

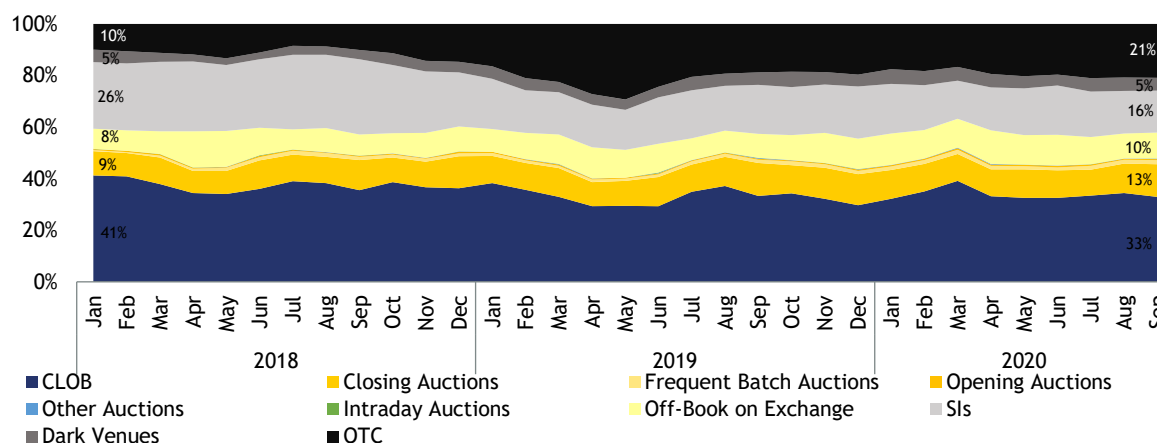
FESE Paper on the Tape of Record for Equity, Equity-like Instruments, and Fixed Income¹

Brussels, 2nd December 2020

1. What is the situation in European financial markets with regard to market data?

The EU trading landscape is highly fragmented, with increasing amounts of trading taking place in the dark. Trading has become more fragmented under MiFID II and the market share of lit venues has decreased.

Figure 1: STOXX 600 Market Share by Execution Mechanism



Source: Big xyt

These trends have resulted in an extremely fragmented ecosystem for investors. In view of this, there is a need for a reliable consolidated view of trading in Europe, as foreseen in the Capital Markets Union (CMU) Action Plan.

FESE acknowledges that comprehensive consolidation is not yet available, especially when it comes to systematic internaliser (SI) and over-the-counter (OTC) data. In order to enable consolidation, the inconsistent reporting of SI and OTC trades must be addressed. Correct, reliable, and consistent flagging of transactions is key to delivering a CT in the first place. Investors should be able to get a full overview of the market and know where their orders are executed. But against this background, policymakers should also ensure that the market structure is fit for purpose, i.e. promote transparency in financial markets. A CT is not to be seen as a substitute for an adequate market structure. The role that lit markets play in delivering the CMU, as well as the importance of the price formation process, are also key factors to be taken into account in this debate.

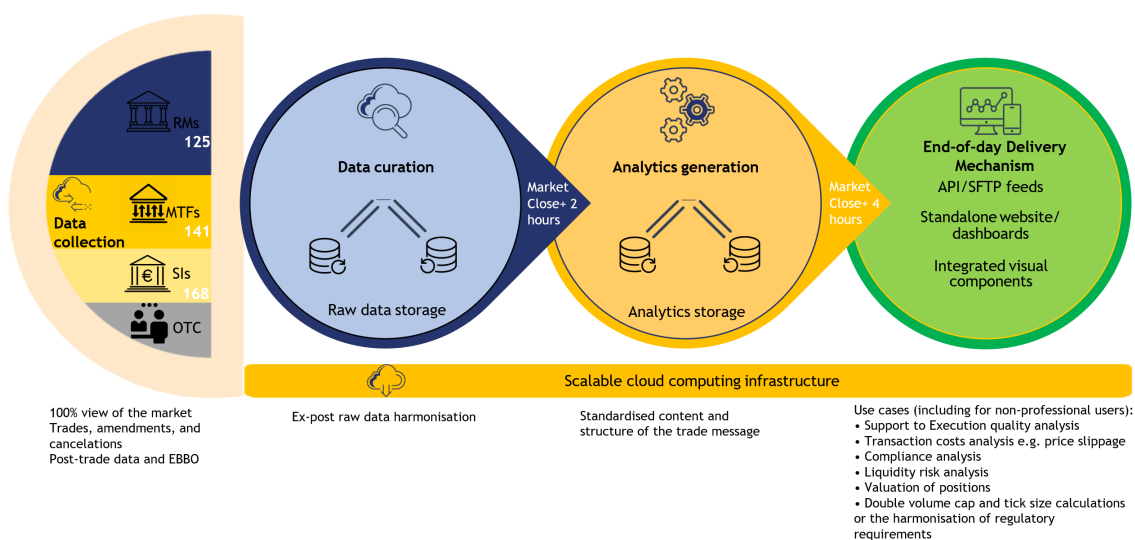
¹ The non-paper proposal is specific for an equity tape of record and a fixed income tape of record, for ease of reference the non-paper refers generally to both of them as ToR.

2. What is FESE proposing?

FESE believes that a Tape of Record (ToR) covering all venues and execution mechanisms would provide a true consolidated view of the market, represent a cost-effective and simple solution, without latency and arbitrage issues, and meet the needs of market participants. A ToR would take into consideration particularities of the EU market structure and provide a convincing use case, avoiding high costs for the industry as a whole without tangible benefits.

3. How would a Tape of Record work?

FESE's ToR proposal would consolidate and disseminate, after the market close, the EBBO and last price, time (both of execution and publication), price, volume, and harmonised MMT trade flags of each transaction, thus providing a comprehensive view of overall trading activities within the EU on an instrument level. This would be done in a four stage process starting with 100% market coverage, while collecting, curating, and analysing the data that would be delivered to users of the ToR.



While such a ToR would be appropriate for equity, data consolidation for ETFs and fixed income should be addressed with higher priority. For ETFs in particular, where a very large proportion of volumes is executed off-exchange, a ToR would offer a complete view of the market, improve transparency, and could encourage more investors to be active in this asset class.

A ToR would allow for execution quality, transaction costs (e.g. price slippage), and compliance analysis, or the valuation of positions, while also facilitating double volume cap and tick size calculations or the harmonisation of regulatory requirements. The data could also be used for predictive analytics on liquidity developments in different trading venues and the market, the identification of liquidity risk, end-of-day pricing used to calculate net asset valuations for mutual funds and ETFs, etc.

While these advantages would flow to all investors, they stand to benefit most small and medium-sized companies, critical as the core of the European economy, as well as retail investors who have fewer resources to allocate to data acquisition and processing.

5. What would be the benefits of a Tape of Record compared to other proposals?

A ToR would provide valuable insights into trading and would represent a more cost-effective approach than an “as close to real-time tape”. Comparable industry solutions already exist, demonstrating that the ToR is a useful and viable solution that has fewer latency, risks, and complexity issues, and delivers clear value to the market.

In particular, the specificities of the EU market structure give rise to an inherent complexity in the CT: with about 200 venues and APAs dealing with equity instruments in 27 different jurisdictions, EU markets are significantly fragmented. Given this fragmentation and its resulting technological hurdles, real-time post-trade consolidation would impose higher infrastructure and maintenance costs as well as costs to the industry in comparison to a ToR. Moreover, a ToR would integrate amendments and cancellations data that would not be available in real-time. The creation of a pre-trade data CT would impose even higher costs and could easily become a flawed and easily gameable best execution benchmark.³

A CT will only be as accurate and reliable as the data coming from the worst performer contributing to it. For this reason, FESE would underline that implementation of MMT and enforcement of data quality by NCAs is paramount.

6. What else should be considered?

The current lack of transparency in some areas of capital markets is not due to issues pertaining to the consolidation of data but to a deficient market structure that encourages the execution of orders away from transparent markets to the detriment of investors and issuers.⁴ While a CT is no substitute for adequate market structure and rigorous enforcement of rules, a ToR may bring some benefits, at a reasonable cost and with none of the risks implied by some real-time solution. In an environment where market transparency and data quality continue to be an issue, it is necessary to prioritise the consistent implementation of market model typology (MMT) and enforcement of data quality by national competent authorities.

The impact of the UK’s departure from the EU must also be factored into the assessment. In our view, the relevance of a CT without UK data is questionable. It is difficult to conceive mechanisms to include UK data, notably of a voluntary nature, post-Brexit. As such, the value of an EU CT, particularly real-time, would be weakened.

7. Main characteristics of the Tape of Record

The following table details the different outstanding elements of FESE’s ToR proposal.

<p>Use cases</p>	<ul style="list-style-type: none"> • Transparent and accurate view over trading fragmentation/localisation • Ex-post execution quality analysis • Transaction costs analysis e.g. price slippage • Compliance analysis • Liquidity risk analysis (e.g. FRTB), predictive analysis on liquidity distribution
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³ See Euronext, “CMU & The Consolidated Tape: Friend or Foe?” (Paris, 2020); FESE, “Non-Paper on the EU Consolidated Tape” (Brussels, 2020).

⁴ On the links between market data, trading and price formation, and the design of the equity trading market more generally, see Oxera, “The Design of Equity Trading Markets in Europe: An Economic Analysis of Price Formation and Market Data Services” (Oxford, 2019); Oxera, “What’s the Data on Market Data? The Role of Market Data in Equity Trading” (Oxford, 2019).

	<ul style="list-style-type: none"> • Valuation of positions, end-of-day pricing to calculate net asset valuations for mutual funds and ETFs • Double volume cap and tick size calculations or the harmonisation of regulatory requirements
User types	<ul style="list-style-type: none"> • Non-professional users • Professional users also in the scope for some more limited uses cases
Market coverage	<ul style="list-style-type: none"> • 100% view of the market is critical, SI and OTC data must be included as that of RMs and MTFs is already available. • A CT that would not provide for full coverage of all execution venues would be deprived of practical significance.
Scope	<ul style="list-style-type: none"> • <u>Asset classes</u> (per separate ToR): Shares, ETFs, Corporate bonds, Government bonds, • <u>Depth</u>: Ex-post EBBO, post-trade (N.B.: The depth would be conditioned by the intended use cases and the delay as complexity and cost increase with more levels of depth and some providers already have solutions with significant depth. The granularity of price information should be aligned with pre-and post-trade information requirements of MiFID/MiFIR). • <u>Content</u>: Trades, amendments, and cancelations
Content of the trade message	<ul style="list-style-type: none"> • Security identifier, trade ID, execution and publication timestamps, venue, currency, price, volume, and trade flag, and the sequencing of the trade message
Delay and latency	<ul style="list-style-type: none"> • End-of-day
Data consistency	<ul style="list-style-type: none"> • Guaranteeing high-quality, reliable, and consistent flagging of SI and OTC trades is key to delivering a CT that can be considered meaningful. • Ex-post measures to ensure data consistency and compliance with the MMT model would be implemented: Guaranteeing high quality, reliable

	<p>and consistent flagging of SI and OTC trades is key.</p> <ul style="list-style-type: none"> • Broader implementation of the MMT which currently ensures consistency of exchange data would contribute to addressing existing data quality issues.
Governance	<ul style="list-style-type: none"> • A strong governance framework that ensures the neutrality of the CT and high-level data quality and transparency is necessary. • A strong governance framework must ensure fair and ethical behaviour, as well as a full representation and voting power of data sources within the CT provider board. The board should include neutral representatives (e.g. ESMA) and the board should be responsible for monitoring the impact of the CT on capital markets and report on risks and/or benefits to regulators using fact-based evidence. • A CT provider should not be awarded full recognition and delegation powers to allow it to enforce data laws. Regulatory authorisation should remain in the remit of NCAs. • A CT should not be an alternative to effective enforcement of data quality by NCA's.
Revenue model	<ul style="list-style-type: none"> • When reflecting upon the overall funding structure, mandatory CT fees should reflect the number of data sources and the data fees of the respective data sources plus operational charges for the CT provider. • The CT should not primarily be seen as a tool to address developments in the cost of market data. • The revenue model should be aligned with the overall objective of MiFID II providing incentives to trade lit as opposed to dark trading. In redistributing revenue, trades that provide core price formation should be compensated at a higher rate than other trades.

8. Minimum set of fields for the trade message

Field Description	Standard Reference	RTS 1 (Equity/Equity-like) Mandatory Fields	Comment (see RTS 1, Annex I, tables 1-4)	Example (equity trade message)
Trading date and time	ISO 8601	Y		2020-10-26T07:00:38.000015Z
Publication date and time	ISO 8601	Y		2020-10-26T07:00:38.000015Z
Instrument identification code (ISIN)	ISO 6166	Y		DE0007664039
Price		Y		151.64
Price currency	ISO 4217	Y		EUR
Quantity		Y		614
Venue of execution (Segment MIC / Operating MIC)	ISO 10383	Y	"SINT" for Sis	XAMS
Transaction identification code		Y	Must be unique per Segment MIC and per day	00032D6UH1P0001T
MARKET MECHANISM	FIX MMT		Only ESMA code is mandatory if applicable	1 [LB] [Central Limit Order Book]
TRADING MODE	FIX MMT		Only ESMA code is mandatory if applicable	0 [OA] [Scheduled Opening Auction]
TRANSACTION TYPE : TRANSACTION CATEGORY	FIX MMT		Only ESMA code is mandatory if applicable	- [-] [None apply (a standard trade for the Market Mechanism and Trading Mode)]
TRANSACTION TYPE : NEGOTIATION INDICATOR OR PRE-TRADE TRANSPARENCY WAIVER	FIX MMT		Only ESMA code is mandatory if applicable	- [-] [No Negotiated Trade]
TRANSACTION TYPE : AGENCY CROSS TRADE INDICATOR	FIX MMT		Only ESMA code is mandatory if applicable	- [-] [No Agency Cross Trade]

TRANSACTION TYPE : MODIFICATION INDICATOR	FIX MMT		Only ESMA code is mandatory if applicable	- [-] [New Trade]
TRANSACTION TYPE : BENCHMARK OR REFERENCE PRICE INDICATOR	FIX MMT		Only ESMA code is mandatory if applicable	- [-] [No Benchmark or Reference Price Trade]
TRANSACTION TYPE : SPECIAL DIVIDEND INDICATOR			Only ESMA code is mandatory if applicable	- [-] [No Special Dividend Trade]
TRANSACTION TYPE : OFF BOOK AUTOMATED INDICATOR	FIX MMT		Only ESMA code is mandatory if applicable	- [-] [Unspecified or does not apply]
TRANSACTION TYPE : ORDINARY/STANDARD TRADES OR TRADES OUTSIDE PRICE FORMATION/DISCOVERY PROCESS	FIX MMT		Only ESMA code is mandatory if applicable	P [P] [Plain-Vanilla Trade]
TRANSACTION TYPE : ALGORITHMIC INDICATOR	FIX MMT		Only ESMA code is mandatory if applicable	H [ALGO] [Plain-Vanilla Trade]
PUBLICATION MODE / POST-TRADE DEFERRAL : REASON	FIX MMT		Only ESMA code is mandatory if applicable	- [-] [Immediate Publication]
POST-TRADE DEFERRAL OR ENRICHMENT : TYPE	FIX MMT		Only ESMA code is mandatory if applicable	- [-] [Not Applicable / No Relevant Deferral or Enrichment Type]
DUPLICATIVE INDICATOR (only in case of non-TV / OTC data publication)	FIX MMT		Only ESMA code is mandatory if applicable	- [-] [Unique Trade Report]

The Federation of European Securities Exchanges (FESE) represents 36 exchanges in equities, bonds, derivatives and commodities through 19 Full Members from 30 countries, as well as 1 Affiliate Member and 1 Observer Member.

At the end of November 2020, FESE members had 8,660 companies listed on their markets, of which 13% are foreign companies contributing towards the European integration and providing broad and liquid access to Europe's capital markets. Many of our members also organise specialised markets that allow small and medium sized companies across Europe to access the capital markets; 1,071 companies were listed in these specialised markets/segments in equity, increasing choice for investors and issuers. Through their RM and MTF operations, FESE members are keen to support the European Commission's objective of creating a Capital Markets Union.