CONSOLIDATED TAPE PROPOSALS

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Consolidated tape, now what for the bond CT?

At Eurofi in Paris in February 2022 I concluded the CT panel that I moderated with the phrase: Let's see in Santiago de Compostela what has come out of the trilogue negotiations. With the principal agreement reached on the MiFIR review, it is now time to consider the practical establishment of a viable and effective consolidated tape solution.

Although the technical trilogues have not been been completely finalized yet at the time of writing, a positive outcome seems clear. There will be a CT that will add significantly to transparency and execution quality, reducing fragmentation in EU capital markets, increasing visibility, comparability, funding opportunities and improve market resilience.

This does mean that real work starts now. From AFM's perspective, we have continuously strived for the rapid establishment of a bond CT as we believe this would have the most significant impact on transparency. Now that the outlines are clear, we need to make sure that a viable CT proof of concept can be delivered soon.

There are number of considerations that would need to be addressed as part of these next steps, and most importantly, the tender and award process by ESMA.

- In our view, the bond CT should provide for real-time, subject to applicable deferrals, post-trade data feeds based on mandatory contributions from market data contributors as defined in MiFIR. Core market data should be made available to the Consolidated Tape Provider (CTP) in standardised formats. These formats should leverage, to the extent possible, existing MiFIR reporting methodologies and industry practices.

- The main task of a CT provider will be to ensure a solid and secure technical platform for processing, (cloud)storing, and harmonizing data contributions for consumption, combined with adequate capabilities for administration, access, dissemination, distribution licensing and subscription management for CT data consumption.

- CT data should be made as widely available as practically possible to different types of end-users, differentiating between display data aimed at non-professional usage and wholesale non-display data for automated processing, redistribution or to support the creation of value-added services.

- A CT provider should establish a solid governance framework, ensuring fair representation of all stakeholders including data contributors and users. Governance and avoidance of conflicts of interests should become an essential element of the selection and award procedure for CT providers by ESMA.

It is now key that all stakeholders involved should work together to get the CT working in practice and to seek a provider that is able to operationalize the CT effectively.

Together with the industry and supported by ESMA and the European Commission in observer capacity, the AFM has already drafted a number of high-level technical principles on the core attributes of a bond CT in May 2022 that address the above.
These principles were the result of a process facilitating the generation of ideas, business models and proofs of concept by way of our Regulatory Sandbox that includes technology providers, industry representatives from the buy- and sell-side, trading venues and liquidity providers. This allowed for rapid progress to be made and for market based, practical guidance to be developed into an agreement on high-level technical principles for a corporate bond CTP.

In our view, these principles are still a perfect blueprint to address the many practical elements around data delivery, data quality, scoping and governance. Some of the data quality and reporting recommendations have meanwhile been taken onboard in the amendments of MiFIR RTS 2 and the new comprehensive ESMA reporting guidelines.

Having an operational CT in place will be a great boost to enhance real meaningful transparency in a manner that is useful to all market participants. In particular a correct and flexible calibration of an EU wide deferral regime for bonds is essential for the establishment of a bond CT, which will eventually be up to ESMA.

Last, but not least, ensuring the right level of data quality and consistency is paramount. Much progress has been made with better guidance and best practices on correct and consistent ways of reporting. We further believe in strengthening ESMA's role in handling and enhancing data quality and reporting consistency. Another key element is to form an industry expert group to advise on some of the key issues in reporting market data and CT governance.

We all agree on the timely implementation of a CT for bonds as an integral element of the Capital Markets Union and that now is the time to deliver. Already looking forward to 2025's Eurofi in Poland to see where we landed!

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EU consolidated tapes on the horizon – let's go CMU!

Following tough negotiations, the EU has finally reached political consensus on the Review of MiFID II/ MiFIR and the establishment of consolidated tapes (CTs). While future will tell how the different CTs may enhance the investment climate and improve overall transparency, the agreement marks an important step into the right direction as it is symbolic of the EU's strong commitment to advance the Capital Markets Union (CMU) during a critical time marked by geopolitical tensions and significant economic challenges.

After a lot of discussions on the concrete details, it is now time to look forward and to embrace the compromise found – also bearing in mind the importance of a swift and effective implementation. It has been long established that CTs may provide valuable instruments by supporting a more integrated trading view across EU markets, enhancing the general investment climate by boosting transparency and broader visibility. Furthermore, they may provide more standardized high-quality data across different execution realities, thereby improving effective best execution verification while also strengthening investor protection within the EU.

Especially when it comes to the equity and ETF dimensions, European exchanges remain committed to delivering in the EU's interest through their Joint Venture. Leveraging on exchanges' expertise and long-standing history as the powerhouses of high-quality market data, their bid for the delivery of an efficient and effective implementation is footed on a comprehensive and professional business set-up that is well equipped to master complex operational challenges while creating an environment conducive to innovation and growth.

Regarding the concrete details of the equity CT, it is therefore good news that ESMA has been entrusted with a significant role over the coming years. This will facilitate a smooth implementation, avoiding market disruption and unintended consequences while maximising the positive impact and effectiveness.

This does not only include the running of the tender process but notably also concerns the core of any viable equity CT with a significant added value for the market, i.e. high quality market data from various sources as the backbone and starting point. ESMA's joint responsibility with NCAs to enforce accurate, complete, and timely data submissions is especially key when it comes to alternative execution venues – as the market failure around high-quality data from this segment had an important impact on the non-emergence of a viable equity CT under MiFID II/ MiFIR over the last years.

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While a lot of progress has already been made in certain regards (see e.g. latest ESMA data on SIs indicating that about 90% of post-trade data is available within 30 seconds), it is of essence that ESMA's efforts and expertise is further leveraged in the context of the expert stakeholder group which is to be set-up by the European Commission

Beyond the necessity to ensure high quality data as a starting point to any integer and reliable CT, it will also be critical to ensure that the details around the revenue distribution scheme reflect the needs of EU equity markets and current empirical realities. Exchanges play a key role for the EU's CMU endeavour embedded in an open strategic autonomy – they are indispensable when it comes to price formation and accurate reference data as the backbone of any sound investment decision-making.

The compromise reached by the EU acknowledges this importance and aims to limit any unintended consequences on their viability. This should help to avoid a CT set-up that only comprises parts of the EU's equity markets, noting that an uncomprehensive coverage would lead the whole project ad absurdum as a partial and fragmented coverage would not signal the much-needed unity across the internal market at this critical juncture.

Overall, it is clear that the implementation of the equity CT presents challenges for both regulators and the industry. This is not only due to the narrow implementation timeline but also triggered by additional uncertainties surrounding the upcoming review of the regulation, potentially affecting the CT's attractiveness and commercial viability. Striking the right balance between political and market expectations is therefore vital for the success of the EU's equity CT. But it also requires all stakeholders around the table to constructively work together, supporting the political deal found and embedding the CT discussion in the broader picture of EU capital markets.

Let's embrace the opportunities the accord presents and collaborate on an effective implementation, supporting a deeper EU capital markets integration and boosting the famous CMU endeavour in the sustainable interest of future generations.

Based on the experience the EU will gain over the next years, the scope of the equity CT could then be reviewed and adapted in symbiosis with market needs and a profound future vision of the underlying market structure.

NICHOLAS BEAN

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Dare we say the finishing line is in sight for a bond consolidated tape?

A European consolidated tape (CT) for bonds may finally be achievable after EU legislators reached a trilogue breakthrough on the MiFIR review. While this represents a significant milestone, there is still some way to go before a viable CT for fixed income markets actually emerges. Moreover, we have been here before; a CT was first envisaged when MiFID II was agreed back in 2014 yet none emerged. The MiFIR review must ensure this time will be different.

Given the lengthy period that has passed since MiFID II was agreed and the MiFIR review was proposed, it is worth re-examining the underlying rationale for a bond CT. The objective of the Capital Markets Union initiative is a single financial market across the Union to stimulate growth, provide greater funding opportunities and facilitate investment in Europe. The introduction of a bond CT can concretely support these important objectives by providing a single stream of data, which affords market participants a more transparent and reliable overview as to where liquidity lies and how best execution can be achieved. Clearly, the rationale for a bond CT remains as compelling today as it was in 2014.

However, whether a CT actually emerges this time around depends on the extent to which the lessons of the last nine years have been heeded. Einstein famously quipped that insanity is doing the same thing over and over again and expecting different results. With a CT for bonds failing to emerge under MiFID II, it was very clear that a 'one more go' approach would not deliver results and that a fundamental change in approach was required to address two key impediments to a bond CT.

The first impediment to a viable CT was the commercial model. MiFID II created insurmountable regulatory barriers by legislating for multiple competing CTs, which would have to give their product away for free after 15 minutes, while having to secure data from trading venues and APAs. It was good to see policymakers seeking to improve the commercial incentives for a potential CT provider by changing to a one-tape-per-asset class approach and removing the 15 minutes requirement.

A second impediment has been MiFID II's complex and unwieldy deferral and transparency regime, which has resulted in trades being withheld from publication often until after any usable time. A key lesson has been that the consolidation of trading and volume data is only useful if it is timely and of good quality. Fortunately, legislators have recognized the importance of improving the regime and have taken the first steps to simplifying and harmonizing maximum deferral periods. However, the devil will be in the detail as ESMA develops detailed implementing rules and this calibration will be 'make or break' for the success of a bond CT.

It is essential to remain sensitive to the feedback of the bond markets.

A related issue, as it is not actually a CT provider service, has been the fixation of a sort on MiFID II's pre-trade transparency regime for bonds. This does not reflect the practicalities of trading in this asset class. Specifically, the Request For Quote trading system (protocol) inherently affords investors with highly relevant liquidity identification in the pre-execution phase. As such, it was good to see legislators reconsidering the fixed income pre-trade transparency regime and seeking to target it around central limit order book and periodic auctions systems. This course of action boosts the prospects for a bond CT as it will enable ESMA to focus its resources and firepower on the simplification of the post-trade transparency regime, which is critical for the success of the bond CT.

Regarding asset class sequencing, the approach of prioritizing the CT in the bond market ahead of equity markets is ostensibly to address the greater need for transparency in the former over the latter. This contrasts with other considerations for such a decision - for example the more challenging nature of political agreement in matters concerning equity markets. Irrespective of the driver, members of the bond market community are broadly keen to demonstrate leadership in this area and contribute, in any relevant way, to bringing about a bond CT. Nonetheless it is essential that policymakers and all stakeholders remain sensitive to the feedback of the bond market community throughout the CT tender and supervisory process.

Ultimately, the MiFIR review represents significant progress in terms of important lessons being learnt and it paves the way for a bond CT to finally come into existence. However, there is still a lot of work to do. ESMA's level 2 choices will be critical, not secondary to the success or failure of a bond CT. European fixed income markets have a pivotal role to play as the EU navigates the economic challenges of this decade. When we look back in nine years' time, we need to be able to say that the MiFIR review was truly different.