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Equity financing in the post-COVID reality

A year after the pandemic hit our systems we are still speaking about recovery and rebuilding from a crisis that is still peaking. Measures have been established to counter the devastating effects of the Covid-19, but we must not forget the overarching goal of building a resilient and robust financial system capable of absorbing shocks and generating growth.

SMEs are at the core of growth generation: they increase the productive fabric, allow for larger investor participation, and provide for solutions to demands in new fields, such as ESG. In certain ways, the recovery measures put in place in the second half of 2020 have alleviated some of the most acuciating concerns for SMEs, but we need to consider a change in paradigm to fully unleash their potential.

Equity funding is based on investor trust and capability to invest, their access to equity issuing procedures is paramount to create value. Investors must be given the tools to access the financial system in effective ways: they must be able to understand and decide amongst the different investment options available, and that stems, inevitably, from a more comprehensive financial culture and education. Investors with a deeper knowledge will better understand their risk profile and widen the investment base, to fund SMEs.

Capital raising can certainly stem from different sources, and making use of already established channels needs to be taken a starting point to give visibility to SMEs while providing investors (and their intermediaries) for a trampoline to consider these investments an option when drafting their portfolios.

At the same time, companies need to be able to raise capital without having to deal with excessive burdens that drive investment away from their projects. Policy makers need to understand and assess carefully the impact that current regulation may have in discouraging investments. The EU is rightly proud of taking investor protection with the relevance it merits, but there is still room for allowing companies to approach a wider and more diversified base of investors while preserving their rights.

Easing the requirements for SMEs to be listed, to open secondary issuances and to be rightly covered in research, as well as a carefully dimensioned tax regime, paired with tax incentives, need to be assessed to level the playing field for SMEs vis-à-vis the rest of companies. Finding the balance on these measures should be considered as a means to grant SMEs access to financing in aims of continuing towards the funding chain: allowing for growth and for moving on the next step of the regulated markets.

We cannot ignore the opportunity window offered by the review of MiFID II, and furthermore, we need to understand it as a chance to make our financial system more dynamic and inclusive, taking one decisive step forward in the completion of the CMU.