



# A cash bond consolidated tape in Europe

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## **Why is it important?**

In cash bond markets in Europe today, there is a need for a consolidated tape. A cash bond consolidated tape (CT) should be the cash bond “golden source” for reliable, trustworthy, good quality post-trade data. The market could benefit from such a consolidated tape.

With a fixed income consolidated tape, there could be multiple benefits for industry participants such as tools for investors for robust transaction cost analysis (TCA) and improving best execution analysis. The CT could also provide trading venues and data providers with a source of reliable raw data to enrich their products and services. A cash bond CT would put the end-investor first. The greatest benefit of a European cash bond CT is the protection it would provide for smaller or retail investors who may not have (or be able to have) access to several systems or the ability to pay for an aggregator. Finally, a European CT promotes a unified view across European cash bond markets for all market participants, large or small, professional or retail, making Europe more competitive and facilitating the goals of the CMU initiative.

This summer ESMA published a consultation paper asking for responses to questions surrounding market data costs and a consolidated tape. While the ESMA consultation paper (CP) primarily focused on equities, the ICMA Consolidated Tape Taskforce (Taskforce) responded solely in relation to cash bonds.

The Taskforce members welcomed the efforts of ESMA to investigate how a consolidated tape may look in the future with respect to its governance and the model used, and the opportunities a consolidated tape could present for the markets.

The Taskforce response was based on a consensus view from a varied group of ICMA Taskforce members, representing 12 firms from the buy side, sell-side, trading venue and data provider communities. These 12 firms are part of an ICMA wider Consolidated Tape Working Group of 63 member firms (17 buy side firms, 31 sell-side firms, 10 trading venues and 4 data providers). ICMA considered there was a unique value in conveying a broad view from across the industry.

The Taskforce decided against commenting on commercially sensitive questions in relation to cash bonds and focused instead on questions relating to CT scope, governance, operation and model, data quality, venues' obligation to provide post-trade data, and finally on ensuring that the cash bond CT should be viewed as the “golden source” for post-trade raw bond data. The Taskforce did not address any MiFID II/R transparency issues in the response on the grounds that any CT cash bond solution should abide by appropriate MiFID II/R post-trade deferrals as set out there.

The following represents a summary of ICMA's MiFID II Data Workstream, CT Taskforce response to ESMA's consultation on “the development in prices for pre- and post-trade data and on the post-trade consolidated tape (CT) for equity instruments”. Again, the Taskforce response is solely from a cash bond perspective.

## **Fixed income and equities: different market structures and different challenges**

By responding to ESMA's CP, the Taskforce hoped to provide ESMA with a better understanding of the need for a consolidated tape in the cash bond market and the unique problems that a CT for cash bonds would solve.

While equities and bond markets share a few challenges - such as fragmentation of infrastructure and an unlevel playing field, benefitting only those who can afford to pay for data - it is widely understood that their ecosystems are profoundly different. One only has to view the asset classes' market structure and protocols to see the differences: order book vs. RFQ, OTC or MTF/OTF vs. local exchanges. There are approximately 33 times more listed bonds than listed equities.

The drivers for a CT in these markets also differ due to differing market structures (eg equity exchanges). A CT for equities addresses speed and the prevention of arbitrage opportunities, while in fixed income a CT would provide transparency and an overview of the market. Both are important and not a case of “either/or”.

Cash bond market participants need a true consolidated picture of the market that is reliable, accessible and

trustworthy. Reliable post-trade data provides the tools by which professional and retail market participants can make informed and therefore better decisions, enabling best execution.

### **Highlights from ICMA's response to ESMA's CT consultation paper**

**Scope:** The purpose of a CT is to have a meaningful view of where, when and how all price-forming and non-price forming (eg constituents of a package trade) trades occurred. Scope is critical. The CT should be a centralised source of consolidated raw data: price, direction, venue, date, time of execution, reported date and time (taking into account current publication and deferral obligations under MiFID II/R), cancel or correction. Once there is a consolidated view of prices in the CT, the CT provider (CTP) could then derive yields and add those yields as another data item in the CT (noting that yield, rather than price, is a fundamental data point in the relative valuation of bonds and comparative analysis of best execution).

**Governance** is key if the CT is to be managed effectively. The CTP contract should be awarded by either the Commission or ESMA to a third party. The CTP should then be supervised by a "governance panel" made up from member(s) from: ESMA and/or the Commission, the investor community, liquidity provider community, trading venue community, the non-trading venue data vendor community and from the retail community. This is to enable the CT to have industry expertise working alongside regulatory know-how, to the benefit of Europe's cash bond markets. The CT fee model should be low or minimum cost to industry participants.

**Operation and model:** The Taskforce believed the CT provider day-to-day operations should be awarded to a firm with a high level of data management experience, as well as related knowledge of the asset class (eg cash bonds). The CT provider contract should be awarded for no less than five years. This is to allow whoever is awarded the contract sufficient time to recoup any development costs. The firm awarded the contract should also have robust conflict-of-interest rules in place.

Publication of trades should be as soon as technically viable (as set out in MiFID II/R/RTS<sup>1</sup>), unless the trade qualifies for a deferral of publication under MiFID II/R's post-trade transparency obligations. In addition, it is essential that the responsibility for data feed provision be changed from the "CTP's obligation to obtain", to "venue's obligation to provide" to the CTP. However, ESMA may find it useful to consider commercial incentives for the various data contributors, which are providing data to the CT.

Of note, the CT must not be structured in a way that prevents

other market participants, including venues, investors, and data vendors, from offering third-party commercial services around data reporting or using the CT data to offer third-party commercial services. Innovation should be rewarded.

**Data quality:** The Taskforce believed the CP response process provided an opportunity to assess how existing data standard choices may be contributing to data quality and impacting the necessary actions to fix the problems. This includes issues relating to ESMA's own data services, such as FIRDS and FITRS. Further suggestions were cited in the response such as imposing Association of National Numbering Agencies (ANNA) as the sole source for Classification of Financial Instruments (CFIs). Please see ICMA's response to ESMA's CP for further detail.

The Taskforce also considered it may be useful for ESMA to explore and analyse FINRA's bond consolidated tape in the US, TRACE (looking at its successes and failures). Experience with TRACE in the US shows the benefits of a consolidated tape for the cash bond market, being an example of how available data, with a process that is clearly set out, can be delivered for market participants, resulting in a better understanding of trading activity and execution costs across the US market.

**Brexit:** After Brexit, a cash bond CT is still valuable as a tape of record. The Taskforce preference was and is to encourage an industry (virtual) "trading time zone-dependent" consolidated tape. With this in mind, the Taskforce suggests the CTP should not be prevented from offering a service that incorporates individual CTs, comprising non-EEA and UK bonds (using appropriate country flags [Swiss flag, UK flag etc]).

The Taskforce would like to stipulate, even if a (virtual) "trading time zone-dependent" CT was not feasible and the CT only consolidated EU27 transactions (where firms had to separately "bolt on" UK transactions as such), given the fragmentation across the EU27, an EU27 CT would be valuable to the market.

### **ICMA and next steps for a European cash bond consolidated tape**

While ESMA's consultation addresses equities, the Taskforce believed it was important to put forward a presentation on how a consolidated tape would clearly benefit cash bond markets. The Taskforce went further to suggest that consolidated tape development paths should be parallel and not sequential (equities and fixed income development teams should develop relevant CTs at the same time). It is important that ESMA understands that an equity consolidated tape (which is solving for different problems and has a different operational market structure) should not be used as a precedent for a cash bond consolidated tape. TRACE should be the precedent to analyse.

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1. RTS 2, Article 7 (4): Post-trade information shall be made available as close to real time as is technically possible and in any case: (a) for the first three years of application of Regulation (EU) No 600/2014, within 15 minutes after the execution of the relevant transaction; (b) thereafter, within 5 minutes after the execution of the relevant transaction.

With this in mind, ICMA's CT Working Group has appointed a Taskforce to draft a discussion paper for the European Commission, to cover in much more detail the ground covered in the ESMA CP: scope, governance, operation, model and data quality. However, the detailed discussion paper will go into much more detail regarding data quality and standards, pricing models and also an in-depth analysis of the US cash bond consolidated tape, TRACE (pros and cons).

Meetings are already taking place to present early ICMA findings in relation to a cash bond consolidated tape with Commission officials. More information regarding an EU consolidated tape will be released in due course.

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