making sense of

MiFID II

PMQs

By Anne Plested

What will MiFID II do to improve the quality, format and costs of market data?

It is a given that investors require market data to be reliable, timely and available at a reasonable cost. With the fragmentation of markets brought about by MiFID investors now need to be able to compare prices across many different venues. The proposal outlines 3 overall aims:

1. Improve the quality of raw data and ensure it is provided in a consistent format

It is widely recognised today that there are significant amounts of double reporting, due in part to the lack of any legal requirement to publish data through bodies with responsibilities relating to data monitoring and publication. There is also a lack of clarity around responsibility for OTC trade reporting and around transaction reporting where a number of transactions relate to perhaps one order. The EC is looking for more detail and clarity in the content of trade reports and a more standardised format, making it easier for data to be compared and consolidated by investors.

The proposal will have all OTC trade reporting done through Approved Publication Arrangements (APAs). The UK already has something similar in place for trade reporting so this would probably mean Trade Data Monitors becoming APAs (e.g. Markit/BOAT) in the UK and new APAs springing up in the rest of Europe. Ideally, we would end up with one set of trade reporting standards across all the APAs. Market participants will need gateways to these APAs and trade reporting message formats across reporting destinations may have to change.

2. Reduce the cost of post-trade data for investors

The high cost of data has come under scrutiny, e.g. the cost to build a consolidated picture of post-trade data for effective trade cost analysis (TCA). Typically in the US the cost is apparently much lower ($70 per head per month) than in Europe ($500). Trading venues usually sell their pre- and post-trade data in the same 'package'. Market participants are saying that if this data was 'unbundled' then, as a consequence, data costs would be driven down.

3. Introduce a European consolidated tape

The proposal calls for provision of consolidated post-trade data to be available for an instrument from all the EU venues where it is traded, on or off exchange. So, rather than participants having to consolidate this data from numerous sources themselves, data would be available as a European Consolidated Tape (ECT).

In the absence of the financial industry coming up with a solution here the regulator could step in and mandate the tape. Three operating models are up for discussion:

A - ECT operated by a single, non-profit seeking entity, established and appointed by a legal act;

B - ECT operated by a single commercial entity, appointed by the EC following a public tender (subject to re-tender after a limited period); and

C- ECT operated by competing commercial providers, approved by competent authorities.

So, where will an industry-led solution come from?

FIX Protocol Ltd (FPL) has put itself forward to the EC as a Consolidated Tape Delivery Authority (CTDA) to facilitate an industry-led solution. FPL would provide a mechanism for consensus building to achieve an industry-led solution.

The real issue is with the quality of OTC data, so the important thing is to establish standards that any provider could apply when creating a post-trade data tape. Market participants would tend to be interested in consolidated data only for those venues covered in their own execution policies and not necessarily the market as a whole.

The EC is looking for an "industry-led solution" and, if a rapid solution is not arrived at, they warn us that they will be forced to step in. An industry-led solution is currently being discussed in a number of forums, although the exact date of implementation is unclear.

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