

## **FESE STATEMENT ON EQUITY MARKET DATA**

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### **Introductory Remarks:**

FESE members operate Regulated Markets (RMs) that offer a transparent and neutral trading infrastructure to trade equities, bonds and derivatives. Exchanges fulfil a valuable function with significant positive externalities. The whole market benefits from the price discovery function offered by exchanges, including the competitors of exchanges and a full spectrum of users and investors investing in the EU Market.

The Markets in Financial Instruments Directive (MiFID) has enabled inter-market competition which has yielded significant benefits for European markets but also resulted in fragmentation of liquidity, making it difficult to source liquidity and assess execution quality. These challenges can be seen as a natural by-product of competition, but more attention is needed to resolve the challenges created in the area of data. High-quality data is provided by RMs, which is made available through many channels and is being consolidated along with other available data by commercial providers. The underlying problem with data in Europe is the lack of availability of pre-trade OTC data, and the lack of consistency, granularity and poor quality of post-trade OTC data. These gaps can be addressed with a combination of MiFID amendments (to require data reporting where it is not currently required, and to require more granular and more timely data in other cases) and better mechanisms for monitoring the data reporting. Some of these improvements are already being considered by European policymakers.

On the other hand, a number of commentators have put forward the idea of implementing a US style Mandatory Consolidated Tape (MCT) or introducing price regulation, with the hope that these proposals would lower the cost of consolidation and improve transparency. In our view, these proposals will not serve the objectives of improving transparency or lowering costs, and by contrast pose serious threats to the competitive framework that MiFID has enabled.

In this Statement, we provide our views on the importance of a competitive framework for market data and the key positive role Regulated Markets play in this market. Moreover, we make a number of operational commitments to further improve the availability and consolidability of market data so that the market-based solutions for pan-European consolidation can deliver their full potential.

### **Our Commitment:**

**In the spirit of making the broadest possible high-quality data available to the EU Single Market, FESE members commit to:**

- **By Q4 2010: Making the public display of 15-minute delayed data free of exchange fees for all end-users.<sup>1</sup>**
- **By Q4 2010: Supporting standardisation of trading flags by providing and maintaining cross-referencing to industry defined standards.**
- **By end-2010: Making post-trade data available separately from pre-trade information at a reasonable cost.**
- **Continuing to provide innovative data solutions to the market through a competitive framework and cooperation with intermediaries.**

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<sup>1</sup> For retail end-users in the case of the Luxembourg Stock Exchange; professional and retail end-users in all other cases.

### **Overview of the European data market:**

- Regulated Markets (RMs) offer transparent and public platforms to list and trade equities, bonds and derivatives which are critical to the public price formation process, which is enabled by pre- and post-trade transparency combined with significant regulatory oversight.
- The value of RMs' price formation is expressed in the form of high quality post-trade data which benefits a broad market of investors as well as competing platform operators and OTC markets who utilise these high quality reference market prices as an alternative to their own price generation. The post-trade prices produced by all competing platforms can provide a useful reference to investors for liquidity discovery, but may or may not be a source of price discovery.
- In the case of OTC markets, the post-trade prices are often produced by systems which are not broadly accessible and therefore are frequently excluded by firms as different from a liquidity perspective. Coupled with the overall lack of standards in OTC trade reporting, OTC trading prices are potentially unrepresentative, unavailable to most investors and do not form part of the public price formation process.
- A MCT is the wrong solution for Europe. A coherent and competitive framework can be enabled by imposing appropriate standards.
- Price regulation of market data threatens RMs' ability to compete on the basis of the value they generate for the benefit of the whole market and to effectively monetise this value.
- The cost debate led so far has too narrow a focus. While we are happy to work on finding solutions to the challenges for market participants due to the collective costs which RMs charge for data, we feel strongly that a broader view of costs should be considered.
- Better regulatory/supervisory classification of OTC trading and better standardisation of all remaining OTC data is needed.
- Existing commercial pan-European consolidators already offer comprehensive consolidations, both for pre- and post-trade transparency. For example, one of the consolidators offers a completely flexible functionality of consolidation, depending on the customers' wishes to either see all trading venues in a consolidated view, or selected venues only. Furthermore, ex post best execution verification can already be done with delayed data at no exchange fees costs at all. The commercially provided tapes will continue to meet the requirements of those participants that need a real-time tape, ie large brokerage firms and institutional funds.

### **Importance of competition:**

- Competition, which is critical to European markets, requires a delicate balance which can be upset by unnecessary regulation.
- Every opportunity for competition to work and thrive should be exhausted before we apply regulation to "fix" problems created by competition.
- As many customers will have varying needs for how they sort the quality data from the rest, the best way to address the challenges is to apply standards for how the conditions of the trade are expressed, allowing investors and the competitive market of quote vendors to provide innovative and customised solutions.
- Many investors will only require post-trade data for certain markets and for certain securities and should be able to choose the prices they wish to source. Providing this choice is critical to maintaining the competition between markets, as it forces each market to compete on the basis of the quality of the prices they produce, rather than artificial requirements.
- Taking into account the fundamental features of European markets, a competitive framework is the right approach for Europe and will be enabled by applying focus on the true source of post-trade transparency problems, ie the quality, availability and consistency of OTC data and the inadequate standardisation of data more generally.

### **Why we oppose a Mandatory Consolidated Tape:**

- A MCT means that RMs (and indeed other trading venues) are not able to compete on the basis of quality because their prices are treated as equal value components of the proposed CT.
- A MCT will be expensive to build and operate and will likely require a complex revenue allocation model for the participating markets. It is hard to see how any revenue allocation could account for the issue of quality or provide choice to investors.
- Potential MCT revenues could be one reason why certain trading venues with no or little price formation of their own are in favour of a MCT, as it would allow them to earn revenue from market data and would elevate their prices to the same level of value as the prices of the price-forming venues.
- Most critically, MCT revenues will spoil the information value of the tape as they have in the US because they create economic incentives to conduct trades solely for the sake of that market data revenue.
- A MCT will not solve the main problems faced by market participants and supervisors. The introduction of Approved Publication Arrangements to publish OTC post-trade transparency information would go much further in addressing the quality, availability and consistency of OTC data.
- Finally, a US-style MCT would introduce additional problems to Europe. In addition to taking away the competition, it is more than likely that it will also change the market microstructure due to gaming for data revenues, a serious and inevitable problem with a central system that has kept the US authorities busy. This is a significant problem with largely unpredictable consequences for the micro and macrostructure of European markets. Gaming would likely become a fixture of the market and, instead of venues competing on the basis of their execution quality; they would compete in terms of their gaming. This is not a good outcome for Europe.

### **On the issue of cost:**

- The debate regarding cost has too narrow a focus. An accurate view of the total cost borne by a typical customer will show that, collectively, RMs' exchange user fees represent less than 30% of overall data costs and the balance represented by intermediaries (vendors, communications) – which does not seem out of proportion when comparing the value represented by the prices vs. the value of delivery.
- Exchanges have all individually been taking significant actions to reduce the costs of data and improve the quality of their offerings, and have many other actions underway. RMs offer various price options in their product offerings already, e.g. retail pricing or snapshot pricing for wholesale customers, resulting in very reduced fees (up to - 75%) addressed to non-professional as well as professional investors.
- RMs remain fully committed to offering post-trade prices at a reasonable cost, but believe they should continue to be able to charge reasonable fees to account for the value and quality of the information they produce. They should not be subjected to price regulation for the market data they produce, just as intermediaries who deliver data which they derive from RMs are not subject to price regulation.
- Post-trade data, like other services provided in the European trading landscape, should continue to be subject to competition and provided at a cost which is reasonable. RMs are exposed to full competition in all areas of their business – and have considerably lowered their transaction fees (as documented by the Oxera study<sup>2</sup>), further reducing their share of the costs borne by clients. Competition will force these trends to continue in all areas of services provided by exchanges.

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<sup>2</sup> The Oxera study conducted for the European Commission shows that exchanges' fees account for only 3% of the total cost of trading, and that these costs have come down by 33% over 2 years.