26 August 2024

Via Online Submission: www.esma.europa.eu

ESMA
201-203 rue de Bercy
CS 80910
75589 Paris Cedex 12
France

Re: MiFIR Review Consultation Package; Technical Standards related to Consolidated Tape Providers and DRSPs, and assessment criteria for the CTP selection procedure

Dear Sir or Madam:

MFA[1] ("**MFA**" or "**we**") appreciates this opportunity to submit these comments to the European Securities and Markets Authority ("**ESMA**") on ESMA Consultation Package ESMA74-2134169708-7225, "Technical Standards related to Consolidated Tape Providers and DRSPs, and assessment criteria for the CTP selection procedure" (the "**Consultation Paper**" or "**Consultation**").[2] MFA represents the global alternative asset industry and has long been supportive of the benefits of a consolidated tape ("**CT**"). Many MFA member firms that trade in the US subscribe to the US consolidated tape administered by the Financial Industry Regulatory Authority ("**FINRA**"), known as TRACE, and appreciate the firm-wide benefits of accurate and timely trade data in helping them meet their business and regulatory needs. Properly calibrated consolidated market data also contributes to market competition. In this respect, we believe that a CT has the potential to bring significant benefits to EU markets and will enhance overall EU competitiveness.

MFA greatly appreciates the determined work of ESMA in developing the regulatory technical standards ("**RTS**") of a CT and presenting a detailed tender process to select a consolidated tape provider

[1] Managed Funds Association ("**MFA**"), based in Washington, DC, New York, Brussels, and London, represents the global alternative asset management industry. MFA's mission is to advance the ability of alternative asset managers to raise capital, invest, and generate returns for their beneficiaries. MFA advocates on behalf of its membership and convenes stakeholders to address global regulatory, operational, and business issues. MFA has more than 180 member fund managers, including traditional hedge funds, credit funds, and crossover funds, that collectively manage over $3.2 trillion across a diverse group of investment strategies. Member firms help pension plans, university endowments, charitable foundations, and other institutional investors to diversify their investments, manage risk, and generate attractive returns over time.

[2] European Securities Markets Authority, Technical Standards related to Consolidated Tape Providers and DRSPs, and assessment criteria for the CTP selection procedure, ESMA74-2134169708-7225 (24 May 2024), avail. at ESMA74-2134169708-7225 MiFIR Review Consultation Package - CTPs and DRSPs (europa.eu) ("**Consultation**").

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("**CTP**"). We further appreciate the efforts ESMA and other global regulators to address issues such as market data costs, and availability of data, along with its focus on the commercial viability of a CT and the overall usability of the data from a commercial standpoint.

Beyond supporting properly functioning markets and overall market competition, accurate and timely market data is critical to investment managers' implementation of investment strategies. Market data is increasingly used throughout many aspects of a manager's operations – from trading, to monitoring adherence to trading strategies and investment guidelines, and to compliance and risk efforts to monitor execution quality, regulatory reporting, and asset valuation. CT data is also important from a data security, risk management and business continuity protocols. MFA member firms thus are important stakeholders in the ESMA CT.

For the EU CT to be successful, MFA urges ESMA to require that the CT provide, in addition to fair pricing and reliable data, flexibility in CT offerings so that managers need only subscribe to the data sets that they need for their own pre-defined uses. No manager should be obligated to accept an "all or nothing" option to subscribe to the CT, but rather, MFA urges that the CTP offer "a la carte" pricing where managers can determine the data sets, they need and subscribe to those CT class(es) accordingly. It is important for MFA members that the CT be successful: despite the fact that managers today obtain trade data from other sources, and any CT will necessarily be competing with the legacy data sources currently in use, a consolidated "golden source" of trade data for fixed income, equities, and fixed income will greatly enhance the ability of subscribers such as private funds to perform important risk, reporting, and compliance functions.

A summary of our key points is as follows:

- Accurate and timely market data is critical, and MFA agrees that the CTP should undergo a battery of checks for completeness of data, format adherence, identification of erroneous trades, and timeliness checks.

- MFA member firms are key subscribers to CT data, and machine readability of the data is critical to the various uses of the data by investment management firms, as well as use of a standardised transmission protocol such as FIX.

- It is critical that any revenue redistribution for equity shares and ETFs be narrowly tailored to prevent abuse and promote consistent, fair pricing to subscribers and that ESMA expressly reserve the ability to discontinue revenue redistribution arrangements with a CTP in the case of violations.

- MFA recommends that the CTP and/or ESMA develop and maintain consultative working group of CT stakeholders, consisting of investment managements and other subscribers, trading venues, APAs, and other stakeholders to create a forum where subscribers can raise issues or concerns with the CTP and ESMA in a constructive manner.

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MFA appreciates the opportunity to provide constructive comments to ESMA as it embarks on this important Consultation. We are hopeful that ESMA can take into consideration the lessons learned through the EU's prior efforts to implement a CT as well as the successes that FINRA's TRACE system has experienced in the US. We encourage ESMA to continue to move forward with the tender process for CTP(s) so the markets and subscribers can look towards the development and implementation of CTs. If you have any questions, please do not hesitate to contact Jeff Himstreet (jhimstreet@mfaalts.org) or the undersigned (jhan@mfaalts.org).

Respectfully yours,

/s/ Jennifer W. Han

Jennifer W. Han
Executive Vice President Chief Counsel & Head of Global Regulatory Affairs

Annex 1

A. Section 3 – RTS on Input and Output Data of CTPs

Q1: Do you agree with grounding the assessment framework of the quality of transmission protocols on the identified categories of technical criteria?

A CT is only as beneficial as its data is accurate. We agree with ESMA's statement that "[t]he quality of transmission protocols will play a pivotal role in ensuring the robustness and reliability of CTP data."[3] Because the CTP will be receiving trade data from multiple sources, it is imperative that the data transmission standards be standardised as discussed below to reduce delays, errors in the data, or breakages in transmission.

It is critical to consider the importance of accurate CT data considering the extensive and growing uses by investment managers of CT data. Beyond supporting properly functioning markets and overall market competition, accurate and timely market data is critical to investment managers' implementation of investment strategies. Market data is increasingly used throughout many aspects of a manager's operations. At the front end, market data provides important colour on pricing that helps inform trading and order routing decisions. It also helps risk managers monitor adherence to trading strategies and investment guidelines. Further, market data is critical to compliance and risk efforts to monitor execution quality, regulatory reporting, and asset valuation. From a longer-term perspective, market data is important to safeguard data security, risk management, and business continuity protocols. As markets become more fragmented with each new trading venue (each with its own products and data feeds), a single "golden source" of data is vital. MFA member firms thus are important stakeholders in the ESMA CT.

Q4: Do you consider that the proposed minimum requirements for the technical criteria related to performance are technically feasible, coherent with the objective of high-quality data transmission to the CTP and in line with international standards? Please elaborate your response.

While the proposed performance requirements appear to be technically feasible, it is incumbent on ESMA to consider prospective CTP's responses to these questions to validate, as part of the CTP selection process, that the applying CTP can meet the prescribed data transmission and reliability standards. If the data is not accurate, investment managers and other market professionals will not use the CTP. The success of any CTP is dependent on the quality of the data provided by the trading venues and the data providers to the CTP under approved publication arrangements ("**APAs**"), and it is imperative that ESMA

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3 *Id.* at #18.

monitor the relevant stakeholders to assess not only data quality but also to identify the root cause of data quality issues with the data reported by the CTP.

Q6: Do you consider that the proposed minimum requirements for the technical criteria related to security are technically feasible, coherent with the objective of high-quality data transmission to the CTP, and in line with international standards and other EU regulatory frameworks on information security (e.g. DORA)? Please elaborate your response.

We agree that data transmission must be subject to robust security measures within transmission protocols and note that the standards prescribed in the Consultation appear reasonable. The integrity of the data reported to a CT and to its subscribers is paramount. It is important to keep in mind that subscribers of CT data such as investment management firms, have already secured data relationships for equity, fixed income, and derivatives transactions in the EU. The CTPs that are the subject of the Consultation similarly must be subject to at least the same data security requirements.

MFA agrees with the Consultation statement that, "[b]y requesting these security features, transmission protocols can establish a secure environment for data transmission, fostering trust and confidence in critical communication processes."[4] As we note in our response to Q1, investment managers use market data to safeguard data security, perform risk management, and for general business continuity protocols.

Q7: Do you consider that the proposed minimum requirements for the technical criteria related to compatibility are technically feasible, coherent with the objective of high-quality data transmission to the CTP and in line with international standards? Please elaborate your response.

MFA agrees with the proposed requirements that the transmission protocols be an open-source solution and be interoperable with various systems and platforms. Trading venues and subscribers – the key sources and recipients of the trading data, rely on a variety of open-source systems and it is important that the transmission protocols adhere both the non-proprietary standards and that the protocols support at widely recognised internet standards, such as the FIX protocol.[5] The CTPs that are the subject of the Consultation similarly should be subject to minimum requirements for the technical criteria related to data compatibility.

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[4] Consultation, at #34.

[5] *Id.*, at #38.

Q8: Do you agree with the proposed definition of "transmission of data as close to real time as technically possible"? If not, please explain.

MFA generally supports the proposed timeliness requirement that data be transmitted as close to real time as possible, if it is possible, with the caveat that not all data can be transmitted in real time due to technology limitations or other issues. Delays resulting solely from technology issues should be investigated to determine the cause of the delay and appropriately reported to ESMA for further follow-up.

Transmission of data in as close to real time as possible is the ideal, delays in transmission can and do sometimes happen with the publication of market data for a variety of reasons. As MFA has noted previously, the value of trade data hinges on the timeliness of the data. Timeliness of data transmission must be balanced against the potential for abuse through the inappropriate use of deferrals, which can hamper post-trade transparency efforts. Delays in data transmission thus must be appropriately calibrated to mitigate against abuse and to enable liquidity providers to hedge their position. Prohibiting any delays for any reason could hinder liquidity providers' ability to appropriately hedge their position, meaning worse pricing for buyside participants to the detriment of their investors. Conversely, delaying transmission of data through deferrals may deprive the markets of important pricing data. It therefore is important that ESMA ensure that delays in transmission, such as for large trades or trades in illiquid securities, strike an appropriate balance between risking market impact (with too short of a delay period) and depriving the markets of important trading data (with too long of a delay period).

Q9: Should ESMA consider specific rules for real-time transmission of transactions subject to deferred publication?

Please see MFA's response to Q8.

Q10: Do you agree with the baseline proposal of adopting JSON as standards and format of data to be transmitted to the CTPs, or do you prefer alternative proposals? Please justify your answer and, if needed, provide additional advantages and disadvantages related to each proposal.

MFA believes that data providers should transmit data and to the CTP via a standardised, open-source API. We understand that ESMA is proposing that the standard be based on the JSON data format, based on a third-party (Accenture) study conducted last year.[6] We note that trade venues and other data providers are generally accustomed to transmitting and receiving data via other protocols, such as the FIX protocol and addressing any issues associated with data transmission via FIX.

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[6] ESMA12-437499640-2360 Study on data formats and transmission protocols (europa.eu) (avail. at https://www.esma.europa.eu/sites/default/files/2024-01/ESMA12-437499640-2360_Study_on_data_formats_and_transmission_protocols.pdf).

MFA encourages ESMA to consider the FIX protocol for all classes of CT, as it is widely used by CTs, trading venues, and subscribers, and has demonstrated a high degree of accuracy, data reliability, and acceptance, and therefore should be given greater weight than a generic regulatory reporting protocol such as JSON that may be usable across all three CTs but may not be "best in class" for the securities traded on each particular CT. Again, a CT is only as beneficial as its data is accurate. Because the CTP will be receiving trade data from multiple sources, it is imperative that the data transmission format be standardised to reduce delays, errors in the data, or breakages in transmission. MFA suggests that now is not the time to experiment with a relatively untested transmission protocol as JSON when FIX has developed over several years as an industry standard for data transmission.

Q11: Do you believe that the proposed standards and formats (baseline and any alternatives) are coherent with other CTP requirements (transmission protocols, real-time transmission and presentation of output data)? Please justify your answer.

We do not believe that it is necessary for a single reporting protocol, whether JSON or another protocol, to be used for each of the three CTs. Market participants, we note, have greater familiarity with the FIX protocol, as discussed in our response to Q10 when compared to JSON. MFA recommends that ESMA consider the reporting protocol that would be most appropriate for *all* stakeholders of the CT: the trading venues, the CTP, *and* the subscribers. In the US, for example, broker-dealers reporting trades to the TRACE system typically use the FIX protocol and we would encourage ESMA to consider adopting the FIX protocol given its acceptance and familiarity not only with the CTs, but also reporting entities and subscribers.

Q12: Do you find more suitable to prescribe one single format across the 3 CTPs (equity, derivatives, bonds) or to prescribe distinct formats according for different asset classes?

We do not see the criticality of mandating one single format across the 3 CTPs (equity, derivatives, fixed income). MFA recommends that ESMA look to the most widely used reporting format for each of the three CTPs, even if the "best in class" format varies from one CTP to the other. Again, the FIX protocol meets this standard and would require a less burdensome implementation for trading venues and subscribers given the widespread use of FIX in the EU and elsewhere.

Q14: Do you support the proposal of machine-readable and human-readable formats outlined in this section?

MFA member firms are key subscribers to CT data. Machine readability of the data is critical to the various uses of the data by investment management firms. At the front end, market data provides important colour on pricing that helps inform trading and order routing decisions. It also helps risk managers monitor adherence to trading strategies and investment guidelines. Further, market data is critical to compliance and risk efforts to monitor execution quality, regulatory reporting, and asset valuation. From a longer-term perspective, market data is important to safeguard data security, risk management, and business continuity protocols. As markets become more fragmented with each new trading venue (each with its own products and data feeds), a single "golden source" of data is vital. MFA member firms thus are important stakeholders in the ESMA CT, and machine readability allows firms to leverage existing and new risk management and technology platforms to better inform pricing decisions and stronger risk management controls.

Q15: Do you agree with the proposal of data quality measures and enforcement standards for input data?

MFA agrees with the requirements in the Consultation that the CTP undergo a battery of checks for completeness of data, format adherence, identification of erroneous trades, and timeliness checks. The markets deserve stringent controls around the accuracy and timeliness of the data – and imposing the obligation on the CTP to correct and address transmission or formatting errors in the data received from the trading venues. MFA recommends that ESMA empower the CTP to reject erroneous trade data – whether provided by the trading venue or an APA – with ESMA similarly empowered to take action against the source provider of the erroneous data where appropriate.

Moreover, it is critical that the CTPs have in place cooperation agreements with the data contributors. MFA recommends that ESMA, as part of the CTP tender process, require template cooperation agreements from the CTPs to ensure that robust notification and cooperation standards are included, including notification to ESMA where appropriate. ESMA also could include a model agreement for use by CTPs to ensure consistency of cooperation between and among the trading venues, CTPs, and ESMA.

B. Section 4 – RTS on the revenue distribution scheme of CTPs

Q17: On the basis of the issue presented in the above paragraph, what do you think is the right approach to identify a trading venue and group? How could a trading venue and a group be identified? How should the links with investment firms be determined?

MFA does not support revenue distribution sharing between the CTP and fixed income data providers, recognizing that revenue redistribution arrangements are more common with equities CTs. While we recognize that the Consultation concerns revenue redistribution for shares and ETFs, it is foreseeable that fixed income and derivatives CTPs will seek similar revenue redistribution arrangements and will seek permission from ESMA to negotiate such arrangements. We recommend that ESMA resist such entreaties in the fixed income and derivatives CTs.

With respect to fixed income and derivatives CTs, if the CT is not priced reasonably and fairly, investment managers and other market participants will not subscribe to the CT, and it will fail. Revenue redistribution could also lead to data received by some data providers to be deemed more valuable than trade data received by others, which would result in a disinclination of the data provider receiving a lower revenue share to continue to provide trade data on the same asset class as the data provider with the higher revenue share. This could potentially result in an incomplete CT for that asset class, making the CT less attractive to subscribers.

For these reasons, it is critical that any revenue redistribution for equity shares and ETFs be narrowly tailored to prevent abuse. The CTP subscriber is entitled to a quantifiable and known cost structure in both the tender process and throughout the CTP contract's lifespan. Introducing a variable, inconsistent, and changing cost structure by requiring the CTP to share revenues with a variety of data providers upends the economic certainty that the CTP will need to develop and operate the CT and on which its subscribers rely.

Q18: Do you agree with the above assessment? If not, please explain.

Please see MFA's response to Q17. In general, allowing revenue redistribution for smaller trading venues, "young" instruments or venues that provide for pre-trade transparency, as proposed for shares and ETFs,[7] creates the risk of inappropriate incentives for the trading venue. Moreover, when the instrument has developed sufficient trading volume or the trading venue has grown to something other than "small," we anticipate that the CTPs will find it difficult to abandon the revenue redistribution arrangement and will seek relief from ESMA to continue revenue redistribution. Such a regulatory entreaty would be inappropriate and contrary to the Consultation.

As ESMA notes in the Consultation, determining whether a trading venue is small, whether a data provider has young instruments, and whether the CTP can know if a data provider has recorded pre-trade transparency data, can be subjective. With respect to young instruments, ESMA appropriately acknowledges that that data quality issues can hamper the assessment of whether revenue redistribution would be appropriate for a young instrument.[8]

Q19: For the identification of the venue of first admission to trading, do you prefer option (A) use of FIRDS, option (B) the CTP collects the relevant information itself? Please explain and provide any alternative option you consider more appropriate.

Please see MFA responses to Q17 and Q18.

Q20: Do you agree that a flag indicating that the transaction was subject to an LIS waiver should be information to be sent to (but not published by) the CTP? If not, please explain.

Please see MFA responses to Q17 and Q18.

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7 Consultation, at p. 40 (Table 3).

8 *Id.* at p.43 (Table 4).

Q21: Could the determination of the pre-trade volume be done differently by the CTP (e.g. proxy this volume with the pre-trade data received) but at the same time sufficiently accurately? If yes, please explain.

Please see MFA responses to Q17 and Q18.

Q22: Do you agree that the methodology to distribute the revenues should require the conversion of the values into percentages? If not, please explain.

Please see MFA responses to Q17 and Q18.

Q23: Do you agree with the transactions to include and exclude for the determination of the volume for criteria #1 and #2? If not, please explain.

Q24: What would be your view on the frequency of redistribution? Which issues do you foresee in the redistribution process? How could those issues be solved? Please explain.

Please see MFA responses to Q17 and Q18.

Q25: Do you agree with the proposed timeline for the update of the list of data contributors and the identified issues? How could the issues be solved? Please explain.

Please see MFA responses to Q17 and Q18.

Q26: What would be your view on the issues for the first year of operations of the CTP? How could those issues be solved? Please explain.

From the subscriber's perspective, it would be preferable for the CTP to start its operations at the beginning of a calendar quarter, as opposed to any time during the year. It also would be unideal if the CTP were to commence operations on a day that would be a bank holiday in the EU, UK, or US.

Subscribers such as investment funds use CT data, as noted above, in connection with a range of pricing (which drives performance and fee calculations) as well as compliance, and risk management functions. These obligations are typically assessed and measured (and in many cases reported to various regulatory authorities) on a periodic basis, such as annually or quarterly. Having CT data that begins mid-quarter, for example, would require the subscriber to rely on CT data for part of the quarter and other data sources for the remaining part of the quarter. This could result in inconsistent pricing that could cause confusion for investors and regulators. The same would be true for non-investment funds such as academics or consumers that would have to rely on and explain any potential divergence in data that was transitioned mid-quarter to a different data source.

Q27: Do you agree with ESMA preferred proposal to set the weights of the revenue redistribution scheme to 4.5, 4.0 and 1.5 for the small trading venue criterion, the young instruments criterion and the transparent instruments criterion, respectively? If not, please explain.

Please see MFA responses to Q17 and Q18.

Q28: Would you consider appropriate that the weight (percentages) sum to 10 (100%)? If not, please explain and provide your alternative proposal for the weights (percentages).

Please see MFA responses to Q17 and Q18.

Q29: Do you agree with the proposed (i) frequency of the determination of the weights (ii) timing of determination of the weights (iii) timing of application of the weights? If not, please explain.

Please see MFA responses to Q17 and Q18.

Q30: Do you agree with the proposed text? Have you identified any missing points or issues?

Please see MFA responses to Q17 and Q18.

Q31: Do you agree with ESMA's proposal on the criteria for a potential suspension of redistribution in case of serious and repeated breach by the CTP? If not, which alternative or/and additional criteria would you consider relevant?

If ESMA moves forward with a revenue redistribution option for small trading venues, young instruments, and venues that provide pre-trade pricing transparency, it is critical that ESMA expressly reserve the ability to discontinue revenue redistribution arrangements with a CTP in the case of violations of the revenue redistribution limitations. We moreover recommend that as part of the CTP selection process, the potential CT(s) expressly acknowledge that revenue redistribution arrangements can be suspended or revoked based on failure to meet the minimum standards for the data transmission protocol – including information security requirements and clock synchronization.[9] We support ESMA affording the CT transparency in the criteria for revenue redistribution suspension or revocation but again, as noted in our responses to Q17 and Q18, do not support revenue redistribution for fixed income and derivatives CTs.

Q35: Do you agree with ESMA's expectation on the notification to be made by the CTP to the competent authority of the data contributor once a suspension has been triggered?

If ESMA elects to move forward with limited revenue redistribution for small trading venues, young instruments, and venues that provide pre-trade price transparency, it is critical that the CTP have an affirmative obligation to notify ESMA promptly upon discovering problems with data quality or clock synchronization.

[9] *Id.* at #151.

C. Section 5 – RTS on the synchronisation of business clocks

Q37: Do you agree with the proposed approach on synchronisation to reference time? If not, please explain.

The proposed approach regarding clock synchronisation appears reasonable. We note that investment managers and dealers currently are subject to clock synchronisation requirements and stress that it is important that the CTP be subject to substantively the same rules relating to clock synchronisation so regulators (and subscribers) can identify the source of latency when such an issue arises.

Q40: Do you agree with the proposed approach on traceability to UTC? If not, please explain.

We agree with the proposed approach regarding a coordinated universal time ("**UTC**"). As noted in our response to question 37, investment firms currently are subject to rigid clock synchronisation requirements and to provide a universal synchronisation of clocks between and among the trading venues, APAs, CTPs, and subscribing investment firms is critical to establishing a universal benchmark of time throughout the trading day.

D. Section 6 – RTS/ITS on the authorisation and organisational requirements for DRSPs

Q46: Do you agree with the approach proposed by ESMA?

MFA particularly agrees with the approach by ESMA that would require any CTP to be able to disseminate machine-readable data as a requisite for operating a CTP, "and therefore proposes checking this aspect for authorisation purposes …."[10]

Q47: Do you foresee specific conflicts of interests that may arise between (i) CTP and data contributors and (ii) CTP and clients and users?

Unless ESMA abandons its approach to permit limited revenue redistribution between a trading venue and the CTP, as we discuss in our responses to Q17 and Q18, the CTP would have a conflict of interest and an incentive to increase prices to subscribers, potentially holding them "hostage" to the CT. Similar conflicts could exist if a trading venue was affiliated with a CTP, had a material ownership in a CTP, or formed a joint venture with a CTP. We therefore encourage ESMA to permit revenue redistribution only where its parameters can be narrowly defined, with clear delineation, with meaningful consequences to the CTP or trading venue in cases of abuse. It also is important for ESMA to be able to withdraw approval of

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10 *Id.* at #225.

revenue redistribution against CTPs that enter revenue redistribution arrangements with trading venues that, for example, cover instruments other than "young" instruments.

It is critical that the CTP be accountable to ESMA in identifying conflicts of interest associated with any permitted revenue sharing or any other operation of its business that, because of its affiliates, other business lines, or other subscribers. The CTP should be obligated to eliminate conflicts of interest where feasible and, where not, address conflicts through mitigating controls or at a minimum disclosure to subscribers and ESMA.

Q49: Do you have any further comments or suggestions on the draft RTS? Please elaborate your answer.

MFA supports the transparent, public, and reasoned selection of a single CTP for each asset class, for each CTP to be required to charge commercially reasonable rates to subscribers for the asset classes chosen by the subscriber. The standards around data quality are paramount to the success of any CT. Beyond supporting properly functioning markets and overall market competition, accurate and timely market data is critical to investment managers' implementation of investment strategies.

It is important that data providers allow subscribers to carry out price benchmarking through consultants. Benchmarking is important for subscribers and the overall success of a CT, particularly given the opacity of data provider pricing. We note, however, that the data providers' contracts often expressly prohibit the use of consultant benchmarking. MFA recommends that ESMA expressly allow price benchmarking to facilitate commercially reasonable pricing.

E. Section 7 – Criteria to assess CTP applicants

Q52: Should the CTP include representation of other stakeholders within their governance structure?

MFA recommends that the CTP and/or ESMA develop and maintain a consultative working group of CT stakeholders, consisting of investment managements and other subscribers, trading venues, APAs, and other stakeholders. This working group can facilitate a forum where subscribers can raise issues or concerns with the CTP and ESMA in a constructive manner. The working group can form the basis of an interactive dialog to identify and address issues or concerns with the CT (or CTP) that ESMA can address before they become a cause for subscribers to abandon the CT. MFA and its members have a keen interest in the success of EU CTs for fixed income, equities, and derivatives, and establishing this consultative group can enable ESMA to become aware of issues or problems with the CT/CTP and address them early. The alternative would be for ESMA to discover such problems well after the fact, when they become more difficult and costly for the problem to be addressed, regardless of whether the issue originated with the CT/CTP, trading venue, or APA.

Q54: Which minimum requirements on identifying and addressing potential conflicts of interest would you consider relevant?

As noted in our response to Question 47, it is critical that the CTP be accountable to ESMA in identifying conflicts of interest associated with any permitted revenue sharing or any other operation of its business that, because of its affiliates, other business lines, or other subscribers. The CTP should be obligated to eliminate conflicts of interest where feasible. Otherwise, it should be required to address conflicts through mitigating controls or at a minimum disclosure to subscribers and ESMA.

ESMA similarly should be empowered to require CTPs to adopt and implement a framework to identify and address conflicts of interest as they are identified. MFA suggests that the CTP tender process specifically inquire about CTP conflicts of interest and elicit information from potential CTPs on their ability to identify and address conflicts of interest.

Q61: Do you agree with the proposed approach to record keeping, based on the provision of document supporting intended compliance?

MFA supports robust recordkeeping requirements by CTPs, not only to fulfil its compliance obligations between it and ESMA, but also to make available historical data to subscribers. As with FINRA's TRACE system, which has proven to be a successful CT, the availability of historical data to subscribers also enables them to fulfil their longer-term data security, risk management, and business continuity obligations. Historical data is also important for academic users of the CT data.

Q68: Do you think that the proposed data quality requirements are sufficient to achieve the CT's objectives without generating excessive compliance burdens? Please explain.

Data quality requirements, as we note earlier, are critical to the overall success of the CT and the proposed requirements appear sufficient without generating excessive compliance burdens for the CTP. We note that the benefits of trade reporting to the markets have been well-studied by academics in the EU and US, each yielding a consistent conclusion: trade reporting increases liquidity, promotes price discovery, improves execution quality, and reduces trading costs. One of the benefits of FINRA's TRACE reporting system is that academics, market professionals and others have studied trade data across a myriad of asset classes going back to 2002.

The benefits of reliable, secure, and accurate public reporting have consistently been found to level the playing field between large and smaller market participants. For investment managers, this means improved investment performance for the benefit of the managers' clients and greater ability to invest in research, infrastructure, and technology to continue to improve trading, performance, and reporting for the benefit of the funds and separate accounts they manage.

The benefits of a CT to the US markets, as evidenced by TRACE data, have been considerable, with the benefits increasing the most for less-liquid securities. As an example, one study found that, for fixed income securities offered in the US to institutional investors, transaction costs decreased by approximately 10 percent following trade reporting, with larger reductions found for less-liquid transactions, such as block trades and bonds with lower dealer competition.[11]

[11] Jacobsen, Stacey E. and Venkataraman, Kumar, *Does Trade Reporting Improve Market Quality in an Institutional Market? Evidence from 144a Corporate Bonds* (April 30, 2018), available at https://ssrn.com/abstract=3171056.