NEW BOND EXCHANGE MAY SAVE SMES

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A new way to access financing could bailout many SMEs in the short-term while potentially offering long-term opportunities to this market

The Spanish Government's latest initiative of the recently created corporate-bond exchange – Mercado Alternative de Renta Fija (MARF) – intends to assist small and medium-sized enterprises (SMEs) get alternative access to funds through a corporate-bond exchange. And it has received a positive welcome – in principle, say lawyers.

"With the banks not lending and businesses with a good credit rating having to look for alternative financing, the purpose and intention of this new market is great, and something we as advisers have been expecting," says Beltrán Gómez de Zayas, Counsel at CMS Albiñana & Suárez de Lezo.

But in a country where previous attempts to widen corporate financing for smaller companies have fallen short of expectations, many lawyers are of the opinion that in this current economy, its success very much depends on resolving obvious regulatory issues – and thinking long-term.

Launched as an electronic platform by the holding company Bolsa y Mercado Españoles (BME) and with a €3bn Government credit facility to start the lending, MARF is now fully operational and in the process of signing members and registered advisers. Although historically, investors have struggled to invest in SME debt, in addition to the improving state of the Spanish economy, the Government has high hopes that MARF will offer more flexibility as a secondary market, say lawyers, with an emphasis on less strict requirements, quicker procedures and lower issuance costs for the relevant SME issuers.

And while it is a potential market, it is also a regulated market with a legal structure of a multilateral trading system, providing tax incentives that equate to the treatment of what would be invested in an official market.

All of this makes MARF seem an attractive alternative financing model for SMEs. However, lawyers question which market this is truly aimed at. Because despite there being no legal leverage limit for bonds issued, with the cost and the minimum recommended amount around the €50m mark, very few SMEs can (or would want to) access this market. “The main problem is not a legal one, but it is one I’ve shared with financial advisers,” says Zayas. “They are having difficulties in finding potential issuers that will comply with the financials that investors expect, and so far it has been a market for very few issuers for this reason”.

Alberto Frasquet, Corporate/Private Equity Partner at Herbert Smith Freehills Spain shares these doubts. “It’s difficult to know who is going to be able to get and be comfortable getting finance, but the market will shows us at the end of the day.” Added to which, with no bonds currently issued, it is proving hard to predict how competitive the new market will be. Lawyers believe that it may be slightly below the prices set by private lending – six to nine percent. But for a business sector that traditionally relies on relationships with banks, having to pay the price to use alternative financing might make it more preferable for SMEs just to wait until they start lending again.

There are also industry concerns that MARF is only aimed at institutional investors and currently excludes retail investors. This not only limits the scope of potential investment, but these kinds of institutional investors are not used to these kinds of corporate-bonds. But despite potential interest from SME-focused investors, currently there are very few on board. “If you had a nice market, you would have all the banks and mid-sized companies knocking on its door to be members and to issue debt in this market,” says Frasquet. “As it is, everyone wants someone to go first.”

Doubts aside, the general consensus is that this market could mark a new era for SMEs of closer, more profitable ties to private equity and capital markets. “Provided that the difficulties are identified,” says Zayas, “this is a market that could work and I am looking forward to seeing how it develops.”

And while designed for use in the current economic climate as a collateral measure, lawyers believe it could also solve the problem of SMEs financing in the long-term.