CONSOLIDATED TAPE AND SINGLE ACCESS POINT

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Towards a transparent Capital Markets Union

In September 2020 the European Commission adopted a New Capital Markets Action Plan. An important goal of the action plan is to stimulate market-based finance to sustain the recovery and the long-term growth to finance the green and digital transition of the economy. In order to make sound investment decisions, investors in capital markets must have access to a broad range of information about companies and financial products. In this article, I would like to highlight two actions of the Commission's action plan which can stimulate the development of transparent capital markets:

1) Post-trade consolidated tape for equity and equity-like instruments;
2) and the building of a European Single Access Point (ESAP).

In the AFM's view, a real-time post-trade Consolidated Tape Provider (CTP) is an essential part of the CMU. A CTP would allow consolidation of market data at low cost, enabling market participants to get a comprehensive and accurate view of the market and facilitating price discovery.

A CTP is needed to address the negative effects of fragmentation of markets and to counteract the market power of trading venues in selling market data. It would contribute to the CMU and a single market in the EU while it would supplement best execution policies for retail investors by improving the availability of common reference price information resulting from a fragmented market. Current barriers to the emergence of an equity CTP are the limited commercial rewards, the strict regulatory requirements, competition by data vendors and problems with data quality.

We recognize there are some preconditions for the establishment of an equity CTP like sufficient data quality to make it meaningful, mandatory contribution, sharing of revenue with contributors, appropriate funding by users, full coverage and IT-aspects to face the challenge to make it operational in a short time frame. Whilst the AFM is supportive of establishing a CTP, we also note the practical constraints that should temper expectations. The operational preparation will take a few years, but if the preconditions mentioned above are taken into account, we are confident a CTP should have added value for market participants even without the UK participating.

Another essential part of the CMU is the building of a European Single Access point for companies' information. Therefore, the AFM supports the Commission's initiative in the creation of a European Single Access Point (ESAP), as financial information is currently fragmented across different databases in different member states and difficult to access.

A central access point will enhance the accessibility of financial and non-financial information. In order to make the establishment of ESAP successful in the AFM's view the Commission should adopt a phased approach. Whereby in the first stage ESAP serves as a platform to access all public information of companies with securities listed on EU Regulated Markets. When this is successful, the Commission could consider to enlarge the scope of ESAP to for example non-listed companies.

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Increasing CMU's transparency and fairness – Insights on the ESAP and the EU CT

A well-functioning and integrated market for capital across the EU requires a high level of transparency and the accessibility of comprehensive and reliable information. As outlined in its CMU action plan, the European Commission intends to cope with this challenge by establishing a European Single Access Point (ESAP) for corporate disclosure and an EU Consolidated Tape (CT) for market data.

ESMA fully supports the creation of a single access point to financial and non-financial regulated information, including sustainability information, based on a harmonised digital format. The ESAP is expected to enable cross-border investments and enhance the visibility of less known entities, including SMEs.

To achieve this aim, the ESAP needs to (i) be implemented in a progressive way (to avoid the risk of building an overly complex and thus inefficient architecture), (ii) cover comparable information rendered in machine readable format (giving cross-border investors access to easily consumable data), and (iii) be underpinned by a clear data governance accompanied by data checks (to ensure the highest quality of the data and the protection of investors).

Given its expertise and its extensive experience in designing and managing large scale EU-wide public IT and data systems, ESMA is in an ideal position to setup and run the ESAP. Of course, the project needs to be matched with adequate resources.

Together with the ESAP, ESMA views a CT for equity as a must-have feature of the CMU, to enable investors to access meaningful information at pan-European level. The creation of a real-time post-trade EU CT for equities will give a reliable view of liquidity across the Union and mitigate the fragmentation of markets.

Looking back, MiFID II laid out the requirements applicable for CT providers but left the creation of a CT open to a market-led initiative, which did not materialise. It appears that the lack of commercial and regulatory incentives for potential providers, the competition of unregulated data vendors as well as shortcomings in the quality of OTC data prevented its emergence.

ESMA stands ready to assist the Commission with its expertise to create the ESAP and the EU CT that will move the EU closer to a fully-fledged CMU.

Now, looking ahead, to reap the full benefit of an EU CT certain conditions need to be met, notably the mandatory contribution of high-quality data by trading venues and Approved Publication Arrangements (APAs), the sharing of revenues with contributing entities, the operation of the CT on an exclusive basis, and the definition of a strong governance framework.

The Commission is expected to soon clarify its proposals on both projects. Regardless of the approach taken, ESMA stands ready to assist the Commission with its expertise to create the ESAP and the EU CT that will move the EU closer to a fully-fledged CMU.

In a wider perspective, this commitment is in line with ESMA's objectives and priorities, including the support of the sustainable finance and digitalisation agenda, as well as the need for transparency and data quality in securities markets.

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It's time for a post-trade data tape

In light of the implementation of MiFID II and amid a highly fragmented trading environment in Europe, the need for a consolidated view of trade data remains unaddressed.

Such a consolidated view of trade transparency, the so-called consolidated tape (CT), is to date the missing part of European financial markets. Despite MiFID II setting a dedicated framework for such a tape to operate, the tape itself is yet to emerge, notably due to a lack of business incentives and the existence of several barriers such as data quality.

However, this consolidated tape could provide much needed transparency on where and how trades happened. It could not only ensure market players are able to determine where liquidity lies, to monitor trades appropriately and to perform transaction cost analysis, but it could also help them manage risks or document their best execution policy.

The upcoming review of the MiFID II framework and in particular MiFIR transparency rules, is an opportunity to remove the existing obstacles (whether these come from MiFID or not) and provide the right framework for the emergence of a European consolidated tape.

The first building block could be to first set up a real-time post-trade transparency tape.

What type of consolidated tape could be contemplated?

Some have advocated for a pre-trade consolidated tape enabling real-time order routing and offering a live European best bid and offer. However, given the competitive trading environment and the high volume of orders, at this stage the advantages of such a pre-trade tape do not seem to outweigh the costs that would be incurred to make it viable operationally.

Instead, the first building block could be to first set up a real-time post-trade transparency tape consolidating relevant data from trading venues, systematic internalisers, and approved publication arrangements reaching a significant market share in the relevant asset classes.

Similarly, in order to ensure an efficient mechanism from its inception, it could cover equity instruments first, and once operational, be broadened to cover bonds and derivatives.

An appropriate framework bringing together all providers and users of the consolidated tape (CT) data could help ensure maximum support for the project. In particular contributing participants could be entitled to a share of the CT revenues, for example through an appropriate redistribution fee determined based on their contribution. Furthermore, transactions that do not contribute to price formation, such as transactions benefiting from a pre-trade transparency waiver (e.g. technical trades), might not provide entitlement to any remuneration.

Importantly, the CT's governance and financing structure could also take into account the current lack of data quality. As an example, any entity reporting poor quality data could be penalised.

Let us hope the Commission will put forward an ambitious proposal in the coming months.

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Consolidated tapes for equities, bonds and OTC derivatives are key to enhancing the efficiency, competitiveness and resiliency of EU capital markets

The European Commission has correctly concluded that a "true single market cannot exist without a more integrated view of EU trading". In its September 2020 Capital Markets Union (CMU) action plan, the Commission identified the core benefits of a consolidated tape (CT) in equity markets, including improved price transparency, greater competition, and enhanced information for investors. A CT would also increase resiliency by providing reliable reference prices to support uninterrupted trading even in the event of an outage at a primary trading venue.

Likewise, in its January 2021 roadmap to foster the openness, strength and resilience of Europe's economic and financial system, the Commission highlighted how a CT in the non-equity markets would encourage trading to take place on transparent trading platforms, increase market depth, and make EU markets more attractive for both issuers and investors.

The myriad benefits of CTs for each of the equity, bond, and OTC derivatives markets far outweigh the implementation costs. Further, the diverse beneficiaries far outnumber the limited cadre of trading venues and intermediaries who, despite casting doubt on CTs, remain well equipped to compete in a more transparent marketplace.

Experience in North America with CTs that are appropriately tailored to their respective asset classes provides overwhelming evidence of their value and viability. To begin with, EU real-time post-trade CTs should be developed for equities, bonds and OTC derivatives. They should be comprehensive, require mandatory contribution of both on- and off-venue transaction data, disseminate information immediately upon receipt, and allow only targeted and limited deferrals for larger sized trades.

Numerous academic studies demonstrate that increased post-trade transparency, in the form of real-time public reporting of transaction prices and sizes, narrows bid-ask spreads and enhances liquidity.

First, this transparency empowers investors to accurately assess execution quality, demand accountability from liquidity providers, and obtain best execution. Second, it removes information asymmetries and allows all liquidity providers to better manage risk, and in turn, more confidently quote prices, commit capital, and warehouse risk across all market conditions. Finally, real-time public reporting makes markets more resilient, especially in times of stress, by ensuring that new information is efficiently assimilated and reflected in current price levels.

In parallel, the Commission and ESMA should remain committed to resolving the current deficiencies they have wisely identified with respect to the scarcity, quality, timeliness, and accessibility of MiFID II post-trade transparency data for bonds and OTC derivatives. For example, the vast majority of off-venue OTC derivative transactions with systematic internalisers are currently entirely exempt from MiFID II transparency requirements.

Policymakers and market participants have repeatedly highlighted the critical role of CTs in achieving truly integrated EU capital markets. The MiFID II review provides a crucial opportunity to finally realize the benefits of CTs while also addressing underlying shortcomings in the transparency regimes for the equity, bond and OTC derivative markets.

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A principled compromise, not compromised principles, can deliver a CTP

In my last EUROFI article of September 2020 I discussed the value of transparency data in Fixed Income (FI) markets where I concluded that solving the ongoing issues around post-trade data would provide the most meaningful return. In this article I would like to highlight the challenges of MiFID II in bringing such FI data to the market.

MiFID II anticipated a commercial entity producing a Consolidated Tape (CT) and being authorised as a Consolidated Tape Provider (CTP). Yet, as everyone is painfully aware, no commercial entity has taken up this 'opportunity'. Understanding why this is the case is critical to ensuring the upcoming revision of MiFID reflects the lessons to be learned from this experience.

Despite being the legislation's objective, a reasonably large part of the community understands that commercial entities will not seek to be CTPs as there is no commercial rationale for them to do so. Far fewer people understand why.

Running a CTP presents five key challenges to commerciality: product quality, product latency, product scope, product value and competition from Approved Publication Arrangements (APAs) and Trading Venues (TVs).

Product quality: Data sources (APAs and TVs) publish information of variable quality and conformance. However, the market expects a CTP to provide uniform aggregated data. Thus, to meet this expectation a CTP would have to expend significant cost to clean and standardise the data.

Product latency: A Systematic Internaliser sends data to an APA, which publishes it to the market. A TV publishes its own transparency data to the market.

CTPs will always publish data after both an APA and a TV as it goes through the technical steps of collection, cleansing and republication. Thus, any latency sensitive customer will go directly to the 'source'.

Product scope: The vast majority of Government Bonds do not produce per trade prints. Corporate Bonds do have per trade prints but only circa 3% of transactions do so immediately. The remaining 97% do so approximately four weeks after execution via the deferral's regime.

Would you pay at 4 weeks or take it for free at 4 weeks and 15 minutes?

Product value: A CTP can only monetise trade-prints in the first 15 minutes of publication. Considering the Corporate Bonds and deferrals issue set out above, this means that from 0 minutes to 40 320 minutes the majority of meaningful trade prints are deferred, from 40 320 to 40 335 minutes the CTP can sell the data, and from then onwards the data is public domain material. Therefore, you can pay for data at 40 320 minutes or receive it at no cost from 40 335 minutes.

Competition from APAs and TVs: 'Cost+' is shorthand for the 'cost of producing and disseminating data and may include a reasonable margin'. Per the current rules, an APA or TV would have to sell data to a CTP at cost+. Thus, when a CTP resells the data it would do so at cost++ which may outweigh the expense of collecting the data directly from a short list of key APAs/TVs.

In closing, while these challenges explain why a CTP has not emerged under the current regime, it is still possible for a commercial entity to provide a CT to the market. We just need to work with the likely commercial candidates - as well as users - to find a principled compromise, without compromised principles, within a revised regulatory framework.

DANIEL MAYSTON

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Now is the time to deliver the European consolidated tape

The past two decades have seen successive pushes to make European capital markets more transparent. The first iteration of MiFID in 2004 significantly increased post-trade data availability. The introduction of MIFID II and MiFIR gave a second push towards standardisation with the ultimate aim of 'setting the conditions' for the emergence of consolidated tape providers. But to date, Europe still does not have an authoritative, comprehensive solution for any asset class.

Its continued absence represents a market failure and a hurdle to achieving the Capital Markets Union. Delivering it would bring many benefits to Europe's evolving capital market, market participants and, crucially, end-investors such as retail savers and pension funds: investors would have a full picture of the market when they make trading and investment decisions; risk managers the ability to assess liquidity faster and more transparently – particularly important during stress events like last year's; and retail investors transparency into fair prices on all venues, with more visibility of the 'value for money' which they receive from their service providers.

The ongoing review of MiFID II provides an excellent opportunity to make the EU consolidated tape a reality, rather than an ambition.

It would deliver ecosystem-wide benefits by addressing the current challenge of increasingly costly and complex licensing requirements for market data; by making regulatory initiatives more data-driven; and by reinforcing trading resilience and continuity in the event of exchange or venue outages.

Realising the consolidated tape should therefore be an important priority for EU policymakers and financial market participants, and an integral part of CMU. In line with the impetus of the CMU Action Plan, we believe a single consolidated tape provider per asset class should be mandated and overseen by ESMA, with clear delivery guidelines and technical specifications. Inconsistencies in market data reporting and distribution arrangements must be fixed, and fair commercial arrangements overseen by robust governance processes put in place.

We see the delivery of a consolidated tape following a three-stage process, with a real-time post trade tape for equities and ETFs coming first; followed by an extension to bonds and other instruments; and – in time – the development of a pre-trade European Best Bid and Offer metric. A pre-condition of achieving this will be to facilitate high quality source data through pre-defined standards; a regulatory framework that mandates contributions to the tape and shares its revenue equitably; and the underpinning of strong governance arrangements.

The ongoing review of MiFID II provides an excellent opportunity to make the EU consolidated tape a reality, rather than an ambition – and in doing so improve savers' and investors' confidence and outcomes; allow a full view of the single market for capital; and drive its competitiveness at the international level.

NICOLAS RIVARD

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An end-of-day execution analysis file – an effective solution to the identified use-cases

Given the current trading landscape, it is imperative to consider the added value of a mandated consolidated tape (CT) for equities compared to existing solutions. The question of use-cases is the critical starting point.

A study produced for the European Commission by Niki Beattie and Market Structure Partners identified and analysed 14 use-cases for the CT on the basis of which it recommended the establishment of a real-time post trade CT in the first instance, followed later by a real-time pre-trade CT. However, the overwhelming majority of the use-cases identified, which are already serviced today by existing vendor or in-house solutions, do not require a real-time CT and could be met by the creation of an end-of-day tape.

An end-of-day execution analysis file would represent the most appropriate solution.

It is important to underline that there are a myriad of issues one must consider when looking at a real-time CT: (i) a real-time pre-trade CT would, given the number of venues in Europe, advertise a misleading sense of liquidity, which, were it to be used for best execution purposes, would create a flawed and easily gameable benchmark to the detriment of investors, especially retail; and, (ii) a real-time post-trade CT would, while not raising the same level of policy concerns as real-time pre-trade, be costly to set up and manage but also divert precious time and resources from key initiatives that would strengthen the EU's capital markets.

Instead, it is our view that policymakers should focus on a scope design which balances meeting as many of the identified use-cases as possible, against avoiding potential problematic policy evolutions in respect of best execution and achieving a cost effective outcome for the industry. Fortunately, a solution based around an end-of-day execution analysis file would satisfy these requirements.

An end-of-day execution analysis file containing post-trade data enhanced with trade sides and available volume at execution time would represent the most appropriate solution to address the need for consolidation. Such a file would cover 100% of data sources and carry post-trade data together with information on liquidity available at execution. It would enable market participants to assess fragmentation and available liquidity across venues, as well as to support execution analysis allowing investors to validate the execution provided by their brokers. It would constitute a distinct offering and would not burden market participants with duplicative costs.

In any event, a number of principles must underpin any CT, notably it should: (i) cover 100% of data sources (venue and OTC) to maximize transparency, (ii) be underpinned by improved data quality, and (iii) be based on the principle of mandatory contribution and mandatory use by all market participants, including mandatory payment.

As a pre-requisite to any form of consolidation, it is essential to radically improve practices in terms of data completeness, accuracy and timeliness of reporting, as well as establishing standardised practices in the flagging of trades and granularity of time stamps across all data sources. It is paramount that this type of work be headed by an independent and neutral body, such as ESMA.