



# HEADING INTO ORBIT

**LONDON STOCK EXCHANGE'S RETAIL BOND MARKET HAS TAKEN OFF SINCE ITS LAUNCH IN 2010. PIETRO POLETTO OUTLINES THE BENEFITS OF THIS FLEXIBLE FUNDING PRODUCT**

➤ To ensure funding diversification, many companies look to debt capital as well as equity. Although London Stock Exchange is primarily seen as an equity exchange, there were nearly 800 bond issues, raising more than £180bn, on London Stock Exchange's fixed-income markets in the first half of 2014.

Companies can get direct access to private investors through the well-established retail bond markets that exist

in Italy – the Borsa Italiana's electronic fixed-income market known as MOT and Milan-based multilateral trading facility EuroTLX – and also through London Stock Exchange's Order book for Retail Bonds (ORB). Meanwhile, these exchanges also have traditional wholesale markets that allow companies to issue corporate bonds in typically larger denominations. For example, MTS, which is part of London Stock

Exchange Group, helps buy-side and sell-side institutional participants that trade pan-European corporate and government bonds.

Retail bond issues have become more prominent over the past few years, following the launch of ORB, the only dedicated platform for this asset class in the UK. ORB was launched in February 2010 in order to give companies access to a new funding stream and private individuals access to

a new form of investment that provides regular, fixed-income returns.

Since launch, there have been 44 dedicated issues on the ORB platform, raising more than £4bn for companies from a wide range of sectors and of varying sizes. Issuers have ranged from FTSE 100 companies, such as power transmission network operator National Grid, to housing association Places for People. The attraction of retail bonds

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is that they are long-term financing tools that help companies to move away from a reliance on bank lending. They also offer access to a new investor base and pool of capital. Corporate issuers appreciate the flexibility of a market where the issue sizes can range from £25m up to what could be considered a 'benchmark size' in the wholesale markets (£300m+). This flexibility has allowed a number of smaller companies to access the public markets for the first time through ORB-listed bonds.

### Cost-effective capital

The flexibility that the retail bond market can offer does not relate to the issue size alone. Companies that have issued bonds through ORB have raised capital at competitive rates, offering sensible covenants that work for both issuers and investors. As well as the primary capital-raising function, companies have reported a number of additional benefits from a retail bond issue. Many companies have found the opportunity to communicate directly with customers valuable, and they have also benefited from raising their profile through the associated media coverage.

Investor appetite for retail bonds has remained strong since the launch of ORB. Primary market offers in the past 12 months have always closed early due to high demand, and secondary market trading is increasing year-on-year. In the first half of 2014, there was a 66% rise in ORB

trading volumes compared with the same period in 2013. Facilitating a transparent, electronic order book for the trading of retail bonds, with two-way pricing provided by market makers throughout the trading day, means investors can exit their investment before maturity if they feel the need to free up capital. And issuers can always see a reliable price for their bonds that helps them plan for future debt issues.

Another key feature of the retail bond market is

discretionary brokers, as well as wealth managers, that are less likely to access the institutional bond markets.

### Government backing

The UK government has been a supporter of retail bonds, and the changes announced in the 2014 Budget will give greater choice and flexibility to issuers. The extension of retail tax-advantaged savings eligibility for bonds with less than five years' maturity came into force on 1 July 2014. This

### ALL ABOUT ORB

◆ In February 2010, London Stock Exchange launched the Order book for Retail Bonds (ORB), an order-driven trading service for UK government, corporate and supranational bonds. ORB was introduced in response to demand from investors in the UK for a cost-effective and transparent mechanism for gaining access to fixed-income securities and as a way to develop the market for retail-denominated bonds in the UK.

◆ Bonds that are admitted to ORB must be listed in London through the UK Listing Authority and admitted to the Main Market of London Stock Exchange. They must have a committed market maker (for example, a brokerage or bank) that is willing to provide electronic, two-way prices throughout the trading day within the required spread. And they must be tradable in units of no larger than £10,000. Typically, bonds on the ORB are traded in units of £100 or £1,000.

the opportunity for investor diversification that it offers to issuers. Born as a market for retail investors, ORB is increasingly developing into a market for retail-eligible bonds, where both the primary and the secondary market are accessed by a wide range of investors, from private individuals taking their own investment decisions and trading through execution-only brokers to yield-seeking bond funds. But the core of the market is made up of that large community of advisory and

offers further opportunities for corporate issuers looking to spread the maturity of their retail bonds along the entire curve.

The 2014 Budget announcement also signalled the potential for further significant changes in the UK savings and investment market. If the proposals become law, beneficiaries of defined contribution pension schemes will no longer be obliged to buy annuities and they will be allowed to manage their own

pension pots as they wish. ORB and retail bonds will be attractive to those investors who are looking for predictable and stable income from their investments, albeit with credit risk. From a corporate issuer's perspective, this will most likely foster investors' appetite for longer-dated instruments.

ORB is well positioned to benefit those intermediaries and issuers that need to comply with upcoming regulation that seeks to increase transparency and supervision in the financial markets. ORB's sister market in Italy, MOT, demonstrates the enormous potential the UK offering has. MOT regularly sees over €1bn in daily trading and, as a primary market platform, it has provided an innovative alternative for the Italian government to raise €87bn directly on the market in the past three years.

As the UK retail bond market continues to grow and develop, market participants and investors are looking to alternative structures such as floating-rate and inflation-linked bonds with the potential for new currency lines. ORB's story has just begun, but it has a bright future. ♥



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