

Small Mid-Caps (SMCs)

Legislation – past and future.

Following a discussion with our members, we have concluded that **small mid-caps (SMCs) should be included in future legislation and should be included retrospectively in the Corporate Sustainability Due Diligence Directive (CSDDD) and the Corporate Sustainability Reporting Directive (CSRD).** The administrative and financial burden resulting from the implementation of the CSRD and CSDDD need to take into account **SMCs and their limitations.** Moreover, we need to understand the **logic behind the CSDDD's scope which was approved in the Council meeting of 24th May 2024.** According to Article 2 the directive will apply to large companies with more than 1000 employees, a turnover of more than €450 million, we need to know whether this is an initial attempt to define a larger mid-cap category.

Moreover, within **existing legislation which mentions SMEs or references SMEs in some form, we have concluded that where there is a mention of reporting requirements which have been reduced or facilitated for SMEs, these should be extended to SMCs.**

Competitiveness testing for SMCs, addressing the impacts of policy proposals is critical to ensuring that the companies are not put at a disadvantage. Where an SME test is conducted, an SMC test should also be performed, with a focus on ensuring that new regulatory provisions do should not hamper growth.

Information requests, bureaucratic procedures and access to finance.

Banks require different information to assess whether they will provide funding to businesses. Arguably, to ensure that companies are not faced with over bureaucratic, time consuming procedures, **banks should have the same information requirements for companies perhaps allowing for changes depending on the sectors companies are based in, but even then the same information collection should be enforced.** Thus, saving companies time and costs associated with data collection.

Research and Development (R&D) – two separate topics.

Europe is falling behind in the “development” side of R&D. We would like to argue that research and development should be separated when it comes to providing support for businesses. There should be tax breaks, similar to those given in the USA where tax is paid on a product once it is on the market. The importance of mid-caps to strategic industries should grant them support in product development with for instance, tax credits for development of products.

Moreover, Mid-Caps are crucial for Europe to achieve its industrial strategy. They are crucial innovators and are present in a multitude of industrial ecosystems such as,

“Electronics, Aerospace & Defence, Energy, Energy-intensive Industries and Health.”¹ It is important that they are supported and recognised at Member State level for Important Projects of Common European Interest (IPCEIs).

Moreover, Mid-Caps often fall through the gap when it comes to obtaining support for R&D. As we found in our report with KPMG on bridging the mid-cap gap, “...R&D support is provided primarily to small companies in local markets or major projects led by large companies, and there is very little in between to allow mid-sized companies to participate. R&D is structured with a view to two very different types of companies. On the one hand, there are those aimed at small companies, where the cost/ benefit ratio obtained makes them uninteresting for midcaps. On the other hand, there are those aimed at very large companies, which are impossible to obtain and manage by a medium-sized company, so that mid-caps are de facto excluded. To qualify, the project itself has to be very large, encompassing companies in different markets and countries, and involving multiple universities and technology centres.”²

Thus, we are of the opinion that it is important to create mid-cap specific provisions for R&D which will allow Europe to achieve its competitiveness and innovation goals.

From the list you have provided to us we feel that the following legislation should be extended to SMCs:

Council Directive (EU) 2015/652 of 20 April 2015 laying down calculation methods and reporting requirements pursuant to Directive 98/70/EC of the European Parliament and of the Council relating to the quality of petrol and diesel fuels

Regulation (EU) 2023/1781 of the European Parliament and of the Council of 13 September 2023 establishing a framework of measures for strengthening Europe’s semiconductor ecosystem and amending Regulation (EU) 2021/694 (Chips Act) (Text with EEA relevance)

Regulation (EU) 2022/868 of the European Parliament and of the Council of 30 May 2022 on European data governance and amending Regulation (EU) 2018/1724 (Data Governance Act) (Text with EEA relevance)

Regulation (EU) 2016/867 of the European Central Bank of 18 May 2016 on the collection of granular credit and credit risk data (ECB/2016/13)

¹ <https://op.europa.eu/en/publication-detail/-/publication/ad5fdad5-6a33-11ed-b14f-01aa75ed71a1/language-en#>

² https://europeanfamilybusinesses.eu/wp-content/uploads/2022/06/GM-PRS-01728-Promoting-and-supporting-the-growth-of-mid-cap_V5_web.pdf

Regulation (EU) 2019/876 of the European Parliament and of the Council of 20 May 2019 amending Regulation (EU) No 575/2013 as regards the leverage ratio, the net stable funding ratio, requirements for own funds and eligible liabilities, counterparty credit risk, market risk, exposures to central counterparties, exposures to collective investment undertakings, large exposures, reporting and disclosure requirements, and Regulation (EU) No 648/2012 (Text with EEA relevance.)

Directive (EU) 2019/878 of the European Parliament and of the Council of 20 May 2019 amending Directive 2013/36/EU as regards exempted entities, financial holding companies, mixed financial holding companies, remuneration, supervisory measures and powers and capital conservation measures (Text with EEA relevance.)

Regulation (EU) 2017/745 of the European Parliament and of the Council of 5 April 2017 on medical devices, amending Directive 2001/83/EC, Regulation (EC) No 178/2002 and Regulation (EC) No 1223/2009 and repealing Council Directives 90/385/EEC and 93/42/EEC (Text with EEA relevance.)

Regulation (EU) 2017/1129 of the European Parliament and of the Council of 14 June 2017 on the prospectus to be published when securities are offered to the public or admitted to trading on a regulated market, and repealing Directive 2003/71/EC (Text with EEA relevance)

Regulation (EU) 2020/852 of the European Parliament and of the Council of 18 June 2020 on the establishment of a framework to facilitate sustainable investment, and amending Regulation (EU) 2019/2088 (Text with EEA relevance)

Directive (EU) 2023/970 of the European Parliament and of the Council of 10 May 2023 to strengthen the application of the principle of equal pay for equal work or work of equal value between men and women through pay transparency and enforcement mechanisms (Text with EEA relevance)

Commission Delegated Regulation (EU) 2023/2772 of 31 July 2023 supplementing Directive 2013/34/EU of the European Parliament and of the Council as regards sustainability reporting standards

Directive (EU) 2023/1791 of the European Parliament and of the Council of 13 September 2023 on energy efficiency and amending Regulation (EU) 2023/955 (recast) (Text with EEA relevance)

Regulation (EU) 2023/2859 of the European Parliament and of the Council of 13 December 2023 establishing a European single access point providing centralised access to publicly available information of relevance to financial services, capital markets and sustainability (ESAP)

Additionally, we have included the Directive (EU) 2022/2381 of the European Parliament and of the Council of 23 November 2022 on improving the gender balance among directors of listed companies and related measures (Text with EEA relevance) should be added to the list and it should be applicable to mid-caps. Within this Directive, there is mention that it should not apply to micro, small and medium-sized enterprises (SMEs). This too should be the case for SMCs. Where the directive states “Member States are encouraged to put in place policies to support and incentivise SMEs to improve significantly the gender balance at all levels of management and on boards” we are of the opinion that this should also be encouraged for SMCs.³

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³ <https://eur-lex.europa.eu/eli/dir/2022/2381/oj>