



Statement - A Consolidated Tape Fit for Europe

Brussels, 2 December 2020

Following the publication of the study by Market Structure Partners (MSP), in which the UK consultancy outlines a proposal to consolidate European market data, Exchanges believe that a holistic approach is required in this important debate, especially given the revamped Capital Markets Union.

The study by MSP is flawed.

1. It paints an incredibly bleak picture of EU financial markets, does not sufficiently recognise the link between high quality data and a functioning, fair and competitive market structure and does not substantiate a valid business case for the consolidated tape.
2. It does not focus on the low-quality market data provided by SI and OTC reporting, and the lack of trading access to all execution venues for end-investors. It overlooks the fact that Exchanges minimise costs for clients including on data, as they compete with other venues. Exchange market data fees account for less than 0.5% of buy-side and 10% of sell-side market data spend¹ only.
3. It misses the fundamental objective that policymakers should have: Setting rules that ensure a transparent, stable, as well as fair and competitive equity market structure which should deliver efficient price formation and transparency for equity instruments in the EU.

Without correctly identifying the problem, there cannot be a proper solution.

FESE supports data consolidation from all trading participants, but a useful consolidated tape must be designed to provide a full overview of the market activity to companies and investors. The lack of data quality from SI and OTC trades undermines this ambition which is the core problem that remains unsolved in the EU. Urgent action is required from policymakers to make sure legislation is enforced and that it truly achieves a *Capital Market Union that works for people*.

A well-functioning equity market structure, which incentivises transparency and offers a robust price formation process, is beneficial to companies (to get better valuations) and investors alike (to get a fairer and safer outcome). However, ESMA's recent statistical report on EU securities markets shows that reality is at odds with these objectives². An increasing amount of trading is not transparent, not available to all investors and large investment banks dominate the EU equity trading landscape³.

¹ Oxera (2020)

² "Half of trading volumes of equity instruments was on-exchange in 2019, while 53% of volumes occurring on RMs and MTFs, and off-exchange trading continues to be significant, with a large amount of trading OTC (26%) and on SIs (21%). Since MiFID II, an increasing amount of trading has not been subject to real-time pre-trade transparency, up from 22% in January 2018 to 38% in December 2019." See ESMA Annual Statistical Report on EU securities markets (2020).

³ "Overall, the largest EEA venues by annual trading volumes were CBOE Europe (MTF) (EUR 3.4tn), Goldman Sachs (SI) (EUR 2.1tn) and the London Stock Exchange (RM and MTF) (EUR 1.9tn)". "The number of SIs with permission to trade equity instruments has increased from less than 15 under MiFID I to 73 in 2019. The largest SI for equity trading was Goldman Sachs (EUR 2.1tn, accounting for 36% of trading volumes on SIs). Other important SIs in the EEA are Barclays (EUR 0.5tn), Morgan Stanley (EUR 0.5tn) and Credit Suisse (EUR 0.4tn) (S.43). This confirms the tendency of SIs to be operated by large investment banks." See ESMA Annual Statistical Report on EU securities markets (2020).

A consolidated tape on its own will not improve EU market transparency unless market structure rules and improved trade flagging with proper regulatory enforcement are tackled at the same time. A piecemeal approach - as outlined in the study by MSP - will only increase complexity and confusion. Only some large non-EU investment firms would benefit from a consolidated tape, as proposed by the study. End-investors would continue to be denied equal access to liquidity and the possibility to verify best execution. Moreover, the proposal from the study by MSP represents a significant risk for smaller exchanges and may thwart the development of their often-nascent capital markets. This is why the consolidated tape debate cannot be separated from the market structure debate.

The consolidated tape proposed by MSP cannot offer an executable real-time view of the pool of liquidity in the EU due to the latency differences between multiple financial centers (laws of physics cannot be ignored). As a viable alternative, Exchanges propose a post-trade tape of record covering 100% of transactions in the market (including SIs and OTC). This would be an appropriate solution to address the need for a consolidated view of EU markets and to ensure that investors can verify execution quality. A post-trade tape of record would be easier and less costly to build and would avoid latency and arbitrage issues whilst delivering clear value to market participants by supporting portfolio valuation, transaction cost analysis, and the building of trading strategies.

In conclusion, FESE urges policymakers to simplify the set of rules that govern the functioning of trading in secondary markets as well as a proportionate intervention, to achieve improved levels of transparency in the EU and ultimately ensure proper consolidation of data for the benefit of companies and investors.

Information for the Editor:

The Federation of European Securities Exchanges (FESE) represents 36 exchanges in equities, bonds, derivatives and commodities through 18 Full Members from 30 countries, as well as 1 Affiliate Member and 1 Observer Member.

At the end of October 2020, FESE members had 8,660 companies listed on their markets, of which 13% are foreign companies contributing towards the European integration and providing broad and liquid access to Europe's capital markets. Many of our members also organise specialised markets that allow small and medium sized companies across Europe to access the capital markets; 1,071 companies were listed in these specialised markets/segments in equity, increasing choice for investors and issuers. Through their RM and MTF operations, FESE members are keen to support the European Commission's objective of creating a Capital Markets Union.

FESE is registered in the European Union Transparency Register: 71488206456-23.

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