Independent Study of a UK Equities Consolidated Tape

Terms of Reference

In the independent study, we would like consultants to assess:

1. Any likely discrepancy in latency between direct equities data feeds from relevant venues and a UK equities consolidated tape (CT)

2. Use cases for a real-time pre-trade equities CT. For each use case, the report should analyse:

    a. whether they can withstand the likely discrepancy in latency between the CT and direct feeds

    b. how many levels of order book data (best bid and offer or multiple levels) are required for this use case, the breadth of data coverage this use case would require and whether this should include venue attribution

    c. based on the above and any other relevant factors, likelihood that a user group will adopt an equities CT and, if so, whether each type of user is likely to use it to supplement or replace entirely their existing proprietary data feeds

3. The Report should highlight different user groups, separated by requirements for latency, pricing and licensing terms and coverage

4. Whether and how a pre-trade tape would have differential effects on market participants. The report should analyse whether:

    a. market participants currently have sufficient access to pre-trade data on direct feeds to compile their own tapes

    b. the CT will affect the way in which retail investors participate in the market (i.e., retail service provider networks versus central limit order book (CLOB) trading)

5. The report should set out any working estimates of the potential take-up of an equities CT by different types of investors

6. Costs of establishing a real-time pre-trade UK equities tape, assessing existing estimates that have been made of those costs. The report should also consider the potential sensitivity of these costs to differing latency thresholds

7. Whether (and by how much) a pre-trade tape would affect the amount of liquidity available on CLOBs or lead to a transfer of trading to alternate execution methods, and whether this would affect the volatility and informational quality of prices formed on CLOBs. The study should identify metrics for assessing market quality in order to compare the situation with and without a pre-trade tape.

8. The report should be based on desktop research, data analysis, academic input and interviews with market participants.

Literature Review

To support the analysis above, we want consultants to conduct and report its findings on two issues, based on a targeted review of the relevant literature:

9. **Lessons from the US experience of having an equities CT**. The US has had a CT for almost 50 years and has a market structure which has certain similarities with that in the UK, albeit that it operates a National Markets System. The literature review should cover:

    a. key aspects of the specification of the equities CT in the United States (e.g. latency and how this differs from direct data feeds)

    b. the impact of the CT's introduction on trade data prices, the level of trade execution on CLOBs versus other trade execution channels, and measures of market quality and robustness including liquidity, price formation, liquidity-driven volatility and the trading outcomes achieved by different types of investors

    c. key factors relevant for effective read-across from the US experience to the UK case, including whether potential benefits of the UK CT are likely to be affected by the absence of elements that are included in RegNMS in the US (particularly execution requirements and the order protection rule)

10. **Current trends in equities trading patterns**. The literature review should cover the trends in the use of transparent CLOBs in the UK (and EU if relevant) and possible drivers of these trends. It should consider the impact of the current structure of the market for market data on the outcomes achieved by different types of investors, though we recognise that trying to draw a causal link between market structure and investor outcomes may require substantial analysis that is beyond the scope of this study.