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Portuguese equity market: existing issues and recommendations for improvement

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- Existing issues with IPOs in Portugal
- Recommendations for improvement

The diagnosis of the Portuguese equity capital market is complete and it is the result of a remarkable effort by the Organisation for Economic Co-operation and Development (OECD) in its Survey on Access to Finance in Portugal, produced with the support of the Portuguese Securities Market Commission. It was already known that the situation was troubling but, of course, comparing the Portuguese market with that of other European countries clearly highlights the issue.

Existing issues with IPOs in Portugal

Part of the OECD's work was to listen to companies on their access to financing. Companies that are considering resorting to the stock market to finance themselves cite the following as the main reasons for not proceeding with an initial public offering (IPO):

- regulatory complexity;
- the high costs of abiding by corporate governance and compliance rules;
- the lack of liquidity in the Portuguese market; and
- the lengthy IPO process.

The principal reason cited is the desire of shareholders not to share control of the company with new investors.

Recommendations for improvement

A new collective effort is urgently needed to deal with this situation, to demystify the perception of IPOs, alleviate the obstacles associated therewith and create incentives to use the equity market. The OECD study contains several recommendations. It asked the companies consulted for suggestions on how to make the stock market more dynamic.

Considering the current state of the Portuguese capital market, the following conclusions can be made. First, it is important to take advantage of companies that are already listed and give them incentives to continue to use the market and even strengthen their presence. There is much that can be done in this respect. The process of making offers by already-listed companies must be simplified. These companies are subject to a permanent duty to disclose relevant information and this must be taken into account when making capital increases.

Most of the incentives that can be introduced to convince companies to stay in the market will have beneficial effects on what should be the other main objective of the stock market revival mission: increasing the number of companies that make use of it.

There are many tools that the legislature can use in this regard, such as a well-thought-out tax package that is an effective and appropriate response to the needs of companies, containing tax measures such as:

- the equalisation of tax treatment between debt and equity;
- the attribution of transferable tax credits relating to the costs of carrying out an IPO or the permanent costs inherent to the use of the equity market; and
- the creation of tax incentives for investment in shares, particularly by institutional investors.

Regulatory measures are also available, such as:

- simplified or more flexible arrangements for smaller companies; and
- extended deadlines for the application of certain requirements.

One of the most interesting tools available to the legislature is special purpose acquisition vehicles (SPACs), the introduction of which in Portugal is recommended by the OECD. They are currently one of the main ways of bringing companies to the stock market, particularly in the United States.

A SPAC is a hybrid model that combines investment in instruments admitted to trading on the market with investment in other instruments. It is an alternative to the traditional IPO process, with advantages not only for companies that use it, but also for Portuguese venture capital fund managers.

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