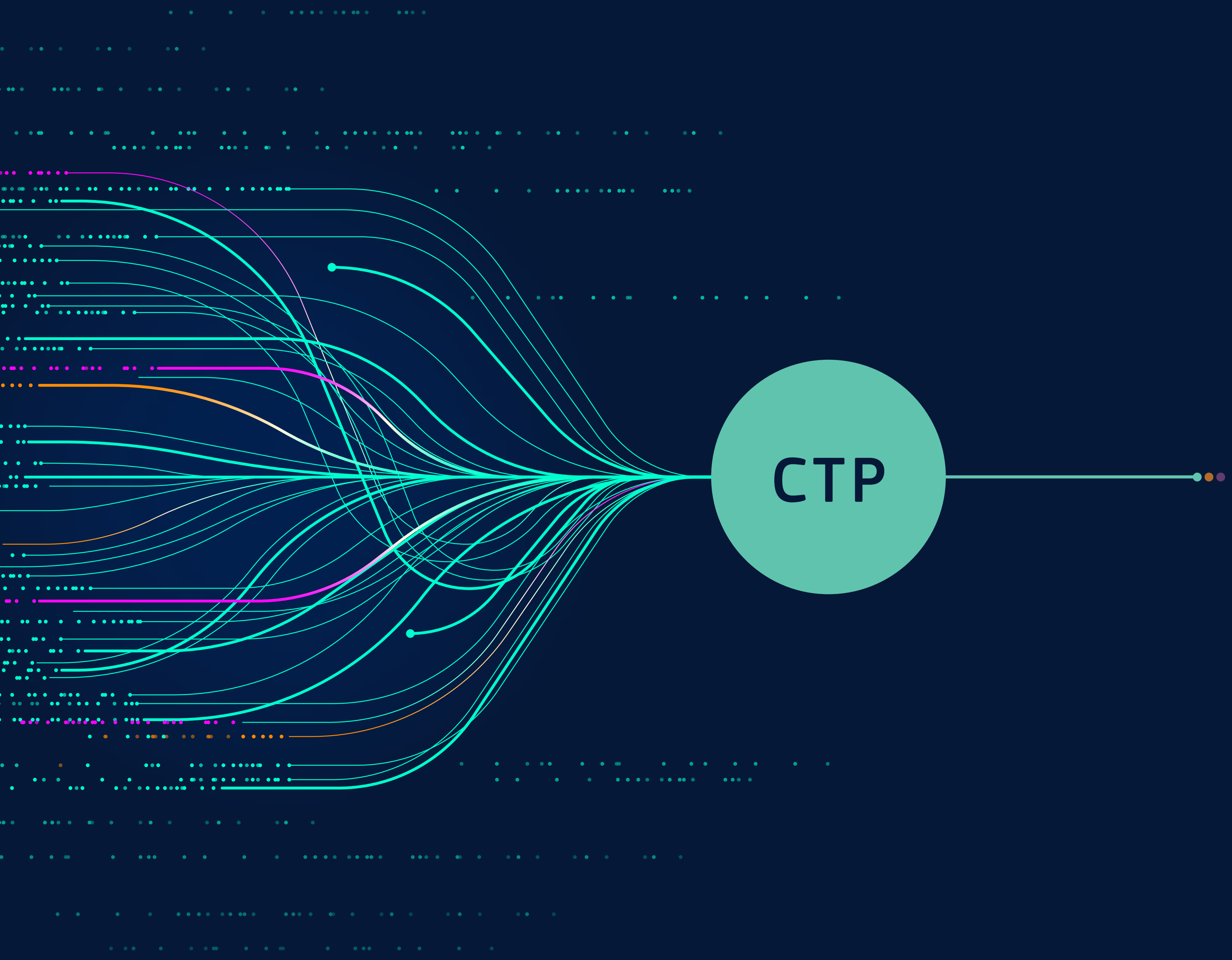

EXECUTIVE SUMMARY OF THE REPORTS ON SHARES AND EXCHANGE-TRADED FUNDS, BONDS AND DERIVATIVES

Expert stakeholder group on equity and non-equity market data quality and transmission protocols

October 2024

Executive summary of the reports on shares and exchange-traded funds, bonds and derivatives

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CREDITS

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Background

The MiFIR reform[1] aims to improve the functioning of Union's capital markets, among others, by enhancing market data transparency and ensure the success of the proposed consolidated data tapes. The MiFIR reform requires the European Commission to establish an expert stakeholder group to provide technical expert advice to ESMA as well as to the European Commission in a number of key areas, notably i) the quality and the substance of the market data as well as the quality of the transmission protocols for the purpose of the operation of the consolidated tapes; and ii) the calibration of non-equity post trade publication deferrals.

On 26 February 2024, the European Commission adopted a Decision setting up the Expert Stakeholder Group on equity and non-equity market data quality and transmission protocols (the Group)[2]. Based on the applications received from an open call[3], the European Commission chose members in the fields of market data transparency and market data management from representatives of different groups of stakeholders, such as banks, exchanges, clearing houses and investment firms, as well as various financial technology companies, and appointed 3 Rapporteurs. The work was enriched by observers representing other market stakeholders and the European Securities and Markets Authority (ESMA), as well as ad-hoc experts who were invited to participate in meetings of the Group. The group was aided by staff of the European Commission services.

Avant-propos

We, as the group, were given the mandate to prepare this Report by the European Commission in mid-July 2024. This Report constitutes the outcome of our Group's work to identify key issues related to transparency as well as market data quality and transmission protocols in the equity and non-equity market and deliver Advice as to how to address these issues to the European Commission and ESMA[4].

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[1] Regulation (EU) 2024/791 of the European Parliament and of the Council of 28 February 2024 amending Regulation (EU) No 600/2014 as regards enhancing data transparency, removing obstacles to the emergence of consolidated tapes, optimising the trading obligations and prohibiting receiving payment for order flow.

[2] Commission Decision of 26.2.2024 setting up the Expert stakeholder group on equity and non-equity market data quality and transmission protocols, C(2024) 1143.

[3] [Register of Commission expert groups and other similar entities (europa.eu)]

[4] https://ec.europa.eu/transparency/expert-groups register/core/api/front/expertGroupAddtitionalInfo/50523/download

We held twenty-four informal preparatory meetings between 17 July and 24 September 2024 and there was a significant degree of information and data sharing between Group members, observers and ad-hoc experts before the finalisation of the Report at the plenary session on 25 September 2024. The Rapporteurs focussed on the individual asset classes - bonds, shares and exchange-traded funds (ETFs), and derivatives - to ensure a deep, detailed and comprehensive review of all aspects of the mandate and ensure an informed, balanced and detailed exchange of views at the plenary session.

The executive summary presents the key Advice from the Group, as discussed and agreed at the plenary session of 25 September 2024, where **consensus** amongst members was achieved with a particular focus across the three groups on data quality as a critical success factor. There was dissent amongst some observers within the Shares and ETFs group (each specific instance is clearly indicated in the report on Shares and ETFs).

In addition, we have included detailed reports examining issues relating to "equity" (shares and ETFs) and "non-equity" - with this segment broken down further into bonds and, separately, derivatives (although the Group found some degree of overlap between those two asset classes) to reflect the focus of the forthcoming consolidated tape tenders that would seek to appoint a single provider for each of the three asset classes. Thus, **our work had an extremely broad scope with important and detailed analysis of what each tape requires identified in the detailed reports**. We opted for this all-encompassing approach in order to ensure that the depth of evidenced work the Group carried out is available to all stakeholders for use by the market and policy makers in future discussions.

Our Advice is supported by an analysis of the various considerations that underlie the key issues. We are proposing Advice that may require further work, engagement and examination - building on the extensive outreach programme that ESMA has been developing as the legislative process proceeded. Still, we remain strongly convinced that the EU should pursue the approach to data quality and technical infrastructures that ensures it remains competitive in the development of consolidated tapes, offering the best outcomes to European consumers and businesses and the international capital markets.

Neil Ryan, Chairman 29 September 2024

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Executive Summary

In the EU, the focus on driving the development of the financial markets to unlock the potential of private capital while improving competitiveness, choice and stability has been a key ambition. The European Savings and Investments Union will tackle, inter alia, the effects of fragmentation in the capital markets system and seek to enhance transparency.

A long overdue first step is the delivery of consolidated tapes for equities (shares and ETFs) and bonds. There is also an appetite amongst policymakers for a consolidated tape for derivatives.

On 25 November 2021, the European Commission adopted two legislative proposals aimed at improving the functioning of the Union's capital markets and addressing the fragmentation of trading data across over 400 venues by enhancing market data transparency and removing obstacles to the emergence of consolidated tapes. After two and a half years of negotiations, on 8 March 2024, Regulation (EU) 2024/791 and Directive (EU) 2024/790 ('the MiFIR Review') were published in the Official Journal of the European Union. The MiFIR Review entered into force on 28 March 2024.

The MiFIR Review finally provides for the creation of three consolidated tapes – one for each of the above-mentioned asset classes – that will be operating in the coming years, after the providers of the three tapes are selected in a tender procedure run by ESMA.

To ensure the success of the consolidated tapes, the European Commission established a group of experts in the field of equity and non-equity market data with proven expertise in trading, data, and data management in bonds, derivatives, shares and ETFs. This Expert Group was established to provide advice to ESMA and the European Commission on the quality and the substance of market data for consolidated tapes, the quality of the transmission protocols and the calibration of non-equity post trade publication deferrals.

Benefits of a structured framework for transparency, data quality and transmission protocols in the EU

Identifying the key areas of concern around data quality and how that could affect transparency, the deferrals framework, as well as the consolidated tape input and output data format and transmission protocols are core elements that could underpin the effectiveness of the consolidated tapes.

In that context, our Group divided those issues into three different aspects:

- The quality and substance of the data required for enhanced transparency and successful consolidated tapes. This includes the accountability required to support enhanced transparency and the need for a public source of reference data across the markets to ensure that an accurate, timely and consistent record of market activity is available across the entire market;

- transmission protocols are an area where technology advances can enable higher levels of transparency, appropriate latency (per asset class) and can limit disruption (and costs) to existing infrastructural systems. To that end, regulatory technical standards (RTS) that are to be developed need to focus on future-proofing any framework and ensuring that international standards are also considered as the EU capital markets form part of a larger global financial system where capital can be mobile; and

- balancing the appropriate level of transparency to maximize liquidity and efficiency of capital markets and participation in European markets.

The effects of the MiFID II/MiFIR have encouraged competition but also led to fragmentation—a direct consequence of increased competition— in both the market and transparency responsibilities. Our Group agrees that enhanced oversight measures are necessary to support the transparency necessary for the proper functioning of competitive European capital markets.

Therefore, we have interpreted our mandate in relation to providing detailed advice on:

- specific data quality issues across each of the relevant asset classes;

- supervisory oversight required for the accountability;

- the proposed deferral regime;

- the adoption of data standards within each relevant asset class, across the fragmented markets; and

- the appropriateness of a prescriptive set of rules for the consolidated tape input and output transmission protocols for each relevant asset class.

The approach at the basis of this Report

Setting the right level of financial regulation and supervision requires an understanding of what constitutes transparency and the necessary measures for supporting it. This often requires addressing opposing perspectives on priorities such as the perceived increased costs of data and technical change, and effects on market trading in a global environment.

Hence, we strive to deliver Advice on changes to the European regulatory and supervisory framework that takes an objective, data-focused perspective and, where possible, an evidence-based approach.

While a number of elements of the Report are technical, we discussed the issues in a balanced, tangible and objective way, without any form of prejudice with regard to a specific provider or technology. There were frank and detailed exchanges of view at the Group, but **we avoided making any recommendations aiming at technology-specific rules** or recommending any steps to be taken to specifically address issues in relation to specific technologies. The Group also recognises that, sometimes, regulatory and supervisory approaches should be informed by the opportunities presented by new technological advances which can still be specifically considered and supervised.

The Advice we discussed is not specific to any business model or financial service or product and cuts across the whole market. We regard the Advice as addressing the primary set of enabling issues with a view to dismantling obstacles and opening opportunities for the consolidated tapes in the EU.

The core findings of the Group

On the **calibration of post-trade publication deferral schedules for bonds**[5] , the Group advises that the EU Commission and ESMA should:

- reconsider the current grouping proposals using additional factors (such as currency, issuer country, sub-asset classification and duration) to allow sufficient granularity;

- use the current amount outstanding ("total issued nominal amount" in the Financial Instruments Reference Data System (FIRDS) records to determine the issuance size thresholds, relevant for assessing the liquidity - rather than the original issuance amount and that field 14 of RTS 23 should be renamed "current notional amount outstanding" to clarify the requirement;

- adopt an Average Daily Volume (ADV) / absorption time approach to re-assess appropriateness of the trade size buckets (and potentially exclude transactions of

[5] https://finance.ec.europa.eu/document/download/7c9482af-5695-4a24-a452-eb0360e5ebb0_en?filename=241017-deg-report-bonds_en.pdf

less than €100,000) with regards to price dissemination, while considering that ADV should not be used to allow such generous deferrals that a liquidity-provider or market-maker is able to trade out of a position "risk-free";

- distinguish between investment grade and high yield for corporate bonds;
- review the proposed treatment of Structured Finance Products (SFPs), based on the general lack of liquidity in this market segment.

Furthermore, the Group also suggested that ESMA considers conducting pilots for any new bond deferral calibration regime in order to ensure effective outcomes with structured reviews to provide additional flexibility, where required.

On the **consolidated tape input/output data format and on transmission protocols**, the Group's Advice, based on **strong consensus** across all three asset classes[6], was that data format and transmission protocols, both in terms of input and output from any consolidated tape provider, are **best decided by the consolidated tape provider** as:

- it allows that provider to determine the relevant constraints/demands of the market and it ensures that latency requirements can be matched against technical specifications and protocols with market expectations for the different asset classes;
- it reduces the potential cost of prescriptive rules that could also require extensive time for adjustments in infrastructure and implementation;
- it allows the consolidated tape to evolve as (global) technological formats, protocols and standards evolve.

More specifically, for the **bond and derivatives** consolidated tapes, the Group recommends **not to enshrine particular protocols or formats** into the future RTS on the input and output data for the CTPs. For the **equities** CT, the Group advises **against the use of JSON** for machine readable market data due to its verbosity and performance issues. At the same time, the Group advises ESMA to adopt a comprehensive data quality control framework.

[6] https://finance.ec.europa.eu/document/download/3f0c7535-06c9-44e1-8e16-b10d240d6080_en?filename=241017-deg-report-shares-exchange-traded-funds_en.pdf

The Group also highlights the need to ensure that there are clear definitions of "standards", "protocols" and "formats" as there are significantly differing opinions as to the scope of these terms and their use or application by various authorities.

The Group considered the issue of data quality across all asset classes. While there are various degrees of elements that affect the different asset classes, there was a **consensus** that:

- for **bonds**[7], in particular, the migration of reference data from the Financial Instruments Transparency System (FITRS) to FIRDS is a welcome development, but needs to be completed in such a way as to ensure consistency of classification, mapping and remediation;

- there needs to be strong and consistent oversight of data quality from authorities;

- there needs to be clear definition of the rules and practices;

- any consolidated tape providers should ensure that there are appropriate degrees of governance, oversight and transparency to allow for further improvements in data quality processes and practices; and

- more structured engagement between market participants, data providers, venues and authorities is needed to continue to drive the data quality framework in a collaborative manner.

The Group also highlighted several key issues for detailed consideration in relation to the preparatory work that is currently taking place with regards to an **EU deferrals regime for derivatives**[8], including with respect to the scope of the MiFIR transparency regime for OTC derivatives.

[7] https://finance.ec.europa.eu/document/download/7c9482af-5695-4a24-a452-eb0360e5ebb0_en?filename=241017-deg-report-bonds_en.pdf

[8] https://finance.ec.europa.eu/document/download/2c80fd40-188d-4837-806d-b34b23fb99bc_en?filename=241017-deg-report-derivatives_en.pdf

On the calibration of **post-trade publication deferral schedules for OTC derivatives**, the Group recommends that:

- for each Index and tenor combination of fixed versus floating single currency standard interest rate swaps:
  - where there are greater than X trades per day - reporting should be real-time where the size is below a certain threshold and deferred to end of the day (EOD) where the size is greater than that threshold.
  - Where there are less than X trades per day - reporting should be deferred to EOD where the size is below the threshold and deferred to T+1 where the size is greater than the threshold.
  - X should be set by ESMA at a number between 4 and 15 trades per day depending on the ESMA's view on sufficient liquidity, while the threshold should be determined with reference to the 67th percentile for standard swaps.
  - there should be a cap applied at the 90th percentile – in that case, the full size should be published only after 3 months.

- for each Index and tenor combination of fixed versus floating single currency non-standard interest rate swaps
  - reporting should be EOD where the size is below a certain threshold, and
  - reporting should be deferred to T+2 where the size is greater than that threshold;
  - the non-standard threshold should be set at the 50th percentile.

The Group also agreed upon recommendations on deferrals for OTC credit derivatives.

Conclusions

The development of consolidated tapes for bonds, shares and ETFs, and derivatives will be a vital step in achieving a successful European Savings and Investments Union over the coming years.

The Group stresses that the aims informing this Advice are **best pursued by regulation that is non-prescriptive, flexible, forward-looking and neutral**, in the sense that it does not differentiate between the different technologies that can potentially be used to provide a consolidated tape service.

Finally, the Group further believes that continuing engagement with the markets will inform better policy outcomes and the Group remains available to help the European Commission and ESMA to maintain the high level of dialogue and co-operation that has been apparent to-date.