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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.