

24 April 2006

Sir,

I am writing in reponse to CESR's Call for Evidence (CESR/06 – 134) on the Consolidation of Market Transparency Data, issued on 24 March 2006.

Firstly I would like to ensure that CESR appreciates the current market position of Thomson Financial in the European market.

Thomson Financial (TF) is a division of The Thomson Corporation, which is the world's largest professional information services provider, with global revenues of \$8.7bn in 2005. Thomson Corp operates in four market groups; education, scientific and healthcare, finance, and the legal and regulatory. Thomson Financial had 2005 global revenues of \$1.9bn, up 9% over the year. It's flagship T1 product range now has over 120,000 desktops installed around the world, up 45% in 2005.

Market needs for consolidation

Thomson Financial, in common with all other vendors, exists to service the needs of our customers. We anticipate that there will be a range of demands for transparency. There will be firms (and departments of firms) will demand access to 100% of trading information at all times, through to those whose needs are more referential and would only need access to a "representative" view of the market. Clearly the costs of meeting the needs of these different market segments will vary considerably and different vendors will choose to address different segments. Thomson Financial will face requests from clients across all the potential segments and will expect to provide 100% coverage

Pre trade and post trade consolidation needs vary significantly. Pre-trade consolidation is focused on ensuring that market participants can see the current range of best bids/offers or current unfulfilled orders. For post trade data the critical value is based upon the aggregation of individual trades and the maximum value resides in the summation and analysis of the total trading volume. Among other considerations, it is essential for a mechanism to be established to ensure that data is not duplicated as it is published and consolidated into the market.

TF anticipates that pre and post trade data will be made available to the wider market through a number of different models. These will include (but not be limited to) the direct publication to the market by investment firms, the continued use of regulated markets as a post trade publication route, the development of consortia of investment firms to pool costs of publication and the use of existing and new entrant data vendors as routes to market.

What is clear is that there will not be a single source of consolidated pre or post trade data for any security. Given that segments of the end user market will demand consolidated data feeds a mechanism for ensuring that such consolidation takes place efficiently and cost effectively is essential. Competition between consolidators will tend to drive down costs and establish an efficient system for consolidation over time. However there is the danger that existing and new barriers to consolidation will either prevent such consolidation, through entrenching existing market structures, or will only allow an efficient solution to emerge after a period of costly and disruptive market experimentation. TF believes that both dangers can be avoided without the regulators, both at a European and local level, having to interfere with the free play of market forces. However regulators should seek to ensure that all market participants face a level playing field in relation to data consolidation and should actively promote the use of open standards for all new data publication sources in order to minimize the costs and time associated with the evolution of a new market system.

The Barriers to Consolidation

Barriers to consolidation can be divided into two broad categories; technical and structural. Both need to be considered.

- Technical barriers

Very few if any technical barriers exist to prevent the consolidation of data in absolute terms. Virtually any technical challenge can be addressed with sufficient time and resources. When the industry expresses concerns at technical barriers to consolidation it is stating that there are many sub-optimal routes to consolidation that can result in overall industry costs being unreasonably high.

A concrete example of such concerns relates to the discussion over whether a "web-site" would provide an appropriate mechanism for the dissemination of pre- or post-trade data. While it is possible for any data consolidator to capture data from a web page by "screen scraping" (ie mapping the position of each data point on a screen and recording and storing each data point as it changes), such an effort is inefficient on a large scale. Potentially every web-site used for such a purpose is different; layouts vary, data items are not appropriately identified, sites can be changed without notice etc. Attempting to build a system to service client needs for market transparency based on such technologies would guarantee errors and excessive costs.

Clearly however it is possible to use the internet to publish data in a form that can be captured and consolidated in an efficient and cost-effective way. This involves requiring that the publishers of data (the investment firms) should ensure that data must be delivered (pushed) to the market in a tagged form rather than posted on a web-site and so be made available for request. Critically in order for data to be easily consolidatable it must be:

- Structured (tagged with appropriate meta data)
- Machine readable (electronically delivered)
- Correctable
- Available in real-time (where appropriate)
- Supported (ie warnings given of format changes, new sites etc)

Publication sites that meet the above criteria would meet the minimum standards to allow the industry to develop a cost effective mechanism too deliver consolidated data to the wholesale and retail client base. However, even with these criteria in force, there is still considerable scope for publication sites to vary and so increase the overall costs of consolidation to consolidators and hence to the end users.

At present vendors such as Thomson Financial have significant expertise in ingesting feeds of data from Stock Exchanges and from a range of other sources, each of whom may use proprietary message, data and symbology standards. In order to ensure that industry costs are minimised moving forward we should seek to ensure that any new publication sites are required to publish data to open (ie non-proprietary), agreed standards.

There would appear to be no industry benefit in requiring all existing publishers of "MiFID required" data to convert to common standards immediately. Data is currently ingested by a large number of organisations (vendors and end users) from a wide range of sources (regulated markets, MTFs and investment firms) and a regulatory mandated change in formats to a new agreed standard would impose significant additional costs on the industry. However encouragement for any new source to meet a common standard (and for existing sources to migrate to a common standard over time) would minimize additional industry costs.

- Structural and Commercial Barriers

In addition to technical barriers that could raise the costs of consolidation, appropriate weight should be given to the incentives needed to ensure that a MiFID "compliant" approach by market participants remains in line with the overall aims of the MiFID process. In seeking to minimize the costs of compliance, particularly given the short period of time remaining, investment firms may be motivated to take a "line of least resistance" approach to market data transparency. Such a line of least resistance could involve looking to a limited number of exchanges or vendors who already have significant market penetration as a route for publication of pre- or post- trade data.

For post trade data publication via a limited number of existing sources provides benefits and costs to the market as a whole. Given that each individual trade should only be published via a single route, the existence of a limited number of "primary" publishers could limit the subsequent costs of consolidation. However the danger is that existing relationships could be cemented by new regulation which would build barriers to new entrants and so limit future competition .

In the interests of developing a level playing field and minimizing overall costs to the industry there would appear to be a benefit in requiring that any "primary" consolidator of data, ie any entity acting as a publisher of data for any individual or group of investment firms, should have regulatory requirement to make that individual or consolidated data stream available to any and all competing consolidators at "reasonable commercial cost". It would also appear appropriate that no proprietary symbology or other barriers should be allowed to prevent the cost effective consolidation of data feeds from multiple "primary" consolidators.

At present the "reasonable commercial terms" in the regulation relates to the relationship between originators of data and the end-user. It would appear that there is a danger that as multiple tiers of consolidators attempt to pull data streams together that either differential pricing will be used to prevent new entrants or, even if this does not happen, end users will face aggregated fees equivalent to multiples of today's exchange fees in order to receive a consolidated market view.

Clearly as investment firms and other market participants develop new business models to exploit opportunities arising from the introduction of MiFID the market for financial data as well as the overall structure of financial markets will continue to evolve. It is in the interests of the industry that regulators do not attempt to micro-manage this evolution; market forces should be given the freedom to generate efficient new structures. However the regulators should be willing to ensure that initial conditions for this evolution do not merely encourage the industry to entrench current structures. The appropriate balance would appear to be via the explicit encouragement of the use of open data and messaging standards, in order to minimize overall industry technical costs, together with a regime that mandates the efficient, low cost transfer of data for market consolidation between "primary" and "secondary" consolidators.

We would of course be happy to discuss any of the issues raised in this response in a face to face discussion.

Yours sincerely,

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