



1 June 2010

Dear Sir, I have pleasure in sending you the response by Thomson Reuters to the Consultation Papers from CESR on:

1. Technical Advice to the European Commission in the Context of the MiFID Review – Equity Markets
2. Technical Advice to the European Commission in the Context of the MiFID Review – Investor Protection and Intermediaries

Equity Markets Consultation Paper

Question 16: Do you have any comments on other aspects of the SI regime?

TR response: "Implementation of the proposed changes may result in an increase in the number of SIs and an increase in the amount of quote data they would be required to publish. But the non-executable nature of the SI quotes and relevance only to specific clients of the relevant broker will still severely limit the demand from market data users to view this data and compromise its relevance in any post trade analysis. We therefore see little real benefit to the equities market in the implementation of the proposed measures."

Question 17: Do you agree with this multi-pronged approach?

TR response: "We welcome the proposed approach. The implementation and proper enforcement of the standards proposed in Annex II would greatly address the existing issues around data quality. We provide below responses to the specific questions within this Annex. We also welcome the clarification of what constitutes a single transaction whilst recognising that this is a complex area in which the formation of the joint working group including industry practitioners is a sensible approach."

Question 18: Do you agree with CESR's proposals outlined above to address concerns about real-time publication of post-trade transparency information? If not, please specify your reasons and include examples of situations where you may face difficulties fulfilling this proposed requirement.

TR Response: "We believe the current maximum 3 minute delay is not unreasonable as an exception, particularly for those firms whose reporting involves manual entry. The CP identifies that the issue is that some firms appear to be delaying all reports by 3 minutes rather than this being the exception. If that is the case then this practice is not compliant with the existing MiFID obligations and the appropriate response is to enforce the current obligations rather than tightening them up"

Question 19: In your view, would a 1-minute deadline lead to additional costs (e.g. in terms of systems and restructuring of processes within firms)? If so, please provide quantitative estimates of one-off and ongoing costs. What would be the impact on smaller firms?

TR Response: "Complying with a maximum one minute reporting delay on all trades may well be impossible with any kind of manual element in the process. The requirement to automate the reporting process by smaller firms would involve additional cost which we are not in a position to estimate"

Question 27: Do you support the proposed requirements/guidance (described in this section and in Annex IV) for APAs? If not, what changes would you make to the proposed approach?

TR Response: "There is clearly a requirement for a mechanism by which the necessary standards for data publication can be monitored and enforced. The proposed APA regime would appear to provide a means of delivering this. However we do have two concerns. The first is that regulators must be consistent in their approach to approving APAs and to this end we would



suggest that the “guidance” set out in Annex IV becomes a set of specific requirements. It is very important that data publication is not inhibited by duplicative or inconsistent national regimes since this would undermine efficiency and add to costs.

The second is that whilst it is clear that APAs will have to operate to specific standards it is less clear what incentives there are to become an APA, which could result in very few entities seeking to become APAs. APAs will require revenue in order to operate which could come from one of two sources:

- a. fees charged to investment firms for the publication of their trades, or
- b. fees charged to consumers of the real-time trade data they publish.

In our view the potential revenues to be made from the real-time publication of trade data by an APA or as part of a consolidated tape are limited if the total cost of the consolidated tape is to be kept reasonable (see our responses to questions 30 & 31 below).

Question 28: In your view, should the MiFID obligation to make transparency information public in a way that facilitates the consolidation with data from other sources be amended? If so, what changes would you make to the requirement?

TR Response: “Implementation of the clear standards set out in Annex II combined with the requirement to publish trades only through an APA, Exchange or MTF will be sufficient to allow for the consolidation of data. We therefore see no need to amend this requirement”

Question 29: In your view, would the approach described above contribute significantly to the development of a European consolidated tape?

TR Response: “Implementation of the standards and the APA regime should address the current issues around data quality and therefore contribute to the delivery of a consolidated tape.”

Question 30: In your view, what would be the benefits of multiple approved publication arrangements compared to the current situation post-MiFID and compared to an EU mandated consolidated tape (as described under 4.1.2 below)?

TR Response: “Implementation of the APA regime should result in a tape that is of a high quality. By leveraging the existing capabilities of service providers such as data vendors the cost of set up and maintenance of the infrastructure to support an MCT can be avoided.

The imposition of a Mandatory Consolidated Tape will result in the withdrawal of the existing commercially operated solutions and with that so too will the potential innovation incentive and development of these services to respond to the needs of the varied types of consumers of this data. It should be recognised that the most sophisticated users of trade and pricing data in the US choose to ignore the consolidated tape and NBBO data and instead create their own equivalents from direct feeds from the exchanges and ATSS because they can do so much faster and more efficiently.

The question of what a consolidated tape should cost and what the costs of running an MCT are not considered in the CP. In 2008 the cost of running the US Consolidated Tape and Quote schemes was just under \$15m and whilst revenues considerably outstripped this, the NBBO data would represent the majority of the value of this data. A consolidated tape service alone could not attract the same kind of revenues as that of the NBBO & tape in the US, particularly given the proposal to provide the same data for free after a 15 minute delay.

In Europe there are today 63 exchanges, MTFs and trade publication services in operation making the challenge of consolidation the tape greater than in the US. Allowing commercial service providers to leverage investments already made in collecting, normalising, cleansing data and storing data from across all these venues, means that the service can be delivered at much lower cost than through a new MCT for which significant investment would be required.”



Question 31: Do you believe that MiFID provisions regarding cost of market data need to be amended?

TR Response: "As stated in our response to question 30, the issue of the cost of the consolidated tape is not fully explored in the CP. However the proposal for an MCT states that "RMs, MTFs and APAs would be required to send their trade reports to the MCT free of charge," and "Any profit made beyond covering operating costs and required capital expenditure would be distributed to the RMs, MTFs and APAs that contributed to the MCT based on the number/volume of transactions." We believe this is a principle that should be implemented in the provision of a consolidated tape through commercial solutions. This would allow the provision of the real-time tape at lower cost than through an MCT. In the absence of this approach, the cost of the real-time tape will have to continue to reflect the fees that each publication venue chooses to levy. So, for example, if every venue decided to charge only €5 per month for its real-time trade data the monthly cost of a complete tape for all EU members would be €315.

It is our view that exchanges will continue to be able to generate significant revenue from the publication of their own pricing and trade data from the large number of data users who will want to look beyond the basic consolidated trade data that would be included in the tape. This would also clarify that APAs need to operate within a commercial model that is not dependant on extracting significant income from the contribution to the tape.

Question 32: In your view, should publication arrangements be required to make pre- and post-trade information available separately (and not make the purchase of one conditional upon the purchase of the other)? Please provide reasons for your response.

TR Response: "Currently the cost of a consolidated tape has to reflect the cost of price data that is included in the lowest cost exchange feeds. The pricing data is regarded as the most valuable element in the feeds and yet is not included in the consolidated tape. Therefore as minimum it must be a requirement that the post trade data be made available for inclusion in a tape at much lower cost. But in our view this is likely to still result in a total cost that would not be regarded as "reasonable" by most consumers, particularly given that they are likely to continue to need to pay for the pre-trade data on the exchanges feeds. So we would argue, as in our response to question 31 that the post-trade data is made available for inclusion in consolidated tape solutions for free, albeit with the potential for some kind of revenue share."

Question 33: In your view, should publication arrangements be required to make post-trade transparency information available free of charge after a delay of 15 minutes? Please provide reasons for your response.

TR Response: "As of June, we understand that only one European Equities trading or reporting venue will not be following the market practice of making its data available for free after 15 minutes. So we would welcome the formalisation of what is becoming standard market practice. In creating a delayed consolidated tape it is currently necessary to impose the **maximum** required delay across venues to allow it to be free of fees."

Question 34: Do you support the proposal to require RMs, MTFs and OTC reporting arrangements (i.e. APAs) to provide information to competent authorities to allow them to prepare MiFID transparency calculations?

TR Response: "The APA regime as described will require the APA to operate as a service provider to the Investment Firms. It is important that the Investment Firms can recognise that failures by them to report trades accurately or in a timely manner will be visible to their competent authority. Therefore the requirement on APAs to provide information to competent authorities on the adherence of the firms to their reporting obligations is fundamental to this regime. In our view, it is the lack of such a feedback process that has resulted in the frequency of data quality issues through the existing reporting mechanisms."



Question 34: Do you support the proposed approach to a European mandatory consolidated tape?

TR Response: "We believe that the imposition of an MCT will impose additional cost on the European Equities market that cannot be justified given that commercial solutions exist today that will deliver what is required once the measures proposed in the CP to address the quality issues are implemented and enforced across the EU."

Question 35: If not, what changes would you suggest to the proposed approach?

TR Response: "We believe that commercial solutions for the provision of a consolidated tape should be allowed to continue. The imposition of an MCT will result in a costly monopoly provider of this service. Although the MCT would be expected to operate on a "not-for-profit" basis, this would not provide the most cost-effective solution. The combination of competing commercial solution with our proposal on fees in our response to questions 31 & 32 would deliver the lowest cost solution."

Question 36: In your view, what would be the benefits of a consolidated tape compared to the current situation post-MiFID and compared to multiple approved publication arrangements?

TR Response: "The implementation of the standards on data quality and the proposed APA regime should provide the required improvements to data quality. It might be thought that the implementation of the MCT would then address the cost issues. But in fact if the proposal that data be provided for free for inclusion in a consolidated tape solution is stripped out from the MCT proposal, the cost of this would be avoided and the benefit of a low cost high quality tape would be achieved through commercial solutions."

Question 37: In your view, would providing trade reports to a MCT lead to additional costs? If so, please specify and where possible please provide quantitative estimates of one-off and ongoing costs.

TR Response: "The set up and operation of an MCT would clearly involve significant additional costs. As stated in answer to question 30, the US tape and quote costs about \$15m per year to operate, which probably does not reflect the potential capital costs of setting up a central utility. We would suggest that if the EU is inclined to go down this route, it first commissions a full feasibility study to identify the capital and running costs of such a utility and compares this to the potential revenues that could be made from the publication of a real-time tape. As a minimum the initial set up costs would need to be funded and it is unclear who would do so, and there would be a genuine risk that the revenues that could be earned would not cover the ongoing operating costs"

Question 46: Do you think that replacing the waivers with legal exemptions (automatically applicable across Europe) would provide benefits or drawbacks? Please elaborate.

TR Response: "We are not aware of any specific issues resulting from any existing inconsistencies of approach between competent authorities. But we do recognise that, in theory, such inconsistencies could cause issues. We are not in a position to identify specific benefits or drawbacks at this point"

Question 47: Which reasons may necessitate the application of both criteria?

TR Response: "We are unclear as to why different approaches are required in different member states. It may be that gathering the necessary data for both sets of calculations across execution venues has been thought to be too costly or time consuming for some member states. If that is the case Thomson Reuters is well positioned to offer this information at instrument level across all exchanges and MTFs to each member state."



Question 48: Is a unique definition of liquid share for the purposes of Article 27 necessary?

TR Response: "We are not aware of any specific issues resulting from the current inconsistency of approach."

Question 49: If CESR were to propose a unique definition of 'liquid share' which of the options do you prefer?

- a) apply condition a) and b) of the existing Article 22(1), or
- b) apply only condition a), or
- c) apply only condition b) of Article 22(1)?

Please elaborate.

TR Response: "We are neutral as to whether either or both is the most appropriate measure".

TR Responses to Questions in Annex II

Question 1: Do you agree to use ISO standard formats to identify the instrument, price notation and venue? If not, please specify reasons.

TR Response: "For the vast majority of cash equities the proposal to use a combination of ISIN code and currency of settlement is sufficient. However there are some very liquid exceptions for which this is not sufficient to identify separate non-fungible lines of stock. Both ST Micro & EADS have lines that share the same ISIN and currency yet trade and settle differently. In running any post trade analysis on these shares it is important to differentiate these lines.

Stock	ISIN	RIC	Currency	SEDOL	UMTF	Clearing Settlement &
ST Micro	NL0000226223	STM.PA	€	5962332	STMp	LCH Clearnet & Euroclear Paris
ST Micro	NL0000226223	STM.MI	€	5962343	STMm	Monte Titoli
EADS	NL000235190	EAD.PA	€	4012250	EADp	LCH Clearnet & Euroclear Paris
EADS	NL000235190	EAD.DE	€	4012346	EADd	Eurex Clearstream &

This will also be an issue in extending the transparency obligations to ETFs of which there are many that will share the same ISIN, trade in the same currency and yet settle and clear differently. We therefore suggest an additional indicator to identify the clearing and settlement venue be a further requirement."

Question 2: Do you agree that the unit price should be provided in the major currency (e.g. Euros) rather than the minor currency (e.g. Euro cents)? If not, please specify reasons.

TR Response: "The focus on price notation is particularly welcome as this is the most frequent cause of major inconsistencies in trade publication. However simply requiring that firms publish in the major currency does not address the fact that on occasion they may mistakenly report in the minor currency. So in addition APAs would need to monitor for major pricing errors and suppress them from being published before the price is amended."

Question 3: Do you agree that each of the above types of transactions would need to be identified in a harmonised way in line with table 10? If not, please specify reasons.

TR Response: "The specific types of transaction to be covered should be established within the discussion of the CESR/Industry Joint Working Group. It is our view that this type of granularity



of reporting would be helpful in allowing specific trade types to be included or excluded from real time or post trade analysis.”

Question 4: Are there other types of non addressable liquidity that should be identified? If so, please provide a description and specify reasons for each type of transaction.

TR Response: “Any attempt to define a comprehensive list of transaction types that represents “addressable liquidity” runs the risk of becoming out of date as market practice evolves. We would suggest that any such list include an “Other” category and that APAs would be required to understand from the firms that report to them what types of trades are included in this category in order to be able to explain this to that firm’s regulator”.

Question 5: Would it be useful to have a mechanism to identify transactions which are not pre-trade transparent?

TR Response: “There has been much speculation on the amount of trading that has benefited from pre-trade transparency waivers, and in particular the reference price waiver used by dark pools, and the impact of this on price formation on exchanges. In order to properly understand the scale and impact of these types of trading it would be beneficial to require all exchanges and MTFs to provide a means to identify all trades they publish that resulted from orders which benefited from one of the waivers and which one.”

Question 6: If you agree, should this information be made public trade-by-trade in real-time in an additional field or on a monthly aggregated basis? Please specify reasons for your position.

TR Response: “It would be preferable that this information be provided in real time on the trade feeds from the exchanges, MTFs and trade reporting services, as happens today for a number of venues. If, for some reason, this was felt to be too onerous an obligation then perhaps they could be required to publish an end of day file summarising their activity in terms of total volume, total value and number of trades they published at stock level for each of the four types of waiver.”

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Question 7: What would be the best way to address the situation where a transaction is the result of a non-pre-trade transparent order executed against a pre-trade transparent order?

TR Response: “Our assumption is that this scenario would only relate to trades that result from orders benefiting from the Large in Scale Waiver and that the majority of such trades would involve interaction with a pre-trade transparent order. In this case we believe it appropriate for the trade to just be identified as resulting from an order benefiting from the Large in Scale Waiver. We would also raise the issue of how executions against the hidden element of Iceberg orders should be treated. Currently these are not identifiable as benefiting from any pre-trade transparent waiver on the feeds from exchanges & MTFs but arguably should do. The issue with requiring these to be identifiable is that it would mean that executions involving both the visible and hidden elements of an iceberg would need to be reported separately which may increase the settlement costs for such trades.”

Question 8: Do you agree each transaction published should be assigned a unique transaction identifier? If so, do you agree a unique transaction identifier should consist of a unique transaction identifier provided by the party with the publication obligation, a unique transaction identifier provided by the publication arrangement and a code to identify the publication arrangement uniquely? If not, please specify reasons.

TR Response: “We agree that a unique transaction identifier should be assigned to each transaction by the publication arrangement. Any subsequent cancellations or amendments to the transaction would include this identifier to allow correct attribution. The inclusion of a code to identify the publication arrangement would not be necessary as this will be self evident in terms of their own data feed and within a consolidated tape individual trades should carry a venue identifier.”



Question 9: Do you agree with CESR's proposal? If not please specify reasons.

TR Response: "At the point at which an investment firm identifies that a cancellation is required it is appropriate that the period of time in which this should be published should consistent with the timing requirements for the original trade whether this remains unchanged or is amended to no later than 90 seconds or 60 seconds. Unless the intention of the Commission is to require all exchanges, MTFs and publication arrangements to standardise their feeds on a common format, it would seem over-prescriptive to specify the actual code to be used to identify cancels"

Question 10: Do you agree with CESR's proposal? If not please specify reasons.

TR Response: "At the point at which an investment firm identifies that an amendment is required it is appropriate that the period of time in which this should be published should consistent with the timing requirements for the original trade whether this remains unchanged or is amended to no later than 90 seconds or 60 seconds. Unless the intention of the Commission is to require all exchanges, MTFs and publication arrangements to standardise their feeds on a common format, it would seem over-prescriptive to specify the actual code to be used to identify amendments"

Question 11: Do you agree with CESR's proposal? If not please specify reasons.

TR Response: "As in our response to Question 5 we would argue that it would be beneficial to be able to identify all negotiated trades. However it would seem over-prescriptive to specify the actual code to be used to identify these trades.

Investor Protection and Intermediaries Consultation Paper Part 2 – Execution Quality Data Consultation Paper

Question 13: Do you agree that to enable firms to make effective decisions about venue selection it is necessary, as a minimum, to have available data about prices, costs, volumes, likelihood of execution and speed across all trading venues?

TR response: "We agree that in order to make a fully informed decision about venue selection access to this type of data is a requirement. But this data can be provided to investment firms by vendors without imposing a formal requirement on execution venues to provide it. If MiFID regulation was to be made clearer that Investment Firms are required to perform this analysis, existing and new services would provide the mechanism to do so at reasonable cost."

Question 14. How frequently do investment firms need data on execution quality: monthly, quarterly, annually?

TR response: "Current services providing execution quality operate on a daily or even real-time basis. Brokers who use these services tend to review the results daily whilst most institutional buy-sides tend to do so monthly or quarterly. Whilst MiFID requires that execution policies need to be reviewed at least annually, factors that would affect the outcome can materialise much more rapidly. So in our view monitoring of the analysis that uses this data should be undertaken at least monthly even though this would not be expected to result in amendments to the published execution policies more than annually."

Question 15. Do you believe that investment firms have adequate information on the basis of which to make decisions about venue selection for shares?

TR response: "This type of information is either available today or would become available through commercial solutions if there is real demand for it from Investment Firms. The largest brokers and the large institutional clients already use in-house or 3rd party TCA tools as part of the selection process of brokers and their varied execution services. However non-institutional brokers have tended not to perform post-trade analysis as their customers do not expect this from them. It is in this type of business that there is the greatest information asymmetry between broker and client which is why the US 605 reporting focuses on retail size business and not institutional. If the obligations to perform this type of analysis were clearer there should be no shortage of commercial solutions available.



Question 17. Do you agree with CESR's proposal that execution venues should produce regular information on their performance against definitions of various aspects of execution quality in relation to shares? If not, then why not?

TR response: "In line with the response to questions 13 & 15 we believe that there is sufficient data available today to inform investment firm's decisions on venue selection. What is lacking is a clear motivation for them to do so. Should it become a requirement for execution venues to produce such information, then they would be capable of doing so themselves or by using a third party as happens frequently with the 605 reporting in the US. The challenge would be to ensure that each venue applies a consistent approach in terms of how the benchmarks are calculated and, as identified in the CP, the lack of a single European Best Bid/Offer could lead to inconsistencies in approach which would lead to this data being treated sceptically by the firms it is being intended to help. By contrast solutions where 3rd parties provide analytics to these firms that cover the competing venues with a consistent methodology would be more useful. Delivery through commercial solutions will mean that providers will compete on price and innovation to deliver suitable services to larger or small brokers.

Question 18. Do you have any comments on the following specifics of CESR's proposal: imposing the obligation to produce reports on regulated markets, MTFs and systematic internalisers; restricting the coverage of the obligation to liquid shares; the execution quality metrics; the requirement to produce the reports on a quarterly basis?

TR response: "We would question the benefit of imposing these obligations on execution venues rather than making the existing obligations on investment firms clearer. We see no issue with the obligation falling on RMs, MTFs & SI's specifically, we would just question the potential value of the data they would produce compared to that which a third party could provide on commercial terms. The focus on Liquid shares seems logical given the intent to focus on fragmented stocks. We can see that quarterly reports might appear a less onerous obligation but the cost and effort of running a report of all quarterly activity is probably no less onerous than a monthly process focussing only on the prior month.

Question 19. Do you have any information on the likely costs of an obligation on execution venues to provide regular information on execution quality relating to shares? Where possible please provide quantitative information on one-off and ongoing costs.

TR response: "The potential costs of performing this analysis will greatly depend upon the specific benchmarks calculated. The production of the 605 reports in the US is commonly outsourced to third parties such as Thomson Reuters who then perform the benchmark calculations with reference to the NBBO data. The cost of outsourcing the production of these reports can be even lower than the \$2,500 mentioned. But this does not reflect any cost for creating the equivalent of NBBO data available for the US market. The cost of this could vary enormously depending on the standards that the Commission may choose to impose around this i.e. would full tick low latency feeds be required or would the standard exchange feeds carried by vendors be sufficient?

Thomson Reuters hopes that CESR finds our responses useful but stands ready to respond to any queries and to provide any other support to CESR in taking forward this important workstream.

Yours sincerely

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