

The role of the second Financial market in financing small and medium enterprises in France

D: Bouabdallah Hiba

University of Mohammed Al Bashir Al Ibrahim

B.B.A

hbouabdallah13@gmail.com

<p>Summary</p> <p>Small and medium enterprises, despite their important role, do not meet the same interest as large institutions on the parts of banks, nor other financial institutions, because there is no accurate parameter system that can assess their status and their ability to pay, which makes the level of risk seem great. It becomes then necessary to look for appropriate funding from other sources, knowing that these enterprises cannot enter the capital market because they do not fulfill the necessary requirements to join it. Therefore, it is important to establish a second financial market that meets their specificities.</p> <p>This study aims at examining the role and importance of the second financial market in financing small and medium enterprises by understanding the basic concepts related to them and presenting the French experience.</p> <p>Keywords: Small and Medium Enterprises, Second Financial Market, Alternext, Euronext.</p>	<p>الملخص:</p> <p>بالرغم من أهمية ودور المؤسسات المتوسطة والصغيرة، فهي لا تجد نفس الاهتمام الذي تجده المؤسسات الكبيرة من طرف البنوك ولا حتى من طرف المؤسسات المالية الأخرى، نظرا لعدم توفر نظام معلوماتي دقيق يمكن من تقييم وضعيتها وقدرتها على السداد مما يجعل مستوى المخاطرة يبدو كبيرا، وعليه بات من الضروري البحث عن التمويل المناسب من مصادر أخرى خاصة وأن هذه المؤسسات لا تستطيع الدخول إلى سوق رأس المال وذلك لعدم استيفائها للشروط المطلوبة للالتحاق بها، لذلك تبرز أهمية إنشاء سوق مالية ثانية تتلاءم وخصوصيتها.</p> <p>يهدف هذا البحث إلى دراسة دور وأهمية السوق المالية الثانية في تمويل المؤسسات الصغيرة والمتوسطة من خلال إدراك المفاهيم الأساسية المتعلقة بها وعرض تجربة فرنسا.</p> <p>الكلمات المفتاحية: المؤسسات الصغيرة والمتوسطة، السوق المالية الثانية، ألترنكست، اليورونكست.</p>
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Introduction:

Small and medium-sized enterprises (SMEs) are fundamental to the economic and social development process because they achieve economic and social benefits in all sectors. They contribute significantly in creating new job opportunities, in addition to their effective impact on improving the level of macroeconomic indicators such as increasing Investment rates and mobilization of savings and the achievement of added value and this because of the characteristics that make them more flexible and able to deal with fluctuations and changes that occur at the level of the economy. However, despite the characteristics of the small and medium enterprises, it faces many problems and difficulties. Financing is one of the main problems that hinder its growth ambitions, especially in the starting stage due to insufficient self resources to satisfy the requirements of establishment and operation. As well as the limited funding alternatives available to them. As the stock market is one of the components of the financial market, it is necessary for these institutions to move towards the markets and benefit from the savings in order to provide funding for their growth. However, these institutions cannot meet the listing requirements for the first market, and thus cannot benefit from the advantages offered by the financial market, so many of the authorities based on stock exchanges to establish a market for small and medium enterprises known as the second market, It is a tough place to go for the financing you need, as these markets have become popular and successful in their financing. Among these markets is the French market of Alternext.

Based on the above, the problematic features are reflected in the following main question:

What role does the second market play in financing small and medium enterprises in France?

As a further identification of this question, the following sub-questions may be asked:

- What are the advantages of the second financial market for small and medium enterprises?
- Can the second financial market meet the financing requirements of small and medium enterprises?
- What are the most important conditions for listing in the second French market?

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The importance of this topic can be demonstrated through the objectives that we seek to achieve, which can be summarized in the following points:

- Address the role played by the second financial market in supporting and financing small and medium enterprises;
- Identifying the different conditions and ways to enter the second French market;
- Presentation of the results of the experience of France in the field of financing through the second market.

In order to reach the objectives and answer the main question, the article has been divided into three parts. The first part includes the second financial market, where the definition and characteristics of this market are identified in addition to the knowledge of its various advantages. The regulatory framework and the different sections of this market will be also identified, while the latter will include the development of the second financial market in France.

I-The second financial market :

Some financial markets tend to set up a second market, especially small and medium enterprises, in order to benefit from the financial savings available in the market. In the UK, a second SME financial market was established in November 1980, called the Unlisted Securities Market.¹

1- Definition of the second financial market:

Before addressing the definition of the second financial market, it is useful to understand what the stock market is. It can be defined as follows: "the place where the flow of funds from the savers 'estate is facilitated and put at the disposal of investors, provided that the first party obtain securities, while the second one get cash savings. "² "The framework that brings together sellers and purchasers of securities regardless of the means by which such collection or place is achieved, but provided that effective channels of communication are provided among dealers in the market so that the prevailing prices at any given moment are one and the same for any circulating securities. "³

As for the second financial market, it is defined as: "The market specialized in securities trading for small businesses that increase their capital and are not eligible to enter the major markets that finance large companies."⁴ It is also known as the "securities organizing market", which focuses on small and medium-sized businesses with high growth rates, characterized by low administrative burden as a guiding principle that direct them and their operations.⁵

2- Characteristics of the second financial market:

The second financial market is distinguished from other financial markets with several characteristics including:⁶

- A market dedicated to small and medium enterprises;
- The conditions of restraint are relatively easy;
- Allow restricted companies to enter liquidity contracts;
- The non-appropriation of companies restricted in size and nature.

3. Advantages of the second financial market for small and medium enterprises:

The aim of establishing a second financial market is to provide financing tools for small and medium enterprises, thus allowing them to increase their competitiveness and maximize their added value to the economy. Advantages can be divided into:⁷

*** Macroeconomic advantages:**

Where there are many advantages of the national economy and macro and we can mention the most important as follows:

- The second financial market of small and medium enterprises positively affects the injection of cash into the economy and the transformation of the market from recession to economic prosperity.
- contribute in the diversification of products for securities and help in the activation of transparency, and at this stage small and medium enterprises occupy a great importance for the economic solutions to the problems of unemployment;
- Providing an opportunity for foreign investments to enter the SME sector.

***Advantages for small and medium enterprises:**

It has many advantages, the most important of which are the following:

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- a- they provide additional sources of funding for such institutions;
- b- they allow the entry of investors to become participants in the institutions, which will improve the efficiency of management of small and medium enterprises and also helps to determine the fair value of enterprises or small and medium project in addition to getting a better position towards financiers.

II-The French Financial Market Model:

In order for institutions to obtain capital from financial markets, they need to comply with some regulatory and transparency requirements. These requirements vary, according to the target market.

1 - Regulatory Framework

The regulatory framework was revised in 1990. It guarantees the safety of the market and the operators.

1-1-The Securities and Exchange Commission (SEC): The Securities and Exchange Commission is composed of a president, appointed by the government for 8 years, and eight members, for a term of 4 years renewable once.

It ensures:⁸

- the protection of investments of any kind giving rise to a public call for securities, shares of civil real estate investments, SCPI;
- the information of investors and the smooth functioning of markets, for the stock exchange or future markets.

It is the SEC that allows the creation of investment companies with variable capital and mutual funds. It also gives the approval for the portfolio management companies, punishes insider trading, etc.

1-2- The Council of Stock Exchanges (CSE): It is the Council of Stock Exchanges that establishes the general market regulations approved by the Minister for the Economy after consulting the Commission for Stock Exchange Transactions. The Stock Exchange Council decides on the admission of securities to the negotiations and their deletion unless the S.E.C opposes.⁹

1-3-The French Stock Exchange Company(SBF) :The Société des Bourses françaises (French stock exchange company) records the trading done by the stock broking companies and advertises the trading by delegation of the CSE, the company of the French stock exchanges can adjudicate the suspension of one or more quotations.¹⁰

The French Association of Stock Exchange Companies represents all the stock broking companies and the Société des Bourses françaises.

In 1991, the SBF set up, together with the Deposit and Consignment Office, a joint venture specialized in foreign securities transactions.

2 - INTERMEDIARIES OF STOCK EXCHANGE COMPANIES

Since 1 January 1992, the currency dealers' monopoly has disappeared. Stock exchange companies have replaced stockbrokers. They are common law commercial companies. The capital of these companies has been open to external French or foreign partners in order to have a better financial base and be better able to face international competition. French banks control the majority of Parisian securities firms and 10 provincial securities firms. Insurance companies control many of them. Foreign intermediaries control 12 provincial stock exchange companies.

Stock broking companies must have a minimum of capital and comply with prudential rules:¹¹

- risk coverage ratio;
- liquidity ratio of short-term debts that must be covered by immediate realizable assets;
- risk division ratio to limit the risk on the same counterparty.

There is a guarantee fund that protects the deposits of investors in the case of bankruptcy of a brokerage firm.

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3 - French Financial Market Divisions:

The financial market of France is characterized by different markets according to the criteria and conditions of issuance, especially with regard to the size of the institution and the share of capital available for public subscription.

These markets are:

3.1. Organized markets: divided into:

3.1.1. The first Market :

The first market is the front of the Paris Stock Exchange, with the largest French and foreign enterprises, which are selected according to the size of their capital.

It is divided into two markets:

- The spot market, for cash transactions.
- The monthly settlement market, which is the most important market on which the largest French and foreign companies are listed.

To be admitted to the official listing:¹²

- The market capitalization of the company must be at least 150 million French francs ;
- 25% of the shares, or 500,000 stocks, must be distributed to the public;
- The last three financial years must be profitable;
- A certain amount of information must be diffused.

Since September 2000, the stock exchange has become active within the framework of Euronext, which resulted from the merger of the Paris, Amsterdam and Brussels exchanges. It expanded to include the Portuguese stock exchanges of Lisbon and Porto then the British derivatives market, thus becoming the first European stock exchange.

* Conditions of listing in the first market:

The size of the institution is one of the most important criteria to accept the registration in the first market initially, and the following table summarizes the conditions of registration of companies in the primary market:

Table 1: Conditions of registration of companies in the Paris primary market

Conditions	First market
Capital	15 million Euros
Capitalization	750-800 million Euros
Of the issued capital %	10%
Minimum number of issued securities	600.000
Inform shareholders	Advertising is the duty of restricted companies: accounting and social budgets, focused budgets, financial information, six-year and annual bulletins.
Other conditions	- Profits in the last 3 years - Audit and accounting books for the last three years - Admission visa from competent bodies.

Source : Djabbar Mahfoud, Capital Markets: Structures, Tools and Strategies, Part II, Dar Al-Huda, Algeria, 2011, p 613.

3.1.2. Second market:

The second market was established in France in 1983, it is an official market in the Paris Stock Exchange, aimed at small and medium-sized enterprises that are profitable, control their activities and have prospects for development¹³, in order to support and assist them in reaching out to the public savers to obtain the funding they need to develop their activities. It was created on 01 February 1983.¹⁴

Like the first market, trading in the second market is spot trading. The companies of this market are registered in the two regulations in the financial market of France, ie the continuous and constant registration, according to the degree of liquidity of their issuances. The latter are estimated on the base of the number of shares on the market and the volume of annual transactions. The rate of daily change allowed in the prices of orders provided is limited to 10% in order to avoid large deviations per day.¹⁵

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***The conditions of listing in the second market:**

The conditions of listing in the second market are less stringent than those applied in the first market, as the institutions wishing to enter the second market are required to meet the following conditions:¹⁶

- Publish its final accounts for the last two years;
 - Making profits during the last year;
 - Offering at least 10% of its capital to subscribe, but exceptions may be made if it can distribute 100,000 securities in the public;
 - Distribution of the company's issues to at least 300 subscribers at the first entry in the market.
- As in the first market, companies are obliged to provide periodic information and publish their annual and semi-annual accounts, and to announce any action that may affect the price of the security on the stock exchange.

The following table summarizes the conditions of listing companies in the second financial market:

Table 2: Conditions of registration of companies in the Paris second market

Conditions	Second market
Capital	4.5 million Euros
Capitalization	12-15 million Euros
Of the issued capital %	10%
Minimum number of issued securities	-----
Inform shareholders	- Not as important as the first market; - Six-monthly publications are not compulsory.
Other conditions	Audit for the last two years, approved by the General Assembly of Shareholders.

Source : Djabbar Mahfoud, Capital Markets: Structures, Tools and Strategies, Part II, Dar Al-Huda, Algeria ,2011, p 620.

The table above shows that companies of relatively small size can resort to this market to take advantage of available sources of finance under the facilities granted in the above table.

3.1.3 The new market:

The new market was established on 14 February 1996, it is an official market on the Paris Stock Exchange, a market for technology and creative enterprises with the potential to grow.¹⁷

*** Conditions for listing in the new market:**

Institutions wishing to restrict in this market must achieve the following conditions:¹⁸

- Provide a three-year development plan rather than providing accounts for previous years;
- Minimum total budget: € 3 million;
- The value of shares available to the public should be greater than € 4.5 million;
- The minimum number of shares offered for public subscription is 100 thousand shares;
- Its own capital should be greater than € 1.5 million;
- Perform the process of increasing the shares.

3-2- Unregulated markets: Divided into:

3.2.1. Free market:

The free market is an unregulated market established on 23 September 1996, which is not subject to the same conditions as the organized market, especially with regard to accounting requirements. They include medium-sized enterprises that do not want or cannot access organized markets. Securities are registered in this market freely and according to the initiative of the company or investors, where the market depends on the method of immediate trading. The degree of risk is relatively large because it does not contain many procedures to protect shareholders and customers in general. Companies are not obliged to comply with transparency requirements as in regulated markets.¹⁹

3.2.2 - Alternext Market:

In order to strengthen the second market, the French financial market authorities have made great efforts to promote this market and contribute to the development of the SME sector by

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attracting more companies. In order to improve the performance of these institutions and provide new financing opportunities (Euronext Market) has created (Alternext Market).

In May 2005, Alternext took over the New Market which was created in 1996 to receive the start-ups of the new economy. But Alternext is aimed at companies in traditional sectors as well as sectors with high technological potential and innovation. It is a suitable host for SMEs which have a development project to finance and wish to benefit from the stock market to accelerate their growth. Its design and organization, close to that of the New Market, are halfway between Eurolist C and the free market.²⁰

Companies wishing to be listed on Alternext, must compulsorily resort to a "listing sponsor", in charge of providing assistance at the time of the introduction and throughout the listing of the company, to help the latter to respect its legal and regulatory obligations.²¹

The listing sponsor recognized and approved by Euronext, assists and advises the applicant company to prepare its admission on Alternext, and accompanies it during its trading life by committing to Euronext's compliance with its investment obligations of information and financial communication. This partnership is for a minimum of two years. It assists the company in the preparation of the required documents, collects and analyzes information of any kind concerning the company, checks the coherence and plausibility of the information contained in the prospectus in case of public offering or offering circular in the case of a private placement, and ensures the placement of the security.

*** Registration conditions on Alternext Market :**

Alternext receives both beneficiary SMEs and those that have not yet reached their profitability level, but they must have an account history of at least two years, and three years are required if the introduction is accompanied by an increase in capital.

In this case, there is a public offering. Accordingly, a prospectus must be drawn up and endorsed by the Financial Markets Authority, which authorizes the promotion and sale of securities to investors. In addition, the issuer must make available to the public 2.5 million Euros, as minimum float required.²²

No minimum threshold is required for turnover, but an amount between 8 and 50 million Euros is recommended. Like accounting information, IFRS standards are not mandatory and the half-year financial statements do not have to be audited.²³

If the admission is made by direct listing without simultaneous offer to the public, the applicant companies must justify a private placement with qualified investors in the two years preceding the listing for a minimum amount of 5 million Euros distributed among five investors at least and produce an offering circular. This document is not endorsed by the Financial Market Authorities, but it contains the same information as the prospectus.

*** Role of the market Alternext:** Its role is to:

- Facilitate the entry of SMEs into the second financial market;
- Develop and promote the performance of active brokers in the second market by forming a team that will be responsible for financial analysis, marketing and selling of small and medium enterprises. Qualified brokers are also able to obtain a certificate of experience in medium-term securities by Euronext, which monitors brokers and supports them with special marketing programs;
- Provide a more flexible market with new operating rules, ensuring investor protection and transparency while providing liquidity.

The French financial market Euronext is divided into three main sections:

- **Eurolist :** includes 3 categories of institutions, A – B – C *
- **Alternext**
- **The free market.**

3-3- Derivative markets : They are those markets in which derivative financial instruments are traded.

III. Evolution of the Second Financial Market in France :

With the French authorities' interest in small and medium enterprises (SMEs), the Euronext market has created the Alternext market with the aim of providing a financial market suited to the characteristics of small and medium enterprises. Since its establishment, this market has achieved several developments and achievements in financing small and medium enterprises.

1-The evolution of the number of institutions listed in the second market:

By allowing small and medium enterprises to open up their capital to new shareholders and partners, the French second market has become the main refuge for many of these French and even foreign institutions to get the funding they need.

The table below shows the evolution of the number of French institutions listed on the second market and the Paris market.

Table 3: The evolution of the number of institutions listed in the second market

Year	First Market	Second Market	New Market	Alternext	Total
1978	850	-	-	-	850
1983	697	43	-	-	740
1996	406	280	16	-	702
2001	298	340	156	-	794
	Euronext A	Euronext B	Euronext C		
2008	129	179	289	105	702
2009	101	125	353	102	681
2010	114	136	305	133	688

Source : established by the researcher according to:

- Gérard Rameix et Thierry Giami, **rapport sur le financement des pme-eti par le marché financier, novembre 2011**, p. 12.

- Rapport annuel de l'observatoire du financement des entreprises par le marché, 2011, p. 10.

The second market attracted many institutions seeking funding. In 1983, 43 companies entered the second market. In 1996, 280 companies entered the second market and 16 companies entered the new market. As of 2001, 340 companies were registered in the second market and 156 in the new market.

Note that when Alternext was established in 2005, 105 companies were registered, in 2008 and 2009, 102 companies, reaching 133 companies in 2010.

The following table shows the number of listed companies in Paris.

Table 4: Companies listed on the Paris market (2010-2015)

Year	2010	2011	2012	2013	2014	2015
Euronext	617	586	562	556	520	515
Alternext	145	167	163	168	178	187
Total	762	753	725	724	698	702

Source: Rapport annuel de l'observatoire du financement des entreprises par le marché 2015 p.10.

The years 2010 to 2015 were marked by a clear increase in the number of listed entities on the Alternext market, from 145 in 2010 to 187 in 2015.

The number of listed companies, including those residing in France, is growing slightly after a long cycle of decline and despite the financial market situation.

Table 5: companies Residing in France listed on the Paris market

Year	2010	2011	2012	2013	2014	2015
Euronext	555	526	503	497	492	490
Alternext	133	153	151	156	167	175
Total	688	679	654	653	659	665

Source: Rapport annuel de l'observatoire du financement des entreprises par le marché, 2015, p.10.

French enterprises represented 91% in 2010 and 94% in 2015, while the rest were foreign institutions.

The size of small and medium-sized enterprises** is almost stable. Companies are always more likely to prefer Alternext organized market.

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Table 6: Small and medium-sized enterprises - intermediate-sized enterprises residing in France listed on the Paris market

Year	2010	2011	2012	2013	2014	2015
Euronext B ; C	441	409	393	379	361	350
Alternext	133	153	151	156	167	175
Total	574	562	544	535	528	525

Source: Rapport annuel de l'observatoire du financement des entreprise par le marché 2015 P11.

2- Financing instruments: shares and bonds

The resumption of financing of medium-sized enterprises by the market continues with a further increase of 13% of capital raised, concentrated on equity.

The following table shows the financing instruments.

Table 7: The Financing instruments (2010-2015) million euro

Year	2010	2011	2012	2013	2014	2015
equity	1625	1749	1129	1503	3074	3723
bonds	16	57	651	1172	1758	1805
Total	1641	1806	1780	2675	4832	5528

Source: Rapport annuel de l'observatoire du financement des entreprise par le marché 2015 p19

3- Share capital:

3-1 The distribution of primary and secondary levys :

The market is paying more for businesses. Capital raised rose by 21%. This increase concerns introductions and secondary financing, the number of which increases by 24%.

Biotech and health companies take more than 50% of the equity raised during the introductions.

The following table shows the number of listed companies in Paris.

3-2 Capitalization and Liquidity:

Performance indices show a consistent advantage for small and medium values. The value expressed by the capitalization medium-sized enterprises has grown faster than that of large firms.

The following table shows the capitalization of enterprises

Table Number 8: Capitalization of enterprises (2011-2015) million euro

Year	2011	2012	2013	2014	2015
Euronext B	44	52,6	57,4	52,78	56,71
Euronext C	13,2	13,6	16,9	15,22	16,56
Alternext	4,8	5,5	6,8	7,39	9,26
Total	62	71,7	81,1	75 ;39	82,53

Source: Rapport annuel de l'observatoire du financement des entreprise par le marché, 2015, P.22.

The table shows that the market capitalization has increased significantly between 2008 and 2010, estimated at 62 million euros in 2010 and 81.1 million euros in 2013 to reach 82.53 million euros in 2015

The liquidity of the market for small and medium-sized enterprises is maintained at a level equivalent to all floats.

The following table shows The liquidity of the market.

Table 9: The liquidity of the market (2011-2015) million euro

Year	2011	2012	2013	2014	2015
Euronext B	21,8	13,6	13,3	18 ;78	20
Euronext C	9,7	5,7	4,9	8,72	5,8
Alternext	1,8	1,3	2,3	3,92	5,6

Source: Rapport annuel de l'observatoire du financement des entreprise par le marché, 2015, P.22.

4- The capital in bonds:

Small and medium-sized companies have the option of issuing bonds in two markets in France: the public offering and the private placement.

The offer to the public, provided by a platform created in 2012 by Euronext under the brand name "Initial Bond Offer" (IBO), did not find a counterpart. On the other hand, private placements, using the Euro PP brand, are multiplying at a steady pace. They mainly concern medium-sized

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companies and some large companies related to medium-sized companies by the size of the balance sheet.

This private placement market is becoming increasingly important in corporate finance and more broadly in financing the economy. It is the main accelerator of the use of market financing by companies.

4-1. Initial Bond Offer (IBO):

If the platform does not carry out a transaction on the primary market, it scores several Euro PP** after their issue.

4-2. The private placement, Euro PP:

The private placement market, which deals with the issuance of bonds, takes its place in the financing of business loans.

It is supported by favorable interest rates and several measures of savings management managed by professional investors.

The extension of the private placement of loans obviously depends on the recovery of business investment, but also on its distribution in the regions, the analysis of the requesting companies and the standardization of the allocation of such loans.

The creation of a European private placement market may represent a new source of growth for the Paris market.

In 2015, the private placement finances 1% of mid-cap companies (4,500), including 17 listed companies.

Loans have an average amount of 42 million euros, those granted to large companies exceed 110 million Euros.

Small and mid-sized companies in capital-intensive industries, including industry and energy, are the most likely to use this new financing.

Conclusion:

The Second Market is a good source of financing for small and medium enterprises. It is clear from the studied case of Alternext that since its establishment it has carried out several developments and achievements in the field of SME, financing and attracting investors. The number of institutions listed in the second market has increased significantly in 2008, the number of listed institutions was about 105, to 187 in 2015. The capitalization of the market was markedly increased by 81.1 million euros in 2013 to 82.53 million euros in 2015, which increased the role of those institutions as a financing alternative based on issuing securities from stocks and bonds, they have also increased their efficiency because of being subject to the control mechanisms imposed by the financial market on that listed companies. Thus, the second market has the role of orientator and mediator in the development of these institutions. Due to the success of this market, other branches were opened in Brussels and Amsterdam.

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²² Josette Peyarard, op.cit, p.85.

²³ Yves MANSION et d'autres, op cit, p.97.

* The financial market comprises a settlement market divided into three groups according to the level of capitalization of the companies (compartment A> 1million Euros), (compartment B> 150 million Euros), (compartment C for lower capitalizations), and an organized market Alternext in France. small and medium enterprises from 2.5 million Euros of capital raising.

** Small and medium-sized enterprises - intermediate enterprises with the criteria defined by Article 3 of Decree No. 2008-1354 of 18 December 2008:

- The category of small and medium-sized enterprises consists of enterprises employing fewer than 250 persons and having an annual turnover not exceeding 50 million Euros or a balance sheet total not exceeding 43 million Euros;
- The category of intermediate enterprises is made up of enterprises employing less than 5,000 persons and having an annual turnover not exceeding 1,500 million Euros or a balance sheet total not exceeding 2,000 million Euros.

*** A medium or long-term financing transaction between a listed or unlisted company and a limited number of institutional investors, based on ad hoc documentation negotiated between the borrower (the Borrower) and the investors (the Investors), usually with the presence of an arranger.