
European and UK Consolidated Tapes for Bonds

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What is an acceptable
Commercial Model for
Consumers?



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Objective

Propose a commercial model for the European and UK Consolidated Tape for Bonds that is reasonably acceptable for consumers.

With the selection of the Consolidated Tape Providers (CTP) expected in 2024 and a live consolidated tape for bonds expected in 2025, it will assist the regulators and potential CTPs to understand a commercial model that is reasonable acceptable to consumers. Thus, allowing regulators and CTPs focus to be on data content, data quality and delivery.

The Key Elements of the Commercial Model Proposed

The commercial model proposed utilises the commercial models currently offered by exchanges but incorporates some essential elements that allow the model to be acceptable to consumers whilst ensuring the consolidated tape is a success ..

- The 'types of use' for Non-Display fees are simple for consumers to understand and adhere to. This addresses the consumer concern that fees and related policies are too complex and getting more complex.
- The fees and their relationship to both the cost of producing and disseminating the data and the revenues received are made publicly transparent. This addresses the consumer concern that MIFID II Reasonable Commercial Basis is not being adhered to.

Benefits of the Consolidated Tape

A consolidate tape for bonds will improve transparency of pricing and liquidity. This will assist investors in achieving best execution.

Construction of the Commercial Model Proposed

In constructing the commercial model, the following considerations are taken into account:

Widescale use and availability.

For the consolidated tape for bonds to achieve its desired outcome of increased investment activity the data has to be made widely available and use has to be widescale. This will be achieved by the fees equalling the cost and the fee construction being completely and continually transparent.

Construction of the Commercial Model Proposed

In constructing the commercial model, the following considerations are taken into account:

Delayed Data is Expected to be Chargeable

Due to the illiquid nature of many bonds there is little difference in the value of delayed data versus real-time data. For this reason, it will be necessary for the regulators to allow delayed data for the bond consolidated tapes to become chargeable. This will require an amendment to MIFID II Reasonable Commercial Basis which currently requires delayed data to be free of charge.

Delayed data is usually defined as data older than 15 minutes from publication time. There is not a commonly defined period of how old data must be to remain with the definition of delayed data. Some trading venues define delayed data as being up to the end of the trading day, after that the data is defined as historical data.

Construction of the Commercial Model Proposed

In constructing the commercial model, the following considerations are taken into account:

Display use.

For display use the user inventory does not exist to count users or devices. Delayed data is of similar value to real-time data. Therefore, for display use real-time data and delayed data should be free of charge. However, firms receiving data, even if only for display use, will still need to register with the CTP.

Construction of the Commercial Model Proposed

In constructing the commercial model, the following considerations are taken into account:

The Need to Cover Costs.

In order to cover costs, it will be necessary to charge:

- External redistribution fees
 - Connectivity fees
 - Non-Display fees
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Construction of the Commercial Model Proposed

In constructing the commercial model, the following considerations are taken into account:

External redistribution fees

External redistribution fees will be payable by any organisation (vendor or consumer) that externally redistributes the data. If the externally redistributed data is more than a limited amount of data, then the external redistributor will need to request that the receiver of the data registers with the CTP. 'Limited' in this context means not continual, reoccurring, or repeated external redistribution.

Construction of the Commercial Model Proposed

In constructing the commercial model, the following considerations are taken into account:

Connectivity fees

Connectivity fees will be payable for any organisation that directly connects to the CTP to receive the data. By directly connecting to the data consumer firms may avoid the need to pay an intermediary vendor. Although in most cases it is thought consumer firms will continue to receive data via intermediary vendors.

Construction of the Commercial Model Proposed

In constructing the commercial model, the following considerations are taken into account:

Non-Display fees

Non-Display fees will be required to cover the cost of the CTP. There will be multiple Non-Display fees to cover different 'types of use'. However, the different 'types of use' will be kept simple for firms to understand and comply with. Multiple types of use allow for some varying in fees for different sizes of consumer firms without creating too big a differential between the amount larger consumers pay over smaller firms.

The proposed 'types of use' are:

1. Sell Side
 2. Buy Side
 3. Other
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Construction of the Commercial Model Proposed

In constructing the commercial model, the following considerations are taken into account:

Adjusted fees dependent on demand

The fees can be adjusted upwards and downwards, periodically, dependent on demand. This adjustment will be fully transparent and publicly published.

Construction of the Commercial Model Proposed

In constructing the commercial model, the following considerations are taken into account:

Cost Recovery is Achieved Over a 5-year Period

Regulators are expected to review the CTP license to operate over a 5-year period, therefore it seems reasonable to achieve cost recovery over a 5-year period.

It is expected that consumer demand will take 5 years to build up to normalised levels. With this being the case ideally cost recovery would be achieved over an initial 10-year period, to allow lower initial fees thus encouraging demand and the success of the consolidated tapes, however this is not possible if the CTP operator license is only 5 years.

Construction of the Commercial Model Proposed

In constructing the commercial model, the following considerations are taken into account:

There Will be No Additional Costs for Contributing Venues

Consumers that received the consolidated tape will not have to pay additional fees to the trading venues contributing to the consolidated tapes.

There has been high demand for consolidated tapes that do not incur additional fees for contributing trading venues: NYSE CTA and Nasdaq UTP.

There has been low demand for consolidated tapes that do incur additional fees for contributing trading venues: Vendor consolidated products and the Canadian Consolidated Tape.

Construction of the Commercial Model Proposed

In constructing the commercial model, the following considerations are taken into account:

Higher Set up Costs, Lower Running Costs

The initial set up cost is expected to be higher than the subsequent annual running costs. Although running costs will be subject to inflation.

Therefore, for the purpose of scenario modelling, the cost to operate a single consolidated tape is taken to be EUR 10m per annum.

If running costs do not increase and demand is sufficient to maintain revenue it would be possible for fees to decrease after 5 years.

The Commercial Model Proposed

The Market Data Products

The following fees are proposed.

External Redistribution Fee (Per Annum)

Direct Connectivity Fee (Per Annum)

Non-Display Fee Sell Side (Per Annum)

Non-Display Fee Buy Side (Per Annum)

Non-Display Fee Other (Per Annum)

❖ User Display Fees (real-time and delayed) – Free of Charge

❖ Access fees are currently not included in the model as that may create a barrier to use of the CT for Bonds

The Commercial Model Proposed

How Much the fees would be for relatively Low Demand

Scenario 1 – Low Demand

	Type of Fees	External Redistribution Fee	Direct Connectivity Fee	Non Display Fee Sell Side	Non Display Fee Buy Side	Non Display Fee Other	Total Per Annum	Total Revenue after 5 years	Total Cost After 5 Years
	Fee (Per Firm Per Annum)	€ 131,718	€ 131,718	€ 7,903	€ 7,903	€ 5,269			
Year1	Demand	5	5	10	50	25			
	Revenue	€ 658,588	€ 658,588	€ 79,031	€ 395,153	€ 131,718	€ 1,923,077		
	Cost						€ 10,000,000		
Year2	Demand	10	10	20	100	50			
	Revenue	€ 1,317,176	€ 1,317,176	€ 158,061	€ 790,306	€ 263,435	€ 3,846,154		
	Cost						€ 10,000,000		
Year3	Demand	25	25	50	250	125			
	Revenue	€ 3,292,940	€ 3,292,940	€ 395,153	€ 1,975,764	€ 658,588	€ 9,615,385		
	Cost						€ 10,000,000		
Year4	Demand	40	40	80	400	200			
	Revenue	€ 5,268,704	€ 5,268,704	€ 632,244	€ 3,161,222	€ 1,053,741	€ 15,384,615		
	Cost						€ 10,000,000		
Year5	Demand	50	50	100	500	250			
	Revenue	€ 6,585,880	€ 6,585,880	€ 790,306	€ 3,951,528	€ 1,317,176	€ 19,230,769		
	Cost						€ 10,000,000		
								€ 50,000,000	€ 50,000,000

The Commercial Model Proposed

How Much the fees would be for relatively High Demand

Scenario 2 – High Demand

	Type of Fees	External Redistribution Fee	Direct Connectivity Fee	Non Display Fee Sell Side	Non Display Fee Buy Side	Non Display Fee Other	Total Per Annum	Total Revenue after 5 years	Total Cost After 5 Years
	Fee (Per Firm Per Annum)	€ 65,859	€ 65,859	€ 3,952	€ 3,952	€ 2,634			
Year1	Demand	10	10	20	100	50			
	Revenue	€ 658,588	€ 658,588	€ 79,031	€ 395,153	€ 131,718	€ 1,923,077		
	Cost						€ 10,000,000		
Year2	Demand	20	20	40	200	100			
	Revenue	€ 1,317,176	€ 1,317,176	€ 158,061	€ 790,306	€ 263,435	€ 3,846,154		
	Cost						€ 10,000,000		
Year3	Demand	50	50	100	500	250			
	Revenue	€ 3,292,940	€ 3,292,940	€ 395,153	€ 1,975,764	€ 658,588	€ 9,615,385		
	Cost						€ 10,000,000		
Year4	Demand	80	80	160	800	400			
	Revenue	€ 5,268,704	€ 5,268,704	€ 632,244	€ 3,161,222	€ 1,053,741	€ 15,384,615		
	Cost						€ 10,000,000		
Year5	Demand	100	100	200	1000	500			
	Revenue	€ 6,585,880	€ 6,585,880	€ 790,306	€ 3,951,528	€ 1,317,176	€ 19,230,769		
	Cost						€ 10,000,000		
								€ 50,000,000	€ 50,000,000