MARKET DATA

FACT SHEET

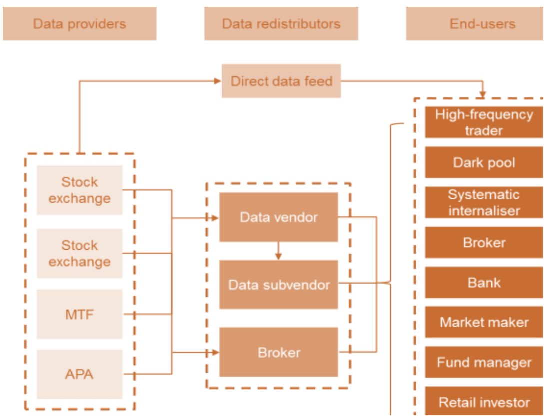
Revenue

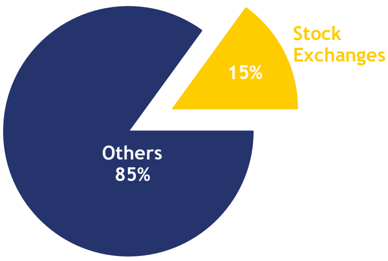
Exchanges' market data revenues grew annually by

1%

between 2012-2018.

Market Data Value Chain





85%

of total spending on market data is not linked to stock exchanges

Aggregate market data revenues from Exchanges amount to

€245 million

which represents **0.003%** of total assets under management, as a proportion of market capitalisation.

Source: Oxera. (2019). *The Design of Equity Trading Markets in Europe*. London

Introduction

- **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 data without trading activity.

- **Exchanges provide transparent markets.** Trading on exchange contributes to fairer and more efficient markets for investors and lower costs of capital for European companies.

- Exchange trading creates highly reliable **exchange market data which is publicly disseminated to the benefit of all market participants**, even those who are in **direct and systematic competition with exchanges. Such a transparency is unrivalled in financial markets.** Instead of conducting their own price formation, alternative Trading Venues use exchange data to execute order flow while competing with the data source for the same order flow.

- The **exchange price discovery process is governed by clear and strict rules** in a highly regulated environment and supported by high-quality and safe IT and infrastructure services, backed up by market surveillance systems to ensure market integrity. This ensures the production of 100% reliable high-quality exchange market data.

- **Exchange market data is reasonably priced overall**, while at the same time, **exchanges make market data available for free** to investors after a 15-minutes delay, in accordance with requirements.

- **In assessing the costs of market data**, it is critical that the overall market data value chain is taken into account. **Exchanges are frequently not "the last mile" of data distribution** since most users obtain data through data redistributors and other intermediaries.

- In taking forward the current assessment of market data costs, **regulators and policymakers should both consider the complete value chain and overall evolutions in capital markets**, notably the ongoing issues with market structure arising from the MiFID framework. Not doing so would pose a real threat to the **exchange price formation function of Exchanges.**

MARKET DATA

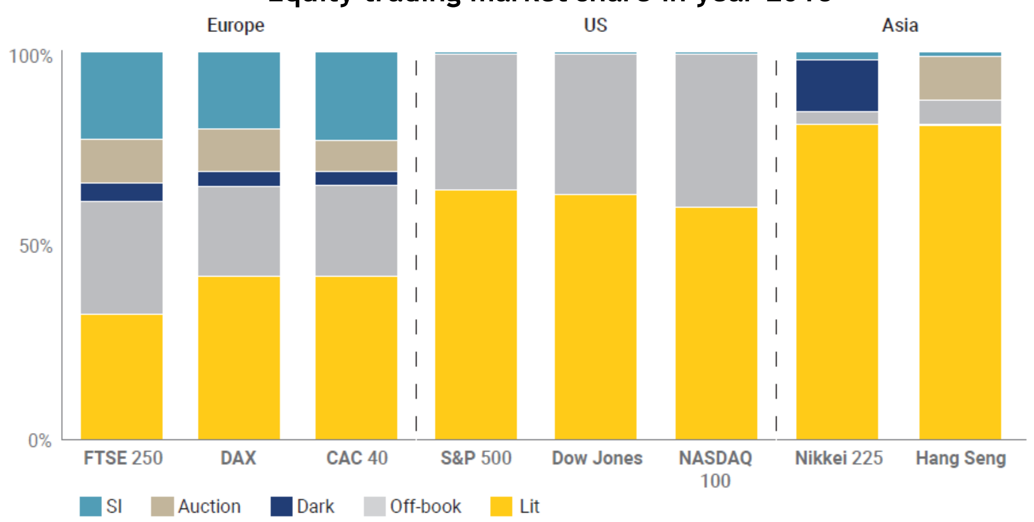
FACT SHEET

From market structure…

European policy makers must address the flaws in the equity market structure and recognise the value proposition of the price formation process:

1. Evidence (chart below) demonstrates that the MiFID framework has created fragmentation and complexity in the European market structure, especially when compared with the US and Asia, and an increase in dark trading, which goes against the G20 mandate on transparency.

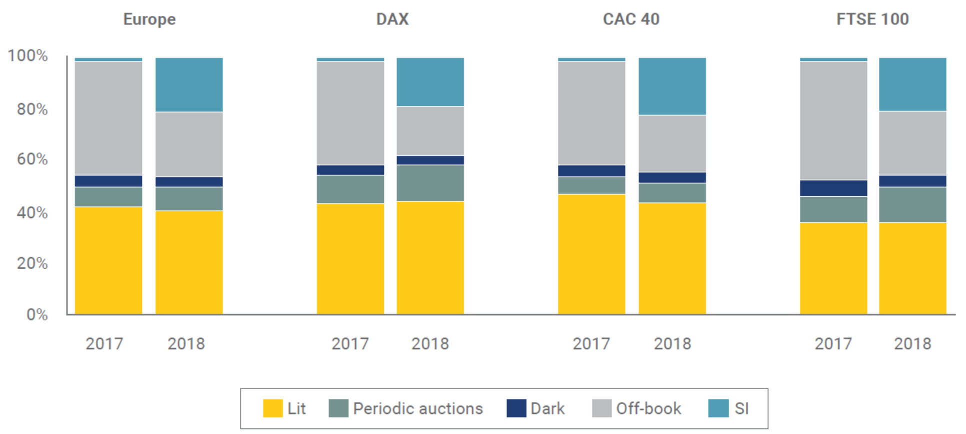
Equity trading market share in year 2018



Source: Fidessa Fragmentation Index
Note: "Lit" indicates trades executed on-book. "Off-Book" indicates trades executed OTC and reported to one of the reporting venues. "Dark" trades executed on a dark pool where the orders are not visible pre-trade. "SI" indicates trades executed by a Systematic Internaliser.

2. When comparing the year before and after the introduction of MiFID II/MiFIR, lit market share remained unchanged. However, the main shift from off-book (mostly conducted through broker crossing networks, now banned) went to SI platforms that allow banks and electronic market-making firms to deal directly with selected counterparties at their own risk. It is important that Regulators ascertain how orders are executed in SIs and whether orders are truly executed on a bilateral and risk basis, in order to implement the market structure foreseen by MIFID II.

European Equity Trading Value, years 2017 and 2018



Source: Oxera; Note: 'Lit' indicates trades executed on-book. 'Dark' indicates trades executed on a dark pool where the orders are not visible pre-trade. 'SI' indicates trades executed by an SI. 'Off-Book' indicates trades executed OTC and reported to one of the reporting venues.

3. These evolutions should be carefully scrutinised by regulators and policymakers, not least since the growth in off-exchange trading could ultimately threaten the quality of price formation and undermine the objective of the Capital Markets Union (CMU) to strengthen public capital markets. Therefore, any further changes to the market design of equity trading would need to ensure that the exchange price formation process is not adversely affected.

European policymakers and regulators can address these flaws by:

4. **Putting transparency and price formation first to the benefit of investors and listed companies**: MiFiD II has failed to deliver the promise of increased transparency. With less than 50% lit trading and over 170 equity and equity-like venues, Europe is the most fragmented and opaque market, far behind the US and Asia. The lessons from the financial crisis have not been learnt and Europe is on its way to re-establishing dealer market structures. Price formation in transparent, neutral, equally accessible markets is at risk.

5. **Prioritising liquidity on transparent venues:** liquidity attracts liquidity and delivers, in a transparent price formation process, the best outcome for all investors. We need to make sure that lit trading remains the norm rather than the exception, pooling liquidity and transparency in order to ensure systemic stability, fairness and integrity in a fair, neutral, open and well-regulated manner.

6. **Ensuring market structure is fit for purpose:** despite equity markets being significantly more transparent to the public than bonds or derivatives (thanks to exchanges), fragmentation and a lack of timeliness and quality in data reporting on alternative venues is impacting the equity market structure to the detriment of European investors. Investors should be able to analyse executions in a consistent manner with adequate flagging of executed trades using Market Model Typology (MMT) as already offered by regulated markets and MTFs. To achieve that, SIs, OTC and dark venues need to report consistently and reliably what they execute in order to give investors the ability to see the entire market and measure execution performance efficiently and meaningfully.

...to market data costs...

7. Exchanges are the creators of accurate and reliable prices for financial instruments (commonly used as reference prices by alternative trading venues), complying with regulatory requirements, to the benefit of investors, companies and economies. To do so, Exchanges bear the cost of sophisticated IT and compliance systems amongst other costs, to secure the most efficient outcome for investors and companies.

8. 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 an exchange deliver both trading and price formation. Market data is of extraordinary commercial value to market participants as well as third parties as a result of the high investments made by exchanges. Commercial appetite exists because those entities use data provided by exchanges on a non-discriminatory basis to create highly commercially rewarding business models.

9. The overall costs for market data by FESE Exchanges to the market are reasonable and stable: total market data revenues in the cash equity space grew on average with an annual real growth rate of 1%[i] between 2012-2018.

10. Exchanges account for a small part of a longer value chain which includes third parties such as data vendors and other distributors of data (analytics) services. If we consider the contribution of market data provided by European exchanges, it is estimated to represent around 15%[ii] of the total European spending on market data and analysis, which makes other parts of the value chain account for 85% of the total spending. Other players in the value chain do not necessarily pass on decreases in exchange fees to the end-users.

11. Exchanges recover their joint costs through a combination of market data fees and trade execution fees. From a public policy perspective[iii], the economic framework shows that current charging structures from exchanges for market data are unlikely to have detrimental effects on market outcomes for investors and end-users. Exchanges' market data revenues only represent 0.003% of total assets under management.

12. There is no market failure within the EU in the context of MiFID II provisions on 'reasonable commercial basis' or exchange market data availability. A further tightening of regulation at the expense of exchanges would not be justified and any potential negative side effects as regards EU market structure and data quality need to be avoided.

...and the consolidated tape.

13. While several market participants are calling for a real-time tape, the cost of providing it (e.g. infrastructure cost and maintenance cost) and its inherent latency will not serve a sensible purpose. The technical challenges of a prescriptive real-time consolidated tape under MiFID (e.g. latency, use-case, cost of building and maintaining the tape, etc) and the lack of a regulatory use case need addressing in order not to impose additional costs on the industry.

14. As shown in the graphs above, EU lit markets make up less than 50% of EU traded volumes. Data from lit markets is of high quality and therefore already consolidated by data vendors. More than 50% of EU equity markets seemingly remain unconsolidated due to data quality issues, a problem which needs to be solved prior to any consolidation effort. A Tape which is more than 50% unreliable will not benefit EU Capital markets.

15. First and foremost, the inconsistent trade reporting behaviours of systematic internalisers (SIs) and over-the-counter (OTC) execution venues must be fully considered in the consolidated tape debate. Guaranteeing high quality, reliable and consistent off-venue data including flagging of SI and OTC trades is key to delivering a CT that can be considered meaningful.

16. A “Tape of Record” covering overall liquidity - 100% coverage of transactions in the market (including SIs and OTC transactions) - would best meet the needs of users and the market whilst providing a less resource intensive option. A convincing use case is particularly important to ensure that the tape does not add costs (i.e. infrastructure and maintenance costs) without any clear benefits, which would make it a disproportionate intervention. Any tape should be aligned with the particularities of the EU market structure and provide a complete overview of volumes traded over the day.

17. A “Tape of Record” consists on the consolidation and dissemination, after markets close, of the details of all transactions that have taken place in EU markets during the trading session. These details include, among others: the hour, price and volume of each individual transaction. This information is very useful for investors as it allows them to analyse the performance of each instrument during the trading session and carry out compliance checks (e.g. execution quality). In addition, the fact that it would be delayed does away with the latency issues that would plague any real-time tape.

18. Moreover, a consolidated tape is not a silver bullet and will not, by itself, remedy current defects in the EU market structure which are detrimental to investors and capital raising by companies. Even an end-of-day “Tape of Record” should be based on good quality data. Without firstly improving off-venue data quality and consistency at the source (i.e. investment firms), an EU CTP will never be in a position to deliver data consistency and quality: the quality of output data generated by a CTP can only be as good as the quality of its input data.

19. In conclusion, the challenges of a prescriptive consolidated tape under MiFID (e.g. latency, use-case, cost of building and maintaining the tape, etc) need addressing to deliver a compelling tool. Otherwise, it will have unintended consequences (e.g. high cost for the industry without benefits and put Exchanges under even stronger pressure affecting the delivery of price formation for all EU market participants).

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[i] Oxera, “The Design of Equity Trading Markets in Europe” (London, 2019)
[ii] Oxera, “The Design of Equity Trading Markets in Europe” (London, 2019)
[iii] Oxera, “The Design of Equity Trading Markets in Europe” (London, 2019)