



IOSCO Report on Market Data on Secondary Equity Markets. International Bulletin, June 2022.

In April 2022, IOSCO published a report outlining some issues and considerations for regulators regarding market data and their dissemination.

The report stresses that these data are an essential element for price discovery and for the promotion of fair and efficient markets. Specifically, they allow market participants to identify liquidity, make informed decisions on order routing and investment and comply with regulatory requirements, such as best execution.

Market data and access to them are intrinsically linked to secondary market issues of interest to IOSCO, such as investor protection and market integrity.

Transparency, defined as the degree to which pre-trade and post-trade information is made publicly available, is central to both the fairness and efficiency of a market and, in particular, to its liquidity and quality of price formation, which strengthens users' confidence that they will trade at fair prices. This affects topics such as market data required for trading in current markets (i.e. what is considered "core" market data for use by investors and market participants); fair, equitable and timely access to market data; interchangeability of data; fees for market data and how these are determined and charged to subscribers; the need for and extent of data consolidation; and how other products or services that relate to accessing market data are provided by trading venues or other regulated data providers (RDPs) and the fees associated with such products and services.

As secondary markets have evolved, data needs have changed and market participants in many jurisdictions have raised concerns about costs, accessibility, equity and the consolidation of market data. The report *Market Data in the Secondary Equity Markets*, published in December 2020 by IOSCO, analysed these problems and sought comments on and possible solutions to some of the issues raised, such as what kind of market data are needed, their possible uses, how to ensure fair, equitable and timely access to them, and aspects relating to data consolidation.

In this final report, IOSCO provides a summary of the comments received from different market participants and offers three considerations in relation to the regulation of market data provided by trading venues or OTC.

The document includes the following aspects: i) definition of core market data, ii) uses of market data, iii) access to market data, iv) data consolidation, v) other comments received and vi) conclusions and considerations for regulators.

The aspects analysed in the document are the following:

Definition of market data

The two main components of core market data are pre-trade data (i.e. information about orders or quotations or pre-transparency information) and post-trade data (i.e. information about executions, or post-transparency information). The report notes that regulatory requirements for market data vary from one jurisdiction to another and that market innovations require increasingly comprehensive data. It indicates that there does not

seem to be a consensus on what is considered “core market data” and data needs differ between different market participants. For example, delayed data, top-of-book data (those with a better price), and post-trade data are generally sufficient for a retail user, while institutional investors require more granular data such as different price levels or delivery of data in real time with minimal latency.

Uses of market data

Market participants use market data in different ways depending on their needs. This determines the type of data they require and the means of access. For example, pre-trade data are used for trading decisions and order routing, while low-latency pre- and post-trade data are needed for trading, risk management and compliance.

Delayed data may be sufficient as “indicative” data (for example, data from one trading venue can be used to assess all trading venues trading the same security) for some participants, whereas others, such as market makers, may require more granular and low latency real-time data.

Access to market data

Fair, equitable and timely access

Fair, equitable and timely access to data prevents any participant from enjoying a competitive advantage while promoting confidence in markets, competitiveness and competition.

The report notes that the existence of a single type of product or data package can increase the cost for users who only need one type of data. The need for sufficient and scalable infrastructures in the trading venues is pointed out, as well as clear, understandable and supervised data licensing contracts.

Fees and bundling policies are relevant aspects mentioned and it is pointed out that the high costs of data can make access difficult for small operators (such as brokers or investment firms). It is also indicated that some data vendors may not be subject to regulation, which creates a situation of competitive disadvantage. Some execution venues, such as systematic internalisers in the EU, do not have the same obligations to provide fair and non-discriminatory access to market data as other execution venues.

The existence of users with different needs could justify the existence of data packages with different prices. It is also noted that data fragmentation by trading venues could increase fees. Lastly, there is a need to promote competition between trading venues in order to encourage innovation and reduce costs.

Interoperability

In some jurisdictions the market data of one execution venue are not interchangeable with those of another venue in relation to the same or similar financial instruments. While prices at multiple execution venues where the instrument is traded will generally reflect prevailing market conditions, there may be variations in price depending on the trading activity at each execution venue. When an instrument is available on different markets, to the extent that they can provide comparable data, it is important for users to be able to access data from the various execution venues to compare conditions and deliver the best results for investors. It is also noted that in some cases the use of a subset of certain data, i.e. indicative data, may be sufficient for certain purposes.

Fees associated with market data

Trading venues and some regulated data providers offer data for a fee based on the type of products, means of delivery or access, or type of use. In some markets such fees are regulated in order to ensure that they are reasonable and non-discriminatory as well as to avoid barriers to access.

However, not all trading venues guarantee fair, equitable and timely access to data and fees may restrict access to some types of data, such as low latency connections. The report points out the need to adjust rates to production costs and take into consideration the entire value chain (data redistributors, software providers, custodians and administrators, among others).

It is noted that the fragmentation of the market with the appearance of new trading venues may have produced an increase in rates. The concentration of liquidity in a reference market can lead to the data of other secondary trading venues not being interchangeable, creating a dominant position in the reference markets, which can increase fees.

Finally, it is mentioned that connectivity and port fees are becoming an increasingly important additional source of income for trading venues, so their pricing should be based on the same principles as for market data.

Data consolidation

Data consolidation addresses the liquidity fragmentation that occurs when the same securities may be traded on different venues.

The existence of consolidated data can facilitate the analysis and compliance with the principle of best execution through access to price data in all trading venues. However, its usefulness may be limited for market makers, who require more granular data as well as low-latency direct data sources.

Other comments received

The report also points out that the increase in access and use costs can limit innovation and the appearance of new products, causing the loss of relevance of less significant markets or products. Other obstacles mentioned were the burden associated with the auditing requirements imposed by the markets as well as the existing practices and conditions in data licensing contracts.

Conclusions and considerations for regulators

Regulators involvement in market data oversight is in some cases limited and varies from one jurisdiction to another. In addition, the responses to the consultation indicated that the way of addressing issues and the scope of participation in regulation may differ, with diametrically opposed positions on some aspects. However, the report offers regulators three considerations in relation to the market data:

1. Pre-trade data (i.e. information about orders or quotations) and post-trade data (i.e. information about executions) are important in promoting transparency of trading. It is important to consider the elements of market data that are necessary to facilitate the ability of all market participants to effectively and fairly participate in secondary markets and to make informed investment, order routing and trading decisions. The needs of market participants may differ depending on factors such as, participants' business model, market structure in the particular jurisdiction, or the type of participants in the market (retail, institutional, proprietary).

2. Fair access to market data is an important consideration in the provision of market data to market participants. Fair access may cover issues including market data pricing, connectivity terms and pricing, and contractual arrangements. Market data are not interchangeable in all cases, and where appropriate, helping to ensure fair access across different execution venues is an important consideration. In addition, access to free or delayed data may meet the needs of some participants.

3. Where appropriate, consolidation of data may improve access to market data and may, in some circumstances, be useful in helping to reduce costs of market data, identify liquidity and compare

execution quality in jurisdictions where there may be fragmented liquidity.

Useful links:

[Market Data in the Secondary Equity Markets. Current Issues and Considerations](#)

Market Data in the Secondary Equity Markets. Consultation Report

[IOSCO Objectives and Principles of Securities Regulation](#)