

Statement of Bradley Katsuyama

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SEC Roundtable on Market Data and Market Access

My name is Brad Katsuyama. I am the CEO and co-founder of IEX, the Investors Exchange. IEX appreciates the Commission's decision to have this series of discussions on exchange market data and connectivity fees, and we appreciate the SEC staff and their efforts in putting this all together.

To put this issue in context, we should first consider how technology has evolved and impacted other industries as contrasted with the evolution of exchange market data and connectivity in the U.S. equity markets. Technology has been harnessed to bring sustained improvements to all types of consumers by delivering new products and services faster, cheaper, and better. Even in industries where there are a relatively small handful of dominant players – think of smart phones, personal computers, even data delivery and storage – competition has yielded incredible performance and functionality improvements with no cost increases or lower costs over successive years.

Compare that to the U.S. equity market – 13 exchanges, all but one of them owned by just three companies. The products created and sold by each exchange are unique to that exchange and based on comments that I saw posted last night – most members' experiences are similar to those of IEX – egregious markups and consistent price hikes by the exchanges over the years. The reason for this stark difference? Because there is simply no substitute for a NYSE direct connection in the NYSE data center, and no competitor for that product. If there was any other alternative, trust me, IEX would have gladly paid the millions of dollars we have had to pay for connectivity and data since we launched in 2013 to someone other than our competitors.

Law and regulation also gives exchanges a special status. Because of this status and the need for brokers seeking best execution to trade actively on all major exchanges in order to meet obligations to their clients, the exchange families also enjoy a regulatory monopoly on the sale of their products. The market data they sell is not generated so much as regenerated from the trading activity of their own members. Further, because the exchanges also control the so-called public consolidated data feeds, by design they have ensured those feeds are sub-optimal for sophisticated traders, perpetuating their product monopolies and a multi-tier system of market data. Like other exchanges, IEX receives a portion of the revenue created by SIP fees, but unlike the others, we believe those fees should be reexamined based on full transparency of revenues and costs to operate these systems.

This excessive fragmentation benefits exchanges by creating multiple product and data monopolies, but it creates an unnecessary burden on investors and brokers who are required to make the necessary investments to navigate the increasing complexity. Commissioner Jackson made the point clearly in a recent speech where he asked: *“Why do we have so many exchanges, only to have nearly all of them owned by three corporate parents? I understand, of course, why a company would buy and absorb competitors with the same business model. It's harder to see why a company would acquire, and then continue to operate, virtually identical businesses. One reason our exchanges do this is so they can charge investors to connect to each exchange.”*

From its beginnings, IEX has been a very different kind of exchange in its approach to offering market data and connectivity. In designing our market, long before we applied to become an exchange, we made a decision not to mimic other exchanges by trying to extract monopolistic monthly rents from our members. As an exchange, we remain committed to that decision, and we also have consistently spoken out against exchange pricing practices, in testimony, comment letters, and published opinion pieces. We also joined a petition late last year as the only exchange signing alongside a broad cross-section of investors, brokers, and traders, asking the SEC to create more transparency around exchange costs and revenues for market data.

We have continued to rely on simple, flat trading fees, rather than the controversial practice of paying rebates for order flow and we also provide our market data and connectivity for free, both because we think it results in a fairer, less conflicted, and more transparent market, and also because it aligns our interests more tightly with those of our broker members and their investor clients over the long term. The Commission's recent market data decision rightly calls into question whether many previous exchange fee hikes can be justified, and it will raise the bar for approval of new increases. From our perspective, this change is welcome and long overdue.

In trying to answer the important question of whether exchange products are priced fairly and subject to sufficient market competition, IEX has initiated an internal review of our own costs of offering direct connectivity and market data. When comparing our estimates to the prices charged by the large exchanges, the results are striking. For example, we estimate that the potential mark-up for providing industry standard connections in exchange-run data centers approaches 3,000%. An analysis of our costs to produce and distribute market data suggests the potential mark-up for standard depth of book feeds of the type that are challenged in the SIFMA litigation may approach 1,500% or more.

To be sure, there are differences among exchanges in their individual costs of operation, but there are also important common aspects, including basic space, hardware, software, and personnel requirements, and many of these cost elements decrease on a per-user basis, such that larger exchanges should benefit from diminishing incremental costs – but it's impossible to understand this connection between fees and costs without adequate disclosure by exchanges. IEX does not expect that our effort to promote transparency will stop the debate, but it certainly helps to justify the point of having the debate, and it sheds light on a factor – costs – that to this point has been almost completely cloaked in darkness.

Our suggestions on how to move forward in this debate can be summarized in two words – transparency and accountability.

1. We need greater transparency about the revenues that exchanges earn from selling market data and connectivity products.
2. We need greater transparency on the costs that exchanges incur to offer these products.
3. We need full voting representation by brokers, traders, and investors on the governance committees that operate our public data feeds to ensure that these committees are fully transparent and accountable to all segments of the industry and public.
4. Finally, we should make historical market data more freely available to the public. It is unacceptable that the only studies that academics and other observers can perform are on data that the exchanges decide to offer them. Greater availability of historical data will increase the ability of independent observers to study market structure and recommend improvements.

As the only independent stock exchange, IEX appreciates the opportunity to participate in these discussions and we look forward to answering any questions.