HOW TO MAKE **STOCK MARKETS** MORE ATTRACTIVE FOR **COMPANIES**

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The financial crisis highlighted the need for all of us to seek formulas that would enable companies to diversify their sources of finance and make use of the stock markets to undertake their growth and expansion strategies. With the decision of the market managers, some support from a number of governments and the declared willingness of the EU to favour mechanisms for bringing companies closer to the markets, in recent years there have been some significant achievements, especially in the field of small and medium-sized enterprises. In Spain, examples of this are the growth of the MAB (now BME Growth) and the MARF (Alternative Fixed Income Market). However, the undertow is still worrying: so far this century the number of companies listed on the stock markets has continued to decline, especially in developed countries. Something is escaping us and we are not capable of reversing a trend that we understand to be negative if we are really looking to promote a healthier and more balanced growth of economies as a whole.

1 INTRODUCCIÓN

There is a general consensus that the presence of companies in the stock markets favours healthy, balanced and faster economic growth. Therefore, it is clear that we are facing a problem when for 20 years the number of companies listed on the Stock Exchanges has continued to decrease, not only in Spain, but worldwide and more sharply in Europe and North America. With this in mind, there are a series of questions that need to be asked: What has changed compared to previous decades? Why are we unable to reach a goal that both public and private institutions consider desirable? What should we do? How can some barriers be removed so that other protection orders and the functioning of the economy and markets are damaged as little as possible? In this context, the objective of this article, after formulating the facts that reveal the problem at hand, is to articulate some hypotheses that could explain the diagnosis, followed by a list of proposals that could help change the trend and reactivate listings on the European stock markets and, particularly, on the Spanish Stock Exchange.

Listing on the Stock Exchange is one of the most significant decisions that a company will make in its lifetime. To obtain access to a new source of financing and the simultaneous modification of the financial and ownership structure of a company is a significant challenge for change and innovation. As if that were not enough, on many occasions going public implies for its owners the materialisation of the accumulated capital gains associated with them remaining as partners in the company, whilst at the same time it facilitates the diversification of their investments.

Reactivating IPOs and increasing the presence of the markets as suitable financing channels to build stronger economies and support a faster recovery after the crisis, are objectives declared by the European economic authorities.

2
THE FACTS

The last two decades has seen a considerable reduction in the number of companies going public on the Stock Exchanges in the USA and Europe. The latest European report on Initial Public Offerings (hereinafter IPOs) published in 2020 shows that the number of IPOs in European markets has decreased over the last twenty years, with serious consequences for society. Today there are also fewer companies listed on the US stock exchanges than there were 40 years ago. In 1976 there were 4,943 companies listed on the Stock Exchanges in the USA. In 2016, there were only 3,627 companies (Stulz, 2018). From 1976 to 2016 the population of the USA increased from 219 million to 324 million inhabitants, so the USA went from 23 listed companies per million inhabitants to just 11. These changes are profound and raise a series of questions that could be extrapolated to Europe: How did we get to this? Why has the world of listed companies shrunk so much? Will it keep shrinking? How has the sectoral structure of listed companies changed as a result of these developments? And - perhaps more importantly, what is the overall economic impact of this continued reduction in the number of listed companies?

Until not long ago there was a widespread belief that the IPO of a company was just another stage in the natural development process. But if it were that easy, it would not explain how major companies with a long history, such as El Corte Inglés and Mercadona in Spain, have never been listed on the Stock Exchange (Pagano et al., 1998). Furthermore, as is the case in other countries, listed companies are a minority compared to all existing companies. So it appears that the IPO is not a natural stage during a company's lifecycle, but rather that it is a choice made. So it would seem that there are companies that choose to list and others that decide not to list. For this reason, financial literature has analysed the factors and variables that lead some companies to decide to list and others prefer to ignore the stock market in their life cycle.

Academic literature considers the rebalancing of the financial structure after periods of intense investment and growth as a significant reason for resorting to the stock market (Pagano et al., 1998; Rydqvist y Högholm, 1995), as well as the introduction of the company in a valuation process with the final objective of its subsequent sale (Zingales, 1995; Field, 1998) or as a way out for the owners of companies with poor expectations of future growth (Jain and Kini, 1999). So we see there are academic works dedicated to analysing these issues (Ritter, 1987; Pagano, 1993; Pagano and Röell, 1998, among others), as well as empirical works investigating the factors that lead a company to take such a decision but in general, this does not happen very often. They essentially address the reasons for going public as a balance (or trade–off) between the advantages and disadvantages of listing on a regulated market - Rydqvist and Högholm (1995) for the Swedish market; Pagano et al. (1998) for the Italian stock market; Fischer (2000) and Boehmer and Ljungqvist (2004), for the German market; Gil de Albornoz and Pope (2004), focussed on the British market and Pannemans (2002) for the Belgian market.

To put the question in the correct framework, it seems important to point out here that there are many advantages to listing on the Stock Exchange, both for the economy and, with its particularities, for the companies involved. Firstly, it strongly supports the idea that it enables finance to be obtained. Secondly, it leads to an improvement in the negotiating position vis-à-vis resource providers. It also leads to improvements in how ownership is transferred in terms of security and speed, as well as in risk diversification. It is also very clear that Stock market control, with all the transparency this requires, and the objective valuation of the company, adds value and provides greater credibility and awareness of the company in society.

There has been extensive academic research with regard to these and other significant variables. There are empirically proven advantages in many cases, which makes this a factor to be taken into account by European governments in their declared intention to promote the presence of companies in the stock markets.

2.1 / The global situation

The decrease in the presence of companies on Stock Exchanges is more acute in Europe than in the USA and Asia, where it has not been not quite as serious, not even in the complicated situation arising from the coronavirus pandemic. The fact is that in the first six months of 2020 prices in China rose 29% and the amount of money raised soared 72% compared to last year. The Hong Kong and Shanghai Stock Exchanges took the lead, in terms of number of transactions and total amount raised. However, both the number of IPOs and the amount obtained in other geographical regions of the world decreased significantly compared to the same period last year. The impact of the COVID-19 pandemic played an important role in the decline in IPO activity in the first half of 2020, which subsequently made a strong comeback in both the USA and Asia during the third quarter of 2020.

Indeed, the months of July, August and September 2020 made this the most active third quarter in the last 20 years in terms of the amount of IPOs and the second most active in terms of volume, according to the Global IPO Trends study by EY (Izzi, 2020). Those sectors least affected by the pandemic, such as technology and healthcare, have encouraged investors. Last summer was especially active in IPOs. In the summer period, when activity is traditionally low, a total of 445 IPOs were completed around the world, representing an increase of 77% compared to the same period in the previous year. These were for an amount totalling 95,000 million dollars, which represents an increase of 138% over the same dates in 2019. With these figures, accumulated activity for the year reached 872 IPOs, 14% more than the previous year, amounting to 165,300 million dollars (+43%).

Market liquidity and better feelings amongst investors are driving global activity, especially in those sectors with a lower impact such as technology and healthcare, and this is expected to continue into the latter part of the year. Asia continues to play a leading role in these developments. The majority of the operations were in the Asia-Pacific markets (554 IPOs for 85,300 million dollars, 29% and 88% more respectively), while in America there were 188 IPOs for 62,400 million dollars (an increase of 18% and 33 %). However, market activity in Europe, the Middle East, India and Africa (EMEIA) in year-on-year terms was 27% lower in volume and 24% lower in value, with 130 IPOs up to September valued at 17,600 million dollars. Technology, Industry and Health are the three most active sectors in IPOs in 2020, with a combined total of 537 IPOs for a total of 110,500 million dollars. This difference is very unfavourable to Europe, and as we will point out below in the measures proposed by this study, the fact that Europe is not going for other mechanisms such as Direct Listings or SPACs, may be a factor to take into consideration.

What has become evident in recent years is that there is a broad consensus on the positive effects that stock prices have on the economy as a whole and the sustainable and balanced development of the economic fabric. The markets themselves have often insisted on the fact that Stock Exchanges are a useful mechanism because they provide visibility, financing and valuation, as well as being interesting for succes-

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sion processes, for example. Even so, it is evident that the fact that some major companies are missing on the Spanish market is sorely felt and that the great moment for the Spanish Stock Exchange has not yet arrived (Forbes, 2018). The problem with the current situation is that it seems that it is not yet being fully felt and that for the moment there is no way to change the trend when the data clearly show that there are compelling reasons of a collective and individual order for more companies to be inclined towards listing on the stock market.

In economies where markets have a greater share of business finance, companies are better equipped to handle economic shocks, create jobs, allow investors to participate in company valuation and contribute to the creation of fast-growing companies, as more funds are being allocated towards a sustainable economy. The European economy should therefore become less dependent on bank financing (IPO Report, 2020). However, this trend where fewer companies decide to list on the stock markets leads to less transparency since unlisted companies are not subject to the same transparency and information requirements as publicly listed companies. Furthermore, listing can be an aid for the reactivation of specific sectors, as has been the case, for example, of REITS and the Spanish real estate sector.

A further drawback that is associated with the fact that there is less presence of companies listed on the main Stock Exchanges is that the transparency of the securities markets is applied to a smaller number of companies and the fact that more companies are not transparent may restrict overall support for the corporate sector in the long term. In my opinion, that alone would be a strong argument that would justify administrative intervention: the negative effect would be the fact that where companies are being financed with private, non-transparent capital, in the long-term this would generate a lack of confidence in the corporate sector and ultimately a loss of finance.

2.2 / Increase in investment levels

In the USA, Feldman et al. (2018) published a study that contradicts previous studies suggesting that publicly traded companies are less willing to invest than their unlisted counterparties. These authors provided empirical evidence to demonstrate that listed companies invested 48.1 percentage points more, and not less, than unlisted companies after adjusting for sector and size. This important work by economists linked to the Federal Reserve of the United States provides very eloquent data regarding corporate investment by listed and unlisted companies since they not only show research and development expenses, but also consistently present information for listed and unlisted companies. The results of this exercise are striking. Furthermore, Feldman et al. analysed what happened when unlisted companies went public, observing that their ratios of R&D to physical assets increased by 34.5 percentage points and their total share of R&D investment by 17.1 percentage points. However, when public companies stopped trading on the Stock Exchange there was a reduction in investments in R&D. Consequently, these researchers found strong evidence that listed companies invest more overall than unlisted companies, particularly in R&D.

Unquestionably, the Fed research is good news for upholding the principle of equity capitalism, and its results are broadly consistent as they follow two identification strategies: (1) comparing the investment options for public (listed) companies and a weighted sample of private companies that match the industry-specific size distribution of public companies; and (2), comparing investment options using the variation within the company in ownership structure with regard to an IPO.

Given the role that R&D plays in long-term growth and the potential for spillovers for other companies (Aghion and Howitt, 1996), the promotion of expenditure on R&D has long been a priority for political leaders. The results for Feldman et al. (2018) suggest that those measures that make it difficult for companies to access capital through stock markets could be a factor behind the reduction in spending on R&D by US companies. The strength of this academic makes it advisable to consider promoting the presence of companies in the markets and for them to be listed as a positive mechanism for policy when it comes to articulating measures to boost and strengthen the economy. This idea is beginning to take root in Europe, as shown by the measures proposed by the Capital Markets Union (CMU). In any case, so far, the decreasing trend in the number of companies listed on the stock markets so far this century in the United States and Europe shows that more needs to be done for companies to be able to find what they need in the markets. Academic writings have been dealing with this issue for a long time, but the conclusions reached are partial and, consequently, the measures taken by governments have also been rather tepid.

2.3 / The situation in Spain

The problem here is not only the decrease in the number of companies that go public, but also the exclusion of these companies from the markets, and this can only be due to the fact that the disadvantages that listed companies have encountered exceed the benefits of listing. **Table 1** includes the companies that have ceased to be listed on the Spanish stock market in the last 20 years.

In recent years, in Spain, what has remained most active in IPOs has been the Multilateral Trading Facility currently known as BME Growth (until September 2020 it was MAB or Alternative Stock Market) which has enabled the reactivation of some important sectors of the economy such as real estate in the form of REITS and led to a change in and the modernisation of the sectoral structure of the Spanish Stock Exchange in its most emerging segments. And to a certain extent, due to the small size of the companies, the BME Growth market enables investors to diversify investments in sectors that are underrepresented or not present on the Spanish Stock Market. Other types of companies with specific characteristics, such as REITS, are also listed in the BME MTF Equity Multilateral Trading Facility, of which BME Growth is a part.

As we just mentioned, the BME SME market, MAB, was recently renamed BME Growth, after the CNMV was included in the European Growth Market category, in Spain called Market for SMEs in expansion. This new category is included in MIFID II with the aim of promoting the financing of smaller companies through their presence in capital markets and comes within the framework of the CMU initiative. Inclusion in this category means that the quality and transparency standards of this BME market are in line with those of other Growth Markets in Europe. This recognition also enables the application of certain mitigation in the obligation to maintain the lists of insiders required by the regulation of market abuse and the possibility of using simpler models for issuing brochures to raise funds and to move from the Growth Market to the Stock Market.

It also gives the market greater international visibility with this profile, which translates into the possibility of attracting new investors and gaining liquidity. Current BME Growth began in 2006 as a Multilateral Trading Facility aimed at small and medium-sized companies, and its operation is supervised by the CNMV. There are currently 121 companies listed here with a joint Stock Market capitalisation of over 15,000 million euros. Since its inception, companies traded on this BME market have obtained financing amounting to 4,586 million euros and have paid their shareholders just over 479 million euros in dividends and other forms of remuneration. The index for the 15 most liquid companies in this market has appreciated by 81% since its creation. In the 2019 financial year, companies admitted to this market obtained financing for 1,530 million euros, shared between new incorporations and capital increases. In 2019, a total of 21 companies joined BME Growth and so far in 2020 another seven companies have joined. As a result, IPO activity is much greater in this market than in the regulated market for larger companies, traditional Stock Exchanges.

TABLE 1. EXCLUSIONS FROM LISTING ON THE SPANISH STOCK MARKET IN THE LAST 20 YEARS

COMPANY	INITIAL LISTING	MARKET	YEAR SUSPENSION	YEARS ON THE STOCK MARKET
SUPERDIPLO	14/05/98	SIBE	30/01/02	4
BEFESA MEDIO AMBIENTE	01/07/98	SIBE	25/08/11	13
PAPELES Y CARTONES DE EUROPA	10/07/98	SIBE	20/02/19	21
FEDERICO PATERNINA	16/09/98	SIBE	08/01/10	12
ENACO	11/12/98	SIBE	18/03/03	5
FUNESPAÑA	11/12/98	SIBE	07/12/18	20
TRANSPORTES AZKAR	03/02/99	SIBE	02/02/06	17
MECALUX	06/05/99	SIBE	08/07/10	11
PARQUES REUNIDOS	26/05/99	SIBE	05/12/19	20
SOGECABLE	23/06/99	SIBE	20/06/08	11
TERRA NETWORKS	27/10/99	SIBE	15/07/05	6
RECOLETOS GRUPO DE COMUNICACIÓN	28/06/00	SIBE	04/08/05	5
TELEFÓNICA MÓVILES	25/10/00	SIBE	31/07/06	8
IBERIA	22/11/00	SIBE	24/01/11	7
FADESA INMOBILIARIA	26/06/02	SIBE	17/12/07	4
CINTRA CONC. INFRA. DE TRANSPORTE	24/06/04	SIBE	03/12/09	1
DERMOESTÉTICA	27/10/04	SIBE	19/06/13	8
VUELING AIRLINES	08/11/06	SIBE	08/09/13	7
IBERDROLA RENOVABLES	13/12/07	SIBE	11/07/11	4
ZINKIA ENTERTAIMENT	15/07/09	BME GROWTH	11/02/19	11
LET´S GOWEX	12/03/10	BME GROWTH	27/06/18	8
NEGOCIO Y ESTILO DE VIDA	07/06/10	BME GROWTH	06/03/14	4
BODACLICK, S.A.	30/06/10	BME GROWTH	30/04/15	5
NEURON BIOPHARMA, S.A.	01/07/10	BME GROWTH	13/12/19	9
AB-BIOTICS	20/07/10	BME GROWTH	13/12/19	9
GRUPO NOSTRUM RNL, S.A.	10/11/10	BME GROWTH	06/03/14	4
LUMAR	05/07/11	BME GROWTH	22/02/16	5
CARBURES EUROPE	26/01/12	BME GROWTH	26/11/18	7
SUAVITAS	30/03/12	BME GROWTH	30/05/14	2
1NKEMIA	04/12/12	BME GROWTH	29/04/19	7
NPG TECHNOLOGY	22/04/14	BME GROWTH	04/05/15	1
ECG	05/11/14	BME GROWTH	28/09/18	4
HOME MEAL	04/12/14	BME GROWTH	22/02/19	5
SNIACE	26/06/97	CONTINUOUS	14/07/20	23

Fuente: **In-house**.

2.4 / Some preliminary considerations about stock markets and SMEs in Europe

The European Commission is taking actions in an attempt to build a regulatory environment to support the listing of SMEs. The number of initial public offerings by SMEs is decreasing in the EU, compared to the crisis situation prior to 2008: From 2005 to 2007, an annual average of 11,000 million euros was generated in European junior markets (i.e. MTFs dedicated to SMEs), while the annual average fell to 2,800 million euros from 2008 to 2015.

The low level of IPOs by SMEs has broader consequences on their access to finance, as well as their ability to invest and grow. For example, easy access to public stock markets is an important consideration for venture capital and private equity funds that in many cases accompany SMEs in the early stages of their development and value divestment solutions that are in line with their expectations, although in recent years a "secondary" market has been developed between venture capital funds and private equity, which further restricts companies' access to public markets and reduces their level of development and an increase in their critical mass. As public markets for SMEs are generally underdeveloped, this encourages venture capital funds to invest in unlisted SMEs first. And, in turn, the low number of initial public offerings by SMEs also reduces the number of companies that can grow and eventually graduate to the main (regulated) European stock markets. But it is also that, beyond the financing of the stock market, bond issues are still far from being generalised for the great majority of SMEs, despite a series of multilateral trading mechanisms specialising in bonds for smaller companies established in the last 3 years. That is to say, public markets in Europe (and we could almost say in the world) are a scenario far removed from the daily activities of companies.

It has been verified that eliminating some red tape and reducing the costs associated with adhering to strict transparency rules encourages young, innovative and fast growing companies to issue stocks and bonds in public markets dedicated to SMEs. This could contribute to a growth in the size of SMEs in the EU. For example, companies that are listed on AIM in the UK (one of the few successful European junior markets for SMEs) show on average 43% growth in turnover in the year after an IPO. The proposal could also contribute to financial stability, by increasing long-term stable equity financing and reducing the excessive dependence of SMEs on bank loans. Better access to equity financing will also benefit companies looking to innovate.

By encouraging more SMEs to list their financial instruments, the alternatives for channelling the savings available for retail and institutional investors are also broadened, although for this participation to be broader and more effective it is necessary to look for vehicles that make it easier to invest in this type of companies. In this regard, a formula for the participation of the public sector could be a good promotional alternative to attract small savers to these companies.

3
DETAILS OF HYPOTHESES THAT HELP TO EXPLAIN THE DIAGNOSIS

In line with the comments so far, it seems clear that when addressing the growing divorce between companies and Stock Exchanges we are faced with a multifactorial and multi-causal problem for which there is no single all-encompassing solution capable of stopping or reversing the distancing of the parties.

There are underlying reasons and many other critical circumstances that are beyond our control. To begin with, it is possible that the opinion and sensitivity of the subjects on whom the final decision to contribute depends is not being sufficiently taken into account: the companies. Also, the very development of the markets and the investor protection doctrine, plus the proliferation of financial products, have loaded those who must support the underlying condition with information obligations: the companies, again. And it may be that sufficient incentives have not been generated from the public powers to abolish certain regulatory and structural barriers (in the financial industry) and by the companies themselves (fears, inheritance problems). It may even be that companies have been left without their traditional place on the stock exchanges for different reasons ranging from the scale of sizes to the ability (or inability) of the markets to establish business valuations adapted to the content of new businesses and the proliferation of intangible aspects in their development.

So we begin with a central idea: the existence of a broad, participated, diversified, transparent and properly regulated stock market is a very positive element to support faster and more balanced economic and social development processes. This idea is widely shared by many important economic, political and institutional agents. From this perspective, the objective of this task is to open up avenues of thought that enable us to detect where we have failed during all these years and to highlight what can be done to encourage more companies to undertake public listing. In other words, open them up to the participation of more investors and to opportunities for growth and financing that they could not otherwise obtain.

3.1 / The view of the companies' financial managers

I think it would be interesting to begin this analysis with comments on some academic papers that researched the reasons given by the financial managers of the companies for being listed or not being listed on the markets. In this area, important differences can also be detected between North American and European companies.

The main aim of CFOs when listing their companies is for the company's shares to be traded in such a way as to facilitate future acquisitions, whilst there is little evidence to suggest that the motive behind Stock Market listing is a reduction in the cost of capital. Park (1990) compares the results from surveys for the same period conducted in a sample of 37 companies that had considered going public but then rejected the idea and a sample of 212 companies that had the potential to go public (because of their revenues) but decided not to.

The research shows that CFOs seek to take advantage of the windows of opportunity determined by the profitability of the market, but in the end it is rather the characteristics of the companies themselves that establish the price. So the CFOs in smaller, younger companies that belong to high-tech sectors and are financed with venture capital, give more importance to improving their reputation than is the case with directors of companies where there is greater disinvestment by the owners when an IPO takes place.

In a later study, Brau et al. (2006) conducted a survey of 438 CFOs of companies that went public in the United States in the period prior to the bubble of ".com" companies (1996-1998) and the period after the technology bubble (2000-2002), which enabled them to corroborate the maintenance of the reasons for going public during that time, as well as the perception of the financial directors regarding going public at times when the market was bullish or bearish. The results show that: (i) CFOs perceive going public as a vehicle to finance the growth of their companies; (ii) they do not consider going public as a mechanism to make it easier for entrepreneurs to leave their companies; (iii) in general, they find that the perception of CFOs does not change whether the market is bullish and bearish and (iv) even though CFOs consider that the direct costs of issuance (especially the costs of underwriting and placement) are a major drawback in the decision to go public, they are more concerned with indirect costs such as loss of confidentiality.

Bancel and Mitto (2009) undertook a similar study in the European context. This study included a survey of 78 CFOs of companies from 12 European countries that went public in the period between 1994 and 2004. In this study, the benefits and costs associated with going public were analysed from the point of view of their CFOs and the results obtained were compared with those of the two studies for the American market.

In recent years, in Spain, what has remained most active in IPOs has been BME Growth (Alternative Stock Market) which has enabled the reactivation of some important sectors of the economy such as real estate in the form of REITS and led to a change in and the modernisation of the sectoral structure of the Spanish Stock Exchange in its most emerging segments.

The main conclusions of the study by Bancel and Mitto (2009) were: (i) Most CFOs consider the main benefits of going public to be improved reputation and visibility, as well as a source of finance for growth. This result is consistent for all the companies and in all the countries in the sample; (ii) They found moderate support from CFOs for other benefits indicated in the literature, such as making it easier for the main owners to leave and facilitating subsequent mergers and takeovers, which contrasted with the results of Brau and Fawcett (2006); (iii) While European CFOs saw similar benefits to American CFOs in going public as a source of finance for funding growth opportunities, creating a "bargaining chip" to facilitate future corporate transactions (mergers and takeovers) and the liquidity of the shares, there were substantial differences on two issues. Firstly, the issue of the control exercised by the market. For European directors this control was the main benefit from going public, whilst CFOs in America consider this to be a significant cost. Secondly, European CFOs did not consider the costs of going public as an important issue in their decisions, while directors in America were much more concerned with the direct and indirect costs of going public. The same authors tried to justify this different sensitivity regarding the costs of going public, and provided two possible explanations: The fact that underwriting and placement costs are generally higher for public offerings in the United States than in Europe, and the fact that companies going public in Europe are, on average, larger and older than those that go public in the United States; (iv) The decision to go public cannot be explained by a single theory, since companies seek multiple benefits when going out on the market. And the reasons for going public are conditioned by the characteristics of the companies; that is, their ownership structure, size and age. So larger companies consider control of the market as the most important benefit of going public, while smaller companies place a higher value on the possibility of raising resources to finance growth.

Family companies see going public as an opportunity to improve their bargaining power with their financial providers, without giving as much importance to the inorganic growth and liquidity of their securities, while non-family and older companies place a higher value on the benefit provided by increased liquidity. Finally, the authors found that, even though the perceptions of CFOs were very similar in all the different countries, there were substantial differences in terms of shareholder exit strategy and external supervision. So in the countries belonging to the English system (United Kingdom and Ireland), a higher valuation was given to the original owners leaving the company and the fact that there were important changes in the ownership structure after going public; In countries belonging to the civil system (continental European countries), the owners continued to maintain control of the company after it went public.

3.2 / Changes in companies induced by technological development

In the current environment and with new technologies such as mobile networks, cloud storage and artificial intelligence, different forces seem to be driving the business landscape towards two extremities: a small number of large super companies and a host of small, profitable companies that are often innovative and highly focused on small niche markets. All the others, medium-sized businesses in the USA ranging from companies that are part of the Fortune 500 to others with assets of around 100 million dollars, are finding it more difficult to continue growing.

This situation can be clearly seen in the United States stock market, where companies such as the so-called FAANG (Facebook, Amazon, Apple, Netflix and Google) and others, with a special mention for Microsoft, have achieved unprecedentedly high stock market quotations. In the field of startups, some companies obtain huge volumes of finance but there are also others who have trouble getting together with investors. There are also very small, newly created companies specialising in specific business niches that are flourishing and raising capital more easily than ever from Private Equity funds, Venture Capital, business angels and even equity crowdfunding, although on a smaller scale.

Another way of looking at the proliferation of small businesses is through census data from the United States, which show that 76% of companies are sole proprietorships. In any case, technology is putting not only middle-class jobs at risk but also midsize companies.

Amazon is a good example of why technology platforms are creating extremes in the business world. What will happen in the mid-term? Medium-sized companies will see their businesses gradually engulfed by a swarm of niche companies. The centre of the market is disappearing: This is something that Stulz (2018) confirmed when showing that the stock market is half the size of what it was in the mid-1990s and is 25% smaller than it was in 1976. The population of the United States has grown by 50% since the mid-1970s, but the number of companies has decreased. According to Stulz, in 1975 there were 23 companies for every million citizens, 12 more than now. It seems that there is no room for medium-sized companies in the market. In 1975, 62% of listed companies had assets valued at less than $100 million, with adjustments for inflation; that percentage has now dropped to 23%. From these data it can be undoubtedly concluded that the propensity to list is lower in all company-size groups, but even more so among companies with fewer than 5,000 employees. This is because markets have become unattractive to small businesses and existing ones are larger and older.

3.3 / The effect of intangibles

From an academic point of view, one of the last and main lines of argument to try to explain these facts is that the importance of intangible investment has grown and that Stock Exchanges are not suitable platforms for valuing young companies that make intensive use of research and development. These new companies with a greater weight of intangible assets in their structure need much less equity capital to start up ideas and grow. And since there is abundant capital available to such companies without needing to go public, they have little incentive to do so until they reach the point in their life cycle where they are focussing more on remunerating shareholders than on raising capital.

Intangibility makes businesses more scalable and therefore capable of outsourcing (cheaper) services required for production without the need to obtain capital to develop them internally. Intangibility also enables the expansion of a product or service to be used to sell more units without having to make investments in new production plants (as can happen with cars, for example). It is also a fact that these companies with more intangibles cannot be well financed with debt in the markets because those "intangibles" are not good collateral for debt holders (lenders). They are causes that may potentially induce young small businesses not to use public markets to obtain financing, as they believe that they can obtain funds on better terms elsewhere. It could also be that the owners of these companies prefer to be purchased if there is a good offer rather than going public. Be that as it may, the result is that for a number of years the stock markets have not seemed attractive to this type of company.

Following the same lines of argument, there is currently a debate amongst academic circles as to the suitability of accounting standards depending on the type of company. From this point of view, it could also be explained why transparency works badly for companies based on intangibles and why the regulated information that markets normally require to remain in them can be a disincentive for these companies.

Listed companies are subject to strict information disclosure rules and should comply with the accounting standards of Generally Accepted Accounting Principles (GAAP), for example in the case of the United States. Both disclosure rules and GAAP accounting can be problematic for companies that lean strongly towards intangible assets (Leuz and Wysocki, 2016). If a company is building a new plant, it is easy for it to reveal that it is doing so. It cannot be taken away from them. It is not the same for a company that has an intensive R&D programme. By revealing details of the programme they are giving away some of their ideas. Other companies can build on what they learn from these revelations. Whereas if a company tries to disclose as little suitable information as possible, it faces the difficult problem that this will mean outsiders will be unable to assess its value correctly and it is likely to be valued at a discount. As a result, the company could end up in a dead end situation: If you reveal too much, your value decreases because outsiders can use what you reveal to enrich themselves, but if you reveal too little, your shares are discounted due to investor uncertainty.

Meanwhile, the accounting regulations themselves could well cause problems of their own. Accounting rules, by definition, are conservative. If a company acquires a building, it will be recorded at acquisition cost. The belief is that the building was purchased at market price and could be sold at that market price. However, if a company spends a large amount of money on researchers' salaries, accounting does not consider these salaries as an investment in a research project that is an asset on its balance sheet. Quite the reverse, these salaries are treated as an expense that lowers the profitability of the company. Therefore, it follows that GAAP may have an inherent bias against intangible assets (Lev and Gu, 2016). Accounting may not be as informative for companies with intangible assets as it is for companies with tangible assets. Investors rely on accounting data to assess the value of a company. If the accounting data is not very informative, investors will be more sceptical about the value of the company.

ACTIONS AND POSSIBLE MEASURES TO ATTRACT COMPANIES TO THE STOCK EXCHANGES

1. To promote the **participation of small and medium-sized companies** in the securities markets.
2. Accelerating the launch of European **public-private investment alternatives** prior to listing (SME IPO Fund Options).
3. More details regarding national measures already proposed for possible **investment vehicles in small and medium-sized companies** with growth potential.
4. Creating a **culture of participation in stock markets**. It is essential to promote this aspect.
5. Improving **tax incentives for listing and IPOs.**
6. For the Administration with the support of the private sector to promote a **"space" for training and independent and free assessment to companies** in matters of financing.
7. Developing a **balanced regulatory framework** that also enables innovation.
8. Developing and **promoting dialogue between companies and investors**.
9. Recognising the essential role of public capital markets in the **development of a sustainable economy.**
10. Promoting and **removing obstacles to the actions of institutional investors** such as pension funds.
11. Encouraging the **participation of retail investors**.
12. Promoting **specific initiatives** agreed between political leaders and the markets.
13. Accelerating **changes to regulations** when it is felt they do not meet the objectives.
14. Analysing the advantages and disadvantages of **new market entry formulas** such as SPAC (Special Purpose Acquisition Company).
15. **Adapting formulas such as Direct Listing** to Spanish and European reality.
16. Developing a line of **public-private collaboration to encourage liquidity** (demand), promote the relaxation of regulation (for managers and property owners), undertake campaigns to broaden financial culture.
17. Attending to the **initiatives, proposals and studies** of the European Federation of Stock Exchanges (FESE).
18. Convincing companies that the **best way to gain size and boost growth** is through financing and presence on the Stock Market.
19. Explaining the **advantages of a presence on the market for companies with intangible assets**. As the main global technology companies have shown, a presence on the Stock Exchange accelerates the increase in size.
20. Promoting **measures that increase liquidity**.
21. **Simplifying regulations and making it easier to access stock exchange listing** so that companies do not see going public as an ordeal because they have to prepare a very complex brochure to access listing, or overcome a mountain of bureaucratic obstacles.
22. Progressive **correction of the lack of fiscal neutrality** between debt and equity (Debt/Equity Bias).
23. Promoting and publicising the **advantages of financing through capital in different ways**.
24. It is essential to **accelerate CMU (Capital Market Union) measures**.

Conservative accounting is of value for companies looking to issue debt to investors, as it provides a better approximation of the collateral available to protect their debtors. However, companies with large amounts of intangible assets generally do not issue public debt. Intangible assets are usually poor collateral for loans. Jensen believes that concentrated ownership (not listing) is valuable in reducing agency costs for free cash flow. A company with valuable intangible assets is better able to provide information about the value of these assets without worrying so much about expropriation when it can do this for large potential investors in its capital rather than when it has to provide mandatory information for a public that is more open (as occurs with the a listing). It is even better when potential investors have specialised knowledge about the type of intangible capital the company is developing which would generally be the case for venture capital investors who are in a better position to assess the value of intangible assets. So from this point of view, there are those who will argue that listing could only be a second best solution.

The combination of descending figures for listed companies and the causes described above enables us to a certain extent to conclude that financial development in the United States has evolved in such a way that some types of companies can be financed more efficiently through private sources than through public markets because the intrinsic properties of intangible assets make it difficult for them to be financed on the Stock Market. If this is the case, it would be unlikely that any deregulatory action could restore a positive flow of companies to Stock Markets.

3.4 / Other determining factors

Another reason for companies not wishing to go public is that the increase in competition and communications and reduction in time scales leads some entrepreneurs to prefer to "sell" the business rather than to look for more capital to grow because they can enjoy exclusive success for such a short time: it is better to sell or speculate with their "potential". It is much easier and natural for finance flows or wells to make contact with business projects than it was a few years ago: it is much easier to find accessible financing worldwide (not just locally).

In addition to all this, we should add a variable that is cyclical to a certain extent and consists of financing through debt being inexpensive since interest rates have remained at very low levels for quite a number of years. Because of the pandemic and the resulting crisis this situation looks like it will remain in the mid- and even the long-term, when just a year ago we seemed to be progressing towards a scenario with more normalised interest rates.

With regard to the public information obligations commented above, it is persistently argued that regulations are the reason companies do not wish to be listed. In the United States this reasoning often involves the Sarbanes-Oxley Act of 2002, the Fair Disclosure Regulation (FD Reg), and other restrictions imposed on analysts and the financial services community at the beginning of the 2000s.

Many other experts argue against this and declare that if any regulatory action played a leading role in the decrease in the number of listed companies in 1990 it was the deregulation that increased the number of investors beyond which a company was obliged to list its equity in a regulated public market. In other words, this deregulation made it easier for companies to raise funds without going to the markets.

There was further deregulation after the 1990s. Companies that went public could benefit from having securities registered on the US Stock Exchange because the SEC allowed them to issue more shares or public debt on favourable terms and use the capital raised as currency to make acquisitions.

A list of possible causes and changes that may be behind the growing detachment of companies from the Stock Exchanges could well include the following determining variables: (1) regulatory changes have made it easier to raise funds privately (Fontenay, 2016); (2) technological changes have made it much easier to find investors and gather information and (3) young companies do not require as much capital in their development phase as they used to (Davis, 2016, among others). As we mentioned before, the Internet has made it more affordable to find capital (investors) for companies and it has also made it possible to universalise access to important services to build a business that previously had to be developed internally with a significant cost to equity capital.

In light of all the above factors, it is not surprising that Ewens and Farre-Mensa (2017) state that private "startups" can now "raise capital (…) that was historically only available to their public or listed peers." The Internet has drastically reduced the costs of looking for finance and in my opinion this is another key point. This applies to finding investors. But perhaps more importantly, this medium has made it possible for young companies to find and contract a wide variety of services that in the past they would have had to create in-house at great cost. A company with a good idea for a manufactured product can easily produce it abroad without having to build a plant. A company that needs a lot of computer power can lease it cheaply. It is now much easier for a company to rent administrative premises.

All these changes mean that much less capital is required in the early stages of the life of a business. Together with the speed of communications, there is much more competition and that shortens the time available to develop and exploit a business idea in exclusivity: it is more attractive (and easier) to start a business to later be sold than to go public and continue with expansion. Again, another situation that has led to a reduction in the need for stock market listing, from the point of view of these companies. This is even easier to see (and for it to happen) in companies with intangibles where the scalability of the different parts of the service production chain is much higher. Other variables have also played a role in the decline in the number of listed companies. In this regard, mergers are a factor that leads to an increase in the reduction or elimination of the number of listed companies. Although historically financial economics literature has emphasised the role of mergers in improving efficiency by creating synergies, it is not clear that this view of mergers can be applied to the type of mergers that took place in the 2000s.

And the obstacles that stand in the way of companies going public do not end here. In recent years, the ecosystem that supports companies that undertake IPOs (intermediaries, dealers, brokers) has suffered greatly as a result of the impact of regulatory changes. There is also a feeling that the excessive scrutiny to which listed companies are considered subject compared to those that are not listed, sustained low interest rates and favourable tax treatment for financing with debt for a number of years now, are further reasons that cause companies to doubt.

3.5 / Factors indicated today by the European Commission

The report "European IPO Report 2020: Recommendations to improve conditions for European IPO markets", commissioned by the European Commission highlights this problem of a fall in the number of IPOs on all European stock exchanges (Nagtegaal, 2020). According to this report, the main reasons why there has been a general cooling down of the stock listing would be (p. 11): lack of liquidity of listed companies; regulatory charges for the procedures required for going public through IPOs; an increasing number of companies trying to grow through mergers and acquisitions rather than through equity financing; documentation requirements for managers of listed companies that prevent them from meeting certain investments; the lack of "market culture" (equity culture) that makes family businesses especially hesitate to go public and modify their ownership structure (in Spain, I think this factor is very important); strict regulations that restrict the possibility for retail investors to participate in the market (which limits the potential liquidity of the securities); the effects of changes in the market structure under the new MiFID II and the separation between analysis of companies, brokerage and the sale of securities that do not favour in any way the visibility and liquidity of these securities, especially those of medium and small size; a fall in the number of unit trust managers as a result of the above-mentioned MiFID II; and, as a result of all the above, growing uncertainty about the success of going public through IPOs, as well as a certain lack of investment culture in financial assets in many countries.

And a recent report by Oxera Consutling LLP (2020) sets out the reasons related to "listing" and "de-listing", that is, to start and stop trading on the Stock Exchange. In this regard, the report gives the main reasons why large companies are not looking to go public, that have led to a lack of companies going public or remaining listed. Basically there are four causes: (1) the trading environment is not favourable; (2) the loss of control when starting to trade; (3) the agency costs and private benefits of control and (4) the short-term preferences of investors in the Stock Market.

Throughout this section I have tried to present the problem of the situation that concerns us from multiple analyses and points of view issued by different researchers and institutions. In my opinion, the conclusion from the academic research is that companies need compensation for the costs and obligations entailed not only in going public but in staying listed. And what the cold data on admissions and exclusions have suggested for many years in most of the world is that this does not seem to be the case in general terms, excluding some examples of sectors where politicians seem to have been correct in demanding listing as part of a controlled reorganisation process (see REITS in Spain).

4
ACTIONS AND POSSIBLE MEASURES TO ATTRACT COMPANIES TO THE STOCK EXCHANGES

Reactivating IPOs and increasing the presence of the markets as suitable financing channels to build stronger economies and support a faster recovery after the crisis, are objectives declared by the European economic authorities. This means there is a favourable opportunity to reliably revert the trend for a decrease in the number of companies listed on stock markets that has been prevalent for some years.

The essential AL argument for contributing ideas in this area has been laid down by the European Commission in a new Action Plan for the Capital Markets Union. According to this plan, in economies where markets have a greater share of business finance, companies are better equipped to handle economic shocks, create jobs, allow investors to participate in company valuation and in the creation of fast-growing companies, as well as assigning more funds towards a sustainable economy. The above-mentioned European report also details some of the consequences for society arising from the lack of companies going to the market.

In this section I would like to present a set of proposals that could become measures to increase the attractiveness of Stock Exchanges and the securities markets for companies in general. Having reviewed the corresponding academic literature and the measures that contributed by different organisations, I would like to propose a series of measures that in my opinion could contribute to activating and accelerating the number of IPOs to offset this generalised fall in the number of IPOs globally. They are as follows:

1. To promote the participation of small and medium-sized companies in the securities markets. In this regard, a forward step for the securities market in Spain was the initial creation of the MAB for expanding SMEs and now called BME Growth after recognition of the European Growth Market category by the CNMV. This new category is included in MiFID II with the aim of promoting the financing of smaller companies through their presence in financial markets and comes

Reducing regulatory burden and costs associated with going public. That´s a good way to encourages young, innovative and fast growing companies to issue stocks and bonds in public markets dedicated to SMEs. It´s a proven fact and could contribute to a growth in the size of SMEs in the EU. For example, companies that are listed on AIM in the UK show on average 43% growth in turnover in the year after an IPO.

within the framework of the Capital Markets Union (CMU) initiative. Inclusion in this category means that the quality and transparency standards of this category are in line with those of other Growth Markets in Europe. This recognition also enables the application of certain mitigation in the obligation to maintain the lists of insiders (people linked to the company who possess sensitive information) that is required by market abuse regulations or the possibility of using simpler models for issuance brochures to raise funds and even to make the leap from the Growth market to the main Stock Market. The example of Hungary also deserves special mention. The impulse to its stock stems from a number of factors, including the fact that the Stock Exchange operates an exclusive market for SMEs called the XtendMarket with lower prices and less stringent requirements.

2. Accelerating the launch of European public-private investment alternatives prior to listing (SME IPO Fund Options). At the moment, the European Commission is working intensively on the development of investment instruments to help increase the use of IPOs in Europe as a means for small and medium-capitalisation companies with high growth potential to obtain capital from public and private investors through three formulas: direct investment, Funds of Funds (FoF) and Special Purpose Vehicle (SPV). In the case of direct investment in SME equity funds, the level of this investment should be agreed on a case-by-case basis. With the EU Fund of Funds (FoF), the best way is to operate jointly with the private sector. It would involve the FoF having at least 25% of its investment from the EU and a minimum 30% from the private sector. The FoF would support public-private funds throughout the EU investing in SME IPOs. Finally, EU investment in an SPV would also be with the private sector. The SPV would have at least 25% public investment from the EU government and a minimum 30% investment from the private sector.

3. More details regarding national measures already proposed for possible investment vehicles in small and medium-sized companies with growth potential. As already mentioned in this report, financing SMEs through the stock market is beneficial for the growth of the economy, especially when it is done through capital increases. The difficulty lies in finding investors willing to risk their money in these types of companies, which are smaller, less liquid and less well known. In neighbouring countries, a number of different formulas are being used to promote investment in expanding SMEs. In Great Britain, for example, there are two main vehicles that use tax incentives for investors to facilitate the financing and liquidity of SMEs to boost their growth: Venture Capital Trust (VCT) and Enterprise Investment Scheme (EIS). VCTs are closed collective investment institutions (they do not allow subscriptions and redemptions once constituted) similar to other venture capital entities, but, unlike these and other similar investment vehicles, VTCs must be listed on the capital markets to be able to enjoy a certain liquidity. EISs were created in 1993-1994 and, like VTCs, this vehicle is designed to attract retail investors to SMEs for them to be able to obtain alternative financing to grow their business. The essential factor involves the tax incentives that each of them provides. From the Spanish markets, three seemingly appropriate measures have been proposed to the CNMV: (i) regulating Investment Funds that invest in reduced capitalisation companies established in Spain (FIRCE). This and similar formulas have already been implemented in several European countries and are working successfully. They consist of open investment funds, subject to Law 35/2003, of 4 November, on Collective Investment Institutions (Law 35/2003), authorised in Spain (art. 2.1.a) Law 35/2003), and therefore under the supervision of the CNMV; (ii) Creating a formula in Spain similar to the Enterprise Investment Scheme (EIS) in the United Kingdom or even, to a certain extent, with the same characteristics as the European Long-Term Investment Funds (FILPE); (iii) Adapting a formula already existing in Spanish regulations, venture capital entities (ECR in Spanish). They were created in Spain in 1976 and have been modified a number of times (1986, 1999, 2005). The purpose of the proposed modifications to this regulation is to promote the creation of ECRs specialising in securities present in BME Growth, a vehicle very similar to the above-mentioned Venture Capital Trust (VCT) in Great Britain and the FPCR in France and, to a certain extent, to the European Long-Term Investment Plans (FILPE in Spanish).

4. Creating a culture of participation in stock markets. It is essential to promote this aspect.

In fact, less than half of European households (43%) invest in any type of financial assets other than bank deposits, with the notable exception of Sweden, where more than 60% of households do invest. EU citizens include some of the "world's best investors (Sweden, Denmark), as well as those scoring below the global average (Romania, Portugal) in financial literacy rankings". There are also significant differences between men and women and between young and old people in terms of the level of financial education. In this regard, I consider it essential to promote financial education to generate an investment culture among citizens for them to understand the importance of having a strong stock market with many listed companies, in other words, a broad financial market. Financial Education Day, which for 13 years has been held on the first Monday in October and consists of initiatives and conferences on financial disclosure. It is a good example of the dissemination of knowledge and an attempt to convey to society the importance of financial culture.

5. Improving tax incentives for listing and IPOs. In this regard, Sweden is a successful example where special tax treatment of savings in funds and shares has promoted a high level of investment. In 2012, special treatment was introduced for investment savings accounts (ISKs), where instead of paying tax on savings capital gains a standard annual tax rate is paid. According to the Nordic Securities Association there are 3.3 million investments in savings accounts in Sweden. As an example there is an open letter from the founder of the Spotify music streaming app to Swedish politicians sent in 2016, where they stated that in order to be competitive as an attractive company for international talent, they needed to offer stock option programmes for employees. This was considered impossible under Swedish tax law and therefore a review was requested. Employee stock options should be taxed when taken up, not when granted. The appropriate tax treatment of dividends and capital gains is also required. To summarise, the Administration needs to develop tax incentives to facilitate and motivate going public, that is, if the institutions consider that it is favourable to have a large, powerful and developed Stock Exchange with a significant number of listed companies, then the best way for the Administration to demonstrate this is by developing fiscal measures that are favourable to going public.

6. For the Administration with the support of the private sector to promote a "space" for training and independent and free assessment to companies in matters of financing as well as offering assistance conditional to companies being present on the markets and transparency in financial matters, corporate governance and sustainability. In short, it is about helping them on their way to positioning themselves in public markets for both shares and fixed income.

7. Developing a balanced regulatory framework that also enables innovation. In recent years, initial offerings of cryptocurrencies (ICO) have begun to take centre stage. They have been extolled for their simplicity compared to IPOs and are described as a fast and uncomplicated way to raise significant amounts of money, as well as allowing venture capital not to be considered. They are a priori easy options to obtain financing and offer faster preparation and lower costs compared to traditional IPOs. The crypto asset market has also begun to develop and the European Union has published a first draft of the regulation known as MiCA (Market in Crypto Assets). An example is the Croatian market, where significant investments were made in crypto assets, while at the same time no company was listed. The uneven playing field that may arise needs to be addressed as crypto assets in this case have benefited from a lack of regulatory requirements, including those involving investor protection. Another clear example is that of France, which was one of the first countries to introduce legislation for ICOs. The Loi Pacte includes a specific framework for issuers of tokens and providers of services in digital assets. French politicians aim to make capital markets more efficient by supporting the use of technology. However, suitable investor protection must be ensured by means of highly standardised disclosure requirements. Combining innovative technologies such as blockchain with an established and regulated market, would potentially be the natural choice to ensure market stability by taking advantage of the innovative potential provided by FinTech.

8. Developing and promoting dialogue between companies and investors. Making reporting more accessible to investors. The Financial Reporting Council recently adopted a new version of the UK Administration Code published in October 2019. It also includes a code currently under development in Germany and it also exists in Denmark, Italy and the Netherlands. The EU Directive on shareholders' rights contains a specific article on "Participation Policy" (article 3g). This article codifies the principles for existing national administration codes at EU level. This measure is very important because to improve the IPO market it is essential to maintain better and more active communication between investors and potential issuers. In the past, it was common practice for companies to prepare for an IPO by contacting potential target investors (primarily institutional investors) to get direct feedback from them about the IPO's chances of success. This practice helped companies to structure the offer and define the price and the number of shares to be placed more accurately. However, the MiFID II regulatory regime prevents this practice by placing additional administrative barriers on institutional investors when they meet candidates for an IPO. This has led many institutional investors refusing to contact these companies and therefore, in this context, to adopt measures that improve "reporting", that is, information and communication to investors regarding the situation of the company for investors, which is crucial.

9. Recognising the essential role of public capital markets in the development of a sustainable economy. As environmental, social and governance (ESG) issues and risks become more and more important to society and investors, the cost of capital is likely to increase for companies that omit or provide little information on these issues. This aspect is paramount in stock markets today.

10. Promoting and removing obstacles to the actions of institutional investors such as pension funds. In some cases, there used supervisory requirements or practices that prevented pension funds from investing in stocks or publicly traded SMEs. An example of this is Bulgaria, where changes in the statutes of pension funds effectively led to funds that restrict their investments to companies in the main index only. As a result of this, pension fund capital is only marginally used to finance local businesses and ensure growth for future pensioners. However, this is negative since it restricts the possibility for pension funds to play a very positive role in the development of local capital markets and create growth at a local level. Openness is always positive.

11. Encouraging the participation of retail investors. In financial markets, the diversity of participants is extremely important because it contributes to a diversity of perspectives and preferences. However, end-investors in Europe seem to be channelled towards intermediate products that provide low returns and are high risk. According to Constancio et al. (2019), compared to the United States, households - retail investors - in the European Union directly invest in shares to a lesser extent (19%) than those in the United States, which hold 35.6% in shares. So we need to change this imbalance and try to encourage the direct participation of retail investors in the Stock Exchanges. Long-term direct investment in the Stock Market consistently brings higher returns than any other type of investment. This is why a subscription service is being offered to retail clients that make it easier for them to participate in equity markets. For example, Deutsche Börse (the German Stock Exchange) offers a subscription service called DirectPlace which allows retailers to submit orders through their custodian bank during the underwriting phase. There are also other FinTech companies that focus on creating possibilities for retail investors to participate in a primary offering.

12. Promoting specific initiatives agreed between political leaders and the markets. For example, the development of alternative markets, and the simplification of prospectuses, especially since the 2007 crisis and within the framework of the Capital Markets Union. During this crisis resulting from the coronavirus pandemic, a series of post-Covid-19 measures are being taken for the purpose of relaxing the conditions so as to increase capital. This idea could be extrapolated to the

IPO process itself. It is clear that if governments wish, they could give much more direct support to the use of financing mechanisms and investor participation through markets, and that is precisely what this document seeks to promote. In fact, in July 2020, a Draft Bill was approved to transpose the EU Directive 2017/828 on long-term involvement of shareholders. This project includes a series of measures to make the system of issuance of shares and convertible bonds by listed companies more flexible. The primary objective is to simplify and streamline the processes for raising capital in the market by listed companies and companies with shares admitted to trading in multilateral trading systems. For example, with regard to capital increases and especially those made with a charge to monetary contributions, a reduction of the minimum term for the exercise of pre-emptive rights to 10 days is envisaged, compared to the current 15 days. And specifically for increases excluding pre-emptive rights, this Project generally eliminates the need for listed companies to obtain a report from an independent expert/auditor who decides on the fair value of the shares and restricts the possible delegation to the board of the power to increase the capital excluding pre-emptive rights to 25% of the share capital. This does not affect the general limit of 50% that applies to authorised capital.

13. Accelerating changes to regulations when it is felt they do not meet the objectives, as was the case with the measures to reverse some sections of MiFID II to try to combat the effects of a downturn in economic activity as a result of Covid-19. Given that the coverage of analysis of small values in the EU has undergone a considerable decrease with the entry into force of MiFID II and, even more, with the outbreak of the Covid-19 pandemic, the European Commission is taking measures to remedy this problem. These include enabling companies with a maximum capitalisation of 1,000 million and also fixed income issues to have great advantages. To achieve this, intermediaries will not need to detail the cost of their brokerage expense reports and more than 60 Spanish listed companies will benefit from this. This facilitates capital increases, debt issues and IPOs, which is the subject of this article. Under this regulation, if there is prior agreement between the investor and the intermediary, the costs will not have to be separated into two items, execution and analysis, for companies with an average capitalisation in the last 12 months that does not exceed 1,000 million euros and this decision was clearly triggered by the coronavirus pandemic. The European Commission hopes that the exemption from the rule of separating costs will be a kind of red carpet when it comes to obtaining financial resources, whatever they are, for smaller companies.

14. Analysing the advantages and disadvantages of new market entry formulas such as SPAC (Special Purpose Acquisition Company). New formulas are constantly appearing in the securities markets that need to be analysed in depth by regulators and markets, as potential instruments to help combat the dearth of IPOs. In an environment as complex as the one analysed in this study, a vehicle that is experiencing notable growth in the markets and especially in the NYSE but to a lesser extent on Nasdaq and even on Euronext where a few have already been listed, are the so-called SPACs. These types of companies are created and admitted to trading for the sole purpose of raising sufficient capital to then carry out a potential merger or acquisition of another already existing unlisted company, which in this way would more easily become indirectly listed than if it had to complete all the paperwork by itself or for any future purchase opportunity. So we would be talking about a Shell Company or an instrumental company that does not have any activity or operations and is generally promoted by groups specialising in a particular industry or sector, to look for opportunities in very specific niches in which they have extensive experience. The funds are initially collected and held in an account that the promoters cannot use except to make investments in the promised sector (with prior authorisation from the investors) and, if this does not occur, after an agreed period has elapsed the funds are returned to investors by liquidating the company. The advantages of SPACs from the investor's point of view is that they enable access to venture capital-type operations, leveraged buyouts, etc. that are beyond the reach of the small private investor (although there are already a number of Exchange Traded Funds or ETFs that invest in operations of this kind and to which the retail investor has access). From the point of view of the company purchased and have incorporated into the SPAC, there would also be great advantages, such as an increase in the value of the company, whilst the main advantage would be to be listed on the Stock Market, because the SPAC that made the purchase would already be listed and the acquired company would then replace the SPAC by merging with it. The prominence of vehicles of this type seems to be related to some of the factors analysed in this study and in particular to the weight of the regulation applied to listed companies that in this way seek mechanisms to speed up and facilitate listing and at the same time make it easier for retail investors to participate in companies that without the use of these vehicles would be restricted to venture capital or private capital. This is a strong growth formula, although subject to some controversy in the USA, but it deserves to be analysed in depth by regulators and markets for its possible use in European Stock Exchanges and especially in Spain.

15. Adapting formulas such as Direct Listing to Spanish and European reality, as is currently being done by the New York Stock Exchange (NYSE) in the USA as an alternative to traditional IPOs, avoiding the IPO process and distributing securities among investors in the first trading session. The fact is this is not a new IPO mechanism in Spain. Empirical studies for the Spanish stock market confirm that this was already a fairly common form of IPO. The prevalence of IPOs as we know them, through book building undertaken by investment banks, has become much more common in the last 30 years. Following approval by the North American Securities Administrators Association, the NYSE is now promoting Direct Listings as a more agile way for a company to start a stock market listing. In 2020 a number of companies have been incorporated following this innovative approach. In a recent interview in September 2020, those responsible for the NYSE pointed out that this method is will not replace IPOs but it is a useful and more agile formula. In any case, as I have just pointed out, it would not be a totally new mechanism in the Spanish stock market and it could potentially be applied to companies that already have a minimum distribution of stocks and are expansion takes place through auction systems applicable on the first day of listing as required by the Stock Exchange, thus saving of the public offering process.

16. Developing a line of public-private collaboration to encourage liquidity (demand), promote the relaxation of regulation (for managers and property owners), undertake campaigns to broaden financial culture, promote transition vehicles from Venture Capital to the Stock Market, and continue promoting market financing mechanisms that put companies on the path to using markets. The example of Hungary is once again worth special mention in this regard in that they have a plan to support secondary market liquidity by means of market creation and research coverage. There are also training programmes for potential issuers. To keep this structure in place, the Hungarian government has four types of financial support for the market: (i) there is a Stock Exchange Development Fund that acts as a co-investor before the IPO or during the IPO of SMEs; (ii) there is also a Grant Fund dedicated to partially covering the costs of the IPO for SMEs - this is managed by the stock market and covers up to 50% of the costs relating to the listing (legal advice, preparation of the prospectus, sales and public relations costs); (iii) there is a financing programme to subsidise market creation and market research activity; (iv) the grants to IPO candidates cover the cost of participating in the ELITE Programme, a capacity building programme relating to the capital market jointly organised by the local BSE Stock Exchange and the UK market LSEG.

17. Attending to the initiatives, proposals and studies of the European Federation of Stock Exchanges (FESE), a body that is developing a series of initiatives destined to promoting and implementing strategies to stimulate stock market listing. The members of FESE, the main European Stock Exchanges, support companies seeking to raise capital in the pre-IPO stage through their own programmes: Athens Stock Exchange "Roots" Programme; "BME Premarket Environment; Börse Stuttgart" Nordic Pre Market", (for the Nordic countries) and "Startbase" (for Germany); Deutsche Börse "Venture Network"; Euronext "FamilyShare", "#IPO Ready", "TechShare" and Nasdaq Stockholm "EIC @ NASDAQ Investor Day". London Stock Exchange and Borsa Italiana also run the ELITE programme. Companies participating in these programmes are future IPO candidates and often rely on funding for further growth.

18. Convincing companies that the best way to gain size and boost growth is through financing and presence on the Stock Market. There are other private financing alternatives, but they are not as transparent, nor do they grant as much prestige as listing on the Stock Market. Along these lines, the initiative launched by BME called Pre-Market Environment deserves special mention. It aims to create an ecosystem for bringing companies closer to the Stock Exchange through training and contact with different participants in the capital markets.

19. Explaining the advantages of a presence on the market for companies with intangible assets. Despite academic research confirming that intangible-intensive companies are reluctant to go public, the truth is that it is also an interesting and key financing avenue for them, as previously commented in this article. As the main global technology companies have shown, a presence on the Stock Exchange accelerates the increase in size and thus enhances the advantage obtained over potential competitors.

20. Promoting measures that increase liquidity for all those companies whose directors understand that they are not achieving sufficient market liquidity to compensate them for the costs of listing on the stock market and the transparency required by trading on the stock market.

21. Simplifying regulations and making it easier to access stock exchange listing so that companies do not see going public as an ordeal because they have to prepare a very complex brochure to access listing, or overcome a mountain of bureaucratic obstacles. The simplification of procedures could encourage companies to try to increase their presence on stock markets and use the channel of public financing in the markets to a greater extent than private financing through risk or venture capital. A reduction of both costs and bureaucracy is essential. In Hungary, for example, government supports listing by covering the one-time listing cost and co-investment in IPOs. The general cost reduction with regard to the stock market listing is a favourable measure that could incentivise IPOs, once again according to the above-mentioned report by Oxera Consulting LLP (2020).

22. Progressive correction of the lack of fiscal neutrality between debt and equity (Debt/Equity Bias). The lack of fiscal neutrality between debt and equity financing is a factor in the legal systems of a large number of countries. Third-party financing is encouraged as opposed to self-financing since financial expenses are deductible while capital remuneration through the distribution of dividends is not and is heavily taxed. This lack of neutrality has been partially corrected for large companies in Spain by restricting the deductibility of financial expenses paid above one million euros to 30% of EBIDTA. For small and medium-sized companies, the decision was not to restrict the deduction of interest but rather to stimulate self-financing, although based on encouraging the reinvestment of profits. This measure has been criticised because it is only viable when such profits exist, which is not always the case and to promote a policy of capitalisation of profits is the same as promoting a policy of the non-distribution of profits. To correct this imbalance in the case of SMEs, there should be incentives to attract external resources in the form of capital.

23. Promoting and publicising the advantages of financing through capital in different ways. There is a factor that is certainly not controllable from the stock market itself and the public administration and that is low interest rates. When interest rates were high and bank financing via debt much more expensive, it was easier to convince companies that the alternative of financing through the stock market was cheaper. In the current circumstances and in a world in which interest rates are abnormally low and everything seems to indicate that they will continue like this for a long time, even more so with this pandemic situation that is generating a major crisis, it is not easy for increases in interest rates to be taken into consideration in the short-medium term and, consequently, bank and non-bank debt will remain cheap and very competitive for a long time. In this context, it has never been more necessary for all those concerned to understand the advantages of financing through capital in different ways and being present on the stock market.

24. It is essential to accelerate CMU (Capital Market Union) measures.

These fall into three lines:

24.1. There is a first battery of measures to support green, digital, inclusive and resilient economic recovery, making financing more accessible to companies. The Commission will propose the creation of an EU-wide platform (European Single Access Point) that gives investors seamless access to business and financial information relating to sustainability. In order to promote and diversify access to finance for small, innovative companies, the Commission will seek to simplify the rules for listing on public markets. It will also review the legislative framework for long-term European investment funds in order to channel more long-term financing to companies and infrastructure projects, in particular those that contribute to the objective of smart, sustainable and inclusive growth. Regulatory obstacles will be removed for insurance companies to invest in the long term, without harming the financial stability and protection of policyholders. The aim will also be for the banks to treat long-term capital investments by SMEs suitably and with moderation. It will also evaluate the possibilities of promoting market-creation activities by banks and other financial companies.

24.2. A second battery of measures is aimed at making the EU a safer place for people to save and invest in the long term. The European Commission will assess the feasibility of developing a European framework for financial competence. It will also assess the possibility of introducing a requirement for Member States to promote training measures that support financial education, especially with regard to responsible and long-term investment. It will also evaluate the applicable regulations with regard to incentives and disclosure and, where necessary, propose a modification to the existing legal framework so that retail investors receive fair advice and clear, comparable information on the products. It will also suggest how to reduce information overload for seasoned retail investors, subject to suitable safeguards. Finally, it will seek to improve the level of professional qualification of consultants in the EU and will assess the feasibility of establishing a pan-European label for financial advisers. And it will make it easier to monitor the suitability of pensions in the Member States through the development of pension scorecards and national monitoring systems for individuals. Finally, it will launch a study to analyse automatic register entry practices and may analyse other practices to stimulate participation in occupational pension schemes, with a view to developing best practices for such systems in the Member States.

24.3. The third battery of measures is aimed at integrating national stock markets into a genuine single market. In other words, to definitively promote the achievement of a unified stock market for the whole of Europe. In order to reduce costs for cross-border investors and prevent tax fraud, the Commission will propose a common and standardised system across the EU to withhold tax allowances at source. To make the results of insolvency proceedings more predictable, the Commission will take a legislative or non-legislative initiative to enable minimal harmonisation or greater convergence in specific areas of non-banking insolvency legislation. Together with the European Banking Authority, the Commission will also explore possibilities to improve data reporting to enable regular assessment of the effectiveness of national loan execution regimes. To make it easier for cross-border investors to participate, it will consider introducing an EU definition of "shareholder" and further clarify and harmonise the regulations governing the interaction between investors, intermediaries and issuers. It will also examine possible national barriers to the use of new digital technologies in this area. To summarise, the Commission will work towards an improved single regulatory code for capital markets by assessing the need for further harmonisation of EU regulations and monitoring progress towards supervisory convergence.

In short, and by way of conclusion, trying to highlight the benefits over the costs of stock market listing is a global measure required to improve the current situation and to be able to revert this downward trend in the number of listed companies that has been going on for years. It would be highly recommendable to try to contain or moderate the costs of listing. Promoting the presence of companies on the Stock Market with tax incentives, as well as easing the bureaucracy of the process without reducing legal security for investors is a complex but not impossible task. In the light of the current situation, it is worth all the hard work and desirable with a view to the medium and long term.

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