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There's No Market in Market Data

Executive Summary

Market Structure Partners

EXECUTIVE SUMMARY

i INTRODUCTION: WHY THIS STUDY?

Market data is the lifeblood of financial markets.

It empowers the decisions of issuers and investors and gives them confidence in their investment decisions and valuations. Intermediaries that support issuers and investors must also consume, analyse and store data to make everyday decisions that optimise outcomes for their clients, develop new products and to adhere to regulatory requirements.

The European Union (EU) and the UK are each looking to reinforce their global competitiveness and resilience, post the UK's departure from the EU. Both sets of policymakers are striving to improve their capital markets to boost growth and innovation and deliver returns to investors, which includes initiatives in equity markets. Easy access to market data will play an important role in supporting these objectives.

This independent Study, commissioned by multiple industry associations*, presents a critical analysis of how equity market data businesses and fee structures have evolved at Europe's largest incumbent stock exchanges: Deutsche Börse, Euronext, London Stock Exchange Group (LSEG), Nasdaq Nordics and SIX Swiss Exchange Ltd, hereafter referred to as the "exchanges". Fundamentally, it questions the assumption that there even *can or should be* a competitive market for equity market data.

The issues raised go to the heart of the role of exchanges in competitive regulated markets, questioning whether they adequately serve the broader equity market community.

Meanwhile, EU/UK regulatory objectives to govern competition in trading and the sale of market data as set out in the Markets in Financial Instruments Directive I (MiFID I), and its successor MiFID II, remain unrealised and do not appear to have kept pace with the exchanges' evolving business models.

ii KEY THEMES RAISED IN THIS REPORT

Inexplicable price rises:

Since 2017, the cost of market data has surged far beyond inflation, particularly for certain participants and activities. This rise lacks a clear rationale: there are no separate costs for producing equity market data, the exchanges bear no cost for data distribution and the costs of running a trading platform are stable or decreasing.

Increasing reliance on market data revenues prevents growth:

Market data revenues are growing as a proportion of the exchanges' total equity market revenue despite market decline. If exchanges can rely on increasing market data revenues to supplement declines in trading revenues, it reduces the imperative to grow their trading markets.

Incumbent advantage:

Participants must still buy the exchanges' market data to do their everyday jobs and meet regulatory requirements. Yet, despite losing market share in trading, the exchanges' market data fees have never been adjusted down. This implies that competition in market data cannot be correlated to competition in trading.

No greater economies of scale:

New trading venues have profitably achieved the operation of lit markets on a similar scale to the exchanges without the same reliance on market data revenues to cover their costs. On a comparative scale, exchanges are earning multiples in data revenues for processing the same volumes as newer venues, which means they may be passing inefficiencies on to the market.

Revenue offset amidst decline:

Decreasing market share has been accompanied by a reduced customer base, due to on-going industry consolidation and automation of jobs. Yet exchanges have managed to sustain, and even increase, their market data revenues. This suggests fewer participants are now paying higher fees for more limited data.

Exchanges' priorities have changed:

Equity exchange services are now a minority business that contribute a fraction of the overall revenues at these exchanges. Exchanges have diversified into other higher margin asset classes or data businesses, including equity market data, which are now the fastest growing business segments. There is no evidence of innovation or significant investment in equity market infrastructure.

From insignificant to significant revenue:

Pre-MiFID I, exchanges were not subject to competition in trading and data was free or had a very modest charge. Now, trading and data have become two separate revenue streams. The amount exchanges are earning from trading data revenues is accelerating into hundreds of millions of euros/pounds per annum.

Substantial opportunity costs:

Inexplicable price rises and restrictive clauses relating to the use of equity market data, are hindering innovation and market growth with negative consequences for investors and issuers.

iii INCREASING RELIANCE ON MARKET DATA REVENUES TO OFFSET DECLINE

The introduction of MiFID I in 2007, followed by the financial crisis in 2008, created challenging conditions for exchanges that should have resulted in a correlated decline in both equity trading revenues and associated equity data revenues, which, combined make up total equity market revenue. These conditions include:

- Lost market share to new entrants
- General stagnation or decline in overall trading volumes
- A consolidating and shrinking customer base.

This means:

- Less activity to generate trading fees and a more limited and less comprehensive data set
- Fewer customers to purchase the data.

However, while there is a choice between trading venues, most market participants must still buy the incumbent exchanges' data. This resulted in exchanges creating increasingly separate businesses for data, and, since 2007, they have earned an estimated £5.67 billion/€6.7 billion from equity market data alone.

Furthermore, they appear increasingly reliant on market data revenue (MDR) to supplement total revenue as trading income declines. This means there is a growing disconnect between trading activity and MDR. EU exchanges have more recently been required to disclose the proportion that MDR contributes to total equity market revenue: the MDR%, **which** clearly illustrate this disconnect:

At **Deutsche Börse** between 2020 and 2023:

- Transacted value on equity markets reduced by 29%
- Total equity market revenue only declined by 12%.
- MDR increased and the MDR% rose from 21% to 31%.

At **Euronext** between 2020 and 2023:

- Transacted value on equity markets reduced by 17%.
- Total equity market revenue only declined by 0.5%.
- MDR increased and the MDR% rose from 11% to 19%.

At **Nasdaq Nordics** between 2021 and 2023:

- Transacted value on equity markets reduced by 26.9%,
- Total equity market revenue only declined by 8.8%.
- MDR increased and the MDR% rose from 19% to 23%.

At **Turquoise**, (LSEG's EU Subsidiary) between 2020 and 2022:

- Transacted value has reduced by 61%.
- MDR increased and the MDR% rose from 10.5% to 27%

In contrast, the MDR% at Eurex, an EU based derivatives exchange that faces little competition in trading, has remained stable at 6.8% between 2020 and 2023.

iv THE EXTRAORDINARY EVOLUTION OF COMPLEX FEE SCHEDULES 2017-2024

The growth of market data revenues for all exchanges appears to have been achieved through the application of increasingly complex fee schedules.

Between 2017 and 2024, the number of fee categories being applied for use of the same data has increased exponentially, for example:

- Deutsche Börse's price list and conditions for use of the same equity market data has expanded from 10 to 47 pages and Euronext's has increased from 19 to 46 pages.

These new fee categories comprise of additional provisions or restrictions on usage of data, which together have a cumulative effect on the total price of data for each customer:

- This starts with a differentiation between prices and conditions for display data (used by physical users at terminals) and non-display data (consumed by machines). Even though both the machine and the physical user consume the same data feed, a premium is applied for use of non-display data. This premium appears designed to offset potential revenue decline when customers move to automate jobs.
- Customers are then tiered:
    - Non-display data users are tiered according to the business activities of each user (such as whether it runs a competing trading venue, uses data to create its own index, or is purely acting as a broker).
    - Display fees are tiered according to the type of the individuals viewing the display data (classifying them as either professional or non-professional).
- Multiple additional fees are then applied, ranging from charging for the number of devices that might have access to the data, to the time of day the data is being used.
- A simple cost comparison reveals that under certain conditions:
    - It costs 96.8 times more in 2024 for a machine (non-display) to do what a single physical user (display) could do with the same LSEG data in 2017.
    - Similarly, it costs 84.3 times more at Euronext and 34.87 times more at Deutsche Börse.

  Analysis also shows that:
    - The exchanges' direct competitors have consistently been subjected to the highest price rises for use of non-display data (either as alternative trading platforms or as creators and distributors of proprietary indices)
    - Significant price increases have been followed by one-off random price drops for both professional and non-professional users of display data.
- Additionally, new 'Creative Works' or 'Derived Data' licences, such as for index creation, attach numerous conditions that each incur extra cost. Certain clauses also prevent customers from doing anything with the data that the exchanges have not thought of, irrespective of the customer making all the investment required to capitalise on its idea. This makes it hard for innovators to use data without taking on indeterminate financial risk.
- Redistribution clauses have also been applied with increasingly onerous restrictions and charges, even though it should be desirable for exchanges to distribute data as widely as possible, and the redistributor, not the exchanges, bears all the costs.

While the fee schedules are publicly available, the true cost of consuming data is not known until audits take place, typically several years later, when exchanges apply a subjective interpretation of their complex policies and tiering to each customer. There is no guarantee that customers are subject to the same interpretations of the contract.

V ANALYSING PRICE CHANGES (2017-2024) SHOWS INCREASES SURGING BEYOND INFLATION

These fees and contractual complexities mean there is no single, comparable charge for market data and every firm and user has a different cost profile, despite using the same data. It also suggests that the exchanges may lower prices for one set of customers or activities and offset the revenue loss by raising prices for other customers. While most fees are rising significantly, some customers are having a worse experience than others.

Therefore, this Study uses two analytical approaches to demonstrate fee changes.

In both approaches, the Study finds that most costs have risen far more than inflation, which was 24.28% across the EU and 24.12% in the UK for the same period.

1. **Product Analysis Approach:** This looks at how the cost of a commonly used non-display data product has evolved for different types of organisations, depending on the tiers and licence conditions applied to them by each exchange. Figure 1 shows significant price rises (those above inflation are highlighted in red) for most tiers with exchanges' competitors paying the highest prices. For example:
   - Firms operating competing trading platforms have experienced price rises of 481% at Deutsche Börse and 102% at Euronext.
   - Firms wishing to create their own proprietary index using exchange data have experienced an increase of 170% at Euronext and an increase of 146% at LSEG.

Figure 1: **Product-Based Analysis of Fee Changes 2017 -2024 For Use of The Same Non-Display Data Depending on Type of Organisation and Licence Conditions**

		% Product Specific Price Changes for Non-Display Data (2017–2024)		
Main Licence Categories/ Conditions Applied to Use of the Same Data	**Sub-Categories: Including Index Creation & Redistribution Licence? ***	**Deutsche Börse** Frankfurt/Xetra® (2017) Xetra® Core (2024)	**Euronext** Continental Cash (Consolidated Pack)	**LSE** UK
Firms operating a competing trading platform	X	+481%	+102%	+14%
	✓	+225%	+142%	+69%
Firms operating as a broker or principal (but not both)	X	+132%	+83%	+14%
	✓	+109%	+135%	+92%
Firms not operating in any of the above categories i.e. index creators and distributors	✓	+97%	+170%	+146%

* *Each exchange has its own term for index creation and redistribution: Deutsche Börse used "Non-Display Licence Fee External Distribution" (2017) and "Index Calculation" (2024), Euronext used "Index Creation for Redistribution" (2017) and "Index Creation" (2024) and LSEG used "Calculation and distribution of Indices/Benchmarks licence".*

2. **Avatar (hypothetical organisation) Analysis Approach:** This uses an avatar, based on the characteristics of several large European retail brokers, to illustrate the overall cost experience of a retail broker using the same product as in the Product Analysis for different activities. This examines the use of both display and non-display data and factors in the tiers that the broker may fall under for non-display data, as well as the different costs for internal and external use (for retail customers) of display data.

   Figure 2 shows the disparity of all the fees that the organisation experiences, and must continually track, for both display and non-display use of the same data. These differences appear to have no logical explanation and show how increases in one fee category may be used to offset decreases in another:

   - the price of using non-display data has risen more than display data in most cases.
   - the price for non-professional display data, used by retail investors, has increased by 151% at LSEG and 75% at Euronext, whilst Deutsche Börse dropped the price of its non-professional display data by 67.3% (but significantly increased non-display costs by 480.7%).
   - the price of using professional display data increased only marginally at Deutsche Börse and LSEG but at Euronext it rose by 42.53%.

Figure 2: **Real Cost Impact of Fee Schedule Changes on Brokers 2017-2024**

	Assuming headcount and end users remain the same...		
	Display - Professional	**Display – Non-Professional**	**Non-Display**
Deutsche Börse	+5.35%	-67.3%*	+480.7%
Euronext	+42.3%	+75.0%	+284.4%
LSEG	+9.3%	+151.2%	+70.6%

* *By 2024, Deutsche Börse's Level 1 display fees for non-professional traders for Xetra® Core dropped by 67%, reducing costs related to data being consumed by retail investors. For this reason, a more detailed breakdown of changes in cost is provided.*

vi NO CLEAR OR RATIONAL EXPLANATION FOR THESE PRICE INCREASES...

The Study explored possible arguments, or justifications, by the exchanges for the rises but could not substantiate them.

- **Costs of production:** There are no specific costs for 'producing' data. The costs relating to how data is used and disseminated are undertaken by third parties. The costs of running a trading platform, including software, hardware, data centre costs, cyber security measures and power are declining, or only rising in line with inflation.

- **No evidence of investment:** The exchanges' accounts show no significant relevant expenditure or research and development on equity markets. Additionally, they have run the same trading technology for more than a decade and an increasing number of outages at several exchanges could suggest possible underinvestment. Strategic partnerships and/or mergers and acquisitions by exchanges should also be generating further cost efficiencies.

- **Investment required for low latency connectivity:** This specialist option is only required for a small subset of market participants whom the exchanges rely on for providing liquidity and who already pay a separate connectivity fee, which generates revenue that can be used to cover costs. Costs for producing this should not be bundled with the cost for the typical connectivity required by most consumers.

- **Economies of scale:** The exchanges do not have greater economies of scale than other venues. For example, Cboe, a competing trading venue with similar lit market volumes and market share, has become profitable without the same ability to charge for market data. If the cost of market data was correlated to market share, this Study finds that, due to the benefit of their incumbency, exchanges could have generated up to £4.93bn / €5.83bn in surplus revenue from market data fees since 2008 or could be earning up to 7.64 times more than Cboe is, for processing similar volumes and market share.

- **Other arguments:** Suggestions by exchanges that the cost of market data is a small percentage of the overall costs incurred by intermediaries or that exchanges play a greater role in price formation than other trading venues, are neither proven to be true nor a justification to raise prices above inflation.

vii ...INSTEAD, SIGNIFICANT OPPORTUNITY COSTS ARE ARISING WHILST EXCHANGES FOCUS ELSEWHERE

Not only is the market bearing the tangible costs that have already been identified but it is also subject to significant intangible, opportunity costs, which include:

- reduced innovation,
- efficiencies not being passed on to the market and fees that seem designed to reach into customer expenditure on efficiencies,
- restricted dissemination of data and obfuscation of total market liquidity, and
- reduced motivation for exchanges to grow the total market because they can rely on increasing data revenues to offset overall income decline.

Meanwhile, exchanges are diversifying into other businesses so that equities increasingly contribute less to their overall revenues. At the most extreme, equities now account for only 3% of overall turnover at LSEG and Deutsche Börse.

viii CONCLUSIONS

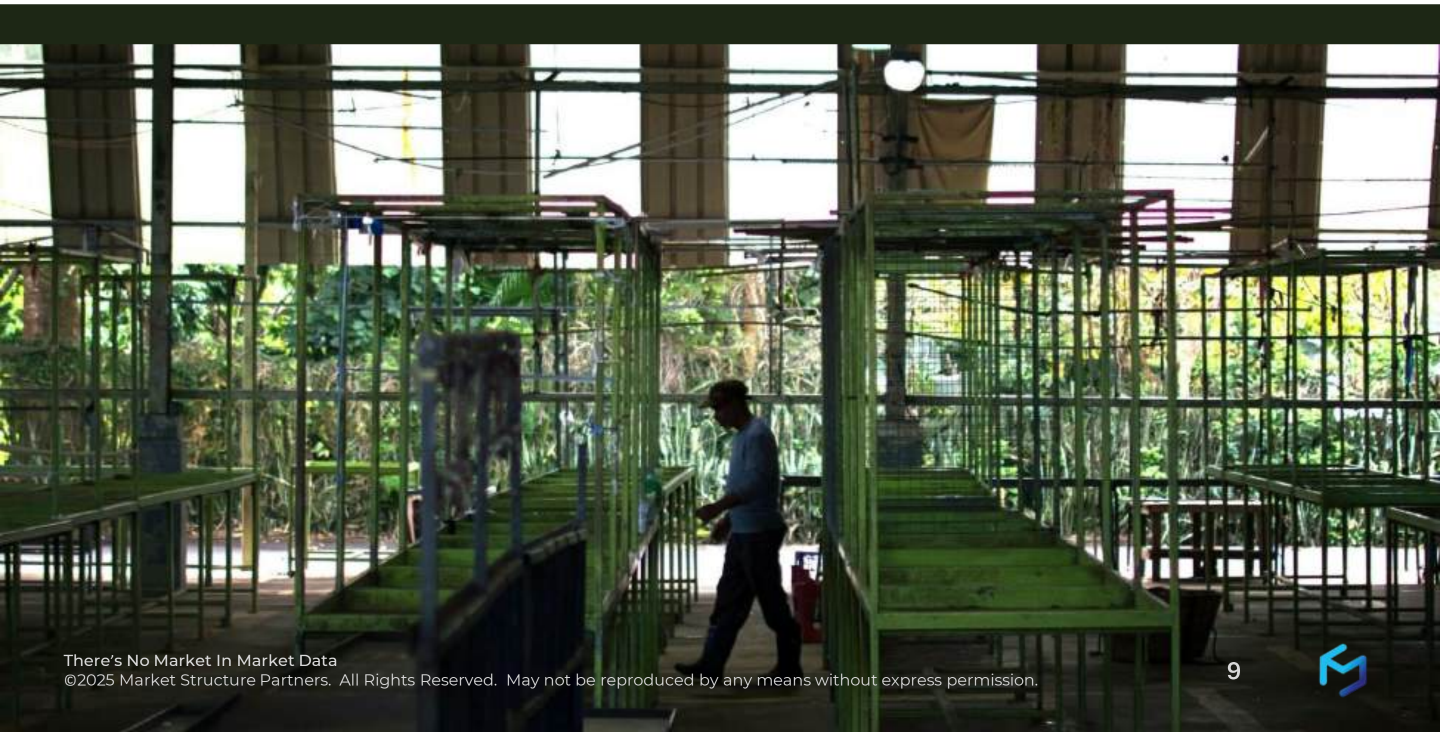
There is no market in market data, and regulators should challenge the assumption that there even should be.

A competitive trading model that allows data sales to be separated from the trading activity it underpins results in excessive prices and restrictive provisions that become a hindrance to growth in equity capital markets with negative consequences for issuers and investors:

- In a market where participants must buy data to do their jobs, and use of that data is enshrined in regulation, exchanges with the largest market share can become price makers. This may allow them to use their positions to impose fees that have no relation to their costs of production or market share.
- Complex pricing schedules appear designed to reach far into the business activities of customers to charge for activities for which the customers, not the exchanges bear the cost. All the while, the exchanges' own costs of production are stable or declining without any evidence of efficiencies being passed to the market.

This adds not only unnecessary tangible but also intangible costs that have a detrimental affect on the market.

- The ease with which exchanges appear able to increase market data revenue to supplement reduced trading income in adverse conditions suggests that equity market growth has been relegated to a secondary objective.
- Meanwhile, innovators and organisations that might compete with the exchanges, and may be more willing to invest to grow the equity market, are subject to exceptionally high data costs and/or usage restrictions, preventing the market from reaching its full potential.
- In line with their changing business interests, the role some of Europe's largest exchanges in the future growth of equity markets has diminished. While every trading venue should be free to diversify, regulatory reform is necessary to ensure that all trading venue license holders, meet concomitant expectations to support the key objective of growing the overall equity market.
- Removing separate pricing of market data will allow growth to come from other avenues and help investors across the world see all of Europe's liquidity.



ix RECOMMENDATIONS

Urgent action is required. There are two options in order of preference:

1. **Legislators should oblige all trading venues to treat data as by-product of the trading process it underpins.**

    - Organisations that directly consume data from an exchange may be charged a connectivity fee, related to connectivity costs of production only. The cost may differ for different types of connectivity and should be directly related to costs of producing that specific connectivity.
    - Once data has been delivered to the direct consumer, there should be no further charges applied by the exchange for its use or redistribution. These costs are borne by the user/redistributor, and the broadest possible use and dissemination should be of mutual benefit to the whole market.
    - This means there should be no charges by trading venues for use of data by consumers who receive that data from a third party.

    This option immediately aligns growth incentives for the entire market, encouraging all trading venues to invest in trading products and services, and to compete on a level playing field. Third party disseminators will then compete to distribute data based on the costs they incur to do so. This should increase competition and make the costs of distribution more transparent to the market.

    The option could also enable any participant or service provider to more easily consolidate data without the need for such comprehensive regulation on consolidation and oversight of a single consolidated tape provider.

2. **Policymakers and regulators must step up to safeguard markets and prevent behaviours that impede growth in line with more clearly defined objectives for trading venues.**

    Following this option is the most burdensome and may take years to achieve at significant cost to the very market they hope to grow:

    - Suitable remediation of trading venue behaviours that limit growth should be enforced given that trading venues operate under licences granted at the discretion, and under the supervisory remit, of regulators.
    - References or definitions in regulation that require participants to consume data from the largest market operators should be removed.
    - Alternatively, data required for regulatory uses should be provided for free.

Specific recommendations to ESMA's recent consultation on the reasonable cost of data and the collection of data in relation to data providers' costs of production are further addressed. However, the authors of this report do not believe these specific actions will go far enough to solve the problems identified in this report. In the absence of a mandate for data to be treated as a by-product of trading, the focus should be on defining the objectives and reasonable behaviours required of trading venues rather than tracking costs of production and trying to establish a "reasonable" cost of data.

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