

Press release: Equity markets in Europe - a call for transparency and quality data

Thursday, 21st March 2019

We welcome the report published by Oxera today *'The design of equity trading markets in Europe - An economic analysis of price formation and market data services'* which sheds light on market data and its value chain by providing an economic analysis of:

- **Price formation;**
- **Regulatory changes on equity trading;**
- **Value chain for market data services;**
- **Charging structures for market data.**

It is important to recognise that the price formation process is dynamic, with the market moving from one efficient price to another. As the price formation process of a stock exchange improves, so the value of its information (both pre-trade and post-trade) increases, as users become more confident in the quality of the information. This report highlights the fact that accurate prices from stock exchanges lead to the following benefits:

- **More efficient markets;**
- **Fairer markets;**
- **Lower cost of capital for businesses.**

Despite this, the level of market data fees charged by exchanges has been challenged by some. In reality, as this report demonstrates, market data is not overly expensive with exchange market data accounting for a very small part of investors' costs of holding and trading in stocks. The development of aggregate market data revenues (from approximately 230m EUR in 2012 to approximately 245m EUR in 2018) is equivalent to an annual real growth rate of a minimal 1%. While transparency and quality do come at a price, the costs are reasonable (data revenues of exchanges account for 10-15% of the total market data value chain) and have not increased significantly over time.

In parallel, there is an ongoing debate about the provision of market data services in the EU, particularly the value of a consolidated tape to re-aggregate the fragmented market space that has developed under MiFiD. However, services like these are already provided by market data vendors which offer effective consolidation solutions that cover up to 95% of lit equity trading.

In contrast, the fundamental problem lies with data quality and consistency from SIs, OTC trading and dark venues which is often very low. The simple introduction of a 'MIFID authorized' CTP will not resolve these underlying issues. Calls for these types of solutions very often overlook the links between market data services, trading and price formation, and the very design of equity trading market more generally. Transparency, non-discriminatory access, integrity and fairness are the core values of exchanges and that have

proven their value throughout history and in the recent financial crisis, whereas opacity ultimately leads to higher cost for end investors and higher refinancing cost for companies.

Petr Kobic, FESE President said *‘Exchanges stand for quality in price formation, ensuring efficiency, fairness, integrity and resilience of markets. While quality data as generated and supplied by exchanges comes at a reasonable cost, some other market players seem to build their business model on the high-quality data from exchanges while taking advantage of lower transparency requirements, threatening the price formation process in European markets.’*

Rainer Riess, FESE Director General, said *‘Market data is part of a large value chain and, as detailed in the Oxera report, there is no evidence to support the view that there are widespread increases in stock exchanges’ revenue for market data services. Costs have remained stable over the last five years. Moreover, quality data and trading are a joint product and an integral part of the price formation process. Policy makers need to be very mindful that any changes do not negatively affect the price formation process’*

Reinder van Dijk, partner at Oxera: *‘The price formation process is often not mentioned explicitly but it is a core function of stock exchanges and arguably, the whole purpose of financial markets is to incorporate information. It is not surprising that market data, as the outcome of the price formation process, is of value to different users. Our analysis indicates that the costs to end-investors are small and joint unit costs of trading and market data have generally come down in recent years.’*

Information for the Editor:

The Federation of European Securities Exchanges (FESE) represents 35 exchanges in equities, bonds, derivatives and commodities through 19 Full Members from 30 countries, as well as 1 Affiliate Member and 1 Observer Member.

At the end of February 2019, FESE members had 8,634 companies listed on their markets, of which 13% are foreign companies contributing towards the European integration and providing broad and liquid access to Europe’s capital markets. Many of our members also organise specialised markets that allow small and medium sized companies across Europe to access the capital markets; 1,323 companies were listed in these specialised markets/segments in equity, increasing choice for investors and issuers. Through their RM and MTF operations, FESE members are keen to support the European Commission’s objective of creating a Capital Markets Union.

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