Bellegarde, Group Executive Vice President of NYSE Euronext, in charge of European cash trading and listing activities, and his team, particularly Marc Lefèvre, François Houssin and Marine Laufer Tourte.

The Committee worked completely independently and without preconceived notions. Its goal was to address ambitious proposals on the fundamental financing needs of SMEs to those people who operate stock exchanges and to representatives of the various domestic and regional financial market authorities where NYSE Euronext operates.

The Committee's work began with an in-depth analysis of the business models of the issuers, intermediaries, investors and market operator, examining how to bring these parties together in a positive way so as to get the market functioning again after its seizure during the financial crisis.

In carrying out its remit, the SPC benefited from numerous reports and studies that were extremely helpful in developing its proposals. For this reason, this report does not reiterate observations already made but rather focuses on building a new solution for the future. To gain a better understanding of investors' interests and solicit their point of view, a specific workshop was organized with some of the top experts in the field: Marie-Ange Verdickt - Director of Research, Financière de l'Echiquier; Vincent Delaunay - Director of Development, CM-CIC AM; Antoine Valdes - Chairman, Alto Invest; Gérard Moulin - UCITS Manager, Banque Delubac; Frederik van Beuningen - Teslin Capital Management; Bernard Fauché - Managing Director, CDC Entreprises Valeurs moyennes; Dink Pattyn - Degroof Fund Management.

All of the proposals were unanimously adopted by the members of the SPC.

¹ The SPC is a consultative committee of NYSE Euronext. It is dedicated to SMEs, and its objective is to step up the development of the Small and Midcap market and address the financing challenges these companies face. It also helps define and implement NYSE Euronext's strategy regarding SMEs. The SPC brings together individuals known for their expertise and experience as French, Belgian, Dutch and Portuguese intermediaries, investors and issuers.

I – Creating the Entrepreneurial Exchange

I.1 – The new-generation stock exchange

- The primary meeting place for long-term investment and entrepreneurial spirit

Statistics show that SMEs² have the greatest potential for growth and create the most jobs. Yet they have urgent financing needs, which the recent series of financial crises has exacerbated by tarnishing the image of financial markets and shaking confidence in them.

Against this background, we recommend that a new stock exchange be created, dedicated exclusively to SMEs and growth companies and offering them simple, personalized access to capital markets (in the form of equities or bonds). This would improve their ability to finance their business activities while expanding the range of options available for long-term investors.

By clearly setting itself apart from the markets as they existed before the crisis, the Entrepreneurial Exchange would not be a financial market given over to high-frequency trading; instead, it would be a forum where investors looking for growth and innovation opportunities and entrepreneurs with real economy financing needs could meet.

- Critical mass from the outset

One of the Entrepreneurial Exchange's key success factors will be size. To be attractive it must have a large number of listed companies and must set the stage for renewed profitability in the activities of all its stakeholders, including those of the exchange itself.

To accomplish this, we think it should include, right from its launch, the companies currently listed on Euronext Segments B and C and on NYSE Alternext. Thereafter, it would look to attract SMEs and growth companies – which have the greatest initial financing needs – provided they fall in or below the category defined in France as ETIs.³

While these quantitative targets are important, we think it is essential that listings on the Entrepreneurial Exchange include the most iconic companies in each sector, i.e. the biggest entrepreneurial success stories and the companies that have turned in the most notable market performances. Many of these companies are listed in Segment B. Investors could thus compare the performance of all of these companies on the same market, facilitating their selection.

² Numerous references are made in this report to Small and Medium Enterprises / Small and Mid Capitalizations (SMEs). Depending on the context, the term can refer to a wide variety of companies, known variously as "growth companies", "intermediate-size companies" or if they are listed, "mid caps". For the sake of simplicity, the term "SME" will be used throughout and should not be construed as a statistical or legal definition.

³ Intermediate size companies (French acronym ETI):

- A company with less than 5,000 employees and
- either sales of less than €1.5 billion or a balance sheet total of less than €2 billion.

- **Pan-European reach**

To reach critical mass, investors – and in particular mid-cap investors – feel that the Entrepreneurial Exchange must have a pan-European dimension. To do this, the Entrepreneurial Exchange would have to be launched on the four domestic financial markets on which NYSE Euronext operates and bring its value proposition to all European countries, either directly to listing candidates or by forging partnerships with other stock exchanges in the European Union.

- **Pre-access market for scheduling an IPO on the Entrepreneurial Exchange**

We also propose that a "pre-access market" be created to enable the most entrepreneurial, unlisted growth companies – or those whose shares are currently traded on the *Marchés Libres* – to gain access to the Entrepreneurial Exchange at the end of a trial period. This market would provide these businesses with an initial, low-cost experience as a listed company, giving them exposure to the investment community before launching a more significant issue as part of a listing on the Entrepreneurial Exchange. The companies that would join the pre-access market would ultimately have to choose between listing on the Entrepreneurial Exchange and leaving the pre-access market. The trial period could be three years, with a possible extension to four. Transfers from the Entrepreneurial Exchange to the pre-access market would not be allowed.

- **Relationships with issuers must be as strong as the stakes are high**

Similar to issuers and their investor relations policies, it would be important for the Entrepreneurial Exchange to maintain strong relationships with the issuers listed on it. This would lead to closer ties with the national and local ecosystems on which the Exchange would necessarily rely to further its marketing and business development efforts. To respond to the financing needs of SMEs and build "issuer relationships", we feel it is very important that all of the services NYSE Euronext offers to companies listed on Euronext be offered to those listed on the Entrepreneurial Exchange with the same conviction and level of quality. Moreover, additional services designed specifically to address the needs of SMEs and growth companies should be offered exclusively to them. Specific proposals along these lines are detailed in Chapter III.

I.2 – Regulation designed especially for SMEs

- **Combining a regulated market with a market that is organized (self-regulated)**

The legal and regulatory system currently in place in Europe and in the four countries where NYSE Euronext is active allows for stock exchanges to be created according to the EU directives applicable to financial services or according to a domestic framework in the form of alternative markets (some of which have opted for the status of "multilateral trading facilities" or MTFs). We propose that this dual system be preserved and combined in the Entrepreneurial Exchange and that the regulatory framework to which companies listed on the Entrepreneurial Exchange must adhere be clearly visible to investors.

- **Euronext and NYSE Alternext rules to be maintained without new obligations**

For reasons of efficiency and simplicity, we propose that the NYSE Euronext rules applicable to issuers on Euronext and NYSE Alternext be transposed to the Entrepreneurial Exchange without any addition. The SPC believes, however, that certain legal, regulatory and tax requirements should be streamlined so as to make it easier for issuers to list on the Entrepreneurial Exchange. The most important of these are detailed in Chapter VIII.

The Entrepreneurial Exchange's own rules would not split the regulated listings into segments with different obligations based on company size. However, certain thresholds resulting from legal obligations, including the

EU-defined Small and Mid Caps threshold and the €100 million market cap threshold for a prospectus adapted to SMEs, applicable to IPOs and follow-on issues, would be taken into account.

- **Apply streamlining adopted by the European Union (a stock exchange SBA)**

Any streamlined procedures that the EU decides to apply to European directives and regulations would have to be transposed as soon as possible for use by the Entrepreneurial Exchange. In particular, the Committee is calling for a broader, more ambitious and more realistic European definition of "companies with limited capitalization", which would benefit from more moderate regulatory requirements. The Committee also recommends that the Entrepreneurial Exchange look very closely at the status of "growth exchange", which has been proposed as part of the revision of the financial instruments directive.

- **Pre-access market**

The only new regulatory framework we propose is the one needed to create the "pre-access market" as an antechamber to the Entrepreneurial Exchange, inasmuch as the rules applicable to issuers transiting through it would need to be defined. These rules will have to be stricter than those applicable to the Marchés Libres in order to win investors' confidence, but less restrictive than those in force on NYSE Alternext so as to make the experience valid as an adaptation period.

I.3 – Resources commensurate with the objective

- **A new name**

An exchange's fundamental purpose is to serve as a venue where savings and the financing needs of the real economy can come together. To re-create this venue, without simply re-dividing the existing spectrum of listed companies, we propose that the new exchange have a specific brand that makes reference to the word "enterprise".

To support its launch in the markets where NYSE Euronext operates, the brand will exist in four languages, initially as part of the range of NYSE Euronext brands:

- Bourse de l'Entreprise
- The Entrepreneurial Exchange
- Beurs voor de Onderneming
- Bolsa das Empresas

- **The starting point for an in-depth marketing campaign and direct business development effort**

Once the Entrepreneurial Exchange is launched, an aggressive and ambitious marketing and business development campaign can begin. With its own brand and its range of bespoke service for SMEs and growth companies, the new exchange would demonstrate that these companies can once again obtain financing on the stock exchange. The campaign would be carried out not only by the exchange but also by all national and local stakeholders. Such a plan is detailed in Chapter V.

- **Structured as a subsidiary**

We recommend that the Entrepreneurial Exchange, given that it is highly specific and dedicated to Small and Mid Caps, have its own legal structure. In this way, the Exchange could obtain the necessary authorizations and organize its governance and internal structure so as to best achieve its goals. If set up as a company, the Entrepreneurial Exchange would have the initial base and the scalable architecture necessary for developing and expanding in Europe.

- **Two-tier corporate governance: a supervisory board and an executive board**

The company would have a supervisory board and an executive board, thereby separating and defining the roles necessary for managing the Entrepreneurial Exchange. The members of the supervisory board could include, in addition to the market operator, 10-15 financial market professionals, such as exchange member-intermediaries, issuers, investors, investment networks and the national and local stock exchange authorities. Their role would be to help define the strategy, objectives and resources of the Entrepreneurial Exchange. The executive board, headed by NYSE Euronext and with a full-time chairman, would direct the day-to-day operation of the Entrepreneurial Exchange. To take advantage of the pooling of IT system resources and certain other services, the Entrepreneurial Exchange would be run by NYSE Euronext.

- **Specialized team dedicated, in particular, to business development**

We believe that the Entrepreneurial Exchange should have its own resources. The Entrepreneurial Exchange's members would have a special status, the Exchange's services would be made-to-measure, and its marketing and business development objectives would be ambitious. Only one group of companies would be targeted: SMEs and growth companies. These companies have economic characteristics and special features with regard to financing that require a specialized team. It would be important for this dedicated team to have a director of marketing and business development.

- **Functional organization reflecting the exchange's multiple roles**

The Committee believes that the Entrepreneurial Exchange should design its principal functions so as to have as much impact as possible at every geographical level (European, national, local). For example, it should:

- be known, visible and accessible to all European and even worldwide investors;
- market to and attract new companies, and maintain a close relationship with the companies already listed at local and regional levels.

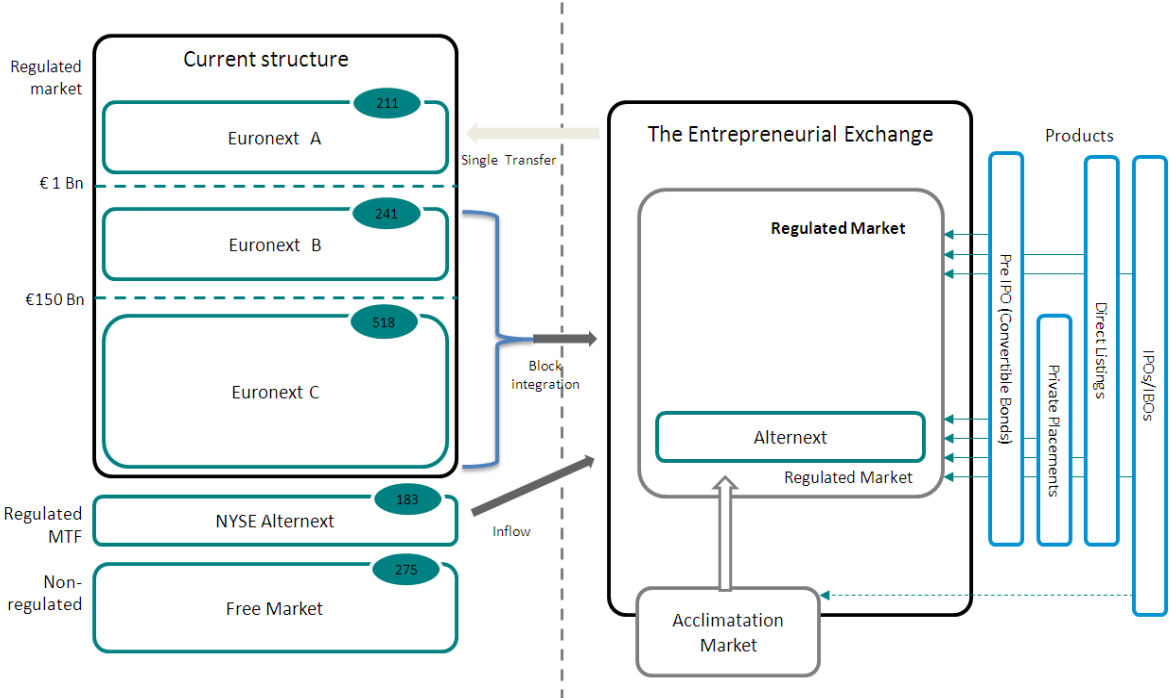
- **A business plan both realistic and bold**

Once structured, the Committee believes that the Entrepreneurial Exchange should draw up a three-year business plan, setting objectives and KPIs by which its progress can be tracked. By having its own legal status, it will be required to prepare financial statements that its governing bodies can use to evaluate its performance.

- **Coordination between the Entrepreneurial Exchange and NYSE Euronext's markets**

We have examined all possible scenarios for the initial set-up and subsequent development of the Entrepreneurial Exchange's listings and those of NYSE Euronext. Guided by its goal of making the Entrepreneurial Exchange a success, the Committee prefers that listings on the two exchanges be clear, simple and easy to understand. It thus recommends that Euronext's current B and C segments be integrated into the Entrepreneurial Exchange right from the outset. The Committee also believes it is important that there be gateways between the two exchanges and that companies listed on the Entrepreneurial Exchange be able, depending on their strategy and size, to transfer to NYSE Euronext. This would require a rethinking of Euronext to better reflect the type of companies listed on it. The Committee is aware that such a proposal assumes a detailed technical review by the regulatory authorities and recognizes that NYSE Euronext does not have authority over certain aspects of it.

Proposed structure, Entrepreneurial Exchange



STRATEGIC PLANNING COMMITTEE RECOMMENDATIONS (see page 31)

Recommendation no. 1 – Create the Entrepreneurial Exchange – (R-1)

Recommendation no. 2 – Make the exchange large enough to meet the challenge – (R-2)

Recommendation no. 3 – Set ambitious targets for initial listings – (R-3)

Recommendation no. 4 – Adapt the regulatory framework to SMEs – (R-4)

II – Restoring a virtuous circle for intermediaries specializing in SMEs with a new membership category for the Entrepreneurial Exchange

The SPC has observed that the gap between the features and specificities of large cap markets and Small and Mid Cap markets is widening. This situation has made the business model for intermediaries serving Small and Mid Caps unprofitable in the secondary market and very fragile in the primary market. Several factors are responsible: brokerage fees have declined; there is no longer a balance between large cap and small/mid cap activities; fewer funds now invest in Small and Mid Caps, making these companies dependent essentially on domestic savings; the relative cost of equities research on Small and Mid Caps is high, as is the relative cost per executed order; and there is no longer a balance between primary and secondary market participants.

II.1 – Restoring balance in two areas

To make intermediation profitable again, we recommend creating a new member status on the regulated part of the Entrepreneurial Exchange through a broader range of services so as to encourage long-term relationships with issuers.

Restoring this balance would attract intermediaries who had previously withdrawn from activities dedicated to the financing of Small and Mid Caps.

- Between the various activities

This new member status would be broader and would achieve its full economic potential provided the range of services can be offered in a framework different to that governing large cap equities. This range would include advisory services, IPO-related services (in particular due diligence), placement, financial analysis, order execution and investment advisory services. For example, the best-execution rule would have to be clarified for Small and Mid Caps, and intermediaries serving Small and Mid Caps would have to offer unbundled pricing on the Entrepreneurial Exchange.

- Between the primary and secondary markets

One of the SPC's guiding principles is to make the relationship between the member-intermediary and the company that it helped list on the exchange a long-term one. This means creating a continuum between looking for new listing candidates, providing products and services for raising funds on the primary market, and maintaining trading on a daily basis in the secondary market, in particular through liquidity contracts. Pricing on the Entrepreneurial Exchange would be structured in such a way as to foster this long-term relationship and to apply downward pressure on brokerage fees, by setting an example of moderation, with the prospect of higher volume compensating for the lower fees.

II.2 – Defining rights and duties aimed at achieving long-term profitability

- Listing Partner and Market Partner with new rights and duties

We recommend the creation of a new dual status for the Entrepreneurial Exchange: Listing Partner and/or Market Partner with new rights and duties on the "regulated market" part of the Entrepreneurial Exchange:

- A Listing Partner would be an intermediary specialized in primary markets and would furnish all services related to IPOs or to raising funds on the Entrepreneurial Exchange

- A "Market Partner" would be an intermediary specialized in secondary markets and would furnish all services necessary for transactions on shares admitted to trading on the Entrepreneurial Exchange.

Having intermediaries with both statuses would lead to better balance and would improve profitability. An intermediary could thus be either a "Listing Partner" only or both a "Listing and Market Partner".

The duties of a Listing and/or Market Partner would be as follows:

- Qualify as an Investment Services Provider (ISP)
- Commit to playing an active role, alongside the Entrepreneurial Exchange, in seeking out new listing candidates (setting annual targets and making networks available)
- Participate actively in national and regional events organized by the Entrepreneurial Exchange
- Carry out due diligence for listing
- Help produce documents required for listing and advise on meeting ongoing duties
- Produce financial analyses/reports for five years on companies the member has brought to listing on the exchange
- Be able to sign liquidity contracts and take part in improving their direct impact
- Designate a senior contact for each listed company.

The rights of a Listing and/or Market Partner would be as follows:

- Access to the market at a preferred, long-term fee structure for companies that the member brought to listing or on the basis of trading volume
- Access to the order book and to new facilities for block trading
- Access to information provided to issuers with which the member has signed a liquidity contract;
- Use of the "Entrepreneurial Exchange" brand
- In certain cases, participate in the governance of the Entrepreneurial Exchange
- Subject to signature of a contract setting out their rights and duties, intermediaries that are members of NYSE Euronext can become Listing and/or Market Partners on the new exchange at no cost before [March/June] 2013.

- **Listing Sponsor status to be maintained on the organized segment (Alternext)**

The current NYSE Alternext Listing Sponsors would retain their rights and duties or would be able to request Listing and/or Market Partner status. The Listing Sponsor activity would remain limited to Alternext. Nevertheless, we recommend that the responsibilities of the Listing Sponsors with regard to business development and IPO preparation be codified when NYSE Alternext listings are transferred to the Entrepreneurial Exchange. This work would be carried out together with ALIS, the Listing Sponsors' association. On this basis, NYSE Euronext would meet individually with each of the current NYSE Alternext Listing Sponsors to take stock of their situation and determine their objectives.

II.3 – Fostering greater liquidity

We believe that for the Entrepreneurial Exchange to operate smoothly and for the companies listed on it (and the investments related to them) to achieve better valuations, the market must be liquid. For this reason, the Committee proposes several specific measures for increasing the liquidity of Small and Mid Caps.

- **Access to a European-level exchange with a single membership and listing**

Currently, the European legal framework requires issuers and exchange members to have a domestic base before they request membership or admission to trading on a regulated market. As a result, NYSE Euronext has as many organized markets as countries in which it operates. It is mitigating the burden of duplication through increasing harmonization, but this effort is limited to its own rules. The number of membership or listing

applications is similarly multiplied and ends up diluting the synergies anticipated from a trans-European market. This fragments liquidity. We believe that the work to amend the financial instruments directive presents an opportunity to greatly reduce administrative constraints. Cross-membership and multiple admission to automatic share trading on regulated markets belonging to a single market operator could be instituted. Similarly, enabling a market operator to manage regulated markets under the freedom to provide services principle would constitute a major simplification.

- **Maintain the legal framework now in place for liquidity contracts when the directive on market abuse is revised.**

Firstly, the SPC believes it is of the utmost importance that the European legal framework allowing for liquidity contracts (on equities as well as bonds) be preserved when the directive on market abuse is modernized. It is essential that EU regulation not dictate a market model based on market making, which the Committee sees as relatively non transparent and expensive, both for the investor and for the intermediary (equity capital). The liquidity contract system has proven itself under the market regulator's strict supervision. The Committee believes that the European "Single Rule Book" logic for market regulation must enable liquidity contracts to become the norm in Europe for Small and Mid Caps. Too much liquidity is concentrated on large cap issuers. At the very least, the "Single Rule Book" must uphold the principle of subsidiarity.

- **Encourage financial analysis over the long term**

There is an insufficient supply of financial analysis and related services for Small and Mid Caps. There are not enough companies covered or analysts per company, research lacks frequency, depth and marketing support, and road shows with Small and Mid Caps are few and far between.

This situation is symptomatic of the unprofitable nature of secondary market intermediation and the sparse activity of intermediaries in the primary market with respect to the issuers in question. The cost of high-quality financial analysis, excluding related services, is in the region of €35,000 per issuer.

We believe that a satisfactory solution would require investors to acknowledge that the price of these secondary market services must be higher for such companies. In France, for example, numerous measures could help increase the volume of financial analysis: an exemption from the financial transactions tax for companies with market cap of less than €1 billion, acceptance by the regulator of rebundled execution and investment advice on these issuers, pricing incentives conditioned on quality coverage, in both depth and breadth, of the companies listed on the Entrepreneurial Exchange, and long-term pricing incentives based on the intermediary's role in primary market transactions.

The Entrepreneurial Exchange would grant these advantages to the Listing and Market Partner in return for contractual commitments regarding coverage and promotion, applicable to both the primary and secondary markets. It would also be important for Listing and Market Partners to take part in the Entrepreneurial Exchange's promotional activities. They would make logistical resources available for organization and trading, present and publish research on individual companies and sectors, lead workshops during an annual seminar, and play a role in business development alongside the Entrepreneurial Exchange.

- **Revisit the split between continuous trading and fixing**

In the light of recent experience, we recommend that NYSE Euronext evaluate the efficiency of the existing split between companies whose shares are traded continuously and those whose shares are traded on the basis of a fixing. We point out that continuous trading of a relatively illiquid share exacerbates the impression of a lack of

liquidity, but that, at the same time, investors sometimes have a preference for continuous trading. We even recommend that this evaluation take place regularly, such as once a year. This is currently the case on NYSE Euronext markets.

- Trading techniques that increase liquidity

We recommend that NYSE Euronext, in its capacity as operator of the Entrepreneurial Exchange's trading platform, consult with its members and adapt its trading system to the reality of transactions on Small and Mid Caps shares. It could thus increase their liquidity by:

- increasing the tick size, as is planned under the JOBS Act in the US, in order to obtain better price discovery. Increasing the tick size on Small and Mid Caps proportionately and thereby maximizing volumes is an option that could be examined; conversely, the tick size on penny stocks could be reduced so as to improve trading quality.
- offering a procedure for facilitating transactions on blocks of shares;
- setting trading hours appropriate for the Entrepreneurial Exchange.

Lastly, because the needs and level of maturity of Small and Mid Caps are sufficiently different to those of large cap companies, we recommend that high-frequency trading (HFT) be made prohibitive through a surcharge on excessive order cancellation. This would identify the Entrepreneurial Exchange even more clearly as a market oriented towards financing and would cultivate real liquidity on the shares available for trading.

Unbundling of order execution and investment advisory services

The unbundling of order execution (trading) from investment advisory services (financial analysis and sales) has made the financing of financial analysis more dependent on order execution. Several related factors have contributed to this: decreasing brokerage rates, best-execution obligations with a high technology component on large cap European equities and order concentration on a decreasing number of intermediaries.

Unbundling has destroyed the balance that had previously existed between large and mid cap stocks and had financed the activity of intermediaries specialized in mid caps. Overall, unbundling has produced effects exactly opposite to those the regulators had sought to achieve. The significant attrition in local research has been the most harmful negative consequence.

The obligation to unbundle these activities has amplified deflation on order execution, to the detriment of the financing of research conducted by mid cap specialists. Paradoxically, financial analysis has become more dependent on order execution in the sense that investment advisory services have become the variable that can be adjusted downwards in an environment where execution is king (owing to best-execution obligations).

In this context, the intermediaries that provide the least support to investors and issuers in the primary and secondary markets end up with a price advantage owing to their large volumes on large cap trading. As a result, the portion of investment advisory fees financing research on mid caps has virtually disappeared.

The SPC's proposal is to introduce the principle of a rebundled price on the Entrepreneurial Exchange. Rebundled pricing, together with pricing incentives and technical quotation procedures (penalties for frequent order cancellations, increase in tick size, etc.) would tend to strengthen the competitive position of local intermediaries relative to their larger peers and to open a window of opportunity on the pricing of their services.

STRATEGIC PLANNING COMMITTEE RECOMMENDATIONS (see page 32)

Recommendation no. 5 – Enable intermediaries specializing in Small and Mid Caps to return to profitability – (R-5)

Recommendation no. 6 – Establish rights and duties for a new category of member – (R-6)

Recommendation no. 7 – Improve liquidity for Small and Mid Caps – (R-7)

Recommendation no. 8 – Protect Small and Mid Caps from high-frequency trading (HFT) – (R-8)

Recommendation no. 9 – Create a European regulatory framework to boost Small and Mid Caps liquidity – (R-9)

III - Adapting exchange structures and services to help SMEs come through the crisis and prepare for the post-crisis period

III.1 – The Entrepreneurial Exchange's "issuer relations"

As issuers must maintain good "investor relations", so the SPC believes that the Entrepreneurial Exchange should maintain strong "issuer relations". The idea would be for the Entrepreneurial Exchange to support corporate executives throughout their stock exchange experience by combining a strong relationship with a high-quality range of products and services. It is particularly important for the market operator to be the focal point for understanding the challenges and deploying solutions in the current economic context, where finance and support for SMEs has become crucial. The Committee agrees with the conclusions of numerous reports that fundamental structural changes will take place in the distribution of capital and debt because of the new prudential ratios applicable to insurers (Solvency II) and banks (CRD 4). Personalized and specialized advisory services and specialized information sharing about SMEs should enable issuers and the Entrepreneurial Exchange to identify common themes for the future that would speed up implementation of stable, dependable sources of financing.

The Strategic Planning Committee recommends that once the decision has been made to launch the Entrepreneurial Exchange, NYSE Euronext should work with issuers and their professional associations to write a "Charter for Relations with Issuers" that lays the groundwork for strong, close ties with companies' senior management. The Medef, Middlednext, Croissance Plus, CGPME, ASBC, BIRA, VEUO, AEM and NEVIR are among the associations that should be consulted.

III.2 – The Entrepreneurial Exchange as a market information centre for the issuer

The products and services NYSE Euronext offers to issuers (ExpertLine and Connect) are extensive and of high quality. We recommend that they all be provided to companies listed on the Entrepreneurial Exchange with the same quality and intensity and in a way that preserves their economic viability. This would cover all market information about the securities traded and in particular:

- share prices in real time
- order book in real time
- major market indices in real time
- information on significant market movements
- share price performance (comparison with indices, peer companies, etc.)
- visibility on each intermediary's proportion of trading in the company's shares
- presence and performance of providers of liquidity on the company's shares
- a summary of the day's trading
- statistics on fragmentation of transactions on other platforms, if any
- historical share data and comparisons
- a contact person who can provide any additional information about trading in the shares.

We also recommend that additional services be offered to issuers exclusively on the Entrepreneurial Exchange, and specifically that the Exchange:

- in partnership with the custodian, enable SMEs to obtain better information about their shareholders, the presence of institutional investors and changes in their holdings (such as just prior to shareholders' meetings)

- act as a collector (and disseminator) of regulatory information based on transactions generated by various participants, thereby enabling issuers to fulfil their regulatory obligations more easily and to pool their costs
- be a point for centralizing and consulting financial analyses of companies listed on the Entrepreneurial Exchange
- provide standardized information on prospectus content and conduct decision-support training for listing or fund-raising candidates.

In addition, we recommend that the Entrepreneurial Exchange become the focus for promoting market trading on SMEs and growth companies. In this regard, the Exchange should launch new initiatives bringing together issuers, investors, intermediaries, other stakeholders and the public. It should be the place where business leaders, professional associations and market authorities meet to develop projects helping to improve financing for SMEs. To accomplish this, the Entrepreneurial Exchange will have to create task forces comprised of the most skilled professionals to focus on specific topics. They must work with representative bodies, in particular those representing issuers, in an atmosphere of trust.

In this regard, we believe that the Entrepreneurial Exchange should use the internet and social networks in an innovative manner for all of these functions, so as to strengthen the feeling of belonging to a community and to limit costs.

III.3 – A wide range of products to address the financing needs of SMEs and growth companies

The financing needs of SMEs and growth companies are changing and so are the methods for investing in them. For this reason, we were very favourable at our first meeting to NYSE Euronext's initiative to deploy its bond listing services for Small and Mid Caps. The Committee also encouraged linking this initiative with others aimed at providing debt financing for this type of company.

As an extension of this decision, we recommend that the Entrepreneurial Exchange offer a wide range of financing methods that match both the real needs of the companies and the regulatory constraints of investors.

- Shares, bonds and possible transactions

One of the economic functions of an exchange is to offer quick access to a wide range of financing alternatives.

We recommend that the Entrepreneurial Exchange support the emergence of long-term financing instruments (shares and bonds) by developing and highlighting certain products. We also recommend that the Entrepreneurial Exchange inform issuers regularly on good practices related to these products.

For example, there is a favourable legislative framework governing private placements. This should give issuers on the Entrepreneurial Exchange more leeway in selecting their investors via available instruments with flexibility in minimum amounts and market exposure time. Certain market practices aimed at strengthening equity and presenting more attractive assets to investors should be promoted, such as stock dividends and spin-offs of secondary activities. The SPC also suggests that serious thought be given to a system whereby, on the basis of exhaustive information to investors, issuers could offer variable quantities of securities with conditional subscription orders.

Lastly, the Small and Mid Caps bond listings possibility could be enriched with the model initiated by NYSE Euronext. New products that raise funds without opening the capital to external shareholders or that defer opening the capital could thus be offered exclusively on the Entrepreneurial Exchange.

- **Initial Bond Offerings (IBOs)**

In addition to enabling listed companies to raise funds without dilution during periods of low share prices and low interest rates, the Entrepreneurial Exchange should put priority on enabling companies to raise funds without opening the capital to external shareholders, in the form of initial bond offerings (IBOs). This solution would enable companies to issue long-dated financing instruments and at the same time it would have a favourable impact on the ratios of institutional investors. The Exchange would thus offer the issuer a means of financing without having to take any decisions about supervision, and the issuer would benefit from more flexible disclosure requirements. This type of IBO has been launched in the Netherlands.

- **Pre-IPOs (convertible or redeemable bonds)**

Similarly, we believe that the SME financing cycle could better combine the financing methods of unlisted and listed companies. In this way, issuers whose current growth stage is not compatible with dilution could both raise funds and schedule the point in time they open their capital, using solutions that are dilutive only in the future. This would also allow private equity investors to exit their investments more easily. We recommend that the pre-IPO option be offered exclusively to issuers wishing to raise funds and schedule a future broadening of their capital base via the Entrepreneurial Exchange.

III.4 – Sectors and indices within the Exchange

- **Combining a regulated market and an organized market (Alternext) transparently**

Given the French and European regulations and after fully taking into account investor needs for confidence and issuer needs for flexibility and attractiveness, the SPC believes that the notions of organized and regulated markets should be combined and put into perspective so as to serve the needs of the various stakeholders. The SPC places particular importance on NYSE Alternext's success factors. Alternext succeeded in combining several methods for gaining access to the market: public offering, private placement, direct listing. It has also successfully attracted a significant number of international investors.

We recommend giving issuers and investors the security of a regulated market and the flexibility initiated on NYSE Alternext, with even broader access. While remaining transparent for investors, this solution would combine the characteristics of a regulated market as governed by European directives with those of an organized market such as Alternext, subject to a limited number of directives.

- **The pre-access market**

The range of methods for gaining access to the Entrepreneurial Exchange could be enriched by offering issuers a stock exchange adaptation period and allowing them to better understand the demands placed on companies of a given size in each country. After analysing the lack of a gradual procedure that the most entrepreneurial companies on the Marchés Libres could use to access the stock exchange and the absence of an IPO procedure on NYSE Alternext in Portugal, we propose that market architecture be brought more into line with the needs of a certain category of companies. The Committee believes that an even more flexible market, with easier access, is needed. Consequently, we recommend that a pre-access market be created to accommodate companies that have committed to joining the Entrepreneurial Exchange after a three-year trial period (with a possible one-year extension).

- **Specific segment for R&D companies with high sectoral representation**

The Entrepreneurial Exchange would have a specialized business model promoting the growth of the diverse range of companies listed on it. Accordingly, it should give significant visibility to its sectoral dimension, and

create sectoral indices to reflect this. If companies listed on the exchange belong to a specific industrial or service sector, their visibility in the eyes of investors would be increased.

In certain industries, companies that do not have a history of profitability at the time of their IPO still constitute the dominant business model. In biotechnology, for example, companies continue to grow by devoting the majority of their resources to R&D after listing on the stock exchange, and do not turn a profit until several years after the IPO.

Nevertheless, this business model has proven itself at the macroeconomic level. In biotechnology, it has been shown that two-thirds of the medicines recently developed in the US originated in this type of company. Biotech companies alone constitute an entire realm of entrepreneurial innovation.

The sectors included would be biotechnology, electronics, energy, renewable chemicals and more generally any sector with a high technology content.

We recommend a specific, new segmentation for these R&D companies, for which the market constitutes the only source of financing. Given their specific features including long-term investment, dependence on authorizations and tax issues, the Committee recommends creating a working group to define the terms that would be applied to such a segment (access and liquidity conditions, required disclosures, etc.).

- A new range of dedicated indices

The indices are also vectors for visibility and liquidity that contribute to the virtuous circle of growth on the stock exchange. We particularly recommend that a range of specific indices be created to highlight companies listed on the Entrepreneurial Exchange. The Committee notes that the success of an index depends greatly on how easy it is for investors to understand it. In all likelihood, a flagship index of 50 or so companies would generate significant interest.

STRATEGIC PLANNING COMMITTEE RECOMMENDATIONS (see page 34)

Recommendation no. 10 – Develop strong issuer relations – (R-10)

Recommendation no. 11 – Offer a range of customized services for SMEs and growth companies

Recommendation no. 12 – Give the Entrepreneurial Exchange a central role – (R-12)

Recommendation no. 13 – Offer customized financing products (IBO and Pre-IPO) – (R-13)

Recommendation no. 14 – Combine a regulated and an organized market – (R-14)

Recommendation no. 15 – Create a pre-access market – (R-15)

Recommendation no. 16 – Develop a specialized segment with a strong R&D focus – (R-16)

Recommendation no. 17 – Develop dedicated indices – (R-17)

IV – Channelling savings into entrepreneurial success

As emphasized by investors the Committee has interviewed, the advent of stricter prudential ratios for insurance companies (Solvency II) and banks (CRD4) will be detrimental to the financing of SMEs and growth companies and risks hampering economic recovery in Europe. Moreover, the euro zone's low growth rates and the recent series of financial crises, from the internet bubble to subprimes to sovereign debt, have turned the flow of investment funds away from SMEs and towards savings vehicles with a more conservative risk/return relationship.

In light of these structural changes, the Committee is convinced that specific mechanisms or instruments must be devised to orient savings towards investment in SMEs and growth companies. Tax proposals along these lines are also detailed in Chapter VIII.

- **Channelling the flow of savings towards SMEs and growth companies**

Our proposals have been influenced by the French model and aim to shift certain existing savings patterns towards SMEs. In particular, the Committee recommends:

- maintaining and developing "FIP" local investment funds (Fonds d'Investissement de Proximité) and "FCPI" funds specialized in innovation (Fonds Communs de Placement dans l'Innovation), currently the two types of mutual funds that constitute the principal sources of venture capital and other early stage investment in France. Whereas institutional investors are gradually withdrawing, the FIPs and FCPIs currently account for more than two-thirds of the amounts invested by the private sector in Small and Mid Caps. Their contribution to Small and Mid Caps should not be capped.
- reorienting employee savings towards Small and Mid Caps by requiring every company savings plan to have a fund dedicated to Small and Mid Caps and by allowing companies to make a larger matching contribution when the employee's savings are invested in an SME equities and/or bond fund.
- enabling subscribers to multi-vehicle life insurance contracts to invest part of their funds in Small and Mid Caps shares (these assets would be in an Small and Mid Caps -dedicated investment vehicle exempt from Solvency II ratio requirements).

- **Creating savings vehicles dedicated to investment in Small and Mid Caps**

In addition, we recommend that new savings vehicles be considered, specialized in investment in Small and Mid Caps and growth companies. In particular, the Committee recommends creating:

- dedicated mutual funds, whether UCITS compliant or not, with lock-up periods and weekly calculation of net asset value. This would be done more efficiently and in line with the nature of Small and Mid Caps.
- diversified mutual funds, whether UCITS compliant or not, investing in both shares and bonds, and dedicated partly to SMEs.
- new life insurance contracts oriented towards Small and Mid Caps, based on the 1998 DSK or 2004 NSK contracts, invested in FCPI/FIP shares and/or directly in shares of Small and Mid Caps. These would carry a tax incentive upon entry, for example, to compensate for the risk inherent in investing in SMEs and growth companies.

STRATEGIC PLANNING COMMITTEE RECOMMENDATIONS (see page 35)

Recommendation no. 18 – Channel savings into SMEs and growth companies – (R-18)

Recommendation no. 19 – Create new savings products and vehicles specializing in SMEs and growth companies – (R-19)

V - Financing Small and Mid Caps on the market: reinvigorated, direct and local promotion

Creating the Entrepreneurial Exchange offers a remarkable opportunity to revisit and promote the legitimacy of using the stock market to raise capital for businesses. We feel that the new Exchange should play a central role in defining and deploying a major campaign at local level—and the success of that campaign will hinge on other stakeholders, in particular local players, joining in. The Exchange itself must take the lead or nothing will happen; at the same time, it will not get far if it acts alone.

For the SPC, a bold, concrete promotional campaign is needed, and should be built around the three main issues described below.

V.1 - Promote the legitimacy of market-generated finance

The image of financial markets has worsened steadily in recent years, starting with the financial crisis, and for many management teams listing has lost its appeal as a source of finance.

Yet the Entrepreneurial Exchange and the innovative features built into it represent a clear break with this negative image. Through its unique value proposition, the new exchange would overcome traditional hurdles that SMEs and growth companies face when they consider listing: it is exclusively dedicated to companies sharing the same business model, and maintains the flexibility of an organized market. It features a pre-access market, a central point for information, bespoke financing services and products, and trading procedures adapted to users' needs. It is designed to encourage liquidity, and protect that liquidity from HFT; costs are lower thanks to pricing incentives and, above all, it has a team specialized in SMEs and growth companies. So while companies must adapt their operations to an exchange, the Entrepreneurial Exchange would be designed to adapt to the needs of Small and Mid Caps and investors.

In addition, the creation of a new, dedicated exchange structure is a response to various announcements and efforts—both national and European—to encourage financing of growth and investment in Small and Mid Caps. The Entrepreneurial Exchange would be the preferred tool and venue for SMEs and growth companies seeking to raise the equity they need to access additional financing.

In other words, this new exchange would be the proper vehicle for promoting the legitimacy of financing growth through the stock exchange. We recommend that it should take the initiative, working together with all other stakeholders, to design and launch a full-fledged marketing campaign that promotes the legitimacy of SMEs and growth companies turning to the market for finance.

The new exchange must also have the support of national regulators, who will have to build specialized SME teams to interact regularly with the Exchange and the companies listed on it.

V.2 - Design, coordinate and deploy a direct marketing and business development plan for companies that might wish to list

We also recommend that a direct and targeted marketing plan be designed, coordinated and deployed to reach companies that might wish to list on the Entrepreneurial Exchange (in particularly SMEs that are on their way to becoming mid-size companies (ETI)). This should include:

- Identification of listable companies and their management teams based on rank in their respective sectors and geographical regions, as well as past performance and scope for development;
- A structured, systematic plan in all four countries in which the exchange will open its initial list (before expanding to other countries);
- A dedicated team with the marketing expertise to coordinate initiatives (which may be combined for all countries) under a full-time director of marketing and business development.

Deploying this business development plan would be a priority for the Entrepreneurial Exchange, and its success would hinge on the active participation of financial markets, local stakeholders, banking and investment networks (either independent or linked to exchange member-intermediaries), and investment by Listing Sponsors, Listing and Market Partners, and other participants contributing to the exchange's development (CPAs or specialized legal firms). Active involvement by the latter would allow, in particular:

- Sharing of target lists and information on events organized by local networks
- Personal access to senior management of companies that might be candidates for listing
- Pooling of resources and joint preparation by the exchange and intermediaries or local partners of meetings with companies that might consider listing
- Coordination of all business development initiatives.

We recommend that this virtuous circle, as well as the roles and responsibilities of each stakeholder in designing and deploying the shared plan, be explicitly stated in a "Business Development Charter". This Charter should be rounded out with pricing incentives for certain categories of intermediary (see Chapter VI).

We consider it essential to develop quality links with candidates well in advance of listing and to do this through a dedicated initiative. The Entrepreneurial Exchange could set up a special committee to take charge of this, establishing links with candidates considering listing in the short or medium term. Such a committee would provide advice and assistance to help the senior management, company and Listing Sponsor or Partner optimize resources made available by the market to ensure that listing is a success. It would then track developments to ensure that commitments made by issuers and Listing Sponsors or Partners were respected.

V.3 - Marketing the Entrepreneurial Exchange and companies listed on it to investors

We consider it equally important that the new exchange deploy a bold and innovative marketing and communications plan to promote the companies listed on it and the investment opportunities they represent.

Concretely, this plan could include the following:

- An event to mark the launch of the Entrepreneurial Exchange
- A media and events plan—at European, national and regional—reflecting the specific features of the new exchange and giving it a suitably high profile
- Creation of a single dedicated website in French, English, Dutch and Portuguese, offering a single entry point to all information concerning the Entrepreneurial Exchange, its companies and its listed products
- A major annual event bringing together the exchange's issuers and investors over one or several days (drawing inspiration from Small and MidCap Events and similar meetings in different countries)
- Meetings to present listed companies to investors and financial analysts, organized in tandem with companies
- Regular one-on-one meetings with investors targeted by the exchange
- Events by sector of activity or specific investment orientation (R&D), organized in partnership with professional associations in these areas
- Ceremonies celebrating market openings, possibly in regional financial centres where a company has operations

STRATEGIC PLANNING COMMITTEE RECOMMENDATIONS (see page 35)

Recommendation no. 20 – Promote the legitimacy of financing via the stock exchange – (R-20)

Recommendation no. 21 – Work directly and collectively to identify and appeal to companies in a position to seek financing on the market – (R-21)

Recommendation no. 22 – Attract investors with an ambitious marketing plan

Recommendation no. 23 – Create a Listing Advisory Committee to assist heads of companies seeking listing (R-23)

VI - Attractive pricing, with incentives and a focus on developing primary and secondary markets

When companies consider turning to the market for financing, one factor they consider is the cost of listing and of maintaining their market presence. Many studies have demonstrated that this cost is proportionally higher for Small and Mid Caps than for large caps. More specifically, issuers that only rarely raise funds on the market fail to reap all of the benefits; if their liquidity and stock price are low, listing is viewed almost exclusively as a cost centre. Fees charged directly by the market operator account for only a small share of total listing costs.

Because of these factors, we consider it important that the Entrepreneurial Exchange's fee structure be designed to raise the appeal of seeking financing on the market. Fees should be designed on an incentive and proportionate basis, and above all be structured to encourage new listings. Fee structures for all service providers should encourage long-term relationships as opposed to one-off rationale that leaves the issuer facing its new commitment and constraints on its own. Finally, the new exchange might look into the pros and cons of adopting a single fee structure for all of the countries it covers.

A comprehensive set of pricing incentives is conceivable, predicated on market recovery and respecting the business model of each player, naturally including that of the Entrepreneurial Exchange itself.

This set would by definition be an indivisible package include:

- Full exemption from the annual listing fee for the first year following listing for companies with market caps under €100 million
- Discounted annual listing fee for issuers making regular use of the market (for rights issues, bond issues, etc.)
- No fee for the initial constitution of the Exchange list and a 50% discount on fees applying to transfers
- Strong incentives for Listing and Market Partners to bring companies to the market for listing: lower trading commissions for Listing and Market Partners for trades involving securities of companies brought to the market, or, perhaps, if the number of IPOs brought to the market exceeds a given threshold
- Given use of the same trading and clearing system as Euronext, a fee structure for trading and clearing securities listed on the Entrepreneurial Exchange that ensures a more equitable balance compared with trading in large caps.

In recommending these more favourable fees, we are calling for the Entrepreneurial Exchange to take the lead in setting a good example—an example we would like to see followed by all service providers participating in listings, thus achieving a marked reduction in total fees.

Finally, we recommend that the relationship between companies listing on the Entrepreneurial Exchange and their Listing Sponsor or Listing Partner be viewed as a long-term partnership and that pricing/fees for listing and subsequent services be considered over the long term. One way to achieve this is to offer a wider range of accompanying services.

STRATEGIC PLANNING COMMITTEE RECOMMENDATIONS (see page 36)

Recommendation no. 24 – Adopt pricing incentives – (R-24)

Recommendation no. 25 – Set a good example for pricing – (R-25)

Recommendation no. 26 – Aim for long-term partnerships – (R-26)

VII – Business and capital partnerships that create value

A key component of the Entrepreneurial Exchange’s growth hinges on its capacity to deploy operations and create business and capital partnerships. This, in turn, raises the question of opening the exchange’s capital to investors.

Ultimately it is up to NYSE Euronext to decide whether such an initiative is appropriate. To contribute to the decision-making process, we think it is useful to describe the conditions necessary for such partnerships to create value.

We note that there are arguments for and against opening the exchange’s capital to investors. An argument against is the fact that a shareholder seeking a short-term gain could undermine the exchange’s goals. An argument in favour would be helping to align stakeholder interests and contributing to the project’s initial financing.

If NYSE Euronext decides to open up the capital of the Entrepreneurial Exchange, we recommend that the following issues be taken into account:

- Opening of share capital must not modify the general architecture underpinning the Entrepreneurial Exchange. The founding priority must remain the creation of a bold, effective exchange that meets the fundamental financing needs of SMEs and respects the business models of users.
- While not necessarily its ultimate purpose, the Entrepreneurial Exchange must itself be based on a business plan that is at the very least balanced, or even virtuous. In fact, this is a prerequisite for opening its capital.
- An opening of share capital would make sense only if the new shareholders made the exchange more efficient by adding value. In this respect, they would have to be “shareholder partners”.
- A shareholder partner would contribute value if its presence led to one or more of the following:
 - Contribution of companies for listing: institutional investors, venture capital funds, member-intermediaries, etc.
 - Contribution of critical mass: other European exchanges or trading platforms (segment(s) or part of an existing list in exchange for an equity interest)
 - Contribution of business development networks: pan-European, national or regional banking networks, investment networks, etc.
 - Contribution of trading flows (liquidity) specialized in Small and Mid Caps: member-intermediaries, promoters of specialized funds, etc.

There is no obvious strong synergy with issuers listed on the Entrepreneurial Exchange, except that of a symbolic interest aimed at aligning their interests with those of the exchange.

The contribution of critical mass through European expansion via other exchanges or trading platforms is clearly considered a priority and should appear in the new exchange’s business development plan from the start.

For greater efficiency and due to its role as market initiator and operator of the Entrepreneurial Exchange, NYSE Euronext should remain the majority shareholder. This is an integral part of the goal of aligning all stakeholder interests.

To understand the true reasons for willingness to invest in the new exchange and to assess the quality of the partnership that would result, any opening of capital should take the form of tender offers based on

specifications describing the synergies expected for each category of shareholder. Preliminary expressions of interest would be welcome.

Another area worth exploring would be the creation within the Entrepreneurial Exchange of an operating company to manage the market and a marketing company to handle with business development. In this case, opening the capital of the marketing company would offer the most scope for synergies.

STRATEGIC PLANNING COMMITTEE RECOMMENDATION (see page 37)

Recommendation 27 – Consider the possibility of “shareholder partners” for the Entrepreneurial Exchange (R27)

VIII. Optimizing the regulatory and tax framework

Like many observers, we note that obstacles abound to improving the regulatory and tax framework that allows SMEs and growth companies to raise funds and list on the market; some even threaten to make the environment less favourable. A multitude of legislative and regulatory initiatives have been launched, especially at EU level, but their impact on the real world is slow to take shape. As a result, neither SMEs nor specialized investors feel that a legal and tax framework better adapted to their needs is currently in place.

It goes without saying that if such a regulatory and tax framework were in place, it would do a great deal to accelerate the success of the Entrepreneurial Exchange. The proposals in this chapter address this issue and are an additional contribution underpinning the actual creation of the exchange.

- **Give Europe a renewed focus on tomorrow's economy**

Turning to fundamentals, we want to warn the European authorities of the widening competitiveness gap between the single European market and the United States. Bipartisan adoption of the JOBS Act last April confirmed the American government's commitment to channelling long-term finance into growth companies and job creation. Its definition of companies qualifying for the proportionate regulation illustrates this gap perfectly: US businesses that will now benefit from this system for listing or subsequent capital increases on the market are respectively 20 and 10 times larger than European companies. We are thus issuing an urgent call to multiply substantial initiatives in the European Union to—at long last—implement a proportionate system to encourage long-term financing of SMEs. Combining a Small Business Act mindset with stock-market law, this means a broad definition of companies benefiting from a regulatory framework defined in directives and regulations governing prospectuses, disclosure requirements for listed companies, market abuse, markets in financial instruments and IFRS.

During our work, we identified in particular the need for automatic multi-listings and cross-membership of regulated markets belonging to the same exchange group, and for a European passport allowing market operators to manage regulated markets on a cross-border basis.

More urgently, we are very concerned at the prospect of the legal framework for liquidity contracts being abolished under the revision of the directive on market abuse. Finally, we consider that the €2.5 million annual ceiling on State subsidies for SMEs does not correspond to the economic reality that SMEs face in the current economic crisis. Doubling this figure would send a strong European message and give a large number of SMEs access to the additional financing they need to grow and finance job creation in Europe.

- **Adapt stock-market regulations for an exchange specializing in Small and Mid Caps**

We also recommend that market authorities in each country clarify:

- their application of the best-execution rule for companies listed on a single exchange
- exemption from unbundling requirements for intermediaries specializing in Small and Mid Caps
- delisting procedures for companies in which over 95% of capital is held

We also consider that day-to-day regulation of listed SMEs requires regulators to form specialized teams better able to understand SMEs special features, which do not correspond to the body of law involved in regulating very large corporations. For example, it is considered critical in terms of cost and in keeping with the spirit of European law, that the proportionate prospectus not incorporate criteria applicable to large companies and

that it remain proportionate. Similarly, we recommend that Europe adopt “comply or explain” codes of governance especially for SMEs that are recognized by regulators, as has already been done successfully in France and in the United Kingdom.

- **Adopt a tax framework to encourage investment in SMEs and growth companies**

Finally, we want to echo our support for a range of tax incentives aimed at channelling long-term savings into SMEs and productive investment.

A number of reports and studies highlight proposals to maintain current incentives that channel long-term savings to SMEs, notably in France:

- Maintain FIP/FCPI funds and funds generated by the ISF. Since individual investors are still the main contributors of venture and development capital, raising the tax incentive for investment in FIPs/FCPIs is one of the only ways for SMEs to continue to attract private finance. Once 25%, the rate has now been cut to 18% but could be raised to 30%.
- Stabilize the reduction in ISF tax from 75% to 50% for equity investment in SMEs, with the ceiling reduced from €50,000 to €45,000 (maximum investment of €90,000 vs €66,000 previously).
- Introduce a 25% reduction in corporate profit tax for French companies that invest cash in FIP or FCPI funds.
- Create a share savings plan (PEA) dedicated to SMEs offering preferred tax treatment for individual investors, or an Small and Mid Caps compartment in a PEA, and raise the ceiling for individuals to €300,000. This would give SMEs a tool similar to the UK’s 1994 Enterprise Investment Scheme (EIS), whose ceiling is now £1,000,000 with a holding requirement of three years. Tax incentives could also boost liquidity if the holding requirement for PEAs was reduced from five to three years.
- Channel savings in life insurance policies to Small and Mid Caps by (i) creating new policies offering subscribers partial investment in FCPIs/FIPs and/or in Small and Mid Caps securities; (ii) developing multi-vehicle life insurance policies that offer subscribers optional partial investment in Small and Mid Caps securities; and (iii) extending the tax exemption for life insurance policies from eight to 12 years, with a framework setting out repurchase rights.
- Create FCPE funds dedicated to entrepreneur-driven growth (FCPCE or *fonds communs de placement de croissance entrepreneuriale*) in Europe, consisting partly of listed shares. These are authorized to receive private savings, and eligible for tax incentives reserved to investment in SMEs.

STRATEGIC PLANNING COMMITTEE RECOMMENDATIONS (see page 37)

Recommendation no. 28 – Adopt a tax framework to encourage investment in SMEs – (R-28)

Recommendation no. 29 – Promote a customized European regulatory framework – (R-29)

Recommendation no. 30 – Adapt national stock-exchange regulations – (R-30)

Strategic Planning Committee Recommendations

I – Creating the Entrepreneurial Exchange

Recommendation no. 1 – Create the Entrepreneurial Exchange - (R-1)

We recommend that NYSE Euronext take the initiative and set up an exchange dedicated exclusively to raising capital for Small and Mid Caps and growth companies, to be called the Entrepreneurial Exchange, making this a focus for listing companies that share a commitment to growth and entrepreneurial spirit. The Entrepreneurial Exchange would be a subsidiary of NYSE Euronext, with a governance structure consisting of a Supervisory Board with 10 to 15 members representing all exchange stakeholders and an Executive Board with a full-time chairman. It would have its own team specialized in Small and Mid Caps and their requirements, and in market operations and investment in such companies.

Recommendation no. 2 – Make the exchange large enough to meet the challenge - (R-2)

We recommend that the Entrepreneurial Exchange be based on a model of virtuous growth that can achieve essential critical mass by:

- appealing to ambitious businesses: initial companies targeted for listing will be SMEs, i.e., with under 5,000 employees and with either sales of less than €1.5 billion or a total balance sheet of less than €2 billion.
- embracing pan-European scale and ambitions: the Entrepreneurial Exchange would start up in France, the Netherlands, Belgium and Portugal, and aim to cover the European Union's entire single market in time.

Recommendation no. 3 – Set ambitious targets for initial listings - (R-3)

We recommend that the initial list of companies on this new Exchange be assembled by:

- integrating companies currently listed in Euronext's B and C compartments, at no cost (after technical analysis and validation by regulatory authorities)
- integrating NYSE Alternext-listed companies
- creating a "pre-access market" for candidates planning to list on the Entrepreneurial Exchange within the next three years (with a possible one-year extension).

Recommendation no. 4 – Adapt the regulatory framework to SMEs - (R-4)

Without imposing additional burdens on issuers, we recommend that the framework governing the Entrepreneurial Exchange combine regulations applying to regulated markets and organized markets, and in particular the flexible and effective framework of NYSE Alternext. It further recommends that NYSE Euronext use its influence with relevant authorities to strongly support a body of regulatory and fiscal measures that encourage market financing for SMEs.

II – Restoring a virtuous circle for intermediaries specializing in SMEs with a new membership category for the Entrepreneurial Exchange

Recommendation no. 5 – Enable intermediaries specializing in Small and Mid Caps to return to profitability (R-5)

We recommend restoring the profitability of intermediaries specializing in Small and Mid Caps by:

- adopting regulatory measures that make it easier for ISPs to offer a wide range of services, in particular by clarifying best execution rules for Small and Mid Caps shares traded on a single exchange or trading platform, and by exempting ISPS from the unbundling requirement when they trade in Small and Mid Caps ;
- adopting a fee structure for the Entrepreneurial Exchange that uses an incentive-based fee scheme to promote lasting relationships between intermediaries and Small and Mid Caps issuers.

These measures will help re-establish parity between, firstly, the range of activities handled by intermediaries, and secondly, the activities of primary and secondary markets.

Recommendation no. 6 – Establish rights and duties for a new category of member (R-6)

We recommend creating a new dual membership status for the Entrepreneurial Exchange: Listing Partner and/or Market Partner specializing in listing or raising finance for SMEs, and trading securities issued by Small and Mid Caps. To ensure a long-term commitment by such members and encourage them to contribute to the new exchange's growth, various rights and duties would be attached to this new membership category, including:

Duties:

- Qualify as an Investment Services Provider (ISP)
- Commit to playing an active role, alongside the Entrepreneurial Exchange, in seeking out new listing candidates (setting annual targets and making networks available)
- Participate actively in national and regional events organized by the Entrepreneurial Exchange
- Carry out due diligence for listing
- Help produce documents required for listing and advise on meeting ongoing duties
- Produce financial analyses/reports for five years on companies the member has brought to listing on the exchange
- Be able to sign liquidity contracts and take part in improving their direct impact
- Designate a senior contact for each listed company.

Rights:

- Access to the market at a preferred, long-term fee structure for companies that the member brought to listing or on the basis of trading volume
- Access to the order book and/or new facilities for block trading
- Access to information provided to issuers with which a liquidity contract has been signed
- Use of the "Entrepreneurial Exchange" brand
- In certain cases, participate in the governance of the Entrepreneurial Exchange
- Subject to signature of a contract setting out their rights and duties, intermediaries that are members of NYSE Euronext can become Listing and/or Market Partners on the new exchange at no cost.

New members must choose between two options: simple Listing Partner, or combined Listing and Market Partner. After assessment of their recent performance and a more detailed definition of their duty to prospect and process applications, NYSE Alternext's current Listing Sponsors would maintain that status in the regulated section of the Entrepreneurial Exchange (Alternext).

We recommend that a detailed definition of this new dual status for members of the Entrepreneurial Exchange be enshrined in a framework agreement signed by the Entrepreneurial Exchange and associations representing ISPs (in France this is AMAFI, after consultation with ALIS).

Recommendation no. 7 – Improve liquidity for Small and Mid Caps - (R-7)

In the light of recent events, the Strategic Planning Committee recommends that NYSE Euronext assess the relevance of separating trading groups for continuously traded stocks and those based on fixing. The Committee feels, further, that such assessment should be carried out every year.

The Strategic Planning Committee also recommends that NYSE Euronext, which will supply the trading system used, make proposals to set up, exclusively for the Entrepreneurial Exchange:

- larger tick sizes as envisaged in the US under the Jobs Act ;
- new facilities to encourage block trading
- different trading hours adapted to proposed trading modes

Recommendation no. 8 – Protect Small and Mid Caps from high-frequency trading (HFT) - (R-8)

We recommend that high-frequency trading (HFT) in securities on the Entrepreneurial Exchange be made prohibitive by introducing a surcharge on order cancellations beyond a certain point.

Recommendation no. 9 – Create a European regulatory framework to boost Small and Mid Cap liquidity - (R-9)

We recommend that the neutrality and efficiency of the European legal framework be harnessed and promoted forcefully through the creation of an exchange/regulated market, and in particular that:

- proposed regulation of market abuse should not dictate a single market model for Small and Mid Caps based on market making, which the Committee sees as relatively non transparent and expensive. Instead, the Committee calls for strengthening the legal framework governing liquidity contracts for shares and bonds.
- proposed regulation of markets in financial instruments should allow the admission to trading of cross trades and automatic cross membership of regulated markets within the same stock-exchange group.
- proposed regulation of markets in financial instruments should allow market operators to take a cross-border approach to managing regulated markets within the European Union (with a “passport” for each market operator).

III - Adapting exchange structures and services to help SMEs come through the crisis and prepare for the post-crisis period

Recommendation no. 10 – Develop strong issuer relations - (R-10)

We recommend that once the decision has been made to begin setting up the Entrepreneurial Exchange, NYSE Euronext should work with issuers and their associations to write a “Charter for Relations with Issuers” that lays the groundwork for strong, close ties with companies’ senior management. This Charter would be one of the founding documents of the new Exchange.

Recommendation no. 11 – Offer a range of customized services for SMEs and growth companies - (R-11)

We recommend that global services supplied by NYSE Euronext to issuers (ExpertLine and Connect) be made available in a way that respects the economic viability of such services, with the same quality and frequency. It also recommends the development of new services including storage of regulated information, provision of standard prospectuses, an archive of financial analysis and specialized training in decision-making.

Recommendation no. 12 – Give the Entrepreneurial Exchange a central role - (R-12)

We recommend that the Entrepreneurial Exchange become the focal point for trading in shares of Small and Mid Caps and growth companies by multiplying its efforts to bring together issuers, investors, intermediaries other stakeholders and the public. The Exchange should be a hub where business partners, associations (in particular those representing issuers) and stakeholders from financial markets can, with confidence develop projects that facilitate the financing of Small and Mid Caps and growth companies.

Recommendation no. 13 – Offer customized financing products (IBO and Pre-IPO) - (R-13)

We recommend that the Entrepreneurial Exchange promote the development of long-term financing products, shares and bonds, and work to optimize and highlight certain products. It recommends in particular:

- that the Entrepreneurial Exchange offer, exclusively, the possibility of raising funds without opening capital up to external shareholders, through listing via bonds only (IBO)
- that pre-listing (pre-IPO) be reserved exclusively to issuers seeking to both raise funds and schedule future opening up of capital through convertible or redeemable bonds.

Recommendation no. 14 – Combine a regulated and an organized market - (R-14)

We recommend giving issuers and investors the security afforded by a regulated market and the flexibility introduced by NYSE Alternext—and thus combining, in a transparent approach that is transparent for investors, a regulated market governed by European directives and an organized market (Alternext).

Recommendation no. 15 – Create a pre-access market - (R-15)

We recommend recreating a pre-access market for companies that have committed to listing on the Entrepreneurial Exchange after a 3-year test period (with an optional one-year extension) and that are interested in reaching out to investors gradually.

Recommendation no. 16 – Develop a specialized segment with a strong R&D focus - (R-16)

We recommend creating a segment specifically for R&D-oriented companies that are dependent on the market for finance. Given their specificities (long-term horizons, dependence on official authorizations, tax issues, etc.), the Committee recommends setting up a working group to define the features specific to this

segment (access, liquidity, further information, etc.).

Recommendation no. 17 – Develop dedicated indices - (R-17)

We recommend developing a range of dedicated indices to promote companies listed on the Entrepreneurial Exchange. A benchmark index with around 50 core companies would definitely create momentum.

IV – Channelling savings into entrepreneurial success

Recommendation no. 18 – Channel savings into SMEs and growth companies - (R- 18)

We recommend (using French examples):

- maintaining and developing “FIP” local investment funds (Fonds d’Investissement de Proximité) and “FCPI” funds specializing in innovation (Fonds Communs de Placement dans l’Innovation)
- enabling subscribers to multi-vehicle life insurance contracts to invest part of their funds in Small and Mid Caps shares (with subscribers free to choose)
- requiring each PEE employee savings plan to add an FCPE fund dedicated to Small and Mid Caps, and allowing higher matching contributions by employers when employee savings are channeled to a fund investing in Small and Mid Caps shares and/or bonds.
- Creating new contracts targeting Small and Mid Caps and invested partly in FCPI/FIP units and/or Small and Mid Caps securities.

Recommendation no. 19 – New savings products and vehicles specializing in Small and Mid Caps and growth companies - (R-19)

The Strategic Planning Committee recommends:

- setting up an SME-based UCITS with a required holding period but no daily calculation of NAV, to encourage investor interest in capital increases and bond issues by Small and Mid Caps.
- creating FCPE funds dedicated to entrepreneur-driven growth (FCPE or *fonds communs de placement de croissance entrepreneuriale*) in Europe, consisting partly of listed shares. These are authorized to receive private savings, and eligible for tax breaks reserved to investment in SMEs.

V - Financing SMEs on the market: reinvigorated, direct and local promotion

Recommendation no. 20 – Promote the legitimacy of financing via the stock exchange – (R-20)

We recommend that when the Entrepreneurial Exchange is created, it should work with other stakeholders, taking the initiative to design and launch a sweeping, dedicated campaign promoting the legitimacy of financing SMEs and growth companies through the stock exchange.

Recommendation no. 21 – Work directly and collectively to identify and appeal to companies in a position to seek financing on the market – (R-21)

We recommend the design, coordination and deployment of a direct plan targeting heads of companies in a position to seek listing on the Entrepreneurial Exchange, and calls for the roles and responsibilities of each stakeholder to be explicitly defined in a “Business Development Charter”.

Recommendation no. 22 – Attract investors with an ambitious marketing plan – (R-22)

We recommend that the Entrepreneurial Exchange launch an ambitious marketing plan targeting investors, to promote the exchange, the companies listed on it, and the investment opportunities it offers.

Recommendation no. 23 – Create a Listing Advisory Committee to assist heads of companies seeking listing - (R-23)

We recommend that the Entrepreneurial Exchange set up an internal Listing Advisory Committee to reach out to candidates for listing in the short or medium term. This committee would provide advice and assistance to heads of companies, companies, and their Listing Sponsor or Partner to optimize the resources made available by the market with a view to making listing a success. This Committee will also monitor compliance with commitments made by issuers and Listing Sponsors or Partners.

VI - Attractive pricing, with incentives and a focus on developing primary and secondary markets

Recommendation no. 24 – Adopt pricing incentives – (R-24)

While respecting each player’s business model—including that of the market operator—the Strategic Planning Committee recommends that the Entrepreneurial Exchange adopt a comprehensive and attractive fee structure predicated on market recovery. Specific measures might include:

- Full exemption from the annual listing fee for the first year following listing for companies with market caps under €100 million.
- Discounted annual listing fee for issuers making regular use of the market (for rights issues, bond issues, etc.)
- No fee for the initial constitution of the Exchange list and a 50% discount on fees applying to transfers.
- Lower transaction commissions for Listing and Market Partners for trades involving securities of companies brought to the market, or if the number of IPOs brought to the market exceeds a given threshold.
- A fee structure for trading and clearing securities listed on the Entrepreneurial Exchange that ensures a more equitable balance compared with trading in large caps.

Recommendation no. 25 – Set a good example for pricing – (R-25)

We recommend that the Entrepreneurial Exchange take the lead and set a good example, and that this be followed by all service providers participating in listings, with a view to achieving a marked reduction in total fees for market listing. It invites all participants in market listings to make proposals to achieve this.

Recommendation no. 26 – Aim for long-term partnerships – (R-26)

We recommend that the relationship between companies listing on the Entrepreneurial Exchange and their Listing Sponsor or Listing Partner be a long-term partnership and that pricing/fees for listing and subsequent services be viewed over the long term. One way of achieving this is by offering a wider range of accompanying services.

VII – Business and capital partnerships that create value

Recommendation no. 27 – Consider the possibility of “shareholder partners” for the Entrepreneurial Exchange - (R-27)

If NYSE Euronext decides to open up the capital of the Entrepreneurial Exchange, we recommend that specific issues be taken into account, in particular:

- any opening of capital to shareholders must not interfere with the creation of an efficient, ambitious exchange that meets SMEs’ fundamental financing needs, which remains the founding priority
- any new shareholders, selected through a tender, would have to add value by bringing the Exchange new candidates for listing, networks for prospecting and transaction flows.
- European expansion must be made a clear priority from the start, by establishing capital relationships with other European exchanges or trading platforms
- NYSE Euronext must remain the majority shareholder.

VIII. Optimizing the regulatory and tax framework

Recommendation no. 28 – Adopt a tax framework to encourage investment in SMEs – (R-28)

We support a range of tax incentives to help channel long-term savings into SMEs and productive investment. These include in particular (based on French examples):

- raise the tax incentive for investment in FIP/FCPIs to 30% (on personal income tax)
- reintroduce a tax incentive for French companies that invest cash in FIP or FCPI funds, with a 25% reduction in corporate profit tax for such investments
- reconfirm the reduction in wealth tax (ISF) for SME equity investments at 50%
- Create a share savings plan (PEA) dedicated to Small and Mid Caps or a Small and Mid Caps compartment in a PEA and raise the ceiling to €300,000 for individuals and, to raise liquidity, reduce the holding requirement to three years.
- Authorize multi-vehicle life insurance policies to offer subscribers a partial investment in Small and Mid Caps securities and extension of tax exemption for life insurance policies from eight to 12 years, with a framework setting out repurchase rights.

Recommendation no. 29 – Promote a customized European regulatory framework – (R-29)

We recommend that NYSE Euronext and all other stakeholders involved in the Entrepreneurial Exchange support proposals aimed at making Small and Mid Caps and growth companies prime drivers of growth and employment.

We recommend warning European authorities of the widening competitiveness gap between the European Union and the United States created by the US Jobs Act. In particular, it calls for:

- adopting a broader definition, based on market criteria, of companies with limited capitalisation as defined in the European directive on prospectuses
- adopting the main features of the Small Business Act for stock markets, including directives and regulations on prospectuses, disclosure requirements for listed companies, market abuse, markets in financial instruments and IFRS.
- maintaining the legal provisions now in place for liquidity contracts when the directive on market abuse is revised.
- introducing provisions for automatic multi-listings and cross-membership on regulated markets

belonging to the same exchange group, paving the way for operation of a regulated market on a cross-border basis.

- raising the ceiling on State subsidies in Europe from €2.5 million to €5 million.

Recommendation no. 30 – Adapt national stock-exchange regulations – (R-30)

We recommend that market authorities in each country clarify:

- their application of the best-execution rule for companies listed on a single exchange
- exemption from unbundling requirements for intermediaries specializing in Midcaps
- delisting procedures for companies in which over 95% of capital is held

options allowing offers for variable quantities and based on conditional subscriptions, in cases where full and detailed information is supplied to investors. The Committee also recommends the widespread adoption of codes of governance written especially for SMEs and calls on national regulatory authorities to form teams specializing in SMEs.

