

Brussels, 14 April 2023

**We take the opportunity of the forthcoming trilogues on the MiFID/R review to express our views on an appropriately constructed equities/ETFs consolidated tape, and its significance for the Capital Markets Union.**

We support the European Parliament's proposal relating to the establishment of an equities/ETFs consolidated tape. Specifically, we believe that the Equities/ETFs consolidated tape should include ETF and Equities on a single tape, it should deliver data in as close to real-time as technically possible; it should provide both pre and post-trade transparency in the form of 5 layers of pre-trade data; it should be priced on a Reasonable Commercial Basis and be consumed on a voluntary basis; and it should benefit from a robust governance framework.

## **1. Health and Competitiveness of EU Capital Markets**

Our firms rely on deep and liquid capital markets to transact business and to attract investment flows. If we look at the performance of European capital markets against the US and Asia-Pacific in terms of turnover (or trading volumes), the trend in Europe is toward contracted liquidity, -25% from 2013, compared against the US which has grown by 23% in the same period, and Asia which has grown by 7%. <sup>1</sup> There are a number of factors that contribute to this situation. One of these is undoubtedly, the absence of a consolidated equities tape without which, a complex and fragmented EU27 market is put at a competitive disadvantage globally when marketing to international investors. EU investors too suffer from this lack of accurate market data. How do you showcase scale, how do you stimulate cross-border investments without a single, reliable source of market data?

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<sup>1</sup> JP Morgan data

These long-term trends concern us deeply and push us to engage with policymakers to ensure that the European trading ecosystem is fit-for-purpose and delivers what all investors require, meaningful and easily accessible data. The European Parliament's final report on MiFID/R and its recommendations are encouraging in this respect as they recognise the need to support Capital Markets Unions with urgent reform like the introduction of a real-time equities/ETFs Consolidated Tape.

## **2. Lack of consolidated price and liquidity data. Who suffers?**

### **a) Global investment flows**

Far from citing anecdotal evidence and potential trends, our firms point to hard numbers, particularly on the EU ETF product front which give us pause. ETFs with a UCITS wrapper are extremely popular in other jurisdictions, particularly in Asia and Latin America given their withholding tax benefits compared to US ETFs. Yet issuers of EU ETFs are unable to capitalize on this interest due to the lack of a real-time consolidated tape. Asian and Latin American investors, unable to access real-time volume data efficiently are overlooking EU ETFs in favour of those listed in jurisdictions where this data is available. A real-time equities/ETFs CT would put the EU on a par with the US for ease of data access. There is at stake around 10-20% of AUM (assets under management) in US ETFs that are held today by non-US clients (APAC, Latin America and some EMEA). This represents around USD 1 trillion, a good portion of which could migrate to EU-listed products.

### **b) Small and mid-cap stocks, and smaller markets**

Lack of liquidity data and general lack of visibility on data has a dampening effect on what could be attractive investment niches in Europe. During the post-Covid period, we noticed that there was a sharp increase in interest in small and mid-cap stocks (travel and leisure predominantly), and yet ETF issuers were unable to include these stocks in their baskets given the lack of consolidated liquidity data. For similar reasons, we are pleased that under the latest proposals by the EP and Council, a preferential revenue model has been carved out for smaller exchanges in the EU. An EU consolidated tape which includes the smaller markets will reverse the current dynamics which require institutional investors to opt-in to separate data feeds. Increased visibility and the ease of accessing complete liquidity and price data in a single place will provide a critical boost for smaller markets.

### **c) Retail investors**

Once again, the Covid episode showed the retail investor potential for Europe. The French AMF paper (2020) captures very well some of these trends which were present also across other

markets in Europe.<sup>2</sup> The data also points to a younger demographic of retail investor, purchasing securities through online brokerages and trading platforms. Direct retail participation contributes to the liquidity, depth and stability of capital markets. It also deploys citizens' savings in a more efficient manner contributing to wealth generation for savers and provides capital for European businesses. For all these reasons, retail investor participation should be nurtured and encouraged including through the availability of comprehensive real-time market data to provide best execution and ensure investor protection. A consolidated tape that also serves retail investors should be seen as a necessary step toward a more active retail market in Europe where investors trade on stocks that 'capture the imagination' in the same way that they do in the US.

Providing for the emergence of a consolidated tape for equities which comprises shares and ETFs could stimulate retail flows into ETFs. The ETF market in Europe, unlike the US, is dominated by institutional investors. An ETF/equities tape would make trading data more accessible to the retail investor, providing a much-needed overview on ETFs that typically trade on multiple exchanges across Europe.

### **3. Market data costs: the case for fair pricing**

The Equities/ETFs consolidated tape for Europe must be fairly priced to attract users. It would be unacceptable to add a high-cost consolidated tape in a market for trading data where prices are already very high, disconnected from the cost of production, and suffering from a lack of competition.<sup>3</sup> Strengthened provisions around the Reasonable Commercial Basis in the current MiFID/R review should help in this regard. This would ensure that CTPs are fairly compensated which in the RCB context would mean covering the cost of production and dissemination of data and a reasonable mark-up. Cost of data already acts as a deterrent for banks/brokerages who choose not to trade in given markets given the high cost of market data. For instance, if a Scandinavian bank drops its market data feeds for the Madrid Stock Exchange due to cost, at least 3 parties lose out: i) the Scandinavian investors who face a narrower choice of investments, ii) the stock exchanges in terms of foregone liquidity and fee income and iii) the companies listed on the Madrid stock exchange. The Equities/ETFs tape should at the very least draw a line on these pricing practices that overall impair the ability of CMU to thrive.

### **4. MiFID/R Review, a chance for the EU to establish a commercially viable tape**

As buy-side market participants who have contributed to aspects of the MiFID/R review and who have closely followed the policy debate, we are apprehensive about one important point, the commercial viability of the tape. The MiFID 2 proposal failed to bring about a commercial consolidated tape due a lack of provisions for mandatory contribution of data by data providers.

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<sup>2</sup> <https://www.amf-france.org/en/news-publications/publications/reports-research-and-analysis/retail-investor-behaviour-during-covid-19-crisis>

<sup>3</sup> [https://www.efama.org/sites/default/files/publications/Joint\\_Statement\\_Market\\_Data\\_Costs\\_0.pdf](https://www.efama.org/sites/default/files/publications/Joint_Statement_Market_Data_Costs_0.pdf)

That hurdle is cleared with the current EC proposal mandating the provision of data to the CT. A second hurdle though remains which has to do with the ability of an equities tape to meet with sufficient demand to make it a commercially viable venture. Here we rely on inputs from EFAMA member firms, and published research<sup>4</sup> which show that a real-time equities/ETFs CT with pre-trade data will fulfill a much greater number of use-cases than post-trade data alone. Given that in the US also, the equities CT is being reformed to provide market depth on pre-trade with 5 levels of quotes, it seems logical to aim for a more meaningful and informative dataset.

## 5. Key features of the Equities CT

- a) **Mandatory contribution-** see above
- b) **No mandatory consumption-** An equities/ETFs CT will provide valued information to investors and brokers for a range of activities including the provision of best execution to clients. But this should not be taken to equate the equities/ETFs data to best execution in Europe. The US experience of Reg NMS illustrates the pitfalls of drawing too narrow a link between CT data and trade execution. The current MiFID framework which defines best execution in Europe as the total consideration of a number of factors, including price, but also execution fees, probability and speed of execution reflects a holistic approach to best execution which should be preserved. While CT data can inform best execution considerations for investors, it should not result in a trading rule or indeed a mandatory requirement to consume the tape.
- c) **Latency-** An equities/ETFs consolidated tape should deliver data in as close to real time as technically possible. There is no doubt that consumers of data, in the case of asset managers those responsible for trading strategy and liquidity risk management, require real-time data to carry out their functions. Price movements even within a 15 minute window can be massive, anything slower than real-time would deliver stale and inaccurate data. Given the needs and expectations of market participants and the fact that Europe is already late in delivering this type of critical market infrastructure among its peers, the ambition should be a definitive leap to the present and not a half-hearted equities tape that only fulfills a handful of use-cases.
- d) **Pre and post-trade data** – Only the inclusion of both pre and post-trade data will result in a robust and meaningful tape which will determine i) its commercial viability and ongoing success and ii) allow Europe to move closer to CMU and the goal of healthy and globally competitive capital markets. A post-trade only tape would only fulfill use-cases in the middle to back office functions (transaction cost analysis,

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<sup>4</sup> [Buy-side use-cases for a real-time consolidated tape | EFAMA](#)  
[The case for a viable Consolidated Tape on Equity \(Part I\) \(adamantia.Paris\)](#)

performance measurement..), not capturing any of the larger use-cases (trading and portfolio management) that actually drive investor behaviour and could make a difference in the volumes traded on European capital markets.

- e) **RCB principle** – market data costs are a major issue in Europe but also in other advanced markets like the US and UK. It is therefore important that i) the consolidated tape is provided on a reasonable commercial basis, (otherwise we run the risk of adding another high cost feed in a market for data which is already characterized by a lack of competition and the outsize market power of very few providers). ii) a fairly priced CT would also lower **th/s/ e** barriers to trade and generate more interest in stock exchanges that today are overlooked by investors and brokers due to the high cost of data.
- f) **Governance** - Again looking at the example of the US where we have 4 decades of experience to draw from, many of the issues above including pricing, content of data, and latency can be avoided or managed if a robust governance framework is put in place from the outset. A governance framework we support would provide broad board representation including seats and voting rights for the data user community, ensuring that decisions impacting policies and fees, data content, and speed and connectivity are considered by all capital market participants. This governance structure should be included in the MiFIR Level 1 text defining the breadth of representation which should include data users, the specific areas which would be subject to decisions by the governance entity, and a clear and enforceable conflict of interest policy.
- g) **Equities and ETF data on a single tape** – ETF data should be included together with equities data on a single tape, for two fundamental reasons. ETFs are equity-like products in the sense that trade data and associated reporting fields are the same for both asset classes. From a user standpoint, the equities trading desks of buy-side firms also trade ETFs, making it logical that they should have access to both datasets on a single datafeed.



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**ABOUT EFAMA**

EFAMA is the voice of the European investment management industry, which manages over EUR 30 trillion of assets on behalf of its clients in Europe and around the world. We advocate for a regulatory environment that supports our industry's crucial role in steering capital towards investments for a sustainable future and providing long-term value for investors. Besides fostering a Capital Markets Union, consumer empowerment and sustainable finance in Europe, we also support open and well-functioning global capital markets and engage with international standard setters and relevant third-country authorities.

EFAMA is a primary source of industry statistical data and issues regular publications, including [Market Insights](#) and the authoritative EFAMA [Fact Book](#).

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