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## Alternative Trading Systems in Germany – Entry Standard vs. Neuer Markt

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### Introduction

What is unique about the German capital market is its divisible structure of vertical and horizontal orientation. The horizontal orientation is historically determined by existing stock exchanges in Frankfurt, Stuttgart, Dusseldorf, Berlin, Munich, Hamburg and Hannover. This situation allows potential issuers to offer financial instruments simultaneously on each market. The dominant position of every German stock exchange market has been continuously held by the Frankfurter Stock Exchange, run and operated since 1993 by Deutsche Börse AG.

The vertical orientation comes from the regulations included in the 'Stock Exchange Act' (das Börsengesetz) from January 1, 1897 (with future amendments). This act takes into consideration the entry criteria as well as the transparency of listed venues, and divides the market into a regulated and alternative market systems. In this case, one instrument can be issued only on one segment – in contrast to the horizontal orientation. (Hunger 2003, p.10).

Only one non-regulated segment existed on the German market until 1897 – the OTC market. Together with the Stock Exchange Act, on January 1, 1897 another segment was implemented – the official market called the Amtlicher Markt. Within the next few years, as a result of many amendments and lawful recommendations from the then European Community, as it was called back then, in 1987 a third segment was implemented – the regulated market called the Geregelter Markt. Moreover, during this time, the OTC changed its name to Freiverkehr (Hunger 2003, p.10).

The above structure applied to every German stock exchange. Next to regulated markets, they had a possibility to appoint new private segments such as the

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Neuer Markt, created in 1997 by Deutsche Börse AG as the fourth segment of the Frankfurt Stock Exchange. It functioned within the framework of the alternative trading system until 2003.

Each segment was differentiated in levels of restrictions with regards to accessing the market, as well as informative duties before and after issuing actions on the market. The lowest standards for public data access concerning companies' financial conditions were on Freiverkehr. Higher standards, not only regarding the quantity, but also the quality of statements, were on the Geregelter Markt, followed by the Amtlicher Markt, while the highest entry standards, together with issuer's responsibilities, were held by Neuer Markt

The amendment to the Stock Exchange Act, which came into effect on 01 November 2007, put together two segments, the Amtlicher Markt and the Geregelter Markt, forming the Regulierter Markt. Since that moment, the FSE has offer edits clients two markets: the regulated Regulierter Markt and the alternative Open Market (since 2005). The regulated market consists of two segments: Prime Standard and General Standard. In return, the alternative market system is divided into Entry Standard and Quotation Board.

The aim of this article is to compare the former German alternative market – the Neuer Markt – with the current Entry Standard, in the context of providing capital access to small and medium enterprises. It will cover the legal framework, main entry criteria, issuers obligations to provide information and status reports. This analysis will answer the question if the creation of the Entry Standard was, just like the Neuer Markt, the answer to overcoming the equity gap, by providing small and medium companies access to capital. This article was based on the available literature, empirical data from press articles and FSE publications.

## Entry Standard market

The Entry Standard, functioning within the Open Market Segment, started in October 25, 2005. Its focus group consists mainly of newly started small and medium enterprises of any branch. This standard is chosen mostly by companies which were already accepted to the Open Market but which seek distinction in preferred positioning. In exchange, issuers are obliged to meet additional entry criteria, including reporting and informative actions. Sharpening the entry criteria became a supporting function for potential investors – it was aimed at accurately presenting the transparency of any company's operatives in a given segment.

Securities trading in the Entry Standard, in contrast to the regulated market, takes place within civil law relations, similar to the Open Market's. The rules and regulations of the alternative market are stated in Allgemeine Geschäftsbedingungen der Deutsche Börse AG für den Freiverkehr an der Frankfurter Wertpapierbörse (AGB DBAG). It presents criteria that need to be met in order to enter

the trading exchange. It also covers additional issuers' obligations, created as the effect of joining the alternative market. The legal frameworks for the Entry Standard are also combined in FSE regulations. This segment is run and operated by the Deutsche Börse AG.

Market companies listed on Entry Standard can be divided into indices: the Entry Standard Index, the Entry All Share Index, the DAX sector All, the DAX subsector All, the DAX International 100 and the DAX International Mid 100.

The Entry Standard Index consists of thirty companies with the highest exchange trading indicator. When calculating this index every company is treated as equal (the *free float* indicator is not considered). The Entry Standard Index is updated quarterly. The Entry All Share Index consists of all companies in the alternative market and is constantly updated (Beyer, Schikora 2010, p. 106).

The DAX sector All and DAX subsector All are branch indices which cover all listed companies both on the regulated and the alternative systems. The DAX sector covers 18 branches: Automobile, Banks, Basic Resources, Chemicals, Construction, Consumer, Financial Services, Food & Beverages, Industrial, Insurance, Media, Pharma & Healthcare, Retail, Software, Technology, Telecommunication and Transport & Logistics and Utilities. The DAX subsector, on the other hand, includes 63 subsectors. All those indices reflect the current market state within every segment.

**Table 1.** Branch indices divided into market segments

9 Supersectors	DAX supersector			
18 Sectors	DAX sector	DAX sector ALL		
63 Subsectors	DAX subsector	DAX subsector ALL		
	Prime Standard	Prime Standard	General Standard	Entry Standard

Source: Deutsche Börse 2016.

The DAX International 100 is made of 100 companies with the highest exchange trading, both national and international, of all segments: Prime Standard, General Standard and Entry Standard. It's calculated on the basis of the Xerta platform data. The DAX International Mid 100, on the other hand, shows the next 100 companies.

## Admission to Entry Standard

Taking into consideration the fact that the Entry Standard segment collaborates within the Open Market framework, issuers need to be aware of more restricted entry criteria, in addition to extra duties which appear after joining the segment.

Only after all the entry criteria are met is the company authorized to apply for the Entry Standard. Deutsche Börse AG allows a company to apply simultaneously to the Open Market and the Entry Standard.

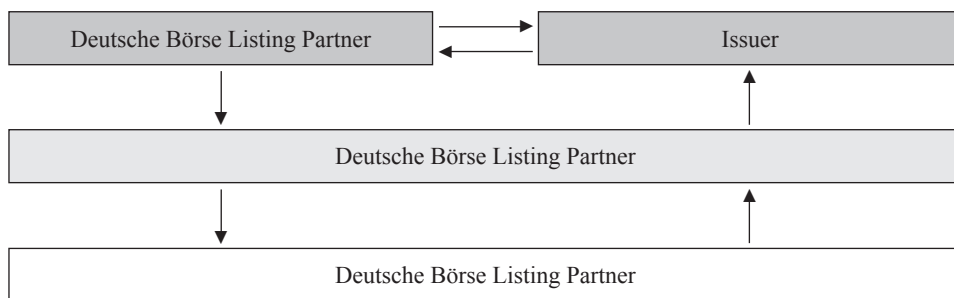
According to par. 16 AGB DBAG, issuing stock needs to be done in collaboration with a financial institution, national or international, with a branch in Germany (par. 53 das Kreditwesengesetz). The co-applicant has to be listed on the FSE and its equity capital amount to no less than € 730,000 euro. If the above conditions are met, the company is permitted to file the application unaided.

The entry application needs to be submitted using the online E-Listing Open Market platform. The co-applicant is an authorized subject for the application. Moreover, he is also responsible for monitoring if each company meets all of the entry criteria and is compatible with national, international and Deutsche Börse AG's rules and regulations.

When the application is sent, the FSE is obliged to decide on the application within five session days. During this time, the prospectus is checked by the BaFin financial institute (Bundesanstalt für die Finanzdienstleistungsaufsicht) (Nordhues 2006, p. 5).

Every issuer is obliged to work with at least one Deutsche Börse Listing Partner (DBLP). Those are institutions that provide financial services approved by Deutsche Börse AG. The DBLP collaborates with the company before, during and after issuing its financial instruments. The company's main tasks are: presenting the issuer with transparency requirements and helping with any publications, e.g. financial statements.

**Figure 1.** Issuer and DBLP co-applicant relations.



Source: Deutsche Börse 2016

Main entry criteria:

- 1) the application for share admission can be done by a company with a minimum of two years of existence;
- 2) the issuer is obliged to meet all IPO requirements within the Open Market;
- 3) a minimum of 30 share holders;
- 4) the *free float* indicator needs to be at least 10%;

- 5) equity capital of no less than € 750 000;
- 6) share needs to be priced at a minimum of € 1;
- 7) common stocks, preferred stocks and certificates can be traded;
- 8) the issuer is obliged to attach a financial statement from the last three years (in accordance with national or international accounting regulations, e.g., International Accounting Standards (IAS), or United States General Accepted Accounting Principles (UP-GAAP); in the case that the company was set up less than three years ago, it ought to present financial statements since their start-up date;
- 9) the following documents have to be submitted together with the application:
  - a) a prospectus with the certificate of acceptance;
  - b) an updated excerpt of the commercial register;
  - c) the article of incorporation;
  - d) the contract with Deutsche Börse Listing Partner;
  - e) the Entry Standard Company Profile, including the basic entrant information;
  - f) a financial calendar (called der Unternehmenskalender);
  - g) the co-applicant's certificate proving that all entry criteria are met;
  - h) an annual financial statement.

## Issuer's responsibilities after joining the Entry Standard

Allowing shares for Entry Standard imposes on the issuer additional informational and reporting duties – they mostly cover transparency issues. The issuer has to update the information regularly during the listing time.

One of the main duties is to present annual financial as well as structural and managing statements. All documents need to be published six months after the financial year's end, at the latest. Every six months the issuer is also obliged to publish financial and management reports, a maximum three months after the last analyzed day. The (financial) reports need to be created according to national or International Financial Reporting Standards (IFRS) (Beyer, Shikora 2010, p. 98).

The issuer is also obliged to publish an annual financial calendar, der Unternehmenskalender. It should consist of significant events regarding the company's management activities, e.g. shareholders' meetings, dividend payments, or upcoming IPO's. The calendar needs to be posted on the company's website and updated on a regular basis. It is preferred that the website have a German language version.

Besides the above-mentioned activities, the issuer is obliged to inform on their website about important ongoing events which influence share prices, e.g. acquiring or losing clients, mergers, takeovers, any applications for bankruptcy or of being deleted from the commercial register. Moreover, the issuer is obliged to inform Deutsche Börse AG about personnel and economic changes, i.e. personnel changes in the Management Board.

Reports, statements and other important data are made public in German or English on the company's website, and simultaneously transferred to market organisers through a bespoke platform, the Exchange Reporting System-Interface.

## Entry Standard vs Neuer Markt

The main task for the German alternative market (both the former Neuer Markt and the present Entry Standard) is to allow small and medium enterprises access to capital, and investors to gain the highest profit from their shares.

The focus group of the Neuer Markt, which operated in 1997–2003, was small and medium enterprises, both national and international. They were mostly affiliated with the innovative branch and needed to show innovatory production or distribution methods, or offer cutting-edge technology and services. Attendants were also obliged to comply with international transparency regulations. Their activity on the market had to show relatively high volumes and profits (Plückelmann 2000, p. 83.). On the other hand, the Entry Standard is not a focus of any particular branch, targeting any SME's.

The particular focus group of the Neuer Markt was companies operating within IT connected areas: IT services, multimedia, telecommunications, environmental engineering, biotechnology and medicine. 57% of the companies listed during 1997–2002 belonged to the technology sector. In comparison, during a similar time frame, only 33% of Entry Standard companies were from the high-tech sector (Beyer, Shikora 2010, p. 112). Amongst all IPOs, both on the regulated and alternative markets, 96% of high-tech new joiners (in the years 1997–2002) appeared on the Neuer Markt, while between 2005–2006 on the Entry Standard they equated to 57% (about 44% of the companies made their IPOs on the Prime Standard) (Lutz 2007, p. 26).

**Table 2.** Neuer Markt and Entry Standard sector comparison

Sector (%)	Neuer Markt (07/2001)	Entry Standard (07/2007)
Bio-/Medtech	14	5
Financial services	16	20
Industrial services	6	18
Internet/IT/Software/Media	39	21
Real Estate	0	10
Resources	0	3
Technology (including nano-technology)	20	6
Telecommunications	3	5
Other	2	12

Source: Beyer, Shikora 2010.

The above data show that the dominant branch in the Neuer Markt, with 39% of market share, was Internet/IT/Software/Media. The technology sector came next, with 20%, followed by financial services, biotechnology and medical science. A marginal share of the market is shared by industrial services (6%) and telecommunications (3%). Absent from the market were real estate and resources.

The Entry Standard sector shows fairly contrasting results. While the dominant role is still held by Internet/IT/Software/Media, the disproportion between other branches is smaller. Financial services come second (20%), then industrial services (18%), followed by real estate, missing from the Neuer Markt. The importance of Resources and renewable energy is growing on the Entry Standard segment. This is caused by the growing interest of German communities in conserving the environment by using renewable energy, from wind or solar farms. It is an innovative sector with subsidies, allowing new companies to quickly and effectively develop.

Comparing companies' basic data taken from the Neuer Markt and the Entry Standard, one can conclude that there is not much difference between them, when looking at size and profits. For example, losses recorded from times before being issued on the Neuer Markt fluctuated at around 38%, while on the Entry Standard – at 33% (Beyer Shikora 2010 p. 112).

Companies that wanted to be listed on the Neuer Markt needed to comply with all entry criteria for the regulated market (Geregelter Markt) first. Applying for the Entry Standard requires similar standards. In this case, the issuer is obliged to fulfill the requirements for the alternative market – the Open Market.

Three-year-old companies were able to apply for the Neuer Markt but the Entry Standard accepts two-year-old companies. Both for the Neuer Markt and the Entry Standard, the application needs to be turned in as a collaboration between the issuer and a credit institution, a financial services institution, or an international credit-financial company. The co-applicant must be listed on the FSE and hold equity capital of € 730,000. Another entry criterion present in both markets is the requirement to work with designated financial advisors. For the Neuer Markt – Designated Sponsors (at least two), and for the Entry Standard – a Deutsche Börse Listing Partner.

The equity capital of companies applying for the Neuer Markt needed to amount to € 1,500,000, and have a *free float* indicator of more than 10–20%, depending on IPO volume. A minimum of 100,000 shares with € 250,000 nominal value was required – amounting to € 2.50/share. Only common stocks were allowed on the market.

In turn, on the Entry Standard, the equity capital needs to amount to € 750,000, the *free float* indicator must be above 10% and the price of 1 share cannot go lower than € 1. Common as well as preferred stocks could be issued.

Some requirements about investor protection were also amongst the Neuer Markt's entry criteria. They stipulated that the issuer could not collect another



capital source for six months beginning with the IPO. Moreover, the main investors were banned from offering and selling their own shares, also for a period of six months.

As a result of joining the market, the issuers were obliged to comply with many requirements providing information and reports. Companies listed on the Neuer Markt had to present not only annual but also quarterly financial reports. Meanwhile, on today's market, the issuer is obliged to present an annual and mid-year reports. In both cases, national or international financial standards need to be followed e.g. IAS or UP-GAAP. In addition, the company needs to present a report detailing the direction of management of the enterprise.

A common element for both segments, is the obligation to present a financial calendar, der Unternehmenskalender, and important publications that may affect the price of shares. In the Neuer Markt we come across an *ad hoc* publication. It denotes that information about current events is immediately passed to the Deutsche Börse board and Securities Trading Office – BAW. By contrast, Entry Standard issuers are obliged to present information on their homepage (*quasi ad hoc*).

An additional requirement for Neuer Markt issuers, not present in the current segment, was to conduct a meeting with a stock analyst at least once a year. The goal of those meetings was to discuss the present state of the listed company.

**Table 3.** Main similarities and differences between the Neuer Markt and the Entry Standards

Neuer Markt	Entry Standard
Company age: minimum three years	Company age: minimum two years
Obligation to meet requirements for regulated market Geregelter Markt	Obligation to meet requirements for alternative market Open Market
Co-applicant required when applying	Co-applicant required when applying
Obligation to have at least two Designated Sponsors	Obligation to work with one Deutsche Börse Listing Partner
Equity capital minimum: € 1 500 000	Equity capital minimum: € 750 000
Free float indicator: minimum 10–20%	Free float indicator: minimum 10%
Price per share: minimum € 2.5	Price per share: minimum € 1
Common stock allowed	Common and preferred stocks allowed
Obligation for annual and quarterly financial reports	Obligation for annual and mid-year financial reports, and managing reports
Publication of financial calendar	Publication of financial calendar
Important information concerning share price must be made public (ad hoc)	Important information concerning share price must be made public (quasi ad hoc)

Source: own study.

## Conclusion

The goal of modern capital markets, characterized by constant organizational and legal changes, is to provide a complete and quick answer to the market's demand. Looking at the stock market, along side the traditional segment, alternative systems are distinguished. Their offer is directed at companies which do not fulfil the minimum requirements for strictly regulated markets. As an example, we can recall the German Neuer Markt, which functioned between 1997 and 2003, and its successor, the Entry Standard.

The analysis of the qualitative and quantitative characteristics carried out in this article demonstrates some differences between them.

The precise definition of the Neuer Markt focus group shone the spotlight on a dominant branch – the high-tech sector. By contrast, the Entry Standard can be characterized by the variety of business activities of the listed companies.

Analyzing the criteria, the Neuer Markt had stricter entry criteria in comparison with the Entry Standard, and they focused more on transparency and protection, and building among its investors a culture of trust.

Considering the legal and institutional frameworks, and the structure and growing popularity among the issuers, it can be said that both the former Neuer Markt and the current Entry Standard provide SMEs with access to capital, which consequently eliminates the equity gap. It is worth mentioning that in the two years after the Neuer Markt collapsed, another attempt to create an alternative market for SMEs was conducted – the Entry Standard. Moreover, in August 2013, former German Economic Minister, Phillip Rösler, initiated the debate about restarting the Neuer Markt for a strictly defined target group – the innovative SME branch (Sievers 2013).

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## Summary

The aim of the article is to compare the former German alternative market, the Neuer Markt, with the current Entry Standard, in the context of providing capital access to small and medium enterprises. The article characterizes the German capital market since 1987, focusing on the current alternative trading system – the Entry Standard segment. The objective has been achieved with the analysis of the Entry Standard IPO emission requirements, selected statements demanded from issuers and the market structure. Those issues are compared with the former Neuer Markt. During the research, foreign literature, press articles and Frankfurt Stock Exchange publications and reports were applied. The author wants to indicate the main similarities and differences between the Neuer Markt and the Entry Standard. The comparison confirms that the alternative

trading system plays a huge role in providing capital access to small and medium enterprises.

**Keywords:** Alternative Trading System, German capital market, Frankfurt Stock Exchange, Neuer Markt, Entry Standard

## Streszczenie

### Alternatywny system obrotu w Niemczech – porównanie Entry Standard i Neuer Markt

Celem artykułu jest porównanie dawnego niemieckiego rynku alternatywnego, Neuer Markt, z obecnym rynkiem, Entry Standard, w kontekście zapewniania dostępu do kapitału małym i średnim przedsiębiorstwom. Artykuł zawiera charakterystykę niemieckiego rynku kapitałowego od 1987 r., przy czym skupiono się na obecnie funkcjonującym alternatywnym systemie obrotu – Entry Standard. Przeanalizowano warunki pierwszych ofert publicznych na rynku Entry Standard, wymogi wobec emitentów oraz strukturę rynku, porównując je z informacjami na temat działającego wcześniej rynku Neuer Markt. Dokonano przeglądu literatury, w tym publikacji giełdy frankfurckiej, skupiając się na podobieństwach i różnicach między rynkami. Potwierdzono hipotezę, że rynek alternatywny stanowi ważne źródło kapitału dla małych i średnich przedsiębiorstw.

**Słowa kluczowe:** alternatywny system obrotu, niemiecki rynek kapitałowy, Frankfurcka Giełda Papierów Wartościowych, Neuer Markt, Entry Standard

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