



ADVICE TO ESMA

Response to ESMA's Consultation Paper on the development in prices for pre- and post-trade data and on the consolidated tape for equity instruments

I. Background

1. The role of the SMSG

The Securities and Markets Stakeholder Group (SMSG) advises ESMA on all regulatory and supervision matters. In compliance with EU Law, it is composed of expert representatives of financial market participants operating in the Union, of their employees, of consumers, of users of financial services and of independent top-ranking academics.

2. Purpose of this Advice

The SMSG wishes to use the opportunity of the publication of ESMA's Consultation Paper on the development in prices for pre- and post-trade data and on the consolidated tape for equity instruments to provide advice on this topic.

II. Summary of SMSG Views on ESMA Consultation Paper on the Development in Prices for Pre- and Post-trade data and on the Consolidated Tape (CT) for Equity Instruments

1. General

1. We welcome the opportunity to provide feedback to ESMA in the context of its MiFID II/MiFIR review report on the development in prices for pre- and post-trade data and on the consolidated tape for equity instruments. It is crucial that improving the quality and availability of market data is of primary consideration to ESMA. In our view further standardisation (for example in reporting formats and terminology) would be very valuable to address structural issues regarding the quality, reliability and consistency of trade data. The SMSG agrees that data from all execution venues (trading venues and APAs covering SIs, OTFs and OTC) should be available after a certain time period without charge. However, the members have different views on overall data charges and on the delay after which data should be available without charge. Several members would like to see the delay of 15 minutes for equity data substantially shortened.
2. The SMSG considers that a low-cost tape of record covering all execution venues (trading venues and APAs covering SIs, OTFs and OTC) could meet needs of users, the market and the regulators.

2. Prices for Pre- and Post-trade data

3. The SMSG agrees that access to a full set of high-quality market data is of paramount importance. However, data users and trading venues disagree on how such access could improve, including whether the price for market data is reasonable, as also documented in two new studies published by Copenhagen Economics and Oxera. The SMSG would encourage ESMA to conduct a quantitative study on prices for pre- and post-trade data
4. For the non-equity market, it is important to focus on what would benefit the market most, namely superior quality aggregated post-trade data at a low or minimal cost to market participants.

3. The reasons for the lack of a CT for equity instruments

5. The SMSG acknowledges that there are a number of challenges that have prevented a CT from emerging so far. Firstly, the business case for the provision of a consolidated tape is difficult to establish and justify. Secondly, the provision of this service is subject to strict regulatory requirements. Thirdly, any potential CT would face competition from non-regulated entities.

The CT was proposed and welcome as a tool to handle the fragmentation of equities trading that occurred after MIFID I. However, since then a lot of instruments/products have been developed that have limited the need for a full CT.

4. Data quality and consistency

6. In a fragmented market, heterogeneous levels of post-trade quality, reliability and consistency are a hindrance to good access to market data and would prevent the establishment of a meaningful CT. This concerns both the timeliness and content of the data, as well as the inconsistent approaches in respect of flagging trades. For this reason, the SMSG is of the opinion that these issues must be addressed first and only after that a consolidated tape for equity could deliver meaningful output, which is of value to potential users and offers an increased transparent view of trading in the EU.
7. It is necessary to look at the broader implementation of the industry-led Market Model Typology (MMT) as well as further developments as part of a joint industry and regulatory course of action to enhance data quality flagging across the board. The MMT's extension to a full range of market participants would undoubtedly deliver greater levels of data quality and consistency overall. The SMSG supports such a course of action as it would go a long way in addressing many of the concerns advanced by market participants. In short, developing and implementing the MMT more broadly across RMs, MTFs and APAs (SIs, OTFs and OTC) would strengthen transparency and make data easier to consolidate in an efficient and correct way, improving data quality to a big extent. Of course, adopting the MMT as a European standard raises questions of ownership and governance of such a standard, where public oversight (e.g. by ESMA) needs to be ensured. Further standardization of market data terminology should also be developed. For non-equity, existing standard choices may be contributing to data quality issues, and it is important to take the necessary actions to fix the problems.
8. Data quality, consistency and accuracy issues exist today across all asset classes. These include, but are not limited to, issues within ESMA's own data services such as FIRDS and FITRS. The data requires significant improvement to be useful to a broad range of buy and sell side market participants and to fulfil the objectives of MiFIDII/MiFIR. However, there is wide acknowledgment of the ongoing work by ESMA to improve data quality.

5. Scope of a consolidated tape

9. The SMSG considers that a tape of record covering all execution venues (trading venues and APAs covering SIs, OTFs and OTC) could meet needs of users, the market and the regulators. Such a tape should be aligned with the particularities of the EU market structure (fragmented markets across 28 jurisdictions) and provide for a holistic overview of what volumes are traded where over the day. Such a tape of record needs to provide a comprehensive, meaningful and sufficiently detailed view of where, when and how all addressable (price-forming) and non-addressable (non-price-forming) trades have occurred.
10. The aim of a CT should be to provide something that is not yet catered for by data vendors: the inclusion of all Trading Venues and APAs. Such a CT would be able to provide access to consolidated reliable and consistent transaction data from all trading mechanisms for the entire spectrum of instruments traded in the EU. Such a CT should be easily available shortly after publication at low or minimal cost and ideally be freely available after a certain time period.
11. Whilst the SMSG understands that ESMA's Consultation Paper focuses on the development of an Equity CT, the SMSG highlights that data quality, completeness and consolidation issues also persist in other asset classes and that, as such, developing a CT for other such asset classes (e.g. fixed income) should be considered. As far as scope is concerned the CT would provide raw transaction data (e.g. trade date and time of execution, reported date and time, price, direction, venue, cancel or correction), thereby differentiating itself from data vendors providing enhanced and enriched data. The governance model of such a CT is important and ESMA should consider how public oversight will be ensured.

5. Use case for a consolidate tape

12. The SMSG considers that for the tape to be pertinent and meaningful, it is critical to identify the users of the CT, whether they be market participants (large and small, buy and sell side, wholesale and retail), regulators or others, and understand for what purpose they will use the CT. In the context of the current ESMA consultation, it is critical to evaluate whether an appropriately governed low or minimal cost CT would replace market participants' current data providers or whether market participants would use the CT alongside the enriched data provided by their current market data vendors.
13. At this point in time, there are different views as to the validity of the use-case amongst the SMSG and further work with the industry is necessary to evaluate fully the rationale for the CT.

6. Brexit

14. In the case of Brexit the scope and operation of a CT needs to reviewed in this context.

This advice will be published on the Securities and Markets Stakeholder Group section of ESMA's website.

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[signed]

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