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NewConnect na tle alternatywnych systemów obrotu w Europie.
Nieprawidłowości funkcjonowania polskiego rynku ASO

Keywords: NewConnect, Multilateral Trading Facilities, capital market, regulations, admission fees, Warsaw Stock Exchange

Słowa kluczowe: NewConnect, alternatywny system obrotu, rynek kapitałowy, regulacje, opłaty wstępne, Giełda Papierów Wartościowych w Warszawie

Introduction

Stock markets worldwide undergo constant rapid changes. In the times of growing competition among the major trading markets, they are looking for the market niches that can be taken advantage of. The aim is to provide the investors with easier and cheaper access to the ratings of various assets. This supports the development of a multi-segmental structure for financial instruments trading.

One of the fastest growing segments of this complex structure of financial instruments trading are securities trading platforms (alternative systems), named according to the Directive of the European Parliament, the multilateral trading facilities – MTF [European Union, 2004]. Their history in Europe dates back to 1995, when the London Stock Exchange decided to launch the AIM market. In 2007, the Warsaw Stock Exchange joined the group of stock exchanges that organize multilateral trading facilities.

Five years of existing of the Polish NewConnect market and related operations, however, cannot be definitely described as a success. On the one hand, the market

has recorded the growth of listed instruments, that unparalleled to other alternative trading systems. On the other hand, it is not reflected in the improved quality of this market. Low value of public offerings, limited marketability of stock as well as an excessive number of cheap or small-ticket companies, discourage the investors from investing in this market and hinder further development of this market.

This paper presents an analysis of statistical data showing the development of the NewConnect market and its position in comparison with the other multilateral trading facilities in Europe. It will help to realise the aim of this article by defining the areas of the NewConnect that reduce its development. On the basis of organizational and legal solutions used by in a number of European markets, there will be recommended the appropriate actions, that could be implied by the organizer of the NewConnect market to eliminate the operational problems.

1. Profile of NewConnect Market

In August 2007, the Warsaw Stock Exchange launched the NewConnect market, the model of which followed other similar markets in the world. The Polish MTF was created for start-up companies of a high technological potential and development, seeking to raise capital from several hundred thousand to several millions of zlotys [Pastusiak, 2007].

The market and its operations are mainly governed by the Alternative Trading System Regulations developed by the organizer of the market, namely the Warsaw Stock Exchange. As a non-regulated stock market, the NC is not under the direct supervision of the Financial Supervision Authority. Therefore, the law and related regulations governing the regulated market are inapplicable.

This results in low formal requirements to be met by the issuers attempting to emit the shares to trade in the Polish MTF. The most important are as follows:

- development of adequate documented information (information memorandum),
- unlimited transferability of stock,
- going concern – a company cannot be under bankruptcy or winding-up proceedings,
- assistance of an Authorised Adviser and Market Operator (Market Maker).

On 15th of April this year, concurrently with the launch of a new UTP trading system, the Warsaw Stock Exchange introduced new requirements for a minimum nominal value of shares (10 groszy) and free float (15% of the stock must be held by at least 10 stockholders, none of whom owns more than 5% of voting rights at the General Assembly and is not affiliated with the issuer).[1]

A special role in the organization of the NC market is vested with the so-called Authorised Adviser (AD). This function is performed by financial, legal and investment advisory companies and audit companies that are included in the list kept by the MTF

[1] http://www.newconnect.pl/pub/regulacje_prawne/Regulamin_ASO_UTP.pdf (legal status as of 1 June 2013).

organizer. AD's role is to support the Issuer in the IPO process, especially in the preparation and approval of the information memorandum and placement of the issue. The Issuer is obliged to co-operate with the AD over a minimum of three years after its debut.

The Companies intending to place their stock in the MTF market might conduct the issue of shares within a public offering or a private placement. The public offering, according to the Polish law and related regulations needs to be addressed to more than 100 investors, and it entails drawing up a prospectus, approved by the FSA. Private placement, addressed to fewer than 100 investors, is easier to perform and much cheaper. In this case, the issuer develops just an information memorandum approved by the Authorised Adviser (the Financial Supervision Authority's approval is not required).

Companies listed on the NC are obliged to fulfil the information requirements. An issuer is required to provide all the required information, that might have a significant impact on the valuation of listed financial instruments, in a form of relevant reports. Additionally, it needs to submit periodic reports on a quarterly and annual basis. Quarterly reports issued in an abridged version must contain selected financial data.[2] The full annual reports are audited.

Development of the NewConnect market in terms of the number of IPOs and listed companies is impressive. The year 2011 when the number of companies almost doubled was particularly notable in this regard. Despite significant declines of the NCIndex, particularly in the years 2008, 2011, and 2012, the market capitalization increased every year.

Table 1. Statistical data concerning NewConnect market in 2007–2013

Year	2007	2008	2009	2010	2011	2012	I–VIII 2013
Number of listed companies	24	84	107	185	351	429	448
Number of IPOs	24	61	26	86	172	89	36
Number of entries	0	1	3	8	6	11	17
NCIndex rates of return (%)	44.17	-73.51	30.14	27.65	-34.39	-20.09	-6.03
Market capitalization (millions of PLN)	1 185	1 437	2 554	5 138	8 488	11 088	10 130
The value of session turnover (millions of PLN)	151.3	413.2	539.7	1 753.3	1 858.5	1 140.9	550.1
Number of transactions	59 674	247 576	323 729	877 947	1 082 130	773 343	451 508
Number of transactions per session	719	980	1 285	3 470	4 311	3 106	2 720

[2] Specified in the Annex 3 to the MTF regulations: http://www.newconnect.pl/pub/regulacje_prawne/Regulamin_ASO_UTP_zal_3.pdf [13.09.2013]

contd. Table 1

Year	2007	2008	2009	2010	2011	2012	I–VIII 2013
Average capitalization of companies (millions of PLN)	49.38	17.11	23.87	27.77	24.18	25.85	22.61
The average value of turnover attributable to one company (millions of PLN)	6.30	4.92	5.04	9.48	5.29	2.66	1.84*
Average value of transaction per session (millions of PLN)	2 535.44	1 668.98	1 667.14	1 997.05	1 717.45	1 475.28	1 218.36

*Data restated for comparison for the full calendar year

Source: Own calculations based on data available at www.newconnect.pl

The volume of the stock listed in the Polish MTF is less impressive. While the value of the session-based turnover continued to grow until 2011, the growth rate was disproportionate to the increasing market capitalization. Apart from the initial operational period of the NC, that was not a full year, significant market indicators, i.e. the average company capitalization, the average value of turnover per one company, and the average value of transactions peaked in 2010.

The data for 2012 that is indicative of a nearly 40 percent drop in the turnover and nearly 30 percent drop in the number of transactions as compared to 2011 are particularly disturbing. The downward trend of turnover was also maintained in the first eight months of 2013. If in the following months of this year the data does not change significantly, the average turnover per one company, and the average value of transactions will reach the lowest values in the whole history of the NC's operations.

2. Multilateral Trading Facilities in Europe

History of the alternative trading system in Europe is inseparably connected with the creation of the UK Alternative Investment Market. AIM has been designed for small-sized and emerging companies, satisfying the requirements of the regulated LSE market [Doidge et al., 2007]. It has been intended to provide a kind of counterweight to the rapidly growing American over the counter NASDAQ market.

AIM, establish by the London Stock Exchange, was not only the first market of such kind in Europe. It has been a model to follow by newly created MTF markets in Europe. Despite the sizable success achieved by the AIM, European stock exchanges have been slow to start this type of market. Other mainstream European MTF today were established as late as 2005 and they were: Alternext, Dritter Markt, First North, and the ESM (Table 1). One year later, the MAB Expension was established,

Table 2. Statistical data of alternative markets in Europe (at the end of August 2013)

MTF Market / Stock Exchange leading the MTF Market	RM/ MTF	Com-mence-ment year	Number of compa-nies	Market capitalization (in millions of €)	Volume size		Average capitalization of company (in millions of €)	The average value of turnover per one company (in thousands of €)	Average value of transaction (in thousands of €)
					Number of transac-tions	Turnover (in mil-lions of €)			
Alternative Market (EN.A) Athens Exchange	MTF	Q4 2007	14	147.0	507	0.6	10.50	42.86	1.18
MAB Expansion BME (Spanish Exchanges)	MTF	I 2006	23	845.9	bd	bd	36.78	x	x
BETa CEESEG-Budapest	MTF	XI 2011	23	bd	4 820	9.1	x	395.65	1.89
STAR Borsa Italiana LSE Group	RM	IV 2001	66	17528	1637533	4911.1	265.58	74410.61	3.00
Dritter Markt (MTF) CEESEG - Vienna	MTF	I 2002	24	1 306.3	3 039	8.8	54.43	366.67	2.90
Emerging Comp. Cyprus Cyprus Stock Exchange	MTF	IX 2004	15	597.7	bd	bd	39.85	x	x
Entry Standard Deutsche Börse	MTF	X 2005	189	48 156.0	226 153	534.0	254.79	2825.40	2.36
ESM /Irish Stock Exchange	MTF	IV 2005	23	40 692.4	35 112	71.8	1769.23	3121.74	2.04
BIST Second National Market Istanbul Stock Exch.	RM	III 2003	86	6 915.1	10 077 574	7 737.5	80.41	89970.93	0.77
AIM London Stock Exchange	MTF	VI 1995	1 086	57 765.9	3 060 732	15 771.2	53.19	14522.32	5.15
Euro MTF Luxembourg Stock Exchange	MTF	VI 2005	221	328.5	476	10.4	1.49	47.06	21.85
First North Alternative Market NASDAQ OMX	MTF	XII 2005	127	3 338.0	692 541	1 596.8	26.28	12573.23	2.31
Alternext /NYSE Euronext	MTF	IV 2005	181	6 621.0	530 061	954.0	36.58	5270.72	1.80
Oslo Axess /Oslo Børs	RM	V 2007	34	1 887.9	103 379	315.4	55.53	9276.47	3.05
NewConnect Warsaw Stock Exchange	MTF	VIII 2007	448	2 453.4	451 508	131.2	5.48	292.86	0.29
Total/average			2 560	188 583.1	16 823 435	32 051.9	73.67	12520.29	1.91

Source: Own compilation based on websites of stock exchanges and statistical data of the European Federation of Exchanges, the London Stock Exchange and Borsa Italiana: http://www.fese.eu/en/?inc=art&id=4; http://www.londonstockexchange.com/statistics/markets/aim/aim.htm; http://www.borsaitaliana.it/borsaitaliana/statistiche/sintesi-mensili/2012/sintesimensili201211.en_pdf.htm [14.09.2013]

and in 2007 this group was joined by Oslo Axess and NewConnect. Not all of the twenty-first century alternative markets in Europe still exist today. In 2008, the MTF markets were closed in Ljubljana and Bratislava.

The vast majority of alternative markets operate as an MTF, and only three of those are regulated markets. The Federation of European Securities Exchanges (FESE) in some countries distinguishes several segments of the capital market, identifying them as specialized markets.[3] Such a situation has been the case in Italy. Besides the STAR market specified in the table, there still exist the Mercato Expandi (as the RM) and AIM Italia (as MTF).[4] Several European stock exchanges also operate alternative bonds trading.[5]

AIM is now the undisputed leader of alternative systems in Europe in almost every way. More than a thousand of listed companies translates into 30% of the capitalization of European markets and generates stock sales volume representing more than 49% (Table 2). If we exclude the regulated markets (STAR, ISM, and Oslo Axess) from the analysis, the advantage of the British market over the rest of the European MTF would be overwhelming.

NewConnect is, in terms of capitalization and turnover, an average sized MTF market in Europe. The Polish market definitely stands out in terms of the number of listed companies. With the number of 448 issuers at the end of August 2013, NewConnect was the runner-up of the ranking. In 2010–2012, 347 companies made their debuts in the NC, which accounted for almost half of new listings on all other MTF in Europe, and ranked the Warsaw Stock Exchange among the world leaders.[6]

Quantity, however, does not translate into a proportional increase in the capitalization of issuers and investors' growing interest measured by the volume of turnover. In terms of mid-cap listed companies, the NC is ahead of only the Luxembourg market. The NC market as compared with its competitors in terms of an average value of the transaction which in August 2013 amounted to only EUR 290 does not look promising either. Average turnover of a company is also one of the lowest among the European MTF.

3. The Organisational Structure of Selected Markets in the European MTF

In conformity with the Directive of the European Parliament, alternative markets may be established by the stock exchanges that lead the regulated markets [European

[3] *Alternative Markets/Segments in equity analysis:* http://grahambishop.com/DocumentStore/d9cf5651-f676-4160-ab65-70b9e6ee6928.pdf [13.09.2013]

[4] http://www.borsaitaliana.it/azioni/mercati/aim-italia/aim-italia.htm [14.09.2013]

[5] FESE statements mention eight of these markets, wherein the market in Bratislava is closed. Functioning markets are: Alternative Market (EN.A) Dritter Markt, Alternext, Emerging Bonds (Cyprus), GEM (Ireland), Oslo Alternative Bond Market (ABM) and Catalyst: http://www.fese.eu/en/?inc=art&id=4

[6] Details of IPOs on European markets can be found at: http://www.pwc.pl/pl/ipo-watch-europe/index.jhtml [14.09.2013]. Statistics for all stock exchange markets are published in the reports of the World Federation of Exchanges: www.world-exchanges.org/statistics/annual-statistics-reports [14.09.2013]

Table 3. Comparison of the admittance requirements for stock issuers listed in the European MTF (as of 30 August, 2013)

	AIM	Alternext	Entry Standard	NewConnect	First North OMX	ESM
Minimum capitalization / equity capital	none	min. capitalization 4.5 mln EUR	min. equity capital EUR 750 000	none	none	min. capitalization 5 mln EUR
Minimum age of the company	none	2 years	2 years	none	none	none
Minimum stock face value or issue price	none	none	min. denomination of one share 1 EUR	min. denomination of one share 0.1 PLN	min. price of issuance 0.5 EUR	none
Minimum free float	none	2.5 mln EUR	10% of issuance	15% of shares	10% of shares	none
The initial fee	depends on the capitalization of the company: min. 7 396 – max. GBP 427 971	depends on the capitalization of company: min. 10 000 – max. 3 mln EUR	fixed EUR 1 500	fixed PLN 6 000	fixed EUR 5 400	fixed EUR 4 000
The annual fee for listing	depends on the capitalization of the company: min. 4 863 – max. GBP 47 926	depends on the number of shares min. EUR 2 800 – max. EUR 50 000	fixed EUR 5 000	1st year PLN 1 500, following – depending on the capitalization: min PLN 3 000 – max PLN 8 000	paid quarterly, depending on the capitalization of the company: min. EUR 1 400 – max. EUR 9 200	fixed EUR 4 000
The obligation to cooperate with the adviser	Nominated Adviser – cooperation throughout the entire trading period	Listing Sponsor – cooperation throughout the entire trading period	Deutsche Börse Listing Partner – cooperation throughout the entire trading period	Authorized counsellor – cooperation throughout 3 years with the possibility of shortening to 1 year	Certified Adviser – cooperation throughout the entire trading period	Adviser – cooperation throughout the entire trading period

Source: Own compilation based on websites of MTF Dealership markets: https://europeanequities.nyx.com/listings/listing-fees; http://www.londonstockexchange.com/exchange/companies-and-advisors/main-market/listing-fees/aim-fees-calculator.html; http://www.boerse-frankfurt.de/de/wissen/marktsegmente/entry+standard; http://www.newconnect.pl; http://www.ise.ie/Equity-Issuers/MSM%20Vs%20ESM%20Rules/ [14.09.2013]

Union, 2004]. Stock exchanges organize MTF and set out the rules of their operation. The rule for the multilateral trading facilities is that formal requirements, fees and information obligations of issuers are much smaller than in the case of the major stock exchange markets [Mendoza, 2008; Gomber & Gsell 2006]. This allows the companies that do not meet the requirements of the regulated market to raise capital from the capital market. It is of significant importance especially in fast-growing industries, based on intangible assets (modern technology), requiring different forms of funding sources.

By setting out regulations for alternative markets, each stock exchange market is guided by the operational objectives. Despite generally related actions of the respective MTF, the organizers are free to form any laws and related regulations which translate into a variety of adjustments. At this point, the operational principles of the six largest alternative systems in Europe organized as an MTF, in terms of capitalization and turnover, will be elaborated upon. The choice was made according to the ability to compare the organization of the most developed MTF affiliated to the NC market, which is aimed at achieving the assigned targets. Thus, the analysis excluded STAR, Oslo Axess and the ISE markets, organized as regulated markets. The criteria allowing a fairly simple comparison were juxtaposed. The criteria defined in detail by the markets, like the information requirements of issuers were not covered by the analysis.

Table 3 contains the regulation-based requirements relevant to this article. The comparison clearly shows the London AIM as the most liberal one in terms of approach to the requirements to be met by the issuer in order to be admitted for listing in the stock exchange. There are no requirements relating to the minimum capitalization, distribution of stock, or the stock face value. The market is also available for start-ups.

Among the analyzed markets, the most stringent admittance rules apply to Alternext and Entry Standard, which have international ambitions [Hilton, 2008]. These markets are not available to start-ups, as there is the admittance requirement to run business operations for at least two years before admittance is permitted. Both of them have also high requirements for capitalization or stock capital. To ensure adequate marketability of stock, both Alternext and Entry Standard fixed the minimum free float. Additionally, in the German market, the face value per share cannot be less than 1 Euro.

Very similar principles apply to First North and NewConnect. In both markets there are no capitalization-based requirements and the age of the company requirements. On the other hand, the criteria for stockholder dispersion and the value of one share apply but in the Scandinavian market there is the requirement for the minimum value of the shares, and in the Polish market – the requirement for the face value of the shares. It should be noted, however, that until March 2013, these criteria did not apply to the NewConnect market, and the market admittance requirements almost followed the ones applicable to the AIM market.

The Irish ESM market uses a very simple criterion for admittance, which is limited only to the size of the company's market capitalization. Out of all the analyzed markets, this criterion is the most demanding and is as high as 5 million Euros.

The organizational structure of all the analyzed MTF in Europe is based on the activity of the operators, that can, according to the Polish market, be described as Authorised Advisors. They perform primarily advisory services, provide support for the IPO process and fulfil the obligations posed for the companies listed on the stock exchange. In the respective markets their role may, however, be much more extensive. For example, in the London's AIM, the *Nominated Advisers* play also a supervising role for the stock exchange participants [Arcot et al., 2007]. In all the analyzed markets, the issuer is obliged to cooperate with the Authorised Adviser, not only for the purpose of the IPO process but also during the entire period of trading. The Polish NC is the exception since the cooperation with the advisor is required for a period of only three years and can be shortened up to one year.

Each organizer of the MTF market makes the issuers liable for a fee payable for placement of financial instruments in the market and an annual fee for the listing of the shares. The approach of stock exchanges in the MTF markets is very different in this respect. A similar one is represented by AIM and Alternext markets, that charge high entry fee, the amount of which depends on the capitalization of the company.[7] As far as the Alternext fee is concerned, it seems outrageously high because it can reach up to 3 million EUR. This is due to the fact that the same rules apply to both the MTF and the main trading floor of the NYSE Euronext. However, taking into account the size of the capitalization of the companies seeking to enter the market share in those markets, usually not exceeding 100 million (EUR or GBP), the fee shall not exceed tens of thousands in the relevant currencies. On a similar basis both markets also charge an annual fee for the listing of the shares, whereas the maximum thresholds are clearly lower. The annual fee in the AIM depends again on the market capitalization of the company, and as far as the Alternext is concerned, on the number of shares placed in the market.

Admittance fees for all other markets are considerably lower and are payable at fixed rates. The fees payable do not differ much from one another and range from 1,500 EUR to 5,400 EUR. In the case of fees payable for the trading of shares, Entry Standard and ESM markets consistently apply fixed rates. In the First North, as well as AIM, the fee is dependent on the capitalization and is calculated on a quarterly basis.

NewConnect uses a mixed system. In the first year of trading it charges a fixed rate fee in the amount of 1,500 PLN. In subsequent years, the fee is dependent on the height of the stock market capitalization and ranges from 3,000 PLN up to 8,000 PLN.

[7] Detailed description of the calculation of the initial payment is available in the documents: http://www.londonstockexchange.com/companies-and-advisors/aim/for-companies/listing-fees/aim-brochure-2012-2013.pdf [30.08.2013]; https://europeanequities.nyx.com/sites/europeanequities.nyx.com/files/fee_book_2013_eng.pdf

4. Amendment Proposals in the Context of the NC Market Problems

Low capitalization of companies and the limited stock marketability are the basic shortcomings of the NewConnect market, resulting from the comparison of the European MTF statistics. The consequence of that is the weakening interest of investors, disappearing sales and falling stock prices. The reluctance of investors to make transactions in the Polish market is clearly manifested by the relative strength of the selected alternative markets indices as compared with the regulated market indices leading these markets (Figure 1). Since its inception, the relative strength of the NCIndex above decreased as compared with the WIG20 index by 40%. None of the MTF markets' indices presented reported in this period was so weak in comparison with the domestic regulated market.

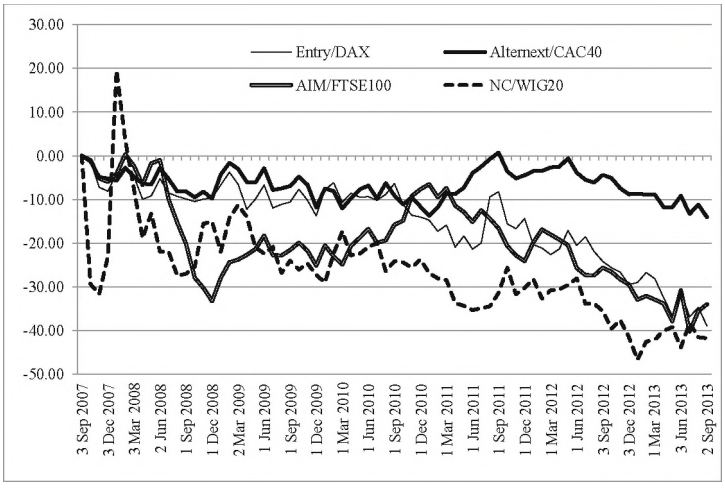

Figure 1. Relative Strength Index of the MTF markets (Sept. 2007–Sept. 2013)

Source: Own study

It seems that this state of affairs results from too liberal rules governing the stock trading in the stock exchange, and an organizational shortcomings in the primary market. There are no fixed or minimum capitalization requirements or the requirement for a target size of equity offerings in the NewConnect market. Furthermore, issuers use the simplest and least expensive path to the IPO by means of a private placement (private placement). Since the inception of the NC, only 17 issuers have decided to conduct public offerings.[8] Suffice it to say that in 2008–June 2013 the average value of the public offer equalled only 587 thousands of EUR, which was by far the worst result of all the major European markets (Figure 2).

[8] http://www.newconnect.pl/index.php?page=DebiutyNC [15.09.2013]

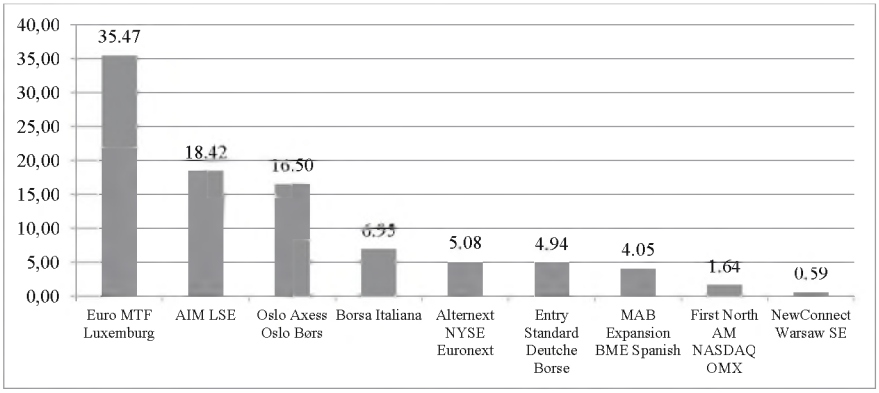

Figure 2. Average value of funds raised in the European MTF in 2008–June 2013 (in millions of EUR)

Source: Own study based on: http://www.pwc.pl/pl/ipo-watch-europe/index.jhtml [14.09.2013]

In this context, the organizer of the market should tighten the rules admitting issuers to the public market. First of all, according to the model of Alternext, Entry Standard and ESM, the Warsaw Stock Exchange should introduce the minimum value of capitalization, stock capital or public offer within the IPO issuer. This would eliminate the appearance of the "micro offers", that are a commonplace in the NC market.

In addition, the organizer should seek to reduce private placement or at least eliminate it (small free float MTF resulting in turnover limitations). Implementation of a minimum free float of 15% of shares traded in March 2013 is certainly a step in the right direction. However, concerning the average capitalization of a company listed in the NC, out of only 5.48 million EUR, 15% of the free float has an average value of less than 1 million Euros. It seems that following the model of the Alternext and the related introduction of the free float amount, for example, in the amount of at least 0.5–1.0 million EUR, would probably reduce the problem of dramatically low marketability of many instruments.

From the perspective of the aim of the article, an important issue of the NC market is the so-called "quality" of issuers admitted to trading, in terms of their financial and organizational background. The evidence of the problem is previously presented statistical data on mid-cap companies against the European MTF, as well as the financial results of the issuers. In 2012, less than 60% of them made a profit, and less than 10% of companies paid dividends. In this case, 19 companies had a negative book value and in nearly 50 companies it did not exceed 1 million PLN. At the end of August 2013 as many as 37 companies had a market value of less than 1 million PLN.[9] The seriousness of the problem is indicated by the last verification of market segmentation made by the Board of the Warsaw Stock Exchange (27 June 2013). The segments of the NC High Liquidity Risk and NC Super High Liquidity Risk included 185 companies

[9] Calculations based on data from the daily market session of 30 August 2013: http://www.newconnect.pl/index.php?page=statystyki_dzienne [14.09.2013]

qualified by the organizer.[10] At the same time, in terms of the NC Lead index, created for the leaders of the market, who may apply for a transfer to a regulated market trading, only 19 companies were qualified.[11] However, a list of companies applying for bankruptcy is most disturbing. Only since September 2012 it has been reported that more than 20 issuers filed for bankruptcy (liquidation or voluntary debt arrangements).

The reporting obligations, as well as compliance with the corporate governance rules for issuers are also challenging for the majority of issuers. The previous section of this article presented the solutions that can have a positive impact upon the operations of the Polish MTF, and it seems appropriate to introduce an obligation to cooperate with the Authorized Advisors throughout the entire trading of shares of the issuer, not just for the first year. Such regulations are applied by the MTF's and are further discussed in the article. It seems reasonable to impose a duty of prospects' monitoring on the AD's and increase the range of consultancy services for the issuer.

The negative perception of the NC market by investors is exacerbated by an excessive number of penny shares, resulting in high volatility in exchange, especially in the case of companies with a market capitalization of less than 10 groszy. At the end of August 2013, more than half of the companies had a unit price of shares of less than 1 PLN, and in 67 cases the closing price was lower than of 10 groszy.[12]

Table 4: Market value of shares listed on the NewConnect market in 2007–August 2013

Price range	Number of shares at a given price range						
Year	2007	2008	2009	2010	2011	2012	VIII 2013
0.01–0.09	0	3	6	9	28	53	67
0.10–0.99	1	30	35	61	138	168	163
1.0–9.99	18	47	54	94	146	168	180
>10.00	5	4	12	21	39	40	38
Total number of companies	24	84	107	185	351	429	448
% of the company's share prices < 1 PLN	4.17	39.29	38.32	37.84	47.29	51.52	51.34
% of the company's share prices < 10 groszy	0.00	3.57	5.61	4.86	7.98	12.35	14.96

Source: Own study

[10] In the segment of NC HLR were the shares of 150, and in the segment of NC SHLR – 35 issuers: http://newconnect.pl/?page=informacje&ph_main_content_start=show&cmn_id=10348 [14.09.2013]. Detailed rules for the NC market segmentation are described at: http://www.newconnect.pl/index.php?page=segmenty_rynku_newconnect [14.09.2013]

[11] http://www.newconnect.pl/?page=informacje&ph_main_content_start=show&ph_main_content_cmn_id=10347

[12] Own calculations based on data from the daily market session of 30 August 2013: http://www.newconnect.pl/index.php?page=statystyki_dzienne [12.09.2013]

The problem of cheap companies stems i.a. from the cost of carrying out the cheap stock issuance in a private placement and tolerance of deep splits by the organizer (complete or partial). Many a time the shares were sold at a price of a few dozen groszy, corresponding to the face value of the shares, and often the next big issues to be made at the lowest possible price of one grosz.

The introduction of the German model of Entry Standard and the Nordic First North of minimum face value of shares in the amount of 0.1 PLN, will probably reduce the problem of new issuers only slightly, but will not affect the already listed companies. At the end of August 2013 three companies had a number of shares exceeding 1 billion of units, and another 26 – more than 100 million.[13]

The solution of the problem will probably require making a few adjustments at the same time. The organizer should raise the minimum market value of shares to the level of that applied by the Firt North (0.5 EUR). In addition, the proposed solution is to suspend the stock trading, when the arithmetic average market price during the last three months is less than 5 groszy, until the time of share consolidation process. In case of failure to comply with the prescribed re-split within a given time period, the shares of the issuer would be excluded from the stock market. In the case of the average rate of less than 10 groszy, it would be advisable to transfer them every time to a single-price auction. These rules not only restrain the problem of the "penny shares" but at the same time eliminate the problem of multi-million offers of shares sold at the lowest possible prices.

The issues to considering still include the value fees for issuers and the minimum time of the issuer's existing. In the case of initial and annual fee for trading instruments, the related increase would rather not translate into an improvement of the issuers' "quality". In the context of the problems with excessive issues of shares, it is advisable to think about the establishment of the annual fee formulae, according to the Alternext model, that would be dependent on the number of shares placed in the market, and no longer on the NC-market capitalization. Regarding the minimum time of the companies' operations, applying for listing of the shares in the NC market should require for a minimum age of the issuer but it would be unjustified in the light of the NC market development strategy, because it was created having in view, amongst other things, emerging and start-ups companies.

Summary

After nearly five years of operations, the NewConnect market is at a crossroad. On the one hand, the market is developing dynamically, which is shown by an unprecedented growth of listed instruments in comparison with the other markets. On

[13] Own calculations based on data from the daily market session of 30 August 2013: http://www.newconnect.pl/index.php?page=statystyki_dzienne [12.09.2013]

the other hand, quantitative growth does not correlate with the improvement of the quality of the market and the interest of investors. Small capitalization of companies, and thus often low free float of shares, not a very good financial standing of the issuers and high volatility due to the excessive number of penny companies, effectively discourage investors from placing their funds in the market. This results in too low increase in the turnover, inadequate to the rapidly increasing number of listed shares.

Trading regulations implemented by the Warsaw Stock Exchange in recent months should have a positive reception in the Polish MTF. In the author's opinion, these changes are too shallow and not sufficient to solve the problems accumulated over the years. Therefore, to restore the efficient operations of the NC, crucial changes are needed, which means sometimes making the bold and radical decisions of the market's Organizer.

The good news in terms of the introduction of the new regulations is the announcement of the forthcoming changes by the new President of Warsaw Stock Exchange, Mr. Adam Maciejewski. The Representatives of the Warsaw Stock Exchange, the Association of Individual Investors and the Polish capital market entities continue the discussion on the need for further implementation of regulations that should heal the functioning of the Polish MTF market.

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NewConnect in comparison with multilateral trading facilities in Europe. Irregularities in the functioning of the Polish MTF market

This paper presents an analysis of statistical data showing the development of the NewConnect market and its position in comparison with the other multilateral trading facilities in Europe. It will help to achieve the goal of the article that is defining activity areas of the NewConnect market which inhibit its development. On the basis of organizational and legal solutions used by selected European markets, some actions will be indicated which could be implied by an organizer of the NewConnect market in order to eliminate its functioning problems.

NewConnect na tle alternatywnych systemów obrotu w Europie. Nieprawidłowości funkcjonowania polskiego rynku ASO

Artykuł prezentuje analizę danych statystycznych pokazującą rozwój rynku NewConnect oraz jego pozycję na tle innych alternatywnych systemów obrotu w Europie. Ma to posłużyć realizacji celu artykułu, jakim jest zdefiniowanie obszarów działalności rynku NewConnect, które hamują jego rozwój. Na bazie rozwiązań organizacyjnych i prawnych stosowanych przez wybrane rynki europejskie zostaną wskazane działania, które mogłyby zostać przez organizatora rynku NewConnect implementowane w celu wyeliminowania problemów jego funkcjonowania.