

**C L I F F O R D**  
**C H A N C E**

**UK retail investors and ‘vanilla’ debt securities:  
Traps for the unwary in the UK CCI regime proposals in CP24/30**

10 March 2025

## Overview: What is the UK CCI regime? And why is it relevant to 'vanilla' debt?

### 1. Two 'live' FCA Consultations seek to energise UK retail market

- The UK FCA is encouraging UK retail participation in bond markets, so long as there are appropriate protections (such as, appropriate prospectus disclosure, product information, suitability assessment, and advice).
- Two "live" UK FCA consultations are relevant to that mission: [CP25/2](#) (closing 14 March) and [CP24/30](#) (closing 20 March).
- Between them, the consultations address the full spectrum of debt securities: from 'vanilla' bonds through to complex products.

### 2. 'Vanilla' debt and Consultation CP25/2

- At the 'vanilla' end of the spectrum, [CP25/2](#) focuses on general prospectus disclosure and distribution to UK retail investors.
- It also introduces the concept of an a 'non-complex listed corporate bond' (NLCB), a 'simple' bond suitable for 'mass retail'.
- We discussed CP25/2 and its practical implications in our February 2025 briefing: [The New UK Prospectus Regime and UK Listing Rules – Filling in the Blanks, Part 2: The "Retail Piece" – CP25/2](#).

### 3. 'Complex' debt and Consultation CP24/30

- [CP24/30](#) addresses the more complex end of the spectrum (that is, where *"the level of interest payable, any conditionality of principal repayment, or the issuer's default risk, is linked to or materially dependent on"* certain factors).
- It contains proposals for the new UK composite consumer investment (CCI) regime to replace UK PRIIPs.
- CP24/30 proposals also set the scope of the UK CCI regime as it applies to debt securities.
- We touched on CP24/30 and debt securities, briefly, in in the flowchart Annex to our February 2025 [briefing](#). This March 2025 briefing focuses in more detail on implications for 'vanilla' debt securities.

### 4. Why is the UK CCI regime relevant for 'vanilla' debt securities?

- Where a CCI is distributed to a UK retail investor, then detailed (and onerous) requirements apply, irrespective of whether parties are UK entities or authorised by the UK FCA.
- A key requirement is the production of a product summary and core information for distributors, but there are other, additional obligations on distributors and manufacturers.
- It is therefore important to assess whether a product is a UK CCI whenever any UK retail distribution is planned - or is possible. Moreover, as drafted, CP24/30 provisions may catch debt securities which would not immediately seem to be a UK CCI. Familiarity with proposals will be essential to navigate through the regime (or to remain out of scope).

### 5. Traps for the unwary in the proposed UK CCI regime

- This short briefing outlines key areas for issuers, underwriters, manufacturers and distributors to monitor, lest they risk breaching the FCA's proposed new CCI regime. Essentially, there are two key questions, discussed on pages 3 to 6:
  - **Question 1: Which 'vanilla' debt securities risk falling within scope of the UK CCI regime?**
  - **Question 2: For UK CCIs, what steps can be taken to avoid the onerous requirements?**
- For ease of reference, we have also included Annexes with blacklines of key provisions from the proposed CP24/30 rules relevant to these two questions. Blacklining is against current DISC rules for UK PRIIPs in the FCA Handbook.

## Question 1: Which 'vanilla' debt securities risk falling within scope of the UK CCI regime?

### Background: FCA proposed FCA Handbook 'DISC' rules and guidance for debt securities in CP24/30

- The new UK CCI regime will be created through a UK SI combined with detailed UK FCA Handbook rules - including rules relevant for debt securities.
- Significant discretion on scope for debt securities was awarded to the FCA. CP24/30 contains those FCA proposals.
- Whilst some FCA proposals for the new UK CCI regime differ significantly from the current UK PRIIPs regime (such as, for product information, distribution, and responsibilities), proposals for debt securities are substantially based on current UK FCA Handbook DISC segment content.
- In terms of the structure, the proposed CCI rules for debt securities carry over the current DISC rules approach: a definition describing which debt securities constitute a CCI (DISC 1A.2.2R); a few "*for avoidance of doubt*" examples (DISC 1A.2.2R(2)); coupled with, a separate list of 'neutral features' which will not bring debt securities within scope (DISC 1A.2.4R).
- Similarly, within the provisions themselves, much of the text remains the same, other than minor conforming amendments and cross-reference updates.
- But certain drafting changes for debt securities merit further consideration. One is extremely positive (on make-wholes); others are causing concern.
- The FCA has not indicated an intention to change the 'status quo' for debt (other than on make-wholes). Accordingly, potential alterations to scope may prove inadvertent. Without further clarification, however, they may prove to be traps for the unwary for any 'vanilla' bond issuance.

## Qu 1 (cont): Which 'vanilla' debt securities risk falling within scope of the UK CCI regime?

### Analysis: Practical impact of UK CCI scope and impact for 'vanilla' debt securities

- The definition of debt securities which qualify as CCIs aligns closely with the current UK PRIIPs regime. See the Annex 1 blacklines on page 7.
- There are limited changes to the three limbs of the definition in DISC 1A.2.2R(1) and to the "*for avoidance of doubt*" exclusions in DISC 1A.2.2R(2).
- One change to the "*for avoidance of doubt*" exclusions, however, may prove problematic for floating rate notes (FRNs) because of FRN 'neutral features', discussed below.
- The change is that "*Sterling Overnight Index Average (SONIA), or any other equivalent risk-free reference rate in any currency*" has been added to the list of exclusions in DISC 1A.2.2R(2), indicating "*for avoidance of doubt*" that such rates do not fall within the "*fluctuations in reference indices or benchmarks relating to investments or a class of investments, for example a stock market index*" limb of the definition in DISC 1A.2.2R(1)(a).
- FRNs and risk-free rates (RFRs) is a key area of debate, given the interplay between the main definition in DISC 1A.2.2R and the FRN 'neutral features' in DISC 1A.2.4R.
- The FRN 'neutral feature' in 1A.2.4R cross-refers to "*an index or benchmark of the kind described by DISC 1A.2.2R(2)*" – i.e., it cross-refers to the "*for avoidance of doubt*" list in DISC 1A.2.2R(2). This replicates the current approach (and wording) in the current DISC rules for UK PRIIPs. See the Annex 1 blacklines on page 7.
- However, with the addition of "*Sterling Overnight Index Average (SONIA), or any other equivalent risk-free reference rate in any currency*", it is now unclear:
  - whether the FCA is intending to limit permissible FRNs to RFRs, only; or
  - whether the FCA intends the phrase "*of the kind described by*" in 1A.2.4R to extend to other benchmark rates, so the "*for avoidance of doubt*" list is non-exhaustive; or,
  - whether the simple cross-reference update has an unintended consequence which was not contemplated or considered.
- If a narrow interpretation is, indeed, the FCA's intention, then a 'vanilla' FRN using a reference rate that is not an RFR (such as, EURIBOR), would potentially be within scope as a UK CCI. In such circumstances, Question 2 on pages 5 and 6 (avoiding onerous CCI requirements) will be relevant.
- The new proposed 'neutral features' for fixed rate notes remove 'stepped coupons' from the permissible fixed rate note provisions.
- There is, however, a discrepancy: the definition of the new NLCB proposed in CP25/2 (that is, 'simple' bonds suitable for 'mass retail' sales) deems a stepped coupon to be permissible. A feature cannot be both simple and complex at the same time. The deletion of 'stepped coupon' from the features in CP24/30 may therefore be an oversight.
- On a more positive note, the 'make-whole change' in 'neutral features' is intended to ensure that a typical bond make-whole clause (a provision seen as being investor-friendly) will not bring a bond with a make-whole condition (and no other CCI features) into scope.
- This is a welcome change. Currently, any bonds with a make-whole provision are kept away from UK retail investors, as they might be PRIIPs under current UK PRIIPs rules.

General  
definition -  
scope

'Neutral  
features' -  
FRNs and  
RFRs

'Neutral  
features' -  
Fixed rate  
- stepped  
coupons

'Neutral  
features' -  
make-  
wholes

## Question 2: For UK CCIs, what steps can be taken to avoid the onerous requirements?

### Background: Keeping UK CCIs without appropriate summaries away from UK retail investors

- As mentioned on pages 3 and 4 of this briefing, where ‘vanilla’ bonds may potentially fall within scope of the UK CCI regime, it will be necessary to take appropriate steps to avoid any breach.
- In a nutshell, that means keeping the product away from UK retail investors unless an appropriate UK CCI product summary will also be produced.
- That is because DISC 1A.1.3R in CP24/30 states that: “*This sourcebook applies to an authorised person and to an unauthorised person in relation to activities carried on in relation to a consumer composite investment that is or may be distributed to a retail investor in the United Kingdom*”. (For DISC purposes, a UK “retail investor” has the usual meaning (essentially, “retail client” in COBS 3).)

### Step 1: Ensure that there is no actual distribution to UK retail

- Whilst DISC rules apply where there “*may be*” distribution, they do not apply where CCIs are not actually distributed to UK retail investors – see DISC 1A.1.5 G: “*The rules in DISC do not apply in relation to a consumer composite investment insofar as it is distributed to an investor who is not a retail investor, or who is not in the United Kingdom*”.
- Accordingly, for any product which might be a UK CCI, steps will need to be taken to ensure that there is no UK retail distribution.

### Step 2: Additionally, comply with all ‘reasonable steps’ set out in CP24/30 for any offers

- Current DISC guidance for UK PRIIPs indicates that offers of PRIIPs fall outside DISC rules if ‘reasonable steps’ are followed. The FCA proposals carry over that concept for CCIs.
- Four things to note are that: the CCI requirements will become a Handbook rule and not guidance; the limbs are cumulative; the threshold has been lowered to £50,000; and, the rule will apply only to a ‘*readily realisable security*’ (rather than ‘*financial instruments*’).
- See the blacklines of DISC 1A.1.6R and DISC 1A.1.7G on page 8 for the detail. For ease of reference, this simplified visual image may be useful:



## Qu 2 (cont.): For UK CCIs, what steps can be taken to avoid the onerous requirements?

### Analysis: Practical impact of proposals if a product is a UK CCI

- The key talking points on Question 2 relate to Step 2 and the use of the FCA Handbook definition ‘*readily realisable securities*’ – see the definition on page 8 of this briefing.
- This is a very narrow definition. It would cover a UK-listed bond, but not those listed on many typical stock exchanges in Europe, unless the FCA adjusts the definition in the FCA Handbook Glossary for the purposes of DISC.
- A possible fix would be to provide that both limbs of the definition apply for the DISC rules (i.e., by adding, additionally, the blue-shaded limb shown on page 8). Other possible ‘solutions’ might be for the FCA to revert to the previous ‘financial instrument’ reference or to consider aligning the ‘reasonable steps’ requirement with FCA Consumer Duty exceptions (which are not restricted to a ‘*readily realisable security*’).
- As a practical matter (and as best practice), it would be prudent to follow the steps in DISC 1A.1.6R and 1A.1.7G in all cases any time that a bond risks being classed as a UK CCI (even when not offering a ‘*readily realisable security*’).
- Finally, some good news in DISC 1A.1.6R is the lower £50,000 threshold.
- This will assist in sales of EUR 100,000 denominated bonds from the EEA into the UK, for example – although manufacturers and distributors will need to be mindful of the caveats regarding CCI scope (Qu. 1 on pages 3 and 4) and limitations of DISC 1A.1.6R protections (Qu. 2, discussed here).

## Annex 1: Blacklines for Question 1:

### FCA Handbook 'DISC' rules blacklines 1A.2.2R and 1A.2.4R: scope / 'neutral features'

#### Definition blackline (Proposal text 1A.2.2R v's current FCA PRIIPS rule DISC 2.2.2)

(1) A debt security is a ~~PRIP where consumer composite investment~~ if the level of interest payable, any conditionality of principal repayment, or the issuer's default risk, is linked to or materially dependent on one or more of the following, whether or not modified by a pre-determined formula:

- (a) fluctuations in reference indices or benchmarks relating to ~~investment assets~~ investments, or a class of ~~investment assets~~ investments, for example a stock market index;
- (b) the value or performance of ~~reference investment assets, such as a financial instrument or~~ a basket of ~~shares or financial instruments, or one or more~~ specified commodities or foreign exchange rates; or
- (c) the value or performance of investments held by the issuer ~~(or by a person connected to the issuer)~~.

(2) For avoidance of doubt, the following are excluded from DISC 1A.2.2R(1)(a):

- (a) the Bank of England official Bank Rate; ~~and or any equivalent rate from another central bank~~;
- (b) any benchmarks or indices tracking the rate of inflation; ~~money market interest rates, or; and~~
- (c) the Sterling Overnight Index Average (SONIA), or any other indicators pertaining to the performance of the general economy equivalent risk-free reference rate in any currency.

#### 'Neutral features' blackline (Proposal text 1A.2.4R v's current FCA PRIIPS rule DISC 2.2.4)

Inclusion of a feature listed below does not cause a debt security to ~~meet the criteria for a PRIP in article 4~~ become a consumer composite investment in DISC 1A.2.1R(1) of the PRIIPs Regulation (h) or DISC 1A.2.2R(1), ~~nor to be excluded from being a consumer composite investment under DISC 1A.2.3R:~~

- (1) a fixed coupon rate, including where: (a) a set coupon rate applies until maturity, including a nil or zero rate; and (b) the coupon rate interest payable is not subject to pre-defined changes at fixed times prior to maturity — that is any additional modification or structuring such as, for example, a stepped coupon cap, or a floor other than zero;
- (2) a floating or variable coupon, provided that:
  - (a) the interest payable is determined by an index or benchmark of the kind described by DISC 21A.2.2R(2), with or without a spread reflecting the credit risk of the issuer; and (b) the interest payable is not subject to any additional modification or structuring such as, for example, a cap, or a floor other than zero;
- (3) a put option giving the investor a discretion to demand early repayment of the debt security on pre-agreed terms, or giving the investor the choice to convert or exchange their debt security into one or more shares of the same issuer at a pre-determined price;
- (4) a call option allowing the issuer to redeem a debt security early at a price higher than or equal to par, where: (a) the option becomes exercisable due to changes in the financial health, market confidence in, or control of, the issuer, or general economic conditions, but not including options exercisable (a) the option is exercisable otherwise than in response to fluctuations, price movements or performance of an index, benchmark, specified asset or underlying asset falling within DISC 2.2.2R(1); 1A.2.2R(1); and (b) the mechanism to calculate the net present value of the future coupon payments cash repayment amount is made clear to the investor in the terms of the debt security;
- (5) a perpetual or indefinite term; ~~or~~
- (6) the debt security's subordination in the creditor hierarchy in the event of the issuer's insolvency

## Annex 2: Blackline and definition for Question 2: DISC 1A.1.6R and 1A.1.7G and 'readily realisable security' definition

### Blackline (Proposal text 1A.1.6R and 1A.1.7G v's current FCA PRIIPS rule DISC 2.3.1G)

#### 1A.1.6 R

The requirements in DISC do not apply to an offer of a consumer composite investment which is a **readily realisable security** in respect of which all of the following conditions are met:

- (1) the marketing materials for the **financial instrument consumer composite investment** (including the prospectus, if there is one) feature prominent and clear disclosures to the effect that the **financial instrument consumer composite investment**: (a) -is being offered only to investors **eligible for categorisation who are or would be categorised** as professional clients or eligible counterparties under the FCA's rules **in COBS 3**; and (b) -is not intended for retail investors;
- (2) -the issuer of the **financial instrument consumer composite investment** or, in relation to secondary market offers, the distributor, has taken reasonable steps to ensure the offer and any associated promotional communications are directed only to investors eligible for categorisation as professional clients or eligible counterparties; and
- (3) -a **denomination or** minimum investment **requirement** of **£10050,000** **in the consumer composite investment** applies **to the financial instrument, in respect of each end investor (not including platform service providers or other nominee arrangements)**, or **in each case an** equivalent amount for a **financial instrument consumer composite investment** denominated in another currency, where the equivalent amount is calculated not more than 3 business days before the date of issue of the **financial instrument consumer composite investment**.

#### 1A.1.7 G

DISC 1A.1.6R is intended to disapply obligations in DISC in respect of an offer of a consumer composite investment which is a **readily realisable security** where the manufacturer and any distributors **have taken reasonable steps** to ensure the consumer composite investment is not made available to retail investors.

### **readily realisable security** (from FCA Handbook Glossary)

(except in [COBS 4.14](#), [COLL](#) and for the purposes of the definition of [non-readily realisable security](#)):

- (a) a [government or public security](#) denominated in the currency of the country of its [issuer](#);
- (b) any other [security](#) which is:
  - (i) admitted to official listing on an exchange in the [UK](#); or
  - (ii) regularly traded on or under the rules of such an exchange; or
  - (iii) regularly traded on or under the rules of a [recognised investment exchange](#) or (except in relation to [unsolicited real time financial promotions](#)) [designated investment exchange](#);
- (c) a newly issued [security](#) which can reasonably be expected to fall within (b) when it begins to be traded.

(in [COBS 4.14](#), [COLL](#) and for the purposes of the definition of [non-readily realisable security](#)):

- (a) a [government or public security](#) denominated in the currency of the country of its [issuer](#);
- (b) any other [security](#) which is:
  - (i) admitted to official listing on an exchange in the [UK](#) or an [EEA State](#); or
  - (ii) regularly traded on or under the rules of such an exchange; or
  - (iii) regularly traded on or under the rules of a [recognised investment exchange](#) or (except in relation to [unsolicited real time financial promotions](#)) [designated investment exchange](#);
- (c) a newly issued [security](#) which can reasonably be expected to fall within (b) when it begins to be traded



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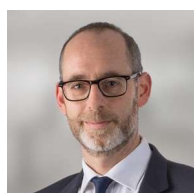
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