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COST OF MARKET DATA
Regulation and "self regulation"

AMAFI's Position

Since the implementation of MiFID in 2007, the question of the cost of market data has been a highly contentious issue in Europe.

On the one hand, market participants such as banks, brokers or asset managers point out that they face a non-bearable surge in the cost of market data. They observe that the EU situation is very degraded compared to the US one. They also consider that market operators have balanced the decrease of their trading fees by the increase of market data fees.

Given that, many market participants call for regulatory actions in order to control the revenues trading venues could collect from market data. Some of them go further, arguing that regulators should require exchanges to disseminate market data free of charge to all market participants, potentially adjusting trading fees upwards to counter the lost revenue. What is certain is that market data, especially trading data[1] on which AMAFI's analysis is centred, play a prominent role in the price discovery process, which is one of the core functions of financial markets[2]. Market data are thus an essential piece for the efficient functioning of financial markets in the service of the financing of the economy.

On the other hand, trading venues state that it is unfair to blame the cost of market data on the exchanges. They contest the comparison of the EU-US costs considering that it does not take into account the differences between both markets which include fragmentation, different regulatory requirements and diverging economies of scale. Moreover, they highlight figures contained in a report issued by Oxera in February 2014 (*Pricing of market data services – An economic analysis*) which estimates that in the cost to the institutional end users of real-time data in the EU, between 65 and 80% of the cost to the institutional end-users of real-time data in the EU is paid to market data vendors, 10-16% to the IT infrastructure delivering the data and the remainder, only 8-15%, to trading venues.

The rise of these concerns pushed the European co-legislators to introduce into the new MiFID/MiFIR legislation some provisions aiming to regulate the way trading platforms can display and price market data.

It cannot be denied that the cost of market data have increased in the past few years at a level which is very worrisome for market participants. But it is also fair to say that the issue is complicated given the various services and participants in the value chain, and therefore trading venues are not the only entities at stake. It is important that the European co-legislators decided taking into account the concerns but it is likely that a regulatory action would have limited outcome given the EU market data framework. In any case, it must be noticed that some proposals of ESMA and the European Commission on the cost and/or revenue control are not appropriate.

[1] i.e. related to pre- and post-trade transparency on transactions completed on trading venues.
[2] By setting the price, exchanges on trading venues enable project initiators (mainly companies) to value their assets and strategy, to set their cost of capital (i.e. the price at which they can raise capital), to determine the price at which they can carry out external growth by acquisitions, even the price at which they can be targeted by another investor. It also enables individual savers to value their investment. Market data are the products used to disseminate this information.

In these circumstances, AMAFI calls for a "self-regulatory" initiative involving data producers, data aggregators and data users.

(i) The results of AMAFI's analysis: increasing costs and complexity for end-users

As stated above, many if not all market participants in the EU have raised concerns about the significant increase of the cost of market data in a few years. In order to objectivise the situation, AMAFI conducted, in July 2014 a survey among its members which are very diverse in terms of size and activities. The questionnaire comprised a quantitative and a qualitative component.

a. The increase of the cost of market data for market participants is a reality

From this investigation, the following key conclusions can be drawn:

- The **inflation** of costs of market data for market participants is real and extensive (reaching in some cases up to 60 % between 2009 and 2013) whatever the size and/or the activities of the entity. Moreover, these costs represent a growing share of the general expenses of the respondents (from 2% to 5%);

- The **cost per user (per employee or per device) has surged**, attaining for some participants an average of EUR 35 000 for a user of real-time data on main European markets, even after budget optimisation[3].

- The **data terms of use have been tightened**, with in particular the introduction of billing on non-display (concerning flows directed at a very low latency to machines, such as algorithms, and not displayed to persons), mostly through fixed fees. These new categories make it more difficult for user firms to monitor their expenses in that realm. Alternative platforms such as Bats Chi-X and Turquoise eventually introduced fees progressively, after a period of "fee holiday" used to attract liquidity. This is coming with a **reinforcement of controls**, clients having to report regularly on their use of data (generally on a monthly basis), while trading venues are exercising more and more their possibility to audit the firms on their use of market data: if such audits are not questionable as a rule, the result is a new increase of costs for user firms.

- Consequently, the billing system, involving several stakeholders described in (b), then appears more and more **opaque and difficult** to grasp by many market participants, resulting in important management costs;

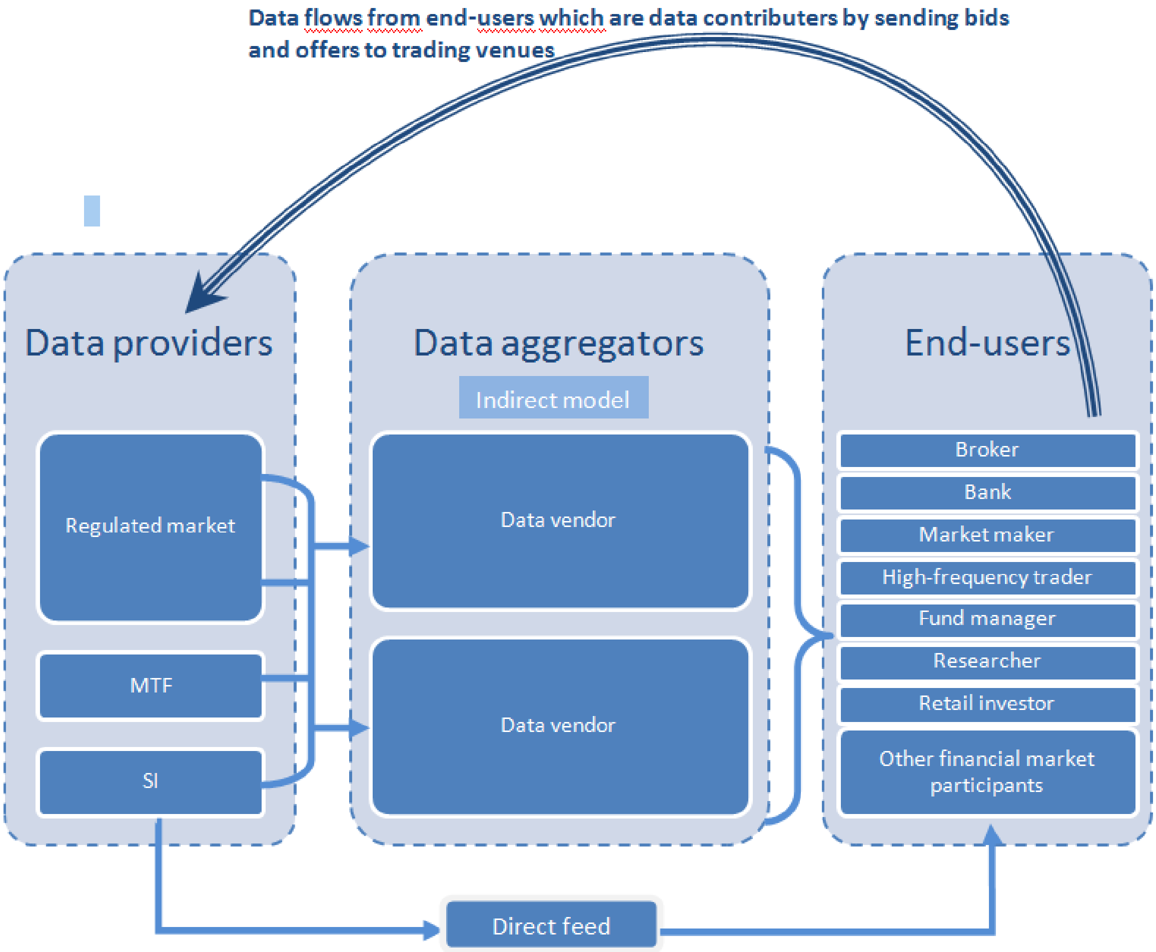
As a result, a **reform** of the business model and billing is desired by market data users, in particular towards simplification. A possible solution advanced by several respondents would be the implementation of a single user license, even though such a mechanism can entail important operational constraints.

[3] The IMA estimates for instance that the average market data feed cost is around $800 per dealer in the US, whereas in Europe the cost is closer to $16,000, figures which are highly contested by some players who point to the difficulty to compare these two markets and criticize the methodology of IMA.

b. The issue is complex, involving various services and participants

As it is shown in the scheme below, the data distribution model in Europe is particularly complex since it involves data producers and user firms but also data aggregators. Market participants may have access and acquire data directly from the trading venues or through data aggregators such as ThomsonReuters or Bloomberg, which in some cases charge a lot more than trading venues[4]. In a fragmented market[5], the role of data aggregators (often referred to as data vendors) is to consolidate market data coming from various trading venues for a single ISIN code for instance.

Moreover, the situation is all the more complex that data aggregators provide a large range of products and services such as consolidation of raw data, added value services (e.g. raw data processing), connectivity, hardware to name a few. They also re-invoice data licences to end-users, which can then pay the same licence several times.



The evolutions revealed by our findings occurred while the fragmentation of liquidity following MiFID I has forced market participants to multiply their subscriptions to different flows of data so as to get a correct picture of the situation of the market. This helps to explain the multiplication of stakeholders, increasing the complexity of data procurement and the final cost for user firms. In such a context, attempts to reform this model seem justified.

[4] The table in the Appendix shows a distribution of costs for licence fees between trading venues and Bloomberg.
[5] It is estimated that 66 companies receive fees for market data in Europe, while the US model is far more concentrated, with around 30 trading venues in Europe compared to a dozen in the US.

(ii) Regulatory action could be useful but would have limited outcomes

The European legislator introduced into the new MiFID/MiFIR package provisions on a "Reasonable Commercial Basis" (RCB), with provisions to regulate prices of market data charged by trading venues.

These provisions, which will be specified in level 2 currently being developed by ESMA, were submitted to the consultation last summer. In its consultation, ESMA proposed two categories of measures: transparency requirement and control of costs and/or margins of trading platforms.

AMAFI considers that increased transparency is a good tool to reach the aim of a reasonable commercial basis even if it must be noticed that this could have better results with the setting up of a single consolidated tape, through a competitive tender process which is unfortunately not the case according to new MiFID / MiFIR arrangement.

On the contrary, AMAFI strongly disagrees with ESMA's proposals to liaise the RCB notion with the control of costs and margins of trading venues.

It should be kept in mind that the principle of competition between trading venues is a cornerstone of the MiFID/MiFIR legislative package. Limiting the share of revenue that market data services can represent for trading venues would illegitimately bend their freedom of competition which would break the balance sought. Such a limitation would at least require highlighting a market failure which would not be concretely manageable otherwise. In any case, AMAFI is of the view that this type of questions should be dealt with by Competition Authorities and not Market Authorities.

Above all, this would in any case have limited effects in an environment where a fundamental component of the value chain, which are data vendors, will not be affected.

(iii) AMAFI calls for a "self regulatory" initiative

In this context, AMAFI considers that there is a need to set up discussion between all the parties involved in the distribution of trading market data.

The MMT (multi-market topology) initiative, initiated in 2012 by FESE so as to standardise market data formats for post-trade transparency purposes in the wake of the elaboration of MiFID/MiFIR package and as a result of the 2010 CESR Technical Working Group recommendations, can serve as a model for the proposed self-regulation of market data pricing. This private sector project, which is a collaborative effort implicating many different industry participants, shows that self-regulation is feasible and can produce value for the whole market.

In the case of the pricing of market data, there is a need for an active participation data vendors as well as trading venues and end-users in order to have a significant effect. The discussion should be conducted at the European level with business associations for markets (FESE) and data vendors (FDSA).

The purpose should be to elaborate a collection of "Best Practices" or "codes of conduct" concerning the display, pricing and billing of market data.

Among the avenues to be explored in order to reduce the burden imposed by the existing pricing model, AMAFI supports a clarification of the different types of fees (a), together with efforts on the pricing (b) in order to enhance the functioning of financial markets.

a. A clarification of fee structures through standardisation and a clear split at the invoice level

The **standardisation** of the definitions of the different fees appears to be a necessary measure for the good functioning for the markets, since this would simplify the understanding of market participants and enhance the competition by facilitating benchmarks. Ideally, a commonly accepted taxonomy of the different fees, with features such as the frequency of payments as close as possible, would greatly ease the situation of end-users which often complain about the difficulties to manage their costs on financial data.

Overall, this effort could come along the determination of the **granularity** of market data flows, for which a harmonised solution at the European level seems necessary. While ESMA seems at this stage to favour an unbundling at the asset class level, some market actors support a possibility to disaggregate the flows at the instrument level (AFME's position), which seems to be fairer but also very difficult to manage operationally.

The involvement of data vendors, whose fees pose the same problems, is essential to ensure the results brought by such a harmonisation are successful. There is a need to clearly delineate the share of the amount paid to data vendors which is repaid to trading venues. Vendors and trading venues should also do their best to issue clear invoices, with a different document for each billed service, which would facilitate cost management and comparisons.

b. A fairer pricing of market data to enhance the functioning of financial markets

Ensuring **relatively stable fee structures**, so as to enable market participants to budget their expenses with more certainty, is certainly key to improve the relationships between the different market actors. The huge increases registered in the past few years were not justified and created difficulties for many end-users. Trading venues, in relation with data vendors, should agree on a set of principles in order to moderate future rises to reasonable levels. In particular, stakeholders should be informed sufficiently ahead so that they can anticipate the fee changes.

Moreover, the proposed changes in terms of standardisation of the fees can be the occasion to limit the barriers to entry for small market participants that some of the fees currently create. In this regard, **variable fees**, which take into account the size of the companies paying them, should be preferred to fixed-fees, as long as they are easy to put in place since this should accompany a general effort of simplification..

The efforts at the level of the definition of the different fees, expressed above, can also serve to **limit the number of fees**. There is indeed a recent trend for some trading venues to bill new services, such as entry rights and products valuation. Then, a commonly accepted framework on a list of what can be charged (licence fee for distribution, display and non-display use mainly) would usefully limit excessive charging of the data and reinforce the effort to have a clear and harmonised fee structure.

Appendix

User licence fees charged by exchanges and Bloomberg, Summer 2013

	User licence fee charged by exchange (US$)	Bloomberg user licence fees (US$)	Mark-up/value-added premium
BATS Chi-X Level 1	30 (€23)	38 (€30)	25%
BATS Chi-X Level 2 (full)	68 (€53)	80 (€62)	17%
LSE UK Level 1	43 (€33)	62 (€48)	46%
LSE UK Level 2 (full)	160 (€125)	270 (€210)	69%
DB X Ultra Level 1	84 (€65)	98 (€76)	17%
DB X Ultra Level 2 (full)	99 (€77)	116 (€90)	17%
DB Ger Spot Level 1	73 (€57)	n/a	n/a
DB Ger Spot Level 2 (full)	89 (€69)	n/a	n/a
DB Irish Level 1	16 (€12)	22 (€17)	40%
DB Irish Level 2 (full)	24 (€19)	32 (€25)	36%
Euronext Level 1	77 (€60)	90 (€70)	17%
Euronext Level 2 (full)	110 (€86)	128 (€100)	17%
SIX Swiss SE Level 1	16 (€12)	17 (€13)	8%
SIX Swiss SE Level 2 (partial)	52 (€40)	42 (€33)	–20%
SIX Swiss SE Level 2 (full)	79 (€61)	75 (€58)	–5%
LSE Int'l Level 1	21 (€16)	35 (€27)	64%
LSE Int'l Level 2 (full)	82 (€64)	132 (€103)	61%
LSE Eur'n Level 1	9 (€7)	9 (€7)	4%
LSE Eur'n Level 2 (full)	29 (€23)	29 (€23)	1%
Borsa Italiana Level 1	16 (€12)	19 (€15)	21%
Borsa Italiana Level 2 (full)	52 (€40)	60 (€47)	15%
BME SIB Level 1	21 (€16)	59 (€46)	182%
BME SIB Level 2 (partial)	52 (€40)	n/a	n/a
BME SIB Level 2 (full)	65 (€51)	67 (€52)	3%
N-OMX Nordic Level 1	38 (€30)	51 (€40)	35%
N-OMX Nordic Level 2 (partial)	73 (€57)	n/a	n/a
N-OMX Nordic Level 2 (full)	97 (€75)	120 (€93)	24%
N-OMX Baltic Level 1	18 (€14)	20 (€16)	9%
N-OMX Baltic Level 2 (partial)	25 (€19)	n/a	n/a
N-OMX Baltic Level 2 (full)	29 (€23)	28 (€22)	–3%

Note: Exchange rates used for conversion to US$ are dated July 3rd 2013.
Source: Bloomberg and trading venue market data fee schedules as of June 2013.