Growth starts locally. It’s the local companies that create jobs. This is especially true in the Baltic markets, since they are SME markets.

But the capital supply side in the Baltics is heavily dominated by the foreign banking sector: corporate lending, investment banking and asset management are all under the same roof. The biggest pension funds belong to the same players and investment decisions are regularly made outside the Baltics. Companies need a range of financing sources. There needs to be a broader local ecosystem for SME funding, in which the exchange is a crucial part.

Unfortunately, a combination of the post-MiFID consequence of increased trading on non-transparent venues and the financial crisis has significantly affected the growth of exchanges. Trading volumes on the Baltic markets have decreased, as well as on the NASDAQ OMX Baltics. Foreign investors have reverted to bigger markets and left a vacuum because of the barely existing domestic institutional base.

If smaller exchanges are to deliver liquid markets that can be a funding facility for the smaller companies, MiFID II needs to point in the right direction. It needs to ensure price formation. There must be a sufficient part of trading taking place on the exchange so that the price formation is credible. It also needs to ensure that the investment capital flow is not attracted away from smaller markets to the possible OTFs, which turn around only blue chips.

MiFID II needs to support a viable local broker community and other players that are needed to support the financing of companies, instead of creating a negative spiral on the local broker community.

Without a developed local ecosystem, the biggest sector of the economy with the greatest growth potential – i.e. SMEs – risks being neglected. In Sweden NASDAQ OMX has initiated a broad discussion with the entire ecosystem and many of its stakeholders, i.e. PE-firms, buyside and sellside, shareholder associations, listed companies and academics, to identify possible measures to improve the funding possibilities for the Swedish companies, especially SMEs. The work is in progress and an action plan will soon be presented. It’s a good example of how all stakeholders need to work in the same direction to facilitate growth.