

MiFIR Review

Consolidated tape and latency issues

-

AMAFI's Position

This paper explains the amount of latency that could be acceptable on the Consolidated tape (CT) to meet the main use cases needed by sell-side and buy-side actors, having in mind that in any case the CT will not meet trading use cases.

In fact, it is important to stress out the primary intention in creating a CT which is to improve access to market data (meaning that those data would be accessible and readable by all actors including retail clients) and at lower costs for display and post-trade risk purposes. Today accurate market data is only accessible for actors who have their own "in-house" consolidation processes and at very high prices, creating an unlevel playing field amongst market participants.

1. NON-TRADING USE CASES AND ACCEPTABLE LATENCY

As stated above, the advantage sought in the production of a CT is to enable various actors across the financial market to easily access aggregated and exhaustive data, at reasonable prices notably for best execution monitoring purposes, liquidity analysis (better visibility), portfolio management (measuring the risk exposure of a portfolio), risk management (monitoring and correcting trade execution) and display of order book. To meet these use cases, latency with an order of magnitude of 1 second could be acceptable.

Some argue that the extent of the European continent would generate latency issues that would be incompatible with the establishment of a real-time European CT. we do not subscribe to this point of view.

Today, it takes 25 milliseconds tops for data to be delivered from a European exchange to a firm/data-end user. Less effective connectivity could result in a 10 millisecond delay. Then, considering the need to consolidate and harmonise market data received from all exchanges, one can reasonably assume that the CT data could be displayed in less than 100 milliseconds, no matter where the data originally comes from in Europe. Even with a market data control phase that is time consuming, the display of data would take less than one second. This length of time for a real-time pre trade tape could therefore totally meet our use cases (see Annex I).

Furthermore, it is important to bear in mind that "real time" does not necessarily mean low latency. Again, a CT that can respond to the previously mentioned use cases does not require low latency as it is not intended to support trading use cases.

Another argument is put forward regarding different latencies of market data depending on the exchange it comes from. This argument is a false issue as consolidation of data is already available today by some providers (data aggregators, vendors, consolidating different data sources) which do not meet any consolidation issues, the difference with the CT being the cost for market participants. In fact, today a data user must subscribe to the flows from all venues to get a consolidated view of the market.

2. LATENCY NEEDED FOR TRADING USE CASES

As opposed to non-trading use cases, trading use cases can only be met with low latency, eg with a order of magnitude below 1 millisecond.

As explained in the European Commission's (EC) non paper on the calculation of a European best bid and offer (EBBO), a real-time pre-trade CT could not meet such use cases as latency is de facto too long. In order to compute its EBBO, the CT would in fact have to require the best bids and offers (BBO) and the quantity of shares available at that price, from all contributing venues. Then it will summarise order books' informations to determine the prevailing best bid across these venues. This process cannot match with the speed needed for trading purposes.

AMAFI agrees with the EC that such a real-time pre trade CT *"would be insufficiently granular (no order-by-order data) and insufficiently fast to be used for trading"*.

This also supports AMAFI's argument that the CT will not substitute for venues market data for all trading and latency-sensitive use cases but on the contrary, can meet other use cases and provide information to a wider range of actors at lower costs.

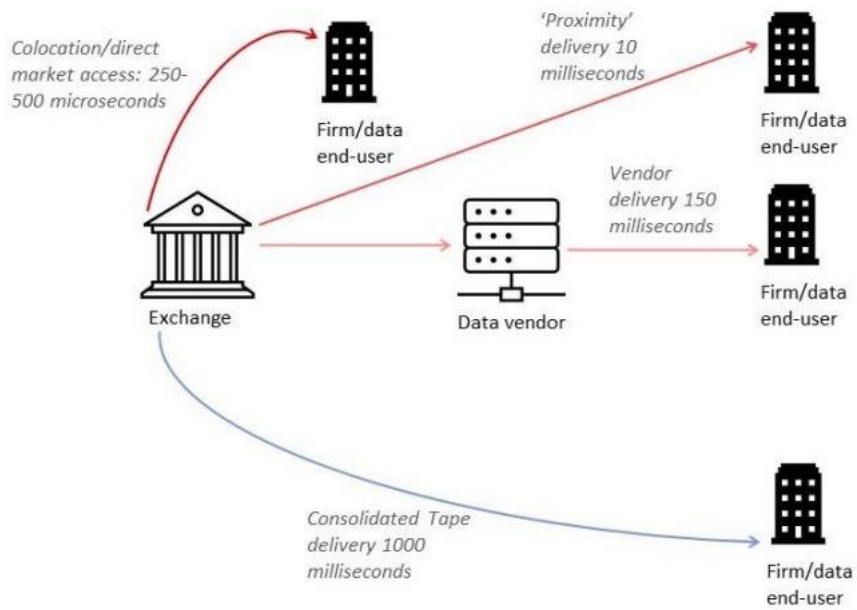
3. CONCLUSION

Given the above, AMAFI considers that latency inherent to the establishment of a real time pre trade CT (that ideally would display the five top layers of the order book on a non-anonymised basis¹) would remain compatible with most use cases it is intended to address.



¹ An alternative solution could be envisaged to only give the top layer of the order book whether anonymised or not. This approach would still be a progress compared to the current state. However, AMAFI considers that a more ambitious CT would be preferable to meet more use cases and have a real improvement effect on access to market data.

ANNEX I – DATA FEED LATENCIES



Source: EFAMA

