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THE PRACTICAL ASPECTS IN DELIVERING A EUROPEAN CONSOLIDATED TAPE

POSITION PAPER



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CONTEXT

The Market in Financial Instruments Directive (MiFID) significantly opened up competition in trading of European equities, bringing several benefits for investors. Yet, it also caused fragmentation, challenging both regulators and market participants in their ability to obtain a consolidated view of the market. A number of data collectors and aggregators, including Thomson Reuters, have emerged to address this unintended consequence of MiFID. In its revision of the Directive, the Commission is proposing to mandate the use of Consolidated Tape Providers (CTPs). A European Consolidated tape is a feed of information on trades executed across multiple exchanges (RMs), Multilateral Trading Facilities (MTFs) as well as trades executed OTC by investment firms. The information includes the number of shares executed, execution price, time and venue of execution. It does not provide a consolidated view of pre-trade quotes normally referred to as the Best Bid/Offer (BBO).

Thomson Reuters is supportive of regulation that encourages the provision of high quality trade data in a manner that facilitates consolidation and so allows us to meet the demands of regulators, our clients and the broader investing public. We already consolidate data for over 6,000 equity instruments traded across 65 venues. In Annex 1, we provide more information about our Consolidated Tape offering.

We believe there should be regulatory focus on ensuring the quality and consistency of data which requires consolidation. However, the proposals to authorise Consolidated Tape Providers (CTPs) as a Data Reporting Service does not reflect the needs of real-time market data users and sets an unhealthy precedent that market data provision should be a regulated activity.

IMPROVING DATA QUALITY AND CONSISTENCY

For consolidated tape data to be useful, standards relating to the publication of trade data by RMs, MTFs and Investment Firms to ensure consistency and quality of the data, need to be in place. For this reason Thomson Reuters is supportive of the proposals relating to authorisation of Approved Publication Arrangements (APAs) and that European Securities and Markets Authority¹ (ESMA) should establish standards as part of its implementing measures for RMs, MTFs & APAs to follow when publishing trade data.

Thomson Reuters actively supports industry initiatives such as the Market Model Typology² (MMT) and FIX Protocol's Trade Data Standards Working Group, which are establishing industry standards which ESMA may choose to adopt as its work progresses.

The implementation of these standards will go a long way to addressing the current data quality issues relating to the Consolidated Tape for Europe.

CONSOLIDATED DATA FOR MARKET PROFESSIONALS

Data vendors already provide pre and post trade data consolidation to market professionals via our desktops and data feeds for consumption via third party applications. Thomson Reuters offer a standardised consolidated tape with a 15 minute delay to allow access by the end user without the cost of the cumulative real-time data fees across all 65 venues. These data fees would amount to over €290 per month/per user if the same content were provided in real-time.

Instead, the Thomson Reuters Eikon desktop provides consolidation of real time quote and trade data that allows users to actively select the venues whose data they wish to see consolidated. This is important as often most of the liquidity in a stock will be found in only a fraction of the number of venues and market professionals need the ability to filter out the data from venues that they deem not relevant and to manage their market data costs. More detail on Thomson Reuters data consolidation and on the costs or real-time market data fees can be found in Annex 1.

The proposed definition of a CTP as providing a real time publication of a standardised all encompassing tape would require the imposition of a new commercial model for the distribution of consolidated tape data. This would require exchanges, MTFs & APAs to make their real-time data available to authorised CTPs for publication waiving the licence and real-time data fees in return for an allocated share of the revenues made from charging end users for access. This would be a similar model to that operated in the US – as more fully described in Annex 2.

COMPARISON WITH THE US CONSOLIDATED TAPE

The US tape schemes generate significant revenues. However, this is more attributable to the consolidated pre-trade quote data, the National Best Bid/Offer (NBBO) which is used as a benchmark for Best Execution monitoring mandated by the SEC. In effect, brokers are compelled to reference this data in executing client order flow.

¹ <http://www.esma.europa.eu/>

² <http://www.fese.be/en/?inc=page&id=79>

But the demand for and revenues from consolidated tape data resulting from the MiFID & MiFIR proposals will be limited in comparison to the US for the following reasons:

- There is no requirement that the consolidated tape data be referenced as part of Best Execution monitoring
- The proposals cover post trade data only as no case has been made for a European BBO
- The potential revenue for charging for real-time access will be limited by the availability of the same data free of charge after 15 minutes
- Consolidating data adds a fractional delay in relation to data coming directly from exchanges and MTFs making it too slow for use in electronic trading

Other negative factors of the US style model are that:

- It would take longer to establish. In the US it took seven years to bring the tape schemes into operation
- Implementing a new commercial model would involve cumbersome negotiations on contracts, procedures, policies, etc
- Once in operation it is complex to implement changes to the US schemes which require negotiation with all parties
- In the US the consolidated tape has become progressively less relevant with some US retail brokers, such as Charles Schwab, lobbying to have more flexibility in how they access data
- In the US the distribution of tape revenues has incentivised types of trading behaviour that result in a higher share of these revenues such as High Frequency Trading

MAKING THE INFORMATION AVAILABLE TO THE PUBLIC

The European Commission proposes that Consolidated Tape Data would be required to be “available to the public as close to real time as is technically possible”. Data Vendors such as Thomson Reuters focus on providing data, news, analysis and trading capabilities to market professionals rather than to the public although our feeds are used by third parties such as retail brokers on their publicly available web portals subject to the terms and conditions imposed by the exchanges. In addition, increasingly the largest exchanges allow the public distribution of their own data on websites accessible to the public such as Google or Yahoo, once again, subject to their own terms and conditions.

In order for Consolidated Tape Data to be made available to the public, the exchanges, MTFs and APAs should be required to establish common terms and conditions that would facilitate access by the public for the 15 minute delayed data for free whilst continuing to charge higher fees for market professionals for access to this in real-time.

Conclusion

Much of the proposals relating to a consolidated tape within MiFID are necessary. The imposition of an authorised APA regime combined with clearer standards on trade publication to be defined by ESMA in the Implementing measures will do much to address the issues around the quality and granularity of the data. The FESE MMT and FPL initiatives are intended to set out industry defined standards for ESMA to consider for adoption within the implementing measures.

The actual delivery of consolidated data to market professionals is already provided by data vendors in response to demand from their customers. But more needs to be done to make this data available to the public in terms of simplifying the contractual terms between the venues, tape providers and web sites through which the public will want to access this data.

The alternative approach of adopting a US style tape and related commercial model carries a number of risks that would make this challenging to implement.

Thomson Reuters own commercial interests are not greatly impacted by either approach. We favour the implementation of standards by ESMA and the roll out of the APA regime, but we would argue the establishment of authorised CTP's will add little value and could compromise the commercial delivery of consolidated data.

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ANNEX 1 – THOMSON REUTERS CONSOLIDATED TAPE DATA

Thomson Reuters already provides consolidated tape data which, by the end of April 2012, will cover all 6,083 stocks listed by ESMA as trading on EU regulated markets as well as 73 Swiss stocks and 140 ETFs which also trade on the most active MTFs. We cover 65 out of 67 venues that publish any trades in EU stocks plus the Swiss Exchange. There are two venues whose data we do not yet include on our network and therefore in our tape as they are both recent start ups who have yet to establish themselves as venues our clients wish us to provide coverage for.

We provide this data with a 15 minute delay to allow our customers access without us having to ensure that they are charged the real-time data fees from all the contributing venues. This data represents a “tape of record” that provides a standardised reference source for post trade best execution analysis and a valid base level service for user for whom data with a 15 minute delay is acceptable. This data is available to the 400,000 market professionals who use Thomson Reuters desktops, data feeds and historical data solutions globally.

Time & Sales: VOD.xt

Instrument: VOD.xt VODAFONE GROUP Calc VWAP: 210.7013 Ready

Range: Open Current To: Close Current Time Zone: Exchange Time

Last Trade ↑ 176.3820 Trade Range 14/06/2012 06:01 to 10:37

Trades 11,993 Median 175.3500 Change 174.2280

Volume 102.936M Mean 176.4915 Bid/Ask - / -

Turnover 21.689B Money Flow 122.181M Bz/Az - / -

High/Low 17.550.0000 / 2.1470 Std Deviation 158.8638 Flow Rate 0.56% BEx/AEx - / -

Timestamp	Venue Id	Last	Trade P...	Trade Volu...	Turnover	Calc VWAP	Flow
14/06/2012 09:06:40	PAR	↑ 17.550.00...	17.550	209,715	3,680,498.2...	219.1645	-391.1
14/06/2012 10:35:59	CHI	↑ 176.5500	176.55	2,530	446,671.5	210.9082	165.1
14/06/2012 10:35:59	CHI	↑ 176.5500	176.55	8,000	1,412,400	210.9091	164.6
14/06/2012 10:36:59	TRQ	↑ 176.5000	176.5	660	116,490	210.8024	123.2
14/06/2012 10:36:59	TRQ	↑ 176.5000	176.5	5,000	882,500	210.8027	123.1
14/06/2012 10:36:59	TRQ	↑ 176.5000	176.5	2,310	407,715	210.8043	122.2
14/06/2012 10:36:59	BTE	↑ 176.5000	176.5	4,000	706,000	210.8051	121.8
14/06/2012 10:36:59	BTE	↑ 176.5000	176.5	600	105,900	210.8064	121.1
14/06/2012 10:36:59	CHI	↑ 176.5000	176.5	11,488	2,027,632	210.8066	121.0
14/06/2012 10:36:59	CHI	↑ 176.5000	176.5	9,267	1,635,625.5	210.8105	119.0
14/06/2012 10:35:59	LSE	↓ 176.5000	176.5	10,687	1,886,255.5	210.8762	148.2
14/06/2012 10:35:59	LSE	↓ 176.5000	176.5	40,756	7,193,434	210.8798	150.1
14/06/2012 10:35:59	LSE	↓ 176.5000	176.5	1,614	284,871	210.8935	157.3
14/06/2012 10:35:59	LSE	↓ 176.5000	176.5	7,630	1,346,695	210.894	157.6
14/06/2012 10:35:59	BDS	↓ 176.5000	176.5	5,497	970,220.5	210.8966	158.9
14/06/2012 10:35:59	TRQ	↓ 176.5000	176.5	660	116,490	210.8984	159.9
14/06/2012 10:35:59	LSE	↓ 176.5000	176.5	478	84,367	210.8987	160.0
14/06/2012 10:35:59	LSE	↓ 176.5000	176.5	5,019	885,853.5	210.8988	160.1
14/06/2012 10:35:59	LSE	↓ 176.5000	176.5	10,993	1,940,264.5	210.9005	161.0
14/06/2012 10:35:59	LSE	↓ 176.5000	176.5	10,295	1,817,067.5	210.9042	162.9
14/06/2012 10:35:59	LSE	↓ 176.5000	176.5	1,739	306,933.5	210.9077	164.8
14/06/2012 10:35:59	TRQ	↑ 176.5000	176.5	2,310	407,715	210.9118	163.2
14/06/2012 10:35:59	LSE	↑ 176.5000	176.5	2,525	445,662.5	210.9126	162.8
14/06/2012 10:35:59	CHI	↑ 176.5000	176.5	1,749	308,698.5	210.9134	162.4
14/06/2012 10:35:59	CHI	↑ 176.5000	176.5	2,426	428,189	210.914	162.0
14/06/2012 10:35:59	LSE	↑ 176.5000	176.5	8,108	1,431,062	211.0496	147.8
14/06/2012 10:35:59	LSE	↑ 176.5000	176.5	5,000	882,500	211.0523	146.4
14/06/2012 10:37:59	LSE	↑ 176.4870	176.487	1,947	343,620.19	210.7893	117.5
14/06/2012 10:36:59	SIG	↑ 176.4800	176.48	418	73,768.64	210.799	121.5
14/06/2012 10:36:59	SIG	↑ 176.4800	176.48	771	136,066.08	210.8727	148.4
14/06/2012 10:36:59	SIG	↑ 176.4800	176.48	4,974	877,811.52	210.873	148.3
14/06/2012 10:37:59	BDS	↑ 176.4750	176.475	39,021	6,886,230.98	210.7156	120.7

Consolidated Tape display for Vodafone in Thomson Reuters Eikon desktop.

If an individual wanted access to this complete data across all stocks in real time the cumulative cost for real time access to the data feeds from all venues (based on the cheapest tariffs from each) would be over €290 per month/per user.

For those clients who require access to consolidated real time quote and trade data we provide the ability to actively select the venues whose data they wish to see consolidated. This is important as often most of the liquidity in a stock will be found in only a fraction of the number of venues.

The Blended Order Book in Thomson Reuters Eikon desktop displays combined real-time quote data (in this example for Vodafone) from those venues selected by the individual user.

This allows clients to only select the venues which they regard as relevant for the stocks that they are following and avoid paying for real time data from venues that are not relevant. To illustrate why this is important spreadsheet below shows that for Vodafone selecting the 5 most active reporting venues reflects 97% of reported activity at a cost of €27 per month/per user in real time data fees whilst full coverage of all 28 venues with any activity in Vodafone would cost €128 per month.

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Vodafone reported turnover Jan - May 2011 & related datafeed costs						
Venue	Order Book Trades	On-Exchange Reported Trades	Off-Exchange OTC Trades	All Trades	Grand total of %	Lowest Commercial Cost of Last Price Data
BOAT ³	€ 0	€ 0	€ 22,668,497,810	€ 22,668,497,810	36.81%	€ 10
LSE	€ 16,906,313,109	€ 3,571,679,139	€ 1,307,870,155	€ 21,785,862,403	35.37%	€ 17
CHI-X	€ 8,799,133,611	€ 1,406,991	€ 121,750,726	€ 8,922,291,328	14.49%	€ 0
BATS	€ 3,911,249,776	€ 11,077,345	€ 0	€ 3,922,327,121	6.37%	€ 0
Turquoise	€ 2,546,617,511	€ 15,831,461	€ 0	€ 2,562,448,972	4.16%	€ 0
					97.19%	€ 27
ENX Paris OTC	€ 0	€ 0	€ 408,904,516	€ 408,904,516	0.66%	€ 7
Stuttgart	€ 0	€ 2,258,761	€ 377,914,232	€ 380,172,993	0.62%	€ 5
Plus	€ 0	€ 270,922,905	€ 0	€ 270,922,905	0.44%	€ 17
Smartpool ²	€ 182,906,270	€ 0	€ 0	€ 182,906,270	0.30%	€ 7
Instinet BlockMatch ³	€ 102,193,295	€ 0	€ 0	€ 102,193,295	0.17%	€ 0
Nomura NX ³	€ 85,250,862	€ 0	€ 0	€ 85,250,862	0.14%	€ 0
NYSE Arca	€ 84,083,447	€ 0	€ 0	€ 84,083,447	0.14%	€ 0
POSIT ³	€ 70,644,136	€ 0	€ 0	€ 70,644,136	0.11%	€ 0
Xetra ¹	€ 40,340,275	€ 0	€ 0	€ 40,340,275	0.07%	€ 15
Xetra OTC	€ 0	€ 0	€ 511,317	€ 511,317	0.00%	€ 8
Liquidnet ³	€ 26,312,146	€ 0	€ 0	€ 26,312,146	0.04%	€ 0
Frankfurt	€ 1,035,700	€ 19,101,740	€ 0	€ 20,137,440	0.03%	€ 0
Italy	€ 0	€ 0	€ 15,475,237	€ 15,475,237	0.03%	€ 4
Equiduct	€ 13,229,306	€ 0	€ 0	€ 13,229,306	0.02%	€ 10
UBS MTF ³	€ 10,719,612	€ 0	€ 0	€ 10,719,612	0.02%	€ 0
QuoteMTF	€ 6,897,390	€ 0	€ 0	€ 6,897,390	0.01%	€ 0
Tradegate ¹	€ 6,105,898	€ 0	€ 0	€ 6,105,898	0.01%	€ 0
Hamburg ⁴	€ 0	€ 1,689,866	€ 0	€ 1,689,866	0.00%	€ 3
Stockholm	€ 0	€ 0	€ 605,976	€ 605,976	0.00%	€ 15
Berlin ⁴	€ 0	€ 372,484	€ 0	€ 372,484	0.00%	€ 0
Munich ⁴	€ 0	€ 312,793	€ 0	€ 312,793	0.00%	€ 0
Vienna OTC	€ 0	€ 0	€ 171,286	€ 171,286	0.00%	€ 10
Duesseldorf ⁴	€ 0	€ 61,720	€ 0	€ 61,720	0.00%	€ 0
Total	€ 32,793,032,344	€ 3,894,715,205	€ 24,901,701,255	€ 61,589,448,804	100.00%	€ 128

¹ Cost of Frankfurt, Xetra & Tradegate all included in a single package costing €15 per month
² Cost of Smartpool data included in package for Euronext OTC data costing €7 per month
³ The majority of MTFs publish their data through Markit Boast so access to their data requires users to pay for access to Markit BOAST data which costs €10 for single segment or €40 for all stocks on the CESR list.
⁴ Cost of Berlin, Duesseldorf, Hamburg, Hannover, Munich data included in single package costing €3 per month

ANNEX 2 – THE US CONSOLIDATED TAPE

In the US there are actually three consolidated tapes for equities:

- Tape A covers all stocks listed on the New York Stock Exchange
- Tape B covers all stocks listed on the American Stock Exchange (AMEX) and Regional Stock Exchanges (BATS, DirectEdge, Philadelphia, etc)
- Tape C covers all stocks listed on NASDAQ

The Consolidated Tape Association (CTA) oversees the collection, processing and dissemination of not only consolidated trade data but also quote data for Tapes A & B and the Unlisted Trading Privilege (UTP) Plan does so for Tape C.

Providing access to this data is the job of the Administrators of the CTA & UTP data: NYSE for Tape A securities, NYSE Amex for Tape B securities and NASDAQ for Tape C securities. The Administrators manage the process of establishing contracts with firms and investors that are interested in receiving consolidated data and billing them for the data that they receive. Users access this data either directly from NYSE or NASDAQ or through the services of data vendors such as Thomson Reuters.

The data reflected on the tapes is derived from various exchanges, FINRA, and ECNs and ATs which report through “Alternative Display Facilities”. All U.S. exchanges and associations that quote and trade exchange-listed securities must provide their data to a centralized securities information processor (SIP) for data consolidation and dissemination.

For every quote message received from a market center, the CTA/UTP calculate a National Best Bid and Offer (NBBO) based on a price, time priority scheme. This NBBO data is then used as the reference price for brokers and execution venues to compare with the price achieved in executing client orders in meeting Best Execution rules 605 and 606 applied by the SEC. Effectively this mandates the use of this data by anyone providing US equity execution services.

NYSE reported that there were nearly 400,000 professional and over 2 million non-professional regular users of the CTA data.

There are different fee schedules for each of the tapes covering different types of use. Essentially, the cost for access to these each month ranges from \$66 per month to \$178 per month per device for professional users with non-professional users only paying \$1.50 per month.

So the revenues for the US consolidated tape and NBBO are substantial but reflect that:

- The content covers consolidated quote data not just post-trade data
- Best execution obligations effectively mandate the use of the data by market professionals
- Access to the data is separately permissioned and covered by specific licence fees administered by NYSE & NASDAQ

None of the above factors apply in the Commission’s current proposals for a European Consolidated Tape

The US Consolidated Tape is widely used, but there are factors that should be considered before advocating the same for Europe.

While NYSE & NASDAQ operate the tapes and charge for doing so, most of the revenues are distributed back to the contributing venues quarterly through fairly complex calculations which weight individual stocks and take into account the contribution of quotes, contribution to “true” price discovery, and number of shares executed by each. This creates a significant revenue stream for the contributing venues which are then incentivised to maximise their contribution and consequently in turn pass on some of that revenue to the firms most active on their platforms in contributing quotes and executing trades. This revenue stream has actively encouraged the growth of new venues in the US and, to an extent the growth of HFT trading as a result of the distribution back to firms of the tape revenues.

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