

AMAFI POSITION PAPER

MiFID II REFIT: COST OF MARKET DATA AND CONSOLIDATED TAPE

As part of its work on MiFID II Refit (*see AMAFI / 19-85*), the French Association for financial market (AMAFI) decided to focus on specific workstreams which it considers central.

Among them is the issue of the cost of market data (pre-and post-trade data) which is a key concern for AMAFI members. Cost of market data together with the implementation of a consolidated tape (CT) for equity are one of the topics for which the European Commission, after consulting ESMA must present a report on to the European Parliament and the Council.

On 12 July 2019, ESMA issued a consultation Paper on these questions.

This document constitutes AMAFI general position that was expressed in its response to the consultation paper (*AMAFI / 19-84*).

1. Cost of pre-and post-trade data.

a. Analysis of MiFID II/MiFIR provisions for markets data

MiFID II contains provisions aiming at improving the quality and availability of market data and **reducing** the costs for market participants. In order to reduce costs MiFID II requires trading venues to make pre-trade and post-trade data available separately and to make them available on a reasonable commercial basis (RCB). In addition, 15 minutes after publication, market data must be freely available.

Market participants believe that so far **MiFID II has not yet delivered on its objective** to lower the prices of market data. The main reasons are listed below:

- Unit prices of market data have not decreased and in some cases have continued to rise in a small proportion.
- Trading venues have added several items to their pricing list in order to provide data separately and have transformed existing licences. For instance, many trading venues have introduced new market data fees to cover usage of their data by Systematic Internalisers or other Trading Venues.
- Market data agreements proposed by trading venues are becoming more and more complex and difficult to understand and to comply with. This translated into a significant increase in resources required to monitor the use of market data.
- Audit procedures imposed are also more and more costly.
- Trading venues are not encouraged to lower their prices because each trading venue, notably each Regulated Market, provides indispensable datasets that cannot be replaced.

Therefore, market participants face increased costs in the acquisition and management of data and the compliance to complex auditing procedures.

Most Trading Venues acknowledge that the revenue they make from market data services is at least stable or has just increased by low single digit percent every year. This paradoxical effect can be explained by the fact that most investment firms have implemented significant optimisation programs with a view to reduce their overall costs of market data. Those programs have led to a huge decrease of the number of front office users having access to real time market data from trading venues.

All in all, it appears that, in order to maintain the same level of revenues, trading venues tend to compensate the decrease in the number of users by increasing the costs for each client, which constitutes a **vicious circle for all market participants**.

The table below gives some examples of public information related to market data revenues of the main trading venues in the EU together with the number of users.

- According to Deutsche Borse Group Q4 and FY/2018 Preliminary Results, data subscriptions (number of users) went down 18% between Q4/17 and Q4/18 when related revenue remained stable over the same period.
- According to BME financial reports, BME revenue on Market Data & VAS increased from 59 M€ in 2016 to 66.7 M€ in 2018 i.e +13.1% over a period of 2 years.
- According to LSEG Financial reports, London Stock Exchange Group (including Borsa Italia) real time market data revenue increased +14% in a period of 3 years between 2015 (82.2 M€) and 2018 (94 M€) whereas number of accesses decreased by -16% over the same period of time (from 207k to 174k).

It must also be noted that ESMA's regulatory power only applies to regulated entities. Yet, the market structure and value chain in which market data is produced and consumed are complex and do not only relies on trading venues but also on **data vendors** which are not regulated for this type of activities. Across the market data value chain, trading venues are frequently not "the last mile" of data distribution since a considerable proportion of users obtain data through data redistributors. As an illustration, Euronext is not in control of fees billed to end-users in respect of the consumption of 74% of their market data as these are billed directly by data redistributors. Changes in prices faced by end-users are therefore not only due to trading venues, since data redistributors charge mark-ups and/or additional fees on trading venue market data charged by.

In assessing developments in fees for pre- and post-trade transparency data in light of the review of the RCB provisions, it is important that appropriate consideration be given to the share and relative weight of market data costs between those arising from trading venues and those coming from the rest of the market data value chain.

One initiative that would assist the market greatly in understanding the composition of the cost of data could be the imposition of a transparency obligation on data redistributors and in respect of their own fee schemes.

b. AMAFI's Proposals

AMAFI considers that the RCB concept has proved so far hard to monitor for the industry and for the authorities alike. Still, at that stage, AMAFI is not in favour of the adoption of intrusive approaches such as Long Run Incremental Cost + model or a revenue cap.

We believe that the objective should be to make the transparency requirements more efficient, so that transparency can be used to enforce the RCB obligation. It requires that:

- The pricing lists published by trading venues become easily comparable. It supposes that the fee schedules provided by the trading venues are harmonised and simplified.
- Market data agreements are drastically simplified and are valid for a sufficient period of time (at least one year) in order for data users to avoid deploying unnecessary resources.
- Audit procedures are simplified and harmonised.
- High level definitions (information/market data, derived data/other original created work/etcetera, display use, non-display use...) are harmonised.

AMAFI believes that it first belongs to trading venues, in relation with market participants, to put in place a set of best practices to achieve the objectives mentioned above.

Would it not be the case within a reasonable time period, AMAFI considers that ESMA should impose measures ensuring actual comparability and harmonisation of practices.

2. Consolidated tape for equity

In the equity space, AMAFI considers that the main issue in terms of the effectiveness of market transparency is the decrease of market data costs. There is no clear rationale and use case for a post trade CT given that data vendors cover around 90%-95% of EU equities trading.



About AMAFI

Association française des marchés financiers (AMAFI) is the trade organisation working at national, European and international levels to represent financial market participants in France. It acts on behalf of credit institutions, investment firms and trading and post-trade infrastructures, regardless of where they operate or where their clients or counterparties are located. AMAFI's members operate for their own account or for clients in different segments, particularly organised and over-the-counter markets for equities, fixed-income products and derivatives, including commodities. Nearly one-third of members are subsidiaries or branches of non-French institutions.