# ICMA response to the UK FCA Consultation on Payments to data providers and forms for Data Reporting Services Providers

**CP23/33: Consultation on Payments to data providers and forms for Data Reporting Services Providers**

## 9 February, 2024

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### *Introduction:*

ICMA welcomes the opportunity to respond to the UK Consultation on Payments to data providers and forms for Date Reporting Services Providers (CP23/33)

ICMA promotes well-functioning cross-border capital markets, which are essential to fund sustainable economic growth. It is a not-for-profit membership association with offices in Zurich, London, Paris, Brussels and Hong Kong, serving over 620 member firms in 67 jurisdictions globally. Its members include private and public sector issuers, banks and securities dealers, asset and fund managers, insurance companies, law firms, capital market infrastructure providers and central banks. ICMA provides industry-driven standards and recommendations, prioritising three core fixed income market areas: primary, secondary and repo and collateral, with cross-cutting themes of sustainable finance and FinTech and digitalisation. ICMA works with regulatory and governmental authorities, helping to ensure that financial regulation supports stable and efficient capital markets.

### *Executive summary:*

ICMA welcomes the introduction of a UK consolidated tape for bonds to improve bond market transparency, thereby reducing the cost of accessing bond data, with the view that this could lead to a greater market participation, improving overall liquidity and market efficiency, and ultimately strengthening the UK's position in the international wholesale debt capital markets.

ICMA's response reflects the views of ICMA's MIFID Working Group, notably secondary trading desks, investors, exchanges and data providers across the international bond markets. ICMA's response hereunder solely refers to the UK consolidated tape for bonds.

In line with ICMA's response to FCA CP23/15 'The Framework for a UK Consolidated Tape', ICMA members do not see any requirement for the CTP to contribute to data providers' connectivity cost recovery and therefore do not agree with the three options proposed by the FCA in this consultation.

Furthermore, and again in line with ICMA's response to FCA CP23/15 'The Framework for a UK Consolidated Tape', ICMA's buy-side and sell-side members as well as some CTP applicants are against any alternative forms of compensation to data providers such as revenue sharing; whereas ICMA APA and TV members would like to suggest that the FCA could consider leaving it optional to CTP candidates to introduce some form of revenue sharing,

*Contacts:*

*Nina Suhaib-Wolf, Director, Market Practice & Regulatory Policy / nina.suhaib-wolf@icmagroup.org*

*Andy Hill, Senior Director and Deputy Head of Market Practice & Regulatory Policy / andy.hill@icmagroup.org*

## Chapter 10

**Question 1: Do you think any of the three options are preferable to the approach suggested in CP23/15? If not, please explain your response.**

**ICMA response**: ICMA members are unanimously in favour of the FCA's original proposal under CP23/15 which suggested no contributions from the CTP to offsetting data providers' costs for connecting to the CTP, and do not consider any of the three options preferable. Given that the three options do not seem feasible, we therefore do not intend to respond to Questions 2-7 under this Chapter.

*The rationale for the above response presented hereunder reflects the views of the vast majority of ICMA members representing buy-side and sell-side members as well as some CTP applicants (referred to below as "ICMA"). The rationale for the above response presented by ICMA APA and Trading venue members will be presented separately in the last section of this response (referred to below as "ICMA APAs and TVs")*

In line with our response to CP23/15 Question 14, ICMA would like to emphasise again that firms should not receive payments for meeting a MIFID framework compliance cost (as also outlined in the FCA CP23/33 paragraph 5.3 (page 26)). As mentioned also in the FCA CP23/33 under point 10.2 (page 58), investment firms are not compensated either for such cost. In general, ICMA believes that a regulated entity should not be paid to comply with regulation, which would constitute a substantial change from existing regulatory obligations.

Furthermore, ICMA holds the view that the goal of the FCA to "maximise the likelihood that a CTP will be commercially viable, and to offer the greatest chance that the CT will be distributed to users at a reasonable price" (as mentioned again in this consultation on page 26 point 5.1) could be undermined by introducing payments to data providers.

With respect to the commercial viability of the CTP, ICMA agrees with the FCA statement in this consultation on page 58 point 10.4, which is that the payments "should not threaten the financial viability of the CTP or significantly diminish the incentive for potential bidders to respond to participate in the tender process". As outlined in the FCA's cost-benefit-analysis (CBA) conducted in connection to CP23/15 and outlined again in CP23/33, which was based on 21 data contributors in the UK, the total cost to the CTP could be as high as GBP1.23mln (as per Option 1 explained in this consultation page 59) or GBP1.65mln (as per Option 2 on page 59), which ICMA members would see as a very high cost to a single CTP that could indeed diminish the commercial viability and hence render the business case for CTP aspirants less attractive.

Furthermore, ICMA agrees to the FCA statement in this consultation under paragraph 10.13 on page 61 which says that such cost is expected to be passed through to the end user through higher prices for the provision of the CT, which would be against the outcome initially intended by the FCA, which was to provide high quality data at low prices in order to enable and incentivise greater market participation. A higher cost to the CTP resulting in higher CTP pricing could potentially incentivise the end user to receive data through other (existing) data providers who are still obliged to publish data for free after 15 minutes, which could weaken the position of the CTP.

In contrast to the large potential cost to a single CTP, each data provider would only receive £58,500 (under Option 1) or up to £78,500 (based on highest cost estimate under Option 2) which ICMA does not see as a "game changer" with respect to enhancing data quality and improving connectivity to the CTP from a data provider's point of view, given it would be a small amount and the fact it is a one-off cost only in Y1 (and not subsequent years). It is questionable whether such one-off payment would in any way contribute sufficiently to re-investment in data and technology and enhanced data quality which would then contribute to a higher user base of the CTP, which we understand would be the potential benefit outlined by the FCA in this paper. As per the FCA's own statement, such benefits are very hard to predict and given that the payment is relatively small, ICMA would not consider it as relevant in influencing data provider's decision about the quality of data and connection to the CTP. In contrast, the submission of high-quality data as well as a sufficiently high-quality connection should be understood to be a regulatory requirement and should therefore not have to be additionally incentivised.

In the response to CP23/15 question 13, ICMA buy-side and sell-side members agreed to not introduce any form of revenue sharing, whereas ICMA APAs and TVs argued in favour of a simple model of revenue sharing, similar to the equities market, in order to contribute to their cost recovery, once the CTP attained positive net revenue.

In this consultation, ICMA APAs and TVs would like to re-iterate these views and encourage the introduction of some form of revenue sharing scheme as an alternative to the three options proposed in this consultation.

ICMA APAs and TVs would like to stress the fact that, unlike in the EU (as per EU MIFIR/D II review), data providers may need to build an entirely new connectivity based on the API developed by the bond CTP. This could not be a one-time expense, but rather an ongoing cost to maintain the connectivity. Furthermore, for multi-asset data providers, it is uncertain that the selected equity and derivative CTPs will choose the same API, which means that such connectivity cost might be higher in the future. It is therefore crucial to consider a broader picture, also with respect to the cost-benefit analysis to the data providers presented under CP23/15. It is therefore suggested by ICMA APA and TV members that the FCA could consider leaving it optional to CTP candidates to introduce some form of revenue sharing and potentially include this component as part of the positive criteria in the UK Stage 1 bond CTP tender process (in line with what the EU is proposing under the EU MIFIR/D II review).

ICMA APAs and TVs would like to emphasise the importance of competitive elements the FCA has included in designing the entire CTP framework, bearing in mind that certain market powers will be granted to the selected bond CTP including the choice of API to which the data providers have to connect, and welcome the FCA's efforts to strike a balance between the incentives facing data providers, the CTP and data users (as per this consultation point 10.3).