
AFME Position Paper on the Consolidated Tape

Background:

MiFID II proposed the creation of a consolidated tape (CT) which would act as a single price comparison tool consolidating data across the EU, assisting market participants in analysing market liquidity and increasing investors' capacity to evaluate the quality of execution of their orders.

We believe that the provision of an appropriately constructed CT could democratise access for all investors, regardless of resources or sophistication, with a comprehensive and standardised view of equities and fixed income trading environments. This will contribute to the creation of a truly pan-European market, in line with the goals of the Commission's Capital Markets Union ("CMU"). An appropriately constructed CT could also reduce the cost of display data and reduce complexity relating to market data licences.

It was envisaged that a private entity would emerge as a consolidated tape provider (CTP), however a private solution has yet to emerge due to the lack of a commercial incentive to act as a CTP. Therefore, AFME considers that a key priority should be to determine how a CTP can emerge, including making vital decisions on governance, structure and cost. In the context of the upcoming MiFID Review, we set out below our key recommendations for the creation of an appropriately constructed CT. It is important to note that separate CTs for equities and bonds will be required to reflect the different market structures of these asset classes.

AFME's key recommendations:

AFME believes that through democratising access to market data, an appropriately constructed, real-time CT for equities will help building deeper, and more open and integrated capital markets in Europe. However, we believe the following recommendations are vital to ensuring that the CT delivers on its objectives:

- **The equity CT should be continuous and real-time** – AFME supports the EU Commission and ESMA on acknowledging that the equity CT should be real-time and that there is no business case for a delayed tape, given that the legal framework already requires the provision of market data, free of charge, 15 minutes after publication. ESMA highlighted that “no respondent expressed support for a CT providing only delayed data”¹. We note that so far, no data providers have chosen to consolidate this free data, indicating that there is no commercial incentive or demand for a CTP to provide a service on the basis of delayed data. Conversely, an equity real-time CT offers a number of benefits which we set out later in this paper.
- **The bond CT needs to ensure committed liquidity providers are not exposed to undue risk** - MiFID II introduced deferrals because it was recognised that real-time post-trade transparency can expose committed liquidity providers to undue risks, especially when trading in illiquid instruments or transactions above a certain size, given the longer timeframes to unwind the trade or hedge. A bond CT needs to reflect this by not publishing post-trade details until after

¹ P.60, ESMA MiFID II/MiFIR Review Report No. 1 On the development in prices for pre- and post-trade data and on the consolidated tape for equity instruments, December 2019

the deferral period has expired. The consolidated bond data generated from the tape can then be analysed and deferrals modified if, and when appropriate.

- **The establishment of a CT should not impact the well-established, well-regulated market structure framework in Europe** – the creation of a CT is driven by the desire to provide access to market data at a low cost to all market participants and investors, regardless of sophistication. This should not translate into making adjustments to the carefully calibrated regulation on market structure in Europe.
- **The cost of accessing the CT should be as low as possible** – a key benefit of the CT is the potential to democratise market data within Europe. Having a high cost to access market data represents a major barrier to entry to European markets and is not a sign of a healthy, competitive market.
- **Mandatory data contribution to the CT** – trading venues, APAs and systematic internalisers (SIs) should be required to provide market data, free of charge, to the CTP. Without this approach, the need to consume data from a large number of trading venues and APAs will mean that a CTP could expect to pay considerable sums to maintain multiple data feeds and the right to distribute them. The CTP would need to pass costs on to end users to be commercially viable, however, consuming a high-price consolidated tape, in addition to potentially also consuming other market data generally, will be prohibitive for some consumers. The result of a CT model without mandatory free contribution is that despite the appetite for a CT, costs to consumers could limit the number of firms consuming CT data and therefore reduce the commercial incentive for the emergence of a CTP.
- **No mandatory consumption of the CT** – market participants should not be forced to consume the CT as, in many cases, this will mean that firms are forced to pay for the same data via direct feeds and the CT (i.e. paying for the same data twice). Instead, a CT should be appropriately constructed so that it provides an offering that is economically attractive to market data users. This will ensure the continued success of a CT.
- **There should be a single CTP for each asset class** – allowing multiple CTPs carries the risk of a high number of CTPs, with potentially different or overlapping product scopes which may defeat the purpose of having a truly consolidated view of the market and increase costs to consumers. To avoid this scenario, potential CTPs should compete in a tender process which establishes which firm will operate as a CTP for a set period.
- **Data quality should be addressed alongside the development of a CT** – the implementation of the post-trade transparency regimes under MiFID II identified a number of data quality issues relating to SI and OTC post-trade reporting, particularly the treatment of non-addressable/non-price forming trades which should be excluded for the purposes of post-trade transparency. Industry groups began addressing these issues years ago and have welcomed work undertaken by ESMA who recently issued a consultation on transparency data for equities (RTS 1) and non-equities (RTS 2). Given ESMA has estimated that it would take at least 5 years to develop a CT, AFME is confident that any data quality issues can be resolved ahead of a CT going live.

- **EU, UK and Swiss authorities should cooperate to create a pan-European CT** – AFME encourages the EU to cooperate with UK and Swiss authorities with the aim of providing a pan-European CT which would maximise benefits to market stakeholders by ensuring a single consolidated source of data as opposed to separate CTs which cover the same instruments. We acknowledge that coordination with the UK could be complicated by the development of its own CT. In order to ensure the possibility of the future harmonisation of different CTs across multiple jurisdictions, AFME strongly recommends the use of common data standards developed by FIX Protocol.
- **For equities, a CT should include both pre-trade (three levels of price and size) and post-trade data** - Ideally, these would be developed in parallel. However, if the inclusion of pre-trade data is not possible or would unreasonably delay the development of a CT for equities, AFME would support the introduction of a post-trade tape as a first phase. The requirements to subsequently provide pre-trade information should be factored into the approach for a first phase implementation of a post-trade tape.

Benefits of an equity real-time CT to EU capital markets:

Today, investors in the EU struggle to know where to find the lowest price for a security. They have to navigate a market infrastructure which is fragmented across the 27 EU member states. The establishment of a consolidated tape in the EU will democratise access to information on how financial assets are traded, provide a comprehensive liquidity picture across the EU and make cross-border investments easier through the creation of a truly pan-European integrated market. This will bring about a number of key benefits:

- The CT will contribute to the ultimate goal of increasing capital flows in the EU and defeating retail investors' existing "home bias", i.e. their tendency to hold a significant share of domestic assets in their portfolios. An equity real-time CT will ensure that investors are aware of the investment opportunities outside of their national market.
- The clearer and more comprehensive picture provided by the tape will make EU markets more competitive and attractive to all investors, regardless of their resources, sophistication or origin, including to foreign investors. This is important because we need to build strong and competitive secondary markets to ensure we also have well-developed primary markets and thus can also promote IPOs² and contribute to the necessary re-equitisation of Europe's economy brought about by the pandemic.
- The CT is also consistent with the objectives of the Commission's emerging data sharing strategy, as well as with other initiatives the Commission is undertaking to improve data accessibility and sharing in the context of the CMU, such as the recent proposal to create a single access point for investors to access financial and non-financial information disclosed by companies [European Single Access Point (ESAP)].

² Innovative and vibrant EU growth companies like Spotify, Oatly, Wise, BioNTech or Curevac have pursued their IPOs in the US or in the UK. Close to 200 EU companies are now listed in the US.

- Beyond the CMU, the CT's objectives are comparable to initiatives in other sectors where information is consolidated to allow consumers to compare and contrast the supply and demand of a particular product or service (i.e. websites that aggregate flight, travel, banking services information) allowing consumers to see the prices and make choices across the single market.

Use cases for an equity real-time consolidated tape:

- Having a single, consolidated source of market data will allow EU and national authorities to make informed decisions on EU market structure which are based upon reliable data. ESMA has acknowledged that the data currently available to them and to NCAs does not allow for a proper assessment of the existing EU equity markets. Once work to improve the data has been completed and the CT is established, the Commission will be well placed to assess whether any changes to the equity and fixed income markets' structure are needed. For policy making purpose, this sequencing needs to be respected.
- The Commission has rightly placed retail investors at the heart of the CMU. The establishment of a consolidated tape will help increase the direct retail investor participation in and across EU capital markets.
- Investment firms could use the tape for the purposes of risk management, regulatory oversight, middle and back-office processes, transaction cost analysis (TCA) and post trade analysis. The faster the information flows from the tape, the more use cases there will be for AFME members and other stakeholders.
- An equity CT would aid with reducing the market power of trading venues when selling real-time post-trade data. This point is highlighted by ESMA in its MiFID Review Report No.1. Although the consolidated tape will not replace low latency direct exchange feeds, it could provide an adequate alternative for display data which represents a potential cost saving for market data users.
- Demand for market data currently exists for latency at human eye or near real-time, but unfortunately this data remains incredibly expensive. Development of the equity CT would drive demand for its use for this latency between real-time and 15 minutes where this could be consumed at a lower affordable cost. Additionally, under AFME's proposal that data through the CT should also be consumed free of usage restrictions and licences, use cases of CT data would likely penetrate further into market data consumers' business functions and demand for the CT would support its viability.
- The existence of a pre-trade equity CT represents an opportunity to increase market resiliency in EU markets by establishing a trusted EBBO which could be used in the event of a primary market outage. This offers an opportunity to ensure that trading can transition to alternative trading venues in an orderly manner. A CT could also offer session administration messages which would include the declaration of trading halts. This would provide a dramatic improvement to the current process as recent market outages have been characterised by confusion over whether affected exchanges are available for trading or not.