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Shining a light on opaque market data packages

Is there a need for greater transparency in market data pricing? A group of 24 trading institutions, including banks and asset managers, certainly think so. They have written to the Securities and Exchange Commission, requesting exchanges reveal their profit margins for market data products.

The opaque nature of market data pricing has been a constant bugbear for trading institutions. Over the past decade, the costs and fees associated with market data – be it for equities, fixed income or foreign exchange (FX) – have skyrocketed. A report by the Healthy Markets Association found that some market participants have seen the cost for equity market data products rise from $72,150 per month to $182,775 in five years – an increase of more than 150%.

At a time when margins and volumes are on the decline, all costs are rightly being closely examined, and participants are increasingly realising that individual institutions are paying vastly different amounts for the data they receive.

Large institutions with deep pockets have the ability to buy 'premium' data packages, and negotiate better deals depending on how much they agree to trade on a particular trading venue, while those with fewer financial resources or lower levels of trading activity are left by the wayside.

Unfortunately, these opaque pricing models, accompanied by unsustainable cost increases, have become a harsh reality of financial markets. This creates a multiple-tier market, compromises the ability of institutions with less financial resources to operate on an equal playing field, and makes it difficult for smaller players to trade competitively with larger institutions or measure whether they are getting value for money for the data they receive.

Perhaps this is why some are now taking increasingly drastic measures. Just last month, a class-action lawsuit against the largest US exchanges, which allegedly offered a two-tiered system giving high frequency traders an unfair advantage, was given the go-ahead.

In Europe, a number of leading exchanges have all raised their data prices in recent months. This has brought the level of frustration among participants to breaking-point. An example of the resulting fall-out includes a trading venue owned by a major bank, which will no longer trade

Spanish equities because of the “significant” increase in the fees charged by the Spanish stock exchange.

This is no less a concern with the FX market. I remain surprised at the continued lack of transparency surrounding market data. Many platform providers remain coy when questioned about market data. This comes despite the launch of the FX Global Code, which advocates greater transparency and equality in market practices in the FX market. Likewise, MiFID II, which has ushered in a number of sweeping changes across Europe, mandates clear, transparent pricing models for trading and research.

It is difficult to justify such pricing models when volumes have fallen significantly in recent years. It’s time to shine a light on these practices and bring them in line with the standards we expect in 2018. There is a clear desire from regulators and policymakers to put an end to opaque pricing structures. It’s time for trading venues and data providers to bring themselves in line with this principle, and make market data affordable and cost-effective for everyone.

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