Data and Speed in the Evolving Financial Markets

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How are the Financial Markets Evolving?

- Nothing ever stays the same, including the markets.
  - Change either happens to you or through you.

- The major evolutionary changes:
  - Fragmentation of all markets – more and more places and ways to trade the same thing.
  - Technology, fewer and fewer trades involve human intervention.
  - Speed, from milli to micro to nano.

Not only have the processes changed, the economics have as well.
The Economic Evolution

- The compression of fees and spreads:
  - Brokerage commissions may soon be a thing of the past.
  - With the advent of high frequency traders (HFTs), bid-ask spreads are narrower than ever.

- The competition between trading venues:
  - Payments to the buy-side and sell-side prompted the SEC to announce a fee pilot program in 2018.
  - The access fees for trading venues kept shrinking until they barely covered the costs.

Which led to the next development…
Once execution and access were made too cheap to generate the required profit for the venues…

Everyone’s attention turned to market data.

- Various regulators had decreed that market data must be made available to the general public at a very low charge…
  - Known as SIP data in equities.
- But those regulations didn’t decree exactly how timely the low cost data had to be, so…
- The venues developed distinct speeds of delivery for market data, with distinctly different costs.
What is Market Data?

- Three distinct types of data:
  - Last sale, which is concrete, but already stale, and
  - Bid or offer, which should be current, consisting of…
    - A price, and
    - A size.
  - These two elements are called “core data” by the SEC.
  - Finally, depth-of-book – what’s behind the top price.

- We have to get this from all venues.
- We have to know how recent it is.
Who Owns Market Data?

- What makes this critical are the NMS Order Protection Rule and best execution.
- Do the trading parties or the venue own it?
- Today the courts have held that the venues own it.
  - They supply it to the public reporters, and
  - They charge consumers for more timely data.
- But the market participants own the order flow that creates the data.
- For certain algorithmic traders, only the most timely data is useful.
- These traders are pitted against the venues in a battle over data charges.
Venues have been changing data fees frequently, generally going in one direction – up.

For example, NYSE typical monthly high-speed data fees:

- 2010 - $5,400
- 2018 - $58,000

As a result, in October 2019, the SEC proposed a rule allowing it to review and approve any venue data fee changes, and

In January 2020 the SEC proposed a “Consolidated Equity Market Data Plan.”
Looking Ahead in 2020

- Data and speed are permanently intertwined.
- Speed will become an even more critical component.
  - This will be one of the most-discussed topics of the year.
  - Various venues are talking about speed bumps.
- Expect more gradations in data fees based on speed.
- Expect the regulators to be drawn even further into the pricing disputes.
  - We don’t know what the outcome of the SEC proposed rule will be.
- Some of these disputes could end up in court.
Thanks for your attention.

Any questions?

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