

10 May 2013

Teresa Rodríguez Arias
International Organization of Securities Commissions (IOSCO)
Calle Oquendo 12
28006 Madrid
Spain

Submitted to marketstructure@IOSCO.org

Re: **Regulatory Issues Raised by Changes in Market Structure**

Dear Sir/Madam:

Markit¹ is pleased to submit the following comments to the International Organization of Securities Commissions (“**IOSCO**”) in response to its Consultation Report on *Regulatory Issues Raised by Changes in Market Structure* (the “**Consultation Report**” or the “**CR**”).²

Introduction

Markit is a provider of financial information services to the global financial markets, offering independent data, valuations, risk analytics, and related services across regions, asset classes and financial instruments. Our products and services are used by a large number of market participants to reduce risk, increase transparency, and improve the operational efficiency in their financial markets activities. Markit is actively involved in the creation of price transparency both through the pricing services that we offer for a whole range of financial products as well as through Markit BOAT, the MiFID-compliant transaction reporting service for European equities that we operate.

Markit BOAT consolidates pre- and post-trade data from over 50 leading financial institutions that use the platform to meet their MiFID OTC equity transparency obligations for approximately 8,000 stocks that are listed across Europe. We publish an average daily turnover of €25bn, equivalent to an estimated 70% of the total OTC equity trade volume reported and around 25% of the entire equity trading in Europe. Given our involvement with the MiFID-compliant reporting of OTC equity transactions in Europe, we feel well placed to comment on IOSCO’s questions regarding the fragmentation of trade information.

Markit has been actively and constructively engaged in the discussion regarding regulatory reform of the financial markets. We regularly provide regulatory authorities with our insights on current market practice, for example in relation to valuation methodologies, the provision of scenario analysis, and the use of reliable and secure means to provide daily marks. We have also advised regulatory bodies on potential approaches to enable the timely and cost-effective implementation of newly established requirements, for example through the use of multi-layered phase-in or by providing participants with a choice of means for satisfying regulatory requirements. Over the last several years, we have submitted over 80 comment letters³ to regulatory authorities around the world and participated in numerous roundtables.

Responses to IOSCO’s specific questions

Monitoring the impact of fragmentation on trade information

¹Markit is a financial information services company with over 2,900 employees in Europe, North America, and Asia Pacific. The company provides independent data and valuations for financial products across all asset classes in order to reduce risk and improve operational efficiency. Please see www.markit.com for additional information.

²IOSCO Consultation Report: Principles for Financial Benchmarks. April 2013.

³This number includes responses submitted by MarkitSERV, a now wholly-owned subsidiary of Markit Group.

1. What options are available to manage the issues associated with data fragmentation in a competitive environment?

IOSCO recognized some specific regulatory requirements that have been implemented to limit the potential negative impact of fragmentation, for example the “best execution” and “trade through” rules.⁴ However, we believe that it would also be useful for IOSCO and national regulatory authorities to be aware of, acknowledge and explicitly support some of the industry-led initiatives to address the issues that have been created by data fragmentation.

One of the biggest challenges in markets where trading is fragmented across various execution venues is the fact that the various reporting venues will provide the individual datasets for pre- and post-trade information often in different formats and standards. We believe that it is mostly for that reason that the fragmented data sets cannot be easily consolidated, even if the necessary technology for data consolidation might be readily available to market participants. For example, most data vendors that disseminate data from more than one trading/reporting venue will offer solutions to end users that consolidate the relevant data sets.

The issues of inconsistent data standards and lack of data quality as consequences of the fragmentation in trading have been widely recognized by participants in the European equity markets. To address them and create a sound basis for data consolidation, several industry-led working groups have been set up to develop high quality data standards that would apply across the various execution venues, for example the Market Model Typology (“*MMT*”) technical committee and the FPL EMEA Trade Data Standardisation Working Group. Specifically, the MMT technical committee has been working to agree on and establish technical standards for the reporting of equity transactions across all markets, including OTC. At the same time, the FPL EMEA Trade Data Standardisation Working Group aims to provide standards for the consolidation of trade reports and market data in Europe. The focus of these groups is on designing a standard approach to a number of current industry identified issues relating to the collection and management of trade reports. However, it is worth noting that there currently does not seem to be any formal endorsement of these working groups by regulatory authorities. We believe that this might slow down the progress of their discussions and we therefore encourage IOSCO to explicitly recognize these initiatives and formally support them.

2. What conditions, if any, should govern access by investors to consolidated market data?

We appreciate IOSCO’s goal of facilitating the consolidation and dissemination of post-trade information as close to real time as possible.⁵ In order to help achieve this objective, we recommend that IOSCO requires for fair and non-discriminatory access to consolidated market data. We believe that, to benefit investor access, it will also be important for vendors to have flexibility in their commercial models⁶ and for a single licensing regime to be established allowing vendors to implement a fee schedule and licensing regime once, and not be burdened by the need to negotiate terms with each exchange.

3. Are there other challenges (technical, regulatory, prohibitively high costs) with regard to creating and/or accessing consolidated market data? What if anything, should be done to address these challenges?

As we pointed out above, there is currently no consistency of reporting standards across the various execution and reporting venues in European equity markets. We therefore believe that support from all relevant stakeholders for the initiatives that are being undertaken by groups such as the MMT Technical Committee and the FPL Trade Data Standardization working group would provide valuable industry feedback needed to create and implement the necessary data standards.

⁴ IOSCO CR Section 3.3. Access to trading venues, order handling and rules of conduct.

⁵ IOSCO CR Recommendation 2.

⁶ Types of commercial models could include: (i) access to data on a terminal for research purposes; (ii) consumption of a data feed, outside of a terminal, for trading purposes; and (iii) use of the data for transaction cost analysis. Each of these use cases could be subject to a different licensing regime at a range of costs.

However, even once the standardization of data has been achieved, the issue of data cost will still need to be addressed. Currently, the aggregate cost of accessing European equity post-trade data across all trading and reporting venues makes access to this dataset prohibitively expensive for many potential users. To address this issue execution and reporting venues will need to provide the relevant post-trade data in unbundled format and at reasonable commercial terms.⁷ We believe that this will be a pre-condition for the creation of real-time consolidated data and would alleviate the impact that the different commercial and licensing models have on creating prohibitively high costs for the aggregated dataset.

4. What views do you have on the relative merits of a single consolidated tape mandated by the regulation versus multiple competing tape providers?

IOSCO recognized that “the consolidation of information across trading spaces is ... important in a fragmented environment.”⁸ Currently multiple vendors offer their solutions for data consolidation in the marketplace but with only limited success. We believe that this lack of success is mostly based on the various existing issues around data standardization, guidance, and data quality as well as the licensing and cost of data.

In principle, the existence of several, competing consolidated tape providers would be beneficial in order to limit the cost of provision of the service and ensure its high quality via competition. However, for this specific task, we believe that IOSCO should aim for mandating a single, consolidated tape offered by a commercial provider in the relevant jurisdictions. We believe that a product that is commercialized at reasonable terms by a single provider might be best placed to undertake consistent data quality checks and work towards establishing a range of licensing models to provide competitive pricing tailored to the end users’ needs. We note that this approach has been contemplated by regulators in both Europe and the United States.⁹ With the progress made by data standards such as MMT and FPL, we now believe that, with the appropriate framework, a single consolidated tape supported by agreed data standards, could process the data in a way which would provide end users with a single standardized consolidated solution. Once the groundwork has been successfully laid to establish a single tape provider, one could also consider introducing competition in this area at a later stage.

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Markit appreciates the opportunity to comment on IOSCO’s Consultation Report on *Regulatory Issues Raised by Changes in Market Structure*. We would be happy to elaborate or further discuss any of the points addressed above. In the event you may have any questions, please do not hesitate to contact the undersigned or Marcus Schöler at marcus.schueler@markit.com.

Yours sincerely,



Kevin Gould
President
Markit

⁷ Users should be able to subscribe to pre-trade and post-trade data separately. We note that, while some exchanges are now offering such unbundled data sets, most of them would still only sell pre- and post-trade data as a package. Also, the process of unbundling has often been designed in a manner that the cost of the separate post-trade data has not been significantly reduced.

⁸ IOSCO CR Section 3.4 Transparency of trading.

⁹ In Europe, the MiFID proposal contemplates the establishment of mandatory consolidated tapes for trades in shares admitted to trading on an RM, with the current proposal being that competing commercial providers should be able to qualify to produce such a tape. In the U.S, the SEC recently adopted a Consolidated Audit Trail to assist in surveillance of its multiple market structure and has recently established an office that will receive market data in real-time to assist in overseeing US market structure.