ANALISYS OF THE EUROPEAN CAPITAL MARKETS UNION

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Abstract

The European Commission launched in 2017 the mid-term review of the Union Capital Markets Initiative. The Union of Capital Markets is a plan of the European Commission to mobilize available capital in Europe to target all companies, including SMEs, and to infrastructure projects that require the expansion and creation of new jobs. The initiative aims to support growth economic growth by increasing access to capital, one of its central objectives being to improve access to finance for small businesses and medium-sized enterprises (SMEs). The Union of Capital Markets can provide the immediate and sustainable growth needed for Europe and a reduction in high levels of unemployment if decision-makers consider European banks to be crucial to its success and implement the reforms needed for the regions concerned.

Keywords: *capital market; European Union, investment funds; small and medium enterprises; bonds; startup*

JEL Classification: F21, G12

Literature review

Bariviera et.al. (2014) studied information efficiency in the case of distressed markets using as a case study European corporate bonds. In his article, Govori (2014) conducted an empirical analysis of the development of the capital market and its impact on the supply of alternative sources of business financing. Waśniewski (2010) also treated the emergence of alternative capital markets in developing countries as a result of institutional changes. In another study, Taboga (2005) studied the risk posed by corporate bonds, followed by Huber, and Kim (2015) who approached centralized corporate bond trading in their paper, and Khudko (2015) corporate bonds in Russia and its influence on the Russian economy. At the same time, issues concerning the financing of the future development of small and medium-sized enterprises were a subject of study for Cerbusca (2015).

Introduction

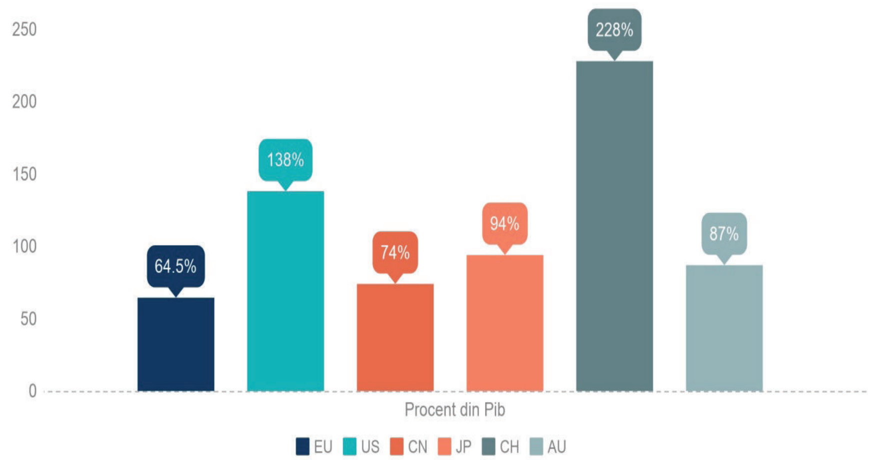
The Union of Capital Markets is a plan of the European Commission to mobilize available capital in Europe to target all companies, including SMEs, and to infrastructure projects that require expansion and job creation. By launching the Capital Markets Union project, the European Commission has demonstrated its commitment to boosting economic growth in the region by facilitating access to capital markets for small and medium-sized enterprises and institutional investors by providing the funding they need, which will improve growth economic growth, will create jobs and reduce the level of unemployment that persists in the euro area.

Research methodology, data, results and discussions

A deeper integration of capital markets will provide businesses with more funding opportunities at lower costs, providing new opportunities for depositors and investors, making the financial system more resilient. As can be seen below, stock market capitalization in the European Union is still below that of the other regions of the globe. Creating a true single capital market in the EU by 2019 is a key element of the investment plan announced by the Juncker Commission in November 2014.

Market capitalization as a percentage of world GDP in 2013

Figure 1



Source: European Commission. The data is processed by the authors

The challenges to be addressed through this initiative have been identified by the European Commission as:

- investment in Europe is still dependent on banks to an overwhelming extent;
- there are significant differences in terms of funding between EU countries;

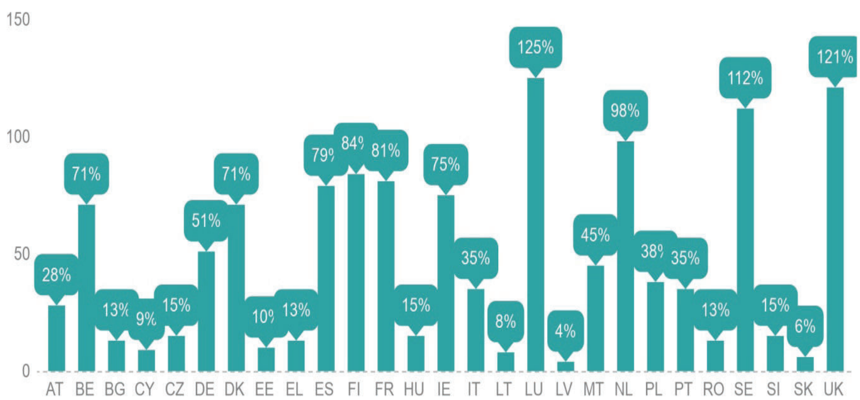
• there are different market rules and practices for products such as securitized instruments or private placements;
• corporate shareholders and buyers rarely go beyond national borders when investing;
• Many SMEs still have limited access to funding.

The Union of Capital Markets also has the following objectives:

• developing a more diversified financial system that complements bank financing with more developed capital markets
• Unlocking Europe's available capital, which is currently frozen and putting it at the service of the economy, giving cash-holders, more investment options and offering businesses a wider range of financing at lower costs;
• creating a single EU capital market where investors invest their funds without barriers, and businesses can attract the necessary financing from a wide range of sources, regardless of their location.

Market capitalization as a percentage of GDP in the EU 2013

Figure 2



Source: European Commission. The data is processed by the authors

The Union of Capital Markets can provide the immediate and sustainable growth needed for Europe and a reduction in high levels of unemployment if decision-makers consider European banks to be crucial to its success and implement the reforms needed for the regions concerned. Instead, regulators and policy-makers are fairly focused on more accessible short-term goals, such as the re-launch of sound securitization, the development of private placements and the expansion of the European high-yield market, all of which are steps in the right direction stimulating economic growth. This requires European banks to help businesses secure funding in secondary markets, but new reforms and capital rules, making the banking system safer, have the effect of limiting banks' ability to do so.

Bank capital reforms have made the global banking system more secure and less vulnerable to systemic shocks. As a result of the new capital rules introduced as a result of the financial crisis, which requires banks to hold larger capital reserves, European financial institutions use their advisory skills rather than balance sheet assets when helping customers obtain funding from financial markets . Between 2009 and early 2015, the share of debt securities issued by euro area companies on markets increased from 13% to 20% of their debt, while, according to the European Central Bank figures, before the crisis, this weight was stable.

The European Commission launched in 2017 the mid-term review of the Union Capital Markets Initiative. The initiative aims to support economic growth by increasing access to capital, one of its central objectives being to improve access to finance for small and medium-sized enterprises (SMEs). Given the complexity of the initial listing process - IPO and the costs associated with listing, which are considered to be especially great for smaller issuers, support for SMEs is very much needed, especially in the context of equity financing.

• **Corporate bonds**

In recent years there has been an increase in the issuance of corporate bonds, partly reflecting a favorable market environment amid lower interest rates. However, the bonds were mainly issued by large firms and concentrated in larger markets.

By „corporate bonds" we understand a debt issued by a company and sold to investors. „Guarantee" usually consists of the ability to pay for the company, which translates into revenue generated by future operations. In some cases, the company's physical assets can be used as collateral for bonds.

While corporate bond issuance has increased, especially in the high-yield segment, this growth is concentrated in countries where a more stable flow of bank loans has taken place. Only a few countries facilitate the issuance of bonds to SMEs, mainly through national or regional exchanges.

Corporate bonds are considered to have a higher risk than government bonds. As a result, interest rates are almost always higher, even for companies with a very good financial rating. Corporate bonds are generally issued in units of 1,000 units of nominal value, and almost all have a standard coupon payment structure.

Corporate bonds, being a debt finance provider, are a major source of capital for many companies along with equity financing and bank loans and credit lines. Generally, a company must have the potential to generate consistent earnings in order to be able to provide investors with debt securities at a favorable coupon rate. The more the company perceives as having a better financial standing, the easier it is to issue bonds at lower rates and in higher volume. Most corporate bonds are taxable at terms over one year.

By issuing the bond, the company assumes a legal obligation to pay interest to the principal, regardless of the company's results, and return the principal when the bond reaches maturity. Some contract terms may grant the issuer's right to redeem the bond ahead of schedule. If the company decides to repurchase the bond early, it will return the principal and will probably pay an additional premium depending on when the redemption takes place (repurchased at the due date). Bonds may be classified according to several criteria such as maturity, type of interest, financial quality, priority claim, collateral. The corporate bond contract may provide different and varied clauses combining several of these features.

From a maturity point of view, bonds can be classified as follows:

- Short term: under 3 years;
- Medium term: between 4 and 10 years;
- Long term: over 10 years.

The longer the term, the higher the risk of bondholders, but the interest rate is higher. Interest payment is called the coupon payment and is calculated as a fixed rate throughout the life of the bond or as a floating rate calculated by some indicators (bond index or government bonds). There are also cases of bonds that do not pay interest, the so-called zero coupon bonds, which instead make a single maturity payment that also includes a premium on the purchase price of the bond.

The price of a bond is inversely proportional to market interest, as investors are always looking for the most convenient placement for their own equity. Thus, in the case of a given coupon rate, if the market interest rate increases, the bond will pay less and the value of the bond will decrease. On the other hand, a reduction in market interest will result in an increase in the value of the coupon, an increase in the value of the bond.

The financial quality of a bond is determined by credit rating agencies that periodically report bond ratings. Accordingly, bonds can be classified in investment grade:

• BBB or higher by Standard & Poor;
• Baa3 or higher by Moody's.
• Non-investment.

The latter are also known as speculative bonds that pay investors a higher interest rate in exchange for assuming a higher default risk.

A bond may be guaranteed by specific assets if the company allocates certain assets as collateral to the bond or there may be unsecured bonds. In the case of unsecured bonds, if the issuer fails to pay the principal and the principal to the investor, then the latter has only a general unsecured claim against the company's assets and cash flow. The bond may have a higher ranking than other debtor obligations, such as a loan, in which case it will have priority in case of default, or it may be subordinated. In any event, in the event of bankruptcy, the bond investor may have priority over shareholders in respect of the company's assets.

The bondholder is exposed to the various specific risks that are most often reflected in the bond price and coupon rate:

• Credit risk or default: The risk that a company does not pay in due time the principal and the interest. Credit ratings by specialized agencies are designed to estimate this risk. To mitigate credit risk, the bond contract may include obligatory terms for the issuer, such as limitations on the future indebtedness of the company.
• Interest rate risk: The risk that the interest rate on the market will become more favorable than the coupon rate. The higher the maturity of the bond, the higher the risk of interest rate change, the higher the coupon rate.
• Inflation risk: The risk that inflation will reduce the real value of the investment and coupon payments.
• Liquidity risk: The risk that the bond can not be traded easily or the risk that the investor will not get a fair price when sold on the secondary market.
• Redemption risk: The risk that the bond will be redeemed by the issuer before maturity, such as the drop in the interest rate, which makes the coupon rate more onerous for the company but more convenient for the investor.

Reporting requirements for bond issuers aim to increase transparency and lower investor risk. For example, in the United States, a company wishing to issue bonds to the public must complete a form of the Securities and Exchange Commission. In general, this prospectus describes the company's financial terms, the terms of the bond issue, the risks associated with the investment in the offer, and the way the company is going to evolve after the sale of the bonds. Also, companies that have publicly issued bonds are required to complete quarterly and annual reports.

The corporate bond market has traditionally been dominated by large firms with public recognition, stable revenues and relatively low stock volatility. On the other hand, only a very small part of SMEs have accessed this market. Corporate bonds usually require the issuer to have a certain size, a stable credit history and a historical tracking record, and limited revenue volatility. As many SMEs do not meet these requirements, a bond market will attract a low rating, large coupons and limited dividends to cover these regular payments. Bonds are also relatively expensive instruments to attract funding, and the cost may even amount to 10% of the amount attracted. In addition to the costs of attracting funding, another negative feature of this type of funding is the rigidity of the payout schedule of the principal and the interest, which requires a stable cash-flow. If any payments are not made in time, the company goes into default and becomes vulnerable to bankruptcy. Also, from an accounting point of view, the amount of the loan is highlighted in the balance sheet which makes borrowing costs to be influenced in the future.

From another point of view, corporate bonds have certain advantages for medium-sized firms that can meet the size, revenue stability, cash-flow criteria and can meet the reporting requirements related to the issuance of shares. On the one hand, the bonds can provide a flow of capital needed for investment or growth of the firm. Corporate bond financing can be particularly advantageous when the market interest rate is low so that the coupon rate during the life of the bond can be set at a convenient rate for the enterprise but also attractive to investors. Also, from the point of view of social capital, this type of financing does not dilute ownership of the shares or business control.

In the years after the global financial crisis, as capital attraction remains a problem for SMEs, the potential of a bond market for SMEs is becoming more and more interesting to entrepreneurs. Private placements can appeal to smaller companies but have limited public market visibility because there is no lower limit and works on the basis of a direct relationship between the lender and the borrower, which facilitates the negotiation of certain terms. At the same time, the lack of standardized documents increases the costs of issuing bonds, which limits the use of this instrument by SMEs.

Issuance of bonds increases especially in the peripheral economic areas of the euro, where access to bank loans has become more difficult. Thus there is an inversely correlated correlation between bond issuance and bank lending conditions. In Europe, where debt securities generally represented only a small portion of the commitments of non-financial corporations, bond issuance peaked in 2009, after which a decline to 2011 due to the negative market atmosphere, as of 2012 to return to growth.

In the UK, corporate bond issuance peaked in 2012 to reach 40.5 billion GBP. The 2011 and 2012 growth covers the decrease in the level of credit over the same period, which demonstrates a shift in the debt-type structure rather than a reduction in exposure to the financial market.

The above trend is broadly specific to the issues of large corporations that dominate this market. However, in some countries, the SME financing market has been affected by innovative financing methods which will make bond issuance more attractive to SMEs and MIDCAPS.

In 2010, the London Stock Exchange - Electronic Order Book for Retail Bonds (ORB) was launched in the UK. This is an electronic trading platform for UK governmental, supranational and corporate bonds that provides retail investors with efficient access to London's debt securities secondary market. ORB was launched in February 2010 in response to the growing demand from private investors in the UK for a cost-efficient and transparent mechanism for access to fixed income securities. ORB offers retail bonds in multiple currencies, in order to further diversify a growing market.

The new trading service aims to offer UK private investors similar benefits to the MOT market operated by Borsa Italiana, a part of the London Stock Exchange, the most liquid market in Europe and the highest volume of transactions in income securities fixed. This model is expected to favor small investors and provide more opportunities for SMEs to attract funding through debt instruments such as debt securities.

In order to ensure that professional and retail investors enjoy easy access to the large domestic and international bond market, Borsa Italiana operates two markets for electronic trading of bonds, debt instruments and government securities:

- MOT is the only Italian regulated market dedicated (via two segments, DomesticMOT and EuroMOT) to the trading of Italian and non-Italian government securities, national and international corporate and banking bonds, supranational securities and asset-backed securities securities.
- ExtraMOT, the new multilateral trading system regulated by Borsa Italiana for the trading of corporate bonds issued by Italian and non-Italian companies already listed on other regulated markets of the European Union, as well as bank bonds and debt securities issued by Italian SMEs.

MOT was created in 1994 to give private investors easier access to the bond market and also to enhance the efficiency of the operations of professional investors by offering an electronic and fully automated trading system from the incoming and outgoing order phase to the settlement of the executed transaction. Due to the steady increase in the number of connected intermediaries (directly or through the interconnection system), the MOT market has steadily increased and is now ranked number one in Europe in terms of number of transactions and turnover traded (230 billion euros in 2009).

ExtraMOT, the multilateral trading facility, was created in the second half of 2009 in response to a particular demand from intermediaries and investors. They needed to be able to trade eurobonds in an electronic and automated market that (in contrast to opacity that characterizes the over-the-counter market and unregulated markets) uses the same MOT technology and control platforms - and would therefore could guarantee transparency and efficiency in the price formation mechanism. Strong points:

- MOT is the only regulated market in Italy;
- The price formation mechanism is transparent;
- Disclosure of pre- and post-trading information
- Real-time tracking of the correct trading rate;
- Transaction execution speed;
- Pricing policy that constantly pays attention to the needs of different market players.

In 2013, the Milan Stock Exchange has set up a special mini-bond trading platform, called ExtraMOT PRO, which has until 2014 a portfolio of over 30 unlisted SMEs that issued mini-bonds. The regulatory infrastructure of this new tool allows businesses to easily and efficiently access the capital market for the first time. As a cost, this instrument involves a minimum cost of only EUR 2500 for a first-time financial instrument and EUR 500 if this instrument has been listed in other markets as well. The only disclosure requirements are the publication of annual financials for the past two years, the last being audited and the completion of an admission paper with some essential information. After admission to listing, the SME must publish the audited annual financials, the publication of the rating when required, any information on potential changes in the rights of the bond holders and any technical information on the characteristics of this innovative instrument (payment data, interest coupon, calendar). Compared to the ExtraMOT market, in this case only professional investors are admitted.

In 2010, in Germany, Stuttgard Borse created a special bond trading platform (Bondm) that offers bond issues worth between 25 and 150 million euros. This platform allows the issue of bonds directly to private investors in the main market in the underwriting phase without the assistance of an underman / consultant underwriter, which greatly reduces the costs of issuing and gives individual investors a price advantage over initial listing. After the initial issue of the bond, the instrument is freely traded on the Bondm market. Starting in 2012, approximately 25 SMEs with a total asset value of approximately € 1.6 billion were listed on this market.

In France, innovative financing schemes have been launched to increase the attractiveness of small bonds. With the support of the French government, in the form of guarantees issued by OSEO / BPIFrance, the GIAC bond program allows the issuance of bonds for SMEs and MIDCAPS. GIAC is a credit group set up in 1961 to provide financial support to French enterprises, the management of a securitization fund that invests in small and medium bonds (between € 0.5 and 2.5 million) and is refinanced from the capital market through the issuance of own bonds of different types purchased by institutional investors. A particularity of GIAC is that its shareholding is exclusively composed of the enterprises that participate in its operations. Also, the fund is guaranteed by a mutual fund of companies that have issued bonds, each contributing an amount of 7% of the requested funding. These companies are selected based on specific criteria such as good financial standing, good profitability and development plans. In 2013, this innovative scheme drew over € 80 million for 27 bond issues and 6 securitized group credit operations. In 2013, also in France, a new debt fund was launched to stimulate the development of the bond issuance market for SMEs. The NOVO Fund is a € 1 billion fund subscribed by Caisse des depots and several insurance companies. The maturity of the fund is 10 years and it is estimated to fund 30-40 enterprises, contributing 10-50 million euros to their development.

• Securitization and capped bonds

Securitization is a refinancing instrument used by banks that improves risk portfolio management, which has been widely used in America for mortgage and corporate loans in recent years. By securitization, several types of loan instruments can be grouped and sold to investors. The latter acquire the right to receive any amounts received from the financial instruments attached to the securitized portfolio.

In the case of securitization of a bank loan portfolio, the credit institution (the Originator) grants more loans to its SME clients (the primary market), groups them (portfolio) and sells the portfolio of investors to the capital market by issuing notes from a SPV (Special Purpose Vehicle) secured with Asset Backed Securities ABS. These ratings, rated by rating agencies, are placed on the equity markets investors or may be retained, in part by the originator bank.

Once the claims have been transferred by the SPV initiator, there is normally no appeal against the initiator. Through the securitization process, assets are removed from the originator's balance sheet. Thus, in this business model, the initiating bank grants the credits and then transfers them, actually financing them by third parties. Thus, the credit relationship between the bank and the SME turns into a transaction whereby major bank earnings come from the grant and subsequent sale of loan portfolios.

An alternative securitization model (synthetic securitization) combines the above mechanism with credit derivatives, where the loans remain in the originator bank's balance sheet, but the credit risk associated with the loan portfolio is transferred to an SPV placing on the capital market notes related to loans classified by risk categories.

Securitization of credit portfolios offers some direct benefits to banks and indirectly to SME lending. First, securitization reduces banks' exposure to credit risk, which is thus transferred to the capital market. This is also important from the Basel III perspective, which requires banks ,risky assets to be removed from banks' balance sheets so that capital ratios are improved. In other words, securitization can be a risk mitigation and capital improvement tool. Finally, by streamlining capital, securitization reduces bank financing costs.

Securitization helps banks convert SME credits on the balance sheet into liquid assets that can be used to increase lending volume. Specialist studies show that the need for liquidity has been a determinant of securitization, especially for fast-growing banks, which are less financed on the interbank market and which have a unbalanced loan / deposit ratio. Securitization can be an asset for smaller banks experiencing credit restrictions due to their size. The transfer of risk to the capital market also has the role of increasing lending capacity. Securitization can also be an advantage for smaller banks because they have a closer relationship with SMEs and better monitoring capacity, which gives them a competitive advantage in SME lending.

Secured bonds function similar to securitized debt because they are corporate bonds guaranteed by the cash flow generated by mortgages and loans. Within the European Union, CRD (Capital Requirement Directive) limits collateral for loans to well-listed, residential, commercial mortgage lending public entities with a Loan-to-value of 80% for residential or 60% commercial, bank loans or mortgage-backed claims.

An important aspect of differentiation from securitization is that guaranteed corporate bonds remain in the consolidator's consolidated balance sheet with some exceptions to variations. For this reason, they can not improve the credit institution's capital ratios. As the investor is not the owner of the assets, interest is paid to him from the originator's cashflow, as is the case with traditional corporate bonds. Even if the asset involved is default, the originator is required to continue paying interest to the investor. However, if the issuer of the bonds enters into default, regardless of the assets' estate, the investor may take possession of them. Because bonds of this type are guaranteed, they are considered to be less risky than unsecured bank bonds, which implies lower financing costs for the issuer. They are considered to be complementary rather than substitute for securitization.

On the demand side, securitized debts have interesting risk characteristics for investors. Mainly, given that they are guaranteed assets, these investment options have a lower risk level than other offers on the market. Moreover, because they are different from many classes of financial market assets, they can improve the risk profile of the entire portfolio of investments. In the case of covered bonds, the fact that the assets remain in the initiator's balance sheet makes it more credible to the originator regarding asset quality and risk analysis. In case of default, the investor has two remedies against the issuer and the guaranteed portfolio. From this point of view, covered bonds receive better regulatory treatment than securitized debt and higher liquidity on the market. It should also be noted that this guaranteed SME bond market is relatively new. Indeed, the use of SME credits as a group of assets in the field of covered bonds is not yet permitted by the legislation of many countries that have developed covered bond markets.

Although securitization has been blamed as an important cause of the 2008 global financial crisis, a distinction must be made between asset types, so even if mortgages have been overestimated, leading to the subprime crisis, the securitization of SME loans having suffered after 2008 the contagion effect, both on the financial markets and in the public perception.

As it has a lower liquidity than the securitization of mortgage lending portfolios, the securitization of the SME loan portfolio is less attractive to private investors, which justifies public intervention to support increased SME financing, especially in the European Union. To this end, the European Investment Bank Group set up in 2013 a single SME support tool of EUR 10.4 billion to be used as credit guarantee instruments and as a securitization tool with an effect maximum leverage of 1:10.

• **SME Growth Markets - SME Growth Capital Markets**

Expanding European companies' access to various sources of finance at any stage of their development is at the heart of the Union of Capital Markets. Listing on stock exchanges can give significant impetus to small and medium-sized businesses. The benefits of listing include low dependence on bank financing, greater investor diversification, easier access to available capital, loans, a more prominent public profile, and the reputation of its own brand.

Despite the benefits of stock listings, EU equity markets are currently struggling to attract new issuers from SMEs. At present, Europe generates only half of the initial public SME bids it generated before the 2008 financial and banking crisis. As regards supply, issuers are facing high compliance costs for listing on capital markets and, in terms of demand, insufficient liquidity may affect issuers (due to higher capital costs), investors (who may be reluctant to invest in SMEs, primarily due to the low liquidity level and the volatility related risks).

In May 2018, the European Commission proposed to adopt fairer rules to support the listing of SMEs while protecting investors and the integrity of the capital market. The initiative is limited to „SME growth markets”, a new category of multilateral trading facilities created by the MiFID II from January 2018 to facilitate access to capital for SMEs. The new rules proposed by the Commission are aimed at:

- reduce the administrative burden and the high listing costs faced by issuers in SME growth markets, while ensuring a high level of market integrity and investor protection;
- Boost the liquidity of listed shares to make these markets more attractive to investors, issuers and intermediaries;
- facilitate the registration of multilateral trading facilities as growth markets for SMEs.

On January 3, 2018, the London Alternative Investment Market (AIM) was listed as an SME Growth Market under MiFID II as part of the European Capital Markets Capital Market Plan to create a regulatory framework for growing European markets. At present, AIM is the largest market for small and medium-sized enterprises in the European Union.

Established in 1995 as an alternative investment market, AIM has the role of meeting the needs of smaller companies, providing a more flexible regulatory environment. In particular, it provides access to stock finance for companies that do not meet the London Stock Exchange’s admission criteria as they are at an early stage of development. AIM is regulated separately from the main market, and companies admitted to AIM are not subject to registration rules but to AIM’s simpler rules. It is possible to gain access to AIM without a trading record, with an established management team or a minimum capitalization. A key feature of the AIM regime is the appointment by each AIM company of a designated counselor. Nomad (as is known) is responsible for assessing the company’s demand for AIM and for advising the company, once admitted, on its continuing obligations under AIM rules.

AIM has seen a significant increase in the past year. 49 companies were listed at the AIM in 2017, managing to attract a total of 2.1 billion pounds, up 97% compared to £ 1.1 billion attracted in 2016. The average amount attracted by companies increased by 52 %, from 28 million pounds in 2016 to 43 million

On February 25, 2015, a new alternative market of the Bucharest Stock Exchange, called AeRO, was launched in Romania and addressed to SMEs and startups with development potential in Romania. This step represents a revolution in how the BSE offers services to Romanian companies, and can now also lean towards smaller companies but with a strong growth potential. AeRO replaced the ATS segment of the Bucharest Stock Exchange and was able to emerge as a result of changes in regulations at the level of the Financial Supervisory Authority. AeRO will also be able to receive the listed RASDAQ (to be disbanded) companies that want to remain on the capital market but not on the main market. By launching this market, BVB has developed a mechanism to achieve two important goals: a more efficient marketing and promotion campaign and its long-term development. Also, the emergence of AeRO had the effect of revitalizing the Romanian capital market by attracting those small (retail) investors and companies that although they have interesting products and development potential are not interesting for banks or are still too small for a listing on Main Market.

The AeRO market offers a more simplified procedure, more flexible access conditions and lower listing costs, of the hundreds of lei to the first category, where the admission fee reaches 20,000 lei. As an alternative trading system of the Bucharest Stock Exchange, AeRO has a minimum trading value of at least 250,000 Euros compared to 1,000,000 Euros on the main market, listing can be made through private placements and not necessarily through an initial public offering. This market attracts both private (retail) investors and low-investment niche funds. The market can also attract new investors who want to move from the state of bank depositors to that of active investors. If savings were meant to keep the money at a lower risk, the investment on the ARO may generate higher gains but with associated associated risks.

The AeRO market mainly targeted new SMEs or startups that have exhausted traditional funding opportunities but have innovative solutions, services or products or businesses worth between 1 and 5 million euros but wanting to attract the grant amounts to between EUR 100,000 and EUR 1,000,000 for the continuation of development plans. AeRO has not restricted access to business for specific business sectors but has received SMEs from the most diverse areas of ICT, services, production or agriculture. This varied range will allow diversification of the investment portfolio of risky assets with higher potential gains. Already at the end of 2015, AeRO has already listed a few companies in the domestic market, such as Life is Hard, Sameday and Chronos Curier, Bittnet Systems ICT Company, and some specialized investment vehicles such as be Opportunity Capital, Agribusiness Capital, Real Estate Asset, or the Polish investment fund Carpathia Capital. These listings prove that in Romania, entrepreneurs and startups can also access alternative financing for their own projects.

Companies listed on the AeRO market are advised by consultancy companies that have been authorized by the BSE and will deal with the promotion of companies to potential investors. In addition to attracting investors, consultants will also deal with market acceptance documentation and, for one year after listing, they will assist them in producing financial and other reports.

Conclusions

Expanding European companies' access to various sources of finance at any stage of their development is at the heart of the Union of Capital Markets. Listing on stock exchanges can give significant impetus to small and medium-sized businesses. The benefits of listing include low dependence on bank financing, greater investor diversification, easier access to available capital, loans, a more prominent public profile, and the reputation of its own brand.

Despite the benefits of stock listings, EU equity markets are currently struggling to attract new issuers from SMEs. At present, Europe generates only half of the initial public SME bids it generated before the 2008 financial and banking crisis. As regards supply, issuers are facing high compliance costs for listing on capital markets and, in terms of demand, insufficient liquidity may affect issuers (due to higher capital costs), investors (who may be reluctant to invest in SMEs, primarily due to the low liquidity level and the volatility related risks).

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