

# A Cross-Industry Consensus on the EU Equity Consolidated Tape Proposal

## Statement of Principles

### Introduction

The provision of an appropriately constructed EU Equities Consolidated Tape (“CT”) will democratise access to equities (as proposed by the EU Commission) for all investors, regardless of resources or sophistication, with a comprehensive and standardised view of EU equities prices.

- By making pan-EU data available to consumers via simplified licensing and harmonised technical arrangement, a CT will contribute to the creation of a truly pan-European market, in line with the goals of the EU Commission’s Capital Markets Union (“CMU”). Linking EU markets to create a single investible universe will drive the growth of large and small EU equity markets, for the benefit of issuers, investors, exchanges and other intermediaries.
- A CT will enhance the resilience of EU markets to technical failure of any single venue by enabling trading continuity through a robust and trusted consolidated price and consolidated “market status”, which can be leveraged in the event of an outage, facilitating increased investor trust and confidence as it relates to the maintenance of fair and orderly European capital markets.
- An appropriately constructed CT would also reduce the complexity and associated costs arising from fragmented and variable market data licensing practices across EU venues. This in turn would substantially increase the number of market data users, thus investors, with access to pan-EU data, increasing the visibility of issuers listed in every EU market.

### Principles

#### 1. CT is not suitable for latency-sensitive users

Due to the time involved in centralising and consolidating data from disparate venues, a CT cannot satisfy latency-sensitive use cases such as algorithmic trading, smart order routing or high frequency trading

- a. Firms engaging in latency sensitive activities will likely continue to source their market data via direct feeds. For this reason, a CT is not a substitute and does not compete with venues’ offerings.
- b. The use case for the CT would therefore address the needs of non-latency-sensitive uses, including the displayed use of data by professional and retail investors, and non-displayed uses such as risk management and surveillance. Hence the Consolidated Tape Provider (“CTP”) infrastructure does not need to be the most expensive low-latency infrastructure – rendering redundant most concerns about the complexity/practicality of introducing a CT that includes pre-trade data.

## 2. Revenue sharing should include all contributors

All contributors to the CT should participate in any revenue allocation via a model that:

- a. Is simple, and does not lead to competitive distortions or undesirable behaviour (e.g. “tape shredding” or “quote stuffing”).
- b. Remunerates all contributors on the basis of the notional value of trading, differentiated by the pre-trade transparency and multilateral/bilateral nature of the model under which the transaction was concluded.
- c. Incentivises the provision of pre trade data by venues.
- d. Seeks to provide certainty of revenues to smaller exchanges.

## 3. There should be one single CT provider

The CT should be delivered by a single commercial enterprise (the CT Provider or “CTP”), subject to appropriate governance and regulatory oversight.

- a. The CTP should operate on a reasonable commercial basis, meaning with a reasonable profit margin net of all internal costs and revenues shared to data contributors.

## 4. There should be mandatory contribution of pre-trade and post-trade data

To attract a commercial CTP, there must be a viable business opportunity, which has not been the case to date due to the complexities and variances in the licensing/pricing of data for inclusion.

- a. Hence a comprehensive CT for equities and ETFs can only be achieved if venues and APAs are subject to a mandatory contribution obligation.

## 5. Commercial Viability requires Real-time, Pre-trade data

Most use cases for the CT require the inclusion of real-time post-trade data (executions occurring on-venue and off-venue) and pre-trade data (quoted prices/volumes from and indicative auction prices/volumes from venues).

- a. Based on significant market research, demand for a purely post-trade CT is limited, and insufficient to support a financially viable CTP.
- b. Indeed, real-time post-trade data is already made available by most exchanges, yet attracts very few subscribers. A real-time post-trade only tape would be unlikely to succeed commercially, and hence would not be a step towards the successful realisation of a pre- and post-trade tape at a later date.

## 6. Engineering of the CT and its feeds should be simplified

The costs associated with the duplication of tasks in the case of a phased implementation – first to carry post-trade data only, and subsequently to also carry pre-trade data - would be substantial and wasteful for the CTP, venues and consumers.

- a. Instead, the CT infrastructure should be built to receive pre-trade data from the outset - even if it is not to be distributed – as this will allow for subsequent flexibility.
- b. Hence the CTP selection criteria must require the CTP to support the receipt of pre-trade data from all venues, and the consolidation and potential distribution of pre-trade data from all venues.
- c. The CTP should be able to receive data in the existing formats offered by venues to their trading participants and/or market data vendors.

## 7. CT content should be designed to cover the full trading day, and to improve resilience

Subject to agreements on which venues' quotes can and cannot be published at inception, and with what frequency, the CT should create and disseminate:

- a. A feed of all price-forming executions, including all relevant trade flags/descriptors, whether occurring on-venue or off-venue.
- b. An updated "trading status" for each instrument, indicating its availability for trading on one/more venues, including whether in an auction phase on the listing venue.
- c. A consolidated top-of-book (or depth-of-book) comprised of available venue quotes.
- d. The indicative volume and price of the auction indicating the largest volume in the security (e.g. the opening/closing/expiry auctions, and otherwise the largest frequent batch auction during continuous market hours).

## 8. A CT does not require a change to Best Execution rules

The introduction of a CT does not require the best execution rules to be changed (including for retail clients).

- a. Brokers should continue to be allowed to have discretion about which venues to access (or not) when trading for customers.
- b. However, ensuring that consumers are well informed about the availability of better prices may, over time, lead to commercial demand for brokers to enhance their access to liquidity. Whilst not all brokers might prefer such enhancement, this is nonetheless an appropriate objective and outcome from the introduction of a CT.

## 9. The CT should be priced to succeed

To be commercially successful, the CT should be offered at fair and appropriate price levels for professional users and non-professional users respectively. Such pricing should balance maximising the user base with generation of sufficient revenues to fairly compensate all contributors, and with particular emphasis on ensuring a preferential compensation to smaller venues.

- a. In line with CMU goals to increase access for end investors, any pricing structure would ideally facilitate retail brokers in making real-time data available freely or at low cost to their retail customers, while fair pricing for professional users will help to increase the user base.
- b. As is the case now, CT data should continue to be free to end users on a 15-minute delayed basis.

## 10. CT should be sold with a simple, single market data licensing framework covering a variety of use cases.

- a. The CTP should adopt a single licensing framework, with the pricing set solely by the CTP. This would remove the existing disincentive to access data (and thus to invest) across the EU, which arises from current complexities of managing multiple licenses with differing terms and policies.
- b. CT data licensing should use ESMA standardised terminology and methodology (per recent ESMA Market Data guidelines), with any applicable fees shown in a public price list.
- c. Preferential treatment of smaller exchanges could be adopted to protect certain market data revenues.

## 11. There should be no mandatory consumption

Firms should be able to choose whether or not to consume CT data. Some firms, such as those already purchasing direct feeds from venues have no need for a CT. Others may need to make arrangements to identify the best use cases for the CT, once the CT has been launched.

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