

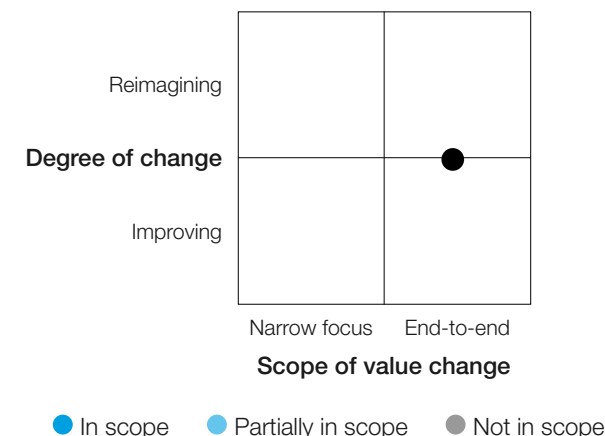
Retail bond issuance and distribution

Issuance / Trading / Full life cycle / **Retail distribution** / Stand-alone

Overview

Particularly in emerging markets, financial institutions and governments are developing solutions to facilitate retail investor access to corporate and government bonds. Since issuance and trading infrastructure have high fixed costs, bond investments often have equally high minimum ticket sizes and transaction costs for primary and

secondary markets. By tokenizing bonds and distributing them via a digital platform accessible by retail investors (through which bonds can be fractionalized and traded with instantaneous, low-cost settlement), issuers can expand access to a wider group of retail investors.



Value chain components in scope



Major changes from current state*

Establish a platform to facilitate both issuing bonds directly to retail investors and secondary market trading among retail investors, without costs associated with legacy infrastructure and/or intermediaries

Proposed benefits*

- Enable a larger population of retail investors to both own and trade bonds
- Potential to interact with broader financial and digital inclusion efforts (e.g. digital identity programmes)

Potential risks/challenges

Developments are likely to be limited to jurisdictions in which governments are taking an active stance in favour of DLT in financial markets

There may be regulatory/consumer protection issues to be addressed in terms of custody/cryptographic key management, fraud and privacy concerns

Example firms/projects

Philippines: Union Bank and Standard Chartered (tokenization platform for retail corporate bonds)	Status: proof of concept completed Dec 2020
Philippines: Union Bank and PDAX (Bonds.PH retail government bond distribution platform)	Status: in production build
Thailand: Bank of Thailand (government savings bond platform)	Status: production scheduled 2021

Potential paths forward

For jurisdictions with limited retail investor participation in bond markets, DLT will likely not offer a panacea. However, some governments and financial institutions may find that DLT provides a low-cost basis for establishing a retail bond market infrastructure without requiring too many intermediaries. In these jurisdictions, while most expect the DLT-based retail market to develop separately from wholesale markets, many believe that if there are significant cost savings from the new infrastructure, governments and issuers may push for the application of DLT to wholesale bond market infrastructures.

* May differ by exact model.