

# PRESS RELEASE

## STUDY ON THE CREATION OF AN EU CONSOLIDATED TAPE

**Market Structure Partners**, “MSP”, today announces the publication of its study, undertaken on behalf of the **European Commission**, on the creation of an EU consolidated tape for equity and debt markets.

### Key findings are:

- There is **high demand** for EU consolidated data with numerous use cases identified across a broad section of industry stakeholders who perform many different functions across the value chain.
- A consolidated tape that could **save end investors billions of euros** and meet the user requirements identified in the study can be **built for as little as €11 million** with **annual running costs of between €7-€9 million**.
- Set up and running costs could be **funded by a fee levied** on those that currently aggregate the data (Trading Venues, “TVs”, Approved Publication Arrangements, “APAs”, and Systematic Internalisers, “Sis”) for **as little as €25,000 per entity to set up** the tape and **€16,000 per entity per annum** to cover the running costs.
- **Tens of thousands of professional users** and **hundreds of thousands of retail users** would use the consolidated tape if it existed.
- The existence of a consolidated tape would not only provide better investment outcomes for investors but also **promote competition**, **direct more flow to lit trading venues** and bring considerable **improvements to risk management and capital allocation processes** and **regulatory calculations and policy making**.
- Participants want **real time pre and post trade data in equities and real time post trade data in fixed income**. They also need good historic consolidated data.
- The technology to build the consolidated tape already exists and is widely available. The biggest **impediments** to consolidating data are:
  - the **underlying data** that needs to be consolidated currently resides across many **competing commercial entities, some with disproportionate economic leverage and conflicts of interest**.
  - the lack of a single body to mandate conformance to a single set of **technical operating standards** for data generators and aggregators
  - the **federated model of National Competent Authority, “NCA”, supervision and enforcement** across the EU; there is currently **no central body to enforce standards** and **penalise poor behaviour**, particularly to resolve data issues in real time.

### Key recommendations for the high-level architecture for an EU tape are:

- The creation of a **single, exclusive, consolidated tape provider**. It should be run as an **industry utility, governed by a broad set of data stakeholders and empowered by** The European Securities and Markets Authority, “**ESMA**”, **to set and enforce market-wide standards and pricing of consolidated data**.
- All **data aggregators** (TVs, APAs and SIs) should be **mandatory members and should contribute to the funding** of the utility (per above a modest fee). The **regulatory authorisation** of their business should be **linked to their membership** of the provider and their willingness to abide by the rules.
- **Data should** be made freely accessible **by each data aggregator** to the consolidated tape provider **in return for a share in the revenues earned** from the distribution of the consolidated data. This would be **allocated back according to defined parameters and an algorithm that measures the contribution** of each underlying data aggregator to the overall data set when it has been consolidated.
- **Data should be free for retail investors** - lessons learnt from the US show that if the consolidated tape is not free, many inferior products are developed by the very same trading venues that control and profit from the consolidated tape.
- **The current US model is not considered an exact model for Europe but this proposal converges with the SEC’s** current proposals to reduce the power of the largest exchanges that control the

consolidated tape and also to increase the amount of pre-trade data available to the market to off-set the impact of high speed trading.

### The report considers the impact of the UK's departure from the EU on the need for consolidated data and concludes:

- The proliferation of additional entities and liquidity pools created across both the UK and the EU will only increase data complexities. **Accurate and holistic data will become even more critical for each trading block** if a deal is not reached and they end up competing for pools of capital. Two tapes would clearly double the costs.

### The study assesses the requirements and proposed architecture against the current legislative framework and finds that:

- **Pre-trade data consolidation in equities cannot be achieved under the current law** because there is no mandate for TVIs to publish their pre-trade data to a consolidated tape provider and **the pre-trade data** required for publication **is not currently defined in the law**.
- The Commission has sufficient powers under the current legislation to commence the creation of **an exclusive tape provider for post trade data** in both equity and debt markets but further legislation to fully entrench the exclusive provider's position would be beneficial.
- The Commission is **faced with the option of waiting** for further legislative change to create the full solution or **moving forward** to create a partial solution.

### The report recommends that:

- The Commission **moves ahead** with the creation of a post-trade tape for both equity and debt markets and **pursues further legislative changes** to allow the required pre-trade data to be consolidated and to further entrench the role of the single, consolidated tape provider in the law.

### Niki Beattie, CEO of MSP, says:

- *"The study demonstrates that there is clearly a need for a European consolidated tape. It's scary to hear the stories of so many market participants struggling without good data. Asset managers who manage trillions of euros of assets on behalf of investors say they have sub-optimal data with which to do their jobs, risk managers of even the largest firms speak of the difficulty of monitoring the markets without consolidated data and regulators struggle to compile data sets to undertake basic regulatory calculations and perform the required oversight."*
- *"It's unrealistic to expect competing consolidated tapes to emerge under the current market structure and legislation. If the current impediments to consolidation are not resolved then trying to consolidate data is a waste of time and it is not surprising that no consolidated tape provider has come forward."*
- *"There are pros and cons to waiting for legislative change to deliver the entire solution but the delivery of CT data for the EU is already long overdue. It's possible to achieve quite a lot now and to delay further raises the risk that it may not be delivered at all."*
- *"Brexit will not make the data problem go away - it will exacerbate it both for the UK and Europe and if they have to compete for pools of capital then data will become critical to both market blocks"*

### About the study

European Financial Markets Regulators had hoped that the Markets in Financial Instruments Directive and Regulation, MiFID II/MiFIR, would create a regulatory environment in which commercial, competing consolidated tape providers (CTPs) would emerge. However, no CTP in any asset class has materialised. In case this occurred, a provision was made in the law for the European Commission, "EC", to request ESMA to create a CTP.

This study was commissioned by the European Commission to help inform the next steps. It had to consider the need and requirements for consolidated pre- and post-trade data in equities and debt markets. It also had to research US and Canadian data consolidation frameworks and propose an architecture and design for EU data consolidation based on the findings and user feedback.

The study approach involved field and literature research as well as interviews and workshops with 189 data users and stakeholders and 11 industry associations. Most of these users and stakeholders are active across the majority of European markets (EU 27 & UK) in their respective asset classes.

### About Market Structure Partners

Market Structure Partners is an independent, consulting firm, specialising in global capital markets structure.

It aims to deliver real benefit to society by providing valuable, non-biased, strategic advice, with the utmost integrity, to help enhance and develop capital market structures.