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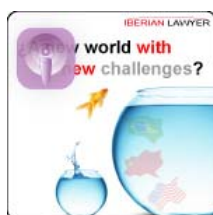
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Tightening of regulations applicable to the Alternative Stock Market (MAB) - Pérez-Llorca

## Tightening of regulations applicable to the Alternative Stock Market (MAB) - Pérez-Llorca



Ensuring adequate transparency and protection for investors is, without a doubt, fundamental to the smooth operation of the financial markets. This is one of the aims of the recent reforms of the regulation applicable to the Spanish Alternative Stock Market ("Mercado Alternativo Bursátil" or "MAB"), which entered into force on 9 March 2016. Not only did the reforms tighten the rules governing the MAB, but they made them more similar to the standards of official secondary markets. A number of the amendments affect growth companies and real estate investment trusts ("SOCIMI" in Spanish terminology), specifically the changes introduced by the MAB Circulars 6/2016

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and 7/2016, of 5 February 2016.

The first set of reforms demonstrate the MAB's interest in making sure that the listed companies provide investors with more information, as well as ensuring that the appropriate measures are in place to collect and verify said information.

In this way, the reforms had the effect of increasing the amount of information that must be provided in order to enter the market, with issuers now being obliged to provide a set of reports drafted by their management body. Furthermore, growth companies are now required to fulfil an obligation which was previously only applicable to SOCIMIs – this consists of providing a company valuation carried out by an independent expert, in order to determine the listing price of the company's shares for entry into the market.

The reforms have simultaneously widened and specified the role of the nominated advisor to assess and examine the situation of companies entering the MAB. They have also made it obligatory to carry out legal and financial due diligence on the issuer (which was previously only a recommended practice) and to obtain a letter from an auditor on the financial information included in the informative document for entry into the MAB.

The changes made to the information required also extend to the time after market entry; the half-yearly financial report, corresponding to the first six months of the financial year, must now be subject to a limited review by the issuer's auditor. It is important to note that this limited review obligation is not provided for in the regulation of official secondary markets.

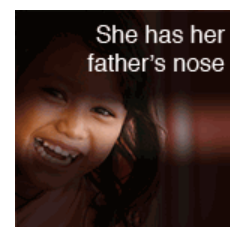
### Limits to capitalisation at the time of market entry

The reforms also adapt MAB regulation to the changes made to stock market legislation by the Spanish Law on Corporate Finance Promotion ("*Ley de Fomento de la Financiación Empresarial*"). In particular, MAB regulation has been adapted to meet the obligation of companies listed on multilateral trading systems (such as the MAB) to apply for admission to trading in a regulated market when their capitalisation exceeds €500m for more than six consecutive months. Specifically, growth companies that wish to enter the MAB must now have a capitalisation of less than €500m. It may seem surprising that this limit does not also apply to SOCIMIs, however this can be explained by the fact that the Spanish National Securities Market Commission ("*Comisión Nacional del Mercado de Valores*", or "CNMV") is legally allowed to exonerate SOCIMIs (but not growth companies) from the obligation of applying for admission to a regulated market if their capitalisation exceeds the previously mentioned limit.

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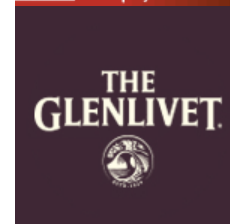


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**Safeguarding the reputation and the integrity of the MAB**

In addition, the new rules for entry into the MAB are complemented by new powers for the MAB. The MAB now has the authority to reject applications for admission on the grounds of preserving the reputation and integrity of the MAB, even if the issuer fulfils the entry requirements.

**Corporate governance**

Like companies listed on the stock market, MAB companies must have, as of 10 August 2016, an Internal Code of Conduct which has been adapted to the terms of the Securities Market Law.

**Free float requirement for SOCIMI shares**

The free float requirement for SOCIMI shares has also been tightened. Until now, it was sufficient to make available to the SOCIMI's liquidity provider shares of an estimated market value of at least €2m, which were calculated as if they were owned by minority shareholders. This rule facilitated the admission of SOCIMIs to trading on the MAB, and avoided the need to previously conduct initial public offering or private placement processes in order to comply with the free float requirement. As a result of the reforms, now one year must have passed since the SOCIMI's entry into the market in order to effectively disseminate its shares. This still allows the practice of making adequate shares available to the liquidity provider, in order to fulfil the free float requirement at the time of entering the MAB; however, it requires that the SOCIMIs following this practice have an alternative plan if the float required was not previously achieved by the ordinary trading of the shares on the MAB. This period of one year began on 9 March for the SOCIMIs that entered the MAB on said date, during which the SOCIMIs whose shares did not achieve sufficient float may begin to carry out the actions needed to fulfil the new regime.

**Overall evaluation of the reform**

In our opinion, the reforms should be regarded in a positive light. From a formal perspective, they "codify" and order a regulation that, as a consequence of the subsequent amendments made throughout the last few years, was to a certain extent dispersed and fragmented. On the other hand, from a substantive viewpoint, the reforms constitute undeniable progress for the objective of increasing the transparency of information and protection for investors. However, this higher level of transparency and protection for investors will come at a price: it will bring an increase in cost, not only as a result of higher participation levels by third parties (lawyers, auditors, valuers), but also due to the entry process and the new obligations surrounding information. Nonetheless, if these new costs are unavoidable, but allow the achievement of the aforementioned objectives, they will not appear so unbearable.

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