

WFE Response to IOSCO on Market Data

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The World Federation of Exchanges (WFE) is the global trade association for regulated exchanges and clearinghouses. We seek outcomes that support market transparency, consumer confidence and economic growth. We represent over 250 market infrastructures, spread across the Asia-Pacific region (~37%), EMEA (~43%) and the Americas (~21%). With extensive experience in developing and enforcing high standards of conduct, WFE members support an orderly, secure, stable, fair and transparent environment for investors and for companies that raise capital globally.

The provision of financial market data is a well-established business including a variety of companies operating across a value chain. It is important to consider cash equity market data—a small fraction of the overall market data industry—in its context. The 10 major banks involved in global equity markets generated about \$47.6 billion in revenue in these markets in 2020.¹ This stands in contrast to around \$2.2 billion earned by the ten largest global exchange groups' market data businesses over the same period.² These exchange revenues, annualised, furthermore represent just 6.8% of the revenues of the global market data industry.³ Meanwhile, the proportion of investor fund management expenses attributable to buy-side market data spend is less than 0.001%.⁴

We recognise that both the buy- and sell-side have made representations to regulators, particularly in the US and EU, about the costs of market data. The data often cited by market data clients in relation to market data cost increases is unreliable; it focuses on overall increased cost only and does not account for users subscribing to more data services or taking on further licences to distribute this data to a greater number of their clients. There is a recurring confusion between overall data procurement costs and licensing fees charged by trading venues. Licensing fees charged by trading venues account for less than 10% of the overall data procurement costs. In fact, a recent analysis carried out by Oxera found that exchange market data fees account for less than 0.5% of buy-side and 10% of sell-side overall market data spend.⁵ Therefore, we warmly welcome supervisors' efforts to promote transparency regarding market data costs. In particular, we welcome the nuanced and open approach to the topic evinced by IOSCO's consultation.

In considering these Guidelines and the market for market data more generally, we return to certain key principles:

- Market data is a joint product with trade execution, resulting from the overall activities of an exchange. An exchange's activities increase its value. The significant investments made by an exchange increases the value of the data that the exchange produces (e.g. through governance standards,

¹ WFE estimates based on quarterly reports including Bank of America; Morgan Stanley; JP Morgan; Goldman Sachs; Citigroup; UBS; Barclays; Crédit Suisse; Société Générale; and BNP Paribas.

² WFE estimates based on quarterly reports including: NYSE, Nasdaq, Cboe Global Markets; Deutsche Börse Group; Euronext; London Stock Exchange Group; SIX Group; Hong Kong Exchanges and Clearing; Japan Stock Exchange Group; TMX Group. These figures are likely biased upwards given that some exchanges include in this financial reporting asset classes beyond equities and information services beyond the scope of streaming market data. U.S. exchanges revenues includes revenues from the SIP.

³ Burton-Taylor, *Financial Market Data/Analysis Global Share & Segment Sizing*, 2020.

⁴ Oxera, *Pricing of Market Data Services, An Economic Analysis*, February 2014.

⁵ Oxera, *The Design of Equity Trading Markets in Europe*, March 2019.

market surveillance, pre- and post- trade risk management functionality, state-of-the-art systems resilience framework, etc).

- The value of market data ought to be seen through the prism of the value it represents to those professionals and institutions who make commercial use of it. This is essential to maintain sound competition among market players and ensure that smaller firms do not end up subsidising larger firms which have highly diversified business models where the market data is used for numerous purposes.
- Without the ability to commercialise their data, exchanges, especially small ones, would struggle to cover their high fixed costs, further innovate in a highly dynamic sector, and successfully compete against venues with the ability to commercialise their market data.
- Securities markets regulators are right in their reluctance to engage in price regulation of market data, given that some market players use market data to execute transactions in competition with lit venues that invest in the production of market data. Setting the price of market data would disturb competition and any form of price control must be justified by a proven market failure.
- Exchanges are one part of a wider value chain in market data and data analytics, which includes data vendors, and investment firms among others.
- It is critical that differences between markets (in terms of market structure, regulation, and venue competition amongst other things) are taken into account by policymakers at all stages of policy development. For example, it would be inappropriate to propose a globally applicable definition of 'core data,' given these differences and that fact that this concept is only relevant to certain markets' regulatory frameworks.

In this response we have focused on issues we as the WFE feel best placed to respond to as a global representative body. The WFE and its members stand ready to discuss these and other any questions further with IOSCO and its member regulators should that be helpful.

Q1: Please identify the data elements that are necessary for investors and/or market participants to participate effectively and competitively and make informed trading decisions in today's markets.

The debate around market data licensing ought properly to flow from an understanding of the diversity of investors and market participants, and their concomitantly diverse use cases for market data. We refer the read to ANNEX 1 of this document, which describes the major commercial use cases for market data, and submit here four archetypal investors and market participants, alongside the data elements corresponding to their use cases.

Market makers, algorithmic traders, and alternative trading venues, which may include specialized securities market makers, global investment banks and hedge funds, require granular low-latency core and non-core market data. These institutions license display and non-display data and may co-locate their servers at exchange premises.

Brokers primarily executing on behalf of clients (not acting as de facto or de jure trading venues) require core and potentially non-core data, display and potentially non-display, to efficiently route orders and satisfy best execution requirements. They are likely to license data through data vendors which also offer data consolidation, and online brokers may license core and non-core data for onwards display to institutional and retail investors.

Institutional investors, depending on size and strategy, have very different market data requirements. Whereas the largest fund managers may require highly granular and low-latency data to facilitate in-house data consolidation and algorithmic trading strategies, most institutional investors will rely on display data provided by brokers and/or data vendors (either free of charge delayed data or core/level 1-type data).

Retail investors rely on core display data provided by brokers. ‘Day trader’-type retail investors, many of whom may qualify as ‘professional investors’ in many jurisdictions, exceptionally license non-core display data, typically through their broker.

Q3: Please share your view on defining Core Market Data and how such a definition can be used (for example, for compliance purposes or as a mechanism to make routing decisions, etc.)

‘Core data’ a concept that is applicable only in certain jurisdictions, and between them put to different uses. It would be inappropriate to propose a globally applicable definition of ‘core data,’ given differences in terms of market structure, regulation, and venue competition amongst other things, and that fact that this concept is only relevant to certain markets’ regulatory frameworks.

Q5: What impact does different uses have on the need to access data? How can these impacts be managed or addressed?

Some jurisdictions make a distinction between certain data, which may be required for basic trading and compliance purposes in locally applicable regulations, and other data, which is utilized by sophisticated professional investors in pursuit of (often short-term) trading profits (the US notably uses the terminology ‘core’ and ‘non-core’). Below are some examples:

- Alternative trading venues may license non-core data from regulated exchanges to use the exchange’s price formation process to provide prices on their venue.
- An active fund manager may use regressions of historical data to determine asset allocation strategies; trades based on this strategy are then routed through a broker, which may use real-time non-core, non-display data sets to internalize the order or execute the order on any number of trading venues.
- A retail investor may use a limit order to buy or sell a tranche of securities based on the displayed best bid and offer provided by their online broker.

Non-US jurisdictions, however, may apply different terminology and require different data sets for different regulatory use cases based on local conditions. ANNEX 1 sets out how particular data sets tend to correspond to particular use cases.

Q6: What factors should be considered in the context of evaluating “fair, equitable and timely access”? How should these factors be considered?

The consultation paper rightly identifies the importance of distinguishing between types of investor in evaluating the meaning of fair, equitable and timely access. High standards of governance at exchanges and traditions of non-discriminatory relations with clients mean exchange groups has fairness and equity embedded in their cultures.

As the requirements of market participants are not uniform, it is crucial that choice amongst access options is appropriately preserved. Different types of firms have different requirements when it comes to latency, access and even bandwidth. Harmonising connectivity types, for example, would reduce client choice and stifle what is currently a diverse and innovative ecosystem of market participants, whose different investment strategies and time horizons add quality to the market.

It is also important in this regard to consider that what may be seen as “equal” is not necessarily fair. Indeed, mandating uniform access options may limit market participants’ access choices, cause them to pay for services that may not be used, or substitute a product that does not satisfy the market participant’s use case. We would note that many factors concerning “fair, equitable and timely access” to data—including the simultaneous availability of all types of data to all users, and the way that data is filtered and consumed—may be outside the purview of exchanges.

We would urge policymakers to consider the fairness issues arising when alternative trading venues use prices formed on-exchange to provide competing trade execution services, without having invested in the IPO pipeline and price formation process. Price forming trading venues would de facto subsidise the services of competitors. This would automatically entail distributional consequences favoring non-price forming trading venues, to the detriment of the end consumer/retail investor.

Q11: How should market data fees be assessed? How could this be implemented in practice? What factors should be considered and how can they be defined or applied?

The assessment of market data fees is highly contextual. For example, a small regional exchange – whose continued existence helps support regional public policy objectives – may appropriately have a different business model compared to large state-owned national exchange, which may again have a different business model and set of objectives from a globally important exchange in a highly competitive market structure.

Certain jurisdictions base their assessment of market data fees against the standard of a reasonable commercial rate. The reasonableness of data fees should be seen in the context of the value commercial entities derive from using this data. Securities regulators are rightly hesitant to engage in rate-setting; any form of price control must be justified by a proven market failure. Price regulation, including “cost plus” carry the risk of inhibiting competition; compressing margins of market data operators will substantially reduce investment in innovation in this field.

In some jurisdictions, there has been an attempt to tightly link market data fees to the costs of producing and disseminating market data. However, given that trading and market data services are a joint product, this approach is complex and largely inappropriate. With joint products, the production costs of the outputs (market data and trading) cannot be fully separated. This is clearly the case with trade execution and market data services where there are fixed costs that have to be incurred to produce either product. This implies that independent analysis of either trade execution services or market data services is not helpful in assessing whether the recovery of costs by a trading venue is appropriate. Hence, regulators should keep this situation in mind when assessing prices for pre-trade and post-trade data. The appropriate frame of reference for the analysis of an economically efficient recovery of costs of secondary market activities of trading venues is at the level of combined transaction revenues and market data revenues.

Q14: Please provide your view on the need for consolidated data where there are securities trading on multiple trading venues. What should be the primary objectives of consolidated data and what outcomes should it lead to? How should these objectives and outcomes inform the nature of the consolidated data made available?

Professional market participants access consolidated data either through internal consolidation mechanisms, through the consolidation undertaken by data vendors, or through statutory consolidated tapes. The suitability of these mechanisms for the various use cases for market data vary from jurisdiction to jurisdiction, based on factors including local market structure, prevailing post-trade services and the regulatory framework for objectives such as best execution.

Data consolidation may in some markets assist market participants in achieving best execution. The public policy framework ought to support these aims while avoiding the distortion of commercially agreed terms or fair competition in these markets.

It is also important to recognize that investors and market participants will have various needs with respect to consolidated data, and that the consolidation of data is not free. In-depth cost-benefit analysis must be carried out to ascertain if a regulatory mandated solution is fit for purpose. For these reasons, a one-size-fits-all consolidation solution for all jurisdictions is unwarranted. It would not be appropriate to replicate a model existing in one jurisdiction in jurisdictions with a different market structure and regulatory framework.

Q15: Is a consolidated data feed the most efficient mechanism to achieve these objectives and outcomes? If not, what are the alternatives that could help achieve these objectives and outcomes? How do these alternatives affect the cost of and access to market data? How can they be addressed?

Any consideration of a statutory consolidated tape should be informed by an impartial, market-by-market cost-benefit analysis which takes into account the level of development, the level of fragmentation and the existence of alternative consolidation solutions in the market. A market without venue fragmentation will see no benefit to data consolidation, only additional cost. Other markets may already have consolidation needs met by data vendors and proprietary data consolidation approaches. Geographical dispersion of trading venues may entail latency consequences that obviate the utility of data consolidation for certain use cases. Finally, any consideration of statutory data consolidation ought to have regard for the impact on fair competition, including the phenomenon of non-price-forming venues free-riding prices produced by exchanges.

Equity markets are notably transparent whereas important asset classes such as fixed income see less lit trading; regulatory attention might best be directed at those areas that can be regarded as 'low hanging fruit'.

ANNEX 1 – Types of market participants and generalised patterns of data use

	<i>Market makers, prime brokers, broker-dealers and alternative trading venues</i>	<i>Other brokers</i>	<i>Institutional investors</i>	<i>Retail investors</i>
<i>Pre-trade analysis & in-flight trade management</i>	Require high-speed granular non-core non-display data used to power algorithmic trading strategies	Use smart order routing systems accessed through data vendors	Level of data granularity dependent on trading strategy; may use smart order routing	Core data typically provided by retail brokers. No requirement for non-display data.
<i>Post-trade execution analysis</i>	Build or buy technology to analyse data accessed from exchanges and/or data vendors	May use historical, core data provided by exchanges or data vendors	May use historical, core data provided by data vendors	Not applicable
<i>Investment management & asset allocation</i>	Not applicable	Not applicable	May use historical, core data provided by data vendors	Appropriate tools widely available through retail brokers
<i>Valuation</i>	Build or buy technology to analyse data accessed from exchanges and/or data vendors	May use historical, core data provided by exchanges or data vendors	May use historical, core data provided by data vendors	Appropriate tools widely available through retail brokers
<i>Surveillance</i>	Market surveillance undertaken based on private counterparty information proprietary to each broker and alternative trading venue. A consolidated Tape does not provide such data	Market surveillance undertaken based on private counterparty information proprietary to each broker A consolidated Tape does not provide such data	May use historical, core data provided by data vendors	Not applicable
<i>Risk Management</i>	Undertaken using historical and/or core data accessed from	Undertaken using historical and/or core data	Risk management undertaken	Appropriate tools widely available

	exchanges or data vendors	accessed from exchanges or data vendors	using historical and/or core data accessed from exchanges or data vendors	through retail brokers
<i>Audit</i>	Undertaken using historical and/or core data accessed from exchanges or data vendors	Undertaken using historical and/or core data accessed from exchanges or data vendors	Undertaken using historical and/or core data accessed from exchanges or data vendors	Not applicable