



Consolidated Tape

IA Position Paper on Consolidated Tape for UK Wholesale Financial Markets

About The IA

The Investment Association (IA) champions UK investment management, a world-leading industry which helps millions of households save for the future while supporting businesses and economic growth in the UK and abroad. Our 250 members range from smaller, specialist UK firms to European and global investment managers with a UK base. Collectively, they manage £10 trillion for savers and institutions, such as pension schemes and insurance companies, in the UK and beyond 46% of this is for overseas clients. The UK asset management industry is the largest in Europe and the second largest globally.

The need for a Consolidated Tape in the U.K

As acknowledged by HMT in their Wholesale Markets Review (WMR) consultation paper and echoed by a core majority of the industry, “*market data is fundamental in helping [market] participants identify investment opportunities, evaluate positions and is essential for price formation and best execution.*” Thus, in an attempt to make data more accessible and easier to use, MiFID II provided a framework for establishing a consolidated tape (CT) which would provide the industry with an affordable single price comparison tool that continuously broadcasts in a consolidated format basic transaction data concerning executed trades in both equity and non-equity instruments.

Nevertheless, a CT is yet to have emerged for a variety of reasons including, costly and complex licensing arrangements, poor data quality given the lack of standardisation in the data published by Trading Venues (TVs) and Approved Publication Arrangements (APAs) which makes it difficult to consolidate. These issues created a lack of commercial incentives for a private entity to emerge to construct a consolidated tape.

The IA membership supports HMT’s proposed legislative changes to establish a CT for wholesale financial markets specifically for equities, exchange traded funds, fixed income and (in time) derivatives within the UK. A single point of reference for all market participants – a ‘golden source’ of information on prices and volumes traded - is a missing piece of the UK’s capital markets offering versus the United States, and with the EU also pressing ahead with its own CT initiative there is a risk that the U.K could be left behind.

An appropriately constructed and fairly licensed consolidated tape would enable all investors regardless of size, and, or resource to obtain a complete, accurate and consistent view of equity and non-equity markets in the U.K. It would also help reduce some of the costs associated with accessing market data. It would help investment managers as they look to address a variety of issues as alluded to above such as best execution, transaction



cost analysis and portfolio liquidity analysis, in order to best serve the needs of their clients.

It is also envisaged that a CT could help reduce the costs of display data for market participants. However, it must be stressed that the development of a CT should ease some of the cost pressures, it will not in itself solve for the rising costs of market data experienced year on year. This issue is largely due to licensing practices for underlying market data, and requires further attention to solve, regardless of the emergence of any CT.

We also agree that a private utility is best placed to develop and run a CT which would serve the needs of the industry. However, there are certain regulatory and legislative pre-conditions to a private sector organisation being able to do so. To this end, the IA considers that regulatory and political efforts are required to ensure a solution emerges that can deliver real value to market participants.

The below sets out the IA's recommendations for structuring a CT and the features any CT must include in order to succeed.

Structuring a Consolidated Tape

Scope:

The IA and its members strongly advocate for one single CT being developed for each of the following asset classes: **equities and exchange traded funds, fixed income, and derivatives.**

Given there are use cases to develop a CT for all the above asset classes, we believe (with the exception of a derivatives CT) these tapes can be developed in parallel. Meaning the process to develop a tape for each asset class outlined above starts at the same time and ideally, they co-exist and progress at the same rate. No tape should be side-lined or held up by the development or lack thereof of a CT in another asset class.

Each tape must be tailored to the needs of the market it is amalgamating data for as detailed below.

An equities and ETF tape should:

- Deliver the publication of data for both equity and ETF instruments as close to real-time as technologically possible, within the seconds time frame, given equity markets are order driven and largely liquid markets.
- Provide pre- and post-trade data from launch
- The latency of the pre-trade data submitted to the equities tape should be deeper than the top of order book and should be between 3 – 5 layers deep. IA members consider that top of order book (level 1 data) would be of least value to consumers of the tape as it would not adequately reflect the complexity of the trades.

A fixed income tape should:

- Deliver data as close to real-time as possible, within the minutes time span, given that FI markets are price driven, largely illiquid markets and need to account for any applicable deferrals regime.



- Include within scope UK and EU issued corporate bonds traded on a trading venue (ToTV) within the UK and Gilts and European Government Bonds traded ToTV within the UK.
- Provide post-trade data only.

The scope of each tape should be comprehensive, aggregating data from all U.K venues that host trading activity in each asset class.

Ensuring Competition and Innovation:

Whilst our members strongly support the objectives set out in the FCA's most recent business plan to stimulate competition and drive innovation, the IA and its members do not consider that in this instance the development of multiple tapes per asset class serves the best interests of the industry. Enabling multiple tapes could further fragment access and use of market data. Allowing multiple CTPs across asset classes significantly increases the risk of different and, or, overlapping product scopes thus defeating the objective of the consolidated tape, to provide a single accurate, consolidated view of the market that serves a common reference point for all participants. Furthermore, if such a scenario were to arise this would undermine one of the core goals of the Wholesale Markets Review, to increase confidence in wholesale financial markets through enhanced transparency and to increase investor protection.

Therefore, we consider it essential that there is only one consolidated tape provider (CTP) per asset class. It is also imperative that any provider offered the CT tender does not offer two versions of their product at varying prices for different latencies. There should only ever be one speed per tape which all market participants can access.

If one CTP demonstrated the knowledge and capability to provide for both equity and non-equity instruments this would be more efficient.

Mandatory Contribution to the CT:

Exchanges, MTFs, APAs, SIs and any other Trading Venues that host activity relevant to the CT should be required to provide market data free of charge to the CTP. Without mandatory contribution a CTP would face having to negotiate individual agreements with trading venues, APAs and potentially SIs to secure and distribute data feeds which would incur significant costs, which is in effect the status quo, and so would ultimately be unviable for a private sector-led solution. Indeed, the lack of a mandate for a single CT, combined with the cost and complexity of managing multiple licenses, is a contributory factor as to why a CT has not emerged under the existing regulatory regime.

Voluntary Consumption of the CT:

Consumption of the consolidated tape should be voluntary and the fee to access the consolidated tape should always remain cost-effective, as a core principal any charges introduced must be at a low cost workable price. This would ensure the most comprehensive take-up and use of the tape from across all relevant stakeholders (institutional and retail).

Cost and Funding of the CT:

Any CT developed should always be cost-effective for all market participants to access. Essentially, the regulator is best placed to mandate how the CT remains cost effective but again, the IA and its members consider that any fee structure decided upon is discussed



and agreed upon in conjunction with the FCA's Secondary Markets Advisory Committee to ensure it is palatable and fair for all market stakeholders.

In the short to medium term to enable a CT to materialise and ensure all the required data is attained from relevant Exchanges, MTFs, APAs, SIs and any other Trading Venue that host activity in the asset class the CT is being developed for should be required to provide market data free of charge to the CTP.

Once the CT is established, in the long term **all** contributors of data to the CT (including RM, trading venues, APAs and SIs) should be compensated at a workable price based on the value of the data provided to the tape. Again, the principles of any revenue sharing model that may be implemented are best left to the regulator and the FCA's Secondary Markets Advisory Committee to establish. Nevertheless, the IA suggests that any re-distribution of revenue back to the benefactors of the data should be broadly proportionate to the condition of the data contributed to the tape. At a minimum and in order for the contributors of data to receive a form of reimbursement the data contributed to the tape must meet certain conditions based on the timeliness (immediacy), quality (accuracy) and standards (use of correct tagging including flagging of addressable liquidity) of the data provided.

Standardisation of data submitted to the CT:

A consolidated tape in any asset class will only be as good as the data fed into it. Since the implementation of MiFID II, it has been widely acknowledged that there have been several issues with the quality of post-trade transparency data. Therefore, any and all data to be fed into a CT requires standardisation to alleviate inconsistencies and errors in data published by any CT. To this end, IA members recommend the FCA look to endorse the FIX Market Model Typology initiative.

Tender Process for a CT:

We believe competition and innovation can be actively encouraged by implementing a tender process in which all potential CTPs compete to establish which firm will operate as a CTP per asset class. The CTP contract should be reviewed on a regular basis such as every few years, where-by a renewal/ retender process is undertaken. This would likely inspire future growth and technological advances within this area of the market.

Furthermore, in jurisdictions such as the U.S, which already has an established CT for both equities and bonds; and, in the EU, where progress towards a single CT per asset class is underway, regulators have been given a direct mandate to direct and oversee the establishment of CTs.¹ In the UK, we believe the FCA will be best placed to mandate the establishment of a CT, and also set out core requirements for the scope and specification of the CT including the minimum standards for the competitive tender process. We see a role for the FCA's newly established Secondary Markets Advisory Committee to assist with the process of developing and opining on the standards to ensure from a cross-asset, cross-

¹ In 1975-6, the United States Congress directed the SEC to establish a National Market System (NMS) that would – among other things – promote efficient execution of securities and facilitate the availability of information to investors. US policymakers recognised that data would “form the heart of the NMS” and granted the SEC “pervasive rulemaking power” to make consolidated market data available to all investors – leading to the establishment of centralised Securities Information Processors to aggregate the data from venues and distribute the data to the public and market participants. See [SEC Concept Release: Regulation of Market Information Fees and Revenues](#), December 17, 1999.



sector perspective of market stakeholders the process for selecting the CT and the standards prescribed are fair, practicable and cover all requirements.

The standards should outline the broad governance framework for the CT including particulars on (but not limited to): information content, latency, licensing terms, scope of the venues required to provide data to the CT and terms of contribution. The particulars should be agreed by the FCA and the Secondary Markets Advisory Committee, at a minimum The IA requests that the service level agreement:

- defines the display data to be captured and published by the CT;
- mandates that data licensing is set at entity level (there is no capability to slice and dice data); and
- that any appointed CTP must have documented processes to facilitate the transfer of client arrangements to ensure a smooth transition from one CTP to another, should the current provider not be awarded the next or any subsequent future contract as the CTP.

The IA remains available to assist relevant authorities and organisational bodies where deemed appropriate to further assist with the development of UK CT.