

Blog Post – Monday 28th January 2019

Market data, the gift that keeps on giving

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I was very interested to read the recent announcement from a group of Wall Street heavyweights about the launch of MEMX, a new exchange designed to challenge the dominance of the New York Stock Exchange and Nasdaq. The stated intention of this industry collaboration, amongst other things, is to drive down the spiralling cost of data fees, the shared bugbear of brokers and traders alike and a complaint not confined to US market participants alone. Everywhere you look virtually all institutions, regardless of size, geographical location or asset class is battling to reduce costs and grab market share without compromising service quality or business effectiveness. So, despite the fact most financial firms are focussed on rationalising and streamlining their core business activities, it's quite something that bulge bracket players have decided to call time on data feed costs specifically and are taking drastic action in an effort to change the long established status quo.

The lifeblood

Data is, and always will be, the lifeblood of all trading firms. And it's no secret that many are turning to new technology to provide much needed cost control and at the same time drive innovation into the business. We all know that on-demand access to competitively priced, quality content, as evidenced by the likes of Spotify and Netflix is very definitely today's new black. A concept that is finally starting to permeate its way into the financial services arena. Freedom to choose, together with the ability to precisely package your data requirements at a price that suits your pocket sounds like it should be fairly straightforward but until now was virtually impossible to achieve. It's no wonder that many people today are thoroughly fed up with the restrictions, not to mention the costs, that have been imposed on them by a few dominant firms for a very long time.

We are already seeing first-hand how both large and small firms who create market data content are openly discussing the need to independently reach a wider global audience using smart "hooks" that enable their customers to consume data without compromising often highly complex licensing agreements. Whilst the underlying data content has a net asset value, content creators are also cognisant of the cost of "getting it out of the door" as the cost of data contribution is not insignificant and will eat into revenue margins if not managed effectively. It is also equally important to ensure that all content is easily 'consumable'. Making it 'sticky', means it will be less susceptible



to subscription cancellation. A good thing when one is in the business of selling data, a club with an ever increasing membership.

Not worth the effort?

Today the elephant in the room for those firms whose origins lay in either putting on and/or arranging trades, is the cold realisation that execution revenues are decreasing whilst the net asset value of market data is increasing. For some who are now making less money trading, in this ever increasingly regulated environment, the squeeze is sometimes deemed to be no longer worthy of the juice, unless the juice is market data...

But the fact of the matter is that one cannot exist without the other. Commerce activities where buyers and sellers do business is the generator of prices which led to the creation of market data. What we are now seeing are the principles of trading staking its claim to the data as the originator and primary content creator.

A game of survival

So while the stated objectives of MEMX are to level the competitive playing field, simplify processes, provide transparency and slash costs, with the best will in the world, these things won't happen overnight. Achieving these goals will be highly dependent on changing the mindsets of data vendors and the financial firms themselves, who are all slowly realising they must embrace new technologies and approaches if they are to have any chance of surviving this constantly changing and highly competitive business environment. However, I do believe we are seeing the start of a sea change in the new world order of market data that will revolutionise the industry. And my hard earned money is on the fact that without a radical overhaul of the existing commercial models and transforming the way data is provided, many firms including some of the biggest players in the business may fall by the way side because technology, not new exchanges will be the enabler.

An unstoppable train

Therefore before everyone gets over excited about the formation and goals of the MEMX, it's worth noting this initiative is nothing new. The industry on both sides of the Atlantic is awash with a litany of new exchange successes and failures. These include BATS, Turquoise and Direct Edge to name a few. Most either immediately flourished but then withered and died on the vine or were very quickly swallowed up by the very exchanges they were meant to compete against. In what appears to be an effort to justify the continuing high cost of data, the World Federation of Exchanges (WFE) has called



foul on MEMEX, but in my opinion, it's far too late. The unstoppable train has already left the station and it will be very interesting to see how this story unfolds and what the outcome for the industry as a whole will be. Place your bets please.

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