

## Consolidated Quote – A Recipe for Chaos?

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I believe that a mandated consolidated (pre-trade) quote is a terrible idea. Of course, I also have strong opinions about the importance and availability of consolidated post-trade information (often referred to as a 'consolidated tape') – which I'll get into another time... but I'll (mostly) focus on pre-trade this time.

So what's not to like about the idea of an official consolidated quote, a standardised European Best Bid and Offer (EBBO)? Well, creating a single, regulatory mandated, official EBBO would require regulators to define standards to judge which venues' quotes should be included. That would open a can of worms...

- What would be the rules for inclusion? Can any RIE/MTF qualify, even if it's not centrally cleared? Should there be a minimum market share threshold for inclusion, and should this be calculated by day, by week, by month across individual stocks/indices or the whole market? How useful is an EBBO composed of only one price level from each venue? What would it cost to build a system capable of handling quote updates from every venue? What would the governance and commercial models be? Who would set prices and collect charges for the EBBO data, and how would it be shared amongst contributing venues? How should the EBBO be calculated during volatility-triggered auctions on primary markets?

But my opposition isn't only based upon the (very real) practical difficulties and (very high) costs of implementing an EBBO – rather, I'm more worried about what would happen next if we were to introduce an 'official' EBBO.

- Investors would quickly start asking themselves, *"If it's good enough for the EBBO, why isn't it good enough for my broker?"* Expectations about being able to reach all liquidity, and an inevitable move towards measuring execution quality against this 'official EBBO' would drive brokers to connect to all EBBO-included venues. Arguably, (and especially if you're an MTF operator wanting to 'require' people to connect to your venue), this would allow new entrants to acquire customers more quickly, and thereby 'enhance competition' – but, despite the potential short term benefit for Turquoise, I think this would be bad for the market as a whole. Requiring brokers to connect to any and all venues, regardless of their liquidity profile, tariff model, reputation, governance or post-trade costs, would effectively undermine the discretion brokers have today to define a best execution policy suited to the client base they service, and would lead to higher costs for brokers.
- Small brokers in particular would scream that it would be uneconomic for them to connect to every venue, and hence that fragmentation is benefitting larger brokers at their expense. In an effort to redress this imbalance, exchanges and MTFs would likely then be permitted greater flexibility in offering members routing to other markets, though they would probably also be required to provide 'trade through protection' – requiring the routing marketable

orders to one another where a competing venue has a better price. Such a change would require (yet further) significant regulatory reform – but the alternative could be more obstacles for those building a brokerage business.

- Some market operators, secure in the knowledge that brokers (or other venues) needed to route to them, would engage in rent-seeking behaviour – for example by using very high rebates to attract liquidity and then charging even higher fees to remove liquidity (as they did in the US). Brokers would yell that the ‘gross price’ EBBO (which doesn’t reflect tariffs or post-trade costs) is unfair, would start boycotting certain venues (as they did in the US), and would lobby for them to be excluded from the EBBO. Regulators would ultimately be obliged to regulate venue tariffs (as they were forced to in the US), further constraining innovation and competition. So an official EBBO, by (explicitly or implicitly) requiring brokers to connect to all venues, could actually reduce the competition and innovation amongst venues.

Would it be worth all the trouble? The latency inherent in the generation of an official EBBO (collecting all the data in one place, consolidating it, and then redistributing it) would mean that firms relying upon it would be disadvantaged versus those compiling their own EBBO. So most sophisticated firms wouldn’t rely on the official EBBO data for smart-routing purposes, and would continue to consume data directly from venues. The main use would be for human consumption on market data terminals – but given that market data vendors already offer an EBBO (including the ability to customise which venues are included), it does make me wonder why we need the ‘official’ flavour.

Intentionally or by accident, the introduction of an ‘official’ EBBO would drive our market towards a more prescriptive and retail-oriented definition of best execution. Whilst that might be a small win for *direct* retail investors, we need to recognise that substantially all of the retail funds in our marketplace are managed by institutional asset managers and pension funds – and that if the goal is to improve financial returns for European citizens, we should focus on getting the market structure right for institutional participants and therefore deliver benefits for the market as a whole.

In relation to consolidated post-trade information (the ‘tape’), I suspect that many people underestimate its importance to the price formation process. But, I think that too much time is spent worrying about whether and how to mandate creation of a single consolidated tape infrastructure (an expensive and pointless idea in my opinion), rather than about improving the granularity and quality of the data available to market participants. We need to avoid a case of ‘garbage in, garbage out’ - more on that another time...

We invite feedback from brokers, competitors, regulators and institutional investors on our approach and our views.

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