

Data and Speed in the Evolving Financial Markets

George M. Bollenbacher
Head of Fixed Income
TABB Group

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...

The Economics of Market Data

- 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.

Chaos in the Market Data World

- 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?

gbollenbacher@tabbgroup.com