WFE Response to FCA's CP23/15 – The framework for a UK consolidated tape

15th September 2023

Background

Established in 1961, the WFE is the global industry association for exchanges and clearing houses. Headquartered in London, it represents over 250 market infrastructure providers, including standalone CCPs that are not part of exchange groups. Of our members, 34% are in Asia-Pacific, 45% in EMEA and 21% in the Americas. WFE's 90 member CCPs and clearing services collectively ensure that risk takers post some $1.3 trillion (equivalent) of resources to back their positions, in the form of initial margin and default fund requirements. WFE exchanges, together with other exchanges feeding into our database, are home to over 50,000 listed companies, and the market capitalisation of these entities is over $100 trillion; around $140 trillion (EOB) in trading annually passes through WFE members (at end 2022).

The WFE is the definitive source for exchange-traded statistics and publishes over 350 market data indicators. Its free statistics database stretches back more than 40 years and provides information and insight into developments on global exchanges. The WFE works with standard-setters, policy makers, regulators and government organisations around the world to support and promote the development of fair, transparent, stable and efficient markets. The WFE shares regulatory authorities' goals of ensuring the safety and soundness of the global financial system.

With extensive experience of developing and enforcing high standards of conduct, the WFE and its members support an orderly, secure, fair and transparent environment for investors; for companies that raise capital; and for all who deal with financial risk. We seek outcomes that maximise the common good, consumer confidence and economic growth. And we engage with policy makers and regulators in an open, collaborative way, reflecting the central, public role that exchanges and CCPs play in a globally integrated financial system.

If you have any further questions, or wish to follow-up on our contribution, the WFE remains at your disposal. Please contact:

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Response

The World Federation of Exchanges (WFE) welcomes the opportunity to respond to the FCA's consultation on a proposed consolidated tape for bonds. The WFE welcomes the UK's and the FCA's focus on improving and enhancing capital markets. The UK real economy is supported by vibrant and functional capital markets. Capital markets are crucial to securing economic futures in all of the UK's nations and regions since they aid in financing business expansion and scaling, facilitate investment, offer liquidity, and aid in securing long-term personal futures, such as through pensions.

Nevertheless, the WFE is concerned that these overall goals have been somewhat lost in the development of the proposal. Instead of focusing on how a consolidated tape could aid capital markets, market participants are solely focused on cost. The real test of a consolidated tape will be if it increases engagement and improves informed trading. Furthermore, the FCA's proposal may disincentivise venues from offering trading services, which could lead to reduced transparency, worsened price formation and increased fragmentation as firms are forced to trade over-the-counter (OTC).

In our response, we will explain in detail how to measure the success of a consolidated tape, how to balance the interest of data users and data producers; and, how to ensure an equitable and competitive costing and pricing structure before responding to more detailed questions briefly.

How to Measure the Success of a Consolidated Tape

Measuring the success of a Consolidated Tape Provider (CTP) involves a nuanced evaluation that transcends the narrow focus on cost considerations that the cost-benefit analysis focuses on. It's imperative to adopt a comprehensive perspective that takes into account various dimensions of impact.

Stimulating engagement: The extent to which a CTP stimulates engagement among retail and institutional investors is a key yardstick. Beyond simply presenting data, a successful CTP should encourage heightened participation from these two segments of the market. If the CTP can contribute to a more informed and active investor base, and ultimately to a healthier trading environment, then it can be considered a success.

Informed Investment: The impact of the CTP on informed trading practices and its subsequent effect on price formation should be considered. Informed trading is an indicator of market efficiency and accurate pricing. If a CTP effectively facilitates the dissemination of timely and accurate information and enhances the quality of trading decisions it will lead to more precise price discovery. This, in turn, contributes to a more stable and transparent market landscape.

Enhanced risk management: Enhancing risk management practices is another pivotal criterion for evaluating the success of a CTP. If the CTP can empower risk managers to make well-informed decisions and implement effective risk mitigation strategies, then it can be considered successful.

Best Execution: The impact of the CTP on best execution practices is also a significant consideration. Best execution ensures that trades are executed in a manner that optimises price and minimises market impact, ultimately benefiting investors. If a CTP is effective, it should contribute to improving best execution practices by providing accurate and timely data, enabling traders to make more informed decisions about trade execution strategies.

A comprehensive evaluation of a CTP's success encompasses its influence on investor engagement, informed trading, price formation, risk management, and best execution practices. This multi-dimensional approach ensures that the true value and impact of a CTP are properly assessed, contributing to the overall efficiency and transparency of the financial markets.

Balancing the Interests of Data Users and Producers
When considering the development of a consultative committee, it is important to balance the interests of data users and data producers. Any consultative committee that the FCA creates will likely be largely populated by buy-side and sell-side users of data.

If the consolidated tape provider and the FCA gives equal weight to each representative on the consultative committee, then it is likely that the outputs of the consultative committee will be dominated by the views of the buy-side and sell-side market participants. This will come at the detriment of retail investors, academics and market infrastructure providers, including data producers. For example, if the CTP were to develop a new protocol for the CTP and move away from the FIX protocol, we would be concerned that the consultative committee might recommend solutions that benefit buy-side and sell-side participants over others.

An Equitable, Competitive Costing and Pricing Structure for Bonds
At the outset, it is important to underline that the market for bonds and equities are different. It goes without saying that the products themselves are different with different risk profiles and different returns. The key point here though, is that bond markets are often less centralised than equity markets. Many bonds are traded OTC rather than on exchange.

Though, of course, there are bond exchanges and electronic trading platforms where bonds can be bought and sold. There is a misconception in the market that fixed income data has no costs as compared to the provision of equity data. This is simply not true – the provision of data by venues carries a lot of the same costs.

In the proposal, the FCA explains that it expects venues to provide bonds data to the CTP without charge, revenue-sharing or indeed any incentivisation. The FCA expects venues to connect to the CTP without the CTP compensating them for costs. Furthermore, the FCA will permit the bonds CTP to operate on a different commercial basis to that of exchanges and without the need to offer free data in the same way that exchanges do.

The WFE does not consider that this proposal adequately balances the interests of market data users against those of venues, retail investors and academics. The WFE would like to see a number of improvements to introduce an equitable and competitive costing and pricing structure.

Firstly, to the extent that a venue creates the conditions in which authoritative price formation is actually happening venues should be compensated in some way. Those that create the data ought to be fairly compensated in recognition of the value the data represents.

Furthermore, if the CTP is offering additional services or charging for historical data, which in our opinion could constitute an additional service or product, then the CTP should pay for the data it uses to produce these products. Permitting the CTP to use data that it gets for free and then enabling it to sell that data would give the CTP an unfair advantage over data creators and other data providers.

Secondly, we welcome the FCA's decision to maintain the requirements in Article 86 of MiFID for the CTP. Market data is currently provided on a use-case basis by data producers and providers. We welcome the fact that the FCA would allow exchanges and the CTP to compete on the same, level playing field by continuing to apply these provisions. By allowing the CTP to charge different types of customers differently, this ensures that retail users are not cross-subsidising the low latency, high volume data that institutional investors demand. Therefore, this helps maintain fairness.

Nevertheless, whilst we recognise that it may be less straight forward to apply the current reasonable commercial basis (RCB) model to the CTP; if the CTP will receive data from contributing venues at no cost. We do not believe it is necessary to replace RCB as it can be understood and applied in the context of the CTP.

Most importantly, it would be appropriate to engineer the CTP so that it does not undercut the role exchanges play in producing market data by attempting to reduce market data fees at all costs. It is understood that a consolidated tape is designed to apply fees for less than the sum of the parts, but it should not be a distortive mechanism that impacts the ability of exchanges to create high quality data and resilient markets. At the end of the day a successful consolidated tape is one that is economically viable, serves investor needs, and adequately compensates data contributors. We question whether removing RCB will help achieve this goal.

Furthermore, the CTP should continue to be mandated to provide market data free of charge after 15 minutes. If the tape is going to achieve its goals, it needs to be broadly accessible, particularly to retail investors. Free market data after 15 minutes is one of the most used ways that retail investors view the price of an asset.

An Equitable, Competitive Costing and Pricing Structure for Equities
We welcome that the FCA recognises that the development of a CTP for equities will likely need to be somewhat different to that for bonds. As we set out above, the market for equities is different than for bonds. Equities tend to trade more on exchanges than bonds. This is because, amongst other things, equities are generally more homogenous and easily divisible than bonds; and, equities tend to have higher trading volumes and liquidity than bonds thus attract more investors.

Exchanges create data about the price at which equities are trading. This information would not exist but for the role played by exchanges and the significant investment exchanges make in their markets. Exchanges create this information as an integral part of the process of bringing together buyers and sellers. This is why it is termed a 'joint product' alongside execution. Exchanges also perform a number of other crucial functions in support of this process, such as market surveillance and run complex information technology, thereby ensuring the integrity of the information.

The quality of the information that exchanges create means it has an economic value. It is a fundamental element of any markets-based system that producers of goods or services should be compensated for the services that they provide. Exchanges provide a service by producing and offering market data and should be adequately compensated for this.

This further strengthens the case for an equities CTP to compensate data producers. Therefore, an equities CTP should fairly compensate venues for contributing data to the CTP. We look forward to further engaging with the FCA's more specific proposals on this topic.

Responses to specific questions

Q2: What success criteria should be used in the postimplementation framework review?
See above for detailed answer.

It should also be noted that the FCA's assertion that "a single CT per asset class provides a 'golden' source of truth and can act as a focal point for the resolution of data quality issues" may not be true. It is probable that some assets that are traded on a trading venue (TOTV) in the UK will be traded at very low volumes. Some of these assets may be traded at very high volumes overseas. It may be misleading if the CTP is seen as the 'golden' source of truth.

Q3: Do you agree with our proposals on the scope of a bond CT?

We agree with the FCA that a pre-trade tape is likely not necessary, and a post-trade tape should be sufficient.

Q4: Do you agree that data should be transmitted from data providers and received by the CTP via a standardised, opensource API developed by the CTP? Should this be based on the FIX protocol?

The financial industry's reliance on FIX has led to a substantial investment in infrastructure, connectivity, and technical expertise to ensure its effective implementation. Any transition away from FIX would need to carefully consider the financial implications of such a shift, as well as the potential disruption it could cause to existing systems and workflows.

Nevertheless, if the FCA were to explore the development of a new protocol, it is imperative that the voices of exchanges are taken into consideration. Exchanges serve as vital pillars of the financial ecosystem, acting as central hubs for trading and market activity. One common criticism of the FIX protocol is that its controlling committees are dominated by buy-side and sell-side institutions. This means that the views of the data creators (ie, exchanges) can get lost in debates over changing the protocol. Involving exchanges more closely in the development process of a new protocol ensures that the unique needs and requirements of these critical market infrastructure providers are acknowledged and integrated.

Finally, the FCA ought to allow the CT to leverage existing data feeds rather than pursue wholesale FIX replacement. At the very least, we believe the FCA should consider how a FIX replacement could be technologically consistent with FIX and the EU's proposed consolidated tape protocol (should they decide to follow the same approach). This consistency would help to enhance trading in the UK. At the very least, the FCA should not need to create a new paradigm but should seek to leverage existing solutions like FIX and existing data feeds.

Q9: Should the CTP offer a deferral checking service? If so, should use of this service by data providers be mandated?

Responsibility should stay with data providers not the tape. If there are two regimes running, then there is a danger that there are diverging views on the 'truth.'

Q10: Do you agree that the provision of a historical data service should be optional for a CTP?

Yes.

Q12: Do you agree that trading venues and APAs should be required to provide data to a CTP without charge?

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Q13: Do you agree that a bond CTP should not be required to share revenues with data providers but be allowed to offer incentives to data providers for high quality data?

No. To the extent that a venue creates the conditions in which authoritative price formation is actually happening venues should be compensated in some way. Those that create the data ought to be fairly compensated in recognition of the value the data represents.

Q14: Do you agree that a bond CTP should not be required to contribute to data providers' connectivity cost recovery? If you think that a bond CTP should contribute to data providers' connectivity cost recovery, on what basis should the terms of this arrangement be set?

It depends upon the overall model of the CTP. If the FCA expects data providers to provide data free-of-charge and without revenue sharing mechanisms, then data providers should at least be compensated for their connectivity costs. As venues will be required to connect to the CTP, connectivity costs could represent a barrier to entry and prevent the development of competition in the marketplace.

Q15: Do you agree that the requirement for a CTP to provide data free of charge 15 minutes after publication should be removed? If so, how best should we seek to ensure that academic and retail users of the data have low-cost or free access to the data?
No. The consolidated tape provider should compete on the same level playing field as exchanges.

Q16: Do you agree that the CTP should be able to offer value-added services, provided that the CT service is available on a stand-alone basis and the provision of such services does not give the CTP an unfair advantage?
Yes. But if the CTP offers value-added services off the back of market data provided to it, it should pay for that data. If not, it will have an unfair advantage of other data providers.

Q17: Do you agree that CT licences should be separated according to re-use/direct use? For direct use licences, do you agree that users should be charged on a per-user basis? For re-use licences, should users be charged on a per volume basis or on a use case basis? Which ways of licensing would encourage competition and innovation?
Yes. This is consistent with the way that data licences are currently sold and so would enable competition on a level playing field.

Q20: What factors should be considered when determining bidding price parameters, standardisation of bids (if bidders are allowed to specify their own price list), and minimum price reduction in bids between rounds?
In order to realise the benefits of a consolidated tape it will be important that the service is good enough to meet the requirements of industry. The lowest cost bid will not necessarily be the best bid.

Q27: Do you agree with our proposed deletion of the requirement for a CTP to price on a reasonable commercial basis?
See above.

Q28: Do you agree with the retention of the requirement for a CTP to provide market data on a non-discriminatory basis?
Yes. Market data is currently provided on a use-case basis by data providers. We welcome the fact that the FCA would allow exchanges and the CTP to compete on the same, level playing field by continuing to apply the provisions in Article 86 of MiFID.

Q29: Do you agree with our proposed changes to the transparency obligations in respect of pricing?
Yes, as this is based on the current provisions in MiFID.

Q30: Do you agree with our proposed governance requirements for the bond CTP?
The proposed governance arrangements surrounding the consultative committee ought to be balanced. Any consultative committee must ensure balanced representation of the interests of data producers as well as users.

Q33: Do you agree with our proposal to require a CTP to provide a feed of its data to the FCA?
Yes.