Bringing Europe's securities together - speech by Kalin Anev Janse

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24/11/2021
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“Bringing Europe's securities together”
ICMA Secondary Market Forum
Online, 24 November 2021

(*Please check against delivery*)

Good afternoon,

Dear ladies and gentlemen,

It is a great pleasure to be among you, albeit online, to deliver the keynote address to the ICMA Secondary Market Forum.

Imagine a search engine for European equities and bonds. Easy access to the instruments of one of the world’s biggest capital markets. View transactions, prices, and other material content in real-time. Simply by typing in specific words. Just like you would with a web browser. The consolidated tape for securities. An attractive and helpful prospect.

And one I will contend would also be very useful for an objective the ESM strongly supports, the European capital markets union (CMU).

The roots of such a search engine pre-date the internet by around a decade. The consolidated tape has its origins in the US equities market of the late 1970s. The idea later caught on in other markets, notably in US fixed-income instruments. So was born the Trade Reporting and Compliance Engine or TRACE in the United States in 2002.

The purpose of such a consolidated tape is to enhance transparency, help decision-making and create discovery for investors. All investors, large and small.

A central data bank for all bond transactions would ensure a comprehensive, high-quality, trusted and affordable search engine. Hence a reason why all investors would be beneficiaries.

It would also benefit market regulators by creating a common reference point for best execution monitoring and transaction cost analysis.

A consolidated tape therefore offers two distinct prospects. It can be useful pre-trade, allowing investors to glimpse where the terms of a trade are best in real-time. It is also useful post-trade, showing regulators what transactions were conducted across Europe, cross-border, and not just those within one country.

Critically, it would open access to data for all European tradeable entities to the rest of the world – rather like an internet search engine does. Access to data in a consistent and transparent format, helping to encourage further financing and growth.

Coming to Europe

As Europe is a leader in many fields of market development, you may well ask why such an initiative has yet to arrive at Europe's shores. Market fragmentation that prevails within the European Union stands as the main obstacle.

Above all else, well-integrated markets are necessary to harness the potential of a consolidated tape.

If introduced, a consolidated tape might show liquidity for a certain bond on a given trading platform within the EU.

But this liquidity will not be executable if commercial or technical ties across trading markets within the EU are weak. In the US, the consolidated tape connects trading platforms for execution.

The problem for investors in Europe is much the same as for consumers who want to buy something they see through a glazed shop window, right there and then ... Well, they cannot because the store is closed for a long vacation.

That is the analogy for market participants in the EU who may observe through a consolidated tape that an asset is cheaper in one trading location compared to others, but may not be able to execute on that platform.

CMU, the main event

But for a European consolidated tape, which draws together various securities such as equities, corporate bonds and government and SSA bonds, to be effective we need to ensure we are not placing the cart before the horse.

An EU consolidated tape will only prove useful if integration of EU capital markets makes significant progress. From that perspective, the will of the EU to put the CMU initiative high in the European agenda is encouraging.

The European Union has set as one of its objectives the implementation of CMU.

CMU would provide several benefits, notably financial stability, expedite the financing of the post-pandemic economic recovery, and facilitate the introduction of the consolidated tape to help reinforce capital market integration.

Yet, achieving an EU consolidated tape will also require the EU to address some important questions. And there are many views in the market on the best way forward.

Firstly, the EU needs to define the content of such a consolidated tape. The consolidated tape needs to provide benefit to trade execution by enabling market participants to assess the depth and the liquidity of the market.

In that regard, do market participants need both pre-trade and post-trade data? Should the consolidated tape disclose real-time data only or is a certain degree of delay? Should it cover both equity and non-equity asset classes? What about derivatives and indices?

At the same time, costs for providing a consolidated tape, which will be passed onto market participants, should not be prohibitive and not create an unlevel playing field. That raises the question of who should be in charge of maintaining a European consolidated tape and what revenues model should be applied.

Entrusting the maintenance of the tape to a public utility, that is not pursuing a profit objective, may curb registration fees and offer access to the widest possible range of market participants. It would also protect European sovereignty by ensuring that information remains within Europe.

Existing private data vendors can also be a natural fit for the task due to their role as consolidator as well as service provider for financial institutions. However, their fees would likely be profit-driven and may not match the objective of providing the consolidated tape service on the widest possible basis.

A compromise solution may lie in a partnership between a public utility, such as a European regulator, and the private data vendors.

Secondly, the reliability of transactions-related data is a pre-condition for the creation of a consolidated tape that market participants can trust. Faulty data can lead to ill-informed investment decisions, inaccurate disclosure to regulators and investors, and an overall loss of confidence in markets.

It is not an option to launch a consolidated tape and then make incremental improvements in data quality thereafter. Hence the introduction of a consolidated tape will require a lot of beta testing before it could be launched.

Regulated exchanges provide high quality data that can be fully trusted. This is less the case for places under more lenient regulation, such as Over-The-Counter trading spheres or so-called dark pools.

Thirdly, if the EU introduces a consolidated tape, it will have to consider better definitions for the role of a real-time consolidated tape in the legal framework related to trade execution. If a consolidated tape is to be introduced, the current execution regime would need to be amended.

In particular, MiFID II regulation could be adapted to mandate the use of the consolidated tape in trade execution and market controls run by regulators.

Consolidated tape could boost CMU

Can a consolidated tape for European bonds and equities be achieved in Europe?

As a participant to the High-Level Forum on capital markets union which reported its findings in June 2020, I have been encouraged by the level of discussion that we witnessed and the progress made by the report.

I fully share the report’s view that a consolidated tape would be a good thing once there is progress on CMU.

A European consolidated tape is both achievable and desirable. Its set-up would help boost European capital markets. It would provide a straightforward way for a range of stakeholders to view consolidated liquidity and trading activity on a pan-European basis, as well as provide a common source for regulators to monitor cross-

market activity. As a result, it would materially improve the liquidity and stability of the European capital market.

But, given the pending questions, the ESM believes that a step-by-step approach would be appropriate.

The sovereign and SSA bond segment may not be the most urgent case considering the level of transparency already prevailing in that market. The corporate bonds market might be the priority.

In time, government and SSA bonds could be added to the tape. After all, consolidated means consolidated.

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