

FCA Discussion Paper DP25/3
Expanding Consumer Access to Investments

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ICMA comments on fractionalisation

EXECUTIVE SUMMARY

- (1) Fractionalisation may involve differing contexts / motivations – sometimes merely practical / logistical, but sometimes arising where an underlying bond issuer may have intentionally applied high denominations to restrict retail accessibility for regulatory compliance reasons.*
 - (2) One may however imagine a few specific cases (in substance and/or form) of an underlying bond issuer supporting fractionalisation, but this may be limited by second party regulatory obligations (such as underwriter ‘target market’ regulatory obligations).*
 - (3) In any case fractionalisation seems like the creation of a distinct instrument (potentially with a distinct risk profile), which should be treated accordingly by regulation (without prejudice to the underlying bond issuer or related parties, at least to the extent they are not acting in concert with the fractionaliser).*
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ICMA welcomes the opportunity to comment on the fractionalisation aspects (at #2.10-#2.14 on pp.11-12) of FCA’s [Discussion Paper DP25/3](#), from the perspective of the mainstream international bond markets (Eurobonds).

Question 3: What risks do you see retail consumers taking on when investing in fractional investments?

1. Fractionalisation efforts have seemed to involve differing contexts / motivations and should not therefore be seen as a single homogenous activity – whilst remaining mindful that fractionalisation is not the only means to achieve retail investor accessibility and that such accessibility may or may not be appropriate in the circumstances.
2. Some fractionalisation seemingly seeks to address a purely practical or logistical aspect, e.g. a single physical asset or an equity security that has significantly appreciated in value but not yet been subject to a stock-split to resume prior retail investor accessibility.

3. However, some other fractionalisation has seemingly involved an unconnected third party looking to enable retail investor accessibility of securities where such accessibility had been specifically considered and rejected by the issuer of the securities concerned through the application of high denominations (among other potential features). An issuer might do so notably where it might be subject to much more onerous (and potentially unworkable) requirements if otherwise making its bonds accessible to retail investors – notably under the UK and EU prospectus, PRIIPs / CCI and MiFID product governance regimes (albeit there have been some recent efforts to alleviate some of these issuer disincentives).
4. In any case, fractionalisation seems like the creation of some form of distinct instrument¹ rather than a mere sub-division of the underlying security (that only its issuer can achieve via a redenomination / stock-split). In this respect an [ESMA 2023 statement \(ESMA35-43-3547\)](#) and a related [ESMA 2025 letter \(ESMA75-1505669078-7105\)](#), albeit nominally focused on share fractionalisation, reference potential characterisation as a derivative but also note other possible structures (e.g. co-ownership) potentially involving further considerations. Some such other structures might perhaps seem like creating a single-ISIN fund or ETF. ESMA reminded that derivative creation is directly subject to various regulatory requirements, including in terms of product governance and of PRIIPs KID disclosure. One imagines this could be equally the case for a single-ISIN fund or ETF and perhaps for other contexts also.
5. A substantive consideration is the distinct (credit) risk profile of a fractional instrument created by a third-party unconnected to the issuer of the underlying instrument: this would seem to involve recourse to that third party only and not to the issuer itself (similarly to half a banknote not being legal tender) – albeit perhaps subject residually to any sufficient fraction-older aggregation to represent a legally-valid interest in the underlying instrument.
6. One may however imagine a bond issuer supporting fractionalisation, where it considers that:
 - (a) (in retrospect) the high-denomination of its bond is not (or is no longer) necessary and that fractionalisation is logistically simpler than other solutions – notably such as restructuring the bond itself into lower denominations (similarly to the stock-split example noted in #2 above); or
 - (b) the high denomination of its bond is not necessary in a specific jurisdiction (e.g. due to the local regulatory and policy framework) but remains relevant elsewhere – an approach that the issuer might apply regarding future, as well as past, issuance.In this respect, the issuer may be willing to directly participate in the fractionalisation – taking on any related regulatory requirements and even perhaps recognising fractional claims (in terms of the risk profile consideration noted in #5 above).
7. The approaches in #6 above might be limited by second party regulatory obligations – for example any compatible target market definition stemming from bond issue underwriters being characterised as ‘manufacturers’ under EU/UK MiFID product governance (something typically acknowledged by issuers in subscription agreements²).
8. An issuer looking to enable retail accessibility might also choose fractionalisation as the specific mechanical means (rather than supporting low-denomination issuance or the explicit creation of a fund/ETF or other structure), where it considers fractionalisation to be perceived as innovative (either in its own right or if further associated with emerging distributed ledger technology) and so more likely to generate desirable visibility from a marketing perspective.

¹ This is however without prejudice to characterisation for specific regulatory purposes (including as a “financial instrument” or not for MiFID purposes), which should be assessed on the merits in individual cases.

² See #b of the Article 9.8 wording set out in Schedule 5 of ICMA’s MiFID product governance and PRIIPs’ paper [January 2018: An approach for the Eurobond markets](#) (“ICMA1”).

Question 4: How do you think fractional investments should be treated under our rules?

As noted above, fractionalisation seems to generally involve the fractionaliser effectively creating a new, distinct instrument and should be treated accordingly by regulation¹ – without prejudice to the issuer or related parties involved in the creation of the underlying instrument (at least to the extent they are not acting in concert with the fractionaliser).

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