

Lezing | Laura van Geest – AFM Capital Markets Day, 9 November 2022

Data make the world go round – the role of data quality

Welcome to this first AFM Capital Markets Day. How nice to see you all here live at Vijzelgracht.

Today, we are launching our first State of the Capital Markets publication, using data extracted from our own algorithms and systems as well as data from stakeholders like Bloomberg and Euronext.

Rather than a fat document with long texts, it is a digital booklet with 30 graphs and snappy paragraphs. The data speak for themselves, in line with the times.

But as you are here, we will make sure to entertain you. I will perform a brief solo on the importance of data quality, and the remainder of the afternoon will be devoted to panels – polyphonic pieces – on the state of the capital markets.

So what about data?

Data ‘make the world go round’, to borrow from the well-known Cabaret song. Data are the new gold in our digitalised age.

Only 20 years ago – the AFM is celebrating its 20th anniversary this year – a publication like the State of the Capital Markets would have looked radically different. Let me highlight three factors.

Digitalisation. It is transforming our world. This holds true for the economy at large, for the financial sector and for supervisors. And this is all happening at a rapid pace.

Now, you could argue that the Capital Markets were always in the business of data. So what’s new? But the sheer amount of electronic data and the speed of business are incomparable. Data make the world go round, but the world is spinning at a higher pace – the beat of techno or hardcore rather than rock & roll or rhythm & blues.

And this has had major results. Better access for a wider audience, lower costs, new investment products, innovative business models and more cross-border activity. And thus more data.

The Financial crisis. This led to a more abrupt change, or break. When the music stopped during the financial crisis (to quote Jeremy Irons in the movie Margin Call), supervisors and markets were caught flat footed. During the COVID-19 pandemic, PM Rutte talked about taking 100 percent of the decisions with 50 percent of the knowledge. The same can be said for the financial crisis of 2008. Governments, the financial sector and supervisors were completely in the dark. The regulatory response stressed the need for more transparency – a larger role for CCPs – and a better data position for supervisors. So again, more data.

Brexit. In 2002, the UK was still a member of the Union and the City the undisputed financial centre of Europe. Following Brexit, many businesses moved to the continent, and the platforms and high-frequency traders opted for Amsterdam.

So here we are, 20 years later, with more data-driven business, more business in Amsterdam and more data at our fingertips.

Data quality

For the next 20 years, our aim is to become a leading data-driven supervisor. For that, we need high-quality data, and for that I look to you, the providers of these data.

Information about prices, orders and transactions is not only important to investors. It is also an essential source of information for the AFM. Without high-quality data, we cannot deliver on our mission of fair and transparent markets and financial wellbeing in the Netherlands. High-quality data are necessary to tackle market abuse and to promote financial stability.

Let me highlight three fields that require further work: (1) data quality (2) STORS and (3) cyber.

Data quality and transaction reporting. Just having loads of data is not enough. When can data be considered reliable? Data quality requires data to be correct, timely and complete, ideally at the first attempt. In this regard, we still have a way to go.

We have made the most progress in the area of timely and complete transaction reporting, especially since 2018. This is also the easier part of data quality. Our IT systems monitor the reporting and provide feedback files with warnings in case something is wrong, enabling you to upgrade your data quality. This is not to say that there is never an omission. If you overlook a requirement to send in data altogether (a branch abroad, for instance), this will naturally be hard to spot. Fortunately, you have an internal audit to keep you on track.

The matter of correct data is more complicated. Assessing the veracity of data is not a matter of just checking whether all the cells have been filled. How can we ascertain that data are correct? A low-tech route would involve just using the data. When we use data for analyses, strange scores – false notes like entries in the wrong denomination, in percentages instead of absolute numbers, etc – will stand out. Sharing our data with you – through this State of the Capital Markets report – also contributes to this goal.

We are also exploring automatic matching and pairing of transactions on both sides of a deal as a way forward. A third interesting avenue is reconciliation of the reports provided to the AFM with the data you use in your own business. Your internal audit could then assess whether the procedures you use for transaction reporting deliver reliable reports. In this way, reg tech and sup tech would be working in synch, like singing a duet.

Data quality supervision is complex and expensive. In the present order of things, it is undertaken at the national level, by NCAs. One might wonder whether this is the best way forward. EU-wide ESMA requirements for minimal data quality control are not overly ambitious, leading to diverging quality between Member States. The IT systems necessary to deal with these amounts of data are quite expensive. Centralisation, convergence or collaboration could result in better quality at lower costs, the dream of any economist.

STORs. Market participants such as yourselves play an essential role in preventing and detecting market manipulation and insider trading by submitting Suspicious Transaction and Order Reports (STORs). You as banks, brokers, investment firms, trading venues and proprietary traders are the first line of defence and the beneficiary of fair and orderly financial markets.

The AFM and market participants have a common interest in keeping markets trustworthy and free from market abuse. Preventing and detecting market manipulation and insider trading helps to achieve this goal.

The AFM and the ESMA, at the European level, are calling for action to strengthen the detection of potential market manipulation and insider trading and the reporting of STORs by market participants by increasing the effectiveness of your surveillance, thus improving the quality of data. We will continue to work hard on this strategic priority in the years to come. We hope this will remain a joint effort with you.

Cyber. Better data quality and better STORs are reactions to the hard lessons learned from the past. We also need to look ahead. As a supervisor, we also need to know our customers. The digital transformation of the sector is clearly not yet complete. We are seeing electronic trading systems and algorithmic trading steadily gaining ground. In the bond market, voice-driven bilateral trading is shifting to electronic trading on trading platforms. And we are seeing new players like electronic market makers entering markets that used to be dominated by banks.

There are major advantages to these developments, but like any opportunity, they come with risks attached. Cyber threats in particular are a risk. For that reason, the EU has introduced DORA – the Digital Operational Resilience Act. This Act addresses overall digital resilience and cybersecurity in particular. The AFM welcomes this development and the mandate attached. We realise that the introduction of DORA will require you to change gears quickly to meet the new requirements. We will be in touch about this 😊.

In conclusion. Data make the world go round. But with high-quality data and STORs and new instruments like DORA, we can hopefully avoid the world spinning out of control. This is, of course, the hopeful view of a supervisor. For the remainder of the afternoon, experts will review the State of the Capital Markets and, implicitly, the quality of my statement. Hanzo, the floor is yours.