

Consultation Response

FCA CP 26/31: Policy Statement for the framework for a UK equity consolidated tape and next steps for delivery

The Association for Financial Markets in Europe (AFME) welcomes the opportunity to comment on the FCA's consultation on the UK equity consolidated tape provider and key contractual requirements. AFME represents a broad array of European and global participants in the wholesale financial markets. Its members comprise pan-EU and global banks as well as key regional banks, brokers, law firms, investors and other financial market participants. We advocate stable, competitive, sustainable European financial markets that support economic growth and benefit society.

AFME is the European member of the Global Financial Markets Association (GFMA) a global alliance with the Securities Industry and Financial Markets Association (SIFMA) in the US, and the Asia Securities Industry and Financial Markets Association (ASIFMA) in Asia.

AFME is registered on the EU Transparency Register, registration number 65110063986-76.

Questions

Question 1: Do you agree with our proposal, alongside our proposed changes to the SI transparency regime, to require the CTP to publish some consolidated information on SI quotes (presented separately from pre-trade data from venues)? Y/N. Please give your reasons.

AFME does not support inclusion of SI quotes within the initial scope of the Equity CT at this stage. While we recognise the FCA's objective of increasing transparency, the incremental benefits remain uncertain and have not been sufficiently evidenced. This is particularly the case given the ongoing consultation on changes to the SI quoting regime in CP26/30, the outcome of which is uncertain, given the potential for wide-ranging interpretations and implementations of the updated quoting rules as currently drafted. The FCA itself acknowledges in the cost benefit analysis that the benefits are uncertain and dependent on users' ability to interpret the displayed information correctly.

As noted in our response to Q10 of CP 26/30, we do not support the proposal to adopt a quoting standard that sets out a price and volume at which SIs are "generally prepared" to trade with their entire client base, and generally call on the FCA to consider the extent to which the public SI quoting requirements serve investors in practice and contribute informational value to the market.

The value of SI quotes is diminished when the quotes are a) homogenised and addressed to the client base as a whole (which may consist of hundreds of clients) and b) made public to all market participants. In each case, this creates signalling risk- requiring quotes to be more conservative than they could otherwise be. We further note that SI public quotes under the current regime are already largely consolidated and available for free to market participants (and will continue to be so), but we are not aware of there being any substantial demand or use for them.

We therefore see limited potential benefit to their inclusion in the CT, which risks increasing operating costs for the CTP, and thus its users. In any case, we do not believe it is realistic or appropriate to impose quoting obligations that require SIs to disclose commercially sensitive or proprietary information regarding pricing on a public, attributed basis

We also note the ongoing policy debate on this topic in the context of the EU Market Integration and Supervision Package, the outcome of which may be instructive for UK policy decisions. Typically,

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investors see Europe as a single region from an investment perspective and, as such, AFME continues to believe that investors would benefit from consistency of information on both CTs.

AFME therefore considers that the initial scope of the CT should remain focused on delivering the core informational data successfully, with potential inclusion of SI quotes revisited once the future SI transparency framework has been finalised and operational experience of the CT has been obtained.

Question 2: Do you agree with our proposed requirements regarding the arrangements that SIs must use to send quotes to the equity CTP? Y/N. Please give your reasons.

If SI quotes are included in the equity CT, AFME strongly agrees that this should be done via existing arrangements through which they make quotes public under UK RTS 1, rather than requiring each SI to establish a new direct connection to the CTP. This is the least costly and operationally complex approach.

However, we believe that further work is necessary on the proposed latency requirements. The current draft text requires that the information is sent “no later than 50 milliseconds after the timestamp of the order”. In the context of SI public quotes, it is unclear what “timestamp of the order” means. We believe that it would be appropriate to simply require that SI public quotes are transmitted to the CTP as close to real-time as technically possible.

Proposed text:

9.2B.34BR

(1) Information sent to the CTP for equities under MAR 9.2B.34AR must be provided:

(a) to the CTP for equities as close to real time as is technically possible and in any case:

(aa) no later than 50 milliseconds after the timestamp of the order or quote, in the case of:

- (i) the data specified in MAR 9.2B.34AR(2)(a) relating to orders or quotes to be executed through a continuous order book trading system or a periodic auction system; and*
- (ii) the data specified in MAR 9.2B.34AR(2)(aa), if sent directly by a systematic internaliser to the CTP; or*

(bb) no later than 50 milliseconds after the timestamp of the reception of the quote by the APA /third party from the systematic internaliser concerned, the data specified in MAR 9.2B.34AR(2)(aa), if not sent directly by the systematic internaliser to the CTP;

in each case with a 95% confidence interval measured on a daily basis.

Question 3: Do you agree that, if the equity CT includes SI quotes, they should be displayed as a standalone SI BBO? Y/N. Please give your reasons.

Yes.

If SI quotes are included in the equity CT, AFME supports that they are displayed as a standalone SI BBO. It is essential that they are displayed separately from pre-trade data from trading venues. As outlined in previous AFME responses on this topic, SIs and trading venues play fundamentally different roles in equity markets. The intermingling of SI and trading venue data would significantly reduce the informational quality and utility of the CT.

QUESTIONS 4-12 RESPONDED TO ON 18 SEPTEMBER

Cost benefit analysis questions

Question 1: Do you have evidence of the relative costs and complexity of the three options for displaying SI quotes in the equity CT: publishing all SI quotes, publishing SI quotes within the venue BBO, and publishing a standalone SI BBO? Please provide quantitative estimates where possible.

AFME members consider that the relative implementation and operational complexity is likely to differ materially across the options.

In broad terms, all three approaches would require SI operators to transmit all quotes to the CTP, and for the CTP to consume this data. It is likely that publishing all SI quotes would be the most operationally burdensome option for the CTP and its users, in terms of data transmission and bandwidth requirements.

Publishing only those SI quotes that fall within the venue BBO is likely to be operationally complex despite resulting in a smaller output dataset. This approach would require the CTP to continuously process and compare two separate data sets, namely venue quotes and SI quotes, and apply methodology and governance arrangements to determine which SI quotes qualify for inclusion. As such, members consider that this option would require the most sophisticated real-time processing logic and ongoing operational oversight.

A standalone SI BBO is likely to be the least operationally complex of the three options, as it limits the volume of information ultimately disseminated to users. Nevertheless, it would still require the implementation of new data collection, validation, aggregation and governance arrangements that are not required under the current Equity CT design.

While members recognise these differences in complexity, AFME would emphasise that complexity should not be considered in isolation. The key policy question is whether the incremental transparency benefits of including SI quotes justify the additional implementation effort, operational burden and potential delivery risk associated with expanding the scope of the CT. The additional cost associated with including SI quotes will not only be borne by the contributors but also by the CTP, resulting in the increased CT cost and higher fees paid by users of the tape, limiting its attractiveness and therefore its success and sustainability. In AFME's view, the FCA has not yet demonstrated that the benefits of SI quote inclusion outweigh the costs and AFME suggests that the FCA should take this into account in reaching its policy conclusion.

Question 2: Do you agree with our assessment of the relative benefits of these three SI display options, including their usefulness for price discovery, data usability and reducing the risk of misinterpretation by users? Y/N. Please give your reasons.

No.

AFME acknowledges the FCA's assessment that the three options differ in their relative complexity and usability. However, members remain unconvinced that the inclusion of SI quotes in the Equity CT would generate sufficiently clear incremental benefits to justify expanding the scope of the CT beyond its current design.

As noted in previous AFME responses, SI public quoting rules were adapted from a framework originally designed for CLOBs and public quoting environments. This has resulted in a regulatory structure that imposes public transparency obligations appropriate to multilateral venues on a mechanism that is inherently bilateral and bespoke. As such, public SI quotes do not fully reflect SIs' appetite or capacity to provide liquidity in a particular instrument to an individual client consuming this information.

AFME therefore does not fully agree with the FCA's assessment of the price discovery benefits associated with displaying SI quotes. While SI activity forms an important part of overall market liquidity, members are not persuaded that the publication of SI quotes through the CT would materially enhance price discovery. While the FCA suggests that SI quotes could support price discovery, the benefits depend on the outcome of the changes to the SI transparency regime that are themselves subject to consultation in CP26/30.

AFME is also not persuaded that the proposed benefits relating to execution monitoring, transaction cost analysis and market analysis have been sufficiently evidenced. Any market participants who have a need for SI quoting data can already access this publicly, for free, in consolidated form. AFME is not aware of the data being used in such a way.

The consultation does not provide evidence demonstrating that the current method for access to SI quotes is impeding investor use of this data.

Currently, the regulatory quotes provided by most SIs are already generally available to all potential market data users in an accessible, free and consolidated format through a service offered by an APA.¹

¹ [Europe Book Viewer | Cboe](#)

Nonetheless, AFME is not aware of these quotes being utilized in such a way that impacts on competition between SIs. Including them on the CT will not change the competitive dynamics, the only consequence will be increased CT costs and higher fees of CT consumers.

AFME agrees that, if SI quotes were ultimately to be included, a standalone SI BBO would present a lower risk of user confusion than either publishing all SI quotes or integrating SI quotes into the venue BBO. A standalone presentation would at least preserve a clear distinction between venue liquidity and bilateral liquidity. However, this should not be interpreted as support for the inclusion of SI quotes itself.

AFME considers that integrating SI quotes into the venue BBO creates the greatest risk of users incorrectly treating fundamentally different forms of liquidity as equivalent. This risk is acknowledged by the FCA and remains an important consideration when assessing the overall benefits case.

AFME therefore remains of the view that the priority should be the successful delivery, adoption and operation of the core Equity CT framework, comprising consolidated post-trade data and venue-based pre-trade data. Once the CT is operational and evidence exists regarding its actual usage and benefits, it may be appropriate to revisit whether the inclusion of SI quotes would deliver additional value sufficient to justify the associated complexity and costs.

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