

Consultation Paper

CP23/15***

The Framework for a UK Consolidated Tape

July 2023

How to respond

We are asking for comments on this Consultation Paper (CP) by **15 September 2023**.

You can send them to us via email, or in writing to:

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Chapter 1

Summary

Why we are consulting

- 1.1** We are consulting on our proposed framework for establishing a Consolidated Tape (CT) in the UK. A CT collates market data, such as prices and volumes associated with trades in a financial market. It aims to provide a comprehensive picture of transactions in a specific asset class, bringing together trades executed on trading venues as well as those arranged over-the-counter (OTC).
- 1.2** A Consolidated Tape Provider (CTP) is needed to collect the market data and then disseminate the CT in a standardised electronic data feed to market participants. By providing a single, authoritative, complete and affordable source of market data, the CT should reduce trading costs, increase liquidity and allow investors to better assess their brokers' execution quality (see, for example, papers by [Cespa, G. and Vives, X.](#) and [Cespa, G. and Foucault, T.](#)).
- 1.3** The European Union's (EU's) second Markets in Financial Instruments Directive (MiFID II) that took effect in the UK in 2018 contained a regime to allow for multiple competing CTPs per asset class. However, no firm has applied for authorisation to be a CTP under that regime.
- 1.4** This CP is part of the Wholesale Markets Review (WMR), the review of UK wholesale markets that we have been conducting with the Treasury. Last year's [WMR Consultation Response](#) said that the government wanted to revise the existing regime and to enable the emergence of a CT in the UK. In addition, the UK Government's Edinburgh Reforms said the Treasury and the FCA would put a legislative and regulatory regime in place by 2024 to allow the emergence of a UK CT.
- 1.5** Work on a CT also forms part of the FCA's commitment in its 2022-2025 Strategy to strengthening the UK's position in global wholesale markets. The aim of the commitment is to ensure that the UK continues to be regarded as one of the leading global markets of choice for issuers, intermediaries and investors.
- 1.6** This CP sets out our proposed framework for a CT for bonds, which the WMR suggested was a priority. A well-designed CT framework should lead to the emergence of a CTP and with this in mind we invite feedback on our proposed criteria for how a CTP would operate and the tender process for appointing a CTP.
- 1.7** This paper also includes a section for discussion on a CT for equities, where our thinking is less developed, but we expect a CT framework to be introduced once the framework for bonds has been established. We are also using this consultation to consolidate in the Handbook, without making any substantive changes, existing provisions relating to Approved Reporting Mechanisms (ARMs) and Approved Publication Arrangements (APAs). ARMs send transaction reports to us on behalf of investment firms, whilst APAs make public trade reports on behalf of investment firms in relation to OTC trades in instruments that are "traded on a trading venue (TOTV)".

Who this applies to

- 1.8** The proposals in this CP will apply to:
- trading venues which admit to trading or trade bonds
 - APAs who publish trade reports for bonds that are TOTV
 - ARMs who send transaction reports to the FCA on behalf of investment firms
 - firms interested in bidding to be a CTP
- 1.9** Our proposals will also interest data users, including: institutional investors, asset managers, retail investors, data vendors, market data and analytics firms, and trade associations.

What we want to change

- 1.10** The Financial Services and Markets Act (FSMA) 2023 gives us new rulemaking powers in respect of Data Reporting Services Providers (DRSPs), including CTPs. It will also enable the Treasury to repeal and replace the Data Reporting Services Regulations (DRSRs). These legislative changes will allow us to create a regulatory framework to enable the establishment of a CT in bonds. We are proposing that the framework allows for only a single CTP to be chosen through a tender process. The establishment of a CT for bonds in the UK provided by a single CTP will reduce the cost of and increase the access to market data for end-users.
- 1.11** We will finalise the rules to establish the UK CT framework by 2024. Then we will prepare a request for tender document to be issued in the course of 2024. The rules will establish the main regulatory obligations of the CTP and main regulatory requirements for the operation of the CT.
- 1.12** The proposed tender process is described more fully in Chapter 5. This includes criteria related to the bidders' ability to meet minimum service quality requirements, to ensure that they can move forward to authorisation if appointed. It also sets out technical arrangements they will need to establish to run the CT.
- 1.13** We are proposing the following balance of requirements for the bond CT framework:

Tender criteria	Rules
Auction design: <ul style="list-style-type: none"> • Basis of bidding and number of rounds • Pricing of the CT • Minimum eligibility conditions to seek to ensure that the chosen CTP can be authorised 	Definition of the CT service and business model: <ul style="list-style-type: none"> • Data provision to the CTP • Licensing terms and charging model • Obligations for an orderly hand over after the appointment term
Latency of the CT (ability to publish data in line with rules requirements)	Data obligations on providers (scope of the CT, latency (publishing data as soon as reasonably possible), data quality and formats)

Tender criteria	Rules
Management of data quality and other contractual issues between data providers (trading venues and APAs) and the CTP	Authorisation and annual supervision fees ¹ Authorisation requirements including governance
Ability of the CTP to comply with operational rules	Operational rules for CTP, including rules on minimum financial resourcing, conflicts, business continuity, operational resilience, security, and separation of business functions
Procedures and assurances for orderly hand over	
Considerations for firms when determining financial resource allocations	

Measuring success

1.14 The outcomes we seek from the design of the CT framework are:

- a CT for bond data operating in the course of 2025, following a tender process and subsequent authorisation of the chosen CTP
- enhanced market quality through an improved understanding of trading costs, leading to greater market participation, and a more efficient allocation of investments
- improved outcomes in wholesale markets in terms of addressable liquidity, market transparency and market access

1.15 We will achieve these outcomes through the design of the CT framework, CTP rights and obligations and the tender process to ensure:

- There is an authoritative account of overall bond trading that is complete, timely and relevant for a wide range of use cases.
- The cost of accessing bond market data falls which, together with simpler licensing terms, allow greater access to market data and reduces trading costs. This can encourage debt issuance in the economy and bond trading and investment that may not otherwise occur.
- There are incentives for the CTP and market data vendors to compete with one another, who then innovate their product and service offerings.

1.16 We will evaluate the effect of the changes by monitoring the operation of the CT and gathering data on market outcomes. As indicated in Our Strategy 2022 to 2025, we will use a variety of metrics to assess whether our work is strengthening the UK’s position in global wholesale markets.

1.17 Based on information from the CTP we will assess whether the CT is being published in a timely fashion and whether it is resilient. We will gather information from the CTP, and through surveys and broader discussion with industry to understand whether the CT has made consolidated data more broadly available.

¹ Rules are already in place but will need updating.

- 1.18** Ultimately, the aim of a CT is to improve the efficiency of the market by enabling greater access to market data. To assess this, we will look at an analysis of liquidity and the level of informed trading occurring in the relevant markets, although we will need to seek to control for other developments relating to the market including the changes to the transparency regime for bonds.
- 1.19** We will undertake a post-implementation review of the framework for the bonds CT to assess its efficacy and whether the model of a single CTP for bonds remains appropriate.

Next steps

- 1.20** We want to know what you think of our proposals in this CP.
- 1.21** Please send your comments to us by **15 September 2023**, using the options in the 'How to respond' section above. Unless you have indicated that your response is confidential, we will not treat it as such.
- 1.22** Following consideration of responses, we will make the necessary amendments to the FCA Handbook rules and guidance. We will aim to publish our Policy Statement in December 2023.
- 1.23** Once we have published our Handbook rules and guidance, we will work to finalise a request for tender document to appoint a CTP, subject to authorisation. We would expect the tender process to commence in the course of 2024.

Chapter 2

The wider context

Legislative framework

- 2.1** The UK Markets in Financial Instruments Directive (UK MiFID) is the collection of laws that regulate the buying, selling and organised trading of financial instruments. The rules are derived from EU legislation that took effect in November 2007 and was revised in January 2018 (MiFID II). MiFID II was amended to address issues stemming from the UK's withdrawal from the EU at the end of the Transition Period. Although MiFID II introduced a regulatory framework for a CT, no firm has sought authorisation as a CTP in the UK under that framework to date.
- 2.2** In July 2021, the Treasury published a consultation document, the Wholesale Markets Review, with proposals to reform the UK's secondary markets framework. Respondents supported the government's proposal to encourage the emergence of a CT, and most respondents agreed that the private sector is best placed to run it. Several respondents suggested that UK authorities should play a more active role in ensuring a CT emerges, for example by organising a tender process and appointing a CTP for each asset class. A tender process, respondents argued, would make it easier for UK authorities to ensure that the correct governance arrangements are in place, help mitigate conflicts of interest, and ensure – through competition during the tender process – the costs for firms connecting to a CT and accessing data from a CT remain low.
- 2.3** Respondents agreed that there is a more pressing case for a bond CT given the more dispersed nature of information on bond trading and issues with data quality. They said that this CT should focus on post-trade data, given that the pre-trade data required under UK Markets in Financial Instruments Regulation (MiFIR) is not generally available for bonds. Most respondents felt that an equities CT should cover pre- and post-trade data because traders use both sets of data to make investment decisions. Most respondents did not see any value in a CT that was disseminated with a time delay, as its benefits derived from the data being available as soon as possible. Some respondents also suggested that the current requirement in legislation for trading venues to make data available on a reasonable commercial basis has not achieved the objective of lowering the cost of market data and making it more transparent.
- 2.4** The Consultation Response, published by the Treasury in March 2022, stated that the FCA should be responsible for setting the requirements for CTPs, and that the government's intention is to make the necessary legislative changes to ensure that the FCA has all the necessary tools to take this forward.
- 2.5** Currently the regulatory regime for a CT is contained mainly in:
- the DRSRs
 - articles 84 to 89 of the UK version of Commission Delegated Regulation No 2017/565 (referred to in the Handbook as the MiFID Org Regulation)

- the UK version of Commission Delegated Regulation No 2017/571 (referred to in the Handbook as MiFID RTS 13)
- the UK version of Commission Delegated Regulation No 2017/1110 (referred to in the Handbook as MiFID ITS 3)
- Chapter 9 in the Market conduct sourcebook (MAR) in the Handbook

2.6 There are also provisions applying to a CTP in the UK version of Commission Delegated Regulation No 2017/577 (referred to in the Handbook as MiFID RTS 3). This RTS deals with the provision of data from trading venues, APAs and CTPs to the FCA for the purposes of transparency calculations. We have not considered changes to those requirements as part of this CP but will do as part of the consultation on the changes to the transparency regime for bonds and derivatives later this year.

2.7 FSMA 2023 inserts new section 300H into FSMA 2000. This section gives the FCA a rulemaking power in respect of DRSPs, insofar as making of rules advances one or more of our objectives. Together with the provisions in FSMA 2023 that enable the Treasury to restate retained EU law, the exercise of the new rulemaking power in s300H of FSMA 2000 will enable us to consolidate firm-facing provisions relating to CTPs, ARMs and APAs in the Handbook and to revise the provisions applying to CTPs. As part of this process, MIFID RTS 13 and MIFID ITS 3 will be revoked.

2.8 As part of the Edinburgh Reforms, the Treasury has informed us that it will shortly publish draft regulations repealing and replacing the DRSRs. We expect the draft regulations will propose removing firm-facing provisions, such as those on operating requirements in Part 3 of the existing DRSRs, for DRSPs, in line with the Smarter Regulatory Framework. We also expect that the draft regulations will propose a power for the FCA to appoint one or more CTPs per asset class, subject to authorisation, based on a tender process.

2.9 In April, we published our [Business Plan for 2023/24](#). It outlined the work we are doing this year to implement the commitment in our Strategy 2022-2025 to strengthen the UK's position in wholesale markets. A consultation on the design and establishment of the CT was listed as one of the pieces of work being undertaken to meet this commitment.

FCA work on trade data

2.10 Our work on a CT forms part of a wider strategy on market data with two other main components: work on market data costs and market data quality. In [FS22/1](#) we announced that we would gather information to understand better the extent to which there are high data costs and complex licensing terms and conditions that are creating user harm. We published a [Wholesale Trade Data Review \(WTDR\) Findings Report](#) in January in which we said that there are areas where competition is not working as well as it could. In particular:

- The way data is sold can be complex, making it harder for data users to make informed choices.
- There is little choice in the market for some data so switching supplier is not an easy option. Users have little choice but to pay the prices set for certain data.

- Complexity and limited choice result in additional costs to data users. These are likely to be passed on to UK retail investors and savers.
- Despite rules in place requiring delayed data to be distributed for free, many users end up with little choice but to pay for data.

2.11 Following on from the trade data report we said there would be a focus on a Wholesale Data Market Study (WDMS) covering benchmarks, credit ratings data and market data vendor services. The WDMS was launched on 1 March 2023 and will report by 1 March 2024. Based on findings from the WTDR, and with respect to the WDMS, market participants have suggested that:

- Policy making should be data-driven, evidenced by rigorous data analysis. Market participants should be able to use and compare market data.
- Strong and reliable data quality and availability enable well-informed decision-making processes, promoting well-functioning wholesale financial markets.
- The rising cost of market data represents a material challenge to the effective functioning of wholesale markets. This ties in with increasing restrictions around usage rights within licence terms, resulting in members being required to pay multiple times for the same data.
- Competition is required to ensure prices for data are efficient for all user types, which in turn will strengthen the ongoing competitiveness of UK markets.
- Well-constructed CTs will help improve the quality of market data and broaden access by reducing its costs and decreasing the complexity relating to market data licences. Others argue, however, that a CT will not solve these issues as firms still need proprietary data to run their businesses.
- There exist significant challenges with benchmarks, credit ratings data and vendors. The issue comes from trading venues' raw data, given the venues hold a monopoly in this data which is unique and non-substitutable. Demand for that data is inelastic due to its uniqueness. These factors are reflected in pricing of trading venues' data, and their licensing terms and conditions. In turn, this affects the pricing of value-added data. A focus on raw data from trading venues, and the behaviour of those venues, is therefore seen as an important first step.

2.12 We will continue to consider the extent to which the issues we have identified in the WTDR are mitigated by the outcomes of the WDMS and the establishment of the CT.

Expected outcomes

2.13 Our expectation is that the framework for a bond CT should result in the right incentives for a CTP to come forward to operate a CT for bonds. The economic model used for the CT will necessarily affect competitive pressures for existing sellers of market data (including trading venues, APAs and market data vendors), resulting in cheaper, higher quality and more accessible data for its users. We have further explored the costs and benefits of a CT as part of our cost-benefit analysis at **Annex 2**.

2.14 MiFID II rules do not appear to be producing high quality or timely post-trade data for some asset classes. We are seeking to achieve better market data by reforming rules on the content and timing of post-trade data – a CT for bonds is dependent on these

changes being in place for the CT to be valuable; working with market participants to achieve greater standardisation; and supervisory work with APAs to ensure they are paying adequate attention to data quality issues.

Arrangements in other jurisdictions

- 2.15** In the **United States**, the Financial Industry Regulatory Authority (FINRA) launched in 2002 the TRACE system for the publication of trade reports in bonds, a market in which trading was mainly OTC. TRACE now covers a wide range of corporate and other bonds, but whilst reports of trading in Treasury securities are sent to TRACE these are not made public.
- 2.16** All broker-dealers who are FINRA-members are obliged to report trades in TRACE-eligible securities under a Securities and Exchange Commission (SEC)-approved set of rules. Firms contributing to TRACE pay connection fees plus fees per trade, depending on the size of the trade. TRACE sells the data to authorised re-sellers who pass through certain fees charged to end users. The revenues from the selling of data are used to pay the costs of operating the system.
- 2.17** There are separate arrangements in the US for the consolidation of equity markets data. Exclusive Security Information Processors (SIPs) do not compete with each other in the collection, consolidation, or dissemination of SIP data. Three tapes – A, B and C – are commonly referred to as the consolidated tapes.
- 2.18** The US's equities CT operates by a revenue sharing model, whereby exchanges are mandated to provide data to the consolidator in return for a share of the revenue generated.
- 2.19** In 2020 the SEC made amendments to its Regulation National Market System with the aim of introducing competing consolidators. These consolidators would not be subject to any coverage obligation, on the assumption that competition would provide incentives to meet consumers' needs. These changes have yet to be implemented.
- 2.20** The **EU** is in the process of revising its version of MiFID II. The revisions include changes to its regime for a CT. A provisional agreement between the Council and the European Parliament was reached on 29 June 2023 but details of the agreement have not yet been made public. Prior discussions were looking at requiring the European Securities and Markets Authority (ESMA) to run tender processes to appoint single CTPs for each of bonds, shares and OTC derivatives, with each tender contract running for a period of 5 years.

Discussions with industry on a UK consolidated tape

- 2.21** We have spoken extensively with interested market participants – data providers, potential CTPs, data vendors and data users – to understand the main issues to be

addressed through this consultation and our rules and tender design processes. Issues discussed include:

- The number of CTPs per asset class. Virtually all those we have spoken to have consistently argued in favour of a single consolidator per asset class, noting that it offers the greatest commercial incentive for consolidators to come forward, creates a focal point for data quality issues, and means that trading venues and data users need only connect to a single consolidator.
- Timing for introduction of a bond CT, noting upcoming changes to the transparency regime.
- Scope of data to be covered by a CTP, including whether Exchange Traded Notes (ETNs) and Exchange Traded Commodities (ETCs) should be included, and non-core market data such as historical trade reports and market outage information.
- Formats and associated costs for collecting and disseminating market data, insofar as these are relevant to the pricing and licensing terms for a CT.
- Governance to ensure that feedback from data providers and users is reflected in the continuous improvement of the CT.
- Whether CTP revenue ought to be shared with data providers.
- Rules design, including whether additional provisions are required other than those onshored from MiFIR, and how to design a tender process that does not give unfair advantage to the winner of the first CTP tender.

How it links to our objectives

Consumer protection

- 2.22** Existing market data vendors do not provide full coverage of bond and equities markets, nor are they bound by specific requirements as to what they must provide and under what terms (including price, latency and correction of errors in data).
- 2.23** Designing a framework that encourages CTPs to come forward should help encourage greater participation in financial markets through a clearer understanding of liquidity, thereby protecting those consumers' interests. A CT should also put downward pressure on the price of market data and offer clearer licensing terms that are suited to individual use cases.

Market integrity

- 2.24** Creating a framework for a UK CT will aid price formation through a clear, consistent picture of liquidity in markets. It might also assist with the resiliency of markets by allowing the market to adapt more easily in circumstances in which a significant trading venue suffers an outage.

Competition

- 2.25** The proposed changes will encourage competition for the provision of market data through two channels:

- Competition between the chosen CTP and existing data vendors for provision of aggregated trade data. Note that data users may choose to obtain their data directly from the CTP, through a data vendor (who may itself receive the CT and on-sell it to users), directly from trading venues/APAs, or some combination of the three approaches.
- Competition for the market during the CTP tender process. We have designed the framework to seek to ensure that, as far as possible, competition for the market during tendering achieves the outcomes that might be expected through competition in the market, were multiple consolidators to emerge.

Treasury Remit Letter and Secondary International Competitiveness and Growth Objective

- 2.26** FSMA 2023 implements the outcomes of the Treasury's Future Regulatory Framework (FRF) Review and makes important updates to the UK's framework for financial services to reflect the UK's new position outside of the EU. FSMA 2023 also introduces a new secondary international competitiveness and growth objective for the FCA.
- 2.27** Our work in relation to the proposed changes started before this legislation was introduced but will be completed, with final decisions made, after the Act is likely to come into force. The need to comply with this future obligation was also reflected in our new remit letter, received 9 December 2022, to which we must have regard. We have therefore considered here the likely effects of these proposals on competitiveness and growth.
- 2.28** The new secondary objective is as follows:

When discharging its general functions the FCA must, so far as reasonably possible, act in a way which, as a secondary objective, advances the competitiveness and growth objective.

The competitiveness and growth objective is: facilitating, subject to aligning with relevant international standards—

- a. the international competitiveness of the economy of the United Kingdom (including in particular the financial services sector), and
- b. its growth in the medium to long term.

- 2.29** When considering the design of the framework, we have had regard to other overlapping regulatory initiatives and attempted to minimise undue costs to firms – for example, allowing a period of familiarisation with changes to the bond transparency regime before firms are expected to operationalise the CT, and setting the scope of the CT itself consistently with those transparency regime requirements. Design of the CT framework itself aims to minimise unnecessary costs to firms. Driving proportionate regulation, by ensuring any cost or restriction imposed is proportionate to the benefits expected as a result for the wider regulatory system, enhances competition and makes the UK a more

attractive place for firms to enter or operate, thus improving the UK's competitiveness as a financial hub.

2.30 The WTDR findings report noted that a well-functioning wholesale market where participants can access good quality trade data at fair and reasonable prices would make the UK, overall, more competitive in the global market. Our work on the CT aligns with the FCA's secondary international competitiveness and growth objective along two main axes:

- We are ensuring that our financial services framework takes account of progress in other comparable jurisdictions.
- This, in turn, may increase the size and liquidity of the UK financial markets, which lowers costs and increases productivity. The finance sector can also help enable efficient business investment in the wider economy, further increasing productivity and growth and making the UK more internationally competitive.

2.31 The establishment of the CT could lead to the CTP, data providers, and market data vendors attempting to differentiate their data aggregation products and services from that of competitors. This should benefit consumers by simultaneously increasing the variety of data products they have access to, while reducing the prices of those products. In turn, this should increase the relative competitiveness of the UK's trade data products and services.

2.32 Tender and rules requirements in the UK CT framework will constrain the chosen provider through competition for the market such that its prices resemble a competitive, cost-based outcome that might be expected under competition in the market.

Wider effects of this consultation

2.33 The chosen bond CTP stands to gain revenues, by virtue of being the only provider of a regulated CT, that would otherwise potentially have been shared between multiple consolidators and data vendors.

2.34 Any improvement in risk management or best execution that results from introduction of a CT may also represent a transfer from informed market participants (who previously had preferential access to trade data) to those who use the CT or benefit indirectly from its use by their representatives (for example, their broker or asset manager).

2.35 **Annex 2** sets out our analysis of benefits and costs to firms and consumers from our proposals.

Equality and diversity considerations

2.36 We have considered the equality and diversity issues that may arise from the proposals in this CP.

- 2.37** Overall, we do not consider that the proposals would have a material negative effect upon any of the groups with protected characteristics under the Equality Act 2010. We will continue to consider the equality and diversity implications of the proposals during the consultation period and will revisit them when making the final rules.
- 2.38** In the meantime, we welcome your input to this consultation in this context.

Chapter 3

The number of consolidated tape providers per asset class

Introduction

- 3.1** The existing regulatory regime allows any firm meeting the conditions for authorisation to become a CTP in one or multiple asset classes. The Treasury's Consultation Response to the WMR noted views from many respondents that having multiple CTPs per asset class, as per the model set out in MiFID II, would not help standardise data or provide a single consolidated and widely accepted view of the market. We expect the draft regulations repealing and replacing the DRSRs will include provisions that enable, but do not require, the FCA to direct that there should be one or more CTPs per asset class chosen through a tender process.
- 3.2** In addition to having a competition objective, FSMA 2000 also imposes a competition duty on the FCA. We must, so far as is compatible with acting in a way which advances the consumer protection objective or the integrity objective, discharge our general functions in a way which promotes effective competition in the interests of consumers. As a matter of policy, we must choose the most pro-competitive measure open to us if it is compatible with our duties as a whole.
- 3.3** We cannot advance our operational objectives through a CT if the approach to determining who can be a CTP does not lead to the stable provision of a CT that is widely used by market participants. A single CTP per asset class chosen by tender is not the most pro-competitive measure open to us. However, we have considered carefully whether a single CTP per asset class is crucial to ensuring we have a CT and our ability to advance our operational objectives.

Analysis

- 3.4** Having multiple CTPs per asset class would in principle intensify competition in the market, placing downward pressure on the price of a CT and incentivising innovation on the part of CTPs. Conversely, proponents of a single provider per asset class argue that:
- a single provider model is the **most commercially viable** for potential consolidators, and therefore the most likely to encourage those providers to come forward during the tender process
 - a single CT per asset class provides **a 'golden' source of truth** and can act as a focal point for the resolution of data quality issues
 - trading venues would **only need to connect to a single CTP** to provide data, and users would only have to purchase a single CT

3.5 There are several additional considerations that the FCA has had regard to when considering a single provider model:

- **Other jurisdictions**, including the US and EU, are pursuing single provider models. A single CT per asset class in the UK would allow us to build on lessons learned in other jurisdictions.
- In practice, under the current conditions of free competition in data consolidation, no firm has been authorised by the FCA to operate as a CTP and input prices remain elevated. Without a **tender process** – balancing the benefits and the costs of being a CTP – to appoint a single provider, it appears highly unlikely that a CTP will emerge of its own accord.
- A single provider model may limit the potential for innovation in the provision of the CT even in circumstances where the provider must consult with data providers and users about the development of its services.
- The extent to which **competition for the market** via a tender process, and subsequent constraint of the chosen CTP through design of the economic model and rules, could produce the same outcomes that we would expect from **competition in the market** between multiple providers.
- We will seek to address issues of **data quality** through revising the content and timing of post-trade transparency, supervision of APAs and improved reference data. However, there would still be some discrepancies between CTs produced by multiple providers that would, at the margin, reduce the benefits of the CTs to the market. Increased competition between execution venues and brokers that a CT is intended to bring could therefore be less intense.

Proposals

3.6 To meet our objectives in establishing the CT framework, we have decided to work on the basis that there will be a single CTP per asset class, appointed through tender, as we believe this represents the most viable model for the UK CT framework to succeed. Having a single CTP per asset class provides a clear and commonly used benchmark of overall trading activity and should be sufficiently low-cost to enable broad access. There are draft guidance provisions, in MAR 9.2A, relating to the use of a power to direct that a CTP is appointed through a tender process, a power that we expect the Treasury will include in draft regulations repealing and replacing the DRSRs.

3.7 The appointment of a single CTP through tender in the initial phase of the framework will not preclude us allowing multiple CTPs after the first tender period has expired. As elaborated upon in Chapter 5 of this CP, this is precisely why we have endeavoured to ensure that the market for provision of a CT remains contestable after the first tender period.

3.8 We will undertake a post-implementation review during the first tender contract to assess the operation of the framework, including how the single provider model is functioning and what changes, if any, we should make to our approach to the CT after the first tender period expires. This review would not affect the terms on which the appointed CTP was expected to operate within their tender contract period.

Q1: Do you agree with the appointment of a single CTP per asset class through a tender process?

Q2: What success criteria should be used in the post-implementation framework review?

Chapter 4

The scope and operation of a consolidated tape for bonds

Scope

Introduction

4.1 There are several aspects to the scope of a CT for bonds:

- whether the data is provided in real time or delayed
- the type of instruments covered
- the trigger for the inclusion of individual instruments from within the types of instruments covered
- whether to include pre-trade data as well as post-trade data
- the coverage of information included in transparency reports
- whether there is additional information required to be made public for transparency purposes that should be disseminated by a CT
- the coverage of trading venues and APAs

Analysis

- 4.2** **Speed of provision (latency).** The WMR consulted on whether a CT for bonds should consolidate data on a real-time (as soon as reasonably possible after the point at which the trading venue or APA has published a trade) or delayed basis (either 15 minutes after a trade has initially been published or at the end of day). There was a small amount of support for a bonds CT publishing data on a delayed basis. However, most respondents did not see any value in a bonds CTP publishing delayed data. Respondents noted that whilst delayed data does have some use cases, such as portfolio and compliance monitoring, only a real-time CT would be additive to trading decisions and enhanced outcomes for end investors.
- 4.3** The regulatory standard for the publication of bond trades by trading venues and investment firms (using APAs) is as soon as reasonably possible once they fall due for publication and no later than 5 minutes after that point. How quickly a CTP can publish a trade will depend on several things but especially on how quickly the information is provided to it. To ensure rapid publication of the data by the CTP requires a standard for the trading venues and APAs to provide data in a timely fashion to it and an obligation on the CTP to then publish the data in a timely fashion after it has received it.
- 4.4** The existing regulatory framework (regulation 15(1)(c) of the DRSRs) requires a CTP to publish data in as close to real time as is technically possible but does not have a requirement for trading venues or APAs to send data to a CTP or a standard in respect of the sending of that data. This is a significant gap in the existing framework given the dependency of the quality of the CT on getting information in a timely fashion.

- 4.5** If we were to impose a backstop in our rules for the maximum time to send the data to the CTP, and then for the CTP to publish it after it receives it, it would provide some clarity to a standard to provide and publish data as soon as technically possible. However, it also risks arrangements being built to the backstop rather than being more ambitious. We are not proposing a backstop in our rules but are interested in views of whether one should be imposed, whether it should be within one minute or shorter and what the costs might be associated with such a standard.
- 4.6** We would expect as part of the tender process to look at the plans a prospective CTP has to publish data as soon as reasonably possible after it receives it. Once operational we would assess the performance of the CTP in this regard as part of its ongoing supervision.
- 4.7** **Bond categories.** The MiFID category of bonds covers several types of instruments:
- sovereign bonds
 - other public bonds
 - convertible bonds
 - covered bonds
 - corporate bonds
 - other bonds
 - ETNs and ETCs
- 4.8** In discussion with industry, we have explored whether all these bond types should be included in the scope of a bond CT. Market participants have told us that they see little value in including ETNs and ETCs in the scope of a bond CT. This is because while they share a legal structure akin to a bond, they are significantly different from most other types of bonds. They are designed to give an investor an exposure to an underlying basket of assets which are different from debt issued by corporations or central governments and trade more like ETFs than other types of bonds.
- 4.9** **Individual bonds.** A bond is within the scope of the MiFID transparency regime where it is admitted to trading or TOTV in the UK. A significant number of bonds traded on trading venues in the UK do not have a direct connection with UK financial markets in that the issuer has often not sought admission to trading of its bond on a UK trading venue. We therefore discussed with market participants whether there was a case for having a narrower scope for the CTP than for the transparency regime, assuming it continues to work based on admission to trading and TOTV.
- 4.10** The strong view we received from market participants was that the scope of bonds categories covered by the CT should be the same as for the transparency regime. That is, an individual bond should be within the scope of the CT where it is admitted to trading or TOTV. It was argued that to have full value the CT needs to be comprehensive in its coverage of the bonds that are traded on UK trading venues.

- 4.11 Pre-trade transparency.** The issue of whether a bond CT should include pre- as well as post-trade data was explored in the WMR consultation. All who responded on the relevant question supported a post-trade only CT for bonds. It was argued that a post-trade CT together with information that market participants obtain on trading axes (the advertising sell-side buy and sell interests traditionally linked to the sell-side's book) and inventory information was adequate to allow for informed investment decision making. Respondents also said that the nature of bond market trading, which usually takes place using a Request for Quote (RFQ) rather than order book protocol, meant that pre-trade information was less useful than for shares. It was difficult to generalise from quotes given on an individual bond to a specific participant.
- 4.12 Post-trade reports.** The post-trade transparency regime for bonds currently has 17 fields and 12 main flags. Questions have been raised about the extent to which all those fields and flags contribute to identifying liquidity and the price formation process (and whether the price field is correctly specified). Therefore, we discussed with market participants whether a CT should include all the fields and flags currently used in trade reports for bonds or only a subset.
- 4.13** There was no support for a CT consolidating anything other than all the data that is required to be published as part of trade reports. It was argued that questions over the utility of fields and flags and their specification should be dealt with through a discussion of the transparency regime. As well as simplifying the task of the CTP, using all the data ensures that the market sees a comprehensive consolidation of post-trade information.
- 4.14 Regulatory data.** Inspired by the example of the equities CT in the US, the provisional agreement in the EU on a CT in the MiFID II Review includes the concepts of core and regulatory data. The former is the data included in trade reports, and the latter includes *"data related to the status of systems matching orders in financial instruments, including information about circuit breakers, trading halts, and opening and closing prices of those financial instruments."*
- 4.15** We have discussed with market participants whether there is additional data that should be included in a bond CT beyond the information required to be made public as part of post-trade transparency. The view expressed to us was that given the current structure of the bonds market, with trading through RFQ protocols, there was no obvious 'regulatory data' that would significantly enhance the utility of a bond CT. In due course, particularly if market structure in bond markets evolves, it was thought there might be a case for inclusion of data along these lines.
- 4.16 Coverage of trading venues and APAs.** Under Article 15a in MiFID RTS 13 a CTP for bonds and derivatives must connect to sufficient trading venues and APAs to cover transactions accounting for 80% of the value of transactions in a particular asset class. This requirement reflected the complexity of the bond market in the EU. The UK bond market is covered by many fewer trading venues and APAs and therefore the task of a CTP in consolidating data for the UK bond market is less complex than in the EU. This would mean, however, that trading venues and APAs would need to connect regardless of the volume of trading they undertake or publish in bonds.

4.17 An intention that a bond CT is comprehensive means that as well as existing trading venues and APAs connecting to a CTP it will also be necessary for new trading venues and APAs to do so as well. Initially trading venues and APAs may have very little volume and therefore there is a case for allowing some leeway for a trading venue or APA to build some business before it connects to the CTP.

Proposals

4.18 In respect of the scope of the CT we are proposing that:

- trading venues are required to send data to a CTP and that the data should be provided in as close to real time as is technically possible – see MAR 9.2B.34R (3)(b)
- a CTP should publish data in real time as soon as reasonably possible after it receives it – see MAR 9.2B.34R (1)(b)
- the CT should include trade reports for all the MiFID categories of bonds other than ETCs/ETNs – see MAR 9.2B.34R (1)(a)
- the CTP should consolidate trade reports for all bonds, other than ETC/ETNs, that are admitted to trading or TOTV in the UK – see MAR 9.2B.33R
- the CT should include only post-trade transparency information – see MAR 9.2B.34R (1)(a)
- the CT data published should cover all fields and flags that are part of post-trade transparency requirements – see MAR 9.2B.34R (1)(a)
- the CT should include only transparency information and not wider regulatory data – see MAR 9.2B.34R (1)(a)
- a CTP should be required to receive data from all trading venues and APAs publishing trade reports on bonds – see MAR 9.2B.34R (1)(a) – and require new trading venues and APAs to connect and send data to a CTP as soon as possible after the start of their operations and in any case no later than six months after – MAR 9.2B.34R (6)

4.19 We are not proposing that there should be a backstop in our rules for the maximum time for trading venues and APAs to send the data to the CTP, and then for the CTP to publish the data after the CTP has received it.

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

Data consolidation and dissemination, consumption of the CT, historical data, and the CT and the transparency regime

Introduction

4.20 Other issues related to a CT for bonds that we have considered include:

- how the CTP obtains the data from data providers for the purposes of consolidation and how it disseminates it

- whether there should be a mandatory requirement for consumption of the CT
- whether a CTP should be required to provide a historical data service as well as a feed of data in real time
- the interaction from a timing perspective with changes to the transparency regime for bonds

Analysis and proposals

- 4.21 Receipt and dissemination of the data.** To maximise accessibility and uptake, CT data must be received and disseminated by the CTP in a consistent format, and the CT should be available in machine- and human-readable forms.
- 4.22** With respect to receipt of data, there are essentially two options:
- the CTP develops and adapts its infrastructure to the existing application programming interfaces (APIs) used by data providers (for example, those developed according to the Financial Information eXchange (FIX) protocol)
 - the CTP develops, in consultation with data providers, a standardised, open-source API that will be used to receive data from the providers
- 4.23** In discussion with market participants, we have heard views in favour of both approaches. The proponents of the first approach argue it will reduce transmission latency (and therefore the latency of the CT, making the data more commercially attractive), minimises the effect on data providers and uses established and tested means of data dissemination thereby minimising errors that might be introduced by using a separate means of disseminating the data to the CTP.
- 4.24** The proponents of the second approach argue it will minimise ongoing and cumulative costs for data providers and the CTP; ensure that data quality is maximised by transmission through a consistent, well-understood and industry-agreed API; and allows two-way communication between the CTP and data providers (using ACK/NACK – positive and negative acknowledgement messages – for example, to identify data quality issues).
- 4.25** We are proposing, in MAR 9.2B.34R (4), that the CTP should develop a standardised, open-source API for data receipt. Given our objective of having a high quality, resilient CT it seems to us that this approach makes it easier for the data provider and CTP to be clear that data has been successfully received, is less likely to lead to errors in the republication of trade reports through the CT and should assist in ensuring the CT is resilient. However, we remain open to hearing further views on this.
- 4.26** With respect to dissemination of CT data to users we want the data to be disseminated in both machine-readable and human-readable form. The former we assume will be the way the data is consumed by market participants and data resellers whilst the latter is to enable access by retail investors.
- 4.27** Based on discussion with market participants we are proposing, in MAR 9.2B.35R (1), that a CTP should publish in at least two machine-readable forms (API and comma-separated value (CSV)) and Graphical User Interface (GUI) as the human-readable form.

4.28 We have had some discussion with market participants about the transmission of data through multicast. A multicast broadcasts data simultaneously to recipients rather than sending individual streams of data to recipients. We are not proposing to specify that a CTP should use multicasting in our rules but would be interested in views on whether we need to be more specific about the means of the dissemination of the CT.

Q4: 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?

Q5: Do you think that our rules should be more specific about the means of dissemination of a CT?

4.29 Mandatory consumption. In discussion of a CT there has been debate about whether it should be compulsory for data users to purchase the data. There have been two main reasons suggested for imposing such an obligation. First, to ensure the economic viability of the CT. Second, to ensure that those charged with achieving best execution have the right data to meet their obligations to clients.

4.30 There has, however, been very little support for mandatory consumption. Aside from the issue of the need to define the firms to whom the obligation would apply, the main arguments that have been made against mandating consumption of the CT are as follows:

- Mandatory consumption removes the CTP's incentives to innovate or improve data quality of the CT. Absent mandatory consumption, the CTP should construct the CT appropriately so that it provides an economically attractive offering to market data users.
- Relatedly, mandatory consumption would remove a critical indicator as to whether a CT is fit for purpose and therefore detract from effective CTP governance.
- Firms may already have access to the necessary price data at a lower latency through direct feeds and, therefore, mandatory consumption of the CT would lead to an unnecessary and duplicative increase in costs for those firms.
- A requirement to consume the full CT might limit competition by creating a barrier to entry for smaller firms.
- The expectations placed on firms by other regulatory requirements will mean that demand for and usage of CT data will be sufficiently widespread even without a mandate requiring its use.

4.31 We do not think that the success of a bonds CT requires mandatory consumption. We believe that firms should be afforded the option of choosing where and from whom they source the market data they need to meet their needs, including the need to meet best execution obligations.

Q6: Do you agree that the consumption of the data published by the CT should be discretionary for market participants?

- 4.32 Transparency regime.** The WMR found that the current transparency regime for bonds does not work well. Respondents to the WMR said that changes to the current transparency regime, including its rules on treatment of deferrals, would improve price formation, increase the value of post-trade transparency and support the emergence of a CT for bonds.
- 4.33** It is the government's intention that the FCA should be responsible for recalibrating the scope of the transparency regime and setting the firm-facing requirements. Provisions in FSMA 2023 when commenced will enable the transparency regime for bonds and derivatives to be determined by FCA rules. In 2023Q4 we will consult on a revised transparency regime for bonds. The regime affects the potential scope and timing for the bond CT.
- 4.34** In terms of timing, some market participants have argued for pressing ahead with a bond CT as quickly as possible and potentially before changes to the transparency regime are in place. It has been argued that this approach would help to reduce the risks involved in the launch of the CT by ensuring that it is not combined with data providers having to change their systems to apply the new transparency rules. It would in effect offer a trial of the CT with the ability to iron out issues before the transparency changes were made. However, since consolidating the existing data is unlikely to be commercially attractive, changes to the transparency regime – by improving data quality, consistency of reporting and the ease with which data can be interpreted – would need to take effect relatively quickly after the CT started operation.
- 4.35** Most market participants have suggested that it would not be appropriate for the bond CT to start operation before the new transparency regime comes into effect. This is because they believe that understanding what data will be consolidated is fundamental to understanding the likely demand for a CT and that the benefits of starting a CT early using the existing data are outweighed by the costs of a CTP having to adapt to a new set of data after a relatively short period of operation.
- 4.36 Deferrals.** Some market participants argue that a CTP should receive post-trade data as soon as it becomes available and apply the appropriate deferral periods before publishing. The rationale here is that the CTP could apply an additional layer of protection by undertaking data quality checks while the deferral period elapses. The CTP may also act as a conduit to consistently apply deferrals.
- 4.37** Conversely, other market participants argue that the responsibility for application of deferrals should remain with data providers:
- This approach represents lower cost and complexity than requiring the CTP to handle deferrals, which could potentially duplicate data quality checks that APAs are already required to undertake.
 - Consistent application of deferrals may come from post-trade transparency regime changes rather than from the efforts of the CTP.
 - Were the CTP to be made responsible for application of deferrals, it is likely that data providers would need to establish contractual arrangements with CTPs with respect to the use and protection of data, mirroring those already in place with APAs. This represents considerable legal resource for both parties.

- Trading venues and APAs will still need to publish deferred data for those relying on the feeds they publish, potentially creating inconsistencies with the deferrals applied by a CTP.
- Potential CTPs have argued that their responsibility for deferrals will have no effect on latency for bond market post-trade data, nor is it a necessary requirement for the success of the CT.
- Finally, requiring the CTP to handle deferrals creates additional complexity if a handover from one CTP to another is required.

4.38 Market participants have also suggested that a CTP could provide a deferral checking service. In this scenario, trading venues and APAs would be able to query with the CTP the deferral regime applying to individual bonds to verify whether the deferral rule had been correctly applied. If this were an optional service, the CTP could still validate all subsequent trade reports against the same rules' engine, and report to the data providers any divergences. It is argued that this would offer a quicker method of implementing any new deferral regime as providers would not need to code rules and associated reference data themselves.

4.39 Our current working assumption is that the implementation of the changes to the transparency regime will be in the summer of 2025. The need to undertake a tender process, for the CTP to then be authorised and to prepare for its launch, including onboarding data providers and clients, mean that a bond CT would be unlikely to be ready to operate much before the summer of 2025. Therefore, there might well be little difference between pressing ahead or waiting for the implementation of the transparency regime. We think that it is better to wait for the changes to the transparency regime before a bonds CT goes live. However, we will keep this issue under consideration as the timetables for the CT and the transparency changes evolve.

4.40 We think that to avoid the CTP introducing any risk of additional confusion over the application of deferrals, that data providers should retain responsibility for application of deferrals. They should only send trade reports to the CTP at the time of publication, including where publication is deferred.

4.41 A CTP would be free to offer a deferral checking service. However, there does not appear to be a particular issue with the consistency of application of the deferrals regime at present that warrants making use of the service compulsory.

Q7: Do you agree that the CT should only start operation after bond transparency regime changes come into effect?

Q8: Do you agree that responsibility for applying deferrals should remain with data providers?

Q9: Should the CTP offer a deferral checking service? If so, should use of this service by data providers be mandated?

- 4.42 Historical data.** Historical trade data provides a database of all the data published on trading in a financial instruments market, taking into account when trades took place and any subsequent corrections or cancellations. It is used for several purposes, including risk management, monitoring for instances of market abuse, and academic research and is a complement to a real-time feed of consolidated data.
- 4.43** There is a question of whether a CTP should be mandated, in addition to operating the CT, to provide a historical trade data service. Individual recipients of the real time feed of the CT could create their own historical data set, either for their own use or to resell. A potential advantage of a CTP providing a historical data service is that, as with the CT itself, it provides a single view for industry. However, you do not need to be a CTP to provide a historical trade data service and such a service is therefore more open to competition in the market as well as for the market.
- 4.44** We are not proposing that a CTP should be required to provide a historical data service given the potential that exists for competition in the provision of this service. A CTP will, however, be allowed to provide such a service in addition to the CT itself. Both the CTP and other potential providers of the service will be able to choose the nature and terms on which they provide such a service.

Q10: Do you agree that the provision of a historical data service be optional for a CTP?

Q11: 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?

Chapter 5

Economic model

Introduction

- 5.1** The outcomes we seek from the design of the CT framework are outlined in Chapter 1.
- 5.2** To achieve those outcomes, we need to determine:
- the terms of access to data, including whether any form of revenue sharing between the CTP and the data providers would support our objectives
 - how to appoint a CTP, taking full account of our competition mandate
 - how the mechanism we propose to appoint a CTP (i) determines prices; and (ii) incentivises innovation
 - how to ensure that there remains scope for future competition, either in or for the market
- 5.3** To assist with our development of the economic model we employed an economic consultancy, DotEcon Ltd, to write a report. That report is being published concurrently with this CP.

Analysis

- 5.4** **Terms of access to data.** The existing regime for a CT requires the CTP to consolidate data by buying data from trading venues and APAs.
- 5.5** The need for a CTP to buy data from trading venues and APAs has frequently been cited as a reason why no firm has sought authorisation as a CTP under MiFID II. Accessing data on these terms means that a CTP has no economic advantage over unregulated firms who are consolidating data and therefore means the incentives to become a CTP are limited. For the regulatory framework in the UK to incentivise firms to seek to become a CTP it is therefore important to change the terms on which a CTP accesses the data it must consolidate.
- 5.6** The simplest approach to changing the terms on which data is provided is to require it to be provided for free. Such a requirement obviously maximises the likelihood that a CTP will be commercially viable and provides the greatest chance that the costs of the CT to users will be minimised thereby helping to ensure that the CT is widely available.
- 5.7** Certain market participants have argued that trading venues and APAs should be recompensed for free data provision through a **revenue sharing** mechanism on the basis that this would align incentives of the data providers with those of the CTP, compensate data providers for loss of revenues and ensure that the introduction of the CTP did not act as a barrier to entry for trading venues and APAs.

- 5.8** Requiring data providers to provide to the CTP for free data that otherwise they have the right to sell on a reasonable commercial basis would be a significant regulatory intervention. To be proportionate it must play a significant role in helping to ensure that a CT emerges and that it achieves its objectives.
- 5.9** It has been argued, (for example, see section 8.4 of this [ICMA paper](#)), that a revenue sharing scheme could be used to reward data contributors for the quality of the data they submit to a CTP.
- 5.10** We note that revenues from the sale of bond data, as highlighted in the WTDR, are currently relatively modest and unevenly distributed. Revenues mainly accrue to trading venues operating in the dealer-to-client space and not to interdealer venues or APAs.
- 5.11** There are a variety of market dynamics that are relevant in assessing the revenue-sharing proposal. Should a CTP launch and gain customers, these customers are likely to reduce their existing spend on data acquisition from trading venues or existing aggregators (unless the CTP product fulfils a currently unsatisfied demand). The extent of this substitution depends on the value of the CTP product relative to the value customers derive from existing data suppliers. Data providers are also likely to seek to retain customers by improving the price and/or quality of data that they offer customers. Further, there is a possibility that a data provider chooses to become a CTP, thus vertically integrating along the value chain.
- 5.12** In discussion with market participants, some have suggested that the CTP should make a payment to contribute to defraying the **connectivity costs** for data providers who must connect to the CTP and share data with it. In support of this it has been argued that it would make data providers more likely to work to ensure that they have a resilient connection to a CTP that provides data in a timely fashion.
- 5.13** Costs of connectivity are likely to bear most heavily on smaller trading venues and APAs. However, this might be offset by the CT helping to grow the market and to allow smaller venues to compete more intensely with larger venues when their data is more widely available. There are a variety of connections that firms are required to establish to discharge regulatory obligations as part of MiFID, including to ARMs and APAs.
- 5.14** **Free data after 15 minutes.** Regulation 15(2) of the current version of the DRSRs requires data providers to make market data available free of charge 15 minutes after publication with the objective of lowering the cost of market data. The obligation for a CTP to provide data that is free after 15 minutes was consulted on as part of the WMR. The Treasury proposed removing the obligation because of concerns that it was one of the reasons why no firm had come forward to act as a CTP under the regime provided for in MiFID II.
- 5.15** In its WMR Consultation Response the Treasury reported that most of the respondents to the WMR agreed that the obligation should be removed for CTPs to make it more attractive for firms to seek to become a CTP. Concerns about removing the obligation mainly centred on the effect on academics and retail clients. We want, as is the case in the US with TRACE, academic and retail users to have free or low-cost access to consolidated data.

- 5.16 Competitive constraints.** As set out above, we consider that the appointment of a single CTP is likely to best advance our objectives (though this will be evaluated as part of the post-implementation review). Appointment of a single CTP per asset class raises concerns as to whether the CTP will exhibit monopolistic behaviour, limiting the potential for innovation and fee reduction, failing to improve data quality and therefore challenging whether the single provider model can be reconciled with the FCA's competition duty and competition objective.
- 5.17** It is therefore necessary to set out a mechanism for appointing a CTP such that competition for this market replicates, as far as possible, the theoretical benefits we would expect from competition in the market, notably in relation to price, quality of service and innovation.
- 5.18** Were the CTP contract to be awarded in a manner which allowed the CTP to determine its prices without regulatory constraint, it would likely determine its prices considering the preferential access to data that it will be granted, and the constraints that would remain from customer behaviour. There would be some limitations on the ability of a single CTP to raise price. For example, certain users' needs may be met by obtaining data directly from trading venues and APAs. Also, new user segments may be price sensitive and some of these might simply cease to buy CT data if the price were too high.
- 5.19** These constraints would be less than the pricing constraints that would result from a competitive auction mechanism, and we do not consider that the resulting outcomes would meet our objectives.
- 5.20 Demand uncertainty and licence design.** Demand for a CT is uncertain and will originate from various user segments. Given that much of a CTP's cost base is likely to be fixed rather than related to the number of users served, a potential CTP's business case will be sensitive to its assumptions about demand for the CT. Therefore, to meet the needs of different users whilst allowing efficient cost recovery, various CT licence types are likely to be needed. Without appropriate differentiation, there exists the risk that lower-value users might be priced out of the market by terms targeting high-value users, or that fixed costs are not recovered if prices are lowered across the board to attract more lower-value users.
- 5.21** The scale of demand for the CT will also depend on the pricing and other characteristics of the CT, as well as the competitive response from data providers.
- 5.22** Relevant to a discussion of licence types is the fact that article 87(1) of the MiFID Org Regulation requires a CTP to price on a 'per-user' basis. ESMA originally proposed requiring charging for market data (see paragraph 54 of [this consultation paper](#)) on a 'per-user' basis because of complaints that individual users were being charged multiple times for the same data. This is consistent with efforts to ensure that the CT is widely available, correlating payment most closely with usage.
- 5.23** If the per-user pricing requirement is retained a CTP consolidating all trades in bonds that are traded on UK trading venues should not need the current derogation in article 87(2) of the MiFID Org Regulation that allows pricing on a basis other than a per-user basis because such an approach is disproportionate.

- 5.24** However, some market participants have suggested to us that pricing should be on a per-entity basis, with some differentiation based on the size of the entity. The argument for such an approach was that it provided greater certainty of data costs and would not require intrusive audits of data use to ensure compliance with licensing terms. This argument has been advanced by large firms who might benefit from such an approach. More generally there is a question of whether pricing on a per-user basis would be too limiting for a CTP in constructing its price list and licence types.
- 5.25** **Innovation.** Article 88 (1) of the MiFID Org Regulation currently requires that a CT is available on a standalone basis, rather than bundled with other services. This does not preclude a CTP offering value-added services where there is demonstrable demand for it to do so. Article 13 of MiFID RTS 13 currently allows for this subject to a requirement that such services do not create any risk affecting the quality of the CT or the independence of the CTP that cannot be adequately prevented or mitigated. The article also includes a non-exhaustive list of examples of services that will meet the requirement.
- 5.26** The requirement to provide the CT on a standalone basis avoids a situation where those value-added services inflate the price of the core CT. Provided the required core CT has been defined with enough variety of licence types to provide a reasonable option for each consumer segment, any value-added service would face at least one core service as a significant substitute, with the core service effectively constraining the price of its value-added substitute and thereby negating the requirement for price controls on value-added services. This would allow for the CTP to innovate, while ensuring that the core aims of the CT are met.
- 5.27** Article 88 (2) of the MiFID Org Regulation envisages the possibility of a CT being required to sell specified disaggregated versions of the CT data, especially for a sub-class of bonds such as sovereign bonds. However, in the current regulatory regime these provisions are not actually applied to CTPs. There might be a market for disaggregated data, but it seems better to leave it to commercial decisions rather than rules to determine what that market is. In addition to providing the aggregated CT, a CTP or a reseller of the CT could offer disaggregated data if it chose to.
- 5.28** **Tender process.** We are of the view that the chosen bond CTP should offer a defined quality of service, be suitable to be authorised and offer value for money. However, these factors need not be assessed in a single process. For example, a pre-bidding stage could be used to ensure that the potential CTP can meet minimum service quality requirements and be suitable to be authorised. All bidders fulfilling a minimum standard across service quality elements and arrangements to meet regulatory requirements would then be allowed to progress to a bidding stage.
- 5.29** Incorporating some of the quality standards into the tender document could bring benefits. Fixing rules around quality standards implies defining those well before the start of the CTP's operations, which risks limiting the CTP's incentive for quality improvements and possible innovation by the end of the contract. By including certain quality criteria within the tender process, we can provide scope for defining these more flexibly during the contract period by benchmarking the CT's quality requirements against quality improvements made by the industry at large or standards required by users during the contracting period.

- 5.30** The bidding stage would be focused on the economic elements of the tender to maximise the effect of competition for the market. A trade association representing one group of potential users of a CT has suggested that the main economic element of bids to be a CTP should be maximum revenue that a CTP earns over the tender period. This is based on the premise that the CTP should function as a utility and therefore should be restricted in what it can extract overall from the consolidation of data. Any revenues earned over the maximum revenue threshold would then be returned to users in subsequent years through reduced prices. However, a crucial concern with this model is that it provides little incentive for the CTP to maximise uptake of the CT once the revenue limit is achieved.
- 5.31** DotEcon Ltd, who as mentioned in the introduction undertook work to assist the FCA with design of the CTP tender and economic model, recommended that price be the main economic variable upon which the tender process is conducted. This could involve either:
- requiring bidders to submit prices for a set of components specified by the FCA
 - allowing the bidders to specify their own price list
- 5.32** Allowing bidders to specify their own price list would in turn require that we have some means of converting the bids into a common, comparable metric, such as average cost per user. The former option makes bid comparison more straightforward but may stifle innovation and risks smaller firms cross-subsidising larger participants if the pricing menu is not appropriately calibrated to the size and use case of a particular entity. The opposite is true for the latter option.
- 5.33** Because of demand uncertainty, a single round of bidding on price increases the 'winner's curse' risk whereby the winning bid ends up being lower than what is required for the bidder to make a positive return on their investment.
- 5.34** **Incumbency advantage.** We have concerns that, upon expiry of the first tender contract, the incumbent CTP will have an advantage that distorts any subsequent retendering process. Once the initial CT tender period has lapsed, our objective is to ensure that there is the possibility of an alternative CTP being appointed, or of multiple CTPs being allowed to enter the market with a realistic opportunity to compete with the incumbent CTP.
- 5.35** Advantages may arise for an incumbent CTP from two main sources that could weaken the effectiveness of competition for the re-tender.
- First, the incumbent may have a cost advantage relative to alternative potential CTPs bidders from having invested in assets that have an economic life that extends beyond the end of the initial contract period. This could be beneficial for an emergence of a CT, but it would place other bidders at a cost disadvantage and potentially deter them from entering the competition.
 - Second, from the existence of switching costs that an entrant would need to incur to take over the operation of the service. Absent constraints, an incumbent CTP could invest strategically in assets and technology to raise rivals' costs, either because those assets may not be transferable, or which an entrant would be required to pay fees to the incumbent to use.

- 5.36** As set out below, we intend to take steps to ensure that an incumbent CTP has an obligation to ensure that an orderly transfer can take place, and that the technology is open-access and therefore transferable to a different operator.
- 5.37** Even taking steps to limit incumbency advantage, we are concerned that the power of an auction for the second CTP contract could be weaker than for the first, and to limit the risk that this could translate into worse outcomes for data users, we are considering what additional mechanisms could be adopted to constrain prices for the second CTP contract.
- 5.38** We must determine the appropriate length for the CTP tender contract. If the contract length is too short relative to the economic life of the assets, this could distort the incentives of bidders. To the extent that the assets have an economic life beyond the contract period, and the risk that the costs might be sunk (i.e. are costs that cannot be recovered upon termination of activities), bidders could seek to recover those costs during the initial contract period. This would lead to inefficiently high prices. If the contract period were too long, this increases the risk that prices could become misaligned with costs.
- 5.39** Given the CT will be a new service, the FCA will undertake a post-implementation review to ensure the framework is functioning as intended and in alignment with our stated measures of success. The review will be undertaken during the initial tender contract period. We will need to be able to make the changes recommended in that review and cannot do so until the first tender contract has lapsed.
- 5.40** An efficient auction-based pricing mechanism would lower prices to the costs of the second-most efficient firm, and cost advantages for the winner would translate into margin earned. If other bidders in the second tender expected the incumbent CTP to have a significant cost advantage, this might deter them from bidding during the second tender, reducing the strength of competition for the market in the second period. This reinforces the measures we need to take to ensure an orderly transfer.
- 5.41** We have considered a cost-plus, open book approach – which would provide transparency over a CTP’s costs to ensure that pricing of the CT closely aligns with those costs – to tendering. This could be used to constrain the pricing behaviour of CTPs. However, this approach raises several issues:
- this method depends on the existence of a credible alternative provider for its effectiveness, rather than being a source of buyer power in its own right
 - we need to consider whether introducing a degree of transparency over cost justifications for any price increases for the tender for the second CTP contract would reduce the risk of poor outcomes resulting from incumbency advantage from initial appointment
 - we need to consider whether a CTP consultative committee would be able to scrutinise the CTP’s operations more effectively with detailed insight into the CTP’s cost structure
- 5.42** Whether we re-tender for a single CTP upon expiry of the first tender contract or open the market to allow any participants that meet minimum service quality requirements to be a CTP, there is a need to enable other parties to provide a comparable CT and provide continuity for users.

- 5.43** Providing transparency through an open book approach to potential bidders prior to the launch of a second tender could provide alternative bidders with insight into the costs of operating a CTP, provide a focus for them to identify aspects where they could be more efficient than the incumbent, and allow for effective competition during the second tender.

Proposals

- 5.44** We propose, in MAR 9.2B.34R (3) that trading venues and APAs have to send post-trade data to a CTP. The CTP will not be required to pay for the data.
- 5.45** Our proposals do not require a bond CTP to have a **revenue sharing** model in place. We do not consider that revenue sharing would contribute to our objectives for a bond CT for the following reasons:
- A simple model of revenue sharing based on trading volumes would not reflect the current distribution of market data revenues, nor do we believe that the UK's bond market structure has data at the centre of contributors' business models. A question remains as to whether preserving the existing distribution is desirable from a competition perspective.
 - Including revenue sharing would add to the costs the CTP faces, leading to higher prices for the CTP service. This would reduce the direct benefits to users of purchasing the CTP service and would weaken the competitive constraint on existing providers that exists without revenue sharing.
 - A careful consideration of data providers' marginal sales under various forms of revenue sharing shows that, absent any obligations to feed the CTP, incentives to sell data through the CTP would not be significantly higher under revenue sharing as compared to a no-revenue sharing option.
- 5.46** We are proposing that the CTP should not be required to contribute to data providers' **cost recovery**. Equivalent recompense is not paid for connecting to an APA or an ARM or to the FCA for the purposes of sending reference data, data for transparency calculations or transaction reports. These costs are simply part of the costs of compliance with the MiFID framework. However, if a respondent disagrees with this, we are interested not only in why they disagree but in their view on how the terms of a cost recovery arrangement could be set.
- 5.47** We propose that the FCA uses its existing supervision and enforcement tools to ensure that providers feed the CTP and meet data **quality requirements**, but we would not prohibit a CTP choosing to reward providers if the quality of the data fed to the CTP is beyond our quality requirements. This would support initiatives to innovate.
- 5.48** The quality of trading data, including its error rate, degree of standardisation and transmission latency, is crucial to the CT framework achieving its stated objectives, and would encourage uptake of that data. We welcome views on whether and how a simple revenue sharing scheme to reward data quality might be designed.

- 5.49** We propose not to have a **requirement for a CTP to make its data available for free after 15 minutes**. We welcome views on how best to ensure that retail and academic users get access to data on a low cost or free basis.
- 5.50** There are different classes of customers for the CTP's services, with each having different demand characteristics, and willingness to pay. In recognition of the need for multiple **licence types** to serve various CT users, we propose that the CTP offer re-use licences which allow CT data to be used to create derived services, and licences for direct use without such a right. This allows for the pricing constraints to be set considering demand characteristics and allows for a more efficient pricing structure for the CTP to recover its costs.
- 5.51** In the auction design, it would be possible to create a tariff basket that contains many different licence types for direct usage to cater for organisations of different sizes, for example, per user, per location, per enterprise, together with a variety of quantity discounts. To achieve pricing certainty and to have an appropriate price constraint on the successful bidder, our proposal is for this price constraint to be based on the maximum 'per-user' price for direct usage licences, with the successful CTP being allowed to implement quantity discounting to drive take-up.
- 5.52** We are proposing, in MAR 9.2B.37R (Per-user fees for the CTP for bonds) to retain an obligation (based on that currently in Article 87(1) of the MiFID Org Regulation) for a CTP to charge on a **per-user basis**. We are not proposing to retain the existing derogation from per-user pricing (currently in Article 87(2) of the MiFID Org Regulation).
- 5.53** Running a single-round bidding process where bids are assessed against a range of criteria (including price or revenue) may not maximise the potential benefits of having competition for the market in terms of achieving outcomes that would be seen when there is healthy competition in the market.
- 5.54** Requiring bidders to specify the **maximum revenue** they will earn rather than the maximum price pushes the CTP towards a utility-based business model, thereby limiting the range of potential bidders and reducing the incentive for the chosen CTP to maximise access to the CT.
- 5.55** We do not propose that rules will provide a complete specification of the auction design to be employed. The bidding process will therefore be refined between publication of this CP and our final policy statement.
- 5.56** We are proposing that potential CTPs bid for provision of the CT based on the weighted average of the prices of various licence types. Given common uncertainties between potential CTPs about demand for the CT, there appears to be a strong case for an open auction process. This would allow pooling of information regarding common uncertainties, leading to more efficient outcomes and greater competition.
- 5.57** A weighted average price cap approach seeks to balance the need for the cap, C, to incorporate different licence types, while constraining the relative prices of the different licence types. If demand is not equally distributed between different types of licence, then use of an arithmetic weighting to calculate the cap would provide the incentive and ability for the CTP to adjust relative prices so that demand for one or other of the licence

types is unduly constrained. The weighting factor, w , seeks to reflect relative demand for products to prevent this.

5.58 We could impose a price control on the CTP could as follows:

- **Bidders would set a maximum price per user (" p_N ") for no-reuse licences.** Bidders would be allowed to apply discounts to the maximum price, for example to create quantity discounts through some tiered structure of different numbers of licensed seats.
- Bidders would set a price " **p_R** " on a licence allowing data re-use within derived services.
- We would set a **relative weight w for the re-use licence** to reflect anticipated relative volumes of the two broad licence types.
- Optionally, we would limit the ratio $\frac{p_R}{p_N}$ to a **maximum value M** , set in advance as a prudential measure (and announced to potential CTPs).
- Potential CTPs bid a **price cap C** , with the lowest price cap winning the exclusive concession.
- The winning bidder has its price cap C applied as a pricing constraint that:

$$wp_R + p_N \leq C$$

together with the following prudential constraint, if used:

$$\frac{p_R}{p_N} \leq M.$$

Within these limits, the CTP can choose its own pricing structure.

5.59 We propose two alternative **auction formats**, both based on successive descending bids on price. In either scenario, bidders would be informed about the number of bids submitted and average cost per user (lowest weighted average price) represented by those bids:

- **Clock auction.** In a clock auction, a price is announced to the bidders and they are invited to accept this as a price cap. If two or more accept, a lower price is announced, and bidders are asked again. The process continues until a single bidder remains, and their bid sets the price cap on the CT. Exit bids can be used to manage the possibility of multiple bidders dropping out simultaneously – these are last and final offers made by a bidder before dropping out, made at a price chosen by the bidder between the current price and the last round price.
- **Anglo-Dutch Hybrid auction.** In an Anglo-Dutch Hybrid auction, proceedings are like a clock auction, except that bidding rounds stop when there are two bidders remaining. The auction then proceeds to a sealed bid, where the two remaining bidders make best and final offers, and the lowest offer is selected. The winning bid determines the CTP's price cap. This approach has the benefit of bolstering competition where bidders are highly asymmetric, with one party strongly advantaged in the procurement by virtue of its existing assets or operations.

- 5.60** For either of the proposed auction types, we would set a reserve price no higher than a choke price at which users' demand would reduce to zero. The reserve price would also be no lower than the expected cost of setting up the CTP, which is expected to be lower than the choke price.
- 5.61** Both a descending clock auction with exit bids and an Anglo-Dutch hybrid auction could be readily implemented as online processes. Given the simplicity of bidding, two to four rounds of bidding could be run each day, with prices decreasing by 10% between rounds, for example. Exit bids alleviate the need to use small price increments between rounds. We expect that bidders should have considered their bidding strategy well in advance of the auction taking place. We would therefore expect that such an auction could be completed within a week for the bidding stage, though additional time beforehand would of course be required to check that bidders met the criteria to be allowed to proceed to the bidding stage.
- 5.62** A simple price cap model appeals because:
- it only requires a single parameter to be bid in an auction to allocate the CTP concession
 - whilst bidders need to form volume expectations to determine how fixed costs can be recovered through unit prices, potential CTPs would be better placed than the FCA to form these expectations (which the FCA would need to do in any two-part bid scheme)
 - the price cap model provides strong incentives to grow the user base
- 5.63** We propose to consult with industry on what period of concession would allow the CTP to recover its costs, relative to the risk that prices are more likely to become misaligned with costs over a longer period. We also need to ensure that the FCA is able to effect changes to the framework having regard to the post-implementation review, which cannot occur until the end of the first tender contract. In discussions with industry, our working assumption has been that a tender contract period of 5 years would appropriately balance the factors described above.
- 5.64** We propose, in MAR 9.2B.38R (Unbundling and disaggregating market data for the CTP for bonds), an obligation (based on that currently in Article 88 of the MiFID Org Regulation) for a CTP to make the CT available without it being **bundled** with other services but to delete the obligation (in the same article of the delegated regulation) relating to the **disaggregation of data**.
- 5.65** On **additional services**, we are proposing to delete the non-exhaustive list of additional services currently included in article 13 of MIFID RTS 13 in transferring the provisions of that article to MAR 9.2B.14R (other services provided by CTPs). We are also proposing to add to the existing requirement that the provision of additional services should not create any risk affecting the quality of the CT or the independence of the CTP that cannot be adequately prevented or mitigated. The additional requirement we are proposing to add, in MAR 9.2B.14R, is that the provision of additional services should not give the CTP an unfair advantage relative to other persons seeking to provide the same services.

5.66 We propose the following mitigants to reduce **incumbency advantage**:

- Imposing a general obligation in MAR 9.2A.8R on the CTP to allow an orderly transfer to another CTP (including relationships and knowledge relating to aggregation and cleaning of data), thereby reducing switching costs that would otherwise impede or distort competition. This could be overseen by a CT consultative committee, or by appointment of a Monitoring Trustee under s. 166 FSMA to oversee any potential future transfer, and to report to us on whether there are additional operational components that are necessary for the operation of a CTP that would require transfer arrangements to be put in place.
- Ensuring that the CTP uses open data standards relating to the receipt of data, in MAR 9.2B.34R (4), and the provision of the service to the end user, in MAR 9.2B.35 (3).

5.67 We propose, in MAR 9.2B.R40(3), that the CTP **consultative committee**, which is discussed in more detail in the next chapter, be provided with information on the CTP's costs. The committee would be able to offer more effective oversight and challenge with appropriate insight into the CTP's operating costs. We also propose, in MAR 9.2A.7R, that the incumbent CTP provide transparency on its operating costs to potential bidders for a second tender.

5.68 While an open-book approach to the CTP's costs may go some way to limiting incumbency advantage, we are less persuaded that we should seek to use an open book approach to determine what we consider to be allowable price increases. If this mechanism were to be introduced, this would raise significant challenge in determining the appropriateness of the costs incurred and the expected future costs and could create undue uncertainty for users of the CT service. A more efficient approach would be to allow price increases in line with an external and objective general measure of inflation.

5.69 With respect to incumbency cost advantage in a second tender period, we do not currently believe that the scale of the investment required to operate the bond CT is prohibitive. We welcome feedback on what factors stakeholders should consider that might provide the incumbent CTP with an advantage.

5.70 Should alternative bidders fail to come forward during a second tender (in the expectation that the experience of operating a CTP for the initial period provides the incumbent with an unbeatable advantage), we would be unable to use an auction to provide competition for the market. Should this situation arise, we could move to an open market scenario, and take steps to enable competition in the market, or at least enable there to be some constraint on the CTP by selecting more than one CTP through the tender process. To make this constraint a greater restriction, we could use inflation-adjusted prices and terms from the first tender period as a cap on prices to be charged by any CTP in the second period. This could include an exceptional allowance should the CTP provide evidence that there has been operating cost inflation that exceeded inflation and/or it was unable to operate at reasonable profitability within those terms.

5.71 The Competition Act 1998 (CA98). Firms should consider their obligations under the CA98 when contemplating consortium/joint venture bidding for provision of the CT. Additionally, firms may wish to consider risks around anti-competitive information exchange and, for joint ventures, the mergers regime under the Enterprise Act when contemplating consortium or joint venture bidding.

5.72 When tendering for the bond CTP, we propose to seek assurances from bidders that, where operating outside of any consortia, their bids have been made independently, are genuine, are based on their own data and have not involved communication with other bidders. We may also seek assurances from any consortia members that any information exchanged between members is only that which is strictly necessary for making the bid for the CT and is limited in scope. Finally, we will seek to identify specific staff to be involved in any consortium discussions and may request that these staff operate under confidentiality agreements.

Q12: Do you agree that trading venues and APAs should be required to provide data to a CTP without charge?

Q13: 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?

Q14: 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?

Q15: 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?

Q16: 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?

Q17: 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?

- Q18:** 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?
- Q19:** 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?
- Q20:** 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?
- Q21:** 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?
- Q22:** 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?

Chapter 6

Rules framework

Overview of existing requirements

6.1 The current framework of rules and guidance for CTPs are spread between the DRSRs, MIFID RTS 13, MIFID ITS 3, UK MiFIR, the MiFID Org Regulation and Market Conduct (MAR) 9 in the FCA Handbook. Many of the provisions in the existing regulatory framework are important building blocks for a regime for a CT for bonds. As indicated in the table below, they are therefore included in the draft rules in this CP. However, there are some areas where we think that new obligations need to be added and existing obligations amended or deleted, and details of these are set out in the subsequent parts of this chapter.

Source	Reference	MAR 9
DRSRs	Regulation 13 (requirements for the management body of a data reporting service provider)	9.2B.1
	Regulation 15 (Conditions for a CTP)	9.2B.2/13/30/33/34
	Regulation 44 (Record keeping)	9.2B.7
	Regulation 45 (Reporting of infringements)	9.2B.8
MiFID ITS 3	Article 1 (Designation of a contact point)	Deleted
	Article 2 (Provision of information and notification to the competent authority)	9.2.1
	Article 3 (Receipt of application)	Deleted
	Article 4 (Requests for additional information)	Deleted
	Article 5 (Notification of changes to membership of the management body)	9.3.2
	Article 6 (Communication of the decision to grant or refuse the authorisation)	Deleted

Source	Reference	MAR 9
MiFID RTS 13	Article 1 (Information to the competent authority)	9.2.1/9.3.1
	Article 2 (Information on the organisation)	9.2.1/9.2A.3
	Article 3 (Corporate governance)	9.2.1/9.2A.4
	Article 4 (Information on members of the management body)	9.2.1
	Article 5 (Conflicts of interest)	9.2B.2
	Article 6 (Organisational requirements regarding outsourcing)	9.2B.3
	Article 7 (Business continuity and back-up facilities)	9.2B.4
	Article 8 (Testing and capacity)	9.2B.5
	Article 9 (Security)	9.2B.6
	Article 10 (Management of incomplete or potentially erroneous information by APAs and CTPs)	9.2B.31
	Article 13 (Other services provided by CTPs)	9.2B.14
	Article 14 (Machine readability)	9.2B.35
	Article 15 (Scope of the CT for shares, depositary receipts, ETFs, certificates and other similar financial instruments)	Deleted pending work on an equities CP
	Article 15a (Scope of the CT for bonds, structured finance products, emission allowances and derivatives)	9.2B.34 provides for the scope of a bonds CTP
	Article 17 (Publication of original reports in shares, depositary receipts, ETFs, certificates and other similar financial instruments)	9.2B.34(7)
Article 19 (Non-discrimination)	9.2B.30/36	
Article 20 (Details to be published by the CTP)	9.2B.34(2)	
MiFID Org Regulation	Article 84 (Obligation to provide data on a reasonable commercial basis)	This provision will no longer apply to CTPs
	Article 85 (Provision of market data on the basis of cost)	This provision will no longer apply to CTPs
	Article 86 (Obligation to provide market data on a non-discriminatory basis)	9.2B.36
	Article 87 (Per-user fees)	9.2B.37
	Article 88 (Unbundling and disaggregating market data)	9.2B.38 (provisions on disaggregation deleted)
	Article 89 (Transparency obligation)	9.2B.39 (modified)
MAR 9	MAR 9.1 (Application, introduction, approach and structure)	Retained and updated
	MAR 9.2 (Authorisation and verification)	Retained and updated
	MAR 9.3 (Notification and information)	Retained and updated
	MAR 9.4 (Supervisory regime)	Retained
	MAR 9.5 (Frequently Asked Questions)	Retained

Organisational and prudential requirements

Introduction

- 6.2** The organisational requirements applying to CTPs (provisions in articles 5 to 10 of MIFID RTS 13 and regulations 14, 44 and 45 in the DRSRs) have similarities with those that apply to market operators through the Recognition Requirements Regulations (RRRs) and MiFID RTS 7, and investment firms through requirements in the Senior Management Arrangements, Systems and Controls (SYSC) sourcebook and the MiFID Org Regulation. However, there are differences and in certain important areas questions as to whether they are sufficient to deal with the situation where there is a single CTP.
- 6.3** The existing regime for CTPs does not include any prudential requirements, except indirectly for certain types of firms who can act as a CTP. Recognised Investment Exchanges (RIEs) and investment firms can operate as a CTP and they are subject to prudential requirements.

Analysis

- 6.4** Having a single CTP provider per asset class heightens the importance that the CTP functions in a way that is resilient. Operational disruption to the provision of the CT could affect market integrity or cause harm to consumers and other market participants in the financial system.
- 6.5** Articles 6 to 9 of MIFID RTS 13 deal with different aspects of resiliency in a similar way to the provisions in paragraph 3 of the schedule to the RRRs and MiFID RTS 7 (which also applies to investment firms operating trading venues) do for RIEs. The common platform requirements in SYSC 4 to 10 together with requirements in Chapter II of the MiFID Org Regulation and MiFID RTS 6 do the same for investment firms. To reflect the significant importance that UK regulatory authorities attach to operational resilience in our supervision of firms and regulation of Financial Market Infrastructure (FMI), we added through Policy Statement 21/3 additional operational resilience requirements which sit in SYSC 15A in our Handbook.
- 6.6** The provisions in SYSC 15A were intended to increase operational resilience across financial services by improving firms and FMIs' ability to prevent, adapt, respond to, recover, and learn from operational disruptions. The provisions require firms to:
- identify important business services
 - set a maximum tolerable level ('impact tolerance') of disruption
 - map resources used in the provision of important business services
 - develop scenario testing, undertake testing, and undertake lessons learned exercises
 - keep an up-to-date record of compliance with operational reliance requirements
 - ensure the management body reviews and approves the record of compliance
 - develop internal and external communication strategies to help minimise harm from operational disruption

- 6.7** The SYSC 15A rules have deliberately been framed in a way that enables them to be applied proportionately across a wide range of different businesses. Therefore, the rules in SYSC 15A are sufficiently flexible that there is no obvious reason why they cannot be applied in a proportionate manner to a CTP. We think this would help enhance confidence in the operation of the CTP.
- 6.8** Potential CTPs are likely to rely on third parties to a greater or lesser extent to enable them to provide the CT. It is important therefore for the resiliency of the CT that outsourcing requirements are effective. There are aspects of the outsourcing rules for investment firms that are not reflected in the outsourcing provisions for CTPs in article 6 of MIFID RTS 13. These include:
- requiring a written agreement (article 31(3) of the MiFID Org Regulation)
 - clarifying that the DRSP should always be able to stop using an outsourcer (or have the outsourcer end its provision of services) without an effect on business continuity (article 31(2)(g) and (l))
 - putting in place arrangements for the regulator to approach the outsourcer for information (article 31(2)(i))
- 6.9** A written agreement is the foundation of the relationship between a firm and an outsourced service provider. It clarifies the responsibilities of the parties and provides the framework for ensuring that the services are provided in an appropriate manner and that concerns of either party can be resolved by reference to what is set out in the agreement. This is important to ensuring that the arrangements the CTP has in place are appropriate to enable it to provide the service for which it is authorised.
- 6.10** The use of outsourcing provides a potential source of risk in respect of business continuity if either the firm or the provider wants to end the relationship. It is important therefore that a CTP plans for such circumstances and that the ending of the relationship at the initiative of either party does not lead to disruption in the provision of the CT. A CTP must be able to either transfer to another provider or perform in-house the services which an outsourcer is providing.
- 6.11** A CTP will remain responsible for the activities carried out by the outsourced service provider. It must be able to provide details to us about the activities that the outsourced service provider is conducting for the CTP. However, to ensure that we can adequately supervise the CTP and its compliance with its obligations in respect of outsourcing, there might be circumstances in which it would be useful for us to have direct access to the outsourced service provider and information that it holds.
- 6.12** The current conflicts provisions for CTPs are contained in regulation 15(10) and (11) of the DRSRs and article 5 of MIFID RTS 13. The former deal with having arrangements to prevent conflicts of interest and the specific instance of where an RIE or APA is also a CTP, whilst the latter is a general set of requirements for DRSPs.
- 6.13** The conflicts that the provision in regulation 15(11) of the DRSRs is seeking to deal with could also arise where a CTP is operated by an investment firm, a market data vendor or is part of a group that contains an RIE, APA, investment firm or market data vendor.

- 6.14** There are aspects of the conflicts rules for investment firms that are not reflected in those for CTPs. These include:
- the need to take account of the activities of the group when assessing conflicts (article 34 (1) second paragraph, MiFID Org Regulation)
 - the need for a regular review and passing of information to senior management on conflicts (article 34 (5) and article 35 second paragraph, MiFID Org Regulation)
- 6.15** The conflicts regime should work as effectively as possible for all types of potential CTPs. The need to take account of potential interests of the group that are known to the entity that is a CTP is one way of reinforcing the independence of the CTP.
- 6.16** In regulation 13(1)(c)(i) of the DRSRs the management body of a CTP is responsible for defining and overseeing the segregation of duties and the prevention of conflicts of interest. For this to work effectively it needs to receive adequate reports on conflicts and for conflicts arrangements to be regularly reviewed.
- 6.17** Linked to the conflicts provisions, article 13 of MIFID RTS 13 provides a non-exhaustive list of services other than the provision of a CT that may be provided by a CTP. This is followed by a catch-all provision that says a CTP can provide services other than those listed if they do not affect the quality of the CT or the independence of the CTP. The non-exhaustive list does not add to the substantive requirement in respect of additional services.
- 6.18** The obligations in regulations 13 (Management body requirements), 44 (Record keeping) and 45 (Reporting of infringements) of the current DRSRs and articles 5 to 9 (Conflicts of interest, Outsourcing, Business continuity and back-up facilities, Testing and capacity, Security) of MIFID RTS 13 remain relevant as organisational requirements for CTPs.
- 6.19** The Investment Firm Prudential Review (IFPR) implemented a set of rules that focused on the potential harms to consumers and the wider market from financial failure. As noted above, it is important that the CTP is resilient to avoid harm to the operation of bond markets and users of bond markets including intermediaries and investors. As well as protecting against operational risks, we do not want a bond CTP to fail in a disorderly manner.
- 6.20** Guidance in MAR 9.2.5BG explains that a DRSP that wishes to cancel its authorisation must provide a wind down plan. However, in the MiFID regime for DRSPs, including CTPs, there is no prudential requirement that would help to avoid a disorderly failure. Within the existing regime the only protection that is offered is that some of the entities who might seek to become a CTP, RIEs or investment firms, are themselves subject to prudential requirements. However, a firm that is not otherwise subject to financial services regulation can also become a CTP.
- 6.21** We recognise that in setting prudential requirements there is a potential trade-off between mitigating the risk of disorderly failure and incentivising entry to the market. It is important to the CTP model we have chosen for there to be competition to enter the market.
- 6.22** Looking at other market infrastructure providers who do not take on market risk – including RIEs, investment firms when operating Multilateral Trading Facilities (MTFs),

credit rating agencies (CRAs) and benchmark administrators – there are a variety of prudential regimes. The following regimes apply:

- RIEs are subject to a high-level requirement to have adequate financial resources. Guidance on the provision says that an RIE will normally be regarded as meeting the financial resources requirement if it holds net eligible resources and net capital that are not less than the amounts calculated using a standard and a risk-based approach. The standard approach involves holding resources equal to six months of operating costs. The risk-based approach involves adding together the amount needed by the RIE to absorb losses in stressed but plausible market conditions and the resources needed for an orderly wind down.
- CRAs are not subject to prudential requirements.
- Administrators of critical benchmarks must be able to meet their liabilities as they fall due and have sufficient resources to cover six months operating costs.
- Investment firms operating MTFs are subject to the MiFIDPRU requirements where capital requirements can be based on the higher of a permanent minimum initial capital requirement of £150,000, a fixed overheads requirement (one quarter of relevant expenditure in the previous year), and an activity-based capital requirement.

Proposals

- 6.23** On resiliency, we are proposing that a CTP should comply with the requirements in SYSC 15A on operational resilience through an amendment of the application provision in SYSC 15A.
- 6.24** On outsourcing, we are proposing that the requirements for CTPs are added to by the inclusion of provisions regarding a written agreement, the ability of the CTP to end its relationship with an outsourcer or have it ended without disruption to its business and to require that the CTP establishes arrangements to enable the FCA to speak directly to firms to whom the CTP outsources. The proposed requirements, in MAR 9.2B.29R (Outsourcing obligations for CTPs), are based on provisions in the MiFID Org Regulation applying to investment firms dealing with these issues and are included.
- 6.25** On conflicts of interest, we are proposing, in MAR 9.2B.27R (Conflicts of Interest Obligations for CTPs), that there are requirements requiring a CTP to take account of the activities of its group of which it is aware in its conflicts of interest arrangements, that the arrangements are subject to regular review and information is provided to a CTP's management body on conflicts. We are also proposing, in MAR 9.2B.30 (Non-discrimination obligations for a CTP) that the existing requirements to separate business functions where a CTP is operated by an RIE or APA also apply where a CTP is operated by an investment firm or market data vendor, or is part of a group that includes an RIE, APA, investment firm or market data vendor.

- 6.26** On additional services, we are proposing to delete the non-exhaustive list of additional services currently included in article 13 of MIFID RTS 13 in transferring the provisions of that article to MAR 9.2B.14R (other services provided by CTPs). We are also proposing to add to the existing requirement that the provision of additional services should not create any risk affecting the quality of the CT or the independence of the CTP that cannot be adequately prevented or mitigated. The additional requirement we are proposing to add, in MAR 9.2B.14R, is that the provision of additional services should not give the CTP an unfair advantage relative to other persons seeking to provide the same services.
- 6.27** On other organisational requirements, we are proposing to retain unchanged the effect of existing requirements in regulations 13, 44 and 45 of the DRSRs in MAR 9.2B.1R (Requirements for the management body of a data reporting service provider), 9.2B.7R (Record keeping) and R.2B.8R (Reporting of infringements) and Articles 5 to 9 of MIFID RTS 13 (in MAR 9.2B.2R (Conflicts of interest), MAR 9.2B.3 (Organisational requirements regarding outsourcing), MAR 9.2B.4 (Business continuity and back-up facilities), 9.2B.5 (Testing and capacity) and 9.2B.6R (Security)).
- 6.28** On prudential requirements, we are proposing that a CTP should be required, in MAR 9.2C.1R, to have sufficient financial resources for the proper performance of its duties as a CTP. MAR 9.2C.2G and 9.2C.3G then provide some guidance on the sorts of factors that we would expect a CTP to have regard to in considering whether it has sufficient financial resources, including its ability to carry out its operations and, if necessary, to provide for orderly wind down or transfer of its operations.

Q23: Do you agree with our proposed extension of the operational resilience requirements in SYSC 15A to a CTP?

Q24: Do you agree with our proposed additional outsourcing and conflicts requirements applying to a CTP?

Q25: 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?

Q26: Do you agree with our proposed prudential regime for CTPs?

Data pricing

Introduction

6.29 In Chapter 5 we discussed elements of the current pricing regime for the CTP, the requirement to make data available for free after 15 minutes, per-user pricing and the unbundling of the CT feed and the ability of the CTP to provide other services. However, there are other requirements relating to pricing in the current regime including:

- selling data (on a reasonable commercial basis (regulation 15 (5) of the current DRSRs for bond and derivatives data and articles 84 and 85 of the MiFID Org Regulation)
- providing the data on a non-discriminatory basis (article 86 of the MiFID Org Regulation)
- making public information about its prices, costs and revenues (articles 89 of the MiFID Org Regulation)

Analysis

6.30 The current legislative provisions on reasonable commercial basis provide no guidance on what amounts to 'a reasonable margin' or 'an appropriate share of joint costs', two of the main elements in determining whether the high-level requirement has been met. It is not clear therefore that these provisions provide a sound basis for a CT established with the goal of broadening access to market data.

6.31 As set out in the previous chapter, it is our intention that the real-time price of the data is set through a bidding process linked to the tender process to appoint a CTP.

6.32 The obligation to provide data on a non-discriminatory basis applies also to trading venues and APAs. It is intended to maintain the neutrality of such market infrastructure providers. Setting prices through the tender process is not compatible with allowing negotiation between the CTP and individual buyers of market data. It makes sense therefore that bidders are subject to a requirement to bid based on their prices being non-discriminatory.

6.33 The existing transparency requirements related to pricing in article 89 of the MiFID Org Regulation cover a range of items:

- disclosing in an easily accessible manner details of price and other terms and other conditions
- a non-exhaustive list of information to be included in a price list
- a requirement to give 90 days' notice of future price changes
- a list of information on the content of market data
- certain details of revenue obtained from selling the CT
- information on how the price is set

- 6.34** Transparency on pricing is a standard requirement in MiFID and given a CTP will be an important market infrastructure provider it seems appropriate that it should provide information about its prices and terms and conditions publicly. Given the clarity of the general requirement on prices and terms and conditions, a non-exhaustive list of what might be included in prices and terms and conditions does not add anything material to that obligation.
- 6.35** As explained in the previous chapter the ability of a CTP to increase prices will be constrained by the tender process. The potential for price increases will therefore be known at the point the CTP starts to provide services. However, it seems appropriate that any price changes are brought specifically to the attention of users in good time before they take effect.
- 6.36** The existing disclosures on market data cover both APAs and CTPs. There is more uncertainty about the data that is produced by any given APA than there will be about the data to be produced by the CTP. The scope of the data produced by an APA depends on who its clients are whilst the scope of the data produced by a CTP is set in rules.
- 6.37** The obligations about revenue made from selling market data and information on how the price is set are both related to the requirement for prices to be set on a reasonable commercial basis. Given that obligation is to be removed and the price for the CT will be set by the tender process the transparency obligations on revenues and price setting will no longer serve their original intention.

Proposals

- 6.38** In respect of the existing provisions on pricing for a CTP we propose to:
- not have an obligation for a CTP to price on a reasonable commercial basis (our rules do not therefore propose an obligation on pricing on a reasonable commercial basis of the sort currently contained in regulation 15 of the DRSRs and articles 84 and 85 of the MiFID Org Regulation)
 - have, in MAR 9.2B.36R (Obligation for the CTP for bonds to provide market data on a non-discriminatory basis), an obligation (based on that currently contained in article 86 of the MiFID Org Regulation) for a CTP to provide market data on a non-discriminatory basis
 - have, in MAR 9.2.39R (Transparency obligations for the CTP for bonds), an obligation (based on that currently in article 89 of the MiFID Org Regulation) to provide transparency on prices, price changes, the content of market data, revenues and price setting only the obligations in respect of prices and price changes

Q27: Do you agree with our proposed deletion of the requirement for a CTP to price on a reasonable commercial basis?

Q28: Do you agree with the retention of the requirement for a CTP to provide market data on a non-discriminatory basis?

Q29: Do you agree with our proposed changes to the transparency obligations in respect of pricing?

Governance

Introduction

- 6.39** The existing governance requirements for a CTP focus on the operation of its management body and the qualities of the members of that body. These provisions do not address the ability of data providers and data users to contribute to the operation of the CTP.

Analysis

- 6.40** Under the model of a single provider chosen by tender, the CTP for bonds will not be subject to competition in the market to help ensure that it is responsive to the market. The tender process itself, the rules concerning its operation, and the supervision of the CTP by us will help to ensure that the CTP operates in a way that takes account of the interests of data providers and users. However, these are indirect ways of taking account of the interests of data providers and users.
- 6.41** In the debate on a CT the utility nature of the services that a CTP would be expected to provide have led to suggestions that there should be a separation between the governance structure for the CTP and the provider of the technology for collecting, consolidating, and distributing the data. The governance structure could then be constituted to reflect a reasonable representation of data providers and users. The report to the European Commission by Market Structure Partners (MSP) proposed a model of this type.
- 6.42** A model that separates out governance and service operation could allow for direct involvement of data producers and users in the operation of a CT and help address concerns about the commercial incentives of the CTP and their potential conflicts of interest. However, there would be complexities in the establishment of such a model, including around whether participation in governance for users and data contributors also would involve them in funding the establishment of the CTP. In our view the complexities of establishing such a model would make the regulatory framework for a CT difficult to put in place.
- 6.43** However, we believe that there is scope for additional requirements to be placed on a CTP in respect of gathering input from data producers and users and considering it in their decision making. Such arrangements need to strike a balance between offering a meaningful chance for input and not creating an undue cost that discourages firms from submitting a bid.

Proposals

- 6.44** We are proposing, in MAR 9.2B.40R (Governance obligations for the CTP for bonds), that a CTP be required to establish a consultative committee that is composed of data providers and users. The committee would be required to meet at least twice a year and copies of the agenda, minutes and how recommendations of the committee had been taken forward would need to be made public. We would expect the bidders in a tender exercise to spell out their exact plans for consultation in their bid.
- 6.45** We would not expect to have a role in the consultative committee. To do so would be to risk causing confusion in respect of our role as supervisor of the CTP. It will be our responsibility to ensure that the CTP has set up effective mechanisms for consultation. We can do that by reviewing the minutes of the discussions and seeing how the CTP has taken account of them and, as necessary, speaking to members of the consultative committee.
- 6.46** There will also be wider opportunities for us to discuss the CT and data issues with industry. We would expect that they would form part of the discussions that we have with our Secondary Markets Advisory Committee (S-MAC). Additionally, we would also expect to have discussions about data issues with the CTP, data producers and data users collectively and individually.
- 6.47** We are also proposing, in MAR 9.2B.28R (Apportionment of responsibilities obligations for CTPs), that a CTP must maintain a clear apportionment of significant responsibilities among its senior management. This is to seek ensure that there is accountability within the senior management for decisions taken in relation to the CTP's operation.

Q30: Do you agree with our proposed governance requirements for the bond CTP?

Other requirements

Introduction

- 6.48** The framework of rules for a CTP deals with several other issues in addition to those above including:
- contribution of data
 - management of incomplete or potentially erroneous information
 - data quality
 - provision of data to the FCA
 - tender process

Analysis and proposals

- 6.49** The existing regime for a CT requires the CTP to consolidate data but does not have an explicit obligation on trading venues and APAs to provide data to a CTP. A CT can only be successful if it receives the data it is to consolidate in a timely fashion. Creating an obligation for trading venues and APAs to send data to the CTP will enable us to supervise the provision of the data. We are therefore proposing, in MAR 9.2B.34R(3), a requirement that trading venues and APAs send trade reports for bonds to the CTP in as close to real time as is technically possible.
- 6.50** There is in the existing regime for CTPs, in article 10 of MIFID RTS 13, a set of requirements governing the management of incomplete or potentially erroneous information by CTPs (they also apply to APAs). For a CTP it requires them to have various arrangements to make sure they are publishing the information provided by trading venues and APAs correctly. We intend to retain these provisions in MAR 9.2B.31R and 9.2B.32R.
- 6.51** In addition to the existing requirements, we are proposing to add two new ones. First, adapting, in MAR 9.2B.32R(2), a provision that applies to APAs, to require a CTP to seek to identify any trade reports that it receives that are incomplete or contain information that is likely to be erroneous and to inform the relevant data contributors. Second, in MAR 9.2B.32R(4), to report to us every six months with observations about data quality. These provisions are designed to assist us in seeking to drive up data quality.
- 6.52** As noted in Chapter 2 we are not proposing changes to the requirements in MiFID RTS 3 relating to requirements for a CTP to provide data to the FCA for the purposes of transparency calculations. However, we think it would assist us with market surveillance to have access to the CT in real time. This would enable us to have a comprehensive view of market developments as they occur that is likely to be of use to us at times of market stress. Therefore, in MAR 9.2B.33(2)R we are proposing that a CTP should provide us with a CT feed without charge.
- 6.53** As set out in Chapter 3, it is our intention that there should be a single CTP for bonds. We expect that the draft regulations repealing and replacing the DRSRs will provide us with a power to direct that there is a tender process. In MAR 9.2A we set out some guidance on the tender process and its relation to authorisation.
- 6.54** MAR 9.2A.2G sets out that we will publish an invitation to tender on our website and in MAR 9.2A.5G indicate that the winning bidder will be selected on the basis of the criteria in the invitation to tender. MAR 9.2A.3G and 9.2A.4G then provide high-level details of the information that the invitation to tender will require from bidders. This is focused on a programme of operations and information about senior management and the management body.
- 6.55** As well as the tender process a CTP will require to be authorised. MAR 9.2A.6G sets out some information relating to the tender and retender process. It explains that the tender period will start on a date to be determined by us and that we will organise a retender before the end of the term of the tender period.

- Q31:** Do you agree with our 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?
- Q32:** Do you agree with our proposals on data quality?
- Q33:** Do you agree with our 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?

Chapter 7

APAs and ARMs

Introduction

- 7.1** As well as publishing a set of rules for CTPs, we are also consolidating the provisions relating to the operation of APAs and ARMs in the Handbook. The existing provisions spread across the DRSRs, the MiFID Org Regulation, MiFID RTS 13 and MiFID ITS 3 will be consolidated in MAR 9 alongside the revised provisions for CTPs.

Analysis and proposals

- 7.2** We are not proposing to make any substantive changes to the provisions that apply to ARMs and APAs. Given the need to meet the timetable set out in the Edinburgh Reforms, we decided to concentrate on revising the regime for CTPs. Therefore, and given the existing regime for APAs and ARMs seems to be functioning well, we are proposing draft rules that simply consolidate the existing requirements for APAs and ARMs. We acknowledge, however, that some of the provisions relating to the organisational requirements for CTPs that we are proposing might also be of relevance to APAs and ARMs.
- 7.3** In PS 23/4 Improving Equity Secondary Markets we made a change to MiFID RTS 1 removing the DUPL flag from the list of flags that can be used in trade reports of transactions in shares, depositary receipts, ETFs certificates and other similar instruments. Article 16 of MiFID RTS 13 contains provisions relating to APA's use of the DUPL flag for those instruments. We are proposing, in MAR 9.2B.18R, that the only requirement retained from Article 16 of MiFID RTS 13 is that each investment firm certify to an APA that it only reports transactions in a particular financial instrument through that APA.
- 7.4** We are not intending to incorporate any of the material from the recitals in MiFID, the MiFID Org Regulation or MiFID RTS13 into MAR 9. In our view they do not add enough to the understanding of the relevant obligations to justify inclusion.
- 7.5** We are proposing to delete MAR 9.1.2G, 9.1.3G and 9.1.3A. These provisions set out the context for the MiFID provisions relating to DRSPs and the onshoring of the provisions. Given the passage of time since the UK's exit from the EU and Implementation Period Completion Day, we think that this material is no longer useful. Likewise, we are proposing to delete the chapter in the MiFID Onshoring Guide, M2G 1 that relates to onshoring for trading venues and DRSPs. We are including a new provision, MAR 9.1.3B, that provides a general explanation of the purpose of the regulatory framework in this Chapter.

7.6 There are references to the DRSRs in our Handbook outside of MAR 9. These occur in 2.16B of the Recognised Investment Exchanges Sourcebook (REC); in Annex 1 to Chapter 2 of the Decision Procedures and Penalties (DEPP) manual; and in 19.35 of the Enforcement Guide (EG). Given the Treasury’s intention to repeal and replace the DRSRs we are proposing to update these references.

7.7 The table below sets out the existing requirements applying to ARMs and APAs and where they have been consolidated in MAR 9.

Source	Reference	MAR 9
DRSRs	Regulation 13 (requirements for the management body of a data reporting service provider)	9.2B.1
	Regulation 14 (Conditions for an APA)	9.2B.16
	Regulation (Conditions for an ARM)	9.2B.9
	Regulation 44 (Record keeping)	9.2B.7
	Regulation 45 (Reporting of infringements)	9.2B.8
MIFID ITS 3	Article 1 (Designation of a contact point)	Deleted
	Article 2 (Provision of information and notification to the competent authority)	9.2.1
	Article 3 (Receipt of application)	Deleted
	Article 4 (Requests for additional information)	Deleted
	Article 5 (Notification of changes to membership of the management body)	9.3.2
	Article 6 (Communication of the decision to grant or refuse the authorisation)	Deleted

Source	Reference	MAR 9
MIFID RTS 13	Article 1 (Information to the competent authority)	9.2.1/9.3.1
	Article 2 (Information on the organisation)	9.2.1/9.2A.3
	Article 3 (Corporate governance)	9.2.1/9.2A.4
	Article 4 (Information on members of the management body)	9.2.1
	Article 5 (Conflicts of interest)	9.2B.2
	Article 6 (Organisational requirements regarding outsourcing)	9.2B.3
	Article 7 (Business continuity and back-up facilities)	9.2B.4
	Article 8 (Testing and capacity)	9.2B.5
	Article 9 (Security)	9.2B.6
	Article 10 (Management of incomplete or potentially erroneous information by APAs and CTPs)	9.2B.15
	Article 11 (Management of incomplete or potentially erroneous information by ARMs)	9.2B.10
	Article 12 (Connectivity of ARMs)	9.2B.11
	Article 14 (Machine readability)	9.2B.17
	Article 18 (Details to be published by the APA)	9.2B.19
Article 19 (Non-discrimination)	9.2B.20	
MiFID Org Regulation	Article 84 (Obligation to provide data on a reasonable commercial basis)	9.2B.21
	Article 85 (Provision of market data on the basis of cost)	9.2B.22
	Article 86 (Obligation to provide market data on a non-discriminatory basis)	9.2B.23
	Article 87 (Per-user fees)	9.2B.24
	Article 88 (Unbundling and disaggregating market data)	9.2B.25
	Article 89 (Transparency obligation)	9.2B.26
MAR 9	MAR 9.1 (Application, introduction, approach and structure)	Retained and updated
	MAR 9.2 (Authorisation and verification)	Retained and updated
	MAR 9.3 (Notification and information)	Retained and updated
	MAR 9.4 (Supervisory regime)	Retained
	MAR 9.5 (Frequently Asked Questions)	Retained

Q35: Do you have any comments on our consolidation in the Handbook of the requirements applying to ARMs and APAs?

- Q36:** Do you agree with not including material from the recitals in the Handbook?
- Q37:** Are there any revisions to the requirements applying to ARMs and APAs you think we should make in future?

Chapter 8

Discussion: provisions for a consolidated tape for equities

Introduction

- 8.1** Most respondents to the WMR consultation favoured the development of a CT for equities as well as bonds. We are starting with a CT for bonds, reflecting feedback that this is a priority, but it is our intention also to work on a CT for equities.
- 8.2** The changes that we expect the Treasury will propose to the DRSRs and the new rulemaking power in relation to DRSPs and RIEs in FSMA 2023 should give us the necessary powers to create a framework to enable a CT in equities to be set up.
- 8.3** Because of our focus on a CT for bonds we have not yet developed detailed proposals for a CT for equities and therefore we cannot present proposals for consultation. However, this chapter discusses some of the main issues relating to a framework for a CT for equities, taking account of the outcomes set out in Chapter 1 we aim to achieve through the establishment of a CT. Building on the responses to the consultation we aim to develop detailed proposals for a CT for equities during 2024.
- 8.4** The equity market structure and the market for trading data that MiFID requires to make public are significantly different to those for bonds. We recognise therefore that there are different considerations in respect of the economic model for an equities CT compared to a bonds CT.
- 8.5** As set out in its Strategy 2022 to 2025, the FCA has a strategic commitment to strengthen the UK's position in wholesale markets, including as a destination for the listing and trading of equities. An effective primary market reinforces the strength of the secondary market and vice versa. A CT potentially has a role to play in this by ensuring that the full range of users of UK equity markets can obtain access to a comprehensive set of trade data and assist in addressing concerns that the market for market data is not working well in certain respects. However, we have also received strong feedback around the potential unintended negative consequences of further fragmentation of price formation and how it may affect the operation of the UK's equity markets.
- 8.6** We do not yet have a fixed position on the main design issues considered below relating to a CT for equities. Building on the WMR consultation and discussions we have had with a range of market participants, this initial consultation by the FCA is an opportunity for us to receive additional feedback on the arguments to develop a proposal for consultation.

General framework

- 8.7** The existing framework for a CT across the DRSRs, MiFID RTSs 3 and 13, MiFID ITS 3, the MiFID Org Regulation and MAR 9 is substantially the same among asset classes. The one significant difference is in respect of the scope of the data to be consolidated, with a more expansive coverage requirement for equities than for bonds and derivatives.
- 8.8** The task of the CTP in respect of equities is the same as that in bonds in the sense that it will need to take data from trading venues and APAs, consolidate it and then publish it. In our view, a reasonable starting point is therefore that many requirements concerning the operation of the CTP can be the same across CTPs for different asset classes.
- 8.9** Across the provisions in MAR 9.2B and MAR 9.2C applying to a CTP, we think that all, save those in 9.2B.34R(1) and (2) that deal with the scope of a CTP for bonds, could also be applied to a CTP for equities. Several of the requirements are expressed in the draft of MAR 9.2B as applying to a CTP for bonds, such as the provisions between MAR 9.2B.35R and MAR 9.2B.37R. We have expressed the provisions in that way because our focus is on setting rules for a CTP for bonds rather than because we think they are not relevant for a potential CTP for equities.

Scope of data covered by an equities tape

- 8.10** A crucial issue for an equities CT is to set the scope of the data that needs to be included for the CT to be relevant for a wide range of use cases, where the use of the CT drives improved outcomes in wholesale markets including for best execution, price formation and market resilience. Factors likely to affect the specification of an equities CT to achieve these outcomes include the potential user group of an equities CT and the dynamics of the underlying equities market, both of which differ from bonds.

Coverage

- 8.11** An equities CT will improve outcomes by enabling a wider set of equities data to be used for decision-making in equities trading. The WTDR identified evidence of suboptimal purchasing patterns where data users told us this was because of high data costs. We should be able to enable use of a wider set of equities data, in particular by small- and medium-sized users of this data, through a wide definition of coverage for an equities CT. Our intention at this stage is for a CTP to consolidate equities data from all trading venues and APAs covering UK equities, taking adequate and timely account of entry and exit of relevant firms.

Instruments

- 8.12** The MiFID category of equities includes shares, depositary receipts, certificates, ETFs and other similar financial instruments. In discussion with market participants the view that has been expressed to us is that all the equity instruments that are admitted to trading on a trading venue in the UK or TOTV in the UK, and therefore in the scope of trade reporting, should be included in the scope of an equities CT to ensure that it is comprehensive. We think this is a sensible starting point for the scope of an equities CT.
- 8.13** We are proposing that ETCs and ETNs, whilst falling within the MiFID category of bonds, are not included in the scope of a bonds CT because they are a different type of instrument to other bonds. There would be no business case for a CT covering just these instruments and therefore we will consider, taking account developments in relation to the transparency regime, whether they should be included in the equities CT.

Pre-trade data

- 8.14** Pre-trade information in terms of bid and offer prices is significant in the price formation process for equities, and for many of the existing use cases of consolidated data. Its inclusion in an equities CT is therefore pertinent. Participants who require pre-trade data are mostly focused on the consolidation of order event information.² Pre-trade data is mostly required by users responsible for the trading functions in pre- and post-trade analysis and in-flight execution management.
- 8.15** There are several arguments that have been made against the inclusion of pre-trade data in an equities CT. These include:
- Greater availability of consolidated pre-trade data could encourage trading to move away from Central Limit Order Books (CLOBs) as participants use the prices provided as a reference price but execute away from the CLOB. There has already been a trend away from using CLOBs (see [here](#)) and whilst this might be beneficial for individual orders, when viewed in the round it can drive up the costs of sourcing liquidity, widen spreads and increase the overall costs of trading.
 - Trading on CLOBs often increases at moments of wider economic stress and uncertainty such as at the start of the pandemic. The role of CLOBs in concentrating liquidity at such times could be undermined if a pre-trade CT increases market fragmentation, leading to greater financial instability.
 - Market data is an important source of revenue for operators of CLOBs. The revenue is used in part for investment in efforts to achieve resiliency and improve the quality of the CLOB and, if CLOB operators' revenues from market data are significantly diminished, this would threaten the ability to support the resilience and quality of secondary trading.
 - To the extent that a CT leads to increased fragmentation of trading in equities this might diminish the attractiveness to issuers of those trading venues in the UK offering a primary market. Issuers might have concerns about listing on a venue which cannot itself offer a significant depth of trading.

² <https://www.marketstructure.co.uk/wp-content/uploads/Full-Report--The-Study-on-the-Creation-of-an-EU-Consolidated-Tape.pdf>, p. 31.

- 8.16** It is not clear whether an equities CT including pre-trade data would reduce the amount of trading in CLOBs. Firms can already trade away from CLOBs on reference price systems, which are no longer capped by the Double Volume Cap, or with systematic internalisers (SIs). Wider access to pre-trade prices might make some participants aware of opportunities on the full range of CLOBs thereby leading to greater fragmentation of trading across different CLOBs. The effect of such fragmentation on the quality of markets is uncertain. Some papers³ have found that fragmentation leads to a higher price effect of equity trading, but there has also been some evidence of offsetting benefits.⁴
- 8.17** The effect on resiliency of the market will depend on several factors: the extent to which pre-trade data affects trading on CLOBs, on the incentives of those offering CLOBs to compete by making their platforms more attractive to users, and on the resiliency of trading on systems other than CLOBs.
- 8.18** We think that CLOBs are a very important feature of equities trading and that the regulatory framework should support continued investment in their functionality and resilience by operators. However, whether this is an argument in favour of excluding pre-trade data from an equities CT depends on whether the market for market data is currently working well.
- 8.19** The effect of a CT on the attractiveness of the UK's primary markets depends on the extent to which it leads to increased fragmentation as part of a trend of executing away from CLOBs and whether issuers care about liquidity per se or about where that liquidity is located. There is a significant fragmentation of trading in US shares but US markets overall are deep and liquid and the listing venues continue to operate vibrant primary markets.
- 8.20** Several arguments have been made in favour of the inclusion of pre-trade data in an equities CT. These include:
- The use cases for post-trade equities data are mainly confined to middle and back-office functions rather than front-office uses, so there is a question as to whether a post-trade CT would be commercially viable.
 - The inclusion of pre-trade data will make markets more resilient by providing a trusted source of pricing that will enable continuity of trading when there is an outage at a venue, particularly the venue of primary listing for shares.
 - Only a comprehensive CT will drive the growth of equity markets in the UK by providing a single investable universe.
- 8.21** We think that there would be demand from market participants for a benchmark of trading volumes in the market from post-trade data. However, a CT that included pre-trade data may better enable it to achieve the desired outcomes underlying this intervention, which may in turn lead to greater uptake of the CT by a wide range of user types.

3 Chen, D. and Duffie, D., 2021, *Market fragmentation*, American Economic Review, 111:7, pp. 2247-74, <https://www.aeaweb.org/articles?id=10.1257/aer.20200829> and Guo, Lewen and Jain, Pankaj K., 2023, *Market Fragmentation and Price Impact*, Working Paper, (April 25, 2023). Available at SSRN: <https://ssrn.com/abstract=4350305>

4 Chen, D. and Duffie, D., 2021, *Market fragmentation*, American Economic Review, 111:7, pp. 2247-74 and Malamud, S. and Rostek, M., 2017, *Decentralized exchange*, American Economic Review, 107:11, pp. 3320-62, <https://www.aeaweb.org/articles?id=10.1257/aer.20140759>

- 8.22** From the market participants favouring the inclusion of pre-trade data we have heard broad support for the inclusion of the top five best bids and offers from order books in pre-trade equities CT data. It is argued that this level of data will support the ability to assess the liquidity profile of a particular security, with liquidity increasingly provided in small sizes at fast pace.
- 8.23** In the United States, the Consolidated Quotation System provides pre-trade equities data in the form of quotes which make up the National Best Bid and Offer. In the EU, details of the agreement on the position on pre-trade data for shares have not been made public at the time of writing
- 8.24** For the use cases identified in MSP's Study on the Creation of an EU Consolidated Tape, very low latency of equity data was not a necessary characteristic of an equities CT, where equities data users whose use cases rely on very low latency data will continue to consume direct data feeds from trading venues. In the US, modernisation initiatives have had at their core the intention to reduce latencies and assure access to real-time data streams to brokers, dealers and investors that is prompt, accurate, reliable and fair,⁵ though recognise a continued distinction on latency of CTs and proprietary market data feeds.

Data pricing and licensing

- 8.25** We consider that a CT for equities will drive better outcomes in equities markets by enabling increased use of a wider set of UK equities data than currently. The WTDR highlighted the high scope for price increases for data in the case of equities venues with high market share and the essential nature of this data to many users. It also found evidence of features indicating suboptimal usage of UK equities data. In particular, it found some evidence of rising trade data prices leading to instances where users choose not to purchase data due to its cost, potentially leading to adverse effects on users' ability to make investment decisions or innovate. It also found that the way in which trading venues sell data can be complex, creating frictions for users and making it harder for them to predict the overall cost of trade data for their specific needs. This is likely to act as a deterrent to wider use of this data.
- 8.26** To enable a wider use of data, we think it is appropriate to focus on ensuring that the pricing and licensing of usage of an equities CT are conducive to widespread use.

Q38: Do you agree that changes to the existing framework of rules discussed in Chapter 6 are also relevant for an equities CT?

Q39: Do you agree that an equities CT should cover shares, depositary receipts, ETFs, certificates, other similar instruments? Should it also include ETCs and ETNs?

⁵ Enhancements to the provision of consolidated market data are set out in section III of the SEC's Final Rule on this: <https://www.sec.gov/rules/final/2020/34-90610.pdf>

Q40: Should an equities CT include pre-trade data? If so, why do you think this is necessary and what scope of data (including but not limited to depth of order book) should be included? If not, why not?

Revenue sharing

8.27 We are not proposing that the CTP for bonds should share revenues with data providers. However, we recognise that there are important differences between the bond and equity markets. It is notable that the equity CTs in the US operate a revenue-sharing model and that the discussion in the EU on an equities CT has proceeded on the assumption that there will be revenue-sharing. Therefore, we think it is important to consider the case for revenue sharing specifically for an equities CT.

Analysis

8.28 The WTDR said that where the trade data market works well, we would expect the following outcomes:

- Trade data is accessible, complete, and available in the right timeframes to users who need it to make informed investment decisions, innovate and expand, and meet their regulatory requirements.
- Trade data licensing is simple and clear, and users have reasonable certainty on their overall expenditure over a given period. Licensing and associated practices do not constrain innovation.
- Trading venues continue to make their data available on a fair basis to be accessed either directly or through vendors.
- Rules incentivise competition and innovation and drive good outcomes. If they do not, they are adapted as necessary.

8.29 We need to consider whether revenue sharing helps to achieve these objectives in a proportionate manner. This requires considering in detail the various changes that are likely to result from the introduction of an equities CTP and how these are likely to differ in the presence of different forms of potential revenue share arrangements. Note that we are using the term 'revenue sharing' to include an array of possible mechanisms for compensating the data providers for supplying data to the CT. A particular issue is how such compensation might affect the incentives of the existing data providers in relation to their direct and indirect sales. We explore this below.

8.30 When assessing the proportionality of proposals for an equities CT, we will need to consider the expected take-up of the service. The more that users consume the CT, the greater the expected effect on existing market structure and revenues that data providers can generate.

8.31 In the absence of revenue sharing, we would expect more demand to shift to the CTP (due to the lower price for the CTP), which may lead to a disproportionate effect on data generators, unduly constraining their ability to extract or share in value that users

generate when using the data. This is more likely when users use the CT data directly to inform their trade execution decisions.

- 8.32** If we incorporate a form of revenue sharing, the first order effect would be that the price of the CT to users would be greater than in the absence of revenue sharing. The magnitude of the price difference with and without revenue sharing would depend on the precise mechanism adopted. For example, a share of revenue would require a greater price difference than an equivalent share of profit.
- 8.33** In this scenario, less demand would shift to the CTP than would in the case where no revenue share was required, but data generators would benefit directly from sales made by the CTP. Due to the reduced demand for the CTP, we would need to consider whether this might limit the extent to which trade data is accessible to users who need it, undermining our objectives for the CT. A second order effect might result from the additional administration costs of operating a revenue-sharing scheme.
- 8.34** Data providers' current revenue from data streams that are similar in latency and depth of data to the proposed CT will likely be affected by introduction of a CT (where we assume this will reduce revenue, though this may vary from venue to venue). Data provider revenues from some sources, such as provision of low latency connections, will likely be unchanged. However, it is reasonable to expect that, following the introduction of an equities CT, some data users will switch away from existing data streams to the CT without increased consumption of other venue data products. This will lead to some data providers losing revenues from some of their existing licensing services.
- 8.35** If a revenue share were included as part of the economic model for an equities CT, this would offset a proportion of revenues lost by the data providers affected. However, regardless of the specification of a revenue-share model, this offset would only be partial. This is because it would be more profitable for equities data providers to make direct sales than to receive revenue via sales through the CTP.
- 8.36** We would expect that the presence of a CT in the market for equities would provoke a response from venues with existing data licensing businesses. One potential effect is that the presence of an equities CT would challenge existing UK equities data providers to increase the value of their own product offerings through some combination of price, value-added services and licensing terms that are more favourable to users. Lower prices for equities data, both direct from data providers and from the CTP, is likely to have a positive effect on venues' direct and indirect sales, and would lead to benefits for data users, but would potentially constrain the demand for the CTP.
- 8.37** One argument in favour of revenue-sharing focuses on the effect this would have on ensuring the data provided to the CT is high-quality and timely. To make a CT model work, we believe that data providers would need to be under a regulatory obligation to provide data to the CTP. It is therefore not clear why data providers would need to be financially incentivised to fulfil that obligation. However, given the strong commercial incentives at play in this market, we have not yet concluded on this issue.
- 8.38** As discussed in Chapter 2, the FCA's new secondary international competitiveness and growth objective will also be a relevant consideration in determining our policy on revenue sharing. As data is a significant part of data providers' business models

for equities, there would be a more significant effect from an economic model for an equities CT that did not include a revenue sharing component than for bonds. The presence of revenues for trade data in this asset class also provides an incentive to compete to attract liquidity to a venue. We will need to consider the wider implications of our policy on revenue sharing for an equities CT.

- 8.39** Overall, the effect on the price of the CT of revenue sharing and the incentives this will have on data providers will depend on the details of any revenue sharing scheme. In any case, a competitive tender process for appointment of an equities CTP should ensure that the most efficient potential bidder becomes the CTP.

Mechanics of revenue-sharing where appropriate

- 8.40** There are three main design issues that would need to be considered if a revenue sharing scheme was to be put in place. First, how the sum of money to be distributed would be determined. Second, the formula for distributing the revenue shares for a given sum of money. Third, who would share in the revenues.
- 8.41** There are various ways in which the sum of money to be distributed could be determined. Rules could require a percentage of a CTP's revenues (either gross revenues or net revenues) to be shared or require that a CTP's charges include a specified amount to contribute to the revenue pool. Alternatively, the tender process could be used to require bidders to submit proposals for revenue sharing based on specified criteria.
- 8.42** The data for a CT would come from three possible sources: RIEs and MTFs, APAs for the post-trade data of investment firms, and SIs if the CT included pre-trade data. Trading venues, APAs and SIs are all entitled to sell MiFID transparency data on a reasonable commercial basis, while investment firms do not share in revenues that an APA makes from selling their post-trade data. Sharing revenues between those tasked with publishing transparency data would mean that investment firms would gain no reward for their post-trade data, while including investment firms in a revenue sharing scheme would add complexity to revenue sharing.
- 8.43** The US equities CT shares revenues based on the quality of quotes (assessing quotes against the best bid and offer) to reflect the contribution to pre-trade data, and volume traded to reflect the contribution to post-trade data. The formula also has an adjustment to reward activity in less liquid shares. In devising such formulae there is inevitably a trade-off between simplicity and efforts to reward certain types of behaviour that are perceived as contributing to the overall quality of the market. Again, were revenue-sharing to be adopted, formulae could be established through rules or potential CTPs could be asked to design them based on principles specified in a tender document.

- Q41: Should an equities CTP be required to remunerate data providers through a form of revenue sharing? If employed, which data providers should a revenue-sharing model reward, how should the revenues to be shared be determined and how should shares in the revenues be set?**

Economic model

Separation of feeds (shares, ETFs, ETCs/ETNs)

- 8.44** We have discussed with industry whether there should be a requirement for an equities CTP to provide disaggregated versions of the CT feed. The equities CT will include data from different types of instruments including shares, ETFs, and potentially ETCs and ETNs. As the current rules acknowledge, with any disaggregation of trade data the crucial question is whether there is separate demand for different sub-categories of the data that is sufficient to meet the costs of offering the data on a disaggregated basis.
- 8.45** Our current view is that given uncertainties over the demand for disaggregated data it is better to not add a requirement for a CTP to disaggregate the CT feed. A CTP, or a data reseller, could provide a disaggregated feed if it thought there was a commercial case for doing so. This approach would mean that the provision of the disaggregated data by a CTP would lie outside of the price constraint imposed on the CTP by the tender process, although there would be the potential for competition to provide a disaggregated data service from data resellers based on the core data feed provided from the CTP. We could then in due course consider whether it would be appropriate to include disaggregated data as a service that a CTP would be required to provide.

- Q42: Do you think that there will be demand for disaggregated feeds, by instrument or industry sector, of the data included in an equities CT?**

- Q43: Do you agree that the equities CT should provide a single, combined feed of trade reports from different instrument categories?**

Market outage data

- 8.46** We have discussed with industry whether there is a need to include data on market outages in the CT.

8.47 In the case of equities, most of the trading only occurs when the central marketplace is live, while bonds do not have a central marketplace and therefore will continue to be traded when any one venue has an outage. Therefore, outage data is more relevant for an equities CT than for bonds.

Q44: Do you agree that the equities CT should include data on market outages, and, if so, exactly what data on market outages do you think should be included?

Annex 1

Questions in this paper

- Q1:** Do you agree with the appointment of a single CTP per asset class through a tender process?
- Q2:** What success criteria should be used in the post-implementation framework review?
- Q3:** Do you agree with our proposals on the scope of a bond CT?
- Q4:** 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?
- Q5:** Do you think that our rules should be more specific about the means of dissemination of a CT?
- Q6:** Do you agree that the consumption of the data published by the CT should be discretionary for market participants?
- Q7:** Do you agree that the CT should only start operation after bond transparency regime changes come into effect?
- Q8:** Do you agree that responsibility for applying deferrals should remain with data providers and not the CTP?
- Q9:** Should the CTP offer a deferral checking service? If so, should use of this service by data providers be mandated?
- Q10:** Do you agree that the provision of a historical data service should be optional for a CTP?
- Q11:** 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?
- Q12:** Do you agree that trading venues and APAs should be required to provide data to a CTP without charge?
- Q13:** 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?

- Q14:** 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?
- Q15:** 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?
- Q16:** 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?
- Q17:** 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?
- Q18:** 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?
- Q19:** 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?
- Q20:** 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?
- Q21:** 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?
- Q22:** Do you agree with proposed mitigants to address any potential incumbency advantage of the first bond CTP? Are there additional factors that we ought to consider?
- Q23:** Do you agree with our proposed extension of the operational resilience requirements in SYSC 15A to a CTP?

- Q24:** Do you agree with our proposed additional outsourcing and conflicts requirements applying to a CTP?
- Q25:** 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?
- Q26:** Do you agree with our proposed prudential regime for CTPs?
- Q27:** Do you agree with our proposed deletion of the requirement for a CTP to price on a reasonable commercial basis?
- Q28:** Do you agree with the retention of the requirement for a CTP to provide market data on a non-discriminatory basis?
- Q29:** Do you agree with our proposed changes to the transparency obligations in respect of pricing?
- Q30:** Do you agree with our proposed governance requirements for the bond CTP?
- Q31:** Do you agree with our 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?
- Q32:** Do you agree with our proposals on data quality?
- Q33:** Do you agree with our 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?
- Q35:** Do you have any comments on our consolidation in the Handbook of the requirements applying to ARMs and APAs?
- Q36:** Do you agree with not including material from the recitals in the Handbook?
- Q37:** Are there any revisions to the requirements applying to ARMs and APAs you think we should make in due course?
- Q38:** Do you agree that changes to the existing framework of rules discussed in Chapter 6 are also relevant for an equities CT?
- Q39:** Do you agree that an equities CT should cover shares, depositary receipts, ETFs, certificates, other similar instruments? Should it also include ETCs and ETNs?

- Q40:** Should an equities CT include pre-trade data? If so, why do you think this is necessary and what scope of data (including but not limited to depth of order book) should be included? If not, why not?
- Q41:** Should an equities CTP be required to remunerate data providers through a form of revenue sharing? If employed, which data providers should a revenue-sharing model reward, how should the revenues to be shared be determined and how should shares of the revenues be set?
- Q42:** Do you think that there will be demand for disaggregated feeds, by instrument or industry sector, of the data included in an equities CT?
- Q43:** Do you agree that the equities CT should provide a single, combined feed of trade reports from different instrument categories?
- Q44:** Do you agree that the equities CT should include data on market outages, and, if so, exactly what data on market outages do you think should be included?

Annex 2

Cost benefit analysis

Introduction

1. The Financial Services and Markets Act (FSMA), as amended by the Financial Services Act 2012, requires us to publish a Cost Benefit Analysis (CBA) of our proposed rules. Specifically, section 138I requires us to publish a CBA of proposed rules, defined as 'an analysis of the costs, together with an analysis of the benefits that will arise if the proposed rules are made'. Section 138S(2)(f) imposes an obligation in relation to technical standards.
2. We are consulting on our proposed framework for a bond Consolidated Tape (CT). The aim is to reduce harm by facilitating the emergence of a Consolidated Tape Provider (CTP) who will provide a complete, authoritative source of overall trading activity in bonds; and thereby lower costs of accessing data, improve liquidity, lower trading costs, enable more efficient portfolio allocation for investors, and lower costs of issuing bonds.
3. In this annex, we present our CBA. It includes our analysis and provides estimates of the impacts of our proposals for a framework for a bond CT. The framework contains several elements – including guidance and tender design for appointing the CTP – that go beyond the rules themselves that must be assessed in the CBA. However, per the FCA's guidance on [How we analyse the costs and benefits of our policies](#), we believe it is appropriate that we provide a holistic assessment of the framework which includes rules and other elements.⁶
4. We provide monetary values for the impacts where possible to do so. We have engaged with industry associations and individual firms to seek their views on the potential costs and benefits of the proposals. Generally, we received a mixture of qualitative and quantitative information, reflecting some uncertainty on the likely projected costs and benefits before the UK CT framework has been finalised. Accordingly, when in our opinion, these are not reasonably practicable to estimate, we provide a statement of our opinion and an explanation of it.

Problem and rationale for intervention

5. In this section we discuss the harms that our proposals are seeking to address and the underlying drivers (or market failures) that bring about these harms.

6 See <https://www.fca.org.uk/publication/corporate/how-analyse-costs-benefits-policies.pdf>, Box 1, p. 8. It is our policy to produce a CBA for general guidance about rules if a high-level assessment of the impact of the proposal identifies an element of novelty which may be in effect prescriptive or prohibitive such that significant costs may be incurred.

The harms

6. The lack of a complete, authoritative single source of accurate data for bonds creates a variety of harms which directly affect bond data users including investors and have more indirect effects on bond issuers and the wider economy. The harms are:
 - higher costs of accessing bond market data to understand the current market situation and inform bond trading decisions
 - higher bond trading costs
 - sub-optimal returns for investors
 - higher costs of issuing bonds
7. We discuss each of these harms in turn and describe how these harms are interrelated.
8. The bond market is fragmented meaning market data exists in disparate datasets. Lacking a single source of accurate data, this directly results in excessive costs to investors from purchasing and aggregating fragmented data to reach a comprehensive view of the market. These costs can be significant and there may also be duplication of costs as multiple firms undertake this aggregation. Firms must currently go to each data source separately to access market data and find the best available price for a trade. This is costly, time consuming, and burdensome, particularly because there is no standardisation of data across trading venues and Approved Publication Arrangements (APAs).⁷ It can also act as a barrier to entry for smaller firms who may wish to trade bonds but are less able to afford the data they need.
9. Given the high costs of collecting data and the lack of a complete, single data source, investors are less informed about the likely costs of a trade. Imperfect information can have detrimental consequences. For instance, investors trading on imperfect information may obtain a worse price for their bonds than they would if they were better informed. Ultimately, lack of visibility across the market affects investor behaviour. It can deter trading, causing lower levels of liquidity in the bond market, which itself is likely to increase trading costs for investors who do trade. As Cespa and Vives (2023) argue, this lack of transparency can make markets more fragile, widening the gap between the demand for, and supply of liquidity.⁸
10. Without a complete picture of the bond market, investors can only trade on the signals that are presently available to them. Consequently, not only are they trading more/less than they might otherwise do if they had a more complete picture of bond market fundamentals, but investors are also likely taking on levels of risk that are suboptimal. Investors seeing only some parts of the market build portfolios based on their best efforts but without visibility across the market, they are likely to over or underweight certain bonds that could help them build a more efficient portfolio.

7 WMR consultation paper (p. 43): https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/998165/WMR_condoc_FINAL_OFFICIAL_SENSITIVE_.pdf

8 Cespa, G. and Vives, X., 2023, Market Opacity and Fragility, IESE Business School Working Paper No. 4339568, https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4339568

- 11.** Finally, there is a harm in the form of higher issuance costs in the primary bond market, resulting from the lack of a complete, authoritative single source of accurate bond market data. For example, investors lacking access to the data for comparator bonds, needed to effectively evaluate a newly issued bond's price, may be deterred from participating in the primary market. This in turn may force issuers to offer a higher return on their bonds – as suggested by the work of Brugler, Comerton-Forde, and Martin (2022)⁹ – in order to attract investment. This effectively raises the cost of debt capital. Therefore, for issuers, it can have the effect of making unattractive investment projects that would otherwise be considered favourably. As such, this harm can affect issuers' decisions today, and their operations in the long term.

The drivers of harm

- 12.** The harms described above arise from a lack of adequate information about trading and addressable liquidity and so participants are not fully informed about market liquidity (or trading costs as a proxy for market liquidity). This lack of information arises because of:
- coordination failure
 - asymmetric information
 - externalities
 - market power

Coordination failure

- 13.** The current process for collating market price and volume information is inefficient, resulting in additional costs for users of data. There is a coordination failure as each participant undertakes similar activities to collate and aggregate data about the market from multiple sources. Resource expenditures are therefore duplicated and inefficiently used with significant costs for the industry as a result.

Asymmetric information

- 14.** Dealers who have access to disparate data sets (whether through visibility of exchange and OTC trading or with the financial means to access data sets) have an advantage over clients who do not. Clients who do not have complete information on past trading, upon which to form beliefs about the current state of the market, cannot therefore always know if they are getting the best price and may not have full visibility over their own trading costs. This has negative implications for participants with incomplete information and for market functioning.¹⁰

⁹ Brugler, J., Comerton-Forde, C. and Martin, J.S., 2022, Secondary Market Transparency and Corporate Bond Issuing Costs, *Review of Finance*, 26:1, Feb 2022, 43-77, <https://doi.org/10.1093/rof/rfab017>

¹⁰ See, for example, Easley, O'Hara and Yang (2016), who study the market effects of differential access to price information: Easley, D., O'Hara, M. and Yang, L., 2016, Differential Access to Price Information in Financial Markets, *Journal of Financial and Quantitative Analysis*, 51:4, 1071–1110. <http://www.jstor.org/stable/44157607>

Externalities

- 15.** Decisions taken by a market participant affect other market participants and the wider economy. Investors benefit from other participants' activity in markets as they provide liquidity and/or contribute to price discovery in the market (with downstream effects in the real economy). However, investors only consider their private interests when interacting with markets, not those of the wider public. As such, with access to only disparate data to inform trading decisions, investors might undertake fewer bond trades and less investment than could occur with a more complete view of the market. For example, with only partial (or no) visibility of bond prices and liquidity, investors, who would otherwise have traded, may be discouraged from buying bonds and issuers may be forced to offer a higher return to attract buyers. This could have the effect of making an expansion project unprofitable for the issuer (as debt costs become too high relative to the expected payoff). In turn, this could affect wider society by, for example, reducing associated job opportunities.

Market power

- 16.** Users need specific licences to get access to bond trade data or specific licences for various uses.¹¹ This requires users to dedicate considerable resources to identify their data needs. Complexity in licence terms can increase users' costs. Evidence gathered as part of the Wholesale Trade Data Review (WTDR) showed that licence terms have become more complex regardless of asset class or new fees have been introduced for 50% of sampled users. In addition, 32% of the sampled users said that licence complexity creates uncertainty or raises costs.¹²
- 17.** As highlighted in the WTDR, prices of market data and the costs associated with acquiring it are high and do not reflect the underlying cost of producing the data. However, competitive conditions differ between bond and equities data markets. Bond trading markets are more fragmented than equities trading markets, and a larger percentage of trades occur between parties away from venues.¹³ At a high level, no one platform has a substantially larger market share across all bond venue trading, and trade data is not produced from a single platform. Instead, bond venues often distribute data via market data vendors and consolidators. While we cannot exclude the possibility that certain operators have a degree of market power, especially in the ability to design complex licences, we do not see substantial and sustained market concentration as a main driver of harm relevant to bonds.

11 <https://www.fca.org.uk/publication/corporate/wholesale-trade-data-review-findings-report.pdf>, p. 24

12 <https://www.fca.org.uk/publication/corporate/wholesale-trade-data-review-findings-report.pdf>, p. 25

13 <https://www.fca.org.uk/publication/corporate/wholesale-trade-data-review-findings-report.pdf>, p. 15

Summary of our proposed intervention and options considered

- 18.** The present CBA considers the costs and benefits of establishing a bond CT in the UK according to our proposed framework, compared against the baseline which we define in the section on Baseline and key assumptions. In designing the rules and economic model for our proposed framework, we have evaluated policy options on the various elements of that framework and made proposals which we believe are best aligned with the FCA's objectives. We have sought to design a framework, considering options in this context, that achieves the following measures of success:
- a bond CT operating in the course of 2025 that provides an authoritative, complete, timely, accurate, and relevant source of data for a wide range of use cases
 - enhanced market quality through an improved understanding of trading costs and liquidity
 - greater market participation
 - reduced cost and licensing complexity for market data
 - competition between the CTP and market data vendors resulting in product and service innovation
- 19.** This section provides a summary of the options we considered and explains our stated preferences to be put forward during consultation. Our preferred options form the basis of our assumptions for the remainder of the CBA.

The number of consolidated tape providers per asset class

- 20.** We considered in Chapter 3 of the consultation paper (CP) whether it was appropriate to appoint multiple providers to provide the bond CT. We propose that a single CTP per asset class be appointed through tender process. Our reasons for favouring a single provider model over the appointment of multiple providers per asset class are as follows:
- a single-provider tender model is the most commercially viable, and therefore attractive, for potential CTPs
 - a single CT per asset class provides a single 'golden' source of truth
 - trading venues and users would only need to connect to a single CTP
 - other jurisdictions have used single provider models, from which we can learn
 - we believe that the tender design can create a situation where competition for the market during tender produces the same outcomes as competition in the market between multiple hypothetical CTPs

Scope of a CT, consolidation and dissemination of data, consumption of the CT, and the CT and transparency

- 21.** In Chapter 4 of the CP, we considered the breadth of coverage of a bond CT, including what and how data should be received by the CTP, whether consumption of the CT ought to be mandated, and how deferral and bond transparency requirements should be applied once the CT is operational. We make the following proposals.

- 22.** As per our proposal in the CP, data should be transmitted to a CTP through a standardised, open-source Application Programming Interface (API) developed by the CTP (as opposed to the CTP being required to build to data providers' existing APIs). We believe that a standardised API is preferable because it will minimise the cumulative cost of connectivity between data providers and the CTP, improve data quality through consistent transmission of data to the CTP, and allow two-way communication between the CTP and data providers.
- 23.** CT consumption should not be mandated. Mandatory consumption would remove incentives for the CTP to improve the CT and maximise its uptake and may duplicate existing consumption of data through direct feeds.
- 24.** Market participants should be given the opportunity to familiarise themselves with proposed changes to the bond transparency regime before a bond CT is established. The benefits of starting a CT early using the existing data are likely outweighed by the costs of a CTP having to adapt to a new set of data after a relatively short period of operation.
- 25.** Deferrals should continue to be applied by data providers, not the CTP. Requiring the CTP to apply deferrals introduces an unnecessary additional layer of complexity, and therefore cost, for data providers and the CTP.

Economic model

- 26.** In Chapter 5 of the CP, we considered how best to design the economic model of the bond CT framework to meet our objectives as stated at the beginning of this section: ensuring that the CT produces a complete, timely account of overall bond trading activity while also providing sufficient commercial incentive for potential CTPs to come forward and compete for provision of the CT. We make the following proposals.
- 27.** As per our proposal in the CP, a bond CTP should not be required to share its revenues with data providers, nor should it contribute to cost recovery for those providers (as opposed to sharing revenues and/or contributing to cost recovery). Incentives to sell data through a CTP would not be significantly weakened under a no-revenue sharing model. Under a range of assumptions, it is more profitable for data providers to make additional direct data sales than to receive revenue through extra sales by the CTP. Data providers have a regulatory obligation to provide data on specified terms to a CTP, and to produce accurate trade reports. Requiring that a CTP contribute to data providers' cost recovery would not be additive to the existing obligations, which should ensure that data is provided to the CTP in a timely, accurate manner.
- 28.** A CTP should not be required to provide data free of charge 15 minutes after publication (as opposed to providing these data for free after 15 minutes). This proposal is intended to preserve the commercial incentive for potential CTPs to come forward.

- 29.** CT licences should be separated according to re-use and direct use categories, though the CP asks an open question as to whether potential CTPs should be allowed to specify the menu of prices against which they bid. Our objective here is to minimise licensing complexity while also allowing an adequate degree of differentiation between user types so as to avoid cross-subsidisation between licensees.
- 30.** We propose that during tendering, potential CTPs should go through a pre-bidding stage to verify that they are able to be authorised. Subsequent bidding should then occur in multiple descending rounds based on price, using either a clock auction or Anglo-Dutch hybrid auction. This will help to alleviate demand uncertainty and 'winner's curse' by providing visibility for bidders over the number of bids submitted and the average cost per user (lowest weighted average price) represented by those bids. Alternatives assessed included single-round bidding and a cost-plus approach to assessing bids (discussed in Chapter 5 of the CP).

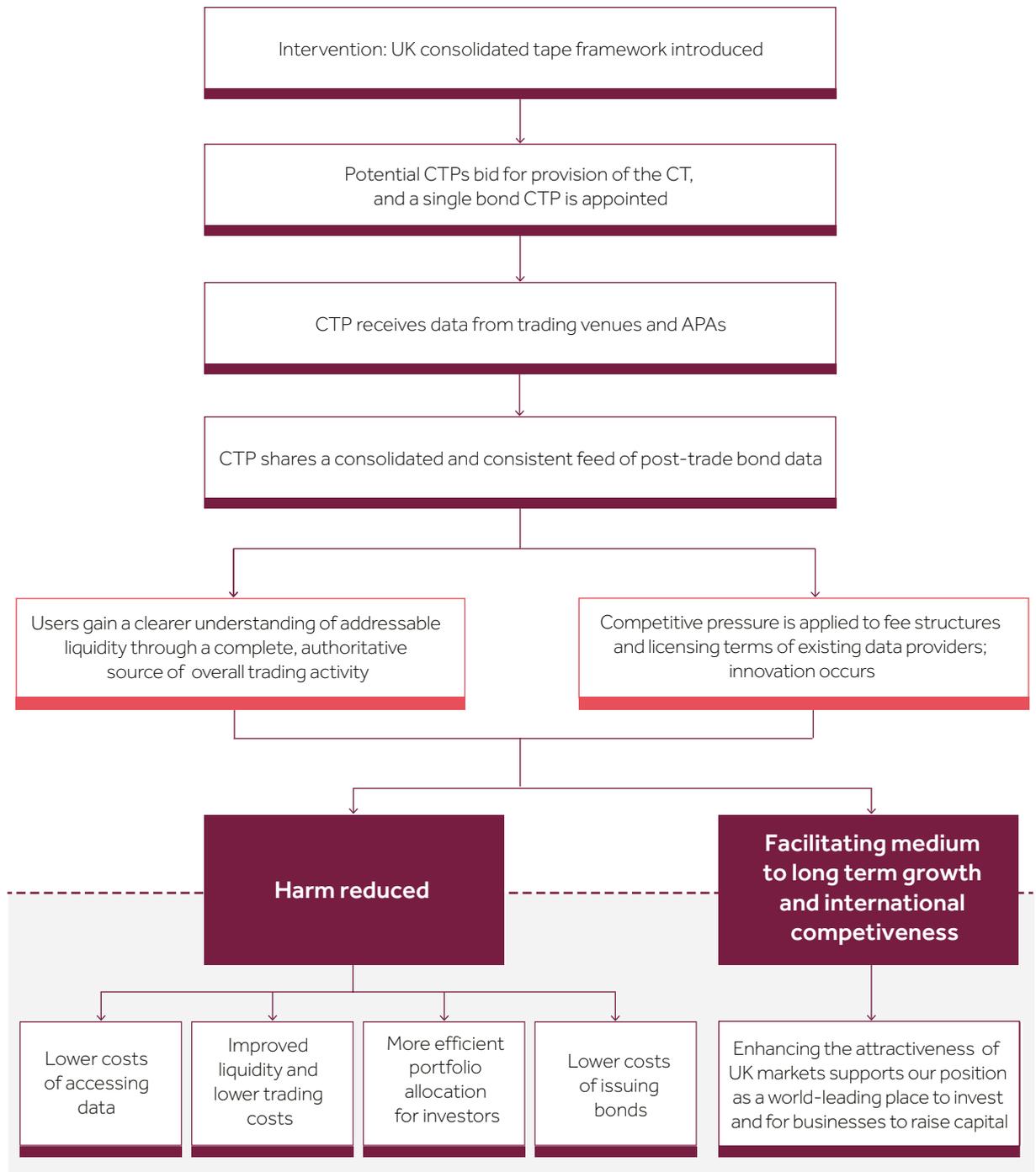
Rules

- 31.** In Chapter 6 of the CP, we considered the provisions in the current framework relating to organisational and prudential requirements, data pricing, governance and miscellaneous matters and whether they should be retained, deleted or enhanced to meet our objectives for the CT.
- 32.** Proposed additions and amendments are intended to result in the emergence of a resilient CT that provides complete, timely data and achieves the objectives of the CT framework as set out at the beginning of this section. We intend that the CTP should take account of feedback from data providers and users, particularly with respect to data quality.

Causal chain

- 33.** Our proposed framework for appointing a single CTP for bonds through a tender process will encourage potential CTPs to come forward and remedy the issues identified above.

Figure 1: Causal chain



Baseline and key assumptions

34. The costs and benefits of our proposals must be assessed against a baseline. In this section we discuss our assumptions for the baseline. We also explain the key assumptions we made when analysing the costs and benefits of our proposals.

Market structure

35. London is a significant international centre for the listing of bonds with over 13,000 bonds listed on the London Stock Exchange. However, the trading of bonds mainly takes place away from the venue of listing. Most bond trading is divided between dealer-to-client trading venues (Multilateral Trading Facilities (MTFs)), inter-dealer trading venues (a mix of MTFs and Organised Trading Facilities (OTFs)) and Over-the-Counter (OTC) dealer-to-client trading. Currently, OTFs, who enable anonymised trading by trading on a matched principal basis, account for most of the dealer-to-dealer trading. Dealer-to-client trading is split roughly equally between MTF and OTC trading. This allows, in most cases, dealers to identify their clients and adjust prices accordingly. However, all trading in bonds that are traded on trading venues is subject to post-trade transparency which includes the application of deferrals.
36. In the UK, clients using bond markets are predominantly institutional clients, including: long-only asset managers, pension funds, insurers, and hedge funds. They might trade directly or through brokers.
37. Bond markets are predominantly dealer markets where banks, investment banks, and electronic liquidity providers provide liquidity through quote-driven trading based on committing risk capital.
38. Various forms of Request for Quote (RFQ) are the predominant trading protocol and there is much less electronic trading in bond markets than in equity markets.

Number of relevant market participants

39. There are four classes of entities that will be directly affected by our proposals:
- **Data providers:** bond trading venues (Recognised Investment Exchanges (RIEs), MTFs and OTFs) and APAs that will be required to contribute data to the CTP. We estimate that UK bond markets are currently covered by 21 data providers. We arrived at this estimate by identifying the MTFs, OTFs, and APAs that trade bonds in the [DRSP, MTF, OTF, and SI Register](#). To this we added RIEs where bonds are traded. Finally, we combined multiple entities that belong to the same parent organisation to reflect that costs may be incurred at the group level.
 - **Bidders:** these are potential CTPs that expressed an interest in participating in the tender process. Firms will make a business decision whether to participate and it is not possible to determine the precise number of firms ex-ante.
 - **The CTP:** a single firm will be chosen through the tender process.
 - **Data users:** entities and individuals who decide to purchase data provided by the CTP. It is not possible to determine the precise number of firms ex-ante but the types of data users include:

- buy-side, sell-side, and other financial services firms
- resellers – data vendors providing analytics tools on top of the CT
- retail investors, public bodies, and academics.

Baseline

- 40.** The baseline assumption we have used in this CBA is that without our proposed intervention, bond market data fragmentation will persist, and data users will not have a single, authoritative source of truth with which to form a view about addressable liquidity in the market. It is assumed that a CTP will not come forward under existing regulatory settings.
- 41.** We also assume that in the baseline various data vendors and financial technology companies continue to provide services and products linked to real time and delayed bond market data. However, none of these provide a widely accepted benchmark of overall trading in bonds in the UK. Licensing terms are opaque and bundling of products and services tends to be complex. This may worsen over time as more subscriber types and use cases arise.
- 42.** The baseline scenario is dynamic and may evolve over time in the absence of our proposed CT framework. In particular:
- Absent a UK CT, we assume that the EU would continue to develop its own framework, culminating in the operationalisation of an EU CT that boosts its international competitiveness relative to ours.
 - In 2023 Q4 we will publish proposals for revisions to the transparency regime for bonds, which aim to improve market data quality. These would affect provision of market data with or without a CT. These may also go some way to resolving data quality issues, and therefore improving the quality of trade data. We do not expect that these changes, however, would be enough to improve the consistency with which data is aggregated and disseminated by existing data vendors or significantly reduce the harms we have discussed.
- 43.** It is important that we distinguish between the existing CT framework provided for under current rules – under which no providers have emerged – and the proposed framework in this CP. In the baseline, to become a CTP a firm needs to comply with existing rules and incur certain costs.
- 44.** Under the proposed framework, any future CTP would need to comply with existing requirements that are kept and the new changes we are proposing. The existing rules are present in our baseline scenario. However, there is currently no CTP authorised in the UK, so no firm has incurred costs related to complying with existing rules. Therefore, when providing estimates of costs for the CTP we assume that any future CTP will need to comply with the set of existing rules that are kept and new rules, even though strictly many of these costs would have been incurred by a firm becoming a CTP under the existing rules.

Key assumptions

- 45.** The FCA discussed its approach to analysing costs and benefits in July 2018 stating that “When rules are expected to have impacts over an indefinite period of time, it is helpful to aggregate monetary impacts arising over time in net present value terms, over a 10 year period, unless there are good reasons not to (e.g. strong uncertainties in future years, as is often the case with the markets and services in our scope)”. Given uncertainties in and beyond the first tender period – namely, the changes that will be introduced to the bond transparency regime and whether the existing CTP will remain, an alternative provider will be appointed, or multiple CTPs will be allowed to participate in the market – we believe it is appropriate to use a time horizon which captures the period for establishing the CT plus its operation under the first tender contract. The tender contract length is assumed to be five years for the purposes of this CBA.
- 46.** We do expect that certain costs will be incurred after the initial tender contract of 5 years – for example, potential switching costs between CTPs, or establishment costs for new CTPs – and that benefits will continue to accrue. However, at this stage it is not possible to produce realistic estimates of these.
- 47.** We also assume that benefits will accrue over time after the CT goes live and not all at once. This is because data users will need to receive, integrate, and learn to use the new data. There will be a period where CT data complements existing data sources before certain users decide to substitute away from them. Substitution will occur once data users have determined the value of CT data. This means that any transfers of revenue between firms will not be immediate.
- 48.** We assume that changes to the transparency regime for bonds will have been applied before a CT for bonds starts operating. However, given those proposals are not yet developed, we are unable to take account of their specificities in the current analysis of CT proposals.
- 49.** Subject to consultation responses, we assume that rules will require that data providers retain responsibility for the application of deferrals before sharing data with the CTP.
- 50.** The Edinburgh Reforms announcements included a commitment to have a UK CT framework in place by 2024. Our assumption is that this requires us to have rules in place by 2024.
- 51.** We make the following assumptions regarding the tender process to select the CTP:
- As discussed in Chapter 5 of the CP, bidders in the tender process bear a degree of demand uncertainty in terms of expected bond CT consumption. We assume that enough bidders will come forward such that competition *for* the market during tendering achieves the outcomes that might be expected through competition *in* the market.
 - The firm that wins the tender contract will operate the CT for the full term of its tender contract. The CTP tender contract will be time-limited and designed so that alternative CTP(s) could plausibly take on CT responsibility once the original tender expires. The FCA will specify in the tender contract the extent to which the CT's pricing will be constrained.

- 52.** With respect to our calculations, we rely on the following assumptions:
- Where quantitative estimates provided in survey responses or other sources are in EUR, figures are converted to GBP. The exchange rate used, as at 12 May 2023, is 1EUR = 0.87GBP.
 - We rely on the Standardised Cost Model (SCM) for certain cost estimates in the CBA. In early 2023, the underlying salary and firm size data were updated. The underlying assumptions remain the same as in Annex 1 of our [How we analyse the costs and benefits of our policies document](#). There may be small discrepancies in the numbers reported in tables due to rounding.
 - We also rely on assumptions in the SCM to categorise affected firms by size. The SCM categorises all regulated firms as large, medium, or small using data from annual FCA fee blocks.
- 53.** Additional assumptions are explained in the relevant sections.

Data

- 54.** The estimated costs and benefits of our proposals are based largely on a cost survey of affected market participants that was undertaken in April/May 2023. We surveyed 39 trading venues, APAs, and firms who had expressed an interest in becoming a bond CTP. The sample was selected by identifying the trading venues that trade bonds, and the APAs that publish those trades, from the FCA's [DRSP, MTF, OTF and SI Register](#). To that list, we added RIEs where bonds are traded and any firms who contacted us expressing an interest in becoming a CTP. Our purpose was to capture any firms with an existing interest in bond data generation and/or aggregation.
- 55.** We received a limited number of responses to the survey, and of these, fewer responses provided any quantification of the costs. Where quantitative estimates were provided, they tended only to cover a sub-set of costs surveyed. Some respondents chose to discuss the cost survey verbally but did not submit a formal written response.
- 56.** We also relied on data from the WTDR. The Request for Information (RFI) sent to firms as part of the WTDR included questions on the costs and benefits of a CT, but most questions were not asset class specific. Firms generally provided qualitative rather than quantitative responses to this survey.
- 57.** Given the limited number of survey responses, where relevant we also had regard to data in publicly available reports such as the Market Structure Partners (MSP) and Adamantia studies:
- MSP, a consulting firm, prepared "[The Study on the Creation of an EU Consolidated Tape](#)" for the European Commission. The study analyses the demand for consolidated European financial market data in equities and bonds. It examines the benefits that would arise from such data, the challenges to creating it, and recommends an architecture for future data consolidation.

- Adamantia, a consulting firm, conducted a feasibility study on a European fixed income consolidated tape on behalf of a group of global European sell-side and buy-side institutions. The study considered the functional and regulatory requirements as well as the business case supporting the establishment of a successful and economically viable CT for bonds.

- 58.** Finally, there is academic literature supporting the benefits we have identified. These cover benefits relating to improved transparency in markets including corporate bonds.
- 59.** We also rely on the SCM for certain cost estimates in the CBA. Details of the assumptions and methodology used are discussed in the sections of the CBA where the SCM is used.
- 60.** Our CBA estimates are subject to several uncertainties. Firms may have found it difficult when responding to our cost survey to envisage costs of implementing and operating the proposed policy framework without having sight of the final policy, potentially leading to the over or understatement of costs. A small sample size also reduces the reliability of conclusions that can be drawn from the data. In some cases, such as benefits, we were unable to provide any quantification due to data limitations. We discuss uncertainties in more detail in the Uncertainties section of the CBA.
- 61.** Given the limitations as detailed, we plan to engage with market participants and industry bodies following publication of our CP and ahead of our final policy statement being published. In doing so, our aim is to gather feedback on the cost estimates detailed within this CBA, the methodology used to calculate them, and the benefits of our proposals.

Summary of costs and benefits

- 62.** We set out the costs and benefits of our proposed framework for a bond CT. Where possible we provide quantitative estimates. However, it was not reasonably practicable to quantify all the costs and benefits of our proposals. In such instances, we provide a qualitative discussion.
- 63.** Overall, while we were not able to quantitatively estimate benefits, industry engagement and qualitative feedback suggest that these would exceed the expected costs of implementing this package of proposals. The benefits we expect to arise from the implementation of our proposals reflect reductions in the harms we have identified. We expect that the introduction of a bond CT will lower costs of accessing data, improve liquidity, lower trading costs, lead to more efficient portfolio allocation for investors, and lower costs for issuing bonds.
- 64.** Costs from the introduction of a bond CT under our framework will vary in nature and level by participant.
- Data providers will need to incur incremental one-off and ongoing costs as a result of our proposals. We provide a total cost estimate for the population of affected data providers.

- Potential CTPs have the option (but not the obligation) of bidding for provision of the CT. Firms will only make the business decision to participate if they expect that the benefits of becoming the CTP, weighted by the probability of winning the tender, outweigh their individual costs. If they decide to participate in the tender, bidders will need to incur incremental one-off costs. Given it is not possible to determine the precise number of bidders ex-ante, we only discuss per firm costs.
- The bidder that is selected to be the CTP will need to incur incremental one-off and ongoing costs to set up and operate the CT based on requirements contained in rules and the tender contract. However, in designing the CT framework, we have had regard to providing commercial incentive for a CTP to come forward and we expect that becoming the CTP represents a net benefit to the chosen firm.
- Data users will make a business decision whether to purchase the CT as consumption will not be mandatory. Should they decide to, data users will incur incremental one-off and ongoing costs to access and make use of the CT, but we expect that consuming the CT will represent a net benefit to the data user. Given it is not possible to determine the precise number of data users ex-ante, we only discuss per-user costs.
- The FCA will incur one-off costs of undertaking the tender process and authorising the chosen CTP and ongoing costs of supervising the CTP.

65. Costs and benefits will fall on different parts of the value chain in the market for bond trade data. Operationalisation of the CTP may reduce trade data revenues for data providers insofar as their existing users switch to consumption of the CT. This represents transfers between participants. Such impacts will depend on factors including competitive dynamics throughout the value chain.

66. The following table summarises the costs and benefits of our proposals.

Table 1: Summary of costs and benefits

Benefits			
<ul style="list-style-type: none"> • Lower costs of accessing data • Improved liquidity and lower trading costs • More efficient portfolio allocation for investors • Lower costs of issuing bonds • Other benefits (market resiliency, CTP requirements, re-use licensing, tool for regulators, academic and non-professional use) 			
Participant Type	One-off Costs	Ongoing Costs (per annum)	Additional Impacts
Data providers (total population costs)	Familiarisation and legal review costs: <£10,000 Contributing data to the CTP: £1.6m – £3.3m	Contributing data to the CTP: £0.5m – £1.0m	Reduction in trade data revenue (not quantified)
Bidders (per firm costs)	Familiarisation and legal review costs: £10,000 – £13,000 Participating in tender: £57,000 – £203,000	N/A	
The CTP	Set up: £4m – £10m Organisational and governance requirements: £76,000 – £152,000 SYSC 15A: £415,000 Adequate capital (not quantified)	Operation: £2m – £7m Organisational and governance requirements: £57,000 – £114,000 SYSC 15A: £165,000 Adequate capital (not quantified)	Revenue from the sale of the CT (not quantified) ¹
Data users (per-user costs)	Connectivity and integration costs (not quantified)	Connectivity costs (not quantified) Licence fees (not quantified)	
FCA	Undertaking the tender process (not quantified) Authorising the CTP: £8,000 ²	Supervision of the CTP: >£29,000 ³	

1 In designing the CT framework, we have had regard to providing commercial incentive for a CTP to come forward and we expect that becoming the CTP represents a net benefit to the chosen firm.

2 This cost is given without prejudice to any future consultation on CTP authorisation fees, and should therefore be treated as an estimate.

3 This cost is given without prejudice to any future consultation on CTP supervision fees, and should therefore be treated as an estimate.

Benefits

67. In this section we describe the benefits we expect to arise from the implementation of our proposals. The benefits set out here reflect reductions in the harms described in the section on the Problem and rationale for intervention.

- 68.** Without an existing bond CTP in the UK or similar frameworks having already operated in other jurisdictions, it is difficult to predict the exact benefits that will arise. However, we know that better information will improve the functioning of bond markets and that the benefits of this information will be material. Given this difficulty, the following discussion therefore focuses on qualitative benefits of the proposed bond CT framework.

Lower costs of accessing data

- 69.** Firms using post-trade data can benefit directly from the CT in that it will provide a complete, authoritative source of overall trading activity, to which they either do not currently have access or must collate from multiple sources of data. Respondents to the WTDR RFI told us that, while some data vendors offer consolidated datasets, there is not a perfect substitute for a CT. Regarding perhaps the closest potential alternative – the 15-minute delayed data offered by trading venues and APAs – one respondent said this is of limited use for bonds because data are published in inconsistent data formats so are not easily machine-readable. As such, CT users can benefit from the time and expense saved by not having to aggregate data from multiple sources.
- 70.** The design of the CTP tender, combined with a single set of FCA-mandated licensing rules for the CTP, should make it easier for firms to manage their data usage and costs. Several respondents to the WTDR RFI indicated – and as reflected in the Adamantia and MSP studies – post-trade data is used to perform functions across their businesses. Where the CT can replace more expensive data offerings currently being used, firms can directly benefit from this cost saving. Asked about use cases for a CT, respondents offered examples including transaction cost analysis, pricing models, risk management, and compliance monitoring. A post-trade bond CT could therefore help improve data inputs in such areas on an ongoing basis.
- 71.** An affordable CT may be of most benefit to smaller investors and other data users who are perhaps less able to afford access to the multiple existing data offerings. By giving these data users better visibility of (on-venue and OTC) trading and liquidity, a CTP may give, for example, smaller buy-side firms the chance to invest in the bond market or trade on venues they otherwise would not be able to consider.
- 72.** Additionally, the CT framework can indirectly lead to further positive outcomes for data users, by encouraging greater competition in the bond data market. It would provide an additional option for bond data users, as a CTP can bring about both coverage and quality improvements from across venues. The resulting increase in competition among bond data providers is expected to lead to more competitively priced licences and higher quality data from existing providers. For instance, establishment of the CT could lead to the CTP, data providers, and market data vendors attempting to differentiate their data aggregation products and services from that of competitors.

Improved liquidity and lower trading costs

- 73.** A CTP is likely to aid price formation and improve execution outcomes by providing better access to trade data and a clearer view of overall trading. This benefit was identified by firms responding to the WTDR RFI. Greater access to trade data can potentially increase competition between liquidity providers. It can also encourage investors, who may not trade when faced with disparate datasets, to participate in the bond market more actively, further contributing to liquidity.
- 74.** Greater access to data can also directly benefit intermediaries in meeting their best execution obligations. It should provide better insights into which execution venues offer the best liquidity in different instruments and, by providing better information on the overall level of trading, assist in determining the best approach to executing an order to minimise market impact. It also directly benefits investors by allowing them to better assess their intermediaries' execution quality.
- 75.** Furthermore, by reducing the risks associated with trading, the transparency offered by a CT can place downward pressure on transaction costs for investors. The precise effect of transparency afforded by a CT on trading costs cannot be known ex-ante. Several studies looking at the introduction of TRACE – the CT for bonds in the USA – argue that the resulting transparency the CT offered is associated with lower trading costs for investors. Edwards, Harris, and Piwowar (2007) for instance, find this transparency can lower transaction costs in US corporate bond trades by around 5 basis points.¹⁴ While the introduction of TRACE in the US is potentially indicative of the benefits a bond CT in the UK could bring, it is not a direct proxy due to differences between the market structure and rules in the US and UK.
- 76.** Traders lacking information about the overall liquidity of the market may find themselves submitting orders that inadvertently move the market. A CT offering an accurate picture of overall levels of trading in different bonds could therefore help reduce this risk. In its report, MSP reported interview responses from 17 bond asset managers who were asked to estimate the cost of such slippage. More than 40% of those respondents estimated the cost to their annual trading strategies of not having sufficient data to properly size their orders was at least 5 basis points.¹⁵ An indirect benefit of the CT could therefore be to help reduce this cost to buy-side firms.
- 77.** The emergence of the CTP can indirectly affect markets by lowering barriers to entry for smaller trading venues. Indeed, greater availability of data through the CTP could increase the visibility of smaller venues and OTC trading. A CTP may therefore create an environment where smaller trading venues can better compete with larger trading venues in the trade execution market which could lead to improved liquidity and lower costs of trading.

14 For an assessment of TRACE's effect on trading costs in the US, see for instance: Bessembinder, H. and Maxwell, W., 2008, *Transparency and the Corporate Bond Market*, Journal of Economic Perspectives, 22:2, pp. 217-234, <https://pubs.aeaweb.org/doi/pdfplus/10.1257/jep.22.2.217>
Bessembinder, H., Maxwell, W. and Venkataraman, K., 2006, *Market transparency, liquidity externalities, and institutional trading costs in corporate bonds*, Journal of Financial Economics, 82:2, pp. 251-288, <https://www.sciencedirect.com/science/article/abs/pii/S0304405X06000699>
Edwards, A., Harris, L. and Piwowar, M., 2007, *Corporate Bond Market Transaction Costs and Transparency*, Journal of Finance, 62:3, pp. 1421-1451, <https://www.jstor.org/stable/4622305>

15 See MSP report (p43, Figure 16)

More efficient portfolio allocation for investors

- 78.** As noted by several respondents to the WTDR RFI, a CT can help improve market understanding amongst its participants. In response to more complete market data, and a reduction in both the cost and perceived risk of trading bonds, investors can make more informed decisions about their portfolio composition. These new portfolios can better reflect investors' needs and risk appetite. This in turn can lead to a more efficient allocation of capital for investors.
- 79.** Furthermore, more complete bond market data may help with derivative pricing, as it provides greater access to information on prices and a clearer picture of overall trading levels of cash bonds which are the underlying instruments for some financial derivatives. This in turn may encourage greater participation in derivative markets, supporting sell-side firms offering bond derivatives, and providing firms with greater choice and ability to use these tools to manage risk and enhance returns.

Lower costs of issuing bonds

- 80.** We expect that lower costs of accessing bond data and the resultant lower trading costs can encourage bond trading and investment that may not otherwise occur. This, in turn, can lower the cost of debt capital for firms, helping to encourage debt issuance in the economy. Brugler, Comerton-Forde, and Martin (2022) show that bond issuance costs are lower due to the mitigation of information asymmetry brought about by TRACE-mandated post-trade transparency in US secondary markets. Furthermore, the benefit may particularly help new and smaller firms, which may have little or no history of bond issuance. The authors estimate that yields on new US bond issuances with fewer than median underwriters or previous issues were between 12 and 21 basis points lower after the introduction of TRACE. Though again, we note the limitations of using the introduction of TRACE as a proxy for the UK.

Other benefits

- 81.** The introduction of the bond CT may improve the resiliency of bond markets by providing more complete visibility of trading, that allows traders to adapt more easily in circumstances in which a significant trading venue suffers an outage.
- 82.** In Chapter 6 of the CP we describe our proposed rules on organisational, prudential, and governance requirements. These seek to ensure that the CTP functions in a way that is resilient, takes account of the feedback of data providers and users, and operates on a non-discriminatory basis. Introduction of the CT should therefore indirectly enhance market integrity and protect the interests of consumers. Linked to resiliency, the rules also seek to ensure that if an existing CTP withdraws from the market, it will have sufficient financial resources to provide for orderly wind down or transfer of its operations to an alternative CTP.
- 83.** If the CTP operates re-use licensing, this provides an opportunity for market data vendors and data providers to create a derived service from the CT. In conversations with industry, we were told that a high-quality CT makes analytics offerings more valuable. Just as firms using the data internally can benefit from better inputs, firms

selling analytics tools can directly benefit from the CT as they are able to offer better products based on it, potentially growing the market for such products.

- 84.** Greater transparency allows not just for firms to be better able to manage idiosyncratic risks, but also for more diverse stakeholders to better assess market risk. Given the scope of the CT and importance of bond markets to the economy, a CT can be a useful tool for regulators interested in assessing financial stability risks.
- 85.** We expect that the CTP would make data available for free or at low cost to academic and non-professional users through a Graphical User Interface (GUI). Allowing academic users easier access to UK bond trade data affords greater scrutiny of our bond market and allows for clearer analysis of it, to the benefit of UK capital markets. While the CT may encourage participation from retail investors in the bond market if they can better see and consider market data, respondents to the WTDR RFI had varying views on the extent to which there will be demand from retail investors for the CT.

Secondary International Competitiveness and Growth

- 86.** Our objective is that a CT will allow access to high quality trade data at fair and reasonable prices, in turn making the UK more competitive in the global market and potentially facilitating GDP growth.
- 87.** Our work on the CT aligns with the FCA's secondary international competitiveness and growth objective along two main axes:
- We are ensuring that our financial services framework takes account of and keeps pace with other jurisdictions, supporting our position as a world-leading place to invest and for businesses to raise capital.
 - This, in turn, may increase the size and liquidity of the UK financial markets, which lowers costs and increases productivity. The finance sector can also help efficient business investment in the wider economy, further increasing productivity and growth and making the UK more internationally competitive.
- 88.** This policy may lead to growth directly in the financial services sector by encouraging bond market participation and indirectly in the broader economy, by reducing the costs of issuing bonds (and therefore the cost of debt capital), which may help to finance investment in the economy.
- 89.** The establishment of the CT could lead to the CTP, data providers, and market data vendors attempting to differentiate their data aggregation products and services from that of competitors. This should benefit consumers by simultaneously increasing the variety of data products they have access to, while reducing the prices of those products. In turn, this should increase the relative competitiveness of the UK's trade data products and services. We assume that potential CTPs undertake a calculated risk in bidding for the tender, accounting for the possibility that an alternative CTP will be appointed. If a CTP withdraws from the market, we will rely on rules and our powers to require that the incumbent CTP continues operating until an alternative provider is able to operationalise a replacement CT.

- 90.** Tender and rules requirements in the UK CT framework will constrain the chosen provider through competition for the market such that its prices resemble a competitive, cost-based outcome that might be expected under competition in the market.
- 91.** When considering the design of the framework, and in light of the new secondary objective, we have had regard to other overlapping regulatory initiatives and attempted to minimise undue firm costs – for example, allowing a period of familiarisation with changes to the bond transparency regime before firms are expected to operationalise the CT, and setting the scope of the CT itself consistently with those transparency regime requirements. Design of the CT framework itself aims to minimise unnecessary costs for firms when applying the framework.

Costs

- 92.** Costs from the introduction of a bond CT under our framework will vary in nature and level by market participant. The regime will only impose direct costs on data providers by requiring them to build and maintain a connection to the CTP.
- 93.** Bidders, the chosen CTP, and data users only face costs because of their own decisions. Bidders and the CTP will decide if they are willing to bear the costs of the tender and authorisation processes and the costs of being an authorised CTP. The costs for a CTP may be larger the less of the infrastructure needed to operate a CTP the firm has before deciding to bid.
- 94.** Data users who decide to consume the CT might be able to offset some of the costs involved against savings on purchases of existing data services. The extent to which they can do this will depend on the extent to which the CT is a substitute for existing data.
- 95.** In this section we first provide a qualitative discussion of costs followed by quantitative estimation where possible.

Costs to data providers

- 96.** Data providers will need to incur familiarisation, one-off, and ongoing costs because of the rules we are proposing. Data providers may also face indirect costs from the introduction of the CT.

Familiarisation costs

- 97.** We expect that data providers will incur costs from familiarising themselves with the rules we are proposing. In total, we expect there will be 21 trading venues/APAs, 8 large and 13 medium, who will likely seek to understand our package of proposals. We are using our SCM to estimate familiarisation costs.

- 98.** We anticipate that there will be 10 pages of policy documentation with which data providers will need to familiarise themselves. Assuming that there are 300 words per page and a reading speed of 100 words per minute, it would take around 30 minutes to read the policy documentation. We assume a cost of around £60 per hour.
- 99.** It is further assumed that 20 compliance staff at large firms and 5 compliance staff at medium firms read the document. We also expect those affected will undertake a legal review of the new requirements against current practices. We, again, use the SCM to estimate these costs. There is around 1 page of legal instrument with relevance to trading venues and APAs to review. We assume a cost of around £70 per hour.
- 100.** In total, we expect total one-off industry-wide costs of familiarisation and legal review to be of a nominal amount, which we have assessed to be less than £10,000.

One-off costs

- 101.** Subject to our final rules, data providers will be required to:
- provide data on instruments captured in the Markets in Financial Instruments Directive (MiFID) category of bonds, excluding Exchange Traded Notes (ETNs) and Exchange Traded Commodities (ETCs), to the CTP
 - provide data to the appointed CTP on preferential terms, free of charge and in accordance with existing data quality requirements
 - connect to the CTP's standardised API
 - apply deferrals before sharing data with the CTP
- 102.** Data providers will need to incur one-off costs to connect to the standardised API that will be used by the CTP to receive data from the providers. IT development costs include developing or adapting software to be able to connect and transmit data to the API in the required format and establishing the required connectivity to the API. Firms may be able to use existing connectivity dependent on the setup of the API, minimising incremental costs. However, if existing connections cannot be used, firms may need to build new connections or contract with a third-party to establish them. Firms may also need to incur incremental hardware costs if their existing hardware is not sufficient. Finally, the data providers will need to incur User Acceptance Testing (UAT) costs associated with limited and reasonable checks that data is successfully transmitted and received by the API in an appropriate manner.
- 103.** We also expect firms to incur one-off governance costs including, though not limited to, creating any incremental corporate functions and to onboard with the CTP. There may also be one-off legal costs associated with establishing contracts with the CTP and agreeing terms and conditions. Firms may need to incur additional compliance costs to establish new compliance processes insofar as they represent an increase relative to business-as-usual activities. Finally, firms will need to incur training costs associated with training the required staff.
- 104.** In the baseline, data providers are already expected to comply with existing data quality requirements and therefore we do not expect them to incur additional incremental costs related to complying with these requirements. Moreover, data providers are

currently responsible for the application of deferrals, and we do not intend to change this. Therefore, we do not expect any incremental costs related to deferrals.

Ongoing costs

- 105.** Data providers will also incur ongoing costs. The software, connectivity, and hardware will need to be maintained. The software will need to be updated as and when changes are made to the API that require data providers to adjust the format and/or technical specification of the data transmitted to the API. Connectivity will need to be maintained requiring firms to pay ongoing fees for any services they use, and systems may need to be upgraded to maintain the resilience of the connectivity. There may be ongoing costs to replace hardware insofar as this represents an increase relative to business-as-usual costs. Finally, the data provider will need to have systems, processes, and staff in place on an ongoing basis to troubleshoot any issues that may arise in the transmission of data to the API to promptly rectify them in coordination with the CTP.
- 106.** Additional ongoing costs to be incurred may include governance, legal, compliance, communication, and training costs insofar as they represent an increase over business-as-usual costs.

Estimating costs for data providers

- 107.** We asked data providers to provide estimates of one-off and ongoing costs in the cost survey. While all data providers that responded to the cost survey provided some qualitative discussion of costs, only a limited number of respondents provided quantitative cost estimates. To provide a more representative estimate of one-off and ongoing costs we use the SCM calibrated to reflect the responses to provide a range of costs for the total population of affected firms.
- 108.** Respondents that provided quantitative estimates made different assumptions regarding the method and infrastructure that would be used to transmit data to the CTP and noted that the exact costs would be dependent on the final requirements. Nonetheless, the estimates provided were broadly consistent. However, given the limited sample size, these estimates are likely not representative for all data providers as costs are likely to be dependent on a firm's current data reporting arrangements, size, and complexity.
- 109.** Survey respondents that did not provide quantitative responses noted that they did not have enough details of the requirements to provide a breakdown of costs. Responses included the view that if requirements were similar to current arrangements, costs would be manageable within existing budgets, but a one-size-fits-all approach to data, UAT, connectivity, and certification may be onerous for smaller data providers. Other respondents noted that costs would be higher if the data providers needed to build a dedicated connection to the CTP, build new infrastructure to which the CTP connects, or build their own systems for exception management.
- 110.** If trading venues fulfil their regulatory reporting obligation under the second Markets in Financial Instruments Directive (MiFID II) by making public their trade data through an APA, costs associated with the requirement to transmit data to the CTP could be

incorporated into their existing costs of using the APA service. Therefore, and there is nothing in our proposed rules that prevents it, if a trading venue fulfils its regulatory obligation to provide data on specified terms to the CTP by using the APA who is making public their trade data, the incremental costs to trading venues relying on such arrangements are limited to familiarisation and legal costs, in addition to any incremental costs the APAs may impose on trading venues to provide this service over and above current costs.

- 111.** We use the SCM to calculate a range of costs for the population of data providers, taking into account responses provided by firms when calibrating the model. Based on size assumptions in the SCM, 8 firms are classified as large and 13 are classified as medium. No firms in the population of data providers are classified as small. While assumptions in the SCM serve as a good proxy for the one-off and ongoing costs data providers will need to incur, they do not reflect the exact details of the work firms will need to undertake. To account for this and the other uncertainties discussed below, we provide an upper and lower bound estimate that reflects a high and low assumption for the number of total person days needed for the project.
- 112.** We calculate one-off costs by assuming the number of total person days needed to deliver the IT project by an overall team consisting of a business analysis team, design team, programming team, project management team, test team, and senior management. We use assumptions contained in the SCM for the relative proportions of the different sub-teams and their daily salary costs including overheads for large and medium firms. This provides us with the average daily salary including overheads for the overall project team which we then multiply by the total person days to determine the cost per firm. We summarise our assumptions and the costs per firm in the table below:

Table 2: Estimates of per firm one-off costs for data providers

Firm Size	Estimate	Total Person Days	Average Daily Salary Including Overheads	One-off Cost per Firm
Large	Upper	500	£433	£217,000
	Lower	250	£433	£108,000
Medium	Upper	300	£399	£120,000
	Lower	150	£399	£60,000

- 113.** To calculate annual ongoing costs, we use the same methodology. While the team composition and salary assumptions in the SCM are based on the delivery of a one-off project, we use them to proxy the ongoing costs firms are expected to incur. This is a conservative assumption as the ongoing maintenance of an IT system is likely to require a less complex team than its initial creation. Therefore, we make assumptions on the required total person days to reflect this. We summarise our assumptions and the costs per firm in the table below:

Table 3: Estimates of per firm annual ongoing costs for data providers

Firm Size	Estimate	Total Person Days	Average Daily Salary Including Overheads	Ongoing Cost per Firm (per annum)
Large	Upper	150	£433	£65,000
	Lower	75	£433	£32,000
Medium	Upper	90	£399	£36,000
	Lower	45	£399	£18,000

- 114.** In the table below, we summarise familiarisation and legal review (which we discussed earlier in this section), one-off, and ongoing costs for the total population of affected data providers. For total ongoing costs we provide a per-annum estimate as well as the net present value for the 5-year operation of the CTP under the first tender contract. We assume that data providers only incur one-off costs in the first period to build the required IT systems required to contribute data to the CTP and incur ongoing costs to maintain the IT systems for the subsequent 5 years of the CTP's operation. We use standard HMT appraisal guidance assumptions for the discount rate.

Table 4: Estimates of total one-off and ongoing costs for data providers

Type of Cost		Total One-off Costs for all Data Providers	Total Ongoing Costs for all Data Providers (per annum)	Total Ongoing Costs for all Data Providers (5-year operation of the CTP)
Familiarisation and Legal Review		<£10,000	-	-
Contributing Data to CTP	Upper Estimate	£3.3m	£1.0m	£4.5m
	Lower Estimate	£1.6m	£0.5m	£2.2m

- 115.** There is uncertainty in the estimates provided. Actual costs incurred by firms will depend on many factors such as the final specification of the standardised API to which data providers will need to connect (subject to consultation responses), firm-specific factors, and the salaries present at the time the project is carried out. To be conservative, we assumed that each data provider in the population will incur the full one-off and ongoing costs associated with the project. However, as we discussed above, certain firms may fulfil their regulatory obligation to provide data on specified terms to the CTP by using the APA who is making public their trade data, thereby likely incurring lower incremental costs than estimated in the tables.

Indirect Costs

- 116.** Currently, certain data providers earn revenue from selling trade data to users. The introduction of the CTP may result in some data users substituting away from data sold by the data providers to data sold by the CTP. This may result in a reduction of revenues earned by the data providers. However, the scale of any potential revenue loss will depend on many factors such as substitutability between the CT and other data

products and the competitive response of data providers. This makes the quantification of this cost to data providers infeasible. We discuss this further in the [Impact on stakeholders](#) section of the CBA.

Costs to bidders

- 117.** We expect that firms bidding to become the CTP will incur costs to participate in the tender process. These costs will be incurred regardless of whether the firm is successful and is appointed the CTP.
- 118.** We provide per firm estimates of costs to bidders as it is not possible to determine the precise number of firms who will decide to participate in the tender process ex-ante. Firms will only make the business decision to participate should they expect that the benefits of becoming the CTP, weighted by the probability of winning the tender, outweigh their individual costs.
- 119.** Bidders will incur costs from familiarising themselves with the rules we are proposing. We anticipate that there will be 65 pages of policy documentation with which bidders will need to familiarise themselves. Assuming that there are 300 words per page and a reading speed of 100 words per minute, it would take around 3.3 hours to read the policy documentation. We assume a cost of around £60 per hour.
- 120.** We use our standard assumption that 20 compliance staff at large firms and 5 compliance staff at medium firms read the document. However, we recognise that additional staff may need to review the document to prepare the bid. We also expect that bidders will undertake a legal review of the requirements. We, again, use the SCM to estimate these costs. There are around 39 pages of legal instrument with relevance to bidders to review. There are also a further 16 pages of legal instrument related to SYSC 15A, which we discuss in the [Costs to the CTP](#) section, that bidders will need to review. We assume a cost of around £70 per hour.
- 121.** In total, we expect one-off familiarisation and legal review costs to be of a nominal amount, which we have assessed to be £13,000 for a large firm and less than £10,000 for a medium firm.
- 122.** In addition to familiarising themselves with policy documentation and legal text contained in this CP, bidders will need to incur costs related to familiarisation with the full tender document and preparing an internal business case and plan. The bidders will then need to prepare their bidding strategy, submit relevant documentation as part of the pre-bidding stage, and participate in the auction. These costs will vary by bidder and may depend on bidder size, complexity, efficiencies from current activities, and sunk costs that have been incurred prior to this consultation. The costs may also depend on the final format of the tender process, but we do not expect them to vary significantly based on this.

- 123.** A limited number of firms provided cost estimates of participating in the tender process through the cost survey and our engagement with them. The estimates provided varied significantly and depended on what firms included in their estimates. For example, estimates that included sunk costs of developing technology proof-of-concepts likely represent the upper range of costs to bidders as this is not a requirement and firms may choose to only undertake detailed technological development if chosen as the CTP.
- 124.** Given the limited responses, we use the SCM to calculate a more representative range of per firm costs, considering responses provided by firms. We provide estimates for medium and large firms based on SCM assumptions for a one-off change project as a proxy for preparing the bid. The estimates we provide do not include any costs related to developing technology proof-of-concepts as this is not required to participate in the tender. While assumptions in the SCM serve as a good proxy for the one-off costs, they do not reflect the exact details of the work firms will undertake. To account for this and the other uncertainties discussed below, we provide an upper and lower bound estimate that reflects a high and low assumption for the number of total person days needed for the project.
- 125.** We calculate one-off costs by assuming the number of total person days needed to deliver the change project. We use assumptions contained in the SCM for the relative proportions of project managers to the project team and their daily salary costs including overheads for medium and large firms. This provides us with the average daily salary including overheads for the overall project team which we then multiply by the total person days to determine the cost per firm. We summarise our assumptions and the costs per firm in the table below:

Table 5: Estimates of per firm one-off costs for bidders

Firm Size	Estimate	Total Person Days	Average Daily Salary Including Overheads	One-off Cost per Firm
Large	Upper	500	£406	£203,000
	Lower	250	£406	£101,000
Medium	Upper	300	£379	£114,000
	Lower	150	£379	£57,000

- 126.** There is significant uncertainty in the estimates provided. Actual costs incurred by firms will depend on many factors such as the final details of the tender process, firm-specific factors, and the salaries present at the time the project is carried out.

Costs to the CTP

- 127.** The bidder that is selected in the tender process will need to incur incremental one-off and ongoing costs to set up and operate the CT based on requirements contained in rules and the tender contract. These can be broadly categorised as operational costs, administrative costs, and compliance costs. We first explain these costs qualitatively and then provide a quantitative estimate. Finally, we discuss costs arising from additional organisational, prudential, and governance requirements.

- 128.** The CTP will earn revenues from selling data. As noted above, the bidder that is selected would already have considered the business case prior to submitting their bid and would have concluded that the expected benefits of becoming the CTP outweigh their individual costs. While we provide an estimate of the gross costs to the CTP below, in designing the CT framework we have had regard to providing commercial incentive for a CTP to come forward and we expect that becoming the CTP represents a net benefit to the chosen firm.
- 129.** We also note that the costs the CTP will need to incur once selected will depend on the systems and processes they already have in place as part of their existing business and the amount of preparation that they have already conducted prior to bidding and during the bidding process. For example, firms that have existing systems and platforms or built proof-of-concepts that can be used to some extent may face lower incremental costs to set up the CT if selected relative to firms that are starting from a less advanced position, all else equal. The selected bidder will also be able to leverage work done during the tender process and any cost incurred while demonstrating that it meets minimum service quality requirements during the pre-bidding stage will contribute to the successful bidder's authorisation application proper.

One-off costs

- 130.** The CTP will need to incur incremental one-off operational costs. This includes IT development costs to create the software and hardware infrastructure for the CTP to operate. The CTP will only need to incur incremental cost which will depend on the systems that the firm already has in place. With industry, we discussed four main infrastructural elements that the CTP will need. First, the CTP will be required to build API infrastructure to receive data.¹⁶ Second, the CTP will need software and hardware to receive, quality check, clean, and aggregate data. Third, to distribute the data to users, we are proposing that the CTP offer machine- and human-readable dissemination formats. Finally, we are proposing that the CTP be given the option of offering historical data (though coverage would not need to extend to the period before the start of the CT), which would form a separate offering from the CTP's core CT. The CTP will only choose to offer historical data if it expects that the benefits from doing so outweigh any expected costs. Similarly, the CTP will be given the option of providing a deferral checking service but will not be required to do so. The costs of offering historical data and deferral checking services are therefore not factored into the present CBA analysis.
- 131.** In addition to the core infrastructural elements, the CTP will need to have additional IT systems such as customer invoicing and billing and a user facing website. There will also be associated UAT, quality assurance, and project management costs.
- 132.** The CTP will also need to incur incremental one-off administrative costs. The CTP will need to implement business processes and hire staff for corporate functions associated with the CTP insofar as they represent an increase over business-as-usual costs. They will also need processes and staff in place to onboard and manage data providers, as well as data users, including invoicing, billing, licensing, and support. Legal costs may be

¹⁶ Per the consultation paper, our current preference is for the CTP to produce a standardised, open-source API that data providers must build to.

incurred to negotiate terms and conditions and establish contracts with data providers and data users. Finally, the CTP will need to incur marketing, sales, and training costs.

- 133.** The CTP will also need to incur incremental one-off compliance costs. The main compliance cost will be authorisation, where the chosen CTP will need to submit a formal application for authorisation. MAR 9.2 covers authorisation and verification requirements. The successful CTP will need to provide, as part of its application for authorisation, information on the organisation itself, corporate governance arrangements, members of its management body, conflicts of interest, organisational requirements regarding outsourcing, business continuity and back-up facilities, testing and capacity arrangements, security, management of incomplete or potentially erroneous information, other services provided by the CTP, and publication arrangements. Data Reporting Services Providers (DRSPs), including CTPs, must pay an authorisation application fee of £5,000, with a 50% discount for subsequent applications.¹⁷ If a firm has previously applied for authorisation in any capacity other than that of a CTP, that application will have no bearing on the fee for applying to become authorised as a CTP other than that the previous application precipitates a discount on the subsequent application. As above, the selected bidder will also be able to leverage work done during the tender process and any cost incurred during the pre-bidding stage (whereby bidders are assessed against minimum service quality standards) will contribute to the successful bidder's authorisation application proper. Additionally, the CTP may need to incur one-off costs to create the required functions to meet supervisory requirements, insofar as they represent an increase over business-as-usual costs.

Ongoing costs

- 134.** We expect the CTP to incur incremental ongoing costs associated with the operational, administrative, and compliance costs discussed above, insofar as they represent an increase over business-as-usual costs. With regards to operational costs, the API infrastructure, software, and hardware created to operate the CT will need to be maintained and upgraded. Where the CTP is relying on third-party services, they will need to pay ongoing fees. Firms we engaged mentioned that rather than the CTP maintaining its own servers, the CT could be hosted on the cloud. If a firm makes the commercial decision to rely on cloud-computing, they will incur ongoing fees to do so. The CTP will need to have systems, processes, and staff in place on an ongoing basis to troubleshoot any issues and to ensure the resiliency of the CT.
- 135.** Based on conversations with firms we understand that there may be a marginal cost to the CTP for each new user that accesses the CT. While the administrative process for onboarding a user can largely be automated, there can be non-negligible costs to scale computing power as the CT user base grows. These costs will be dependent on the specific technical set-up the CTP chooses but could include the CTP needing to purchase additional hardware, connectivity, or cloud-computing capacity.

¹⁷ This cost is given without prejudice to any future consultation on CTP authorisation fees, and should therefore be treated as an estimate.

- 136.** Ongoing administrative costs for the CTP will include costs related to staff and processes that have been set up to operate the CTP. This relates to costs associated with ongoing legal, communication, client management, and training functions. Similarly, the CTP will incur ongoing compliance costs to meet supervisory requirements, insofar as they represent an increase over business-as-usual costs.
- 137.** Given a CTP will be authorised by the FCA it will incur, as discussed in the section on Costs to FCA, annual fees to pay for supervision. DRSPs, including CTPs, are charged a proportionate fee for the FCA to undertake ongoing supervision of the firm. Previously, DRSPs were charged a flat fee of £29,000 per year to be supervised, plus a 50% flat fee for each additional DRS for which the DRSP has authorisation. We expect that the chosen CTP may be substantially larger than a firm that would attract the minimum DRSP supervisory fee. Therefore, the firm's supervisory fee is expected to be greater than £29,000.¹⁸ Firms pay for the supervision of each of the permissions they offer, with no concessions made for the number of those permissions when it comes to supervisory costs.

Estimating costs for the CTP

- 138.** We asked firms considering bidding for the CTP to provide estimates of one-off and ongoing costs associated with a bond CT in our cost survey. The RFI sent to firms as part of the WTDR also included a question on the costs of establishing and maintaining a CT, but the question was not asset-class specific. Across both surveys we received a very limited number of responses that provided any quantification of the costs. Where quantitative estimates were provided, they often only covered a sub-set of costs a CTP is expected to incur. To provide a more reliable estimated range of costs we supplement the information received from firms with additional publicly available estimates for the creation a CT.
- 139.** The quantitative estimates provided in response to the cost survey varied significantly. It is likely that respondents made different assumptions about what would be required of a CTP. Additionally, estimates provided only covered a sub-set of costs a CTP is expected to incur, mainly the technical build and operation of the CTP. Finally, respondents were asked to provide incremental costs that they would expect to incur to set up the CTP. Respondents tended to already be involved in processing and aggregating trade data meaning their estimates may not be fully representative of the cost of building the CT from the ground up.
- 140.** The WTDR RFI was conducted in the Summer of 2022. At that point, we were in the early stages of CT framework development and as such, respondents did not have clarity upon which to base their estimates for the costs of implementing the framework. Most firms that responded commented that they required more information to provide cost estimates, but some did provide a qualitative overview of types of costs they would expect to incur which we have reflected in the discussion of one-off and ongoing costs above. Certain firms referenced estimates provided in the MSP and Adamantia studies for an EU CT, which we discuss below, and noted that actual costs may be lower as the UK is a smaller market than the EU and that, depending on what requirements are, the

¹⁸ This cost is given without prejudice to any future consultation on CTP supervision fees, and should therefore be treated as an estimate.

CT could be set up for less in practice. However, this observation was not specific to a bond CT. Where quantitative estimates of one-off and ongoing costs for a bond CT were provided, we have considered them when determining the estimated cost range we discuss below.

- 141.** We also considered estimates provided by MSP and Adamantia for an EU CT. This should be caveated with the following points:
- Existing studies of the cost of establishing a CT tend to focus on either the EU or the US. The EU is in a similar position to the UK in that it is still developing its CT framework in the absence of forthcoming CTPs to date.
 - There are also some significant similarities between bond markets in the UK and EU. Many bond trading platforms, both in the dealer-to-client and dealer-to-dealer markets, are present in both the UK and EU. ICMA [data](#), provided by Propellant Digital, shows there is a similar nominal value of bond trading in sovereign bonds and corporate bonds taking place in the UK and EU.
 - Differences between the UK and EU markets include the fact that there is a narrower geographical spread of trading platforms in the UK and fewer trading venues and APAs in the UK.
- 142.** As part of their study, MSP provided a high-level organisational design of an exclusive CTP and the technical design required to provide the CT data. The designs and budgets were based on extensive discussions with vendors, technology providers, and organisations with similar mandates and technical requirements. MSP assumes that one CTP would provide pre-trade equities and post-trade equities and bonds data and estimates set up costs to be in the order of €11m (£9.6m). Specifically, this includes €9m (£7.8m) for post-trade data in equities and bonds and an additional €2m (£1.7m) for pre-trade data in equities. MSP estimates running costs for all asset classes to be in the range of €6m (£5.2m) to €7m (£6.1m). Given that our proposals only cover a UK post-trade bond CTP, expected costs are likely to be lower than MSP's estimates.
- 143.** The Adamantia study considered the functional and regulatory requirements as well as the business case supporting the establishment of a successful and economically viable CT for bonds. Adamantia's estimates are based on a formal RFQ issued to the technology firms engaged in developing technology solutions for the CTP. Important assumptions include that there will be a single CTP who will cover post-trade bond data. The CT will be near-real time, will receive data from all EEA venues with no revenue sharing, and will operate on a cost recovery basis. The estimated one-off build costs are circa €7.5m (£6.5m) and annual running costs are estimated to be circa €6m (£5.2m).
- 144.** Considering all the costs and evidence we discussed, we provide an indicative range that approximates the costs the chosen CTP will need to incur. One-off costs are estimated to be approximately £4m to £10m. Per annum ongoing costs are estimated to be approximately £2m to £7m. Actual costs incurred by the CTP will depend on many factors such as the systems and processes the firm may already have in place. Moreover, the CTP is being given significant flexibility in how it sets up the CT subject to compliance with the requirements set out in rules and its tender contract. To reflect this uncertainty, we provided an upper and lower bound estimate.

Organisational, prudential, and governance requirements

- 145.** Here we discuss proposed organisational, prudential, and governance rules to the extent that the CTP will incur incremental costs when complying with these provisions. These costs are assumed to be separate from the estimates we have provided above.
- 146.** We are inserting in rules, and simultaneously revoking in the technical standards, requirements that had previously been housed in the technical standards. This CBA does not assess these, as they are effectively a restatement of existing provisions. As such, we do not consider that there will be an increase in costs or that any such cost will be of minimal significance. A similar case exists for firm-facing requirements in the Data Reporting Services Regulations (DRSRs) that are being moved across to MAR 9.
- 147.** We are also proposing several new rules that would apply to the chosen CTP, to be inserted in MAR 9 and which are summarised in Chapter 6 of the CP. These build on the existing requirements for CTPs and include rules relating to conflicts, business continuity, security, separation of business functions, outsourcing, operational resilience (SYSC 15A), and prudential requirements. The requirements (apart from SYSC 15A and prudential requirements which we discuss separately below) will involve the establishment of policies and procedures to implement the obligations and ongoing commitments of staff time to ensure the obligations are complied with. There is also a requirement for the CTP to establish a consultative committee, for its agenda, minutes and how its recommendations have been taken forward to be made public, and for the CTP to share cost information with it.
- 148.** To estimate the costs of complying with these organisational and governance requirements (excluding SYSC 15A and prudential requirements) we rely on the SCM. We calculate one-off and annual ongoing costs based on SCM assumptions for a change project by a medium firm as a proxy, consistent with the methodology described in the Costs to bidders section. The size and scope of a CTP would mean it would not be classified as a large firm on its own as these include the largest and most complex in the financial services industry. For annual ongoing costs, while the team composition and salary assumptions in the SCM are based on the delivery of a one-off project, we use them to proxy the annual ongoing costs the CTP is expected to incur. To account for these limitations and the other uncertainties discussed below, we provide an upper and lower bound estimate that reflects a high and low assumption for the number of total person days needed for the project. The estimates are in Table 6, below.

Table 6: Estimates of one-off and annual ongoing organisational and governance costs for the CTP (excluding SYSC 15A and prudential requirements)

Type of Cost	Firm Size	Estimate	Total Person Days	Average Daily Salary Including Overheads	Cost per Firm
One-off	Medium	Upper	400	£379	£152,000
		Lower	200	£379	£76,000
Ongoing (per annum)	Medium	Upper	300	£379	£114,000
		Lower	150	£379	£57,000

- 149.** Actual costs the CTP will need to incur once selected will depend on the systems and processes they already have in place as part of their existing business and the amount of preparation that they conduct prior to bidding and during the bidding process.
- 150.** SYSC 15A will require the CTP to identify their important business services and to set and test the maximum tolerable disruption to those services, among other things. The CTP will incur some costs to ensure that they meet, and continue to meet, these requirements.
- 151.** In CP19/32 we estimated the costs of applying these rules to firms, such as banks, insurers, and RIEs. We estimated that the one-off implementation costs would be £360k for a medium firm and £775k for a large firm, and that the annual ongoing costs would be £145k and £410k for a medium and large firm respectively.
- 152.** The most relevant costs that will apply will depend on the type of firm that becomes a CTP. We would expect that a firm already complying with SYSC 15A for its wider business would have lower costs from applying SYSC 15A to the CTP elements of their business. In addition, the size and scope of a CTP would mean it would not be classified as a large firm on its own as these include the largest and most complex in the financial services industry. We therefore think that the medium firm costs are most appropriate. The costs in CP19/32 were collected in 2019 so we have updated these costs by inflation using the GDP deflator. From Q2 2019 to Q4 2022, the GDP deflator increased around 15%. We therefore estimate that the one-off and ongoing costs of SYSC 15A are £415k and £165k each year, respectively.
- 153.** We are also proposing that the CTP should be required to have sufficient financial resources for the proper performance of its duties as a CTP. In addition, the CTP will need to finance the one-off costs of building the incremental infrastructure needed to set up the CT before it is able to earn any revenue. The CTP would need to consider whether it has the resources to carry out its operations and, if necessary, to provide for orderly wind down or transfer of its operations. There will be a cost to the CTP from financing the initial investment, working capital for the CTP, and any additional capital raised to meet financial resources requirements. However, given we are unable to predict who will become the CTP, their existing capital, their additional capital requirements, or their cost of capital, it is not reasonably practicable to estimate the costs of this financing.
- 154.** While we have provided an estimate of the gross costs to the CTP in this section, the CTP will earn revenues from selling data. It is not possible to estimate the size of the revenue earned by the CTP ex-ante as it will depend on factors such as the price set through the tender process and the number of users that use the CTP. However, in designing the CT framework we have had regard to providing commercial incentive for a CTP to come forward and we expect that becoming the CTP represents a net benefit to the chosen firm.

Costs to data users

- 155.** Data users will need to incur certain one-off and ongoing costs to access and make use of the CT. They will consume the CT if they determine that the benefits from using the data outweigh these costs. We expect there to be significant demand for the CT, and for certain users the CT will be critical to effectively operate in the bond market, even though consumption of the CT will not be mandatory.
- 156.** Should data users decide to consume the CT, they will need to have arrangements in place to receive data from the CTP. Total connectivity costs for users will be determined in part by whether they connect directly to the CTP, or via a market data vendor, and what proportion of users employ each route. Data users who decide to connect to the CTP directly will need to incur one-off costs to establish a contract with the CTP and connect to the CTP's servers, and ongoing costs to maintain this connection. These costs will depend on the dissemination method chosen by the CTP. Data users may also decide to access the data via a market data vendor. If the user already has an existing connection to the market data vendor, they will not incur any incremental connectivity costs to receive the CT data (though may still incur a cost for the addition of the CT service to their existing package). If not, they will need to incur one-off and ongoing costs associated with receiving data from a market data vendor. Additionally, based on their current set-up, data users may need to incur some incremental costs to integrate the new data into their existing systems and processes or may decide to build new systems and processes to take advantage of the new data. For these reasons, it is not practicable to estimate these costs.
- 157.** Data users who decide to consume the CT will need to pay licence fees. In this CP, we propose that licences should be separated according to whether or not the user intends to re-use the data (for example, a market data vendor using the CT as an input into one of its value-added services). Non-reuse licences could then be discounted according to the number of seats purchased by a particular firm. We have asked an open question as to the degree of flexibility potential CTPs should be afforded in determining the menu of licence types against which they will submit price bids. The level of licence fees cannot be known ex-ante as it will be determined during the competitive CTP bidding process.
- 158.** Licence fees paid by the data user to the CTP represent a transfer. They are the CTP's revenues and are used to fund its operation. Therefore, while a cost to the data user, the fees are a benefit to the CTP.
- 159.** Some data users may purchase the CT in addition to their existing trade data, meaning that CT licence fees would be incremental to their current trade data expenditures. However, some users may decide that the CT is a substitute for some or all their existing trade data and may, in time, stop purchasing other trade data sources. In such instances, while the user will still incur CT licence fees, their total trade data expenditure may decrease relative to its current level. We discuss this further in the [Impact on stakeholders](#) section.

Costs to FCA

- 160.** The FCA will incur costs when undertaking the tender process to appoint a CTP. The three main implementation components are assessing that bidders meet minimum service quality requirements in the pre-bidding stage, implementing and running the auction online, and legal work on the contract implementing the obligations on the chosen CTP.
- 161.** Based on discussions with DotEcon Ltd, who undertook work to assist the FCA with design of the CTP tender and economic model, implementing and running the auction would involve building, hosting, and testing the auction software in addition to providing documentation and familiarisation sessions for bidders. The FCA may tender for a supplier to aid with the CTP tender and auction.
- 162.** The FCA will incur costs to settle a final contract with the chosen bond CTP. Without a finalised tender design – which is not expected until after this CP has been published – and certainty on the bid of the chosen CTP, it is difficult to anticipate the form that this contract might take, and the resource required to settle it. We do not expect that the cost of settling this contract would exceed the cost of authorisation.
- 163.** The FCA will incur costs to authorise the chosen CTP and supervise them thereafter.
- 164.** Costs for assessing a complex authorisation application are as follows. It is assumed that, given the likely complexity of a CTP's application for authorisation, it would be classified as 'Enhanced' and would therefore cost approximately £8,000 to assess.¹⁹ Though it is difficult to offer a precise figure without further specification of tender criteria, we would not expect the cost of demonstrating minimum service quality requirements by potential CTPs during the pre-bidding stage to exceed the figure for assessing the chosen CTP's full authorisation application.
- 165.** DRSPs, including CTPs, are charged a proportionate fee for the FCA to undertake ongoing supervision of the firm. A DRSP will be charged a minimum payment plus a variable fee, calculated based on annual turnover. The tariff rate will vary based on whether a DRSP is subject to fixed portfolio supervision with a named individual FCA supervisor, the amount of resource allocated to the supervision of DRSPs, as well as the revenue of the portfolio as a whole. Previously, DRSPs were charged a flat fee of £29,000 per year to be supervised, plus a 50% flat fee for each additional DRS for which the DRSP has authorisation. Without prejudice to any future consultation on CTP supervision fees, we expect that the chosen CTP may be substantially larger than a firm that would attract the minimum DRSP supervisory fee. Therefore, both the firm's supervisory fee, and the cost to the FCA of supervising the firm, are expected to be greater than £29,000.

19 Average hourly costs are based on Senior Associate average salaries and include national insurance/pension contributions. Standard/Enhanced refers to our risk channel, and determines the amount and depth of questions and assessment we would put into an application. This cost is given without prejudice to any future consultation on CTP authorisation fees, and should therefore be treated as an estimate.

Impact on stakeholders

- 166.** The costs and benefits we described above will fall on different parts of the value chain in the market for bond trade data. In addition, the CTP proposal will create transfers between participants. For example, a data user who switches from an existing data provider to the CTP will result in a transfer of revenue from the data provider to the CTP. The way these transfers will work is uncertain and impacts will depend on many factors such as the competitive dynamics at each layer of the value chain. Similarly, for the benefits, it is difficult to predict the relative benefits for different market participants. For these reasons, we do not provide a quantitative estimate of these impacts as it is not reasonably practicable to do so. Instead, we provide a discussion of these potential impacts in the following paragraphs.

The CTP

- 167.** We would expect the CTP to accrue some of the benefits that arise from the creation of the CT in the form of revenues. These revenues may result from the increased willingness of data users to pay for better data, or it may arise from data users switching from other data providers.
- 168.** If the chosen CTP is an existing trading venue or APA, it may also be that that some of the revenues 'lost' via a reduction in the trading venue/APA's data sales are offset by an increase in CTP sales, with both revenue streams being fed into the same core entity.

Existing data providers and market data vendors

- 169.** Operationalisation of the CTP may reduce trade data revenues for data providers (trading venues and APAs) insofar as their existing users switch to consumption of the CT. Market data vendors may also be affected. The size of this effect is uncertain and will depend on factors such as:
- The degree of substitutability between the data sold by the CTP and by the data providers. Some users may decide that the CT is a substitute for some or all their existing trade data and may, in time, stop purchasing other trade data sources. Others will continue to purchase data from the data providers. The extent of switching will also depend on switching costs.
 - The price of data provided by the data providers relative to the price of the CT, and the additional costs associated with using each data source. This will depend on competitive dynamics in the market. For example, to sustain market shares, data providers may reduce their prices and improve quality following the emergence of the CTP. On the other hand, data providers might want to increase prices for customers who cannot easily switch to the CT to compensate for the loss of revenue from those who do switch to the CT.
 - For trading venues, trade data revenue loss may be counteracted to a degree by an increase in trade execution revenue from greater trading activity as a result of the CT.
 - Market data vendors' revenues could be affected if data users switch from the market data vendors' data products and services to the CT. However, if the CTP operates re-use licensing, this provides an opportunity for market data vendors to

create a derived service from the CT. This value-added service might then be sold to data users to generate additional revenues.

Uncertainties

- 170.** We recognise that establishing potential costs and benefits before the intervention takes effect is inherently subject to uncertainties. If our assumptions do not hold or if we have not accounted for all market dynamics the costs and benefits discussed in this CBA may be over or understated. Moreover, data limitations and imperfections in our methodologies could lead to inaccuracies in our estimates. In some cases, we were unable to provide any quantification.
- 171.** There is some uncertainty as to whether a sufficient number of bidders will come forward such that competition for the market during tendering achieves the outcomes that might be expected through competition in the market. As elaborated upon in Chapter 5 of the CP, we have designed the tender process to ensure that it is sufficiently commercially attractive to encourage multiple potential CTPs to come forward and bid.
- 172.** There are uncertainties around how competitive dynamics would evolve following the emergence of a single CTP for bonds, and these are relevant for both costs and benefits of a CT over the period considered by the CBA (5 years) and beyond. In particular, the uncertainties and potential competition effects relate to:
- How competition for bond trade data will play out after the introduction of the CTP and hence the associated costs and benefits of the CTP tender process. Outcomes will depend on how firms and users react to the intervention and the final equilibrium in the market. For example, to sustain market shares, data providers may reduce their prices and improve quality following the emergence of the CTP. On the other hand, data providers might want to increase prices for customers who cannot easily switch to the CT to compensate for the loss of revenue from those who do switch to the CT.
 - If trading venues and existing data vendors are unable to compete effectively with the CT, then competition in the overall market for trade data may fall if trading venues withdraw products. Lack of competition between providers may in turn reduce innovation and incentives to resolve data quality issues, representing indirect costs for data users.
 - How the regime is future proofed beyond the initial bond CT, including future tenders and other asset classes. This includes considerations of costs and benefits arising from competition in the market (or markets). As potential CTPs and other players consider their options and implications of the intervention, they are likely to take into account potential benefits and costs over a longer term and across the broader trading markets, including competitive dynamics which are uncertain at this stage. The way participants address uncertainty, and their risk aversion levels, will be important in the way competitive dynamics and the CT regime plays out.
 - The way value of trading data would be distributed – transferred – through the value chain is an important aspect of how the competition dynamics will play out and where the benefits of a CT lie within the value chain.

- 173.** There is also uncertainty around whether the CTP's licensing terms will be any simpler, and therefore improve upon, existing offerings from data providers and market data vendors. The CP asks an open question as to whether potential CTPs should be given flexibility to determine a menu of prices against which they bid during tender.
- 174.** Many firms will want to access data on trading across the UK and EU because, despite some differences in patterns of bond trading between the jurisdictions, most of the same bonds can be traded in the UK and EU. Therefore, the greater the differences between the UK and EU CT regimes, including the underlying transparency requirements, the more costs data users will need to incur to have a complete view of UK and EU trading.
- 175.** As discussed throughout, uncertainties arise from data limitations and imperfections in our methodologies.

Q1: Do you have any comments on our cost benefit analysis on the proposal to establish a bond CT framework in the UK?

Annex 3

Compatibility statement

Compliance with legal requirements

1. This Annex records the FCA's compliance with several legal requirements applicable to the proposals in this consultation, including an explanation of the FCA's reasons for concluding that our proposals in this consultation are compatible with certain requirements under the Financial Services and Markets Act 2000 (FSMA).
2. When consulting on new rules, the FCA is required by section 138I(2)(d) FSMA to include an explanation of why it believes making the proposed rules is (a) compatible with its general duty, under s. 1B(1) FSMA, so far as reasonably possible, to act in a way which is compatible with its strategic objective and advances one or more of its operational objectives, and (b) its general duty under s. 1B(5)(a) FSMA to have regard to the regulatory principles in s. 3B FSMA. The FCA is also required by s. 138K(2) FSMA to state its opinion on whether the proposed rules will have a significantly different effect on mutual societies as opposed to other authorised persons.
3. This Annex also sets out the FCA's view of how the proposed rules are compatible with the duty on the FCA to discharge its general functions (which include rule-making) in a way which promotes effective competition in the interests of consumers (s. 1B(4)). This duty applies in so far as promoting competition is compatible with advancing the FCA's consumer protection and/or integrity objectives.
4. In addition, this Annex explains how we have considered the recommendations made by the Treasury under s. 1JA FSMA about aspects of the economic policy of His Majesty's Government to which we should have regard in connection with our general duties.
5. This Annex includes our assessment of the equality and diversity implications of these proposals.
6. Under the Legislative and Regulatory Reform Act 2006 (LRRRA) the FCA is subject to requirements to have regard to several high-level 'Principles' in the exercise of some of our regulatory functions and to have regard to a 'Regulators' Code' when determining general policies and principles and giving general guidance (but not when exercising other legislative functions like making rules). This Annex sets out how we have complied with requirements under the LRRRA.

The FCA's objectives and regulatory principles: Compatibility statement

7. The proposals set out in this consultation are primarily intended to advance the FCA's operational objective of market integrity. They are also relevant to the FCA's operational objectives of consumer protection and competition.
8. The FCA's market integrity objective is to protect and enhancing the integrity of the UK's financial system. The rules we are consulting on enhance the transparency of the price formation process in the bond market by creating the conditions for wider access to consolidated data. This should assist in making the bond market more stable, resilient and orderly.
9. The FCA's consumer protection objective is to secure an appropriate degree of protection for consumers. The rules we are consulting on will enhance the availability of information on trading in bond markets to market participants. This will improve efficiency of price formation and so reduce implicit costs of trading for consumers. It should also make it easier for consumers to check the effectiveness of arrangements that intermediaries put in place to secure best execution.
10. The FCA's competition objective is to promote effective competition in the interests of consumers. Greater availability of consolidated data on bonds trading should enhance the ability to compare the quality of execution on different execution venues and the quality of execution obtained by different intermediaries when executing client orders. This in turn should intensify competition between execution venues and intermediaries respectively.
11. We consider these proposals are consistent with the FCA's strategic objective of ensuring that the relevant markets function well. They are aimed at improving the functioning of bond markets by making better quality data available to a wider range of market participants.
12. In preparing the proposals set out in this consultation, the FCA has had regard to the regulatory principles set out in s. 3B FSMA. The proposals set out in this consultation are consistent with an efficient and economic use of our resource. Having a single CTP for bonds will reduce the amount of supervisory resource we need to devote to CTPs.

The principle that a burden or restriction should be proportionate to the benefits

13. As set out in the cost benefit analysis we have estimated the costs and benefits of our proposals. We are satisfied that the net benefits of these proposals outweigh and justify the costs.

The desirability of sustainable growth in the economy of the United Kingdom in the medium or long term

14. The proposals have regard to this principle and the government's aim of seeing more competition and innovation in all sectors of the UK's financial industry. Better data in bond markets that is widely available should intensify competition and allow for innovation in data products.

The general principle that consumers should take responsibility for their decisions

15. A CT should assist consumers in taking responsibility for their decisions by providing an opportunity for them to be better informed.

The responsibilities of senior management

16. The proposals build on existing requirements to make clear the responsibility of a CTP's senior management for its compliance with its regulatory obligations.

The desirability of recognising differences in the nature of, and objectives of, businesses carried on by different persons including mutual societies and other kinds of business organisation

17. We have spoken to a wide range of market participants in preparing these proposals. This has been done to seek to ensure that our proposals recognise differences, and objectives of, businesses carried on by different persons and their interest in how a CT for bonds will operate.

The desirability of publishing information relating to persons subject to requirements imposed under FSMA, or requiring them to publish information

18. Requirements are placed on firms to make public data on transactions in bonds that are Traded on a Trading Venue (TOTV) to enhance the efficiency of the price formation process, protect consumers and stimulate competition. The benefits from these requirements are balanced against the risks to individual firms of such information being widely available through calibration of the regime including, in specified circumstances, deferral of the publication of certain trades. A bond CT will not publish any new information just bring together existing information in a single feed.

The principle that we should exercise of our functions as transparently as possible

19. Our consultation processes are intended to ensure that we are transparent about the thinking behind our proposals and clearly explain what we expect to achieve. We believe that this CP meets these objectives. We have also spoken to a wide range of market participants in developing these proposals for rules changes.

- 20.** In formulating these proposals, the FCA has had regard to the importance of taking action intended to minimise the extent to which it is possible for a business carried on (i) by an authorised person or a recognised investment exchange; or (ii) in contravention of the general prohibition, to be used for a purpose connected with financial crime (as required by s. 1B(5)(b) FSMA).

Expected effect on mutual societies

- 21.** The FCA does not expect the proposals in this paper to have a significantly different effect on mutual societies.

Compatibility with the duty to promote effective competition in the interests of consumers

- 22.** In preparing the proposals as set out in this consultation, we have had regard to the FCA's duty to promote effective competition in the interests of consumers. Having a single CTP for bonds is not the most pro-competitive option available to us to establish a CT in bonds. It does not provide for competition in the market for CTP services. However, we believe it is important to promoting our operational objectives and we have sought to design a model for appointing a single CTP that, as far as possible, promotes effective competition for the market.

Equality and diversity

- 23.** We are required under the Equality Act 2010 in exercising our functions to 'have due regard' to the need to eliminate discrimination, harassment, victimisation and any other conduct prohibited by or under the Act, advance equality of opportunity between persons who share a relevant protected characteristic and those who do not, to and develop good relations between people who share a protected characteristic and those who do not.
- 24.** As part of this, we ensure the equality and diversity implications of any new policy proposals are considered. The outcome of our consideration in relation to these matters in this case is stated in Chapter 2 of the CP.

Legislative and Regulatory Reform Act 2006 (LRRRA)

- 25.** We have had regard to the principles in the LRRRA for the parts of the proposals that consist of general policies, principles or guidance and consider that they are proportionate and consistent with the need for increased transparency.

- 26.** We have had regard to the Regulators' Code for the parts of the proposals that consist of general policies, principles or guidance and consider that the proposals are proportionate to the potential market failures identified.

Annex 4

Abbreviations used in this paper

Abbreviation	Description
ACK	Positive acknowledgement message
APA	Approved Publication Arrangement
API	Application Programming Interface
ARM	Approved Reporting Mechanism
CA98	The Competition Act 1998
CBA	Cost Benefit Analysis
CLOB	Central Limit Order Book
CP	Consultation Paper
CRA	Credit rating agencies
CSV	Comma-separated values
CT	Consolidated Tape
CTP	Consolidated Tape Provider
Data Provider	A trading venue or Approved Publication Arrangement that provides data to the consolidated tape provider
DRSs	Data Reporting Services
DRSP	Data Reporting Services Provider
DRSR	Data Reporting Services Regulations
EC	European Commission
ESMA	European Securities and Markets Authority
ETC	Exchange Traded Commodity
ETF	Exchange Traded Fund

Abbreviation	Description
ETN	Exchange Traded Note
EU	European Union
FCA	Financial Conduct Authority
FINRA	Financial Industry Regulatory Authority
FIX	Financial Information eXchange
FMI	Financial Market Infrastructure
FRF	Future Regulatory Framework
FSMA	Financial Services and Markets Act
GUI	Graphical User Interface
IFPR	Investment Firm Prudential Review
ITS	Implementing Technical Standard
LRRA	Legislative and Regulatory Reform Act 2006
MAR	Market Conduct Sourcebook
MiFID	Markets in Financial Instruments Directive
MiFID II	The second Markets in Financial Instruments Directive
MiFID Org Regulation	Articles 84 to 89 of the UK version of Commission Delegated Regulation No 2017/565
MiFID ITS 3	UK version of Commission Delegated Regulation No 2017/1110
MiFID RTS 3	UK version of Commission Delegated Regulation No 2017/577
MiFID RTS 13	UK version of Commission Delegated Regulation No 2017/571
MiFIR	Markets in Financial Instruments Regulation
MSP	Market Structure Partners
MTF	Multilateral Trading Facility
NACK	Negative acknowledgement message
OTC	Over-the-counter

Abbreviation	Description
OTF	Organised Trading Facility
RFI	Request for Information
RFQ	Request for Quote
RIE	Recognised Investment Exchange
RTS	Regulatory Technical Standard
RRRs	Recognition Requirement Regulations
SCM	Standardised Cost Model
SEC	Securities and Exchange Commission
SI	Systematic Internaliser
SIP	Security Information Processor
S-MAC	Secondary Markets Advisory Committee
TOTV	Traded on a Trading Venue
UAT	User Acceptance Testing
WDMS	Wholesale Data Market Study
WMR	Wholesale Markets Review
WTDR	Wholesale Trade Data Review

We make all responses to formal consultation available for public inspection unless the respondent requests otherwise. We will not regard a standard confidentiality statement in an email message as a request for non-disclosure.

Despite this, we may be asked to disclose a confidential response under the Freedom of Information Act 2000. We may consult you if we receive such a request. Any decision we make not to disclose the response is reviewable by the Information Commissioner and the Information Rights Tribunal.

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Appendix 1

Draft Handbook text

DATA REPORTING SERVICES (AMENDMENT) INSTRUMENT 2023

Powers exercised

- A. The Financial Conduct Authority (“the FCA”) makes this instrument in the exercise of the powers and related provisions in or under:
- (1) the following sections of the Financial Services and Markets Act 2000 (“the Act”):
 - (a) section 137A (The FCA’s general rules);
 - (b) section 137T (General supplementary powers);
 - (c) section 139A (Power of the FCA to give guidance);
 - (d) section 312J (Statement of policy);
 - (e) section 395 (The FCA’s procedures);
 - (2) section 300H of the Financial Services and Markets Act 2023; and
 - (3) the other powers and related provisions listed in Schedule 4 (Powers exercised) to the General Provisions of the FCA’s Handbook.
- B. The rule-making provisions listed above are specified for the purpose of section 138G(2) (Rule-making instruments) of the Act.

Commencement

- C. This instrument comes into force on *[date]*.

Amendments to the Handbook

- D. The modules of the FCA’s Handbook of rules and guidance listed in column (1) below are amended in accordance with the Annexes to this instrument listed in column (2).

(1)	(2)
Glossary of definitions	Annex A
Senior Management Arrangements, Systems and Controls sourcebook (SYSC)	Annex B
Conduct of Business sourcebook (COBS)	Annex C
Market Conduct sourcebook (MAR)	Annex D
Decision Procedure and Penalties manual (DEPP)	Annex E
Recognised Investment Exchanges sourcebook (REC)	Annex F
Enforcement Guide (EG)	Annex G
MiFID 2 Onshoring Guide (M2G)	Annex H

Citation

- E. This instrument may be cited as the Data Reporting Services (Amendment) Instrument 2023.

By order of the Board
[*date*]

Annex A

Amendments to the Glossary of definitions

[*Editor's note:* This draft instrument is based on draft Treasury regulations being published in July 2023 and any discrepancies in references to the legislation will be addressed and the text conformed in the final version of the instrument.]

In this Annex, underlining indicates new text and striking through indicates deleted text, unless stated otherwise.

Insert the following new definitions in the appropriate alphabetical position. All the text is new and is not underlined.

<i>consolidated tape for bonds</i>	a consolidated tape for bonds excluding exchange traded commodities and exchange traded notes.
<i>data vendor</i>	a <i>person</i> whose regular occupation or business is the collection, processing and supply of financial market data for use by third parties.
<i>information system</i>	a device or group of inter-connected or related devices, one or more of which, pursuant to a programme, automatically processes computer data, as well as computer data stored, processed, retrieved or transmitted by that device or group of devices for the purpose of its or their operation, use, protection and maintenance, where computer data for these purposes means a representation of facts, information or concepts in a form suitable for processing in an information system, including a programme suitable for causing an information system to perform a function.
<i>MiFIR investment firm</i>	an <i>investment firm</i> which is either an <i>investment firm</i> to which article 1(2) of <i>MiFIR</i> applies, or is a <i>third country investment firm</i> to which <i>GEN 2.2.22A</i> applies.
<i>UK trading venue</i>	For the purposes of <i>MAR 9</i> (and in accordance with article 2(1)(16A) <i>MiFIR</i>), a <i>UK RIE</i> , <i>UK MTF</i> or a <i>UK OTF</i> .

Amend the following definitions as shown.

<i>close links</i>	(1) (in relation to <i>MiFID business</i> , <u>the operation of a <i>data reporting service</i></u> or in <i>FUND</i>) a situation in which two or more persons are linked by: ...
<i>consolidated tape provider</i>	a <i>person</i> permitted under regulation 5 of the <i>DRS Regulations</i> to provide the service of:

- (a) collecting trade reports for *financial instruments* made in accordance with articles 6, 7, 10, 12, 13, 20 and 21 of *MiFIR* from *regulated markets*, *UK MTFs*, *UK OTFs* and *APAs*; and
- (b) consolidating them into a continuous electronic live data stream providing price and volume data per *financial instrument*.

data reporting service (in accordance with regulation 2(1) of the *DRS Regulations*) the ~~operation of~~ provision of a service as an *APA*, an *ARM* or a *CTP* when carried out as a regular occupation or business activity.

DRS Regulations the Data Reporting Services Regulations ~~2017 (SI 2017/699)~~ 2023 (SI 2023/xxx).

senior management (1) ...
 ...
 (5) (in *MAR 9*) those natural persons who exercise executive functions within an *investment firm*, a *market operator* or a *data reporting services provider* and who are responsible and accountable to the *management body* for the day-to-day management of the entity, including for the implementation of the policies concerning the distribution of services and products to clients by the firm and its personnel.

transaction report a report of a transaction:
 (a) for the purposes of *SUP TP 9* or *MAR 9*; or
 (b) which meets the requirements imposed by and under article 26 of *MiFIR*.

working day (1) (in *PRR₂*, ~~and~~ *COMP* and *MAR 9*) (as defined in section 103 of the *Act*) any day other than a Saturday, a Sunday, Christmas Day, Good Friday or a day which is a bank holiday under the Banking and Financial Dealings Act 1971 in any part of the *United Kingdom*.

...

Annex B

**Amendments to the Senior Management Arrangements, Systems and Controls
sourcebook (SYSC)**

In this Annex underlining indicates new text and striking through indicates deleted text.

15A Operational resilience

15A.1 Application

15A.1.1 R This chapter applies to:

...

(2) a *UK RIE*; ~~and~~

(3) an *electronic money institution*, a *payment institution* or a *registered account information service provider*; and

(4) a consolidated tape provider.

15A.1.2 R In this chapter, a reference to a *firm* includes a *UK RIE*, an *electronic money institution*, a *payment institution*, ~~and~~ a *registered account information service provider* and a consolidated tape provider.

...

15A.1.5 R In this chapter, a reference to a *client* in relation to a *UK RIE* includes a *person* who is entitled, under an arrangement or agreement between them and that *UK RIE*, to use the *UK RIE's* facilities.

15A.1.5A R This chapter applies to a consolidated tape provider as if a reference to a client includes a person who purchases a consolidated tape for bonds from:

(a) a consolidated tape provider; or

(b) a data vendor.

...

15A.1.7 R The requirements in this chapter apply with respect to:

...

(7) any other *unregulated activities*, but only in a *prudential context*; and

(8) data reporting services provided by a consolidated tape provider.

Annex C

Amendments to the Conduct of Business sourcebook (COBS)

In this Annex underlining indicates new text and striking through indicates deleted text.

11 Dealing and managing

...

11.4 Client limit orders

...

How client limit orders may be made public

...

- 11.4.3 UK 70(1) A client limit order in respect of shares admitted to trading on a regulated market or traded on a trading venue which have not been immediately executed under prevailing market condition as referred to in *COBS 11.4.1R* shall be considered available to the public when the investment firm has submitted the order for execution to a regulated market or a MTF or the order has been published by a person authorised to provide data reporting services under the ~~Data Reporting Services Regulations 2017~~ *DRS Regulations* and can be easily executed as soon as market conditions allow.

Annex D

Amendments to the Market Conduct sourcebook (MAR)

In this Annex, underlining indicates new text and striking through indicates deleted text, unless stated otherwise.

9 Data reporting service

9.1 Application, ~~introduction~~, approach and structure

Application

9.1.1 G This chapter applies to:

- (1) a *UK person* (that is a *person* whose registered office or head office is located in the *UK*) seeking authorisation to provide a *data reporting service*;
- (2) a *UK branch of a third country person* seeking authorisation to provide a *data reporting service* as an *ARM* or *APA*;

...

~~Introduction~~

9.1.2 G ~~The original purpose of this chapter was to implement Title V of *MiFID* which sets out harmonised market data services authorisation and supervision requirements. These are designed to ensure a necessary level of quality of trading activity information across *EU* financial markets for users, and for the regulator to receive accurate and comprehensive information on relevant transactions. These requirements provide for: [deleted]~~

- (1) ~~*approved publication arrangements (APAs)* to:~~
 - (a) ~~improve the quality of trade transparency information published in relation to *over the counter* trading; and~~
 - (b) ~~contribute significantly to ensuring such data is published in a way that facilitates its consolidation with data published by *trading venues*;~~
- (2) ~~*consolidated tape providers (CTPs)* to supply a comprehensive consolidated tape of *equity* and *equity-like financial instruments* data from all *APAs* and *trading venues* to make it easier for market participants to gain access to a consolidated view of trade transparency information;~~

- (3) ~~CTPs to enable a comprehensive consolidated tape for non-equity financial instruments with an extended date for the application of national measures transposing MiFID; and~~
- (4) ~~approved reporting mechanisms (ARMs) to provide the service of transaction reporting on behalf of investment firms.~~

Approach to onshoring

- 9.1.3 G ~~The market data services authorisation and supervision requirements in Title V of MiFID are onshored through a combination of: [deleted]~~
- (1) HM Treasury legislation in the form of:
 - (a) ~~the DRS Regulations which set out a separate regulatory framework for persons providing one or more data reporting service in the UK; and~~
 - (b) ~~the MiFI Regulations which set out additional provisions addressing requirements imposed by MiFIR and onshored regulations;~~
 - (2) ~~this chapter; and~~
 - (3) ~~onshored regulations, including~~
 - (a) ~~MiFID-RTS 1;~~
 - (b) ~~MiFID-RTS 2;~~
 - (c) ~~MiFID-RTS 3;~~
 - (d) ~~MiFID-RTS 13;~~
 - (e) ~~MiFID-ITS 3;~~
 - (f) ~~the MiFID-Org Regulation; and~~
 - (g) ~~the MiFIR Delegated Regulation.~~
- 9.1.3A G See M2G for further guidance on how the measures referred to in MAR 9.1.3G have been amended by the Markets in Financial Instruments (Amendment) (EU Exit) Regulations 2018 and FCA instruments made pursuant to the Financial Regulators' Powers (Technical Standards etc.) (Amendment etc.) (EU Exit) Regulations 2018. [deleted]
- 9.1.3B G This regulatory framework enables the authorisation and supervision of data reporting service providers whose services form a key component of transparency in wholesale markets and, in the case of approved reporting mechanisms, a reporting service that assists in the detection and prevention of market abuse.

Structure

9.1.4 G The following table provides an overview of this chapter:

Handbook reference	Topic and specific application
MAR 9.1	Application, introduction , approach and structure
MAR 9.2	Authorisation and verification
<u>MAR 9.2A</u>	<u>Consolidated tape providers</u>
<u>MAR 9.2B</u>	<u>Operating requirements</u>
<u>MAR 9.2C</u>	<u>Financial resources requirements for consolidated tape providers</u>
...	...

9.2 Authorisation and verification

Application form and notification form for members of the management body

9.2.1 D (1) Each of the following must complete the forms in (2):

- (a) an applicant for a *data reporting service* authorisation;
- (b) a *MiFID investment firm* operating a *trading venue* seeking verification of its rights to provide a *data reporting service* under regulation ~~5(b) and (c)~~ 3(1)(b) and (c) of the *DRS Regulations*; and
- (c) a *UK RIE* operating a *trading venue* seeking verification of its rights to provide a *data reporting service* under regulation ~~5(d)~~ 3(1)(d) of the *DRS Regulations*.

...

9.2.2 G ~~MAR 9 Annex 1D and MAR 9 Annex 2D are derived from Annex I and Annex II respectively of MiFID ITS 3. [deleted]~~

Variation of authorisation form

...

9.2.4 G ~~MAR 9 Annex 3D requires completion of Annex I of MiFID ITS 3 in the case of an extension of authorisation and, if relevant, Annex II of MiFID ITS 3 if~~

~~the members of the *management body* are different from the existing authorised *data reporting services provider*. [deleted]~~

Cancellation of authorisation form

...

- 9.2.5C G Where a *data reporting service provider* wishes to cancel all of its *data reporting service* authorisation, it must continue to comply with the requirements in the *DRS Regulations rules* in this chapter and other regulatory obligations up until its authorisation is cancelled, in particular in relation to publishing trade reports or submitting details of transactions to the *FCA*. The *FCA* expects the *data reporting services provider* to provide a written confirmation at the end of the cancellation process confirming compliance with the *DRS Regulations rules* in this chapter and other regulatory obligations.

...

Insert the following new chapters, MAR 9.2A (Consolidated tape providers) and MAR 9.2B (Operating requirements), after MAR 9.2 (Authorisation and verification). All the text is new and is not underlined.

9.2A Consolidated tape providers

Selection of a consolidated tape provider

- 9.2A.1 G The *FCA* will organise a selection procedure for a single *consolidated tape provider* for the asset class of bonds, excluding exchange traded commodities and exchange traded notes.
- 9.2A.2 G The *FCA* will give a direction to tender for the provision of the service of a *consolidated tape for bonds* by placing a notice on the *FCA*'s website inviting tenders, and providing details of the tender specification and process to be followed.
- 9.2A.3 G (1) Tenders should include a programme of operations. The programme of operations should include:
- (a) information on the organisational structure of the bidder, including an organisational chart and a description of the human, technical and legal resources allocated to its business activities;
 - (b) information on the compliance policies and procedures of the bidder, including:
 - (i) the name of the person or persons responsible for the approval and maintenance of those policies;

- (ii) the arrangements to monitor and enforce the compliance policies and procedures;
 - (iii) the measures to be undertaken in the event of a breach which may result in a failure to meet the conditions for initial authorisation; and
 - (iv) a description of the procedure for reporting to the *FCA* any breach which may result in a failure to meet the conditions for initial authorisation; and
- (c) a list of all outsourced functions and resources allocated to the control of the outsourced functions.
- (2) A bidder offering services other than *data reporting services* must describe those services in the organisational chart.
- 9.2A.4 G A bidder should include in its tender:
- (a) a description of the processes for selection, appointment, performance evaluation and removal of *senior management* and members of the *management body*;
 - (b) a description of the reporting lines and the frequency of reporting to the *senior management* and the *management body*; and
 - (c) a description of the policies and procedures on access to documents by members of the *management body*.
- 9.2A.5 G After assessing each tender, the *FCA* will select a single winning bidder by applying the selection criteria in the tender documentation.
- 9.2A.6 G
- (1) The appointment of a *CTP* for bonds will commence on the date that an authorisation by the *FCA* of the selected bidder as the *CTP* for bonds takes effect under regulation 9(4) of the *DRS Regulations*.
 - (2) The tender contract is awarded for a maximum of five years, commencing from a date to be determined by the *FCA*. The tender contract term is renewable in limited circumstances for a period of no more than two years in accordance with regulation 6 of the *DRS Regulations*.
 - (3) Within six *months* before either the expiry of the tender contract term or the *FCA* cancelling an authorisation to provide a *data reporting service* as a *CTP* under regulation 10 of the *DRS Regulations*., the *FCA* will begin the process to re-tender for a *CTP* for bonds.
- 9.2A.7 R A *CTP* must publish information relating to its costs for establishing, maintaining and operating the *consolidated tape for bonds* in such a way as to be accessible to potential bidders in a re-tender process.

- 9.2A.8 R A *CTP* for bonds must take all reasonable steps to transfer without delay to a successor *CTP* the assets, data and operational information necessary to enable it to operate the consolidated tape effectively.

9.2B Operating requirements

Requirements for the management body of a data reporting service provider

- 9.2B.1 R The following requirements apply in respect of the *management body* of a *data reporting service provider*:
- (1) The *management body* must possess adequate collective knowledge, skills and experience to be able to understand the activities of the *data reporting service provider*.
 - (2) The members of the *management body* must:
 - (a) be of sufficiently good repute;
 - (b) possess sufficient knowledge, skill and experience, and be able to commit sufficient time, to perform their duties; and
 - (c) act with honesty, integrity and independence of mind:
 - (i) to challenge effectively the decisions of the *senior management* where necessary; and
 - (ii) to oversee and effectively monitor management decision-making where necessary.
 - (3) The *management body* must:
 - (a) define and oversee the implementation of governance arrangements of the *data reporting service provider* to ensure the effective and prudent management of the provider, including the segregation of duties in the provider and the prevention of conflicts of interest; and
 - (b) when doing so, act in a manner that promotes the integrity of the financial markets and the interests of its clients.
 - (4) Where:
 - (a) an applicant for authorisation under regulation 9 of the *DRS Regulations* is a *recognised investment exchange*; and
 - (b) the *management body* of the applicant is the same as the *management body* of the exchange,

the requirements in *MAR* 9.2B.1R(1) and (2) are deemed to be met.

Conflicts of interest

- 9.2B.2 R (1) *A data reporting services provider must operate and maintain effective administrative arrangements, designed to prevent conflicts of interest with clients using its services to meet their regulatory obligations, and other entities purchasing data from data reporting services providers. Such arrangements must include policies and procedures for identifying, managing and disclosing existing and potential conflicts of interest and must contain:*
- (a) an inventory of existing and potential conflicts of interest, setting out their description, identification, prevention, management and disclosure;
 - (b) the separation of duties and business functions within the *data reporting services provider*, including:
 - (i) measures to prevent or control the exchange of information where a risk of conflicts of interest may arise; and
 - (ii) the separate supervision of relevant persons whose main functions involve interests that are potentially in conflict with those of a client;
 - (c) a description of the fee policy for determining fees charged by the *data reporting services provider* and undertakings to which the *data reporting services provider* has *close links*;
 - (d) a description of the remuneration policy for the members of the *management body* and *senior management*; and
 - (e) the rules regarding the acceptance of money, gifts or favours by staff of the *data reporting services provider* and its *management body*.
- (2) The inventory of conflicts of interest referred to in *MAR 9.2B.2R(1)(a)* must include conflicts of interest arising from situations where the *data reporting services provider*:
- (a) may realise a financial gain or avoid a financial loss, to the detriment of a client;
 - (b) may have an interest in the outcome of a service provided to a client, which is distinct from the client's interest in that outcome;
 - (c) may have an incentive to prioritise its own interests or the interest of another client or group of clients rather than the interests of a client to whom the service is provided; and
 - (d) receive or may receive from any *person* other than a client, in relation to the service provided to a client, an incentive in the

form of money, goods or services, other than commission or fees received for the service.

Organisational requirements regarding outsourcing

- 9.2B.3 R (1) Where a *data reporting services provider* arranges for activities to be performed on its behalf by third parties, including undertakings with which it has *close links*, it must ensure that the third-party service provider has the ability and the capacity to perform the activities reliably and professionally.
- (2) A *data reporting services provider* must specify which of the activities are to be outsourced, including a specification of the level of human and technical resources needed to carry out each of those activities.
- (3) A *data reporting services provider* that outsources activities must ensure that the outsourcing does not reduce its ability or power to perform *senior management* or *management body* functions.
- (4) A *data reporting services provider* must remain responsible for any outsourced activity and must adopt organisational measures to ensure:
- (a) that it assesses whether the third-party service provider is carrying out outsourced activities effectively, and in compliance with applicable laws and regulatory requirements, and adequately addresses identified failures;
 - (b) the identification of the risks in relation to outsourced activities and adequate periodic monitoring;
 - (c) adequate control procedures with respect to outsourced activities, including effectively supervising the activities and their risks within the *data reporting services provider*; and
 - (d) adequate business continuity of outsourced activities.
- (5) For the purposes of *MAR 9.2B.3R(4)(d)*, the *data reporting services provider* must obtain information on the business continuity arrangements of the third-party service provider, assess its quality and, where needed, request improvements.
- (6) A *data reporting services provider* must ensure that the third-party service provider cooperates with the *FCA* in connection with outsourced activities.
- (7) Where a *data reporting services provider* outsources any critical function, it must provide the *FCA* with:
- (a) the identification of the third-party services provider;

- (b) the organisational measures and policies with respect to outsourcing and the risks posed by it as specified in *MAR* 9.2B.3R(4); and
 - (c) internal or external reports on the outsourced activities.
- (8) For the purpose of *MAR* 9.2B.3R(7), a function will be regarded as critical if a defect or failure in its performance would materially impair the continuing compliance of the *data reporting services provider* with the conditions and obligations of its authorisation or its other obligations under the *DRS Regulations* and this chapter.

Business continuity and back-up facilities

- 9.2B.4 R (1) A *data reporting services provider* must use systems and facilities that are appropriate and robust enough to ensure continuity and regularity in the performance of the services provided as referred to in this chapter.
- (2) A *data reporting services provider* must conduct periodic reviews, at least annually, evaluating its technical infrastructures and associated policies and procedures, including business continuity arrangements. A *data reporting services provider* must remedy any deficiencies identified during the review.
- (3) A *data reporting services provider* must have effective business continuity arrangements in place to address disruptive incidents, including:
- (a) the processes which are critical to ensuring the services of the *data reporting services provider*, including escalation procedures, relevant outsourced activities and dependencies on external providers;
 - (b) specific continuity arrangements, covering an adequate range of possible scenarios, in the short and medium term, including system failures, natural disasters, communication disruptions, loss of key staff and an inability to use the premises regularly used;
 - (c) duplication of hardware components, allowing for failover to a back-up infrastructure, including network connectivity and communication channels;
 - (d) back-up of business-critical data and up-to-date information of the necessary contacts, ensuring communication within the *data reporting services provider* and with clients;
 - (e) the procedures for moving to and operating *data reporting services* from a back-up site;

- (f) the target maximum recovery time for critical functions, which must be as short as possible and, in any case, no longer than 6 hours in the case of *approved publication arrangements (APAs)* and *consolidated tape providers (CTPs)* and until the close of business of the next *working day* in the case of *approved reporting mechanisms (ARMs)*; and
 - (g) staff training on the operation of the business continuity arrangements, individuals' roles, including specific security operations personnel ready to react immediately to a disruption of services.
- (4) A *data reporting services provider* must set up a programme for periodically testing, reviewing and, where needed, modifying the business continuity arrangements.
 - (5) A *data reporting services provider* must publish on its website and promptly inform its clients and the *FCA* of any service interruptions or connection disruptions as well as the time estimated to resume a regular service.

Testing and capacity

- 9.2B.5 R (1) A *data reporting services provider* must implement clearly delineated development and testing methodologies, ensuring that:
- (a) the operation of the IT systems satisfies the *data reporting services provider's* regulatory obligations;
 - (b) compliance and risk management controls embedded in IT systems work as intended; and
 - (c) the IT systems can continue to work effectively at all times.
- (2) A *data reporting services provider* must also use the methodologies referred to in *MAR 9.2B.5R(1)* prior to and following the deployment of any updates of the IT systems.
 - (3) A *data reporting services provider* must promptly notify the *FCA* of any planned significant changes to the IT systems prior to their implementation.
 - (4) A *data reporting services provider* must set up an ongoing programme for periodically reviewing and, where needed, modifying the development and testing methodologies.
 - (5) A *data reporting services provider* must run stress tests periodically and at least on an annual basis. A *data reporting services provider* must include in the adverse scenarios of the stress test unexpected behaviour of critical constituent elements of its systems and communications lines. The stress testing must identify how hardware, software and

communications respond to potential threats, specifying systems unable to cope with adverse scenarios. A *data reporting services provider* must take measures to address identified shortcomings in those systems.

- (6) A *data reporting services provider* must:
- (a) have sufficient capacity to perform its functions without outages or failures, including missing or incorrect data; and
 - (b) have sufficient scalability to accommodate without undue delay any increase in the amount of information to be processed and in the number of access requests from its clients.

Security

- 9.2B.6 R (1) A *data reporting services provider* must set up and maintain procedures and arrangements for physical and electronic security designed to:
- (a) protect its IT systems from misuse or unauthorised access;
 - (b) minimise the risks of attacks against *information systems*;
 - (c) prevent unauthorised disclosure of confidential information; and
 - (d) ensure the security and integrity of the data.
- (2) Where a *MiFIR investment firm* ('reporting firm') uses a third party ('submitting firm') to submit information to an *ARM* on its behalf, the *ARM* must have procedures and arrangements in place to ensure that the submitting firm does not have access to any other information about, or submitted by, the reporting firm to the *ARM* which may have been sent by the reporting firm directly to the *ARM* or through another submitting firm.
- (3) A *data reporting services provider* must set up and maintain measures and arrangements to promptly identify and manage the risks identified in *MAR 9.2B.6R(1)*.
- (4) In respect of breaches in the physical and electronic security measures referred to in *MAR 9.2B.6R(1)* to *MAR 9.2B.6R(3)*, a *data reporting services provider* must promptly notify:
- (a) the *FCA* and provide an incident report, indicating the nature of the incident, the measures adopted to cope with the incident and the initiatives taken to prevent similar incidents; and
 - (b) its clients that have been affected by the security breach.

Record keeping

- 9.2B.7 R (1) *A data reporting service provider* must maintain records, in retrievable and legible form, of information that could be relevant to demonstrating its compliance or non-compliance with any requirement imposed by the *rules* in this chapter.
- (2) *A data reporting service provider* must retain the records for no less than 5 years from the date on which the records were created.

Reporting of infringements

- 9.2B.8 R *A data reporting service provider* must have in place effective procedures for its employees to report potential or actual infringements of:
- (1) the *rules*;
 - (2) *MiFIR*, and any *onshored regulations* previously deriving from *MiFIR* or *MiFID*; and
 - (3) the *DRS Regulations*;
- internally through a specific, independent and autonomous channel.

Conditions for an ARM

- 9.2B.9 R (1) An *ARM* must have adequate policies and arrangements in place to enable it to report the information required from a *MiFIR investment firm* under article 26 of *MiFIR* as quickly as possible and no later than 11.59pm on the *working day* following the day on which the transaction took place.
- (2) The information mentioned in *MAR* 9.2B.9R(1) must be reported in accordance with article 26 of *MiFIR*.
- (3) An *ARM* must:
- (a) operate and maintain effective administrative arrangements designed to prevent conflicts of interest with its clients;
 - (b) have sound security mechanisms in place designed to:
 - (i) guarantee the security and authentication of the means of the transfer of information;
 - (ii) minimise the risk of data corruption and unauthorised access;
 - (iii) prevent information leakage; and
 - (iv) maintain the confidentiality of the data at all times;
 - (c) maintain adequate resources and have back-up facilities in order to offer and maintain its services at all times; and

- (d) have systems which:
 - (i) effectively check *transaction reports* for completeness;
 - (ii) identify omissions and obvious errors caused by the *MiFIR investment firm*;
 - (iii) communicate details of such omissions or errors to the *MiFIR investment firm* and request re-transmission of erroneous reports;
 - (iv) detect omissions or errors caused by the *ARM* itself; and
 - (v) enable the *ARM* to correct and transmit, or retransmit, correct and complete *transaction reports* to the *FCA*.
- (4) An *ARM* which is also a *recognised investment exchange* or a *MiFID investment firm* must treat all information collected in a non-discriminatory fashion and must operate and maintain appropriate arrangements to separate different business functions.

Management of incomplete or potentially erroneous information by ARMs

- 9.2B.10 R (1) An *ARM* must set up and maintain appropriate arrangements to identify *transaction reports* that are incomplete or contain obvious errors caused by clients. An *ARM* must perform validation of the *transaction reports* against the requirements established under article 26 of *MiFIR* for field, format and content of fields in accordance with Table 1 of Annex I to *MiFID RTS 22*.
- (2) An *ARM* must set up and maintain appropriate arrangements to identify *transaction reports* which contain errors or omissions caused by that *ARM* itself and to correct, including deleting or amending, such errors or omissions. An *ARM* must perform validation for field, format and content of fields in accordance with Table 1 of Annex I to *MiFID RTS 22*.
- (3) An *ARM* must continuously monitor in real-time the performance of its systems, ensuring that a *transaction report* it has received has been successfully reported to the *FCA* in accordance with article 26 of *MiFIR*.
- (4) An *ARM* must perform periodic reconciliations at the request of the *FCA* between the information that the *ARM* receives from its client or generates on the client's behalf for *transaction reporting* purposes and data samples of the information provided by the *FCA*.
- (5) Any corrections, including cancellations or amendments of *transaction reports* that are not correcting errors or omissions caused by an *ARM*, must only be made at the request of a client and per *transaction report*.

Where an *ARM* cancels or amends a *transaction report* at the request of a client, it must provide this updated *transaction report* to the client.

- (6) Where an *ARM*, before submitting the *transaction report*, identifies an error or omission caused by a client, it must not submit that *transaction report* and must promptly notify the *MiFIR investment firm* of the details of the error or omission to enable the client to submit a corrected set of information.
- (7) Where an *ARM* becomes aware of errors or omissions caused by the *ARM* itself, it must promptly submit a correct and complete report.
- (8) An *ARM* must promptly notify the client of the details of the error or omission and provide an updated *transaction report* to the client. An *ARM* must also promptly notify the *FCA* about the error or omission.
- (9) The requirement to correct or cancel erroneous *transaction reports* or report omitted transactions must not extend to errors or omissions which occurred more than 5 years before the date that the *ARM* became aware of such errors or omissions.

Connectivity of ARMs

- 9.2B.11 R (1) An *ARM* must have in place policies, arrangements and technical capabilities to comply with the technical specification for the submission of *transaction reports* required by the *FCA*.
- (2) An *ARM* must have in place adequate policies, arrangements and technical capabilities to receive *transaction reports* from clients and to transmit information back to clients. The *ARM* must provide the client with a copy of the *transaction report* which the *ARM* submitted to the *FCA* on the client's behalf.

Conditions for an APA – organisational requirements

- 9.2B.12 R (1) An *APA* must:
- (a) have sound security mechanisms in place designed to:
 - (i) guarantee the security of the means of the transfer of information;
 - (ii) minimise the risk of data corruption and unauthorised access; and
 - (iii) prevent information leakage before publications;
 - (b) maintain adequate resources and have back-up facilities in order to offer and maintain its services at all times; and
 - (c) have systems which can effectively:

- (i) check trade reports for completeness;
 - (ii) identify omissions and obvious errors; and
 - (iii) request re-transmission of any erroneous reports.
- (2) An *APA* which is also a *recognised investment exchange* or a *MiFID investment firm* must treat all information collected in a non-discriminatory fashion and must operate and maintain appropriate arrangements to separate different business functions.

Conditions for a CTP – organisational requirements

9.2B.13 R A *CTP* must:

- (1) have sound security mechanisms in place designed to:
 - (a) guarantee the security of the means of the transfer of information; and
 - (b) minimise the risk of data corruption and unauthorised access; and
- (2) maintain adequate resources and have back-up facilities in order to offer and maintain its services at all times.

Other services provided by CTPs

9.2B.14 R A *CTP* may perform services which increase the efficiency of the market, provided that such services do not:

- (1) create any risk affecting the quality of the consolidated tape or the independence of the *CTP* that cannot be adequately prevented or mitigated; or
- (2) give the *CTP* an unfair advantage relative to other *persons* seeking to provide the same services.

Management of incomplete or potentially erroneous information by APAs

- 9.2B.15 R (1) *APAs* must set up and maintain appropriate arrangements to ensure that they accurately publish the trade reports received from *MiFIR investment firms* without themselves introducing any errors or omitting information and must correct information where they have themselves caused the error or omission.
- (2) *APAs* must continuously monitor in real-time the performance of their IT systems ensuring that the trade reports they have received have been successfully published.

- (3) *APAs* must perform periodic reconciliations between the trade reports they receive and the trade reports that they publish, verifying the correct publication of the information.
- (4) An *APA* must confirm the receipt of a trade report to the reporting *MiFIR investment firm*, including the transaction identification code assigned by the *APA*. An *APA* must refer to the transaction identification code in any subsequent communication with the reporting firm in relation to a specific trade report.
- (5) An *APA* must set up and maintain appropriate arrangements to identify on receipt trade reports that are incomplete or contain information that is likely to be erroneous. These arrangements must include automated price and volume alerts, taking into account:
 - (a) the sector and the segment in which the *financial instrument* is traded;
 - (b) liquidity levels, including historical trading levels;
 - (c) appropriate price and volume benchmarks; and
 - (d) if needed, other parameters according to the characteristics of the *financial instrument*.
- (6) Where an *APA* determines that a trade report it receives is incomplete or contains information that is likely to be erroneous, it must not publish that trade report and must promptly alert the *MiFIR investment firm* submitting the trade report.
- (7) In exceptional circumstances, *APAs* must delete and amend information in a trade report on request from the entity providing the information when that entity cannot delete or amend its own information for technical reasons.
- (8) *APAs* must publish non-discretionary policies on information cancellation and amendments in trade reports which set out the penalties that *APAs* may impose on *MiFIR investment firms* providing trade reports where the incomplete or erroneous information has led to the cancellation or amendment of trade reports.

Conditions for an *APA* – policies and arrangements for publication of information

- 9.2B.16 R (1) An *APA* must have adequate policies and arrangements in place to make public the information required under articles 20 and 21 of *MiFIR* in as close to real time as is technically possible on a reasonable commercial basis.
- (2) The information mentioned in *MAR* 9.2B.16R(1) must be made available by the *APA* free of charge 15 minutes after the *APA* has first published it.

- (3) The *APA* must be able to disseminate efficiently and consistently the information referred to in *MAR 9.2B.16R(1)*:
 - (a) in a way which ensures fast access to the information on a non-discriminatory basis; and
 - (b) in a format that facilitates the consolidation of the information with similar data from other sources.
- (4) The information mentioned in *MAR 9.2B.16R(1)* must include the following details:
 - (a) the identifier of the *financial instrument*;
 - (b) the price at which the transaction was concluded;
 - (c) the volume of the transaction;
 - (d) the time of the transaction;
 - (e) the time the transaction was reported;
 - (f) the price notation of the transaction;
 - (g) the code for the trading venue the transaction was executed on or, where the transaction was executed on a *systematic internaliser*, the code 'SI' or, otherwise, 'OTC'; and
 - (h) if applicable, an indicator that the transaction was subject to specific conditions.

Machine readability – APAs

- 9.2B.17 R (1) *APAs* must publish the information which has to be made public in accordance with *MAR 9.2B.16R(1)* in a machine readable way.
- (2) Information is published in a machine readable way where all of the following conditions are met:
- (a) it is in an electronic format designed to be directly and automatically read by a computer;
 - (b) it is stored in an appropriate IT architecture in accordance with *MAR 9.2B.5R(6)* that enables automatic access;
 - (c) it is robust enough to ensure continuity and regularity in the performance of the services provided and ensures adequate access in terms of speed; and
 - (d) it can be accessed, read, used and copied by computer software that is free of charge and publicly available.

- (3) For the purposes of *MAR* 9.2B.17R(2)(a), electronic format must:
 - (a) be specified by free, non-proprietary and open standards; and
 - (b) include the type of files of messages, the rules to identify them, and the name and data type of the fields they contain.
- (4) *APAs* must:
 - (a) make instructions available to the public, explaining how and where to easily access and use the data, including identification of the electronic format;
 - (b) make public any changes to the instructions referred to in *MAR* 9.2B.17R(4)(a) at least 3 *months* before they come into effect, unless there is an urgent and duly justified need for changes in instructions to take effect more quickly; and
 - (c) include a link to the instructions referred to in *MAR* 9.2B.17R(4)(a) on the homepage of their website.

Certification requirement

- 9.2B.18 R An *APA* must require each *MiFIR investment firm* to certify that it only reports transactions in a particular *financial instrument* through that *APA*.

Details to be published by the *APA*

- 9.2B.19 R (1) An *APA* must make public:
- (a) for transactions executed in respect of shares, depositary receipts, *exchange-traded funds* (ETFs), *certificates* and other similar *financial instruments*, the details of a transaction specified in Table 2 of Annex I to *MiFID RTS 1* and use the appropriate flags listed in Table 3 of Annex I to *MiFID RTS 1*; and
 - (b) for transactions executed in respect of bonds, *structured finance products*, *emission allowances* and derivatives the details of a transaction specified in Table 1 of Annex II to *MiFID RTS 2* and use the appropriate flags listed in Table 2 of Annex II to *MiFID RTS 2*.
- (2) Where publishing information on when the transaction was reported, an *APA* must include the date and time, up to the second, it publishes the transaction.
- (3) By way of derogation from *MAR* 9.2B.19R(2), an *APA* that publishes information regarding a transaction executed on an electronic system must include the date and time, up to the millisecond, of the publication of that transaction in its trade report.

- (4) For the purposes of *MAR 9.2B.19R(3)*, an ‘electronic system’ means a system where orders are electronically tradable or where orders are tradable outside the system, provided that they are advertised through the given system.
- (5) The timestamps referred to in *MAR 9.2B.19R(2)* and *MAR 9.2B.19R(3)* must, respectively, not diverge by more than one second or millisecond from the Coordinated Universal Time (UTC) issued and maintained by one of the timing centres listed in the latest Bureau International des Poids et Mesures (BIPM) Annual Report on Time Activities.

Non-discrimination requirements for APAs

- 9.2B.20 R *APAs* must ensure that the information which must be made public is sent through all distribution channels at the same time, including when the information is made public as close to real time as technically possible or 15 minutes after the first publication.

Obligation on APAs to provide market data on a reasonable commercial basis

- 9.2B.21 R (1) For the purposes of making market data containing the information set out in articles 6, 20 and 21 of *MiFIR* available to the public on a reasonable commercial basis in accordance with *MAR 9.2B.16R(1)*, *APAs* must comply with the obligations set out in *MAR 9.2B.22R* to *MAR 9.2B.26R*.
- (2) The obligations set out in *MAR 9.2B.22R*, *MAR 9.2B.23R(2)*, *MAR 9.2B.24R*, *MAR 9.2B.25R(2)* and *MAR 9.2B.26R* do not apply to *APAs* that make market data available to the public free of charge.

Provision of market data based on cost – APAs

- 9.2B.22 R (1) The price of market data must be based on the cost of producing and disseminating such data and may include a reasonable margin.
- (2) The costs of producing and disseminating market data may include an appropriate share of joint costs for other services provided by *APAs*.

Obligation to provide market data on a non-discriminatory basis – APAs

- 9.2B.23 R (1) *APAs* must make market data available at the same price and on the same terms and conditions to all customers falling within the same category in accordance with published objective criteria.
- (2) Any differentials in prices charged to different categories of customers must be proportionate to the value which the market data represent to those customers, taking into account:
- (a) the scope and scale of the market data including the number of *financial instruments* covered and trading volume; and

- (b) the use made by the customer of the market data including whether it is used for the customer's own trading activities, for resale or for data aggregation.
- (3) For the purposes of *MAR* 9.2B.23R(1), *APAs* must have scalable capacities in place to ensure that customers can obtain timely access to market data at all times on a non-discriminatory basis.

Per user fees – *APAs*

- 9.2B.24 R (1) *APAs* must charge for the use of market data on the basis of the use made by individual end-users of the market data ('per user basis'). *APAs* must have arrangements in place to ensure that each individual use of market data is charged only once.
- (2) By way of derogation from *MAR* 9.2B.24R(1), *APAs* may decide not to make market data available on a per user basis where to charge on a per user basis is disproportionate to the cost of making market data available, having regard to the scale and scope of the market data.
- (3) *APAs* must provide grounds for the refusal to make market data available on a per user basis and must publish those grounds on their webpage.

Unbundling and disaggregating market data – *APAs*

- 9.2B.25 R (1) *APAs* must make market data available without being bundled with other services.
- (2) Prices for market data must be charged on the basis of the level of market data disaggregation provided for in article 12(1) of *MiFIR* as further specified in articles of *MiFID RTS 14*.

Transparency obligation – *APAs*

- 9.2B.26 R (1) *APAs* must disclose and make easily available to the public the price and other terms and conditions for the provision of the market data in a manner which is easily accessible.
- (2) The disclosure must include the following:
- (a) current price lists and other contractual terms and conditions; and
 - (b) advance disclosure with a minimum of 90 *days*' notice of future price changes.

Conflicts of interest obligations for *CTPs*

- 9.2B.27 R (1) Where a *CTP* is a member of a *group*, the arrangements it establishes to prevent or manage conflicts of interest in accordance with *MAR* 9.2B.2R(1) must also take into account any circumstances, of which the

CTP is or should be aware, which may give rise to a conflict of interest arising as a result of the structure and business activities of other members of the *group*.

- (2) A *CTP* must assess and periodically review, on an at least annual basis, the conflicts of interest policies and procedures established in accordance with *MAR 9.2B.2R(1)* and must take all appropriate measures to address any deficiencies.
- (3) A *CTP* must keep and regularly update a record of the kinds of services or activity it carries on in which a conflict of interest entailing a risk of damage to the interests of one or more clients has arisen, or in the case of an ongoing service or activity, may arise. *Senior management* of the *CTP* must receive on a frequent basis, and at least annually, written reports on these records and how any conflicts have been managed.

Apportionment of responsibilities obligations for CTPs

- 9.2B.28 R A *CTP* must take reasonable care to maintain a clear and appropriate apportionment of significant responsibilities among its *senior management* in such a way that:
- (1) it is clear who has which of those responsibilities; and
 - (2) the business and affairs of the *CTP* can be adequately monitored and controlled by its directors, senior managers and *management body* of the *CTP*.

Outsourcing obligations for CTPs

- 9.2B.29 R (1) In addition to complying with its obligations under *MAR 9.2B.3R(6)*, a *CTP* must provide the *FCA* with a written agreement in respect of any arrangement it enters into with a third-party provider to outsource a critical function, which contains a clear allocation of the respective rights and obligations of the *CTP* and the third-party provider.
- (2) In relation to the arrangement referred to in *MAR 9.2B.29R(1)*, the *CTP* must take the necessary steps to ensure it is able to:
- (a) terminate that arrangement where necessary, with immediate effect without detriment to the continuity and quality of its provision of services; and
 - (b) cooperate with the *FCA*, including providing information to the *FCA* on request, and putting in place arrangements enabling the *FCA* to seek information from the third-party provider.

Non-discrimination obligations for CTPs

- 9.2B.30 R Any of the following *persons* who are also a *CTP* must treat all information collected in a non-discriminatory fashion and must operate and maintain appropriate arrangements to separate different business functions:
- (1) a *recognised investment exchange*;
 - (2) an *APA*;
 - (3) an *investment firm*;
 - (4) a *data vendor*; or
 - (5) a *firm* whose *shares* or voting rights are at least 20% owned by a *person* referred to in *MAR* 9.2B.30R(1) to (4) or who shares a business function with such a *person*.

Management of incomplete or potentially erroneous information by CTPs

- 9.2B.31 R (1) A *CTP* must set up and maintain appropriate arrangements to ensure that it accurately publishes the trade reports received from *MiFIR investment firms, regulated markets* and *APAs* without itself either -
- (a) introducing any errors affecting the accuracy and completeness of the data contained in those reports; or
 - (b) omitting any information from those reports except where such omission is a deliberate one in accordance with its regulatory and contractual obligations.
- (2) A *CTP* must correct information where it has itself introduced an error or made a non-deliberate omission as referred to in *MAR* 9.2B.31R(1).
- (3) A *CTP* must perform periodic reconciliations between the trade reports it receives and the trade reports it publishes, verifying the correct publication of the information.

Obligations of CTPs to ensure data quality

- 9.2B.32 R (1) A *CTP* must continuously monitor in real time the performance of its IT systems, ensuring that the trade reports it has received have been successfully published.
- (2) A *CTP* must set up and maintain appropriate arrangements to identify on receipt trade reports that are incomplete or contain information that is likely to be erroneous, and must inform the provider of the trade report in each instance.
- (3) In exceptional circumstances, a *CTP* must delete and amend information in a trade report on request from the entity providing the information when that entity cannot delete or amend its own information for technical reasons.

- (4) The *CTP* must submit a report to the *FCA* every six *months* on the quality of the data that it has received during that period, which includes at least the following information:
- (a) the timeliness of the receipt of data from data contributors;
 - (b) the timeliness of publication of information by the *CTP*;
 - (c) details of the trade reports that are incomplete or contain information that is likely to be erroneous that have been identified;
 - (d) whether the *CTP* has correctly published the information it has received; and
 - (e) the performance of the *CTP*'s IT systems.

Consolidation of data by CTPs

9.2B.33 R A *CTP* must:

- (1) ensure that the data it makes available publicly is consolidated from all *UK trading venues* and *APAs* into a continuous electronic data stream; and
- (2) provide the *FCA* with direct and immediate access to the *consolidated tape for bonds*.

Scope of the consolidated tape for bonds and publication of information

- 9.2B.34 R (1) The *CTP* for bonds must have adequate policies and arrangements in place to:
- (a) receive the information made public in accordance with articles 10 and 21 of *MiFIR* by all *UK trading venues* and *APAs* in respect of bonds excluding exchange traded commodities and exchange traded notes; and
 - (b) make that information available to the public in as close to real time as is technically possible.
- (2) The information referred to in *MAR* 9.2B.34R(1) must include the details of a transaction specified in Table 1 of Annex II to *MiFID RTS 2* and use the appropriate flags listed in Table 2 of Annex II to *MiFID RTS2*.
- (3) Following the appointment of a provider of a *consolidated tape for bonds*, *UK trading venues* and *APAs* must:
- (a) connect to the *CTP* for bonds before commencing or continuing operations; and

- (b) send to the *CTP* for bonds, in as close to real time as is technically possible using the means established in *MAR 9.2B.34R(4)* by the *CTP*, the information referred to in *MAR 9.2B.34R(1)(a)*.
- (4) The *CTP* for bonds must operate an open source Application Programming Interface (API) in order to receive the information referred to in *MAR 9.2B.34R(1)(a)* from *UK trading venues* and *APAs*.
- (5) The *CTP* for bonds must be able to disseminate efficiently and consistently the information referred to in *MAR 9.2B.34R(1)(a)* in a way which:
 - (a) ensures fast access to the information on a non-discriminatory basis; and
 - (b) is in a generally accepted format that is interoperable, easily accessible and utilisable for market participants.
- (6) When a new *UK trading venue* or *APA* starts operating, the *CTP* for bonds must include the information referred to in *MAR 9.2B.34R(1)(a)* made public by that *UK trading venue* or *APA* in the electronic data stream of its consolidated tape as soon as possible, and in any case no later than 6 months after the start of the operations of the *UK trading venue* or *APA*.
- (7) The *CTP* for bonds must not consolidate trade reports with the code “DUPL” in the reprint field.

Machine readability and required formats for CTPs

- 9.2B.35 R (1) The *CTP* for bonds must publish the information referred to in *MAR 9.2B.34R* in Graphical User Interface (GUI) and at least 2 machine readable formats, Application Programming Interface (API) and Comma Separated Value (CSV).
- (2) Information is published in a machine readable format where all of the following conditions are met:
- (a) it is in an electronic format designed to be directly and automatically read by a computer;
 - (b) it is stored in an appropriate IT architecture, in accordance with *MAR 9.2B.5R(6)*, that enables automatic access;
 - (c) it is robust enough to ensure continuity and regularity in the performance of the services provided and ensures adequate access in terms of speed; and
 - (d) it can be accessed, read, used and copied by computer software that is free of charge and publicly available.

- (3) For the purposes of *MAR* 9.2B.35R(2)(a), the electronic format must be specified by free, non-proprietary and open standards, and include the type of files or messages, the rules to identify them, and the name and data type of the fields they contain.
- (4) The *CTP* for bonds must:
 - (a) make instructions available to the public, explaining how and where to easily access and use the data, including identification of the electronic format;
 - (b) make public any changes to the instructions referred to in *MAR* 9.2B.35R(4)(a) at least 3 *months* before they come into effect, unless there is an urgent and duly justified need for changes in instructions to take effect more quickly; and
 - (c) include a link to the instructions referred to in *MAR* 9.2B.35R(4)(a) on the homepage of their website.

Obligation for the *CTP* for bonds to provide market data on a non-discriminatory basis

- 9.2B.36 R (1) The *CTP* for bonds must make market data available at the same price and on the same terms and conditions to all customers falling within the same category in accordance with the published objective criteria.
- (2) Any differentials in prices charged to different categories of customers must be proportionate to the value of the market data to those customers, taking into account the use made by the customer of that data, including whether it is used for the customer's own trading activities, for resale or for data aggregation.
- (3) For the purposes of *MAR* 9.2B.36R(1), the *CTP* for bonds must have scalable capacities in place to ensure that customers can obtain timely access to market data at all times on a non-discriminatory basis.

Per user fees for the *CTP* for bonds

- 9.2B.37 R The *CTP* for bonds must charge for the use of market data on the basis of the use made by individual end-users of the market data ('per user basis'). A *CTP* must have arrangements in place to ensure that each individual use of market data is charged only once.

Unbundling market data for the *CTP* for bonds

- 9.2B.38 R The *CTP* for bonds must make market data available without being bundled with other services.

Transparency obligations for the *CTP* for bonds

- 9.2B.39 R (1) The *CTP* for bonds must disclose and make easily available to the public the price and other terms and conditions for the provision of the market data in a manner which is easily accessible.
- (2) The disclosure must include the following:
- (a) current price lists and other contractual terms and conditions; and
 - (b) advance disclosure with a minimum of 90 *days*' notice of future price changes.

Governance obligations for the CTP

- 9.2B.40 R (1) The *CTP* must establish a consultative committee composed of a representative range of its users and data producers.
- (2) The committee must meet at least every 6 *months*, and its Chair must make the meeting agenda and minutes public.
- (3) The *CTP* must share information about its operating costs with the consultative committee, including providing regular updates to the committee on those costs.
- (4) The Chair must make public information on how it takes forward any recommendations of the committee including on its performance and operation.

9.2C Financial resources requirements for consolidated tape providers

- 9.2C.1 R A *CTP* must have sufficient financial resources for the proper performance of its obligations as a *CTP*.
- 9.2C.2 G In determining whether a *CTP* has sufficient financial resources for the proper performance of its obligations as a *CTP*, the *FCA* may have regard to:
- (1) the operational and other risks to which the *CTP* is exposed;
 - (2) the amount and composition of the *CTP*'s capital, liquid financial assets and other financial resources (such as insurance policies and guarantees, where appropriate);
 - (3) the financial benefits, liabilities, risks and exposures arising from the *CTP*'s connection with any *person*, including but not limited to, its connection with:
 - (a) any *undertaking* in the same *group* as the *CTP*;
 - (b) any other *person* with a significant shareholding or stake in the *CTP*;

- (c) any other *person* with whom the *CTP* has made a significant investment whether in the form of equity, debt, or by means of any guarantee or other form of commitment; and
- (d) any *person* with whom the *CTP* has a significant contractual relationship.

- 9.2C.3 G (1) In assessing whether a *CTP* has sufficient financial resources for the proper performance of its obligations as a *CTP*, the *FCA* may have regard to the extent to which, after allowing for the financial resources necessary to cover operational and other risks to which the *CTP* is exposed, the *CTP*'s financial resources are sufficient and sufficiently liquid:
- (a) to enable the *CTP* to carry on the proper performance of its obligations as a *CTP*; and
 - (b) to ensure that it would be able to complete an orderly closure or transfer of the services it provides as a *CTP* without being prevented from doing so by insolvency or lack of available funds.

9.3 Notification and information

...

Notification to the FCA of change to membership of management body

- 9.3.2 D ...
R

- 9.3.3 G ~~MAR 9 Annex 6D is derived from Annex III of MiFID-ITS 3.~~

...

Ad hoc notifications to the FCA

- 9.3.10 R A *data reporting services provider* must promptly complete the ad hoc notification form in MAR 9 Annex 9DR to notify the *FCA* in respect of all matters required by ~~MiFID-RTS 13~~ the rules in MAR 9.2B.5R(3), MAR 9.2B.6R(4) and MAR 9.2B.10R(8).

[*Editor's note:* This form and other forms in MAR 9 Annexes will be updated and consulted upon in a later consultation.]

...

Annex 9 *Editor's note:* This form and other forms in *MAR* 9 Annexes will be updated and consulted upon in a later consultation.

...

Sch 2 Notification requirements

...

Sch 2.2 Notification requirements

Handbook Reference	Matter to be notified	Contents of Notification	Trigger event	Time allowed
...
<i>MAR</i> 8.3.17R	Reasonable possibility of not being able to hold sufficient financial resources	Full details together with relevant financial information	Occurrence	As soon as practicable
<u>9.2B.5(3)R</u>	<u>Any planned significant changes to IT systems</u>	<u>Summary of changes</u>	<u>Decision to make the planned change</u>	<u>Without delay</u>
<u>9.2B.6(4)R</u>	<u>Breaches of the physical and electronic security measures referred to in <i>MAR</i> 9.2B.6 R(1) to <i>MAR</i> 9.2B.6 R(3)</u>	<u>Full details of the breach including an incident report, indicating the nature of the incident, the measures adopted to cope with the incident and the initiatives taken to prevent similar incidents</u>	<u>Occurrence</u>	<u>Without delay</u>
<u>9.2B.10R(8)</u>	<u>Errors or omissions in transaction reports</u>	<u>Summary of the error or omission</u>	<u>Occurrence</u>	<u>Without delay</u>

Annex E

Amendments to the Decision Procedure and Penalties manual (DEPP)

In this Annex, underlining indicates new text and striking through indicates deleted text, unless stated otherwise.

2 Statutory notices and the allocation of decision making

...

2 Annex 1 Warning notices and decision notices under the Act and certain other enactments

...

<i>Data Reporting Services Regulations 2017 2023</i>	Description	Handbook reference	Decision maker
Regulation 10(8)(a) <u>9(8)(a)</u>	when the <i>FCA</i> is proposing to impose a restriction on the applicant for authorisation as a <i>data reporting services provider</i>	...	
Regulation 10(9)(b) <u>9(9)(b)</u>	when the <i>FCA</i> is deciding to impose a restriction on the applicant for authorisation as a <i>data reporting services provider</i>	...	
Regulations 8(5) and 10(8)(b) <u>7(5) and 9(8)(b)</u>	when the <i>FCA</i> is proposing to refuse an application for verification or authorisation as a <i>data reporting services provider</i>	...	
Regulations 8(6)(b) and 10(9)(c) <u>7(6)(b) and 9(9)(c)</u>	when the <i>FCA</i> is deciding to refuse an application for verification or authorisation as a <i>data reporting services provider</i>	...	
Regulations 8(9), 11(4)(a) and 11(5)(b)(i) <u>7(8), 10(4)(a) and 10(5)(b)(i)</u>	when the <i>FCA</i> is proposing or deciding to cancel a verification or the authorisation of a <i>data reporting services</i>	...	

	<i>provider</i> otherwise than at its request		
Regulations 8(9), 11(4)(a) and 11(5)(b)(i) <u>7(8) and 10(4)(b)</u>	when the <i>FCA</i> is proposing to refuse a request to cancel a verification or authorisation of a <i>data reporting services provider</i>	...	
Regulations 8(9) and 11(5)(b)(ii) <u>7(8) and 10(5)(b)(ii)</u>	when the <i>FCA</i> is deciding to refuse a request to cancel a verification authorisation of a <i>data reporting services provider</i>	...	
Regulations 8(10) and 12(3) <u>7(9) and 11(3)</u>	when the <i>FCA</i> is proposing to refuse a request to vary a verification or the authorisation of a <i>data reporting services provider</i>	...	
Regulations 8(10) and 12(4) <u>7(9) and 11(4)</u>	when the <i>FCA</i> is deciding to refuse a request to vary a verification or the authorisation of a <i>data reporting services provider</i>	...	
Regulations 25(1)(a) and 26(1)(a) <u>19(5) and (6)</u>	when the <i>FCA</i> is proposing or deciding to publish a statement <u>by exercising the power conferred by section 312E</u>	...	
Regulations 25(1)(b) and 26(1)(b) <u>19(5) and (6)</u>	when the <i>FCA</i> is proposing or deciding to impose a financial penalty <u>by exercising the power conferred by section 312F</u>	...	
Regulation 36(1) and 36(7) <u>22(1) and 22(7)</u>	when the <i>FCA</i> is proposing or deciding to require restitution	...	

Annex F

Amendments to the Recognised Investment Exchanges sourcebook (REC)

In this Annex, underlining indicates new text and striking through indicates deleted text.

2 Recognition requirements

...

2.16B Operation of a data reporting service

Schedule to the Recognition Requirements Regulations, Paragraph 9I

2.16B.1 RP

A [<i>UK RIE</i>] providing data reporting services must comply with—	
(a)	the Data Reporting Services Regulations 2017 (SI 2017/699) <u>202x</u> (SI 202x/xxx); and
(b)	the requirements of [MAR 9] ;
(c)	Chapter 6 of Commission Delegated Regulation (EU) 2017/565 of 25 April 2016 supplementing Directive 2014/65/EU of the European Parliament and of the Council as regards organisational requirements and operating conditions for investment firms and defined terms for the purposes of that Directive;
(d)	Commission Delegated Regulation (EU) 2017/571 of 2 June 2016 supplementing Directive 2014/65/EU of the European Parliament and of the Council with regard to regulatory technical standards on the authorisation, organisational requirements and the publication of transactions for data reporting service providers;
(e)	Commission Implementing Regulation (EU) 2017/1110 of 22 June 2017 laying down implementing technical standards with regard to the standard forms, templates and procedures for the authorisation of data reporting service providers and related notifications pursuant to Directive 2014/65/EU of the European Parliament and of the Council on markets in financial instruments.

Annex G

Amendments to the Enforcement Guide (EG)

In this Annex, underlining indicates new text and striking through indicates deleted text.

19 Non-FSMA powers

...

19.35 Data Reporting Services Regulations ~~2017~~ 2023

...

19.35.1 ~~The *DRS Regulations* implemented *MiFID*.~~ The *FCA* has investigation and enforcement powers in relation to both criminal and non-criminal breaches of the *DRS Regulations* (including requirements imposed on persons subject to the *DRS Regulations* by *MiFIR* and any *onshored regulation* which was an EU regulation made under *MiFIR* or *MiFID*).

...

Annex H

Amendments to the MiFID 2 Onshoring Guide (M2G)

M2G 1 (Onshoring for Trading Venues & Data Reporting Service Providers) is deleted in its entirety. The deleted text of the chapter is not shown but it is marked [deleted] as shown below.

M2G 1 Onshoring for Trading Venues & Data Reporting Service Providers [deleted]

TECHNICAL STANDARDS (AUTHORISATION, ORGANISATIONAL REQUIREMENTS AND THE PUBLICATION OF TRANSACTIONS FOR DATA REPORTING SERVICES PROVIDERS) INSTRUMENT 2023

Powers exercised

- A. The Financial Conduct Authority (“the FCA”) makes this instrument in the exercise of the powers and related provisions in or under:
- (1) paragraphs 34, 35, 36, 37, 38 and 39 of Schedule 3 to Regulation (EU) No 600/2014 of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Regulation (EU) No 648/2012;
 - (2) the following sections of the Financial Services and Markets Act 2000 (“the Act”):
 - (a) section 138P (Technical standards);
 - (b) section 138Q (Standards instruments);
 - (c) section 138S (Application of Chapters 1 and 2); and
 - (d) section 137T (General supplementary powers).
- B. The provisions listed above are specified for the purposes of section 138Q(2) (Standards instruments) of the Act.

Pre-conditions to making

- C. The FCA has consulted the Prudential Regulation Authority and the Bank of England as appropriate in accordance with section 138P of the Act.
- D. A draft of this instrument has been approved by the Treasury in accordance with section 138R of the Act.

Interpretation

- E. In this instrument, any reference to any provision of direct EU legislation is a reference to it as it forms part of retained EU law.

Modifications

- F. The FCA revokes the following technical standards:
- (1) Commission Delegated Regulation (EU) 2017/571 of 2 June 2016 supplementing Directive 2014/65/EU of the European Parliament and of the Council with regard to regulatory technical standards on the authorisation,

organisation requirements and the publication of transactions for data reporting services providers; and

- (2) Commission Implementing Regulation (EU) 2017/1110 of 22 June 2017 laying down implementing technical standards with regard to the standard forms, templates and procedures for the authorisation of data reporting services providers and related notifications pursuant to Directive 2014/65/EU of the European Parliament and of the Council on markets in financial instruments.

Commencement

G. This instrument comes into force on *[date]*.

Citation

H. This instrument may be cited as the Technical Standards (Authorisation, Organisational Requirements and the Publication of Transactions for Data Reporting Services Providers) Instrument 2023.

By order of the Board
[date]

