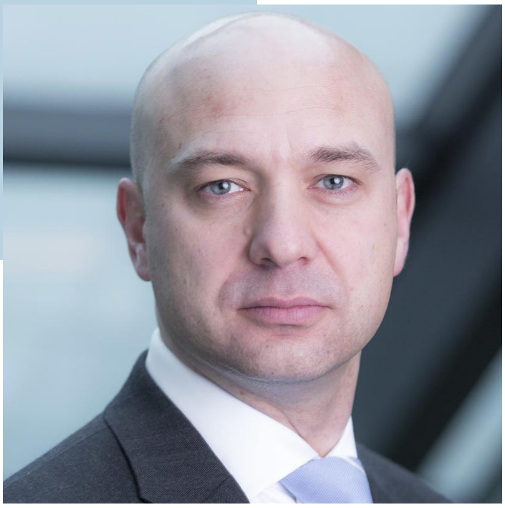

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A principled compromise, not compromised principles, can deliver a CTP

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 deferrals regime.

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.