

ICMA response to the UK FCA Bond Consultation on The Framework for a UK Consolidated Tape

[CP23/15: The Framework for a UK Consolidated Tape \(fca.org.uk\)](https://www.fca.org.uk/consult/condocs/cp23/15)

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Introduction

ICMA welcomes the opportunity to respond to the UK FCA's proposed Framework for a UK Consolidated Tape ([CP23/15***](https://www.fca.org.uk/consult/condocs/cp23/15)).

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 600 member firms in 66 jurisdictions. Among its members are private and official sector issuers, banks, broker-dealers, asset managers, pension funds, insurance companies, market infrastructure providers, central banks and law firms. It provides industry-driven standards and recommendations, prioritising four core fixed income market areas: primary, secondary, repo and collateral and sustainable finance. ICMA works with regulatory and governmental authorities, helping to ensure that financial regulation supports stable and efficient capital markets.

Executive summary

ICMA welcomes the FCA's proposal for a UK consolidated tape 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.¹ 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.

¹ ICMA has not responded to the questions in the consultation that relate specifically to the consolidated tape for equities.

Key points:

- ✓ ICMA welcomes the Introduction of a UK Consolidated Tape for Bonds, given the fragmented nature of the bond market, and the difficulty therefore to obtain high quality data on a harmonised basis.
- ✓ ICMA welcomes the efforts of the FCA through various proposals in this Consultation Paper to remove market-entry barriers and to incentivise potential CTP candidates to participate in the tender process, thereby helping to facilitate the emergence of a CTP in the UK.
- ✓ At the same time, members would like to stress the importance of competitive elements between market participants to remain and to ensure that the emerging CTP not be able to exercise any monopolistic powers. As explained through our various responses below, it will be important to ensure these competitive elements are maintained and that necessary controls and procedures around the governance of the CTP will be put in place.
- ✓ High quality data at affordable prices for a high number of market participants sits at the heart of the discussion around the Consolidated Tape. As such, ICMA members would like to emphasize the importance that all these factors are sufficiently taken into account in the CTP tender and bidding process. As expressed through the below responses, ICMA members see a potential danger that a final round of the bidding process that focuses purely on pricing could undermine this objective.

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The number of consolidated tape providers per asset class

Question 1: Do you agree with the appointment of a single CTP per asset class through a tender process?

ICMA response: ICMA agrees that there should be the appointment of a single CTP per asset class through a tender process. The CTP will act as a single, authoritative, complete and affordable “golden” source of market data, by which it will help to reduce trading costs, increase liquidity and allow investor to better access market data and execution quality. The appointment of a single provider serves as the most commercially viable solution for potential consolidators, which would encourage candidates to come forward to operate a CT for bonds.

Question 2: What success criteria should be used in the postimplementation framework review?

ICMA response: ICMA would propose that the quality of consolidation and dissemination of data would constitute one of the main success criteria for the CTP. Part of this will be the efficient processing and communication with Approved Publication Arrangements (APAs) and Trading Venues (TVs), including objective and measurable APA and TV data quality checking as part of the routine data validation process. However, it is worth noting that the responsibility of the quality of the data ultimately lies with the TVs and APAs (as well as reporting investment firms). Other criteria to determine the CTP’s success should include: Pricing; Uptake; and factors such as the Governance of the CP and its Operative Model.

The scope and operation of a consolidated tape for bonds

Q3: Do you agree with our proposals on the scope of a bond CT?

ICMA response: ICMA agrees to the proposals of the FCA. In detail, ICMA agrees to the scope of a bond CT to comprise of all MIFID categories of bonds, other than ETCs and ETNs, that are admitted to trading or Traded on a Trading Venue (TOTV) in the UK as per MAR9.2B.33R. ICMA furthermore agrees that the CT should include only post-trade transparency information as per MAR9.2B.34R(1)(a). The CTP should be required to receive data from all TVs and APAs publishing trade reports on bonds. As per MAR 9.2B.34R. The CTP should also cover all fields and flags that are part of post-trade transparency requirements, and the CT should include only transparency information, and not wider regulatory data (as per MAR 9.2B.34R (1)(a) and (2)).

Question 4: Do you agree that data should be transmitted from data providers and received by the CTP via a standardised, open-source API developed by the CTP? Should this be based on the FIX protocol?

ICMA response: ICMA agrees that the data should be transmitted from data providers and received by the CTP via a standardised, open-source API, to be developed by the CTP. ICMA members do not endorse a particular standard.

Question 5: Do you think that our rules should be more specific about the means of dissemination of a CT?

ICMA response: ICMA members agree that the CTP should publish in both machine-readable and human-readable format, as outlined in the Consultation Paper. With respect to multicast broadcasts, ICMA is of the opinion that unicast should be sufficient for fixed income instruments. So long as there are no privileged parties receiving the information first, multicast is not deemed necessary, as it would present a higher cost for both the CTP and consumers. Unicast would present the more equitable solution.

Question 6: Do you agree that the consumption of the data published by the CT should be discretionary for market participants?

ICMA response: ICMA agrees that the consumption of the data published by the CT should be discretionary for market participants. There should be no obligation to consume the CTP data, especially as the quality and service of any future CTP are not yet known.

Question 7: Do you agree that the CT should only start operation after bond transparency regime changes come into effect?

ICMA response: ICMA members are indifferent as to whether the CT should start operation before or after bond transparency changes come into effect. Members would expect the CTP to be ready to commence their services a few months after the tender and the subsequent appointment of the CTP. From the point of view of ICMA members, the CTP could operate before or after the transparency regime changes came into effect, at the discretion of the CTP and also depending on when the FCA planned to hold the tender (i.e. before the regime change or after). The determination of whether a new CTP could start the service before the regime change or after would also depend on the details of the new regime and whether this involves significant changes to the old regime. Should the tender happen after the new regime is in place, CTP aspirants might want to apply the existing regime during a test phase.

Question 8: Do you agree that responsibility for applying deferrals should remain with data providers?

ICMA response: ICMA agrees that the responsibility for applying deferrals should remain with data providers, for reasons of lower cost and complexity, and the avoidance of duplication. An objective and measurable deferral checking should take place as part of the routine data validation process between the CTP and the APAs/TVs. An interactive dialogue between APAs/TVs and the CTP regarding any erroneous data should be part of the CTP's day-to-day practice.

Whilst the responsibility should remain with data providers for the time being, this might be subject to a review at a later point, as part of a broader review of the CTP and its functioning and success.

Question 9: Should the CTP offer a deferral checking service? If so, should use of this service by data providers be mandated?

ICMA response: ICMA members do not see a necessity for, nor any added value resulting from the CTP offering a deferral checking service. The rationale being that this could only be an ex-post service, with the responsibility of applying the deferrals remaining with the APAs and TVs and, in line with the answer to Question 8, this should not be changed. Point 6.50 of this FCA Consultation Paper (page 51) describes the management of incomplete and potentially erroneous information by CTPs, and ICMA members believe that the checking of deferrals would fall under the scope of the requirements outlined in 6.50. Therefore, it is not deemed necessary to offer any other specific deferral checking service.

In line with our response to Q8, objective and measurable deferral checking should take place on the CTP level as part of the routine data validation process, and interactive dialogue between APAs and the CTPs regarding any erroneous data should be normal day-to-day practice.

Question 10: Do you agree that the provision of a historical data service be optional for a CTP?

ICMA response: Due to the nature of the bond market and the importance of time series data, ICMA members see it as a requirement for the CTP to keep a full record of historic data, acting as the “Golden Source” of data. Furthermore, the CTP should make this accessible for market participants, if needed to ensure data quality (for example, if a potentially erroneous trade needs to be viewed again a few weeks after it has entered the database). Members propose that this could be part of a record keeping requirement covering five years of data.

For the avoidance of doubt, ICMA members are referring hereby to the raw data that is consolidated and disseminated by the CTP, as required under RTS 2. Additionally, ICMA members consider “historical data” to be all data that will be available from the inception of the CTP (and not any earlier data).

With respect to the offering of historical data in a more complex, enhanced version, ICMA would like to refer to our answer to Question 16 (value-added services).

Question 11: If you think that a CTP should be required to provide a historical data service, what minimum requirements do you think should be established for such a service? For example, should data only be available in response to queries, or should there be a requirement to provide access to some of or all the data through a downloadable database?

ICMA response: ICMA members did not express a specific view on how the data should become available, but that it was important to stress that it should be made available (in its raw form as required under RTS2).

Economic model

Question 12: Do you agree that trading venues and APAs should be required to provide data to a CTP without charge?

ICMA response: ICMA members agree that TVs and APAs should be required to provide data to the CTP without charge.

Question 13: Do you agree that a bond CTP should not be required to share revenues with data providers but be allowed to offer incentives to data providers for high quality data?

ICMA response: The vast majority of ICMA’s buy-side and sell-side members agrees that a bond CTP should not be required to share revenues with data providers. Furthermore, (good) data quality is deemed a regulatory requirement, and as such there should be no need for it to be incentivised. Tighter controls, on the other hand (as for example described under point 6.51 of the CP (page 51), and the related Questions 31 and 32), could be a more effective tool to encourage high quality data.

However, the vast majority of ICMA trading venue and APA members advocate for some degree of revenue sharing, similar to other asset classes, suggesting a very simple model such as that applied

in the equity market, in order to contribute towards their cost recovery, once the CTP attained positive net revenue.

Question 14: Do you agree that a bond CTP should not be required to contribute to data providers' connectivity cost recovery? If you think that a bond CTP should contribute to data providers' connectivity cost recovery, on what basis should the terms of this arrangement be set?

ICMA response: ICMA members do not see any requirement for the CTP to contribute to data providers' connectivity cost recovery as this would be considered a MIFID compliance cost. It should, however, be considered that data providers might not choose the cheapest form of connectivity to the CTP, as high-quality connectivity is a prerequisite for the CTP to function well.

Question 15: Do you agree that the requirement for a CTP to provide data free of charge 15 minutes after publication should be removed? If so, how best should we seek to ensure that academic and retail users of the data have low-cost or free access to the data?

ICMA response: ICMA agrees that the requirement for a CTP to provide data free of charge 15 minutes after publication should be removed. It would, however, be important for academic and retail investors to receive historical data at a low cost or possibly even for free.

Question 16: Do you agree that the CTP should be able to offer value-added services, provided that the CT service is available on a stand-alone basis and the provision of such services does not give the CTP an unfair advantage?

The following answer on value added services also relates to enhanced historical data services (other than raw data as per RTS2), as referred to in Question 10.

ICMA members in principle agree that the CTP should be able to offer value added services. However, it is important to specify under which conditions the CTP would be allowed to do so, and there are several concerns that ICMA members would like to share. Firstly, as noted in the consultation paper, the CTP offering value added services should not negatively affect the core service.

Secondly, and this refers to the "unfair advantage" point mentioned in the question, it will be very important to ensure that the CTP will not be able to leverage its position as the sole provider of core services in the pricing and provision of both core and non-core services. In this context, it will be key to ensure that the CTP will not offer the non-core services at inflated prices, in order to cross-subsidise the core business. There is a concern that the CTP will be able to attract a significant number of subscribers to its non-core services as a result of subscribers signing-up to the core service, making it easier for them to receive all services from one provider. This position of the CTP (due to monopoly at core service level) should not facilitate an unfair advantage for non-core services. It is therefore important to ensure that necessary control procedures are in place and, as

explained in our response to Question 27, that the requirement to price on a “reasonable commercial basis” shall not be removed for any non-core services the CTP may want to offer.

One further suggestion was that, since the CTP is an FCA-regulated entity only in its core function, it might make sense to establish a completely separate entity for the offering of non-core services, with the same terms of access to the CTP raw data as other commercial data providers.

Question 17: Do you agree that CT licences should be separated according to re-use/direct use? For direct use licences, do you agree that users should be charged on a per-user basis? For re-use licences, should users be charged on a per-volume basis or on a use case basis? Which ways of licensing would encourage competition and innovation?

ICMA response: The main concern for ICMA members is the need for a simple, easily manageable license system, which could be applicable without rising legal and audit cost, especially for smaller participants. In general, members would believe that there is a distinction to be made between display users and “black box users”. In the case of the latter, a direct licence approach would not be feasible. For example, one single license could be connected to an algorithm trading machine, or, in another example, if data is shared internally between different teams dealing with the same trade (for example front office/trading desk and back office/risk management team), it would be difficult to monitor and regulate the internal distribution. Therefore, ICMA members view this as a fitting opportunity to move away from the traditional license system towards a more modern, user-friendly approach, taking into account the more automated use of data that we experience today.

Against this background, members express the wish for an enterprise-wide (entity-based) tiered model, which would avoid high audit and legal cost for users, as described under point 5.24 of this CP. Enterprise-based licenses could be based on the size of the entity (e.g. number of employees or annual turnover).

With respect to re-use licenses, ICMA members would like to stress that there is a distinction to be made between an internal re-use of license (which would be covered by the above suggested enterprise-wide license system), and an external re-use (such as external re-distribution), for which there should be a separate license offered. The definition of “external re-use” might need to be further specified at a later stage.

Question 18: Should the FCA specify a set of components for which CTP bidders must submit price bids, or should bidders be given the option of specifying their own price list?

ICMA response: With respect to Question 18, 19, 20, ICMA members did not express any views on the specific details of the price bidding process. However, members felt the need to express concerns around the intended auction process more broadly.

ICMA is of the view that the bidding price as a whole should be more value-driven rather than being only focussed on pricing. Whilst it is understood that there will be a pre-bidding round where the FCA will conduct a semi-authorisation process that focuses on various criteria, members felt that this would not be sufficient to guarantee a quality-based outcome for CTP users. There is a potential

trade-off between quality and pricing, and with pricing being the only component of the final bidding process, there is a danger that this could prompt a “race to the bottom” with those attempting to win the bidding, feeling forced to lower their bid in each round in order to stay in the running (in the case of a clock auction or Anglo-Dutch auction). This might result in the winner not being able to achieve the standard of service and quality that was initially presented in the pre-bidding rounds, to the detriment of data users.

Members stressed that the best possible way to conduct the auction might therefore be to base the bidding process on both price and quality factors, such is the case for auctions run for utilities. Given the utility nature of the CTP, perhaps the latest UK governmental public procurement policy could serve as a good guidance, where a bidding process must be based on “value for money”, which should be the best balance of price, quality and social value. This method, or at least elements of it, could serve as guidance for the CTP bidding process.

If this more complex approach was not feasible, members thought that a second-best solution would be to set out the quality criteria in the pre-bidding in a much more comprehensive and specific way than is currently the case.

However, there is a very strong preference for the combined price/quality auction, as members feel this is the only way to ensure a good quality outcome for end users.

Question 19: Do you agree that the tender process should be undertaken based on multiple descending rounds of price-based bidding? Do you have a preference between a clock auction or Anglo-Dutch hybrid auction?

ICMA response: See Question 18.

Question 20: What factors should be considered when determining bidding price parameters, standardisation of bids (if bidders are allowed to specify their own price list), and minimum price reduction in bids between rounds?

ICMA response: See Question 18.

Question 21: Do you agree that the duration of the initial CTP contract should be five years? How would the length of the contract affect costs, revenues and incentives of a CTP?

ICMA response: ICMA agrees to a duration of 5 years for the initial CTP contract.

Question 22: Do you agree with the proposed mitigants to address any potential incumbency advantage of the first bond CTP? Are there additional factors that we ought to consider?

ICMA response: ICMA members did not express a specific view on this.

Rules framework

Question 23: Do you agree with our proposed extension of the operational resilience requirements in SYSC 15A to a CTP?

ICMA response: ICMA welcomes the proposed extension of the operational resilience requirements in SYSC 15A to a CTP. Members propose that an alignment between SYSC15A and any other operational resilience requirements with the EU DORA regulation would be beneficial for end users and hence allow the UK CTP to reach a larger user base.

Question 24: Do you agree with our proposed additional outsourcing and conflicts requirements applying to a CTP?

ICMA response: In line with our answer to Q23, ICMA would welcome an alignment with the ICT Third-party risk framework built by DORA.

Question 25: Do you agree with our proposed retention unchanged of the obligations currently contained in Regulations 13, 44 and 45 of the DRSRs and Articles 5 to 9 of MIFID RTS 13?

ICMA response: Following the MIFID II review and the introduction of DORA, ICMA expects ESMA to review and potentially revise RTS 13. Ideally, ICMA would like to see an alignment of the relevant obligations with any relevant changes to EU RTS 13. In line with our answer to Q23, this would allow for the UK CTP to comply with similar requirements which in return could help to attract a larger user base.

On a separate note, ICMA would also like to suggest alignment with RTS 2, viewing it as beneficial for end users if there was consistency in the reporting data fields between EU and the UK, which would allow for a straightforward consolidation and comparison of data (and potentially the identification of duplicate reporting across the two regimes).

Question 26: Do you agree with our proposed prudential regime for CTPs?

ICMA response: ICMA members feel there should be a requirement in the pre-bidding process of the tender which deals with funding and budgeting of the CTP, to ensure that it has a solid financial foundation. This is partially consistent with the requirements outlined under point 6.28 of this FCA

CP and under MAR9.2C: Financial resources requirements for consolidated tape providers, on page 32 Appendix 1: Draft Handbook text, Annex D.

Question 27: Do you agree with our proposed deletion of the requirement for a CTP to price on a reasonable commercial basis?

ICMA response: ICMA agrees to the deletion of the requirement for the CTP to price on a reasonable commercial basis (“RCB”) when exercising its core service, since the real-time price of the data will be set through a bidding process, making the requirement effectively redundant. However, this requirement should not be removed for the CTP when providing any ancillary services. Furthermore, it is important that once the initial price is set and the CTP starts its service provision, the CTP is disallowed from being able to raise prices unreasonably during the initial tender contract (and subsequent tender contracts, thereafter). Necessary procedures need to be in place to ensure price control after the initial tender. Moreover, and in line with our response to Q16, it is important that the CTP cannot use any ancillary services to cross-subsidise its core service.

Question 28: Do you agree with the retention of the requirement for a CTP to provide market data on a non-discriminatory basis?

ICMA response: ICMA members agree with the retention of the requirement for a CTP to provide market data on a non-discriminatory basis.

Question 29: Do you agree with our proposed changes to the transparency obligations in respect of pricing?

ICMA response: In line with our answer to Question 27, ICMA agrees to the changes of the transparency obligations for the CTP when exercising its core service. However, when offering ancillary services, the transparency obligations should not be changed.

Question 30: Do you agree with our proposed governance requirements for the bond CTP?

ICMA response: ICMA welcomes the establishment of a consultative committee. ICMA sees strong and robust governance as key for the CTP to function well. Whilst ICMA agrees with the FCA proposal for a consultative committee, it will be important that there is a mechanism to ensure that recommendations are considered and – where appropriate – acted upon. The current proposals in 6.44 and 6.47 stop short of specifying the consequences of a CTP not taking into consideration any recommendations and proposals.

While it is understood that the FCA is not part of the consultative committee, one suggestion could be that the FCA could serve as an escalation point in the event of any dispute between the CTP and consultative committee.

Question 31: Do you agree with our proposals on requirements for trading venues and APAs to provide data to the CTP?

ICMA response: ICMA agrees to the proposals on requirements for trading venues and APAs to provide data to the CTP.

Do you agree with our proposals on the management by the CTP of potentially erroneous information?

ICMA response: ICMA agrees to the proposals on the management by the CTP of potentially erroneous information as set out in point 6.50 and 6.51 of this CP.

Question 32: Do you agree with our proposals on data quality?

ICMA response: ICMA agrees to the proposals on data quality as set out in point 6.51 of this CP.

Question 33: Do you agree with our proposal to require a CTP to provide a feed of its data to the FCA?

ICMA response: ICMA agrees to the proposal to require a CTP to provide a feed of its data to the FCA.

Q34: Do you have any comments on our guidance on the tender and retender process?

ICMA would like to refer to the answer to Question 18 regarding the tender process. There are no particular views of ICMA members regarding point 6.54 and 6.55 of the CP. ICMA members are interested to know whether there will be any transparency to the public with respect to the contestants of the bidding, at least those who will participate in the final stage of the bidding, and again, what the exact requirements of the pre-bidding round(s) were.