

AFM Innovation Hub and Stakeholder Group on the Bond Consolidated Tape

The Corporate Bond Consolidated Tape

High-Level Technical Principles

10 May 2022

High Level Technical Principles for a Corporate Bond Consolidated Tape

About the AFM Innovation Hub and Stakeholder Group on the Bond Consolidated Tape

These high-level technical principles were drafted by the AFM with input from participants in the AFM Innovation Hub and the AFM Stakeholder Group on the Bond Consolidated Tape following written input and a round table meeting held on 20 April 2022. The participants in the Innovation Hub include six firms with consolidated tape solutions across various asset classes. The firms that provided input for these principles include Ediphy, Finbourne, Propellant Digital and TransFICC.

The Stakeholder Group on the Bond Consolidated Tape includes representatives from buy-side, sell-side, principal trading firms and trading venues. Participants to the proceedings included representatives from AIMA, Bloomberg, BVI, Citadel, DataBP, DWS, EFAMA, FIA EPTA, Flow Traders, ICMA, ING, MarketAxess, Norges Bank and Tradeweb. The European Commission, ESMA and Dutch Ministry of Finance joined the proceedings as observers. The group was chaired in an independent capacity by Alexander Sedgwick representing Abel Noser.

The AFM understands and appreciates the competitive value that a consolidated tape (CT) will have on bond markets in the European Union (EU). At this point, the focus of these high-level technical principles is solely on the technical input and output standards, and way forward for the consolidated tape for corporate bonds. The framework of the principles described below would not exclude its eventual suitability for sovereign bonds as well.

The group furthermore believes that a more formalised setup is necessary to pro-actively support the European Commission, co-legislators, ESMA and NCAs on questions related to market data, including the CT. This could be achieved through the Market Data Expert Group (MDEG) as proposed by the European Commission, for which we stand ready to support.

1. The Corporate Bond Consolidated Tape

We believe the overall goal of the consolidated tape for corporate bonds is to reduce fragmentation of information, improve transparency and data quality, assist decision making and provide valuable insights to investors, liquidity providers, and issuers. To that end, the CT should provide for a timely, meaningful, comprehensive, highly accurate, affordable, and trustworthy information source on price-forming corporate bond transactions across the EU's secondary capital markets.

We believe a corporate bond CT should provide for real-time, subject to applicable deferrals, post-trade data feeds based on mandatory contributions from market data contributors as defined in the MiFIR Review Proposal. Core market data should be made available to the Consolidated Tape Provider (CTP) in standardised formats. This format should leverage, to the possible extent, existing MiFIR reporting methodologies and industry practices, created by way of dedicated and targeted amendments at Level 2. The main task of the CTP is to ensure a solid and secure technical platform for processing, (cloud)storing, and harmonizing data contributions for consumption, combined with adequate capabilities for administration, access, dissemination, distribution licensing and subscription management for CT data consumption. There should be one CT per asset class, in line with the proposal by the European Commission.

We believe the information the CT contains should be made as widely available as practically possible to different types of end-users, differentiating between display data via a website or GUI aimed at non-professional usage and wholesale non-display data for automated processing, redistribution or to support the creation of value-added services.

We expect the level 1 text on the CT to set out the guiding principles around the governance framework, establishing fair representation of all stakeholders including data contributors and users of the CTP. Detailed provisions on CT governance standards should become an essential element when specifying the selection and award procedure for CT providers by ESMA, subject to industry consultation. We strongly believe that broad access and use of CT data will contribute to a new and competitive ecosystem for offering various types of services and use cases based on data distributed in the CT. We see no ground for mandatory consumption of CT data.

In order to ensure the CT covers meaningful information on all price-forming transactions, volumes and instruments, the adoption of the CT should be accompanied by a well-calibrated and harmonised deferral regime. The amended deferral regime should aim to cover the majority of instruments, with time-limited exemptions for non-price forming transactions and when transactions are large or very large in size or illiquid. To ensure flexibility and alignment with market conditions and developments, the deferral regime should be reviewed and recalibrated by ESMA on a periodic basis taking qualitative and quantitative risk provision criteria into account taking into account, including the advice of the proposed MDEG.

2. Input standards

We agree that to ensure rapid implementation and avoid operational pitfalls, contribution of core market data fields to the CT should to the largest extent possible be based on existing MiFID II / MiFIR reporting standards and infrastructure. To that end, the baseline scenario for the submission of core market data by trading venues, APAs and investment firms should be the use of applicable fields and provisions contained in RTS 2 of the MiFID II/ MiFIR framework.

Where RTS 2 does not already provide for the required core market data fields, we underline the need to use commonly agreed industry standards to ensure a common regulatory interpretation of fields. This will limit reporting errors and ensure the highest level of data quality and consistency. While the message format plays an important role, we believe it is even more important to have a dedicated common reference data set to ensure consistency and prevent reporting and interpretation errors. The use of FIRDS for reference data based on information contained in the ISIN would be the most straightforward option to ensure short implementation

timeframes where no specific corporate bond reference data set is available at this stage. We note that FIRDS has challenges in terms of data quality resulting from the current legal framework, particularly where each ISIN can have multiple (inconsistent) entries made by different execution venues. We believe the CTP could initially operate on the basis of FIRDS data with the CTP using its analytical capabilities to turn multiple records into a single record per ISIN. We believe this approach should be supplemented by a broader effort to improve instrument reporting and reference data instructions.

In general, the reportable fields for CT input should be listed per (CT) asset class to ensure consistency with instrument characteristics, combined with the agreed flags, reporting instructions, regulatory interpretations and reference data. These should become part of an amended Annex in RTS 2 dedicated solely to the CT following industry consultation to ensure a broadly supported standard. This RTS 2 amendment should also cover the amended deferral logic, as well as ensure that the required core market data can be submitted in a single message to the CTP. In this way, the data contained in the CT can be considered as the single and unambiguous source of record for consolidated core market data.

To this end, we suggest the following for corporate bond field population and reference data instructions based on the reportable core market data as proposed by the European Commission. Reportable fields should at a minimum include price, price notation, notional amount, MIC and ISIN. For corporate bond reporting, more uniformity is specifically needed for the correct reporting of notional amounts and price notation given the common interpretation errors that are being made in existing APA reporting. We note that it is essential to ensure that price notation information for corporate bonds is only reported as the percentage of face value rather than monetary value or yield of an instrument.

Table 1 Proposed Reportable Fields to CT

| Field Proposed by the EC | Proposal for CT | Explanation |
|--|---|--|
| Price | Clean price | Clean price expressed as percentage of face value. Currency information cross-referenced in FIRDS |
| Price notation | Percentage | No other option allowed for corporate bonds |
| Quantity/Size Executed | Should be left blank for bonds as the size is dictated by the notional. | |
| Notional Amount | Clean amount / face value of the instrument | Currency information cross-referenced in FIRDS or specific corporate bond reference data set |
| Market identifier for Execution Venue (MIC) | MIC codes of execution venue | MIC code of the trading venue when the transaction is executed on venue. Where transactions are executed off-venue or on a Systematic Internaliser the SINT or XOFF identifier is used as the transactions are subsequently reported by an APA |
| Market identifier for Publication Venue (MIC) | MIC codes of publication venue | MIC Code of the publication venue where transactions are published by an APA |
| Standardised instrument identifier | ISIN | |

| | | |
|--------------------------------------|--|---|
| Time Stamp (Execution Time) | UTC Timestamp | |
| Time Stamp (Publication time) | UTC Timestamp | |
| Transaction Identifier Code | Unique ID | Unique ID to ensure traceability in cases of modifications or cancellations. |
| Flags | Minimum number of flags to indicate waiver or deferral use, credit rating, cancel/amends, trading protocol, indication for technical trades, portfolio trading and/or package transactions | It is necessary to agree an amended flag logic or flag indication method (single field or TRUE/FALSE) as part of RTS 2 amendments and instructions to cover appropriate indicators. |

We believe the most straightforward data submission approach would be in the form of standardised, dedicated, secured, real-time APIs based on predefined fields using broadly supported industry transmission standards at individual MIC level. The CTP should be able to digest messages in different transmission formats, provided they meet the requirements on consistency and reference data in RTS 2. It will be at the discretion of the CTP whether to allow and provide submission methods other than APIs (such as web-portals) provided consistency with the RTS 2 provisions can be ensured.

We agree that the APIs should allow market data contributors to submit NEW, MODIFY or CANCEL messages to the CTP. The CTP provides the market data contributor with an ACK/NACK notification combined with a unique transaction ID to ensure traceability in case modification or amendments are required upon reception of the message. The CTP validates data submitted to the fields and reference data contained in RTS 2 and would in case of erroneous submissions allow changes within a fixed timeframe to amend the message.

The CTP furthermore should perform regular tolerance and pattern checks (at least on an intraday basis) and keep records on data quality submitted in order to improve data quality and consistency, as well as making those available for supervisory purposes to ESMA. In this way, CTPs can at a minimum play a key role in identifying, cataloguing, and triaging common reporting errors while contributing to improving overall data quality in the process. These insights could be proactively shared with market data contributors and supervisory bodies. It could therefore be considered to set a fixed implementation period following the award of the CT tender to facilitate the improvement of data quality to the CT in this manner and avoid prolonged debates on satisfactory levels of usable data. If data quality does not improve satisfactorily over the implementation period, additional regulatory measures may be considered for adequate sanctioning arrangements for delivering poor data quality.

While core market data is submitted to the CTP by investment firms through an APA, the reporting investment firm remains responsible for the quality of data submitted to the CT. APAs should also remain responsible for monitoring and checking data submissions in line with their existing RTS 13 obligations to avoid imposing additional responsibilities to the CTP.

3. Output Standards

We believe the CT should be the single, unambiguous and authoritative source for consolidated raw core market data. CT output standards should therefore be aimed at ensuring that core market data is made available to all

relevant types of end users as close to real-time as technologically possible, while specifically catering to end-user output requirements. To this end, we support the distinction between the provision of display and wholesale non-display raw core market data by the CTP to service the various use cases for CT data.

Display data could be made available through the CTP website or a GUI and contain non-downloadable or machine-readable data aimed at non-professional use. Display data should be available at the lowest possible cost. The core service of the CTP will be the distribution of non-display raw core market data based on a transparent pricing and licensing methodology that is subject to oversight and challenge. At a minimum, non-display data usage should be divided in two distinct license types:

- a. Direct consumption of core market data to the end-user in a machine-readable format and/or or through API with no redistribution allowed primarily aimed at internal use by regulated financial services firms; or
- b. Consumption of raw core market data in machine-readable format and/or or through API for the purposes of (commercial) redistribution and/or providing value-added services.

We believe the CTP should support making non-display data available through open forms of technology and formats driven by user demands through output standards that ensure that users can consume the message in the desired manner. These formats include APIs using common industry message standards or HTTPS-based transmission protocols.

Output fields should be standardised per the core market data proposed fields by the European Commission and the proposed provisions on CT input listed above. At a minimum, the output fields should include price, price notation, notional amount, ISIN, MIC and timestamp information on execution time, publication time and CT reporting time.

4. The way forward

We all agree on the timely implementation of a CT for corporate bonds as an integral element of the Capital Markets Union and that now is the time to deliver. Given its broad support, we believe the CT for corporate bonds can play an important role in setting examples for other asset classes, including on governance and organisational setup. As a cornerstone of the CMU, we agree that the CT should provide for a consolidated, standardised and authoritative overview of the EU's financial markets available to all investors and issuers supporting different types of use cases that contribute to growth and innovation.

We urge the co-legislators as part of the ongoing negotiations at Level 1 to agree on realistic, clear and workable guiding principles for the CT and the CTP operation, while leaving the technical details and standards to regulatory and industry experts at level 2 to ensure flexibility while avoiding suboptimal outcomes. We also note outstanding questions on defining an appropriate CT governance and oversight model. The European Commission, ESMA, NCAs and industry experts have the necessary expertise to deliver on solid data standards, identify barriers and ensure the foundation for a strong technical and operational model for the corporate bond CT.

The contributors to this working group stand ready to play a role and contribute to:

- Setting the right data and transmission standards for unambiguous and streamlined input to the CT, while ensuring that the CTP can ingest messages in different formats;
- Ensure the development of clear, concise and targeted reporting and reference data instructions at Level 2 and;
- Developing and delivering a CT product that works for all types of end-users.

Overall, we believe these high-level principles can lay the foundations for the further development of corporate bond CT proof of concepts as a next step and play a key role in the delivery of a bond CT in the European Union.



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Data classification

AFM - Publiek

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