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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.

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.