

The below replaces Schedule 1 to the draft ICMA paper dated 21 December 2017 entitled << [The MiFID II product governance \(PG\) regime - Retail bonds \(admitted to trading on an EEA regulated market\) – 'ICMA2'](#) >>. Schedule 2 (PG legends) continues to apply, subject to the amendments already set out in the [ICMA Primary Market Handbook](#) to deal with other developments, such as Brexit.

Retail investor target market assessment using ESMA categories

Category	Rationale
The type of clients to whom the product is targeted:	<p>Retail investors who are looking for contracted repayment of the amount invested and need a predictable return profile. The features of bonds which are not ESMA complex (including those of EEA-related official borrowers) are generally well understood, including by retail investors. Certain ESMA complex bonds (including those of EEA-related official borrowers), though technically ESMA complex, do not include any additional risks relating to the expected return that are difficult to understand. Protections are provided by law and regulation. Retail investors also have the ability to access (to the extent they require or wish) IFAs and other independent advisers.</p> <p>As such, the relevant financial instruments are compatible with a target market of retail investors.</p>
Knowledge and experience:	<p>Bonds which are not ESMA complex (including those of EEA-related official borrowers) are easy to understand, and retail investors will have sufficient knowledge and experience to understand them. Certain ESMA complex bonds (including those of EEA-related official borrowers), though technically ESMA complex, do not include any additional risks relating to the expected return that are difficult to understand. Given the amount of information available through market-standard and mandatory and otherwise generally available disclosures, a typical retail investor has a sufficient degree of knowledge and experience about the features of such bonds and any thematically related areas that help understand the product, as well as access (to the extent it requires or wishes) to IFAs and other independent advisers.</p>
Financial situation with a focus on the ability to bear losses:	<p>Given the nature of bonds which are not ESMA complex (including those of EEA-related official borrowers) and the amount of information available through press and mandatory disclosures, a typical retail investor has a sufficient degree of understanding that the potential loss profile associated with such bonds is 100% capital loss and can access, to the extent it requires or wishes, IFAs and other independent advisers. Similarly, certain ESMA complex bonds (including those of EEA-related official borrowers), though technically ESMA complex, do not include any additional risks relating to the expected return that are difficult to understand.</p>
Risk tolerance and compatibility of the risk/reward profile:	<p>Given the nature of bonds which are not ESMA complex (including those of EEA-related official borrowers) and the amount of information available through mandatory and market-standard disclosures and otherwise generally available, a typical retail investor has (i) a sufficient</p>

	<p>degree of understanding that the risk profile of a simple bond requires a willingness to accept some price fluctuations due to interest rate movements, market volatility and borrower insolvency risk in exchange for the opportunity of higher returns than pooled products (given their additional cost layer) and (ii) a sufficient ability to make an appropriate assessment of the risks associated with an investment in the relevant product, and access, to the extent it requires or wishes, to IFAs and other independent advisers. Similarly, certain ESMA complex bonds (including those of EEA-related official borrowers), though technically ESMA complex, do not include any additional risks relating to the expected return that are difficult to understand.</p>
<p>Clients' objectives and needs:</p>	<p>Given the nature of bonds which are not ESMA complex (including those of EEA-related official borrowers) and the amount of information available through mandatory and market-standard disclosures and otherwise generally available, which, if relevant, will contain information on environmental, social and governance criteria, a typical retail investor has sufficient ability to determine its investment objectives regarding such bonds, including sustainability related objectives if relevant, how such an investment would fit within that investor's needs and expectations and access to the extent it requires or wishes to IFAs and other independent advisers, who can advise their clients on, amongst other things, investment horizon and the compatibility of such bonds with the needs of clients who seek a contracted repayment of the amount invested and a predictable return profile. Similarly, certain ESMA complex bonds (including those of EEA-related official borrowers), though technically ESMA complex, do not include any additional risks relating to the expected return that are difficult to understand.</p>

In light of the above, all distribution channels are appropriate for bonds that are not ESMA complex and suitability- or appropriateness-based channels are appropriate for certain ESMA complex bonds.