



ICSA

INTERNATIONAL COUNCIL of SECURITIES ASSOCIATIONS

Financing of SMEs through Capital Markets in Emerging Market Countries

ICSA Emerging Markets Committee

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FINANCING OF SMEs THROUGH CAPITAL MARKETS IN EMERGING MARKET COUNTRIES

Small and medium sized enterprises (SME) are the backbone of all economies and the key source of economic growth, job creation and innovation in both developed and emerging market countries. In that regard, many governments offer different types of loans, guarantees and other supporting measures to facilitate these companies' access to capital.

It is well known that SME financing primarily depend on bank loans. However, the recent crisis revealed that bank financing is not a reliable source of financing, especially during periods of systemic stress. Moreover, the regulatory measures taken after the crisis, such as strengthened rules on capital requirements, create additional challenges on the financing of SMEs through bank loans. Consequently, the need for diversified funding sources for SMEs is growing.

Currently the share of SME financing through capital markets is rather small all over the world, although capital markets offer an alternative long term financing source. Governments and regulators have made efforts to promote the financing of SMEs through equity markets. In different parts of the world, SME markets have been established, under the main exchange or as separate exchanges, where listing criteria and disclosure requirements are eased. Some of these models failed, whereas some successful models were introduced, in developed, as well as in emerging market countries.

Although SME debt markets are not as common as the SME equity markets yet, they are becoming more common. With the declining interest rates and volatile equity market conditions in global markets, new bond platforms targeting SMEs have been recently developed to promote the issuance of SME debt securities. In Europe, as well as in emerging market countries, there are a number of stock exchanges or other organizations that take initiatives to facilitate SMEs' bond issues.

Private equity and venture investments can also be important tools for the financing of young and small enterprises. These investors usually not only finance the company, but also bring in expertise and know how. Venture investors may choose to finance such initiatives through capital markets by issuing collective investment vehicles.

In addition, securitization can provide an important contribution to SMEs' access to finance. Securitizing SME loans is often more difficult due to their structure and risk perception. Nevertheless, in some countries, credit guarantees are granted by public institutions for securitised SME loans.

MANDATE

Considering the essential role of the SMEs in every economy, coupled with the recent developments in the global financial markets, ICSA Emerging Markets Committee decided to work on Financing of SMEs through Capital Markets in Emerging Market Countries. ICSA EMC's proposal was approved by ICSA members during the Interim Meeting held on June 11, 2012.

The ICSA EMC is composed of the following members.

1. Association of Capital Market Intermediary Institutions of Turkey (TSPAKB)
2. Asociación Mexicana de Intermediarios Bursátiles (AMIB)
3. Association of Thai Securities Companies (ASCO)
4. Brazilian Financial and Capital Markets Association (ANBIMA)
5. Bulgarian Association of Licensed Investment Intermediaries (BALII)
6. Chinese Taiwan Securities Association (CTSA)
7. Korea Financial Investment Association (KOFIA)

EXECUTIVE SUMMARY

This report focuses on the structure and characteristics of the SME markets in Bulgaria, Korea, Mexico, and Turkey. Major findings and policy recommendations are summarized in this section, while individual country reports are presented in the following pages.

General Framework

Small and medium sized enterprises are generally defined according to their number of employees, annual turnover and/or total assets. In some jurisdictions SME's have different definitions according to the industry they operate in.

In all jurisdictions, dedicated public institutions have been established with specific mandates to support SMEs.

Equity Markets for SMEs

There are no specific SME equity markets in Mexico and Bulgaria.

In Korea and Turkey, there are specific market segments for SMEs within the main exchange. The listing and disclosure requirements are relaxed in both countries compared with the main markets. There are also government, exchange or regulator incentives to improve SME listings.

Over-the-counter (OTC) markets for unlisted companies, which are mostly SMEs, are also established in both countries.

Generally, market advisors assist the companies for listing on the exchanges. In Turkey, SME equities are traded through continuous trading with market making system, whereas in Korea, continuous trading takes place.

Debt Markets for SMEs

None of the respondents in this report has specific bond markets for SMEs. Only in Korea, an SME bond trading platform was designed by the industry association. The platform enables SMEs to issue bonds via private placement to qualified investors.

Securitization for SMEs

Structured products backed by SME loans or assets are not common in Bulgaria, Mexico and Turkey. On the other hand, securitization of SME loans has grown rapidly after the year 2000 in Korea, supported by the credit guarantees of government.

Other Supporting Measures

Generally, in the aftermath of the crisis, government initiatives became popular to encourage private investments through capital markets. Particularly in Mexico, different types of vehicles, such as special purpose companies for private equities have been introduced. In Korea, new types of investment funds (some of which are backed by the government) have been designed to invest in sustainable SMEs and venture capital companies. Moreover, the tax rate for capital gains on SME equities in Korea is lower than larger corporation shares, whereas those kinds of incentives are not common in other jurisdictions.

Role of SROs

SROs have various roles in the SME market. SROs supervise their members' compliance with the code of conduct and ethical rules, including their activities in the SME market. Second, they train market professionals to improve the quality of the services and advice they provide. In addition, SROs train investors to help them make better investment decisions and increase their understanding of investments.

Specific examples can be seen in Korea, where the exchange designed separate market surveillance and investigation tools for the SME market.

POLICY RECOMMENDATIONS

The following measures are recommended for the development of SME markets in emerging market countries.

1. The study finds that separate equity markets have been established for SMEs in several of the economies in this report, with quite successful results. However, in general, policy makers have not introduced measures intended to improve SME's access to fixed income markets. Based on the results of the study we recommend that policy makers facilitate SME's access to both equity and fixed income markets through the establishment of separate markets specifically for those firms.
2. One notable feature of the dedicated equity markets that have been established for SMEs is that listing requirements have been relaxed, which in turn has reduced issuance costs for the SMEs active in those markets. Therefore, we recommend that the listing rules for any dedicated equity and fixed income markets established for SMEs should be more relaxed than those in the main market.
3. On the other hand, in order to encourage investor interest in these markets, we also recommend that the procedures for custody, clearing and settlement should be the same in the dedicated SME markets as in the main markets.
4. In addition, the study finds that the dedicated equity markets for SMEs that have market advisors, which assist firms so that they can be properly prepared for listing, have developed at a faster pace after the introduction of the market advisor system. Therefore, we recommend that policy makers introduce a market advisor system to facilitate the issuance of securities by SMEs.

5. In the secondary market, the study observes that a market making system is instrumental to improve market liquidity for securities issued by SMEs. Therefore, we recommend that, wherever possible, policy makers should introduce a market making system for securities issued by SMEs.
6. The study also finds that policies which encourage the issuance of securities through private placements help to improve SMEs' access to capital markets. Since SMEs are perceived as riskier than bigger companies, encouraging private placements also provides a cushion for investor protection. Therefore, we recommend that policy makers introduce measures that facilitate SME's ability to obtain funding through private placements.
7. Finally, the study finds that alternative methods of financing, such as private equity, venture capital and securitisation, can become effective tools for financing of SMEs. We therefore recommend that policy makers promote these alternative sources of financing for SMEs.

SME MARKETS IN BULGARIA

I. GENERAL FRAMEWORK FOR SMEs

- **Is there a definition of small and medium sized enterprises in your country's regulations?**

According to the Law on Small and Medium-Sized Enterprises, Small enterprises are those that have:

- Average number of employees less than 59 employees and
- an annual turnover less than 19 500 000 BGN* and/or
- assets less than 19 500 000 BGN.

Medium-sized enterprises are those that have:

- Average number of employees less than 250 employees and
- an annual turnover less than 97 500 000 BGN and/or
- assets less than 84 000 000 BGN.

*EUR/BGN rate is fixed at 1.95583

- **Are there any specific regulations for SMEs, SME markets or SME financing (names of relevant regulations will suffice)?**

No, there are not. However, if we consider bank financing, there are two main categories: corporate credit and small and medium-sized business credit. A company is classified under specific category based on its yearly turnover. The required turnover, however, is set individually by banks. In order to classify a loan as a corporate one, some banks require a turnover of 2 million BGN, while other consider a turnover of 1 million BGN as sufficient.

- **Are there any public institutions specific to SMEs? (brief introduction of relevant institutions)**

Ministry of Economy, Energy and Tourism in Republic of Bulgaria
<http://www.mi.government.bg/bg>

Its priority is to create the necessary conditions for stable economic growth in the Republic of Bulgaria and to carry out the country's economic, energy and tourism policy in a lawful and advisable way. It set goals that lead to a more competitive economy with a high value added and a better quality of life for the Bulgarian people.

The Bulgarian Industrial Association
<http://www.bia-bg.com/>

The Bulgarian Industrial Association – Union of the Bulgarian Business is a non-governmental organization. BIA priority is to support establishment and development of small and medium-sized enterprises and to protect their interests.

Bulgarian Small and Medium Enterprises Promotion Agency

<http://www.sme.government.bg/>

The Bulgarian Small and Medium Enterprises Promotion Agency (BSMEPA) was established in 2004 with the Ministry of Economy and Energy of Republic of Bulgaria. BSMEPA is a Government institution and its main functions are focused on the implementation of the Bulgarian Government's policy for small and medium enterprises (SME). In this respect the Agency provides to Bulgarian SMEs information and consulting services, organizes training courses and implements promotion activities in supporting the increase of SMEs' competitiveness and strengthening their international positions.

Municipal Guarantee Fund for Small and Medium Enterprises (MGFSME)

<http://ogf-sofia.com/deinost>

The Municipal Guarantee Fund undertakes guarantees on loans extended to SMEs which have their seat or develop their activity on the territory of Sofia Municipality. The Fund guarantees up to 50% of the loan of the small companies and for the amount up to 100 thousand BGN.

- **How can SMEs provide financing in your capital markets (equity market, debt market, venture capital/private equity, securitisation market etc.)?**

SMEs as well as all other companies can be financed in the capital markets by the following ways:

- a) Shares issuance;
- b) Bonds issuance;
- c) Using the help of Venture Capital Funds or the so-called angel investors

There is no specific financing approach for SMEs.

II. EQUITY MARKET for SMEs

A. ISSUANCE

There are no specific issuance regulations for SMEs, thus we provide some general ones, that apply to all companies.

- **Conditions for issuers (issuer restrictions, capital restrictions, rating requirements etc.)**

In order to be listed for trade on the stock exchange any company should have its prospectus approved ("confirmed") by the Financial Supervision Commission (FSC) and disclose regulated information on a periodic and ad hoc basis (annual and quarterly financial statements as well as any material information that might impact the prices of its securities). Only dematerialized securities may be offered publicly and traded on the stock exchange, therefore LLC cannot publicly offer their units of interest which are circulated in certificated form and any transaction in such interests should be registered by a notary. Therefore units of interests of LLCs cannot be subject of public offerings or trade on regulated markets. The securities should be registered with the Central Securities Depository (CSD) which registers the issue, issues an ISIN code to the securities and acts as registrar for the respective issue of securities. The CDS keeps the accounts of all shareholders (usually they are kept in subaccounts within the account of the investment intermediary with the CSD

but could be kept in direct accounts with the CSD which generally applies to shares issued during the process of mass privatization in the end of the 90's) and it keeps also shareholders' and bondholders' books. The CSD issues depository receipts for the ownership of the securities which attest such ownership but are not themselves securities. The issue should also be entered in the Commercial Register kept by the Registry Agency in the case of shares issued in the process of initial public offerings (incorporation of a company by public offering of shares or increase of its capital through IPO). The Board of Directors of the BSE should also vote a decision to list the securities for trade on the stock exchange.

Excerpts from Ordinance No. 22 of the FSC on the conditions and procedure for entry and deletion of public companies, other issuers of securities and issues of securities in the register of the Financial Supervision Commission:

Art. 2. (1) In the Register as an issuer of securities shall be entered each person, satisfying one of the following conditions:

1. (Am. – SG, issue 37 in 2008) to have an approved by the Commission prospectus for public offering of securities, including in the cases under Art. 79a of the Law on Public Offering of Securities (LPOS);
2. (Am. – SG, iss. 37 in 2008) to have an approved by the Commission prospectus for admission of securities to trading on a regulated market;
3. (New – SG, iss. 37 in 2008) to have an approved prospectus by a competent authority of a Member State for public offering or admission to trading on a regulated market of securities in the country and the requirements of Art. 92d of the LPOS to have been complied with; (Prev. item 3 – am. SG, iss. 37 in 2008) to have a recognized by the Commission prospectus for public offering or admission to trading on a regulated market of securities according to Art. 141 para 3 of the LPOS; (Cancelled, prev. item 4, am. – SG, iss. 37 in 2008) not to be obligated to file a prospectus for public offering or admission to trading on a regulated market of securities in the cases under Art. 79 of LPOS, provided the other requirements of the law have been complied with.

(2) (Am. – SG, iss. 37 in 2008) In the cases of public offering of already issued securities and admission of securities to trading on a regulated securities market, the person referred to in Paragraph (1) shall be filed into the Register as an issuer if the securities issued by it satisfy the 2 requirements of Art. 6 Para 2 herein, subject to the condition that the said securities are not shares.

1. Art. 3. Any joint-stock company, which has been entered as a public company in the Register under the conditions and the procedure of this Ordinance, shall not be entered as an issuer.
2. Any joint-stock company, which is subject to deletion from the Register as a public company, shall be entered as an issuer if the said company satisfies the requirements under Art. 2 herein, unless any grounds under Art. 17 herein exist for its deletion as an issuer as well.
3. In case that the shares which are subject to initial public offering are to be subscribed at a constituent assembly of a joint-stock company, such company shall be filed in the Register as an issuer in process of incorporation.

Further information is available at the Rules of the Bulgarian Stock Exchange-Sofia: Ordinance 22

http://download.bse-sofia.bg/others/LegislativeFramework/Ordinance_22E.pdf

Requirements And Criteria For Issues

Article 4. (1) In order to be admitted to trading on any of the markets organized by the Exchange, the issues of financial instruments shall comply with the following conditions:

1. These shall be dematerialized or duly taken out of circulation according to the relevant procedure, whilst also being registered with a depositary institution;
2. These shall comply with all terms and conditions set under the POSA and the statutory instruments on the application thereof with regard to the public offering and admission to trading on a regulated market;
3. The transfer thereof is not subject to restrictions or conditions.

(2) Besides the conditions covered under Paragraph (1) above, the issues of shares, of depositary receipts on shares and structured products, shall also comply with the following additional conditions:

1. No insolvency or liquidation proceedings have been initiated against the issuer thereof or against the issuer of the underlying instrument, if any;
2. The issuer thereof or the issuer of the underlying instrument, if any, is not undergoing a transformation procedure;
3. The legal status of the issuer or of the issuer of the underlying instrument, if any, is in accordance with the applicable legislation of the State where the issuer has its seat, both in respect of the issuer's incorporation and its activity in compliance with the statutory instruments thereof.

Further information is available at: Rules and Regulations of BSE-Sofia, Part III

http://download.bse-sofia.bg/BSE-Rules/Part%20III-Listing_Rules_EN.pdf

- **Is there a specific market for SMEs? (separate exchange for SMEs, separate markets within the main exchange, OTC)**

There is no specialized market for SMEs. BSE has divisions of two markets: Main Market and Alternative Market. Main Market, on the other hand, is divided into premium and standard. SMEs can be listed on either market or market segment, however the requirements of the Main Market for the liquidity of the issue, turnover and number of transactions might be too high for some SMEs to meet.

- **What are the major differences between the conditions for issuers on the main market and SME markets? (Equity, Mcap, free float etc.)**

There is no specialized market for SMEs. Hence, there are no differences between the conditions for issuers on the main market and SME markets.

- **Is there a market advisor mechanism to assist the SMEs for listing?**

According to our legislation companies are not required to use assistance from investment intermediaries in order to become public. However, it is common practice.

- **Are there any incentives for SME listings (such as discounts on regulatory/listing costs or subsidies by the government)?**

There are no additional incentives for SMEs listings.

B. TRADING and POST-TRADING

- **How are SME shares traded? Market making or continuous trading or any other mechanism?**

SMEs shares are traded like any other public company's shares. Detailed general trading information is available at: Rules and Regulations of BSE-Sofia, Part IV

http://download.bse-sofia.bg/BSE-Rules/Part_IV-Trading_Rules_EN.pdf

- **Are the settlement and custody of SME shares different from the main market shares?**

No, they are not. The settlement and custody procedures apply to all shares of all listed companies.

C. Size of the SME Market

- **Historical, annual statistics of the last 5 years, if possible, about the size of the SME markets. Number of listed companies, market capitalization and trading volumes (in US\$, if possible). Comparative statistics with the main market.**

Due to the fact that there is no specialized SME market, there is no specific statistics for it. However, general statistics is available at:

http://www.bse-sofia.bg/?site_lang=en&page=MarketPerformance

D. DISCLOSURE REQUIREMENTS

- **Are there any point-of-sale disclosure requirements for intermediaries, regarding SME shares?**

No, there are not.

- **Are there any differences between the disclosure requirements for issuers on the main market and on SME markets?**

No, there are not.

III. DEBT MARKET for SMEs

- **Are there any regulations specific to bond issues of SMEs? If any, what are the major differences with bond issues of other companies?**

No, there are no regulations, specific to bond issues of SMEs.

- **What are the requirements for the public offering and private placement of these bonds (issue restrictions, rating requirements, etc.)?**

There is a general requirement in the Act on Commerce according to which only joint stock companies may issue bonds. Limited liability companies (in most cases SMEs are LLC or partnerships due to lower capital requirements) cannot issue bonds. The public issuance of bonds may take place provided 2 years have elapsed after the registration of the joint stock company in the Commercial Register and if it has two financial statements voted by the

General Meeting. The latter requirement however does not apply to banks as well as to bonds guaranteed by the state.

- **On which platforms do the SME bonds trade (separate exchange for SMEs, separate markets within the main exchange, OTC)?**

There are no specialized platforms for SMEs bonds trade. However, some corporate bonds are traded on BSE on a regulated market through XETRA as well as OTC.

- **Are there any incentives for SMEs' bond issuances? (such as discounts on regulatory/listing costs or subsidies by the government)?**

No, there are no incentives for SMEs' bond issuances.

- **Historical, annual statistics of the last 5 years, if possible, about the size of the SME bond market.**

Due to the fact that there is no specialized SME market, there is no specific statistics for it. However, general statistics is available at:

http://www.bse-sofia.bg/?site_lang=en&page=MarketPerformance

IV. SECURITIZATION for SMEs

- **Are there any structured products backed specifically by SME loans, bonds or other SME assets?**

No, there are not.

- **Are there any credit guarantees provided by public institutions for these securities?**

NATIONAL GUARANTEE FUND: Ensures guarantees for SME's. The implementation of a guarantee scheme will facilitate the access to financing by SME's through compensating the lack of sufficient collateral when applying for loans, and will reduce the risk assumed by commercial banks in the country providing financing to SME's.

<http://www.bbr.bg/en/goals.html>

- **What are the conditions to issue these securities?**

N/A

V. OTHERS

- **Are there any other types of vehicles that the SMEs can provide financing through capital market, like special purpose companies, venture capital investment trusts etc.?**

No, there are not.

- **How are the capital gains and dividend income on SME stocks taxed? Are there any tax incentives for these securities**

There are no specific tax policies for SMEs. However, tax incentives are among the most important tools used by the Bulgarian government in order to stimulate the development of the local capital market. Such examples are:

Capital gains from securities transactions realized on the local regulated market **are not subject to withholding tax**. Same applies to capital gains realized from transactions (sale and redemption) in units of collective investment schemes – they are also tax exempt (CIS may be traded on a special segment of the BSE but generally they are sold and redeemed OTC by the asset management companies or third parties to whom distribution of units has been delegated).

Tax on dividends for individuals is 5%.
10% flat tax on personal income.
10% corporate tax.

Collective investment schemes which are UCITS according to the Law on Collective Investment Schemes and Other Undertakings for Collective Investment are tax exempt and do not pay corporate taxes. Same applies to REITS (“Special Investment Purpose Shareholding Companies”) according to the law on Special Investment Purpose Joint Stock Companies – they are tax exempt but are obligated by law to distribute not less than 90% of their profit for the financial year as dividend to shareholders.

One should note, there are currently talks on introducing 10% tax on capital gains from trading. If accepted tax changes will take place on 1st of January 2013.

- **Are SROs involved in any aspect of the SME market, such as regulating the OTC trading, disclosure requirements, data publication, etc.?**

No, they are not.

- Has there been any regulatory change after the crisis, to facilitate the financing of SMEs through capital markets?

There has been no regulatory change after the crisis, to facilitate the financing of SMEs through the capital market.

- **Your recommendations for the development of the SME financing through capital markets in your jurisdiction and, if possible, for the emerging markets in general.**

The access of SMEs to financing through public issuance of securities and listing on the stock exchanges should generally be facilitated through special regulations applicable to such enterprises. There should be special segments on the stock exchanges for trading in such companies. Less stringent requirements should apply to the procedure for getting an approval (“confirmation” according to Bulgarian legislation) of their prospectuses, together with certain exemptions applicable to content of such prospectuses.

SME MARKETS IN KOREA

I. GENERAL FRAMEWORK FOR SMEs

- **Is there a definition of small and medium sized enterprises in your country's regulations?**

Article 2 of Framework Act on Small and Medium Enterprises and Article 3 of Enforcement Decree of the Financial Investment Services and Capital Markets Act

Sector	# of Workers	SMEs
		Capital & Sales
Manufacturing	Less than 300	Capital worth \$8M or less
Mining, construction and transportation	Less than 300	Capital worth \$3M or less
Large general retail stores, hotel, recreational condominium operation, communications, information processing and other computer-related industries, engineering service, hospital and broadcasting	Less than 300	Sales worth \$30M or less
Seed and seedling production, fishing, electrical, gas and waterworks, medical and orthopaedic products, wholesales, fuel and related products wholesales, mail order sale, door-to-door sale, tour agency, warehouses and transportation-related service, professional, science and technology service, business support service, movie, amusement and theme park operation	Less than 200	Sales worth \$20M or less
Other sectors	Less than 50	Sales worth \$5M or less

- **Are there any specific regulations for SMEs, SME markets or SME financing (names of relevant regulations will suffice)?**

Framework Act on Small and Medium Enterprises

- **Are there any public institutions specific to SMEs? (brief introduction of relevant institutions)**

Small & Medium Business Administration

- **How can SMEs provide financing in your capital markets (equity market, debt market, venture capital/private equity, securitisation market etc.)?**

IPOs, Increases of Paid-in Capital (Offerings to shareholders, third party allotments), Debt Issuance, etc.

II. EQUITY MARKET for SMEs

A. ISSUANCE

- Conditions for issuers (issuer restrictions, capital restrictions, rating requirements etc.)

As per KOSDAQ Market regulations

Category	Ordinary company	Venture company	Growth-oriented venture company*
Years since incorporation	Three years or more	-	-
Company Size (Either one)	Equity Capital KRW3bn or more	Equity Capital KRW1.5bn or more	Equity Capital KRW1.5bn or more
	Market Cap.	KRW9bn or more	
Stock distribution	<p><u>Public offering (one of the following shall be met)</u></p> <p>A. A company with at least 500 minority shareholders and 25% or more shares held thereof shall meet any of the following requirements:</p> <p>a. Minority shareholders holding 25% or more → 5%(KRW1bn) or more of public offering after application for listing</p> <p>b. Minority shareholders holding less than 25% → 10% or more of public offering after application for listing</p> <p>B. For a corporation with KRW50bn or more of equity capital/KRW100bn or more of market cap.: 500 or more minority shareholders and 10% or more public offering after application for listing with any of the following:</p> <p>a. Equity capital (market cap.) KRW50-100bn (KRW100-200bn): one million shares or more</p> <p>b. Equity capital (market cap.) KRW100-250bn (KRW200-500bn): two million shares or more</p> <p>c. Equity capital (market cap.) KRW250bn (KRW500bn) or more: five million shares or more</p> <p>C. Public offering of 25% or more shares and 500 minority shareholders</p> <p><u>Pre-distribution and direct listing (listing without public offering)</u></p> <p>- Subject of direct listing: At least 500 minority shareholders who hold 25% or more shares through public offering as of the application date</p>		
Financial Status	No capital impairment		
Management performance	Income from continued operation before deduction of corporate tax	Income from continued operation before deduction of corporate tax	-
ROE, sales revenue, and standard market value (One of the above)	- ROE 10% - Net income KRW2bn - Recent sales revenue KRW10bn and market cap. KRW30bn or more	- ROE 5% - Net income KRW1bn - Recent sales revenue KRW5bn and market cap. KRW30bn or more	-
Auditor's opinion	For the most recent business year's financial statements, an auditor of 4 Accounting Firms (PWC, KPMG, Ernst & Young, Deloitte) – Exempted in case of secondary listing -- should give "Unqualified Opinion" *IFRS or U.S. GAAP for Consolidated financial statements		

Paid in Capital Increase	The total paid-in capital increase in 1 year before the application should be less than the equity capital that the company held two years ago.		
Change of the Largest Shareholder	No change of the largest shareholder in 1 year before application		
Lock-up Period	Largest shareholder	1 year after listing (Exempted in case of secondary listing), but no more than 5% of stocks held may be sold every month starting from 6 months after the listing	
	Venture Finance & Institutional Investors	N/A	1 month after listing

* As businesses in growth industries, venture businesses with at least an A rating in technical assessment

(Note) Venture Company Classification for KOSDAQ Market

Classification	Standards	Comments
Common Standards	Small and medium businesses as defined in the Framework Act on Small and Medium Enterprises	
Venture Finance Investment Businesses	Businesses for which the investment period is no less than 6 months and total stock acquisitions for the following entities exceeds 10% of equity: small and medium business investment companies, investment associations for small and medium businesses, new technology enterprise financiers, investment associations for new technology enterprises, and the Korea Venture Fund, etc.	
Research & Development Businesses	Businesses for which research & development costs are greater than KRW50 million and exceed 5% of total sales	Using the preceding business year's costs as a standard
New Technology Businesses	Business that are commercializing through patent rights, etc. and have received first rate valuations for technology and business capabilities from the Small Business Corporation, etc.	

FreeBoard Market: FreeBoard asks its issuers for only the minimum listing requirements for trading purposes. Companies listed on FreeBoard can be divided into three categories: venture companies, ordinary companies and Technopark-supported companies. Venture company standards for the FreeBoard Market are defined under the "Act on Special Measures for the Promotion of Venture Businesses."

Category	Requirements
Transfer of Stocks	An issue must be transferable without any limitations imposed by the firm's articles of association.
Transfer Agent Agreement	An issuer must conclude a transfer agency service contract with a transfer agent. Transfer agents manage and keep track of changes in stock ownership, e.g. maintaining a record of the shareholder's name, address, etc. The Korea Securities Depository, KB and Hana Bank serve as transfer agents.
Auditor's opinion	An issuer must obtain either an "unqualified" or "qualified" opinion on its financial statements for the latest fiscal year through an external audit in accordance with the Act on External Audit of Stock Companies. When an issuer applies to be newly listed after the semi-annual closing, a semi-annual report is required in addition to the external audit of the recent fiscal year's financial statement. Venture companies and companies delisted from the stock market or KOSDAQ are subject to external auditing but are not required to meet a certain audit opinion.

• **Is there a specific market for SMEs? (separate exchange for SMEs, separate markets within the main exchange, OTC)**

1) The KOSDAQ Market, managed and operated by Korea Exchange (KRX) – 80% of KOSDAQ-listed companies are SMEs, but the market is not exclusive for SMEs;

2) The FreeBoard Market, which is a systematized over-the-counter (OTC) market, established and managed by the Korea Financial Investment Association (KOFIA) in accordance with the Financial Investment Services and Capital Markets Act (FSCMA). The market provides a place for companies that are unable to meet the listing requirements of the two national securities exchanges to trade their stocks, and acts as a financing channel, particularly for venture companies and SMEs.

• **What are the major differences between the conditions for issuers on the main market and SME markets? (Equity, Mcap, free float etc.)**

		KOSPI Market	KOSDAQ Market for ordinary company	FreeBoard Market
Company Size	Equity Capital	At least KRW10bn	At least KRW 3bn	N/A
(Either one)	MCap	At least KRW 20bn	At least 9 bn. Won	N/A
# of Offering Shares		• At least 1 million shares	-	N/A
State of Capital		-	• No Capital Impairment	N/A
ROE, sales revenue, and standard market value		Recent year sales revenue of at least KRW 30 bn. & 3 year average sales revenue of at least KRW 20 bn. & Should realize recent year operating profit, income from continuous operations before tax, net income & fulfilling one of the following:	- ROE 10%	
(One of three items)	Sales & Profit	- ROE for the latest fiscal year should be at least 5% and the sum for the latest three fiscal years should be at least 10%.	- Net income KRW2bn - Recent sales revenue KRW10bn and market cap. KRW30bn or more	N/A
		- Net Income for the latest fiscal year should be at least KRW 2.5 bn. and the sum for the latest three fiscal years should be KRW 5 bn. • - In case shareholders equity is larger than KRW 100 bn., ROE for the latest fiscal year should be at least 3% or the profit at least KRW 5 bn., and the cash flow from operating activities in the latest fiscal year should be positive(+).		

	Sales & Market Cap.	Recent year sales of at least KRW 50 bn. & Market cap. of at least KRW 100 bn.		
	Sales, Market Cap. & Operating Cash Flow	Recent year sales of at least KRW 70 bn. & Market cap. of at least KRW 50 bn. & Operating cash flow of at least KRW 2 bn.		
Auditing		Unqualified (recent year) or unqualified / qualified (2 years before recent year)	Unqualified (recent year)	Unqualified or Qualified (recent year)
Paid-in Capital Increase		-	The total paid-in capital increase in 1 year before the application should be less than the equity capital that the company held two years ago.	N/A
Lock-up Period (Largest Shareholder)		6 months after listing - Exempted in case of secondary listing	1 year after listing - Exempted in case of secondary listing	N/A

• **Is there a market advisor mechanism to assist the SMEs for listing?**

KRX has established the Listing Support Centre in order to provide free education and consulting services related to listing issues.

The FreeBoard Market does not have any market advisor mechanisms.

• **Are there any incentives for SME listings (such as discounts on regulatory/listing costs or subsidies by the government)?**

There are no incentives for the listing of ordinary SMEs, but the incentives for venture SMEs that are listed on KOSDAQ are as follows:

- 1) Requirements for number of years since establishment and debt ratio do not apply to venture businesses. Eased financial requirements on data such as equity and return on equity, etc. are applied;
- 2) The Korea Technology Credit Guarantee Fund's preferential credit guarantee for venture businesses;
- 3) Income earned by employees who exercise stock purchase options given to them is not considered as earned income, business income, or other income;
- 4) Other incentives include support for other forms of financing, credit guarantees, business locations, technical development, obtaining high-quality employees, markets for acquiring goods, etc.

General advantages when listed on the KOSDAQ are as follows:

Market Price Acknowledged for the Valuation of Inherited and Donated Property on the KOSDAQ Market (Article 63 of the Inheritance Tax and Gift Tax Act and Article 53 of the Enforcement Decree of the Inheritance Tax and Gift Tax Act)

- However, stock concerned must not have been designated as investment-caution stock within 6 months (3 months for gifts) before or after the valuation date (inherited → effective date of inheritance, gifts → date of the gift). In addition, stock concerned must have been designated as a substitute security at least once in either the month of the valuation date or the month

immediately before.

Stock Option Exercise Income Tax Exemptions (Article 15 of the Restriction of Tax Reduction and Exemption Act)

- Income earned by employees who exercise stock options given to them is not considered as earned income.

Incentives when listed on FreeBoard are as follows:

As part of the effort to improve the FreeBoard system, KOFIA provides incentives to stable, well-performing venture corporations that meet the following descriptions when applying to be listed on KOSDAQ.

- Corporations listed on the FreeBoard for a period of one year or longer
 - Corporations that have not been charged with unfaithful disclosure during the recent year
 - Corporations with a yearly turnover rate of 5% or more
- When FreeBoard-listed companies apply for preliminary reviews for listing on the KOSDAQ, within a 10% limit of all corporations subject to the review, the KRX will review FreeBoard-listed corporations first.
 - When estimating the total issues to be offered or sold on the KOSDAQ after the preliminary review date, up to 5% of the offered or sold stocks on the FreeBoard (excluding the sale of minority shareholders' shares) will be acknowledged and reflected in the estimation.
 - Listing review fees (KRW1mn) and listing fees (only in cases of new listings) are exempted.
 - If a FreeBoard-listed corporation is a venture firm within a new growth engine industry, it will be exempt from the restrictions placed on KOSDAQ-listed issuers, regarding refraining from selling stocks to venture capital or professional investors, for a period of one month after listing on the KOSDAQ.

B. TRADING and POST-TRADING

- **How are SME shares traded? Market making or continuous trading or any other mechanism?**

KOSDAQ: Continuous Trading

FreeBoard: Negotiated transaction (Companies can finance their business activities through the FreeBoard in two ways: either by becoming a FreeBoard-listed company and trading their shares in this secondary market through negotiated transactions or direct trading, or by registering as a company in the preliminary listing stage and receiving various forms of financing assistance without the trading of shares.)

- **Are the settlement and custody of SME shares different from the main market shares?**

KOSDAQ: No

FreeBoard: No

C. SIZE of the SME MARKET

- Historical, annual statistics of the last 5 years, if possible, about the size of the SME markets. Number of listed companies, market capitalization and trading volumes (in US\$, if possible). Comparative statistics with the main market.

(unit: USD bn.)

		2007	2008	2009	2010	2011
KOSPI (Main)	# of companies	746	765	770	777	791
	Market Cap	821.40	497.84	766.09	985.25	899.05
	Trading Value	1175.93	1110.61	1265.14	1217.08	1468.59
KOSDAQ	# of companies	1,022	1,037	1,028	1,029	1,031
	Market Cap	86.28	39.86	74.29	84.56	91.46
	Trading Value	432.01	266.61	458.15	416.82	481.45
FreeBoard	# of companies	54	70	66	71	63
	Market Cap	0.397	4.987	0.644	0.708	0.746
	Trading Value	0.036	0.027	0.011	0.050	0.043

D. DISCLOSURE REQUIREMENTS

- Are there any point-of-sale disclosure requirements for intermediaries, regarding SME shares?

No.

- Are there any differences between the disclosure requirements for issuers on the main market and on SME markets?

<Summary of Disclosure Requirements: KOSDAQ vs. KOSPI vs. FreeBoard>

	KOSDAQ	KOSPI	FreeBoard
Timely Disclosure (When important management matters occur)	without delay(same or next day) - affecting issuer's equity capital more than 10% (5% for large companies)	Same as KOSDAQ - affecting issuer's equity capital more than 5% (2.5% for large companies)	Same as KOSDAQ
Timely Disclosure Specific Items	-When the decision was made to make an investment in the person who has acquired the new stocks of concerned KOSDAQ-listed company by way of third party allotment in the recent 6 months -When operation and review of internal accounting system is not suitable -When entering into the agreement aiming the change of management right -When it has been confirmed that the impairment loss resulted from the receivables other than trade receivables is higher than 50/100 of equity capital. -When a loss from on-going business before tax occurred -When an operating loss has incurred in each of the four (4) recent fiscal		Same as KOSDAQ

	years. -When there is a change of business plan(for Venture Firms in New Growth Engine Industry only)		
Inquired Disclosure (When there are rumours or news about important corporate matters or sudden drastic changes in stock prices or trading volumes)	Inquiry in the morning	Reply by the afternoon	Same as KOSDAQ One day after Inquiry Request
	in the afternoon	by the morning of the day after	
	about market conditions	on the same day.	
Voluntary Disclosure (When matters determined by bylaws apart from key management matters occur) report by the day after the matter occurs)	report by the day after the matter occurs - affecting issuer's equity capital more than 10% (5% for large companies)	Same as KOSDAQ - affecting issuer's equity capital more than 5% (2.5% for large companies) - When a contract has been entered to introduce or transfer the technology	N/A
Penalty for Unfaithful Disclosure	- Designation as unfaithful disclosure corporation - Imposing fine or Demerit points - Trading Suspension	Same as KOSDAQ	- Designation as unfaithful disclosure corporation - Trading Suspension
Disclosure Officer	1 person	1 person	1 person
Disclosure Staff Member	1 person	More than 1 person	1 person

*Definition of Large Company listed on KOSDAQ: asset > KRW 100bn

*Definition of Large Company listed on KOSPI: asset> 2trn

III. DEBT MARKET for SMEs

- **Are there any regulations specific to bond issues of SMEs? If any, what are the major differences with bond issues of other companies?**

All size bonds are regulated under Commercial Act and FSCMA.

- **What are the requirements for the public offering and private placement of these bonds (issue restrictions, rating requirements, etc.)?**

Public Offering:

Company registration	Register with the Financial Services Commission (FSC) for public issue of non-guaranteed bonds
Get credit rating	Submit for credit assessment, evaluation (requires two to four weeks) Credit rating from two or more credit rating agencies is required
Submit securities report	Submit securities report and attached documents (subscription agreement, trustee agreement, principal and interest payment agency agreement, etc.) to the FSC

Take effect	- Unsecured corporate bonds: Seven days after registration statement submission - Secured bonds, collateral bonds, ABS: Five days after registration statement submission - Shelf registration: Five days after registration statement submission
Issuance reporting	After issuance is complete, issuance report is submitted to the FSS
Report underwriting by managers	Report underwriting performance by managing companies to KOFIA five days from issuance day

Private Placement: The Qualified Institutional Buyer (QIB) system has been implemented in May 2012 to expand financing opportunities for small and medium sized enterprises (SMEs) through the capital markets. Under the system, relaxed disclosure and other requirements are applied (e.g. securities report submission, no rating requirement) when securities are traded only between Qualified Institutional Buyers who meet a certain minimum level of sophistication, size and market savvy with respect to complicated or risky securities. The scope of QIBs is limited to professionals as defined in Article 11 of the Enforcement Decree of FSCMA among investors, and the policy excludes money brokerage companies, small-loan financial agencies and relevant institutions. Domestic QIB securities must be issued to QIBs, and may be resold only to QIBs. Unlisted domestic companies with total assets of KRW500bn or less (excluding financial institutions and public enterprises) are eligible to issue QIB securities in Korea, as are foreign companies and government agencies. QIB securities include corporate bonds and securities-related corporate bonds such as CBs and BWs

- **On which platforms do the SME bonds trade (separate exchange for SMEs, separate markets within the main exchange, OTC)?**

QIB bonds are traded on QIB Trading Platform provided by KOFIA and other bonds are traded on the main exchange, KRX, and OTC.

- **Are there any incentives for SMEs' bond issuances? (such as discounts on regulatory/listing costs or subsidies by the government)?**

In the QIB system, disclosure, rating and other requirements are relaxed.

- **Historical, annual statistics of the last 5 years, if possible, about the size of the SME bond market.**

1 QIB bond has been issued with face value of USD 1billion on July 16th 2012.

IV. SECURITIZATION for SMEs

- **Are there any structured products backed specifically by SME loans, bonds or other SME assets?**

When corporations, in particular SMEs, encountered a serious credit crunch in the second half of 2000, the government undertook a series of stabilization measures to help them finance by permitting them to issue primary CBOs. Thanks to such measures, financially distressed SMEs were able to issue corporate bonds that were utilized as the underlying asset of primary CBOs.

- **Are there any credit guarantees provided by public institutions for these securities?**

Korea Credit Guarantee Fund, Korea Technology Finance Corporation

- **What are the conditions to issue these securities?**

Conditions vary by the originators.

V. OTHER

- **Are there any other types of vehicles that the SMEs can provide financing through capital market, like special purpose companies, venture capital investment trusts etc.?**

The FreeBoard Green New Growth Engine Investment Fund (\$50 million in size) was established in 2009, by KOFIA, the Government Employees Pension Services, Korea Teachers Pension, GS Caltex, and Ilshin Venture Capital, to invest in sustainable SMEs and venture companies. More than \$30 million of the fund is planned to be invested in venture companies.

- **How are the capital gains and dividend income on SME stocks taxed? Are there any tax incentives for these securities**

Capital Gains Tax Exemptions (Article 94 of the Income Tax Act; Article 157, Clause 2 of the Enforcement Decree of the Income Tax Act)

- Stocks transferred through the KOSDAQ Market are exempted from capital gains taxes.
- However, shareholders (including those with special relationships with the largest shareholder) who possess over 5% of the total amount of the stock issued or over KRW5 billion in terms of market capitalization are subject to capital gains taxation for stock transfers.

Category	Stock Market	KOSDAQ	FreeBoard
Securities transaction tax	0.3% of sell price (Including 0.15% special tax for rural development)	0.3% of sell price (No special tax for rural development)	0.5% of sell price (No special tax for rural development)
Capital gains tax	Minority shareholders (Exchange-traded): Tax exempted		Minority shareholder of venture company (Transferred on the FreeBoard): Tax exempted
	Minority shareholders (OTC-traded): Tax levied		Minority shareholder of venture company (Transferred outside of the FreeBoard); Minority and largest shareholder of ordinary company : Tax levied
* Tax rate: 10% for SME shares, 20% for large corporation shares, 30% for shares owned by major shareholder of large corporations a period less than one year			

- **Dividend Income Tax Exemptions and Separate Taxation (Article 91 of the Restriction of Tax Reduction and Exemption Act)**

Face values of issues of up to KRW50 million are exempted from taxes and those from KRW50 to KRW300 million are taxed separately (5%); however, this only applies when they have been in the shareholder's possession for over a year

- **Are SROs involved in any aspect of the SME market, such as regulating the OTC trading, disclosure requirements, data publication, etc.?**

Yes. The Korea Exchange (KRX) is an SRO which contains the KOSDAQ market as an independent division within itself. KRX self-regulation is broadly categorized into market surveillance, investigation into abnormal trading activities such as unfair trading, member inspections, and mediation of disputes.

The term market surveillance means monitoring, investigating and analysing the status of the buying and selling of securities and exchange-traded derivative products in the securities and derivatives markets, disclosures, rumours, news, etc. The term investigation into abnormal trading activities refers to the task of determining if a trade has the potential for abnormal trading, including violation of the prohibition against insider trading, price manipulation, failure to disclose profits from short-selling, and engagement in illegal trading.

If the price or trading volume of securities changes rapidly, or there are disclosures, rumours, news, etc., or concerns of unfair trading in the stock market, the relevant trading-related situations are assessed in order to confirm whether there have been unfair trades. Member inspection means the in-depth examination of the financial status, business reports, account books, and other documents and materials of members in order to ascertain that members comply with the regulations governing the business of the KRX, and whether the member is engaged in abnormal trading.

In addition, the KRX performs dispute resolution in order to rapidly and efficiently resolve complex and difficult securities-related disputes. The KRX conducts the mediation of agreements when there are requests by participants in the stock market or derivatives market regarding trading in those markets.

Meanwhile, when it is necessary to investigate or inspect abnormal trading, the KRX may request document submissions, pay a visit, or give testimony in the course of investigations. If results show that the relevant member violated the market surveillance regulations, the Market Oversight Commission (MOC) may decide on punitive measures, and if the member officers and employees are involved, the relevant member's punishment may be requested.

- **Has there been any regulatory change after the crisis, to facilitate the financing of SMEs through capital markets?**

The bill provided below is still pending in National Assembly.

To facilitate the financing and joint investment of listed SMEs through capital markets, contingent capital securities and BWs shall be allowed to be issued under strict monitoring of issuing causes and value, but only to the extent that investors are properly protected.

SME MARKETS IN MEXICO

I. GENERAL FRAMEWORK FOR SMEs

- **Is there a definition of small and medium sized enterprises in your country's regulations?**

Yes, there is a definition established by a Federal Law and complemented by a Mutual Agreement of the Ministry of Economy (SE) and the Ministry of Finance and Public Credit (SHCP) published in June of 2009. The enterprises in Mexico are classified in Micro, Small and Medium according to their number of employees and their annual sales depending on the sector to which the enterprises belong to.

The enterprise size is determined from the score obtained according to the following formula: Score = (number of employees) X 10% + (annual sales) X 90%, which must be at or below a maximum combined ceiling.¹

The divisions between sizes are presented in the table below:

Classification				
Size	Sector	Number of employees	Margin of annual sales (millions MXN ²)	Max. combined ceiling
Micro	All	Up to 10	Up to \$4	4.6
Small	Commercial	From 11 up to 30	From \$4.01 up to \$100	93
	Industry & Services	From 11 up to 50	From \$4.01 up to \$100	95
Medium	Commercial	From 31 up to 100	From \$100.01 up to \$250	235
	Services	From 51 up to 100		
	Industry	From 51 up to 250	From \$100.01 up to \$250	250

Source: SE

- **Are there any specific regulations for SMEs, SME markets or SME financing (names of relevant regulations will suffice)?**
 - Law for the development of the competitiveness of micro, small and medium enterprises.
 - Joint Agreement of the SE and the SHCP establishing the stratification of micro, small and medium enterprises of June 30th 2009.
 - Operating Rules for the Support Fund for Micro, Small and Medium Enterprise (SME Fund) for 2012³ fiscal year issued by the SE.

¹ Notice that, by exclusion, those companies surpassing 235 (commercial and services sectors) and 250 (industry sector) maximum combined ceiling are considered as large enterprises.

² Data in Mexican pesos (MXN). The average exchange rate up to November of 2012 is: 1 USD = 13.1933 MXN, according to information of the Mexican Central Bank.

³ The Operating rules change each year to adjust to the annual federal budget.

- **Are there any public institutions specific to SMEs? (brief introduction of relevant institutions)**

A) SPYME

The Under-Secretary for the Small and Medium Enterprise (SPYME) was established inside the SE in order to promote the SMEs' sector in Mexico. Its principal objective is to achieve a stronger, larger and more participative sector in the Mexican economy through specific programs which link financial intermediaries and other important authorities to those enterprises.

B) NAFINSA

Nacional Financiera (NAFINSA) is the largest development bank in Mexico, one of its main objectives is to promote the development of SMEs by providing funding, training and technical assistance.

- **How can SMEs provide financing in your capital markets (equity market, debt market, venture capital/private equity, securitisation market etc.)?**

The financing of SMEs in Mexico through the capital markets is very limited, there are some special programs supported by the Federal Government, the Mexican Stock Exchange (BMV) and private organizations focused on the debt market. In addition to, in some cases SMEs can profit of venture capital. There have been some efforts from the authorities, securities industry and other market participants to increase the access of SMEs to the capital markets but this goal still remains as a pending task.

II. EQUITY MARKET for SMEs

There are not any specific requirements for SMEs in the equity market. All enterprises independently of their size have to comply with the same regulations and requirements.

A. ISSUANCE

- **Conditions for issuers (issuer restrictions, capital restrictions, rating requirements etc.).**

Not applicable.

- **Is there a specific market for SMEs? (separate exchange for SMEs, separate markets within the main exchange, OTC)**

There is not a specific market for SMEs in Mexico.

- **What are the major differences between the conditions for issuers on the main market and SME markets? (Equity, Mcap, free float etc.)**

Not applicable.

- **Is there a market advisor mechanism to assist the SMEs for listing?**

There is not a market advisor mechanism with this purpose at the moment.

- **Are there any incentives for SME listings (such as discounts on regulatory/listing costs or subsidies by the government)?**

BMV Facilities and Services Program.

The Mexican Stock Exchange developed a “Facilities and Services Program” for those enterprises with less than 500 million pesos of stockholders equity, these enterprises are considered as Medium size by the BMV, it is important to notice that this is a different criteria than the established by the SE. In comparing schemes, all of the enterprises with the BMV criteria would be considered as large enterprises by the SE.

Benefits	IPO's Equity
Exemption of the registration fee	√
Discount on the maintenance fee (first year)	50%
Promotion of events related to the placement	√
Faster registering process	√
Price valuation vector of treasury (one year)	√
Free access codes for the “Emisnet” and “Sibolsa” softwares for a determined period	√

Source: BMV

Some special considerations for this program are:

- Applicable to new issuers of equity that make the placement of their securities on the Stock Exchange and provided they have no other security previously listed.
- Only applicable for the listing of national firms that have not previously been in the Exchange records (even through trusts).
- Not applicable for new equity issuers that come from spin offs of companies currently listed.
- In promoting events for the placement, the benefit consists in support in the road show and the distribution of securities, newspaper advertising, banners on the website of BMV, the listing ceremony, etc..

B. TRADING and POST-TRADING

- **How are SME shares traded? Market making or continuous trading or any other mechanism?**

Not applicable.

- **Are the settlement and custody of SME shares different from the main market shares?**

Not applicable.

C. SIZE of the SME MARKET

- **Historical, annual statistics of the last 5 years, if possible, about the size of the SME markets. Number of listed companies, market capitalization and trading volumes (in US\$, if possible).**

Not applicable.

- Comparative statistics with the main market.

Not applicable.

D. DISCLOSURE REQUIREMENTS

- Are there any point-of-sale disclosure requirements for intermediaries, regarding SME shares?

Not applicable.

- Are there any differences between the disclosure requirements for issuers on the main market and on SME markets?

Not applicable.

III. DEBT MARKET for SMEs

- Are there any regulations specific to bond issues of SMEs? If any, what are the major differences with bond issues of other companies?

There are not specific regulations to bond issues of SMEs, all the companies independently of their size have to comply with the same requirements.

- What are the requirements for the public offering and private placement of these bonds (issue restrictions, rating requirements, etc.)?

Not applicable.

- On which platforms do the SME bonds trade (separate exchange for SMEs, separate markets within the main exchange, OTC)?

At present there is not any special market to trade SME bonds.

- Are there any incentives for SMEs' bond issuances? (such as discounts on regulatory/listing costs or subsidies by the government)?

Currently there are 2 special programs available but they are designed only for Medium size enterprises.

A) "Debt Market for Enterprises" program

The SE, Endeavor⁴ Mexico, the Mexican Association of Private Equity (AMEXCAP), the Mexican Stock Exchange and the Government Fund for Capitalization and Investment of the Rural Sector (FOCIR), launched in 2011 the first call for the "Debt Market for Enterprises" program.

1. Objective

The program aims to fund the adoption of corporate governance and the institutionalization of enterprises through the payment of professional services,

⁴ Endeavor is private organization promoting business entrepreneurship in Mexico.

credit ratings, equipment and systems (the working program) to be able to become candidates for debt issuance in the Mexican Stock Exchange.

2. Benefits

The maximum amount to be financed per company awarded is up to 90% of the total costs of the working program or up to \$10 million pesos. The company benefited must provide at least 10% of the total cost of the working program.

Funding concepts:

- a) Professional services: corporate governance, process documentation, corporate finance, tax, audit and legal services.
- b) Systems like ERP (Enterprise Resource Planning): software licenses, hardware and consulting (not CRM).
- c) Debt rating by one of the rating agencies recognized by the National Banking and Securities Commission (CNBV).
- d) Issuance costs.

3. Candidate requirements⁵

- a) Enterprises in process of expansion or consolidation willing to strengthening their institutionalization and able to be capitalized through the issuance of debt in the BMV, intending to start a process of implementation of corporate governance in the first trimester of 2013 and issue debt in the BMV no later than the first trimester of 2014.
- b) Companies that have billed between \$100 and \$250 million pesos in 2011 fiscal year.
- c) Fulfil the criteria of Medium enterprise according to the Joint Agreement of the SE and the SHCP establishing the stratification of micro, small and medium enterprises of 30th June 2009.
- d) That the sum of the operating results of the last two fiscal years shows utilities.
- e) To be companies with an operating history of at least three years.
- f) Companies with audited financial statements for 2009, 2010 and 2011.
- g) Companies with at least \$50 million pesos of shareholders Equity.
- h) Companies that are in order with their tax obligations.
- i) Companies that do not have negative status in the credit reporting agency (*buró de crédito*)
- j) Companies formally constituted in Mexico, which do not belong to an international corporation or a domestic corporation in which any of their entities, currently issues debt in the BMV or is classified as large company.
- k) Financial intermediaries cannot be candidates.

The first call was in July of 2011, the budget assigned then was of \$50 million pesos and 10 enterprises were selected to be beneficiaries. A second call was launched in February of 2012, the amount for the program was duplicated to \$100 million pesos and 9 enterprises were awarded in November of 2012.

Up to date, none of the selected enterprises has been able to issue debt at the Mexican Stock Exchange. It was expected that after 6 months from the delivery of the financial support the companies awarded would be able to complete the working program, but in practice it has taken more time.

⁵ According to the 2012 call.

B) BMV Facilities and Services Program

The "Facilities and Services Program" of the Mexican Stock Exchange also involves the exemption of the payment of the registration fee and 50% in the first year of the maintenance fee only for Medium enterprises. Notice that as for in the equity market, the BMV considers within this category enterprises with less than \$500 million pesos of shareholders equity, which does not follow the same criteria than the legal definition of a Medium size enterprise.

Benefits	Mid and Long term Debt	Short term Debt
Exemption of the registration fee	√	√
Discount on the maintenance fee (first year)	50%	X
Promotion of events related to the placement	√	√
Faster registering process	√	√
Price valuation for their treasury (one year)	√	√
Free codes for the "Emisnet" and "Sibolsa" softwares for a determined period	√	√

Source: BMV

Some special considerations for this program are:

- Applicable to new issuers of short term debt, medium and long term debt that make the placement of their securities in the Stock Exchange and provided they have no other security previously listed.
 - Only applicable for the listing of national firms that have not previously been in the Exchange records (even through trusts).
 - In the case of medium and long term debt issuances, discounts will be valid when the firms perform direct issuance. If the issuance is carried out under cover of a trust in which any rights are transferred, only 50% of the above shall apply in the registration fee and will not apply to the maintenance.
 - Issuers of short-term debt with shareholder equity of less than 500 million pesos, are exempt of the listing fee for the first 2 line provisions for a maximum period of 360 days.
 - Issuers of long-term debt with shareholders' equity of less than 500 million pesos, are exempt of the listing fee for the first available line.
 - In promoting events for the placement, the benefit consists in support in the road show and the distribution of securities, newspaper advertising, banners on the website of BMV, the listing ceremony, etc..
- **Historical, annual statistics of the last 5 years, if possible, about the size of the SME bond market.**

Up to date there are not statistics available since the programs promoting the access of SMEs to the bond market are relatively new.

IV. SECURITIZATION for SMEs

There is not special securitization for SMEs. All the enterprises independently of their size must comply with the same requirements.

- **Are there any structured products backed specifically by SME loans, bonds or other SME assets?**

Not applicable.

- **Are there any credit guarantees provided by public institutions for these securities?**

Not applicable.

- **What are the conditions to issue these securities?**

Not applicable.

V. OTHERS

- **Are there any other types of vehicles that the SMEs can provide financing through capital market, like special purpose companies, venture capital investment trusts etc.?**

Alternatives to Private Equity in the Securities Market for SMEs

Following the international trend and as a result of the joint efforts between authorities and intermediaries, in 2009 it was possible to have a new class of financial instrument, called Development Capital Certificates (CKDs), to encourage private capital investment/risk in our country through the Securities Market.

CKDs are securities intended to finance one or more projects through the acquisition of one or more promoted companies, especially in sectors like infrastructure, real estate, mining, general business and technology development. Yields are variable and depend on the usufruct and benefit of each project with a certain maturity. There are CKDs specialized in investing in stocks or flows of several enterprises or projects and there are others dedicated to investing in stocks or flows of a single company or project (it is intended to include SMEs in the promoted companies). This capital development scheme helps, in some cases, companies to make IPOs.

The Investment Promoter Limited Public Companies (SAPI and SAPIB)

The SAPI is a special purpose company created by the Securities Market Law of 2005. The aim of this new form of Public Limited Company was to create a more flexible and adequate legal entity for the equity market that allowed enterprises to be better prepared for an eventual listing in the BMV.

1. SAPI

2. The SAPI is allowed to some exceptions⁶ to the requirements of the Federal Law of Corporations that will help it to attract more capital and prepare for a future listing in the Exchange. The SAPI is not listed; it is a variation of the Limited Public Company figure (SA7) with statutory flexibility to raise capital.

3. SAPIB

The SAPIB is an intermediate figure between the SAPI and the Public Listed Company (SAB), the elements of corporate governance, disclosure, annual reports,

⁶ The main differences are in voting rights (rights of minorities), drag along and tag along rights, special conditions to repurchase stock, different limits to issue different shares to the ordinary shares. In general: corporate governance, disclosure requirements and minority rights.

⁷ SA is for *Sociedad Anónima* in Spanish.

etc., increase in comparison to the SAPI. The SAPIB is listed in the BMV⁸, it is a transitional figure with duration of 3 years, within this period the SAPIB has to develop a plan to comply with all the elements required to become a SAB. If they fail to comply they are obliged to do a takeover bid and then get delisted of the BMV.

Notice that neither the SAPI nor the SAPIB were specifically designed for SMEs but these figures may help them to eventually enter to the capital market. It is not mandatory to constitute first as a SAPI to become a SAPIB, the companies can choose to go as a SAPIB or SAB directly provided that they fulfil the specific requirements for each.

- **How are the capital gains and dividend income on SME stocks taxed? Are there any tax incentives for these securities?**

There are not any specific tax incentives for securities of SMEs. However it is relevant to mention that a special characteristic of the Mexican securities market is that in general, the profits on capital for investors (capital gains) are not taxed neither the payment of dividends is taxed provided that the company has paid the income tax on the profits to be distributed.

- **Are SROs involved in any aspect of the SME market, such as regulating the OTC trading, disclosure requirements, data publication, etc.?**

There are not specific rules issued by any SRO in Mexico concerning SMEs.

- **Has there been any regulatory change after the crisis, to facilitate the financing of SMEs through capital markets?**

There has been no regulatory change with this purpose so far.

- **Your recommendations for the development of the SME financing through capital markets in your jurisdiction and, if possible, for the emerging markets in general.**

There have been several efforts and ideas from the industry, authority and market participants to increment the number of issuers at the Mexican Stock Exchange. The best viable idea so far is to develop an alternative market focused on listing and trading of SMEs.

In 1992, "the Intermediate Market" was created to raise capital for the Medium size enterprises, having 38 firms listed at its peak. Because of several reasons, mainly, the consequences of the Mexican crisis of 1994 and the complicated disclosure requirements for the issuer companies, the Intermediate Market was closed down in 2000.

Creation of the BMV- Alternative Market for SMEs

Inspired by international examples⁹, and learning from the experience of the "intermediate Market", during 2010, we worked together with the BMV in various working groups that were created for the development of an alternative market. A completed proposal of the project was ready in early 2011, but due to market conditions, it was determined to give priority to the implementation of the independent analyst figure for companies that are already listed

⁸ The requirements for the placement of shares (shareholder's equity, operational records, issuing rules, OPAs, registration of securities, etc.) for a SAPIB and a SAB are the same, the main differences are on corporate governance matters. Currently there are only 2 SAPIBs listed in the BMV.

⁹ Especially the *Mercado Alternativo Bursátil* (MAB) from the Spanish Stock Exchange Group *Bolsas y Mercados Españoles* (BME).

on the Capital Market and once carried out, the Alternate Market project would be retaken. The project included regulation, operational mechanisms, required figures and the approval of market participants.

The recommendations included in the BMV- Alternative Market proposal are the following:

- Creating an alternative market operated by the Mexican Stock Exchange through a separate market segment to the traditional.
- Directing the market to Pension Schemes, Institutional and non-retail investors.
- Registration of the participant SMEs in the National Securities Registry.
- Reducing the listing, disclosure and corporate governance requirements for SMEs.
- To amend the Securities Market Law to create a special entity for the SMEs or to modify the characteristics of the SAPI figure to adjust it to the specific needs of SMEs.
- Incorporation of a registered advisor who would be responsible for advising companies in meeting their obligations and provide a link between the market and the issuer.
- It is recommended to incorporate the figure of a BMV Alternative Market Price Market Maker but with some clarifications regarding the figure presently contemplated for traditional stock market.
- To allow the listing of securities with or without a public offering.
- The custody, clearing and settlement operations shall be conducted in the same manner as is done in the stock market today, namely through the Clearinghouse and under established processes.
- It is desirable to incorporate the requirement that companies listed on this segment have at least some analysis report generated by a securities intermediary or by some independent consulting firm registered and licensed by the BMV to spread through their means, the analysis and data of the issuers.

The works for the implementation of the independent analyst figure concluded in 2012, which means that 2013 is an excellent opportunity for the Mexican securities industry to retake with financial authorities this project that is ready to be launched and finally giving life to the BMV- Alternative Market for SMEs.

SME MARKETS IN TURKEY

I. GENERAL FRAMEWORK FOR SMEs

- **Is there a definition of small and medium sized enterprises in your country's regulations?**

In Turkey, small and medium sized enterprises (SMEs) should fulfil 2 criteria concurrently. The first criterion is related to the size of the firm. The annual turnover or totals assets of the firm should be lower than limits determined in the relevant regulation. Moreover, there are thresholds for the number of employees.

SME Definition	Annual Turnover or Assets	No. of Employees
Medium	<40 mn. TL (US \$ 23 mn.)	<250
Small	<8 mn. TL (US\$ 5 mn.)	<50
Micro	<1 mn. TL (US\$ 600,000)	<10

Based on this definition, if the annual turnover of a company is less than TL 40 million AND its number employees is less than 250, then it is considered as an SME. If either one of these conditions is not met, then the company is not accepted as an SME and thus cannot benefit from some of the schemes designed for SMEs.

- **Are there any specific regulations for SMEs, SME markets or SME financing (names of relevant regulations will suffice)?**

"Regulation regarding the definition, qualities and classification of small and medium sized enterprises" issued in 2005 was amended in November 2012.

- **Are there any public institutions specific to SMEs? (brief introduction of relevant institutions)**

KOSGEB (Small and Medium Enterprises Development Organization) is a public organization which was established in 1990 in order to support the manufacturing industry firms. Since 2009, KOSGEB is in charge of serving SMEs from all industries, including those from the non-manufacturing industry.

- **How can SMEs provide financing in your capital markets (equity market, debt market, venture capital/private equity, securitisation market etc.)?**

In Turkey, SMEs can raise funds through equity markets, private equity and venture capital investments. Corporate bond market is still in its development stage. There are also a few securitized products backed specifically by SME loans.

II. EQUITY MARKET for SMEs

In Turkey, Istanbul Stock Exchange (ISE) is the only securities exchange. SMEs trade on different markets of the ISE, which have lighter listing requirements and regulations than the main market.

A. ISSUANCE

- **Conditions for issuers (issuer restrictions, capital restrictions, rating requirements etc.).**

Like other securities, shares to be offered to public by SMEs are required to be registered by the Capital Markets Board of Turkey (CMB). The capital of the company must be fully paid-in and the shares should be freely transferable. According to the regulation, issuers are required to submit their shareholder structure, articles of incorporation, last three years' financial statements, independent audit reports, prospectus, circulars, etc. to the CMB during registration. CMB assesses the compliance of relevant documents to the public disclosure requirements.

SMEs may be exempt from independent audit when,

- Total assets in last year's financial statements is less than TL 8.15 million (US\$ 4,6 million) or,
 - Total sales in each of the last two year's financial statements is less than TL 475,000 (US\$ 270,000) or,
 - 95% of equity is held by less than 50 shareholders.
- **Is there a specific market for SMEs? (separate exchange for SMEs, separate markets within the main exchange, OTC)**

The following markets of the Istanbul Stock Exchange (ISE) are designed for companies that fail to satisfy listing requirements of the main market (i.e. the National Market). There is no separate exchange for SMEs in Turkey.

Second National Market: The listing conditions are less strict in this market. The shares of SMEs and shares which no longer satisfy the requirements of the National Market can be traded on the Second National Market.

Emerging Companies Market (ECM): This is a distinct market within the ISE, where there is no qualitative or quantitative listing criteria. The first company was listed on ECM in 2010. There are 11 companies listed on ECM as of December 2012.

Free Trade Platform (FTP): This platform has been established for trading companies having more than 500 shareholders but are not listed.

- **What are the major differences between the conditions for issuers on the main market and SME markets? (Equity, Mcap, free float etc.)**

National Market is the main and the biggest market of ISE where the equities of companies that satisfy the requirements shown on the below table, are traded. In accordance with the classification of Capital Markets Board, different trading rules apply to listed companies.

Group A: Equities that are not B or C, are classified as Group A.

Group B: Equities, with free float market capitalization less than TL 10 million (US\$ 6 million) and number of freely floating shares below 10 million or; equities with free float capitalization less than TL 45 million (US\$ 26 million) and free float ratio less than 5%, are classified as Group B. Additionally, investment trusts, trading at more than 50% (inclusive) premium over their net asset value, are also classified in Group B.

Group C: Equities listed on the Watch List Market or with number of free floating shares less than 250,000, are classified as Group C. Additionally, investment trusts, with a market price equal to or more than twice their net asset value are also classified in Group C.

Second National Market:

Companies;

- a) with a minimum market value of TL 6.1 million (US\$ 3.5 million) and 15% free float, or
- b) with a minimum market value of TL 12.2 million (US\$ 7 million) and 5% free float, can be listed on this market.

In addition, companies listed on the National Market (main) that fail to fulfil the following conditions will start trading on Second National Market.

- a) Minimum free-float market capitalization of TL 7.8 million (US\$ 4.4 million) and,
- b) Minimum free float rate 25%

Listing Criteria for Companies in ISE	National Market			Second National Market	Emerging Companies Market
	Group A	Group B	Group C		
Operating Term	Minimum three calendar years since establishment & audited financial statements of the last three years must have been publicly disclosed			Minimum 1 year since establishment	Audited financial statements of the last year
Market value of publicly offered equities	TL 122 mn. (US\$ 69 mn.)	TL 60 mn. (US\$ 34 mn.)	TL 30.5 mn. (US\$ 17 mn.)	TL 6.1 or TL 12.2 mn. (US\$ 3.5 or US\$ 6.9 mn)	-
Profits before tax must have been earned in	At least one of the last two years	At least one of the last two years	Last two years	-	-
Minimum Free Float	-	5%	25%	15% or 5%	-
Shareholders' Equity	TL 30.5 mn. (US\$ 17.3 mn.)	TL 19.5 mn. (US\$ 11.1 mn.)	TL 12.2 mn. (US\$ 6.9 mn.)	TL 12.2 mn. (US\$ 6.9 mn.)	-
Min. No. of investors during public offering	500	500	500	500	-

Source: CMB, ISE

Emerging Companies Market: There are no quantitative admission criteria for trading on the Emerging Companies Market. Yet, there is a ceiling constraint for this market. If the company fulfils the conditions of other markets (such as profitability, operational age, and equity or market capitalization size etc.) the company will not be traded on ECM, but moved to the relevant market.

Free Trade Platform: Since the companies traded in this platform are not going through an IPO, there is no condition for issuers.

- **Is there a market advisor mechanism to assist the SMEs for listing?**

Second National Market: There is no market advisor mechanism in this market.

Emerging Companies Market: There is a market advisor mechanism in the Emerging Companies Market. Brokerage firms, portfolio management companies and venture capital investment trusts can serve as market advisors in ECM. The market advisors are authorized by the Istanbul Stock Exchange. As of December 2012, 26 brokerage firms and 1 asset management company are market advisors in this market.

The market advisor assists the company to complete the preparations necessary for admission to the ECM. In other markets, due examination is done by the ISE. But in ECM, the examination is done by the market advisor and the results are reported to the ISE. When the market advisor presents a positive view in the report, the company can be admitted to the ECM. The advisor and the company are jointly responsible for the accuracy of the information and the submitted documents.

- **Are there any incentives for SME listings (such as discounts on regulatory/listing costs or subsidies by the government)?**

The cost of public offering of a company is summarized in the table. Capital Markets Board (CMB), Istanbul Stock Exchange (ISE) and Central Registry Agency (CRA) charge certain fees.

There is no difference between the main market (National Market) and the Second National Market in terms of CMB, ISE and CRA fees.

Cost of Public Offering of Equities		
	National/ Second National Market	Emerging Companies Market
CMB Registration Fee	0.2% of the offering	0.02% of the offering
ISE Initial Listing Fee	0.1% of the nominal value of the paid-in capital	Exempt from Exchange fees until 2013. After 2013, companies will pay 0.01% of the nominal value of their shares as initial listing fee and an annual registration fee equal to 25% of the initial listing fee.
ISE Registration Fee	25% of the initial listing fee	
CRA Fee	0.1% of the paid-in capital, not less than TL 2,000 (US\$ 1,150) and not more than TL 50,000 (US\$ 28.350)	0.01% of the capital as membership fee and 0.005% of the dematerialized issues as processing fee
Source: CMB, ISE		

On other hand, the CMB, the ISE, and the CRA cut their fees to 10% of the fees applied in the ISE markets (i.e. 90% discount) in order to provide cost advantages for ECM companies.

Besides, KOSGEB (Small and Medium Enterprises Development Organization) supports these firms through subsidy packages for listing. The package covers market advisor, independent audit and brokerage fees as well as CMB, ISE and CRA listing and registration fees. The subsidy provided by KOSGEB is non-refundable. The upper limit of the support is TL 100,000 (US\$ 56,700). The upper limit and ratio of the subsidy elements are given in the following table.

KOSGEB Subsidies for ECM Companies in Turkey		
Support For	Subsidy Limit (TL)	Max. Subsidy Rate (%)
Market Advisor Fees (maximum 2 years)	60,000	75
Independent Auditing Fees	20,000	75
CMB Registration Fee		
ISE Registration Fee	10,000	100
CRA Fee		
Brokerage Fees	10,000	75
Source: KOSGEB		

The main cost of listing on ECM is the market advisor fee. The company can make 75% of this payment with the KOSGEB non-refundable support. The upper limit of this subsidy is TL 60,000 (US\$ 34,000). Similarly, the company can use the subsidy to pay 75% of the independent auditing and brokerage fees, each. The maximum subsidy amounts of these elements are TL 20,000 (US\$ 11,400) and TL 10,000 (US\$ 5,700), respectively. KOSGEB subsidy can be also used for the total amount of Capital Market Board (CMB) registration fee, Istanbul Stock Exchange (ISE) initial listing and registration fees and the Central Registry Agency (CRA) initial fees. The upper limit of subsidy for total of CMB, ISE and CRA fees is TL 10,000 (US\$ 5,700).

B. TRADING and POST TRADING

- **How are SME shares traded? Market making or continuous trading or any other mechanism?**

Second National Market: The trading mechanism in the Second National Market and National Market (for Group A and Group B) are the same; multiple price-continuous auction method. Trades are executed in two trading sessions; in the morning and afternoon.

Emerging Companies Market: On this market, trading of shares is done on the same electronic platform with the shares traded on the main market, although with a different method. Mainly, continuous auction with market maker method is used for trading, while "Single Price" auction is used for the shares without a market maker.

Free Trade Platform: The shares are traded with Single Price Auction Method where auctions are held four times a day.

- **Are the settlement and custody of SME shares different from the main market shares?**

No, there is no difference in settlement and custody procedures between SME and main market shares. The settlement of equities is done on T+2 by Takasbank (ISE Settlement and Custody Bank) through delivery-versus-payment (DVP) system. The securities' settlement operations are carried out via Takasbank Settlement Pool Account with the Central Registry Agency (CRA). CRA is the central securities depository for these securities.

In the Free Trade Platform, the shares are subject to gross settlement. Accordingly; investors who want to sell such equities must have these equities and investors who want to buy these equities must keep adequate cash in their accounts on the settlement date.

C. SIZE of the SME MARKET

- **Historical, annual statistics of the last 5 years, if possible, about the size of the SME markets. Number of listed companies, market capitalization and trading volumes (in US\$, if possible).**

Market Statistics of ISE					
	2008	2009	2010	2011	2012
National Market					
No. of Listed Companies	250	233	241	237	242
Market Capitalization (mn. \$)	119,100	231,700	295,808	191,057	294,603
Trading Volumes (mn. \$)	251,713	299,451	387,003	367,269	306,556
Second National Market					
No. of Listed Companies	21	22	33	61	77
Market Capitalization (mn. \$)	526	1,820	4,179	4,407	5,266
Trading Volumes (mn. \$)	2,067	6,441	12,114	16,381	15,244
Emerging Companies Market					
No. of Listed Companies	-	-	-	2	11
Market Capitalization (mn. \$)	-	-	-	58	218
Trading Volumes (mn. \$)	-	-	-	267	730
Free Trade Platform					
No. of Listed Companies	-	-	-	-	16
Market Capitalization (mn. \$)	-	-	-	-	1,384
Trading Volumes (mn. \$)	-	-	-	-	23

Source: ISE

D. DISCLOSURE REQUIREMENT

- **Are there any point-of-sale disclosure requirements for intermediaries, regarding SME shares?**

In National Market, the shares classified in Group B and Group C are subject to risk notification requirement. For these groups, investors are warned about the risks of the related equity. Similarly, intermediaries must have the ECM Risk Notification Form signed by investors before trading ECM shares, either during the IPO or in the secondary market. ECM Risk Notification Form gives information about the ECM and emphasises the market's risks.

- **Are there any differences between the disclosure requirements for issuers on the main market and on SME markets?**

The companies traded on ECM shall publicize only the year-end and semi-annual financial reports (while in the main/Second National Market, quarterly reports are required). Moreover, there is no need for independent audit report for semi-annual financial reports.

As in the main market, the companies in the Second National Market and Emerging Companies Market, are obliged to disclose important events and developments, which are likely to affect the value of its shares or the investors' decisions regarding investments or exercising of rights.

III. DEBT MARKET for SMEs

- **Are there any regulations specific to bond issues of SMEs? If any, what are the major differences with bond issues of other companies?**

There is no specific regulation for SMEs' bond issuances.

- **What are the requirements for the public offering and private placement of these bonds (issue restrictions, rating requirements, etc.)?**

Like equities, corporate bonds to be offered to public are required to be registered with the CMB. According to the regulation, bond issuers are required to submit shareholder structure, articles of incorporation, last two years' financial statements, prospectus, circulars, etc. to the CMB during registration. CMB assesses the compliance of relevant documents to the public disclosure requirements.

The current limits for issuing debt instruments are as follows:

For Listed companies, the total amount of outstanding bonds cannot exceed ten times the shareholders' equity. If the issue is done through public offering, the total amount of bonds cannot exceed five times the shareholders' equity.

For unlisted companies, the total amount of outstanding bonds cannot exceed six times the shareholders' equity. If the issue is done through public offering, the total amount of bonds cannot exceed three times the shareholders' equity.

Corporate bonds can be traded on the Istanbul Stock Exchange. Unlisted bonds, which do not meet the listing criteria (such as profitability, equity etc.) can be admitted to trading by the Exchange upon application. The criteria for listed and unlisted corporate bonds are shown in the table below.

Trading Criteria for Corporate Bonds on ISE		
	Listed Co.	Unlisted Co.
Issue Criteria	The entire issue must be offered to public.	
Min. Nominal Value	TL 1,220,000 (US\$ 670,000)	-
Operating Term	Min. 3 years	-
Profit Criteria	Profit before tax in the last two years	-
Min. Shareholders' Equity (TL)	TL 1,950,000 (US\$ 1,106,000)	-
Audit Criteria	Last two years' financial statements and independent audit reports	

Source: ISE

- **On which platforms do the SME bonds trade (separate exchange for SMEs, separate markets within the main exchange, OTC)?**

In Turkey, fixed income securities are traded on the "Debt Securities Market" of Istanbul Stock Exchange and the OTC market. Besides, all transactions in the OTC market must be reported to the Istanbul Stock Exchange. There is no specific market for SME bonds.

- **Are there any incentives for SMEs' bond issuances? (such as discounts on regulatory/listing costs or subsidies by the government)?**

No.

- **Historical, annual statistics of the last 5 years, if possible, about the size of the SME bond market.**

Following the revisions in relevant regulations to revive the market and the declining interest rates, the corporate debt securities market almost exploded starting from 2010. Major issuers are banks. Moreover, there is an increasing trend in other financial corporation's debt issues. These corporations are mostly defined as SMEs. In 2012, 98 other financial institutions' debt securities were issued with a size of US\$ 2 billion. Furthermore, 11 non-financial corporations' bonds were issued with a size of US\$ 490 million.

Private Sector Debt Securities in Turkey					
	2008	2009	2010	2011	2012
Number of Issues					
Banks	0	-	3	45	126
Other Financial Corporations	2	-	6	13	98
Non-Financial Corporations	0	-	6	0	11
Total	2	-	15	58	235
Size of Issues (mn. \$)					
Banks	0	-	813	10,753	20,757
Other Financial Corporations	158	-	252	345	2,096
Non-Financial Corporations	0	-	229	0	491
Total	158	-	1,294	11,098	23,344
Source: ISE					

IV. SECURITIZATION for SMEs

- **Are there any structured products backed specifically by SME loans, bonds or other SME assets?**

Currently, asset backed securities (ABS) are not common in Turkey. However, there was remarkable asset backed securities market until 1994. With the unfavourable market conditions and the introduction of a tax on these instruments in that year, a long dormant period started in the ABS market. After the tax was abolished in 2006, the first asset backed security was issued in in 2011. Since then, 2 banks have issued more than 40 asset backed securities until the end of 2012. One of these issues was backed by SME loans with a size of TL 800 million (US\$ 455 million).

- **Are there any credit guarantees provided by public institutions for these securities? What are the conditions to issue these securities?**

No, there is no credit guarantees by public institutions for SME securities.

V. OTHERS

- **Are there any other types of vehicles that the SMEs can provide financing through capital market, like special purpose companies, venture capital investment trusts etc.?**

In Turkey, private equity and venture capital investments are very limited sources of SME financing. The first private equity transaction was recorded in 1995 by a foreign investment firm. Since then, domestic private equity companies were also established.

The first regulation for venture capital investment trusts was issued in 1993 and revised in 2003.

The first venture capital investment trust was established in 1996. As of December 2012, 5 venture capital investment trusts are traded on the ISE with a total market value of US\$ 480 million.

- **How are the capital gains and dividend income on SME stocks taxed? Are there any tax incentives for these securities?**

There is no tax incentive for SME stocks. Similar to other stocks, capital gains derived from SME shares are subject to 0% withholding tax. Withholding tax is the final tax for both individuals and corporations. Dividends on equities are subject to 15% withholding tax. Dividends received from resident corporations are exempt from corporate tax.

- **Are SROs involved in any aspect of the SME market, such as regulating the OTC trading, disclosure requirements, data publication, etc.?**

No.

- **Has there been any regulatory change after the crisis, to facilitate the financing of SMEs through capital markets?**

The Emerging Companies Markets within the Istanbul Stock Exchange was established after the crisis, in 2009, to support SME financing through capital markets. The SMEs in this market are exempt from the quantitative requirements of exchange trading (profitability, operational age, minimum capital, minimum investors etc.). CMB, ISE and CRA cut their fees as well. Moreover, KOSGEB supports firms through subsidy packages for the costs of going public on the ECM. The first company got listed on ECM in 2010. As of December 2012, there are 11 listed companies in this market.

References:

Capital Markets Board: www.cmb.gov.tr

Istanbul Stock Exchange: www.ise.org

Central Registry Agency: www.mkk.com.tr

Takasbank (Settlement & Custody Bank): www.takasbank.com.tr

Turkish Derivatives Exchange: www.turkdex.org.tr

How to foster a venture capital industry in Turkey? A Design for a Public Fund of Funds, Ussal Sahbaz, TEPAV, March 2010

COMPARATIVE COUNTRY INFORMATION

SME Financing in Emerging Market Countries - Equity Markets		
	Korea	Turkey
Special Market	Kosdaq	Emerging Companies Market
Min. Equity Capital	KRW 3 bn. (US \$ 2,7 mn.)	-
Min. Free Float	25%	-
Min. No. of Shareholders	500	-
OTC for Unlisted Co.	Free Board	Free Trade Board
Disclosure Requirement	Some disclosure requirements have been eased on the SME market	Some financial reporting obligations have been eased on the SME market
Market Making	-	Yes
Market Advisor/Sponsor	-	Yes
No. of Co. in the SME Market	1,031	11
No. of Co. in the Main Market	791	331

SME Financing in Emerging Market Countries - Bond Markets			
	Korea	Mexico	Turkey
Special Market for SME Bonds	Qualified Institutional Buyer (Private Placement)	NA	NA, but trading for unlisted bonds is permitted in the main bond market.
Securitization of SME loans/assets	Securitization of SME loans that are supported by the credit guarantees of government, has grown rapidly after 2000.	NA	One ABS issue backed by SME loans in 2011.
Private Equity Investments	New types of investment funds that invest in sustainable SMEs and venture capital co.	Special purpose acquisition companies help the SMEs access capital markets.	Private equity and venture capital investment trusts are available, but limited.

Incentives for SMEs in Capital Markets			
	Korea	Mexico	Turkey
Admission Criteria	Listing criteria eased on SME market in terms of min. equity, min. Mcap, ROE, etc.	Faster registration process for medium sized companies	Quantitative admission criteria have been abolished on the SME market.
Issue Costs	NA	There is no separate market for SMEs, but medium sized companies are exempt from registration fees on the main market.	Discounts on registration & listing fees on the SME market.
Subsidies	Government support in other forms of financing, credit guarantees, business locations, technical development, etc. for venture business.	"Debt Market for Enterprises" program support SMEs' debt issuance on the exchange. The subsidy covers professional services, rating, issue cost etc. up to 10 million pesos (US\$ 785,000).	KOSGEB supports SMEs through subsidy packages for listing. The package covers professional services, issue costs etc. up to TL 100,000 (US\$ 56,700).
Tax Incentives	Capital gains tax on OTC traded SME equities are lower than capital gains on large corporation shares.	NA	NA