
Market data

An economic analysis

Prepared for FISD Webinar:
What does 'being reasonable' mean?

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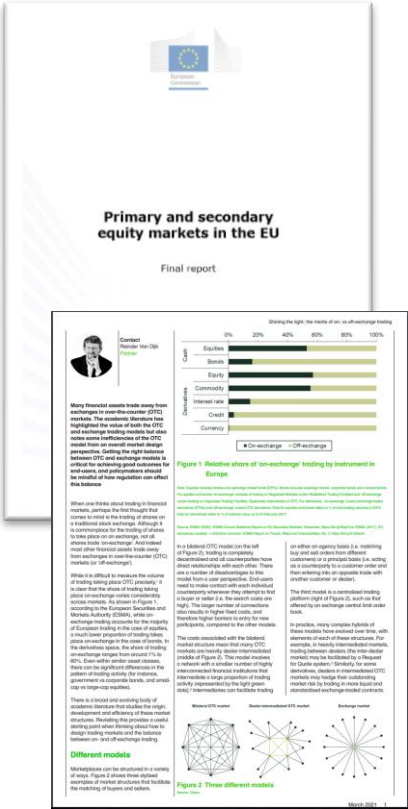
22 April 2021

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Overview

- Economic characteristics of market data
- Reasonable Commercial Terms
- Data on market data—key metrics
- Concluding remarks

Oxera has advised financial market infrastructure providers, market participants, trade associations such as AFME, EFAMA and FESE, and regulatory authorities in Europe and beyond, including in Australia, Brazil, Malaysia and Singapore.



Recent publications:

Primary and secondary equity markets in the EU, Prepared for the European Commission, November 2020

<https://www.oxera.com/wp-content/uploads/2020/11/Oxera-study-Primary-and-Secondary-Markets-in-the-EU-Final-Report-EN-1.pdf>

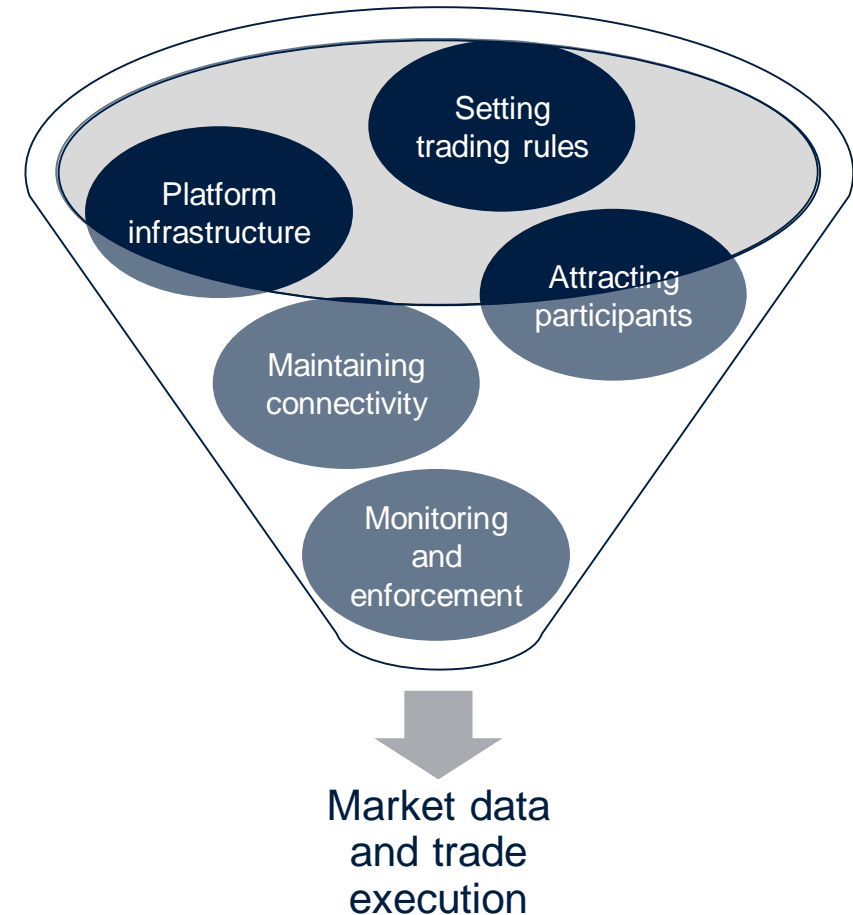
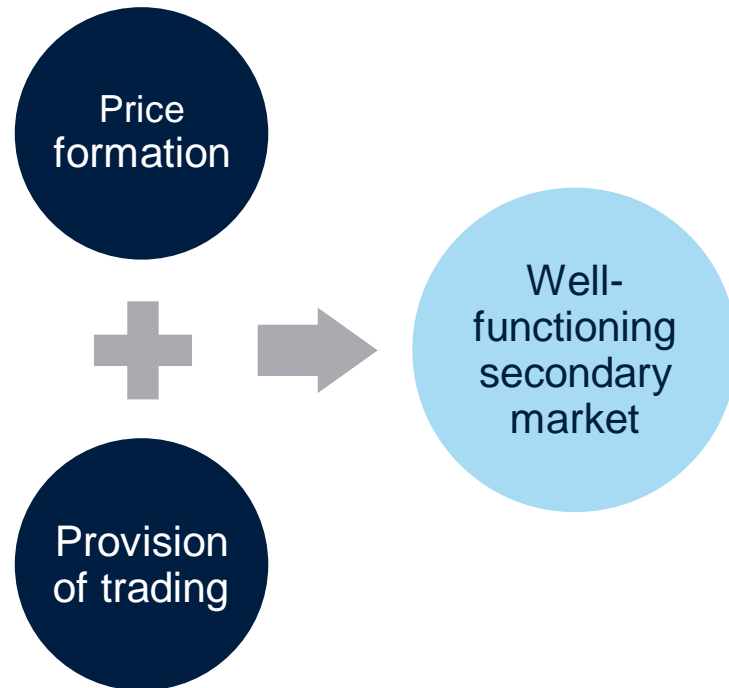
Shining the light: the merits of on vs off exchange trading, April 2021

<https://www.oxera.com/insights/agenda/articles/shining-the-light-the-merits-of-on-vs-off-exchange-trading/>

Economic characteristics—market data (i)

Price formation and trade execution as joint products

Trade execution and market data are joint products → efficient to generate revenues through fees from both products



Economic characteristics—market data (ii)

- different charging structures will result in distributional effects

Shifting costs from trade execution to market data means that brokerage firms with the highest data needs given trading activity end up paying more

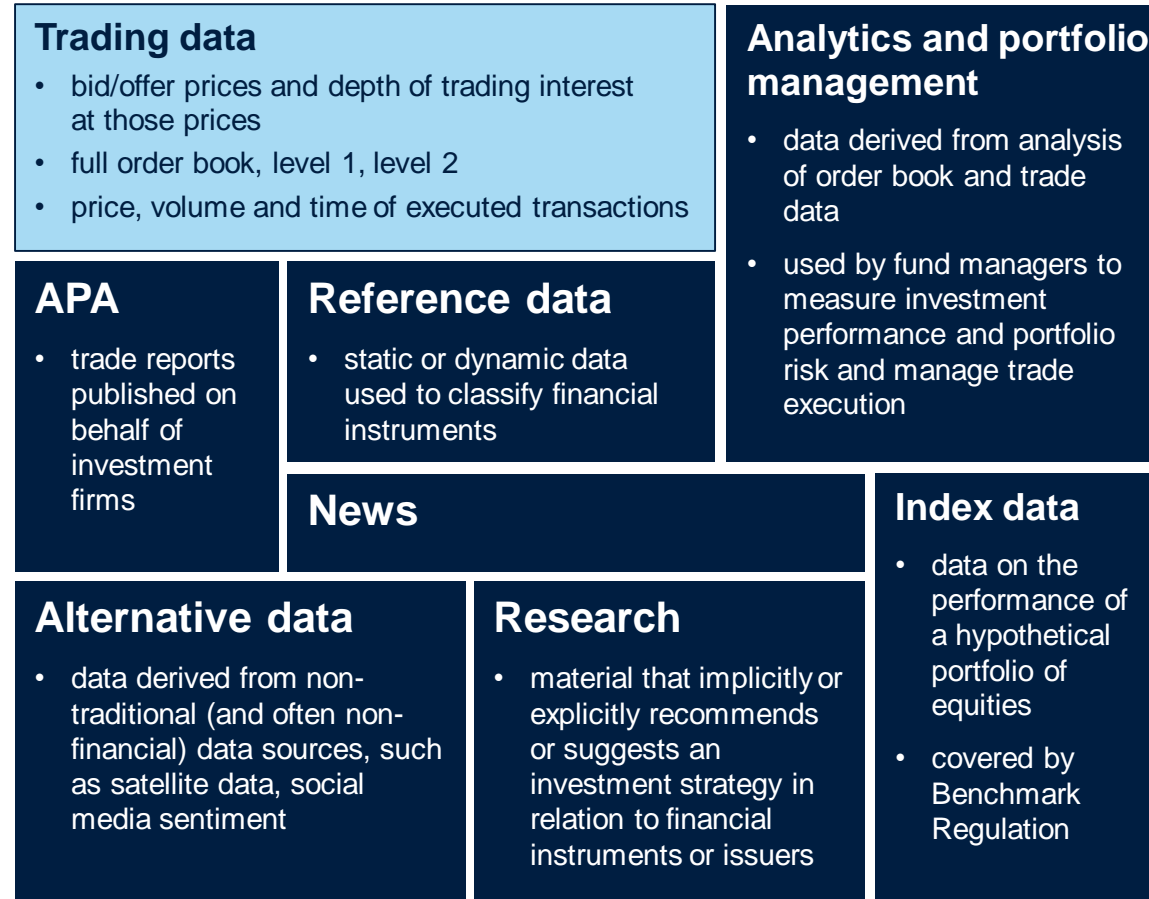


Shifting costs from market data to trade execution will tend to leave those paying for both market data and trade execution worse off

- economic characteristics: high fixed costs, economies of scale
 - value-based pricing can be efficient to recover fixed costs

Market data value chain

- different types of market data and providers
- different types of user
 - dark pool
 - systematic internaliser
 - broker
 - HFT
 - market maker
 - fund manager
 - retail investor
 - researcher



Overview

1 Economics of market data

2 Reasonable commercial terms

3 What's the data on market data?

4 Concluding remarks

Reasonable commercial terms

- **cost perspective**

- ESMA RTS: obligation to provide market data on the basis of cost
- economic principles of cost allocation
 - for example, see Office of Fair Trading (2003), 'Assessing Profitability in Competition Policy Analysis', Economic Discussion Paper prepared by Oxera, July

- **value assessment**

- **market functioning perspective**

Does the current practice of recovering cost affect the functioning of equity markets and end-users?

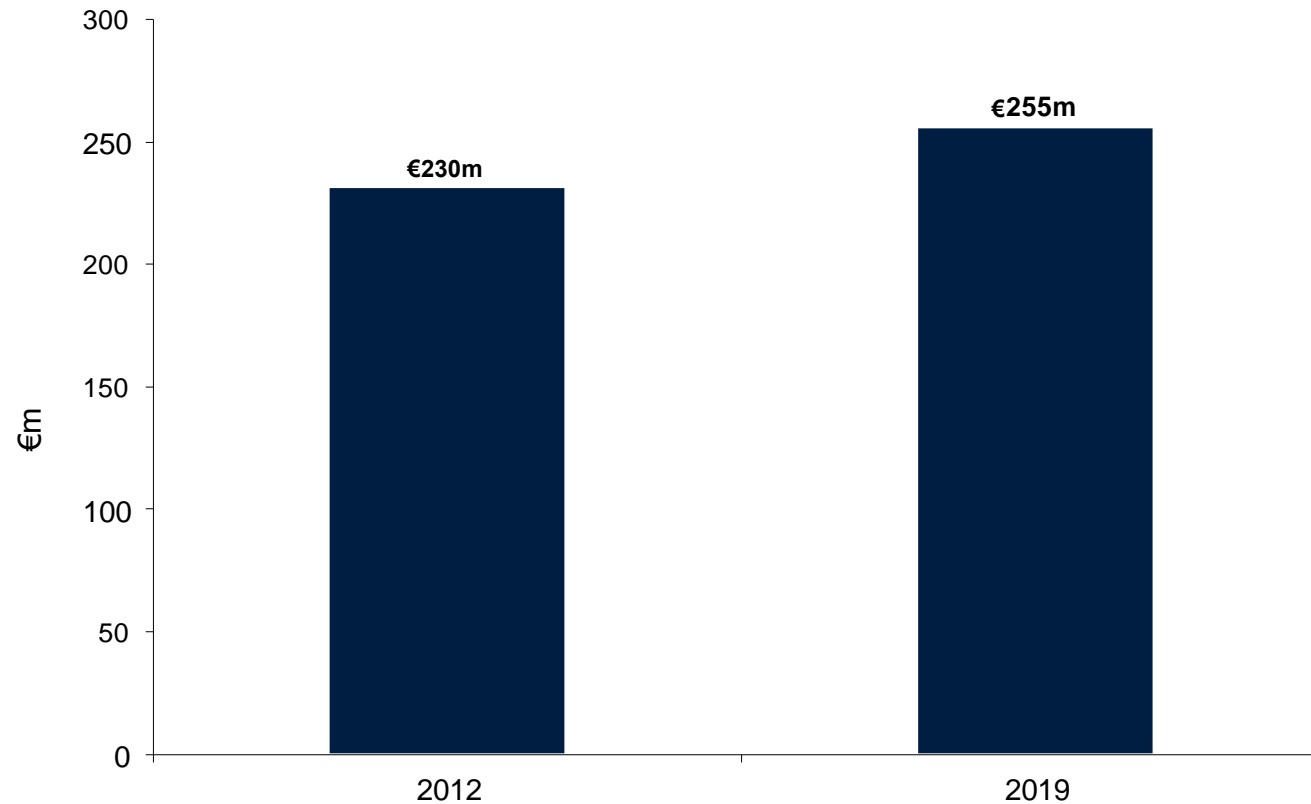
- impact on brokers, fund managers and end-users
- impact on alternative trading venues and new business models

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MiFID II/MiFIR market data revenues from exchanges in the Europe have remained fairly stable

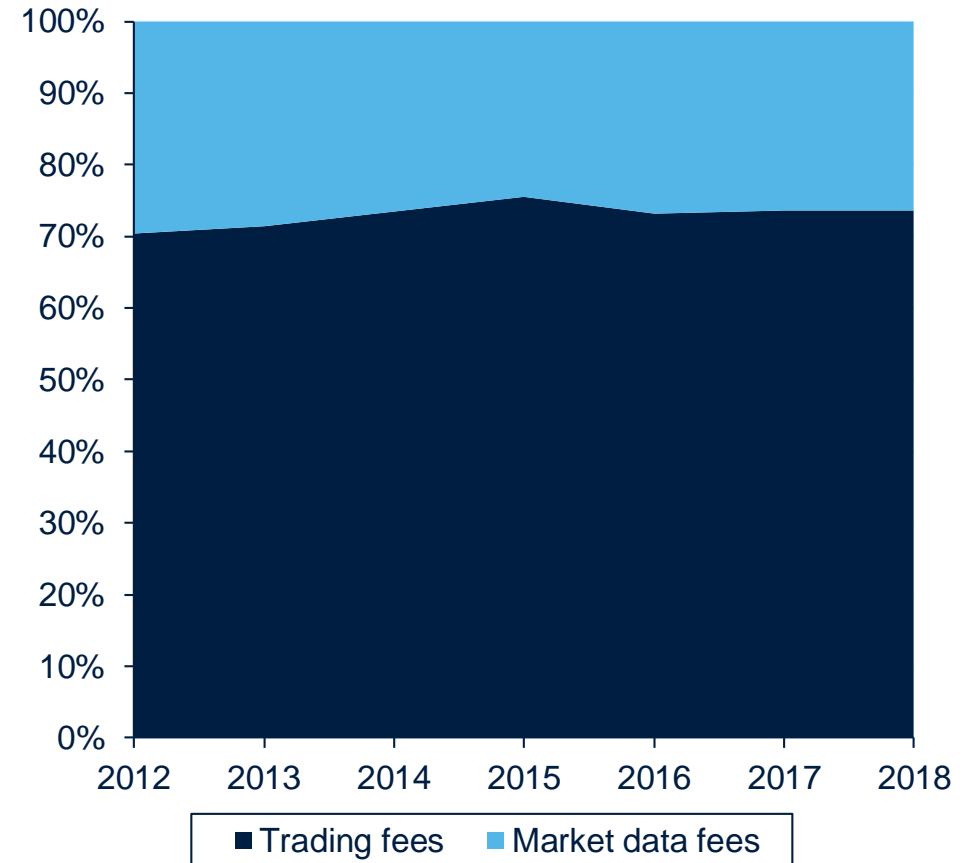
MiFID II/MiFIR market data revenues (in relation to equities) from exchanges (FESE members), 2012–19 (€m)



Source: Oxera, based on data from exchanges.

Trade execution and market data revenues

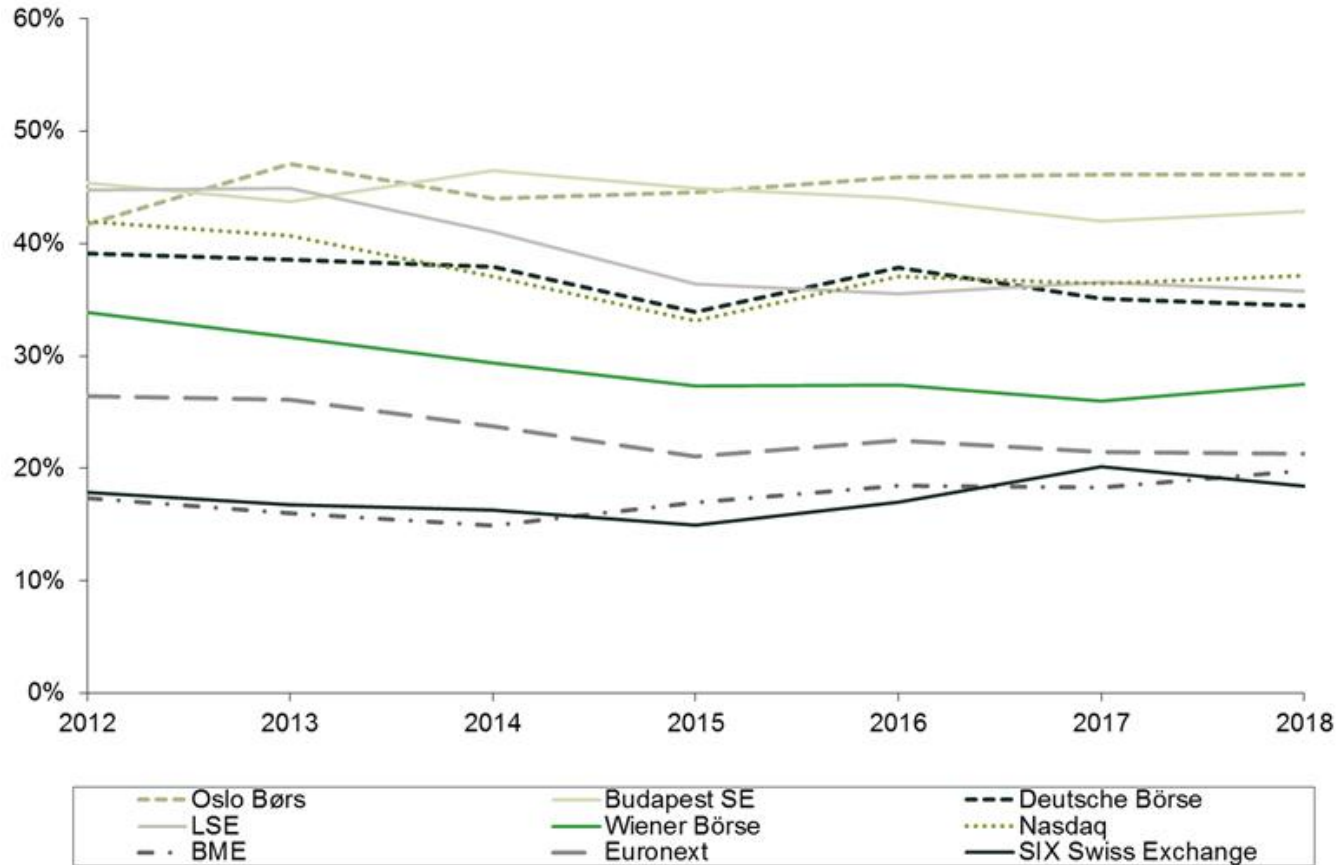
Market data revenues account for around 30% of combined exchanges' equity trading and market data revenues, 2012–18 (weighted average of exchanges, members of FESE)



Source: Oxera, based on data from exchanges.

Market data revenues

Proportion of revenues attributed to market data revenues



(1) Market data revenues as a share of total combined (trade and market data) revenues* have remained fairly stable, ranging from around 20% to 50% across exchanges in 2018 (31% on average)

(2) Combined costs of trade execution and market data to end-investors were generally lower in 2019 than in 2012

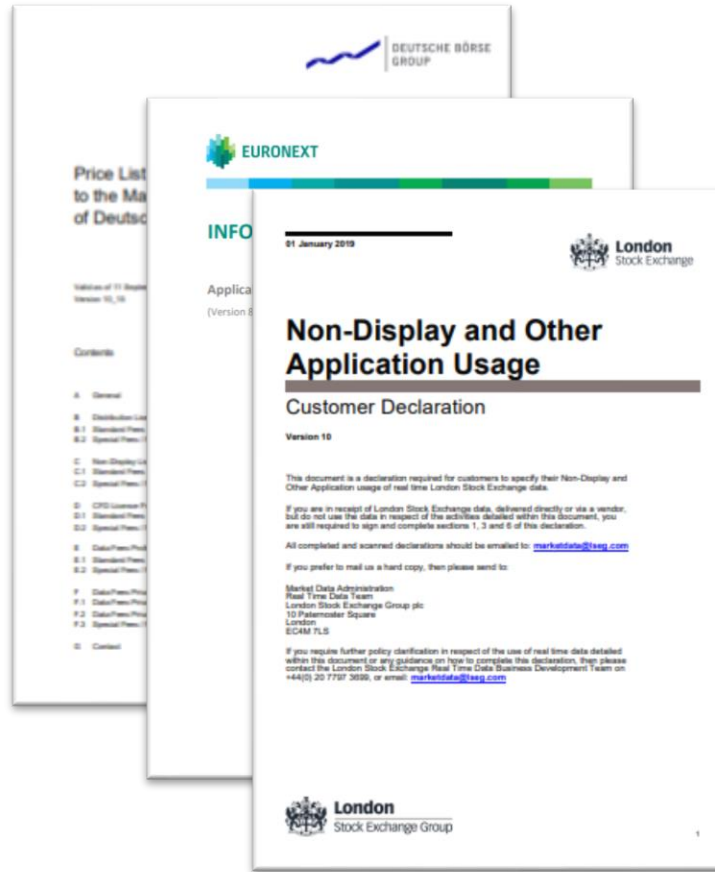
$$* \text{ Ratio} = \frac{\text{Revenue from market data}}{\text{Total joint revenue from trade execution and market data}}$$

Note: The ratios for BME, Nasdaq and Budapest SE are based on equity-only figures. Wiener Börse, Deutsche Börse and Euronext ratios are cash markets only. Remaining stock exchanges are calculated using total revenues. Ratios are all calculated using revenue attributable to matching products. Luxembourg Stock Exchange is excluded from this analysis due to the very limited share of equity trading in its business model. 2018 data for Oslo Børs is indicative. 2018 data for other exchanges is provisional and unaudited.

Source: Oxera analysis of data provided directly by participating stock exchanges (London Stock Exchange data taken from annual reports).

Market data

Changes in market landscape



- value chain; other types of data
- increase in data consumption
- differentiated pricing
- changes in fee schedules
- variation across exchanges

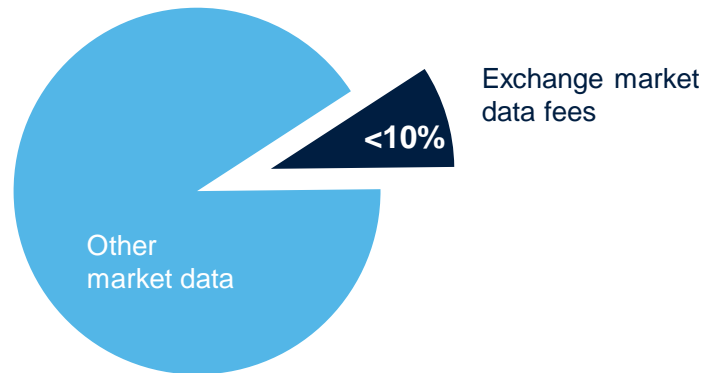
What's the data on market data?

- key metrics on actual market data spending in Europe
 - based on data on market data spending by sell-side and buy-side firms
 - this data was collected by market data consultancies from sell-side and buy-side firms in Europe
 - our sample consists of investment banks, brokerage firms, fund management firms and pension funds. All data is in relation to their activities in Europe

Sell-side spending on market data

Based on analysis of data from sell-side firms...

Exchange data fees account for less than 10% of total sell-side market data spend



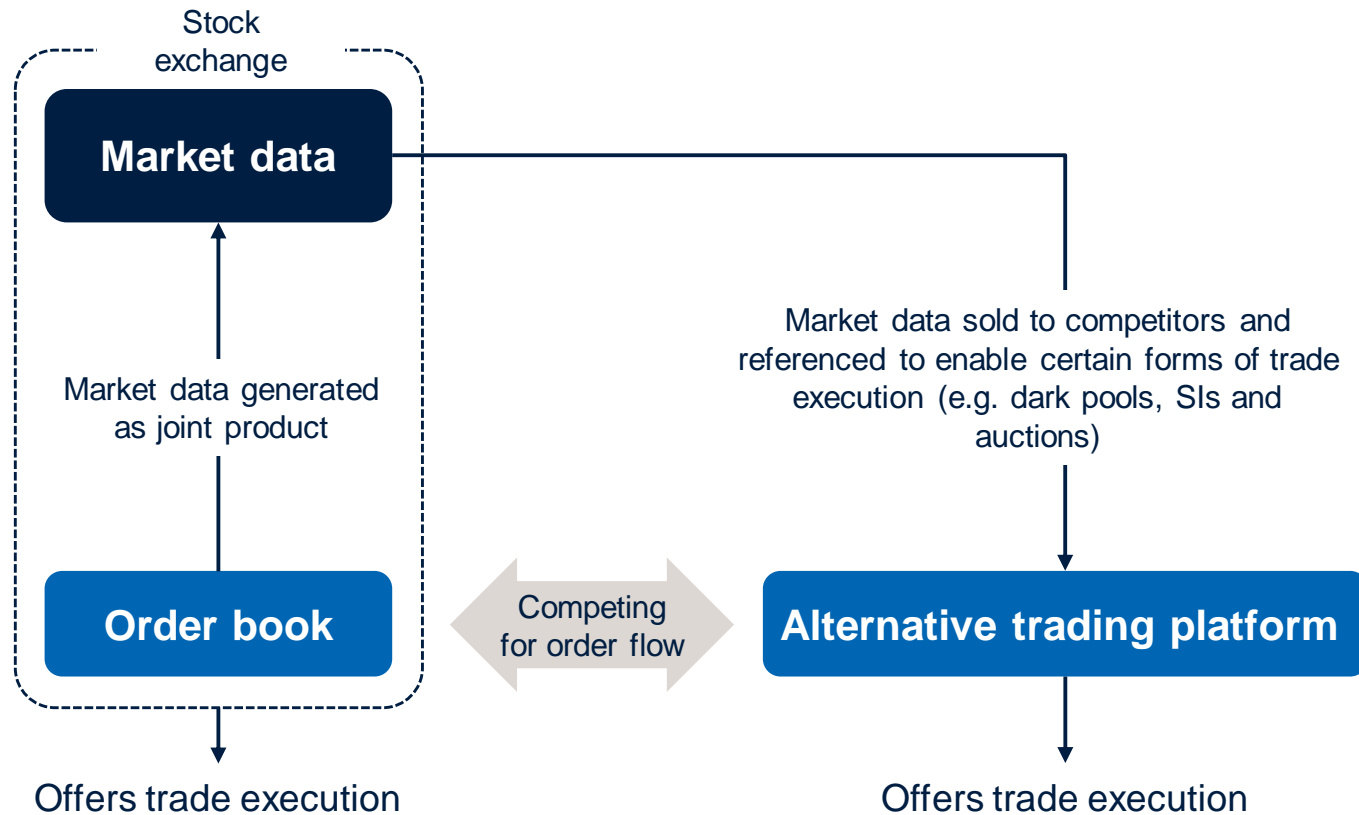
Exchange data fees as a proportion of fees charged by large brokers

Around 1%

Source: Oxera (2019) and further analysis of data provided by market data consultancies.

Margin squeeze test—alternative trading platforms

Conceptual approach



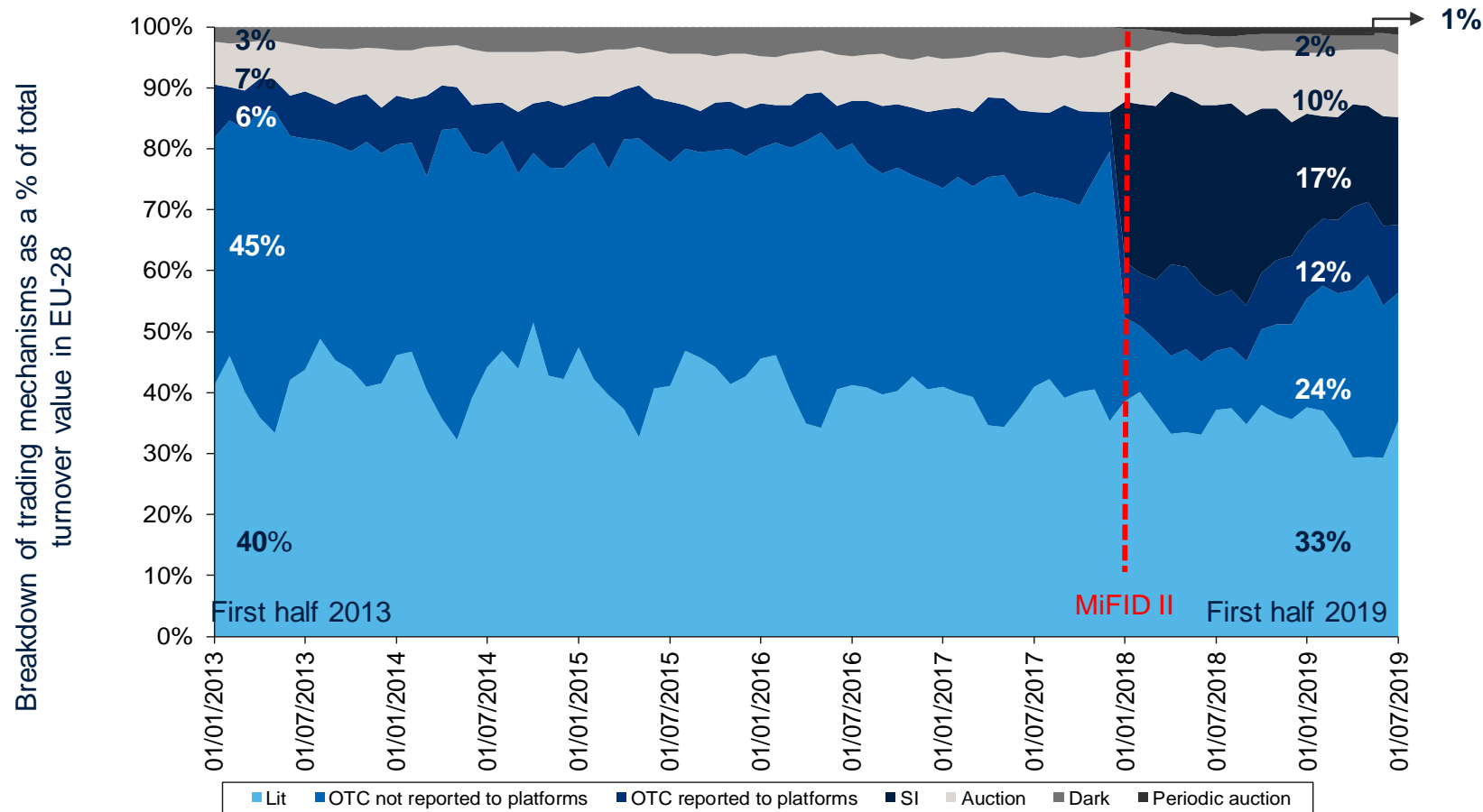
Margin squeeze test

Given the level of market data fees, can alternative trading platforms compete with the stock exchange?

- how does this input cost compare with trade execution revenues generated?
- given the market data fees levied, can alternative trading platforms earn a sufficient rate of return?

Overview of trading activities

Growing market share of alternative trading mechanisms since MiFID II



Source: Oxera analysis of Refinitiv Market Share Reporter data.

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Concluding remarks



Reasonable commercial terms

- regulation focuses on a cost-based approach
- value assessment
- impact on market functioning



Data from exchanges indicates:

- aggregate market data revenues were approximately €255m in 2019
- the share of total revenues that comes from market data services has been relatively stable over the past few years—on average around 30%. The ratio ranges between 20% and 50% across exchanges in Europe
- joint unit costs to end-investors were generally lower in 2018 than in 2012

Data from brokers and fund managers indicates:

- exchange fees account for <10% of total sell-side data spend, and 0.5% of total buy-side spend
- exchange data fees represent on average around 1% of revenues for large brokers
- exchange data fees generally represent between 0.001% and 0.015% of buy-side revenues



Next steps

- cost allocation exercise
- monitoring of impact on market functioning
 - value chain analysis
 - new business models

Further reading — market data



- Pricing of market data services, Feb 2014
<https://www.oxera.com/wp-content/uploads/2014/02/Pricing-of-market-data-services-3.pdf>
- The design of equity trading markets in Europe, March 2019
<https://www.oxera.com/publications/trading-markets-europe>
- Stock-ing up: the design of equity trading markets in Europe, March 2019
<https://www.oxera.com/agenda/stock-ing-up-the-design-of-equity-trading-markets-in-europe/>
- What's the data on market data? Taking stock of the debate, Feb 2020
<https://www.oxera.com/publications/trading-markets-europe>

Further reading — equity markets



- Monitoring prices, costs and volumes of trading and post-trading services, Prepared for the European Commission, May 2011 <https://www.oxera.com/wp-content/uploads/2018/03/Oxera-report-on-trading-and-post-trading-May-2011.pdf>
- The Oxera Trading and Post-trading Monitor 2013, Prepared for ASX, April 2013 <https://www.oxera.com/wp-content/uploads/2018/07/Trading-and-post-trading-monitor.pdf.pdf>
- Primary and secondary equity markets in the EU, Prepared for the European Commission, November 2020 <https://www.oxera.com/wp-content/uploads/2020/11/Oxera-study-Primary-and-Secondary-Markets-in-the-EU-Final-Report-EN-1.pdf>
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