

FESE Response to the IOSCO Consultation Report on Market Data in the Secondary Equity Markets

Brussels, 26th February 2021

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. In your response, please consider:

- The type of investor (e.g. retail or institutional) that uses the data;
- How orders are sent to a trading venue (e.g. electronic, manual, direct access by clients; and
- How orders are routed

Please provide the reasons why each element is necessary.

Financial regulation is highly heterogeneous across the globe, often reflecting the matureness and unique characteristics of each market and as such the respective market data needs may differ. As an example, the best execution requirements differ significantly between various jurisdictions. FESE will focus on EU regulation and EU data users predominantly in this response to the IOSCO consultation report.

FESE considers that, as stated in the IOSCO consultation report, different types of market participants have different market data needs, and the data elements and latency that are necessary for one market participant may not necessarily be the same for another. For example, retail investors do not usually arbitrage markets but are interested in medium to long-term investments. Consequently, they do not have the technical infrastructure needed to take full advantage of low-latency direct feeds and they do not see the same need for it compared to other market participants.

Typical data requirements for data consumers

User		Purpose (use) of data	Type of data required
Trader: broker, prop trader, HFT, etc.	Front office	To execute trades	Real-time (often low-latency) Level 2
	Middle office	Risk, credit and strategy management, including forecasts and some modelling	Generally delayed or real-time Level 1, but some activities can require Level 2
	Back office	To monitor and administer settlement and clearing obligations, regulatory compliance (including evaluation of best execution), and reconciliation of trades	Delayed and/or end-of-day
Market maker		Observing the liquidity and depth in the market to fulfil quoting obligations, generate	Real-time (often low-latency) Level 2 ¹

	prices and calculate risk	
Indexing (e.g. credit default swap (CDS), benchmarks)	To analyse and group companies' risk profiles to form CDS indexes or to form and manage an index	Real-time Level 1 or Level 2
Fund manager	Research and strategy, including forecasts and modelling, assessment of brokers and other service providers	Dependent on individual manager. Often, delayed data is sufficient. Some managers may choose to receive real-time data at Level 1 or 2 according to their strategy. End-of-day data used to calculate and report portfolio values
Competitor trading venue (e.g. MTF, organised trading facility, dark pool, SI)	To inform traders/market makers of pricing on other venues To provide a reference price when the venue does not have its own price formation mechanism To provide order pegging services—i.e. where a trader enters an order that does not contain a price, but the instruction to execute only at a price better than available on other venues	Real-time Level 1
Market surveillance, regulators and governments	Identify illegal behaviour by participants	Private information on trading participants, Level 2 (real-time and delayed)
Retail investor	To assess investment prospects and strategy	Delayed data; occasionally Level 1 real-time data
Media	To broadcast financial market information over television channels and on websites	Post-trade, Level 1 real-time and delayed data
Issuer	To form a correct pricing and demand estimation at issuance; to assess listing venues	Delayed post-trade
Other research/academic	To model markets and market mechanisms, investigate specific	Historical data

	relationships between economic variables	
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Source: Oxera. “The Design of Equity Trading Markets in Europe: An Economic Analysis of Price Formation and Market Data Services.” Oxford, 2019.

Note: At several European trading venues, registered members are entitled to free data for trading, risk management, and settlement of transactions traded on the respective trading venues

FESE agrees with IOSCO that there have been changes in the patterns of consumption. In general, there has been a big shift in consumption of data from display to non-display activities reflecting the ongoing automation of activities using market data, including algorithmic trading, driven through technological developments. As an example of the far-reaching impact of technology, and specifically trade automation from algorithmic, quantitative, and robotic trading on today's capital markets has had, one can consider the evolution of Goldman's cash equities trading floor at the firm's headquarters. At its height back in 2000¹, it employed 600 traders. Today there are just two equity traders left. Complex trading algorithms, some with machine-learning capabilities, first replaced trades where the price of what was being sold was easy to determine on the market, including the stocks traded by Goldman's 600 traders. These new data users (e.g. quant, robotic, and artificial intelligence systems) require constant investments in hardware and software by trading venues in order to keep up with the new technologies used by these systems. The industry is currently in a transition period from a human-driven world (terminal use of data) into a more digital-driven world (electronic use of data). Due to this shift, the data license structures of trading venues are being adapted. This includes the shift from per-user to more company/legal entity licenses which are tied to electronic use within a company and the resulting changes in cost recovery.

The structural changes due to digitalisation also impact competition with trading venues. For example, in the case of equity markets, trading venues provide data enabling direct or indirect competitors to disintermediate these markets. This is not the case in less transparent markets, such as fixed income, where high quality and publicly available data is almost non-existent.

While trading venues are at the forefront of transparent, secure, and stable markets, we lack the same contributions from less transparent markets. FESE fully agrees with IOSCO that market data is an essential element of efficient price discovery and helps support fair and efficient markets. In order to further facilitate this, FESE strongly recommends that IOSCO considers fair competition as an indispensable value that must be protected. Freeriding of entities deriving unfair competitive advantages should be avoided.

¹ Byrnes, Nanette. “As Goldman Embraces Automation, Even the Masters of the Universe Are Threatened.” MIT Technology Review. Cambridge, MA, February 7, 2017.

Q2: Are there other data elements that, while not necessary to all market participants, may be necessary for some market participants or business models? Please provide the reasons for your answer.

As explained in Q1, there is high heterogeneity in the data needs of market participants, including in the way data is consumed, e.g. via display or non-display data. Indeed, there is no one-size-fits-all solution. Besides the required levels of depth, the inclusion of only order book data, amendments, cancelations, action imbalances, session statistics, historical data, admin messages, or events feeds vary according to the user. Academic researchers or analysts involved in technical analysis may require delayed data with high

depth from a vendor; whereas arbitrageur activity and high-frequency and algorithmic trading would likely prioritise a low latency feed directly from the regulated market. Market makers or other liquidity providers use depth-of-book data, and receive data in lower latencies.

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.)

The terminology of core data is seemingly derived from the US market, where Reg NMS and the SIP provide core market data. This data stream is being consumed for the purpose of best execution. Within the EU, there is no similar regulation, terminology, nor a similar market structure. Compared to 17 interlinked venues competing for data and transactions in the US, the EU resembles a highly fragmented market with 10 times the number of venues, which are not interconnected. There is no regulatory use case for the use of data from all venues. We assume that IOSCO is looking for the one set of data that would resemble something like a core set that any party would use globally. However, for the reasons outlined above, FESE considers that this is not sensible as the data demand varies.

We understand that IOSCO is looking for the set of data that may satisfy various use cases, such as order-routing or compliance purposes. FESE members support all sorts of different use cases and data requirements either by different data products and/or licenses. Data needs vary per type of user. For example, 15-minutes delayed data is freely available and could very well be used for compliance purposes, or even risk management. On the other hand, some data users may choose to use real-time data to satisfy their own commercial interests. A situation where retail investors behind small retail brokers and smaller investment firms may, ultimately, end up indirectly supporting the market data costs of major international investment banks is undesirable and should be avoided. That is why the approach in MiFID II/MiFIR is to avoid defining core market data. Furthermore, market data that is used by market participants in secondary markets is already adequately defined in MiFID II/MiFIR.

As explained in Q1 and Q2, there is no sensible way of defining core market data. What can be considered core market data is subjective, it is therefore not advisable nor possible to explicitly define the concept.

Q4: How is market data used by different types of investors or different functions of your firm? Consider, for example:

- Type of investor (e.g. retail or institutional)
- Trading Desks (proprietary or client-servicing including retail and institutional), Institutional, proprietary)
- Compliance
- Risk-Management
- Back office functions

Please see our answers to Q1 and Q2.

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

Please see our answer to Q8. Note as well that the requirements for access to data are applicable to markets for all asset classes but that transparency outside the equity space is not at the same level, which does not allow potential competitors to benefit from market data in a similar way in all markets.

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

FESE agrees with IOSCO that it is paramount to enable market participants, including investors, to make informed decisions regarding investments, order routing, and trading. We believe that the factors to consider depend on user categories and use cases and are related to making market data available to customers on understandable terms and conditions, to have scalable capacities in place to ensure that customers can obtain timely access to market data at all times on a non-discriminatory basis. What can be considered fair, equitable, and timely access is subjective. Rather than focusing on these aspects, legislators, as is the case in the EU, should focus on the obligation to provide market data on a non-discriminatory basis.

Therefore, we believe that trading venues should describe in their market data policy the categories of customers and how the use of data is taken into consideration in setting up these categories. Trading venues should, at the same time, be able to establish different prices to different categories of users and use cases where it is objectively reasonable to do so, for example in the cases of non-professional or professional users.

Clarity in contractual data licensing agreements is desirable and facilitates fair and equitable access to market data. That is why FESE is supportive of efforts aimed at the harmonisation of contractual terminology. Contractual terminology and market data procedures are to be applied with reasonableness and do therefore not allow for arbitrary or exploitative practices.

Q7: What types of access do trading venues and RDPs provide? Are some forms of access provided only to specific market participants?

As explained in Q6, FESE would like to underline that data from trading venues is made available on a non-discriminatory basis as per MiFID II/MiFIR. In contrast to other execution venues like systematic internalisers, trading venues provide non-discriminatory access to their trading platforms.

Choices on latency and connectivity vary depending on the market data user due to the high variety of market data needs. Market data providers (trading venues, data vendors, APAs, etc.) offer different solutions to meet different customer needs.

Q8: Please identify the type of access necessary for different investors and/or market participants to participate and make informed trading decisions in today’s markets and the rationale for the type of access and identified differences. In your response, please consider:

- **Type of investor (e.g. retail or institutional)**
- **Trading Desk (Proprietary or client-servicing including retail and institutional)**
- **How orders are sent to a trading venue (e.g. electronic, manual, direct access by clients)**
- **Order routing**
- **Business models**
- **Compliance and regulatory issues**

FESE considers that, whilst non-discriminatory access provisions are fundamental, in some instances, there may be a linkage between the use of market data and the access to such data. Choices regarding the type of access vary depending on the market data user due to the high variety of market data needs. Different solutions are offered for different needs. As explained in the consultation report and in Q1 and Q2, a latency-sensitive market maker, for example, has different latency needs than an agency broker.

In the case of Systematic Internalisers in the EU we observe that they ingest high-quality data from trading venues to produce their services and outbound post-trade transparency of poor quality.

Different investors employ market data in different ways and they are likely to value data differently. In this context, it makes economic sense for a market data provider to sell various data packages (that are differentiated in terms of coverage, speed, depth, or use) at different prices. Each data package would be designed for a specific customer type and would be sold at a price that is related to the value that the customer in question attaches to the data. In summary, an approach that tailors the data offer to customers' diverse needs and large variety of commercial activities is positive from an aggregate welfare viewpoint, as more customers could be served in line with their needs. Ultimately, a pricing system in which customers pay for the cost of the data in proportion to the benefits received (i.e. the value of use) is efficient. Otherwise, if every customer were to bear the same costs, irrespective of the intensity of use, low-intensity users would be discouraged from purchasing market data (as the costs would be too high relative to the benefit they derive from the data).

Q9: What issues or concerns arise in the context of fair, equitable and timely access to market data?

FESE members provide a comprehensive choice of products and ways on how to use data to all interested parties. This may be directly (via proprietary data feeds or the internet) or indirectly (via third parties like market data vendors). However, FESE members can only guarantee the non-discriminatory treatment per product in terms of technical arrangements that they directly control. It is the choice of the customer to assess and choose the technical offering that best fits its business model.

FESE would like to underline, however, that a number of entities use data provided by trading venues on a non-discriminatory basis to run commercially rewarding business models. In this context, regulators and policymakers should be wary of enabling free-riding which, if left unchecked, could ultimately threaten the quality of the price formation process and harm the robustness and transparency of capital markets and which could unintentionally contribute to creating an unlevel playing field in terms of competition. One example of this can be seen in the substantial increase of systematic internalisers in the EU. These execution venues use the data provided by trading venues on a non-discriminatory basis to operate competing platforms with limited contribution to the price formation process. Addressing fair competition in this regard would mean remunerating trading venues correctly for the investments they make in maintaining high-quality pricing.

Ensuring a level playing field and fair competition is of utmost importance in this respect. Please see as well our comments in our answer to Q1.

Q10: Please share your view on interchangeability of market data between trading venues. If concerns are identified, please provide suggested mechanisms to address them.

Many instruments are traded on multiple venues. Consequently, multiple data from various sources on the same instrument is available to market participants. For example, as indicated in IOSCOS's consultation report, investment decisions can be made using market data from one or a subset of entities as indicative data. However, the quality of the data can differ, something that is currently being addressed by ESMA and market participants in the EU. The high quality and reliability of trading venue data is conditioned by trading venues' investments into robust systems, processes, and rules. That is why it is important that regulators do not overlook the importance of price formation when

discussing market data, and the impact that an unlevel playing field or unsuitable regulatory rules may have.

Trading on transparent and organised venues results in highly reliable market data which is made available to the benefit of all market participants on a non-discriminatory basis, even including those who are in direct and systematic competition with trading venues. At the same time, trading venues face competitive constraints for trading and market data services, which ensure that their trading and data fees must remain competitive. Trade execution and market data services are joint products, i.e. it is not possible to generate one without the other, and most activities undertaken by a trading venue deliver both trading and price formation. Competition in trading and market data services is at the core of fair and efficient markets, interchangeability of data in this context has limited impact and should not be overstated.

The value of the price formation process, and consequently trading venue market data, derives from the quality of the trading venue ecosystem which includes liquidity pooling and liquidity incentivisation on the one hand, and from the speed at which it evolves and is distributed (latency of roundtrip), as well as its quality and reliability, on the other hand.

Finally, it is important to note that arbitrageurs ensure that prices for the same instrument on multiple markets tend to be the same at any point in time.

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?

In order to evaluate the changes in overall costs and fees of market data, it is important to first look at the wider market data ecosystem and avoid the confusion between overall data procurement costs and market data fees levied by trading venues.

Market data in most cases is distributed via data vendors to brokers, asset managers, and other market participants, and is only a small part of the market data used by market participants, which also includes news, alternative data, research, ratings, valuation data, reference data, etc. The consulting firm Oxera conducted an analysis for FESE which shows that EU regulated markets market data fees account for less than 10% of total sell-side market data procurement costs and 0.5% of total buy-side market data spend. Since 2012 the market data revenues and the unit costs (calculated as the total joint revenue from trade execution and market data as a proportion of total value of trading in relevant securities) have remained generally stable overall. In assessing the overall impact of market data fees on market functioning and end-investors, it is also helpful to bear in mind that market data fees are a relatively small proportion of total costs incurred by fund management and brokerage firms. Regulated market data fees account for around 1% of the fees typically charged by a large broker, and less than 0.015% for a typical fund management firm.¹

It is also important to take into account that market data fees are different from market data revenues. Market data revenues are the outcome of multiple variables, which include aside from market data fees, the number of clients, applicable units of count, or categories of use applicable to a diverse group of clients that is different for each trading venue.

In this context, FESE members offer market data on a reasonable commercial basis taking into account the costs for creation and dissemination of the data, in accordance with MiFID II/MiFIR requirements. Due to the joint product nature of trade execution and market data services, the production costs of the outputs (market data and trading) cannot be fully separated. In this context, it is crucial to remark that market data is the outcome of a dynamic price formation process, and is a joint product with trade execution—i.e. it is not possible to generate one without the other, and most activities undertaken by a

trading venue deliver both trading and price formation. The economics literature confirms that, in such cases, it is efficient to generate revenues through fees from both products.¹ This is what trading venues do in practice.

The joint product nature of trade execution and market data services has key economic implications. With joint products, the production costs of the outputs (market data and trading) cannot be fully separated. This is clearly the case of trade execution and market data services where there are fixed costs that have to be incurred to produce either product. This implies that whether the recovery of costs by a trading venue is appropriate or not cannot be assessed effectively by the independent analysis of either trade execution services or market data services. Hence, FESE urges regulators to keep in mind this reality when assessing the development in prices for pre-trade and post-trade data. FESE wishes to underline that the appropriate frame of reference for the analysis of the economically efficient recovery of the costs of the secondary market activities of trading venues is at the level of combined transaction revenues and market data revenues. In the context of the European regulatory framework, trading venues should have a clear and documented methodology for setting the price of market data. Examples of the types of costs that are taken into account to set the price for market data and a short description of each cost item can be useful. Clear principles according to which direct and variable joint costs are allocated and fixed joint costs are apportioned, between the production and dissemination of market data and other services provided can also be helpful.

It is important that regulators and policymakers acknowledge the need to keep commercial incentives for market data to exist in order to ensure the proper functioning of markets, especially given that a number of entities use data provided by trading venues to run commercially rewarding business models.

¹Oxera. “What’s the Data on Market Data?” Oxford, 2020.

Q12: Please provide details of other products or services related to market data that are provided by trading venues or other RDPs.

As explained in Q11, trading venue market data is a small part of the total market data used by market participants. Market data services supplied by this high variety of data providers include amongst others considering that the offering may vary:

- Pre- and post-trade trading data
- Reference data: static or dynamic data used to classify financial instruments
- Analytics, valuation, and portfolio management data derived from analysis of order book and trade data, which is used by fund managers to measure investment performance and portfolio risk and manage trade execution
- Index data: data on the performance of a hypothetical portfolio of equities covered by Benchmark Regulation
- Know-your-customer data
- News
- Alternative data: data derived from non-traditional (and often non-financial) data sources, e.g. satellite data, social media sentiment
- Research: material that implicitly or explicitly recommends or suggests an investment strategy in relation to financial instruments or issuers

Trading venues usually only offer a rather small set of data within the market data industry. In this context, we also wish to underline that market data is an intrinsic part of the price formation process and is a joint product with trade execution, i.e. it is not possible to generate one without the other, and most activities undertaken by a trading venue deliver both trading and price formation.

Q13: Please share your views on the fees for connected services that are necessary to access essential market data. If concerns are raised, please identify mechanisms to address them.

FESE members make available pre- and post-trade market data unbundled from additional services, in line with MiFID II/MiFIR. This means that market data is being provided in separate data products for pre- and post-trade data. The discussion about this type of unbundling must be considered together with the increasing number of market data licenses. If one needs to unbundle and provide a previously combined data product with pre- and post-trade data within two distinct products, it is logical that the number of license terms will double as well, everything else equal.

However, practices on latency and connectivity, for example, vary depending on the market data user due to the high variety of market data needs. The vast majority of market data users source their data indirectly via data redistributors and trading venues do not control the connectivity setup that data redistributors maintain for users. In addition, data vendors will only offer unbundled data when it is demanded by their customers.

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?

FESE agrees with IOSCO that consolidation may address concerns about market data fragmentation. The post-MiFID II EU trading landscape is highly fragmented, with increasing amounts of trading taking place in the dark. Investors should be able to get a full overview of the market and know where their orders are executed and how.

We also acknowledge that comprehensive consolidation is not yet available, especially when it comes to systematic internaliser (SI) and over-the-counter (OTC) data. In order to enable consolidation, the inconsistent reporting of SI and OTC trades must be addressed. Besides multiple measures to ensure correct off-venue data in the first place, correct, reliable, and consistent flagging of transactions is key to delivering consolidated data. In an environment where market transparency and data quality continue to be an issue, it is necessary to prioritise the consistent implementation of a market model typology and enforcement of data quality by national competent authorities. Policymakers should also ensure that the market structure is fit for purpose, i.e. generally promote transparency in financial markets. A consolidated tape is not to be seen as a substitute for an adequate market structure. The role that lit markets play, as well as the importance of the price formation process, are also key factors to be taken into account in this debate.

The current lack of transparency in some areas of capital markets is not due to issues pertaining to the consolidation of data but to a deficient market structure that encourages the execution of orders away from transparent markets to the detriment of investors and issuers. While a consolidated tape is no substitute for adequate market structure and rigorous enforcement of rules, it may bring some benefits provided that the cost of consolidation remains reasonable.

This last issue is important as the cost of consolidating data is often overlooked, creating advantages for stakeholders that only use the data and do not provide it. When data providers are not compensated for their investments, incentives to produce high-quality data are undermined and transparency is threatened.

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?

FESE believes that the specificities and uniqueness of a given regional financial markets landscape should be a primary consideration when discussing consolidated data feeds. Fragmentation and other aspects of market structure should be taken into account, as well as regulatory differences.

In the EU, a tape of record (ToR) covering all venues and execution mechanisms would provide a true consolidated view of the market, represent a cost-effective and simple solution, without latency and arbitrage issues, and meet the needs of market participants. A ToR would take into consideration particularities of the EU market structure and provide a convincing use case, avoiding high costs for the industry as a whole without tangible benefits.

FESE’s ToR proposal would consolidate and disseminate, after the market close, the European best bid and offer and last price, time (both of execution and publication), price, volume, and harmonised MMT trade flags of each transaction, thus providing a comprehensive view of overall trading activities within the EU on an instrument level. This would be done in a four-stage process starting with 100% market coverage, while collecting, curating, and analysing the data that would be delivered to users of the ToR.

A ToR would allow for ex-post execution quality, transaction cost (e.g. price slippage), and compliance analysis, or the valuation of positions, while also facilitating other calculations or the harmonisation of regulatory requirements. The data could also be used for predictive analytics on liquidity developments in different trading venues and the market, the identification of liquidity risk, end-of-day pricing used to calculate net asset valuations for mutual funds and ETFs, etc.

While these advantages would flow to all investors, they stand to benefit most small and medium-sized companies, critical as the core of the European economy, as well as retail investors who have fewer resources to allocate to data acquisition and processing. A ToR would strengthen the cost-effective access to market data for investors.

In the EU, a comprehensive ToR would provide valuable insights into trading and would represent a more cost-effective approach than a real-time consolidated tape. Comparable industry solutions already exist, demonstrating that the ToR is a useful and viable solution that has fewer latency, risks, and complexity issues, and delivers clear value to the market.

Considering MiFID II/MiFIR, it is worth noting that Commission Delegated Regulation C(2016) 3316 prescribes different timing accuracy and timestamping granularity for different types of trades. This creates a data consistency issue and makes the correct sequencing of transactions impossible. No downstream technical solution can solve this.

Table 1

Level of accuracy for operators of trading venues

Gateway-to-gateway latency time of the trading system	Maximum divergence from UTC	Granularity of the timestamp
> 1 millisecond	1 millisecond	1 millisecond or better
≤ 1 millisecond	100 microseconds	1 microsecond or better

Source: Annex to Commission Delegated Regulation C(2016) 3316

FESE believes that a ToR is the most appropriate mechanism to meet the objectives outlined above. We are eager to contribute to the discussions on this topic and would therefore like to underline that attempting to develop a consolidated tape (CT) for pre-trade data in the EU would raise a number of issues and is not advisable nor reasonable.

Some argue that pre-trade CT would give a better view of liquidity and help investors access an increased range of execution options. However, these expectations on the impact of a pre-trade CT are unrealistic.

Firstly, pre-trade transparency is only available for trading venues and a very limited portion of systematic internalisers (SIs). The majority of SI trading will most likely not appear in a pre-trade CT. Secondly, orders and prices on a pre-trade CT would not be accessible to all market participants since execution at displayed prices is only possible between technically connected entities. Thirdly, geographical and fragmentation-related latency issues would generate ghost liquidity and latency arbitrage opportunities. The CT would therefore create a false sense of liquidity. This has the potential to harm the market by creating a two-tier market structure between retail and professional users. In addition, attempting to enforce best execution on the basis of a European best bid and offer carried by a real-time pre-trade CT would be an oversimplification of the market and create a flawed, easily gameable benchmark.

Overall, FESE would advise against the creation of a pre-trade CT and reiterate that a ToR would be a significantly less complex and costly technical set-up, providing a comprehensive overview of overall liquidity within the EU on an instrument level to verify execution quality.

Q16: Please describe any issues or concerns not raised by IOSCO in this Consultation Paper and describe any suggested mechanisms to address them.

FESE believes that it is crucial to recognise the scale and nature of the market data value chain when considering the price of market data. Many firms such as data redistributors, software providers, custodians, administrators, and other intermediaries play an important role in the value chain of market data. It is worth noting that these participants provide market data as part of the overall service to end-users. In order to evaluate the changes in overall costs of market data, it is important to look at the wider market data ecosystem. Market data can be distributed via these intermediaries to brokers, asset managers, and other market participants, and is only a small part of the market data used by market participants, which also includes news, alternative data, research, ratings, valuation data, reference data, etc. Indeed, as explained in Q11, EU regulated markets market data fees account for less than 10% of total sell-side market data spend and 0.5% of total buy-side market data spend. Since 2012 the market data revenues and the unit costs (calculated as the total joint revenue from trade execution and market data as a proportion of total value of trading in relevant securities) have remained stable overall.

FESE would like to underline that an analysis of market data and trading services in the EU does not provide evidence of market failure. We also believe that a holistic approach towards assessing market data is needed. The market structure in which market data is produced and consumed is complex, making it challenging to assess the role and impact of regulatory intervention. A number of entities (some of them even controlling the order flow) use market data provided by trading venues while competing with the trading venues for order flow at a much lower cost, due to the fact that they are using trading venues data. In this context, regulators and policymakers should be wary of enabling free-riding which, if left unchecked, could ultimately threaten the quality of the price formation process and unintentionally contribute towards creating an unlevel playing field in terms of competition.

Most importantly, FESE would note that any efforts in this area should only be embarked upon at a regional level to be able to achieve the desired outcome.

As a final point, in relation to the idea of a consolidated data feed, FESE would like to once again underline the issues and dangers of the potential creation of a pre-trade consolidated tape in the EU as outlined in our response to Q15.