

EuropeanIssuers & FESE Joint Position Paper: Unleashing Retail Investor Participation in the Corporate Bond Market

Increasing retail investors’ access to capital markets is vital if the EU aims to secure a sustainable economy, digital adoption, and shared prosperity for the future. The EU needs to empower its retail investors so that they can consciously participate in public capital markets by making investment practices accessible, simple, and transparent.

The long-term returns on retail investments can help to increase household wealth while mobilising retail investors’ savings will help to increase the liquidity and depth of the EU capital markets. However, the level of retail participation in EU capital markets remains low compared with other advanced economies.¹ Consequently, low retail participation leads to an untapped potential both for retail investors and the EU economy as a whole.

Limited Access for Retail Investors to Corporate Bonds

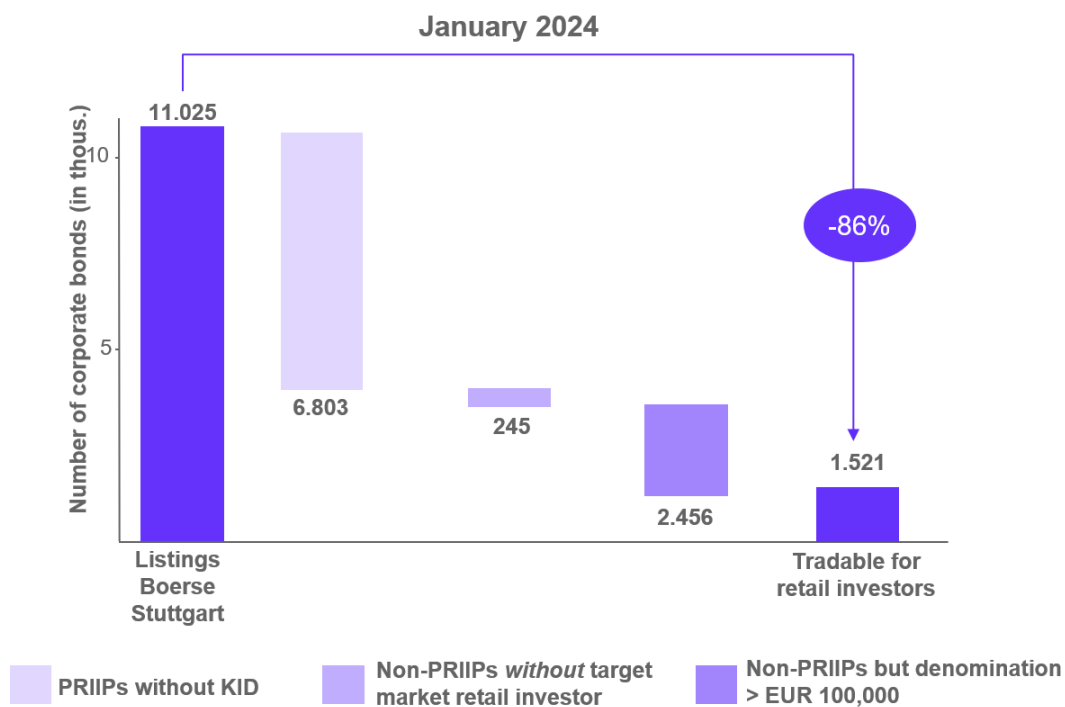


Figure 1: Tradability of Corporate Bonds listed at Boerse Stuttgart, January 2024

¹ According to Eurostat, in 2021, approximately 17% of EU household assets were held in financial securities, well below 43% of household assets held in securities by the US counterparts.

The European corporate bond market presents a puzzling situation. Data from Boerse Stuttgart and Euronext reveal that a vast majority of corporate bonds is not tradable for retail investors. For example, on Boerse Stuttgart only a meagre 14% of corporate bonds are accessible, while the remaining 86% are reserved for institutional and professional investors. This limited access stands in stark contrast to the fact that many of these bonds are issued by reputable companies whose shares are tradable, but the bonds are not.

Regulations Hampering Participation

This paradox stems from two key EU regulations: the PRIIPs (Packaged Retail and Insurance-based Investment Products) Regulation, and the MiFID II/MiFIR (Markets in Financial Instruments Directive and Regulation), albeit the biggest obstacle remains the PRIIPs Regulation.

Many traditional corporate bonds with investor protection clauses are classified as complex or packaged products, requiring a Key Information Document (KID) according to the PRIIPs Regulation. However, drafting this document often proves too cumbersome for issuers, which often opt not to create one. This choice then leads to a significant portion of bonds being excluded from the retail market. For example, around 60% (6,803 of 11,025) of the listed corporate bonds on Boerse Stuttgart are categorised as PRIIPs, which do not have a KID, and thus are not tradable to retail investors (as shown in Figure 1).

It is counterintuitive as protection clauses, such as the “make-whole clause”, act as investor protection instruments. For example, the make-whole clause allows the issuer to redeem the bond early but obliges them to pay compensation to investors for early redemption. Euronext data shows that even bonds with straightforward pay-off structures, such as fixed rates, were labelled as PRIIPs as they included a make-whole clause. As a result, retail investors have limited access to these financial instruments, despite their growing interest in these types of products.

Furthermore, MiFID II/MiFIR’s product governance rules are not well-suited for corporate bonds. Notably, the requirement to define a “target market” lacks added value in terms of investor protection. These financial instruments are primarily distributed passively through execution services, which do not involve aligning clients’ characteristics with the target market (aside from knowledge and experience when providing execution services with the appropriateness test). Other examples of product governance rules that are irrelevant to these types of financial instruments could include cost assessment (since there are no product costs associated with them), performance scenarios, regular review, or target market.

The application of product governance rules poses practical challenges, discouraging distributors from offering these simple financial instruments on the secondary market. In sum, these Regulations effectively shut out retail investors from a valuable asset class.

Unlocking Benefits for All

Granting retail investors access to corporate bonds would unlock a wealth of benefits. These instruments offer a crucial tool for building wealth and diversifying retirement portfolios. Additionally, with a large portion of retail investor funds currently sitting idle in savings accounts, increased investment in corporate bonds would channel capital directly into the real economy, aiding digital and sustainable transitions.

Retail investors also play a vital role in fostering market stability by contributing to the liquidity of corporate bonds. Data from Euronext shows retail investors engage in six times more transactions daily than professional investors, while their average daily trading volume surpasses professionals by 45% (as shown in Figure 2). It is also a strong indication of retail investors' continuous interest in these types of financial products.

	Retail		Prof Only	
	n. trades	CTV m€	n. trades	CTV m€
2021	335	7,96	53	5,17
2022	448	9,57	53	4,68
2023	363	7,72	55	5,29

Figure 2: Number of Trades and Trading Volume of retail and professional investors in the Bond-X segment of the EuroTLX Market

Taking stock of retail investors' strong interest, increasing access to corporate bonds would help to boost retail participation in capital markets across the EU. Increasing their participation in the fixed-income markets will boost their financial knowledge and confidence, likely increasing their participation in equity markets as well. In return, it would be a significant step forward in helping to complete the Capital Market Union (CMU) and making the EU more competitive vis-à-vis other advanced economies.

A call for Legislative Action

The Commission's proposed exemption in the Retail Investment Strategy (RIS) for corporate bonds with a "make-whole call" provision (guaranteeing redemption at par value) from the scope of the PRIIPs Regulation is a significant step forward. However, most corporate bonds will still remain inaccessible to retail investors, which calls for further regulatory adjustments to the current EU rules.

To achieve the Capital Markets Union's goal of broader retail investor participation, we advocate for:

1. Exemptions for all categories of ordinary bonds (thus excluding structured bonds) from the scope of PRIIPs, and
2. Adjust the scope of product governance requirements within MiFID II.

Ordinary bonds are understood as traditional or classic bonds issued by corporations with predictable payment structures. The inclusion of certain standardised contractual clauses (such as make-whole clauses) does not alter the fundamental nature of the instrument and does not make it a complex product or a packaged product.

Understanding the current political landscape with the impending EU elections, we would encourage co-legislators to give sufficient attention to this matter as part of the Retail Investment Strategy negotiations in the next Parliament mandate. We felt that the time constraints did not allow for a thorough discussion on the issue. It would be a missed opportunity if such an important legislative file does not tackle all the challenges and regulatory barriers that prevent retail investors from participating in public capital markets.

About EuropeanIssuers

EuropeanIssuers is a pan-European organisation representing the interests of publicly quoted companies across Europe to the EU institutions. Our members include both national associations and companies from all sectors in 15 European countries, covering markets worth €7.6 trillion market capitalisation with approximately 8,000 companies. We aim to ensure that EU policy creates an environment in which companies of all sizes—from emerging growth companies to the large blue-chip companies—can easily raise capital through the public markets and deliver growth over the longer term. Published in 2024, [EuropeanIssuers' Key Messages for the European Elections](#) present key priorities and policy recommendations in a number of areas to support the EU policy makers during their mandate. More information on our positions can be found at www.europeanissuers.eu or on [LinkedIn](#) and [X](#) page.

About FESE

The Federation of European Securities Exchanges (FESE) represents 35 exchanges in equities, bonds, derivatives and commodities through 16 Full Members and 1 Affiliate Member from 30 countries.

At the end of April 2024, FESE members had 6,222 companies listed on their markets, of which 8% are foreign companies contributing towards European integration and providing broad and liquid access to Europe's capital markets. Many of our members also organise specialised markets that allow small and medium sized companies across Europe to access capital markets; 2,021 companies were listed in these specialised markets/segments in equity, increasing choice for investors and issuers. Through their RM and MTF operations, FESE members are keen to support the European Commission's objective of creating a competitive and efficient Capital Markets Union. For more information, visit www.fese.eu. Follow FESE on [LinkedIn](#).