

Consolidation of Market Transparency Data

Italian Banking Association (ABI) response to CESR
Call for Evidence

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The Italian Banking Association (ABI), which with over 800 members represents the Italian banking industry, providing the vast majority of financial services to Italian retail investors, welcomes the CESR's initiative on the consolidation of transparency data and considers it to be crucial to the achievement of a truly integrated and efficient financial market.

As a premise, we feel that it is **necessary to pursue the consolidation of data and the standardization of publication**, which is an indispensable foundation, especially with the implementation of the MIFID. This Directive promotes competition between trading venues (regulated markets, multilateral trading facilities, and systematic internalizers), essentially prohibiting Member States from requiring intermediaries to channel their trades to regulated markets, in the belief that competition will lower prices.

However, as the intermediary is free to choose among a variety of trading venues, it is likely that liquidity will be fragmented and that price quote data will be lost, undermining the quality of the price discovery process, which is essential to competition. To address this problem, the Directive institutes pre- and post-trading transparency requirements to make the quotes posted and the prices of trades actually made at the various venues accessible to all market participants.

The broader and more efficient the process of consolidation and access for intermediaries and customers to the consolidated data, the less likely it is that trades will be made at less than the best terms, thus improving the quality of securities prices. It is no accident that the 34th recital of the MIFID calls on Member States to eliminate the obstacles to the consolidation at European level of information and its publication.

However, in financial systems with a massive presence of retail investors who are used to the concentration of trades on regulated markets, such as the Italian one where there are nearly ten million retail investors among which three million on-line traders, information fragmentation could have even more severe effects than in systems dominated by institutional investors. In fact, for retail investors the need to seek out better trading venues, in the absence of efficient mechanisms for publishing and consolidating data, could represent a prohibitive cost and thus lead, in practice, to a deterioration in execution quality. The same goes for small intermediaries.

Investors need to be certain that the intermediary they have chosen is organizationally capable of ensuring best execution; that is, that it has information on all the trade proposals to be found in all the trading venues so as to be able to select the best. This is possible only if there is European-wide consolidation of trading data.

Nor should we neglect the possible impact on the cost of capital to issuers that such fragmentation could produce. Wider bid-ask spreads due to the worsening quality of price discovery would cause investors to demand higher yields on securities to compensate for greater expected transaction costs, as academic studies have demonstrated.

There is no doubt that a situation in which each Member State, or each trading venue, adopted its own criteria on the publication of information would constitute a **serious obstacle** or a significant cost, not only to **any consolidation initiative** but for the very comparability of trading venues, hence ultimately for competition between them.

Such a situation could be overcome – or, better yet, kept from coming into being – by **initiatives for European standardization of the criteria for data publication**, coordinated at European level by the CESR itself. The initiatives should be mixed, both market-led and public, as is already being done in other sectors.

In other areas of the financial market, it has been recognized that the use of “different languages” by market actors gives rise to inefficiency and increased costs. In the clearing and settlement industry the lack of a common protocol and communication standard has been recognized as one of the fifteen barriers to integration and efficiency (the so-called Giovannini Barrier No. 1), and in fact the European Commission, through CESAME, has asked a private organization with specialized know-how (SWIFT) to define, together with all market participants, a common standard. This same consideration should be taken as the starting point of the debate on pre- and post-trade transparency as well.

It is hard to justify or understand any reluctance on the part of Community institutions to promulgate standards, which are the logical prerequisite to the transfer of goods and services within the Community. This is the goal to which the efforts made to date by the Member States to create an integrated market have been directed. It is no accident that the Court of Justice considers barriers to intra-Union trade as a violation of one of the fundamental principles of the European Community.

We therefore think that the **role of the CESR in the process** is to begin work on the definition of pan-European standards for the publication of pre- and post-trade data as soon as possible. Without such standards the consolidation and full competition between trading venues can never be attained. The contribution of those with specific know-how in the field of information and trading standardization (markets and info providers) should facilitate the work and supply the technical expertise that the CESR will need.

In particular, the CESR should:

1. form an advisory group comprising representatives of the Community authorities and market operators involved, which is to say the information “users” (funds, intermediaries, on-line traders) and “providers” (markets, MTFs, traders, data vendors);
2. within this group, determine prevailing market practice at European level and/or in the individual Member States regarding the publication of information, and set a common pan-European standard for the publication of information;

3. if substantial obstacles to the consolidation of market transparency data in addition to the lack of a common publication standard should emerge, ask the advisory group to determine what action should be taken to remove them and also designate the public or private organizations that could be assigned to eliminate such barriers.

As for the **calendar of the actions needed**, we believe that the CESR should form the advisory group very promptly, so as to define the common publication standard well before the MIFID goes into effect on 31 October 2007. This would give market participants enough time to adapt.