

EU CONSOLIDATED TAPE AND EUROPEAN SINGLE POINT OF ACCESS

1. EU consolidated tape (CT)

1.1 Expected benefits of a CT

A regulator stated that an EU Consolidated Tape (CT) will contribute to building a vibrant European capital market and achieving the Capital Markets Union (CMU) which is essential for funding the EU economy and the post-Covid recovery. At present there is too much market power and profit made from selling market data. The CT should allow market data consolidation in a relatively low-cost way, providing a comprehensive view of the market and facilitating price discovery. This will contribute to increasing fairness and transparency in the EU capital markets. Another regulator emphasized that an EU CT would support best-execution policies, provide market participants with a reliable view on liquidity across the Union and also ensure a rebalancing of market power regarding the publishing and selling of post-trade data.

An industry representative considered the CT vital for making the market more transparent, more competitive and more resilient for investors. The information provided by the CT will help both retail and professional investors to make appropriate investment decisions and will also contribute to improving best execution and liquidity risk management. An EU CT will moreover help to reduce market fragmentation, fostering market efficiency and competitiveness, and expand investor choice. Finally a real-time CT can make markets more resilient by providing reference prices that market participants can rely on to continue trading if there is an outage at a given venue.

A second industry representative agreed that a CT can bring significant benefits. CTs empower investors to measure execution quality and secure best execution; they foster investor confidence and participation by removing information asymmetries from the marketplace; they ensure that liquidity providers can better manage risk and more confidently quote and commit capital to the market; and they can enhance the resilience of liquidity in the marketplace and the operational resilience of markets e.g. in case of outage at a venue. These material benefits will help develop and integrate EU capital markets and deliver on the goals of the CMU.

A third industry speaker, referring to the comments made about the cost of market data, mentioned that the cost at which data is sold by market data vendors is often criticized, but the largest part of that cost is in fact charged by the initial providers of the data e.g. trading venues.

1.2 State of progress of the EU CT initiative

The Chair stated that MiFID II includes requirements to voluntarily establish a CT, but despite this legal requirement no CT has been set up so far, due to a lack of economic incentives and data quality problems. The emphasis put on the CT in the new CMU action plan

and in the upcoming MiFID II review should however contribute to relaunching the European CT project.

A regulator noted that ESMA examined market data pricing issues in 2019 as part of preparations for the MiFID II review and concluded that MiFID II has not delivered a reduction in market data costs. The regulator confirmed that no CT has been implemented so far because of a lack of commercial and regulatory incentives for potential providers. The competition landscape of data provision and shortcomings in the quality of over-the-counter (OTC) data also prevented a CT's emergence. The CT is therefore not an easy project to undertake but it is still important for the development of EU capital markets.

An industry representative was encouraged by the new momentum behind the CT. The new CMU action plan, the ESMA report that establishes the need for a real-time CT, and the Commission's commitment to a bond CT are all positive. There will be challenges and road bumps along the way, but now is the time to move this project forward, the speaker believed.

1.3 Scope in terms of instruments

Several panellists supported a CT covering a broad range of instruments - i.e. including equity, non-equity instruments, ETFs - while others suggested that a non-equity CT would be most beneficial.

An industry representative was in favour of a broad approach covering all types of instruments including equities, exchange traded funds (ETFs), bonds and derivatives, possibly in a progressive way, because investors need improved transparency for all these instruments. A regulator agreed that a broad approach is needed and that it could be phased over time. The bond market in particular shows severe fragmentation, so could benefit most from a CT. Another regulator emphasized the importance of an EU equity CT for the creation of a robust single market for equity trading.

For a second industry representative the priority is to set up a fixed income CT. Pricing in equities is more ubiquitous than in fixed income and so a CT would be more valuable in fixed income, given also the scale of the market versus the equity market and how fixed income trades. Fixed income execution is indeed a three-stage process that includes the identification of liquidity, price formation and then execution, whereas the two first steps occur naturally for equities, due to the ability to execute in central limit order books. A fixed income CT would help to mitigate the challenges concerning the identification of liquidity and price formation in the absence of a central limit order book. Cutting and pasting for fixed income markets the solution produced for equities should however be avoided because of the differences between these markets.

A third industry representative agreed that the benefits of a CT are likely to be even more pronounced in the historically opaque non-equity markets, including

the bonds and OTC derivative markets that are also larger than the equity markets. These are gradually being brought out of the shadows and into more open, transparent and competitive trading venues thanks to reforms implemented in the past decade, including EMIR and MiFID II.

The regulator acknowledged the differences between debt and equity markets in terms of market structure, regulation and supervision. The differences between the central order book used for equities and the request for quotes system used for fixed income are significant and lead to a different structure of supervision and also to different needs in terms of IT system. That should then lead to different types of CT. A phased approach could be used to take these specificities into account.

A fourth industry representative stated that there is a need to be specific and focus the CT on use cases where there is most value in consolidating market data and making it more transparent and available. That is mainly in fixed income and ETF products, and also for trading outside the regulated venues (OTC, systematic internalisers (SI)). It could be argued that there is no consolidation issue for equity transactions on trading venues and therefore that an equity CT would only bring limited value in this case.

1.4. Characteristics in terms of venue coverage and data dissemination

In terms of venue coverage, the panellists favoured a CT that would be as comprehensive as possible.

An industry representative suggested that there should be mandatory contributions from all trading venues - regulated markets, multilateral trading facilities (MTFs), organised trading facilities (OTFs) - as well as from Approved Publication Arrangements (APAs) and SIs. Off-venue transaction data must also be captured for markets that continue to trade OTC, such as bonds and derivatives. Other industry representatives agreed that the coverage of the CT should be as comprehensive as possible in terms of venues in order to obtain a complete view of the market and address the needs of all market participants in terms of market data.

The panellists were also generally in favour of a post-trade CT. An industry representative explained that a post-trade CT would bring most of the value for the fixed-income market. Quantitative analyses of the post-trade data from fixed income markets can indeed help to mitigate the challenges associated with fixed income execution - i.e. the identification of liquidity and price formation - and achieve best execution, which are key issues for market participants and regulators.

Views however differed among the panellists concerning the timing of data dissemination.

A regulator stated that ESMA views the provision of real-time post-trade equity information as a vital feature of an EU CT and an essential contribution to the CMU. Another regulator concurred that the CT should be as close to real time as possible. An industry representative added that an end-of-day tape is not ambitious enough. A CT is urgently needed in real-time to make markets more transparent and efficient. There will be hurdles in terms of implementation, but this should not be a reason for reducing the ambition. A second industry representative also agreed that there should be real-

time dissemination of transaction data in order to reap the full benefits of empowering investors, removing information asymmetries, promoting resilience and enhancing risk management. This is not a matter of microseconds and latency, but of ensuring that data is aggregated and shared with market participants as soon as is practical. There should be targeted and limited deferrals only for larger-size trades, and those should be in minutes, not hours or days.

Another industry representative however believed that end-of-day data should be sufficient for equity markets in particular. First, real-time data is not needed for most equity CT use cases. A report mandated by the European Commission identified 14 CT use cases and recommended on this basis the establishment of a real-time post-trade CT, to be followed by a real-time pre-trade CT. However the industry speaker considered that a large majority of these use cases, which are currently serviced by existing data vendors, actually do not require a real-time CT and could be met by an end-of-day tape. Second, a real-time CT is not a silver bullet and will not solve existing shortcomings in the equity market which are mainly due to the current market structure. And third, a real-time post-trade CT is very complex to build and is not justified for just a few use cases. The supporters of this option often do not realize how expensive implementing a real-time CT is or do not expect to have to bear the costs. Real-time pre-trade data raises different issues, as it is not a discussion about benefits, costs and use cases. It would create a different market structure favouring arbitrage and potentially providing a misleading sense of liquidity with false benchmarks. That would be detrimental, particularly for retail and small asset managers.

1.5. Main features of existing CTs in the US

An industry representative advised that existing CTs in the US provide empirical examples of how to set up and run a CT that are useful to consider. A key lesson when observing the US market is that CTs should be appropriately tailored to the specificities of each asset class. In the US there is a provider for each major asset class. This avoids one-size-fits-all solutions and allows the parallel development of CTs for each asset class and market.

The US has five distinct and separate CT frameworks for equities, options, corporate bonds, municipal bonds, and OTC derivatives, including interest rate swaps. The common characteristics of these CTs are that they are comprehensive, requiring a mandatory contribution of on-venue and off-venue transaction data, and they disseminate information immediately upon receipt, with targeted and time-limited deferrals, and offer either low-cost or free access to data.

There are also several differences that are interesting to learn from. Concerning pre- versus post-trade information, equities and options markets have consolidated quotes, but fixed income CTs are post-trade only. There are also differences in the ownership and governance arrangements. For equities and options the CT is administered by a trading venues consortium that covers all the exchanges. The CTs for corporate and municipal bond markets are run by regulators: FINRA for the corporate bonds and the Municipal Securities Rulemaking Board for municipal bonds.

In terms of revenue model, each of these CTs has a transparent fee structure that is subject to rule filings that are available for market participants to comment on publicly. The revenue sharing concepts however differ across CTs. The equities and options markets have an arrangement whereby revenues are shared with the trading venues. In the corporate bond, municipal bond and the OTC derivatives markets, there is no revenue sharing. Market participants are obliged to report, and the data is disseminated under different fee arrangements that are relatively low cost as there is no revenue-sharing component. In the corporate bond market, those who have a reporting obligation pay a fee that helps fund it.

1.6 Implementation conditions and challenges regarding the EU CT initiative

Data quality issues

A regulator stated that ESMA is focusing primarily on the equity side of the CT project at present as it is formally part of the MiFID II review. In addition, rolling a CT out across all asset classes in one go is very difficult, when considering for example the data quality and completeness issues that exist for different asset classes. For derivatives the appropriate data is not available, for equities the situation is much more favourable and bonds are halfway between the two.

A regulator underlined that the National Competent Authorities (NCAs) have a responsibility for data quality on different data streams that are sent to ESMA and other regulators. Data quality is being improved in this context but it is an extremely challenging task. Similar issues will need to be addressed when building a CT, although this could also be considered as an effective lever for improvement.

An industry representative noted that there is an incentive with the CT to prioritize already available high-quality data from sources that already publish it, but doing so will not deliver the promised benefits of CTs. Data quality practices must be improved, particularly for OTC reporting, and this needs to be done by ESMA and the NCAs. It cannot be done by a CT or simply using technology. Another industry representative acknowledged the difficulties created by data quality issues but considered that the issues can be improved and should not be allowed to derail or delay further the EU CT initiative.

Business and governance model

A regulator summarised ESMA's recommendations regarding the business and governance models of the CT. First, there should be a single CT, as this will be the most cost-efficient and effective solution for Europe. Second, there should be a mandatory contribution of high-quality data. Third, the CT should share all or part of revenues with the regular contributors of mandatory data, with a recognition of which trades are price forming. Finally, it is crucial to have a strong governance framework in place to ensure high-level transparency, accountability and assurance of neutrality and service continuity. A key challenge for the CT project are the divergent views regarding governance and commercial arrangements for users. Setting up a transparent and fair system is another challenge. The CT is also a technically demanding project that

will require substantial investments of resources from all concerned, whether that is the private or public sector. Regarding the role of ESMA, MiFID includes a proposal for an authorisation and oversight approach at European level of the CT provider (CTP), which will contribute to ensuring impartiality and neutrality.

An industry representative observed that there seems to be a consensus about mandatory contribution to the CT but that the economics of who pays and who benefits from the CT still need to be worked out. There is huge value in data, so it must be possible to monetise it, but balancing who pays for the building of the CT and who benefits from it will be challenging. It is concerning that while many entities support the CT concept, some of them are not ready to contribute or even to consume data on a mandatory contribution model. In addition, the small number of use cases for a real-time CT, at least in equities, means that care must be given to ensure that agency costs do not offset the benefit. The overarching point is the need for a strong governance that balances the interests of the different stakeholders of the CT i.e. trading venues, market users and regulators. This is complex to set up but should not be underestimated.

An industry representative suggested that a solution for making a CT commercial model viable could be for the CT to be funded on a cost-plus-margin fee model. It cannot be free, so investors will need to pay for it, possibly with the exception of retail ones. The industry representative also agreed with the importance of governance and expressed a preference for a single tape provider with an ESMA mandate put to tender and overseen appropriately. However the CT is resource-intensive and needs a broad industry coalition to contribute to that governance model, rather than a provider overseeing its own fee-setting. A second industry representative considered that there should be low-cost or free access to the data. Certain segments of investors, including retail, should have free access to the data.

Another industry representative observed that there is at present momentum behind what may be referred to as a 'state-run CT solution'. The potential for a commercial entity stepping forward should however continue to be discussed in parallel. This has not materialized because there is no good commercial reason for doing so, due to the current regulation, but if the regulation is improved, then a private entity might emerge. Currently, only 3% of corporate bonds are liquid and 97% end up as post-trade prints that are available four weeks later via the deferral process. There are also few post-trade prints for euro govies that are transparently released to the market. At present, a CT can only sell data in the first 15 minutes of publication, but if corporate bond data only publishes when it is four-weeks' old, then who will pay for that data when they can receive it for free at four-weeks and 16 minutes? This is the main reason why no commercial entity has stepped forward to run the CT. This could be solved by making data sources such as trading venues and APAs give the data away for free after 15 minutes, whereas the CTPs could continue to sell the data, as recognition for their consolidation action. That would provide a commercial reason for a private CTP to step in.

2. European Single Access Point (ESAP)

2.1 Objectives and potential benefits

A regulator considered that there are similarities between the CT and the ESAP projects. Both aim to answer information problems at European level. Securities market NCAs are involved in both as some of them are broad capital markets regulators who also oversee financial reporting and accountancy.

The regulator supported the creation of ESAP, as corporate financial information is currently scattered across Europe. The fragmentation of transaction data seen with the CT is also true for financial reporting information and makes it difficult for investors to access the financial reports of listed firms in another jurisdiction. It would be beneficial for CMU to have them consolidated in a single database where they can be easily found, which is the objective of the ESAP. The ESAP goes beyond linking 27 different databases; the project is to develop a central place where the data can be found, which is quite an ambitious IT project. A phased approach could be used, starting with listed firms and expanding later to non-listed ones. If ESMA would take the lead in developing this central base that would be supported because ESMA already has a positive track-record and experience in providing central databases and this could be an example of EU integration providing investor benefits.

An industry representative agreed that the ESAP project would be beneficial, as it would allow the improvement of company visibility and facilitate investor access to smaller national capital markets in particular, thus providing funding for SMEs across the EU, which is in line with CMU objectives. The ESAP however needs to be more than a data repository. It needs to be a database comprising information in English and in a machine-readable format in order to facilitate the dissemination and use of the data. This involves a role of the ESAP in terms of translation and formatting of the information and also a supervisory role for ESMA.

A regulator stated that this project could be really beneficial for the funding of the European economy and makes sense for Europe. Similar systems already exist in the US and Canada to help companies get more visibility in the market and to facilitate cross-border investment.

2.2 Conditions of success and way forward

The Chair noted that there is a strong consensus on the benefits of the ESAP project in the market, but the difficulty will be in the details of the implementation and how it is calibrated. It must include financial, non-financial and sustainability data that is machine readable. There have been attempts in the past to put in place a common format for reporting, such as the European Single Electronic Format (ESEF), but it was not popular with issuers, so there is a need to be careful about the way this project is implemented. With adequate financial and human resources, ESMA should be in a position to complete this project successfully.

An industry representative emphasized that care is needed with the ESAP project, not to add burdens for companies, particularly SMEs, since that may create additional disincentives for listing on public markets. Adopting a phased approach would help, as well as using technology to translate the information into an

English machine-readable format in order to facilitate its provision and dissemination.

A regulator stated that it is important to build this project over time. The objective is to achieve a comprehensive coverage of financial and non-financial information for all listed companies, however complexities should be avoided. The ESAP should be built progressively, starting with existing data related to the transparency directive, prospectus regulation, shareholder rights, MAR and so on. Sustainability data, as well as essential non-financial data should also be included early on, in order to support the European Green Deal objectives.

The regulator agreed that information should be provided in a comparable machine-readable format and easily usable by multilingual, cross-border investors, which will be challenging to achieve. It should also be possible to extract large amounts of data seamlessly to be usable by all kinds of stakeholders. There is also a need for clear data governance and data checks in order to ensure that data is of good quality and corresponds to investor needs.