



December 20, 2018

**Via Electronic Delivery**

The Honorable Jay Clayton  
Chairman  
U.S. Securities and Exchange Commission  
100 F Street, NE  
Washington, DC 20549-1090

**Re: Roundtable on Market Data and Market Access; File No. 4-729**

Dear Chairman Clayton:

Managed Funds Association<sup>1</sup> (“**MFA**”) and the Alternative Investment Management Association<sup>2</sup> (“**AIMA**”) (together, the “**Associations**”) appreciate the opportunity to submit comments to the Securities and Exchange Commission (“**SEC**” or “**Commission**”) in relation to the SEC Staff Roundtable on Market Data and Market Access<sup>3</sup> (“**SEC Roundtable**”). In August, the Associations submitted a petition for rulemaking and a request for guidance with respect to market data licensing practices and fees (attached as

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<sup>1</sup> Managed Funds Association (“**MFA**”) represents the global alternative investment industry and its investors by advocating for sound industry practices and public policies that foster efficient, transparent, and fair capital markets. MFA, based in Washington, DC, is an advocacy, education, and communications organization established to enable hedge fund and managed futures firms in the alternative investment industry to participate in public policy discourse, share best practices and learn from peers, and communicate the industry’s contributions to the global economy. MFA members help pension plans, university endowments, charitable organizations, qualified individuals and other institutional investors to diversify their investments, manage risk, and generate attractive returns. MFA has cultivated a global membership and actively engages with regulators and policy makers in Asia, Europe, North and South America, and many other regions where MFA members are market participants.

<sup>2</sup> The Alternative Investment Management Association (“**AIMA**”) is the global representative of the alternative investment industry, with more than 1,900 corporate members in over 60 countries. AIMA’s fund manager members collectively manage more than \$2 trillion in assets. AIMA draws upon the expertise and diversity of its membership to provide leadership in industry initiatives such as advocacy, policy and regulatory engagement, educational programmes and sound practice guides. AIMA works to raise media and public awareness of the value of the industry. AIMA set up the Alternative Credit Council (“**ACC**”) to help firms focused in the private credit and direct lending space. The ACC currently represents over 100 members that manage \$350 billion of private credit assets globally. AIMA is committed to developing skills and education standards and is a co-founder of the Chartered Alternative Investment Analyst designation (“**CAIA**”) – the first and only specialised educational standard for alternative investment specialists. AIMA is governed by its Council (Board of Directors).

<sup>3</sup> SEC Staff to Host Roundtable on Market Data and Market Access, SEC Press Release, September 24, 2018, available at: <https://www.sec.gov/news/press-release/2018-210>.

Appendix).<sup>4</sup> Since that time certain exchanges have issued papers on market data fees,<sup>5</sup> the SEC has issued an opinion with respect to SIFMA’s challenge of exchange non-core data fees,<sup>6</sup> and the Staff of the SEC has held two days of roundtable discussions on market data. In this submission, the Associations provide additional comments to address certain assertions raised by the exchanges in their reports and the roundtables, and the SEC’s opinion.

## I. Comments to Exchange Market Data Arguments

In August, the New York Stock Exchange (“**NYSE**”) and the Nasdaq Stock Exchange (“**Nasdaq**”) separately published papers providing that the current market data fee levels are fair and reasonable.<sup>7</sup> We appreciate the perspectives of the NYSE Report and the Nasdaq Report, as well as views from other exchange participants (together, the “**Exchanges**”) at the SEC Roundtable, and we completely agree that exchanges play a critical role in supporting vibrant U.S. equity capital markets. In fact, it is for this very reason that we have raised concerns with respect to exchange market data licensing practices and fees—because we believe certain exchange practices are harming investors and hampering growth and investment in the U.S. equity capital markets.<sup>8</sup> We disagree with or raise concerns with many of the assertions made by Exchanges as discussed in more detail below.

### 1. Assertion – *Prices for exchange proprietary data products have generally remained stable over time.*

Our Members are strongly concerned with the increases in fees from proprietary data products. Nevertheless, Exchanges have reported that proprietary data products have generally remained stable over time. We have a hard time reconciling this assertion with the concerns we hear from Members and the SIFMA Analysis of Market Data Fees,<sup>9</sup> which show that from 2010 to 2018:

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<sup>4</sup> Letter from the Honorable Richard H. Baker, President and CEO, MFA, and Jiří Król, Deputy CEO, Global Head of Government Affairs, AIMA, to Brent Fields, Secretary, SEC, dated August 22, 2018, regarding Petition for Rulemaking Regarding Market Data Fees and Request for Guidance on Market Data Licensing Practices; Investor Access to Market Data, (hereinafter, “**MFA-AIMA Market Data Petition**”) available at: [https://www.managedfunds.org/wp-content/uploads/2018/08/MFA-AIMA-Mkt-Data-Petition.final\\_.8.22.18.pdf](https://www.managedfunds.org/wp-content/uploads/2018/08/MFA-AIMA-Mkt-Data-Petition.final_.8.22.18.pdf).

<sup>5</sup> See Charles M. Jones, Understanding the Market for U.S. Equity Market Data, August 31, 2018, (commissioned by the New York Stock Exchange) (hereinafter, the “**NYSE Report**”) available at: <https://www0.gsb.columbia.edu/faculty/cjones/papers/2018.08.31%20US%20Equity%20Market%20Data%20Paper.pdf>; and Nasdaq, Promoting Transparency: Nasdaq Market Data Proposals, (hereinafter, the “**Nasdaq Report**”) available at: [https://business.nasdaq.com/media/Market\\_Data\\_Policy\\_Statement\\_tcm5044-65695.pdf](https://business.nasdaq.com/media/Market_Data_Policy_Statement_tcm5044-65695.pdf).

<sup>6</sup> In the Matter of the Application Securities Industry and Financial Markets Association, SEC Rel. No. 34-84432, Oct. 16, 2018, (hereinafter “**SEC SIFMA Opinion**”) available at: <https://www.sec.gov/litigation/opinions/2018/34-84432.pdf>. In this letter, by “**proprietary market data**”, we are referring to what the Commission has coined as “**non-core**” data—data other than the best-priced quotations and last sale information of all markets in U.S.-listed equities. See SEC Order Setting Aside Action by Delegated Authority and Approving Proposed Rule Change Relating to NYSE Arca Data, 73 Fed. Reg. 74,770 (Dec. 9, 2008), available at: <https://www.gpo.gov/fdsys/pkg/FR2008-12-09/pdf/E8-28908.pdf>.

<sup>7</sup> See *id.*

<sup>8</sup> See MFA-AIMA Market Data Petition *supra* n. 4.

<sup>9</sup> Letter from Melissa MacGregor, Managing Director and Associate General Counsel, and Theodore R. Lazo, Managing Director and Associate General Counsel, SIFMA, to Brent J. Fields, Secretary, SEC, on October 24, 2018,

NYSE Integrated Products increased by 1,110%;  
NYSE Arca Integrated Products increased by 1,011%; and  
NYSE American Integrated Products increased by 612%.

While SIFMA's Analysis of Market Data Fees provides an analysis of NYSE product fee increases only, our Members report comparable market data fee increases at many other exchanges with large market share of trading volume.<sup>10</sup> Our Members also report trends among Exchanges in "new" market data products, which come across more like new ways to charge for the same old market data. Finally, Exchanges often introduce new products with minimal restriction or limitation on usage during a product's first year, but then introduce new policies or restrictions which increase the amount of fees charged on top of a product's base fee in subsequent years.

**2. Assertion – The market for market data is quite similar to the segmented markets (basic to luxury) for new automobiles.**

We believe this comparison is inaccurate and inappropriate. First, unlike the market for new automobiles, market data is governed by Section 6 of the Securities Exchange Act of 1934, as amended (the "**Exchange Act**"), which requires the SEC to determine that the rules of an "exchange provide for the equitable allocation of reasonable dues, fees, and other charges" and "do not impose any burden on competition not necessary or appropriate" in furtherance of the Exchange Act.<sup>11</sup> Second, fees charged by an exclusive processor (*i.e.*, an exchange selling proprietary market data) need to be tied to some type of cost-based standard that the SEC can use to detect and, if necessary, prevent Exchanges from abusing their pricing power in a manner that is inconsistent with the Exchange Act.<sup>12</sup> Third, while it is acceptable in the automobile industry to outprice buyers to maximize price, such framework is inconsistent with the Exchange Act, and Congress and the Commission's stated objective that "individual fees must be evaluated in terms of the national market system objective to assure the wide availability of market information" and that "fees should not be set at levels that effectively restrict the availability of real-time information."<sup>13</sup>

Segmenting the market for market data like the market for new automobiles has significant repercussions for investors. It harms the ability of small broker-dealers to compete with large broker-dealers for order execution as the costs of market data are simply too high for firms with leaner profit-margins. This in turn limits investor choice with respect to broker-dealers that provide order execution services. Our Members agree with comments expressed by investors at the SEC Roundtable that broker-dealers that do not have market depth-of-book information will be challenged to provide best execution. In addition, a segmented market, where "luxury" market data feeds with high and increasing fees have to be

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regarding File No. 4-729; Roundtable on Market Data and Market Access, available at: <https://www.sec.gov/comments/4-729/4729-4559181-176197.pdf>.

<sup>10</sup> As we noted in the MFA-AIMA Market Data Petition, not all exchanges have engaged in charging high multi-tier fees for proprietary market data. For example, IEX continues to provide its proprietary market data to market participants free of charge. See, e.g., Startup Exchange IEX Challenges Rivals with Free Web Data Feed, Wall Street Journal, Feb. 22, 2017, available at: <https://www.wsj.com/articles/startup-exchange-iex-challenges-rivals-with-free-web-data-feed-1487768460>.

<sup>11</sup> 15 U.S.C. 78f.

<sup>12</sup> See SEC Concept Release: Regulation of Market Information Fees and Revenues, Release No. 34-42208, December 9, 1999, (hereinafter "SEC Concept Release") available at: <https://www.sec.gov/rules/concept/34-42208.htm>.

<sup>13</sup> See *id.* See also MFA-AIMA Market Data Petition *supra* n. 4 at n. 19 and p. 8.

purchased by investors to obtain relatively basic data such as odd lots, runs counter to achieving one of the purposes of a national market system, which is “[a]n opportunity . . . for investors’ orders to be executed without the participation of a dealer.”<sup>14</sup>

**3. Assertion – *The price of market data and order flow are closely linked, and that over-priced market data will negatively impact order flow to an exchange.***

We disagree with this assertion. Pursuant to the best execution obligations of investment advisers and broker-dealers and the regulatory construct of Regulation NMS, securities professionals have an obligation to direct order flow to the market where they will receive best execution, taking into consideration the circumstances of the particular transaction. To achieve best execution, securities professionals primarily purchase depth-of-book and other proprietary market data regardless of the price of such market data, and they send orders to the best market for execution regardless of the level of an exchange’s fees for market data.

Separately, Exchanges assert that there is price elasticity and as they raise fees, fewer market participants subscribe to proprietary market data products. We are concerned that fewer investors and broker-dealers subscribe because they are priced out by the Exchanges from pursuing certain strategies or business lines. We do not think that market data should be priced at a level where only a handful of firms with particular business models are able to purchase it.

**4. Assertion – *Proprietary market data fees are reasonable as expressed by the percentage of total revenue, in comparison to total revenue paid to third-party vendors, and as compared to the amounts invested in the stock market.***<sup>15</sup>

We believe these comparisons are not meaningful because they do not address whether proprietary market data fees are fair and reasonable with respect to similarly situated market participants. Presenting the net proprietary data revenue or showing such revenue as a percentage of total revenue fails to show whether the fees that exchanges charged market participants were reasonably allocated across classes of market participants, fair or tied to some type of cost-based standard. For example, the reasonableness of a fee would be very different if an exchange’s net revenue was derived from 400 firms versus 40 firms. Similarly, we question the reasonableness of a fee if the largest broker-dealers pay little to no fees after receiving exchange rebates and investors who do not receive exchange rebates pay the largest share of market data fees.

## **II. Elements of the Core Data Infrastructure**

The fourth panel at the SEC Roundtable focused on “Elements of the Core Data Infrastructure.” The current elements of the core data (the best priced quotations and last sale information of all markets) were established under Regulation NMS in 2005, which was meant to carry out Congress’ goals under Section 11A of the Exchange Act for a national market system for securities and concerning securities information processors.<sup>16</sup> However, trading has evolved significantly since 2005, with advancements in trading technology, changing the dynamics of trading and the needs of broker-dealers and investors. As a

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<sup>14</sup> 15 U.S.C. 78k-1.

<sup>15</sup> NYSE Report *supra* n. 5 at p. 35-37.

<sup>16</sup> See Regulation NMS, 70 Fed. Reg. 37,496, 37,503 (June 29, 2005), available at: <https://www.sec.gov/rules/final/34-51808fr.pdf>. See also Regulation NMS Proposal, 69 Fed. Reg. 11,126 (March 9, 2004), available at: <https://www.sec.gov/rules/proposed/34-49325.pdf>.

result, we think that the current information provided as core data is no longer sufficient to satisfy the demands of Section 11A of the Exchange Act nor the needs of investors.<sup>17</sup> For example, core data alone is not enough for any market participant to achieve the referenced public interests of Section 11A of the Exchange Act. This view was also expressed by different investors who participated in the SEC Staff Roundtable. Accordingly, we support the views expressed at the Staff Roundtable that core data should be modernized to include more information and urge the Commission to amend Regulation NMS in this respect.

### III. Fair and Reasonable Fees

The SEC SIFMA Opinion laid out that “the exchanges must show by a preponderance of the evidence that the fees are fair and reasonable and not unreasonably discriminatory.”<sup>18</sup> In determining whether proprietary market data fees are fair and reasonable, the Commission should use “some type of cost-based standard” which is “necessary in the monopoly context because, on the one hand, it precludes the excessive profits that would result if revenues were allowed to far outstrip costs, and, on the other hand, it precludes underfunding of a service if the revenues were held far below costs”.<sup>19</sup>

We are concerned for several reasons that current proprietary market data fees do not meet the “fair and reasonable, and not unreasonably discriminatory” standard. First, we were particularly concerned when Exchanges at the SEC Staff Roundtable in defense of the high proprietary market data fees argued that the largest broker-dealers essentially pay minimal-to-no fees for proprietary market data after exchange rebates. If that is the case, then the current market data licensing frameworks discriminate against market participants based on their level of trading, and by default, investment strategy. Moreover, the majority of investors do not receive exchange trading rebates, so the licensing framework favors broker-dealers at the expense of investors. As a matter of public policy, we do not believe this is a reasonable basis of discrimination for market data fees.

Second, we are concerned that Exchanges may charge market data licensing fees for non-display data usage and derived data. These types of data usage have no bearing on an exchange’s production costs. In fact, we think the Commission should look critically at any licensing fee with respect to a practice that bears no relationship to an exchange’s costs, and instead relate to a licensee’s storage of market data or use of market data for risk management or compliance purposes. We disagree with the Exchanges’ assertion that proprietary market data fee prices should be based upon the presumed value that a user derives rather than the Exchange’s cost of production and dissemination. Exchanges are exclusive processors, and as such, they have affirmative obligations under the Exchange Act, including the obligation to not impose

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<sup>17</sup> See Section 11A of the Exchange Act, 15 U.S.C. 78k-1. Section 11A establishes that the purpose of the national market system is to assure:

- (i) Economically efficient execution of securities transactions;
- (ii) Fair competition among brokers and dealers, among exchange markets, and between exchange markets and markets other than exchange markets;
- (iii) The availability to brokers, dealers, and investors of information with respect to quotations for and transactions in securities; the practicability of brokers executing investors’ orders in the best market; and
- (iv) An opportunity, consistent with the provisions of clauses (i) and (iv) of this subparagraph, for investors’ orders to be executed without the participation of a dealer.

<sup>18</sup> SEC SIFMA Opinion *supra* n. 6.

<sup>19</sup> SEC Concept Release: Regulation of Market Information Fees and Revenues, Release No. 34-42208, December 9, 1999, available at: <https://www.sec.gov/rules/concept/34-42208.htm>.

unnecessary burdens on competition.<sup>20</sup> Accordingly, we believe the Commission needs to assess exchange proprietary market data fees to assure the widest possible availability of market information.<sup>21</sup>

Third, we agree with the sentiment expressed at the SEC Roundtable that as market data is comprised of everyone's data; in a sense, it is a public good that belongs to everyone. Unlike other types of data with proprietary analytics provided by third-party vendors, exchange market data is merely an aggregation of the trading interest of market participants that the exchanges have the responsibility to perform as part their statutorily prescribed role. This is another reason why the Commission should consider some type of cost-based standard for market data fees. To be clear, we are not asking that the Commission fix or set market data fees. We believe, however, that market data licensing practices have become so outrageous that it is necessary for the Commission to establish some guidelines as to what constitutes fair and reasonable.

Finally, as the Commission assesses whether proprietary market data fees are fair and reasonable and not unreasonably discriminatory, we believe the Commission should consider:

- Whether fees are fair and reasonable on the basis of market participants by class as opposed to total fees paid across the industry;
- Whether the fees are designed to ensure the broadest distribution of the market data;
- Whether the fees are tied to some type of cost-based standard; and
- Whether the data usage for which market participants are being assessed have any bearing on an exchange's costs.

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<sup>20</sup> See 15 U.S.C. 78f and 78k-1. See also MFA-AIMA Market Data Petition *supra* n. 4 at p. 8.

<sup>21</sup> See MFA-AIMA Market Data Petition *supra* n. 4 for further discussion.

Mr. Redfearn  
December 20, 2018  
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The Associations greatly appreciate your consideration of the issues raised in this letter. If you or your staff have any questions or comments, please do not hesitate to contact Jennifer Han, Associate General Counsel, MFA, at (202) 730-2600, and Adam Jacobs Dean, Managing Director, Global Head of Markets Regulation, AIMA, or Jiří Król, Deputy CEO, AIMA at +44 20 7822 8380.

Respectfully submitted,

/s/ Richard H. Baker  
Richard H. Baker  
President and CEO  
Managed Funds Association

/s/ Jiří Król  
Jiří Król  
Deputy CEO, Global Head of Government Affairs  
AIMA

CC: The Honorable Jay Clayton, Chairman  
The Honorable Kara M. Stein, Commissioner  
The Honorable Robert J. Jackson Jr., Commissioner  
The Honorable Hester M. Peirce, Commissioner  
Mr. Brett Redfearn, Director, Division of Trading and Markets  
Mr. David Shillman, Associate Director, Division of Trading and Markets



MANAGED FUNDS  
ASSOCIATION



## APPENDIX

August 22, 2018

### Via Electronic Delivery

Brent Fields  
Secretary  
U.S. Securities and Exchange Commission  
100 F Street, NE  
Washington, DC 20549-1090

**Re: Petition for Rulemaking Regarding Market Data Fees and Request for Guidance on Market Data Licensing Practices; Investor Access to Market Data**

Dear Mr. Fields:

Managed Funds Association<sup>1</sup> (“MFA”) and the Alternative Investment Management Association<sup>2</sup> (“AIMA”) (together, the “Associations”) respectfully petition the U.S. Securities and Exchange Commission (the “SEC” or “Commission”) to initiate rulemaking proceedings with respect to self-regulatory organization (“SRO”) rule filings concerning market data. In this submission, the Associations also respectfully request that the Commission initiate certain regulatory actions, issue guidance, and conduct a study with respect to market data licensing practices and fees of exchanges and securities information processors (“SIPs”).

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<sup>1</sup> Managed Funds Association (“MFA”) represents the global alternative investment industry and its investors by advocating for sound industry practices and public policies that foster efficient, transparent, and fair capital markets. MFA, based in Washington, DC, is an advocacy, education, and communications organization established to enable hedge fund and managed futures firms in the alternative investment industry to participate in public policy discourse, share best practices and learn from peers, and communicate the industry’s contributions to the global economy. MFA members help pension plans, university endowments, charitable organizations, qualified individuals and other institutional investors to diversify their investments, manage risk, and generate attractive returns. MFA has cultivated a global membership and actively engages with regulators and policy makers in Asia, Europe, North and South America, and many other regions where MFA members are market participants.

<sup>2</sup> The Alternative Investment Management Association (“AIMA”) is the global representative of the alternative investment industry, with more than 1,900 corporate members in over 60 countries. AIMA’s fund manager members collectively manage more than \$2 trillion in assets. AIMA draws upon the expertise and diversity of its membership to provide leadership in industry initiatives such as advocacy, policy and regulatory engagement, educational programmes and sound practice guides. AIMA works to raise media and public awareness of the value of the industry. AIMA set up the Alternative Credit Council (“ACC”) to help firms focused in the private credit and direct lending space. The ACC currently represents over 100 members that manage \$350 billion of private credit assets globally. AIMA is committed to developing skills and education standards and is a co-founder of the Chartered Alternative Investment Analyst designation (“CAIA”) – the first and only specialised educational standard for alternative investment specialists. AIMA is governed by its Council (Board of Directors).



The Associations and our members are concerned that the way in which the current regulatory framework for proprietary exchange market data<sup>3</sup> and consolidated market data is implemented fails to protect investors from unreasonable fees,<sup>4</sup> unreasonably discriminatory pricing,<sup>5</sup> and in some cases, fees that may be imposing an unnecessary and inappropriate burden on competition.<sup>6</sup> The Associations support the SEC Division of Trading and Markets' initiative to host a staff roundtable on access to markets and market data. Notwithstanding the staff roundtable, we respectfully urge the Commission to begin rulemaking and other actions to reform the approval process for determining proprietary and consolidated market data fees.

In our submission, we respectfully request that the Commission:

- Request financial information from exchanges on market data operating costs and revenue to ensure that fees are reasonable and not unreasonably discriminatory.
- Require that exchanges file more detailed rule filings with respect to market data fee schedules in terms of definitional specificity.
- Conduct more rigorous reviews of rule filings to determine whether rule filings concerning market data fees, licensing terms and auditing practices meet the Sections 6 and 11A requirements of the Exchange Act, including the equitable, fair and reasonableness standards.
- Promulgate rulemaking requiring an exchange to submit to the Commission adequate financial information regarding market data operating costs and revenue in rule filings to justify fee schedule changes.
- Conduct a cost-based review of SIP plan fees, and request that SIP plan participants file SIP Plan operating costs and revenue with joint-industry rule filings (and for the Commission to make such information public).
- Promulgate rulemaking to amend Regulation NMS to allow for public notice and comment prior to the Commission's approval or disapproval of SIP plan fee changes.

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<sup>3</sup> By "proprietary market data", we are referring to what the Commission has coined as "non-core" data—data other than the best-priced quotations and last sale information of all markets in U.S.-listed equities. *See* SEC Order Setting Aside Action by Delegated Authority and Approving Proposed Rule Change Relating to NYSE Arca Data, 73 Fed. Reg. 74,770 (Dec. 9, 2008), (hereinafter "**SEC NYSE Arca Order**") available at: <https://www.gpo.gov/fdsys/pkg/FR-2008-12-09/pdf/E8-28908.pdf>.

<sup>4</sup> *See* 15 U.S.C. 78f(b)(4).

<sup>5</sup> *See* 15 U.S.C. 78k-1(c)(1)(D).

<sup>6</sup> 15 U.S.C. 78f(b)(8).

- Work with exchanges and the public to issue guidance on general standards with respect to market data licensing practices and terminology.
- Work with European regulators and through IOSCO to develop guidance with respect to market data licensing practices and terminology used by exchanges for basic market data products.
- Conduct a study on ways to reform the U.S. equity market data regulatory framework with respect to proprietary market data and the consolidated data processor model and its governance.

## I. Background

The members of the Associations are investment managers who invest on behalf of pension plans, university endowments, charitable organizations, family offices, qualified individuals, and other institutional investors, among others. Our members engage in a diverse and broad-range of investment strategies, and receive market data from SIP<sup>7</sup> data feeds, directly from exchanges as exclusive processors,<sup>8</sup> from broker-dealers and/or from third party data vendors. Our members have grown increasingly concerned with practices by many national securities exchanges that are self-regulatory organizations<sup>9</sup> (“**exchanges**”) relating to market data fee schedules, licensing and related fees, and the regulatory framework in place concerning their distribution of market data;<sup>10</sup> and are concerned that these current practices diminish the continued “availability of information with respect to quotations for and transactions in securities” to investors, which is one of the key Congressional objectives of the National Market System.<sup>11</sup>

Over the last two decades, regulatory and technological developments have greatly reshaped the equities markets by reducing anticompetitive barriers and promoting fair access to markets and market information. These developments have led to greater market liquidity and

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<sup>7</sup> 15 U.S.C. 78c(a)(22)(A).

<sup>8</sup> 15 U.S.C. 78c(a)(22)(B).

<sup>9</sup> We note that not all self-regulatory organizations have engaged in behavior with respect to market data licensing fees that potentially violates the Securities Exchange Act of 1934 (“**Exchange Act**”). *See, e.g.*, Startup Exchange IEX Challenges Rivals with Free Web Data Feed, Wall Street Journal, Feb. 22, 2017, available at: <https://www.wsj.com/articles/startup-exchange-iex-challenges-rivals-with-free-web-data-feed-1487768460>.

<sup>10</sup> *See, e.g.*, letter from Stuart J. Kaswell, Executive Vice President & Managing Director, General Counsel, MFA, to the Honorable Mary Jo White, Chair, SEC, on September 28, 2015, regarding MFA Equity Market Structure Policy Recommendations (recommending that the SEC and the SEC Equity Market Structure Advisory Committee conduct a more in-depth examination of SIPs and market data, including the governance of the SIPs), available at: <https://www.managedfunds.org/wp-content/uploads/2015/09/Equity-Market-Structure-Recommendations-with-Cover-Letter.pdf>. *See also* letter from Stuart J. Kaswell, Executive Vice President & Managing Director, General Counsel, MFA to Brent J. Fields, Secretary, SEC, on December 21, 2017, regarding File No. SR-CTA/CQ-2017-04 (raising concerns with the proposed fee increases in the Consolidated Tape Association Plan and the Consolidated Quotation Plan), available at: <https://www.managedfunds.org/wp-content/uploads/2018/01/MFA-Comments-to-CTA-Plan.final.12.21.17.pdf>.

<sup>11</sup> *See* 15 U.S.C. 78k-1.

depth, tighter bid-ask spreads and lower transaction costs—all of which ultimately serve to lower the cost of capital and enhance economic growth.

Threatening these gains, however, has been the ever-increasing cost of market data. Despite world-wide trends in declining costs of computing and data storage,<sup>12</sup> many exchanges have continued to increase securities market data fees year-after-year, by some estimates 20% or more a year for the last five years.<sup>13</sup> Not all exchanges have engaged in charging high multi-tier fees for proprietary market data. For example, IEX continues to provide its proprietary market data to market participants free of charge.<sup>14</sup> This petition, however, is focused on practices by certain exchanges, which we believe are inconsistent with the fair, reasonable and equitable standards prescribed by law.

From our members' experiences, especially over the last several years, certain exchanges have continuously increased proprietary and consolidated market data fees by changing the terms of licensing agreements, creating new categories of fees and redefining and recategorizing fees. In the quest for greater market data revenue, exchanges have unbundled products and charged higher fees for the "new" products.<sup>15</sup> Currently, fees related to market data licensing may include: access fees, site fees, distribution fees, display fees, delayed data fees, non-display fees and fees for creating and storing derived data/work. Further adding to the complexity, there is no standardization in terms or procedures among exchanges, which make it harder for investors to compare the cost of different exchange proprietary market data products. Finally, exchanges have in some cases aggressively pursued audits of market data licensees, reviewing usage over several years. Anecdotally, we found that it is not uncommon for licensees to have incorrect understandings of the license agreements due to the divergence in licensing practices and vagueness in terms, and to be asked to pay fees retroactively along with monthly interest fees (at sometimes non-market rates) on retroactive payments. Based on a small sample of members, firms spend an average of 30 business days of employee time per audit in relation to addressing and responding to a market data licensing audit.

We are strongly concerned that the way in which the current regulatory framework is being implemented falls short of the goals of the Securities Exchange Act of 1934, as amended (the "**Exchange Act**") and is not adequately protecting investors from anticompetitive, unfair and unreasonably discriminatory market data licensing practices. As the corporate structure of most exchanges has changed from member-owned utilities to for-profit publicly traded entities, we

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<sup>12</sup> See, e.g., Trends in the cost of computing, AI Impacts, March 10, 2015, (stating that "computing power available per dollar has probably increased by a factor of ten roughly every four years over the last quarter of a century") available at: <https://aiimpacts.org/trends-in-the-cost-of-computing/>.

<sup>13</sup> See There's a new 'hot-button' issue on Wall Street, and battle lines are being drawn, Business Insider, November 3, 2016, available at: <http://www.businessinsider.com/stock-exchanges-market-data-cost-becoming-big-issue-2016-10>.

<sup>14</sup> See *supra* n. 9.

<sup>15</sup> Our members have likened the practice to ordering a hamburger which used to cost \$20, but now costs \$7 for the bun, \$15 for the beef patty, \$3 per fixing and \$1 per condiment, for an overall total cost of \$33 (with lettuce, tomatoes, pickles, ketchup and mustard).

believe the Commission needs to update and review the implementation of the existing framework by which market data fees are determined. In general, we support the existing industry petitions submitted to the Commission for rulemaking concerning market data fees and provide our recommendations below.<sup>16</sup>

As such, we respectfully urge the Commission to take immediate action to begin addressing market data licensing practices.

## II. Concerns and Recommendations

### A. Conducting a Cost Assessment of Market Data Fees; Reviewing Market Data Licensing and Audit Practices; and Requiring Exchanges to Provide Cost Disclosures with respect to Market Data Fee Schedule Filings

The Associations are concerned that exchanges as exclusive processors are charging unreasonable fees for market data products, and as a consequence, restricting trade and harming competition. Specifically, Section 6 of the Exchange Act requires the Commission to determine that the rules of an “exchange provide for the equitable allocation of reasonable dues, fees, and other charges” and “do not impose any burden on competition not necessary or appropriate” in furtherance of the Exchange Act.<sup>17</sup>

As supported by case law, the Commission has recognized that fees charged by an exclusive processor of market information need to be tied to some type of cost-based standard in order to preclude excessive profits or underfunding.<sup>18</sup> In addition, Section 11A of the Exchange Act requires SROs to distribute market data on terms that are “fair and reasonable” and “not unreasonably discriminatory”. We respectfully urge the Commission to conduct a cost assessment of exchange proprietary market data costs; and to require that exchanges provide greater transparency in SRO rule filings with respect to proprietary market data fees.

The Securities Acts Amendments of 1975 (the “**1975 Amendments**”) provide the Commission with pervasive rulemaking authority to protect market participants, including

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<sup>16</sup> See letter from Bloomberg LP, Citadel Securities, Citigroup Global Markets Inc., Clearpool Group, Inc., E\*TRADE Financial Corporation, Fidelity Investments, Hudson River Trading LLC, Investors Exchange LLC, IMC, Interactive Brokers Group, ITG, Inc., MFS Investment Management, Morgan Stanley & Co. LLC, RBC Capital Markets, The Charles Schwab Corporation, Scottrade, Inc., Sun Trading LLC, Susquehanna International Group, LLP, TD Ameritrade, Inc., Tower Research Capital, T. Rowe Price Associates, Inc., UBS Securities LLC, The Vanguard Group, Inc., and Virtu Financial, Inc., to Brent J. Fields, Secretary, SEC, on December 6, 2017, regarding Petition for Rulemaking Concerning Market Data Fees, (hereinafter “**December 6, 2017 Petition**”) available at: <https://www.sec.gov/rules/petitions/2017/petn4-716.pdf>. See also, letter from Tyler Gellasch, Executive Director, Healthy Markets, to the honorable Jay Clayton, Chairman, SEC, on January 17, 2018, regarding Petition to Address Conflicts of Interest, Complexity, and Costs Related to Market Data, available at: <https://www.sec.gov/rules/petitions/2018/petn4-717.pdf>.

<sup>17</sup> 15 U.S.C. 78f.

<sup>18</sup> See SEC Concept Release: Regulation of Market Information Fees and Revenues, Release No. 34-42208, December 9, 1999, (hereinafter “**SEC Concept Release**”) available at: <https://www.sec.gov/rules/concept/34-42208.htm>.

investors, from the potential adverse impacts of monopoly pricing.<sup>19</sup> Section 6 requires the Commission to make certain determinations with respect to exchange rulemaking.<sup>20</sup> We are concerned, however, that the Commission has not exercised sufficient authority to protect investors from monopoly pricing, nor has it performed an adequate level of review of exchange rule filings concerning proprietary market data fees. As held by the DC Circuit Court of Appeals, the Commission must make findings and determinations and not merely accept those made by SROs.<sup>21</sup> Accordingly, as a first step, we believe it is imperative for the Commission to conduct a cost assessment of proprietary market data fees in order to assess whether current proprietary market data fees are fair and reasonable.

#### 1. Proprietary Market Data Fees are not Constrained by Competition.

The Associations' members purchase proprietary market data (*e.g.*, depth-of-book and imbalance data) from exchanges for a variety of reasons, including strategy implementation, risk-analysis, best-execution, less latency than other sources and to fulfill fiduciary obligations. As the U.S. equity market structure has evolved with decimalization and electronic trading,<sup>22</sup> more and more market participants have found that consolidated market data (*i.e.*, SIP data feeds) do not provide enough information for firms to rely on alone if they want to remain competitive. While investment advisers and the broker-dealers they employ have many choices as to where they execute their trades, investment advisers of certain strategies submit that they have a fiduciary obligation to have a comprehensive view of market liquidity in order to execute their investment strategy, which means that they need to buy proprietary exchange market data feeds that account for a sizable portion of market liquidity. The only source for exchange-specific data, such as depth-of-book data, whether directly or indirectly, is from the exchange on which the limit orders rest. As such, our members have found that proprietary market data from the primary exchange groups is critically important to them and that there are no comparable alternative sources for such market data. For many market participants, it is simply not a practical option to avoid purchasing

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<sup>19</sup> Congress, in adopting Section 11A in the 1975 Amendments, provided the Commission with broad authority to facilitate the establishment of a national market system, recognizing that "communication systems, particularly those designed to provide automated dissemination of last sale and quotation information with respect to securities, will form the heart of the national market system." H.R. Rep. No. 94-229, 94<sup>th</sup> Cong., 1<sup>st</sup> Sess. 93 (1975). With respect to an exclusive processor, Congress noted that it would be "in effect, a public utility, and thus it must function in a manner which is absolutely neutral with respect to all market centers, all market makers, and all private firms" and that the Commission would be responsible "to assure the processor's neutrality and the reasonableness of its charges in practice as well as in concept." S. Rep. No. 94-75, 94<sup>th</sup> Cong., 1<sup>st</sup> Sess. 7 and 12 (1975) (hereinafter "**Senate Report**"). The Commission has also acknowledged that the requirements of Sections 6 and 11A apply to fees charged for consolidated and proprietary market data alike. See SEC NYSE Arca Order *supra* n. 3 at 74,779. See also *NetCoalition v. SEC*, 715 F.3d 342 (2013) (hereinafter "*NetCoalition I*").

<sup>20</sup> 15 U.S.C. 78f.

<sup>21</sup> See *Susquehanna International Group, LLP v. SEC*, 866 F.3d 442 (2017).

<sup>22</sup> As securities prices moved from increments of sixteenths (*i.e.*, 1/16 of a dollar) to one-cent, the level of depth accumulated at the NBBO price significantly decreased. As such, after decimalization, SIP data feeds provided much less depth of book information. See *NetCoalition I supra* n. 19.

direct proprietary market data from a major exchange because the fees are too high.<sup>23</sup> Because most trading is now spread across at least eight exchanges, avoiding the purchase of a direct feed from a major exchange is akin to reading every other page of a textbook or using only a portion of the ingredients to a recipe.

We urge the Commission to reassess the assumptions that it made in the SEC NYSE Arca Order with respect to an exchange's competitive pressure to attract order flow translating into competitive pressure for setting market data fees, as well as whether firms can truly meet their best execution obligations relying solely on SIP data feeds.<sup>24</sup> We disagree with the assumptions the Commission made in the SEC NYSE Arca Order from 2008, and submit that market data fees are not subject to a competitive market. Thus, we believe the Commission must conduct a cost assessment of proprietary market data fees in order to assess whether fees are reasonable and fair.<sup>25</sup>

## 2. The SEC Should Conduct a Cost Assessment of Fees.

In the *NetCoalition* cases, the DC Circuit Court of Appeals made clear that the Exchange Act requires the Commission to make a determination with respect to whether an exchange's proposed market data fees are fair and reasonable.<sup>26</sup> The Commission's recent decision *In the Matter of the Application of Bloomberg L.P.*, similarly, stated that "fairness and reasonableness must be explained and supported in such a manner that the Commission has sufficient information before it to satisfy its statutorily mandated review function".<sup>27</sup>

Our members are concerned that exchange market data licensing practices, including the various access, site, distribution, display, delayed data and non-display fee categories, among others, are not demonstrably tied to any cost-based standard, and thus, do not meet the "fair," "reasonable" or "equitable" standards prescribed by law. While we appreciate the investment and

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<sup>23</sup> We strongly disagree with the Commission's argument in *NetCoalition I* that order flow competition constrains proprietary market data pricing. See *NetCoalition I supra* n. 19.

<sup>24</sup> SEC NYSE Arca Order *supra* n. 3 at 74,783 (assuming that the "compelling need to attract order flow imposes significant pressure on NYSE Arca to act reasonably in setting its fees for depth-of-book order data"). The Commission stated that it did not "view obtaining depth-of-book data as a necessary prerequisite to broker-dealers' satisfying the duty of best execution" and that if the costs of such data were too high that broker-dealers would not buy it, which in turn would put pressure on the exchange selling the data to lower the price that it charges. See *id.* at 74,788.

<sup>25</sup> See *NetCoalition I supra* n. 19 (finding that the SEC failed to show that NYSE Arca is subject to significant competitive forces in pricing ArcaBook). See *United States v. Microsoft Corp.*, 253 F.3d 34, 51 (D.C. Cir. 2001) ("Where evidence indicates that a firm has in fact profitably [raised prices substantially above the competitive level], the existence of monopoly power is clear."). See also *NetCoalition v. S.E.C.*, 715 F.3d 342 (2013) (hereinafter "*NetCoalition II*") (upholding the DC Circuit Court of Appeals determination in *NetCoalition I* that there must be evidence that competition will in fact constrain pricing for market data in order for fees to be considered fair and reasonable).

<sup>26</sup> See *id.*

<sup>27</sup> *In the Matter of the Application of Bloomberg L.P.*, SEC Rel. No. 83755, July 31, 2018, (Order Granting Motion for Stay) (hereinafter "**Bloomberg Order**") available at: <https://www.sec.gov/litigation/opinions/2018/34-83755.pdf>. See also *Susquehanna International Group, LLP supra* n. 21 at 14-15.

technology upgrades that exchanges make with respect to market data processing systems, we are not convinced that the steep increases in market data fees year after year are cost-related hikes.

To our members, it seems like exchanges continue to create new proprietary fee categories and connectivity offerings to increase the overall costs to consumers even though the products remain more or less the same. Given the statutory mandate, as well as industry controversy created by the level of proprietary market data fees, we believe the Commission should conduct a cost assessment of current proprietary market data fees. Even if exchanges are justified in their market data fee schedules, we believe it is in the public interest for the Commission to bring greater transparency and accountability to this process.

3. A Cost Assessment of Fees Would Shed Light on Whether Proprietary Market Data Fees Impose Unnecessary or Inappropriate Burdens on Competition and Whether Such Fees are Unreasonably Discriminatory.

Our members are also very concerned that the high cost of proprietary market data is beginning to constrain competition. We understand that market data fee increases are starting to have a material impact on some firms by causing those firms to modify their strategies in order to decrease costs from proprietary market data fees. This is particularly true for small to mid-size firms as market data fees represent a larger share of these firms' operating costs, and challenge them to compete with larger firms. To the extent that supracompetitive proprietary market data fees are constraining competition, we submit that this violates Section 6 of the Exchange Act which provides that "[t]he rules of the exchange do not impose any burden on competition not necessary or appropriate".<sup>28</sup> Supracompetitive pricing that is not tied to some type of cost-based standard would also constitute a limitation of access to market data services and be subject to the Commission's review.<sup>29</sup>

In the context of the fairness and reasonableness of specific fees, the Commission has stated with respect to consolidated data that "individual fees must be evaluated in terms of the national market system objective to assure the wide availability of market information" and that "fees should not be set at levels that effectively restrict the availability of real-time information."<sup>30</sup> As Sections 6 and 11A of the Exchange Act both apply to proprietary market data from exclusive processors, we believe that proprietary market data fees should also be evaluated to assure the widest possible availability of market information.<sup>31</sup> Such approach would limit the likelihood of a fee imposing an unnecessary or inappropriate burden on competition, increasing the cost of capital and negatively impacting the economy.

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<sup>28</sup> 15 U.S.C. 78f(b)(8).

<sup>29</sup> See 15 U.S.C. 78k-1(b)(5). The Commission has stated that "information revenues should remain reasonably related to the cost of market information." SEC Concept Release, *supra* n. 18.

<sup>30</sup> SEC Concept Release, *supra* n. 18.

<sup>31</sup> See SEC NYSE Arca Order *supra* n. 3 at 74,779.

Lastly, we are concerned that the “non-display” versus “display” market data licensing categorizations<sup>32</sup> are unreasonably discriminatory and contrary to the scheme mandated by Section 11A of the Exchange Act.<sup>33</sup> In determining whether a fee or rate is “unreasonably discriminatory,” courts have looked to operating revenues, the cost of service and the rate base allocable to each class.<sup>34</sup> We do not believe exchanges can justify the licensing fee differences charged for non-display and display fees. The categorizations suggest that the “fee applies based on functionality or potential use, not actual use.”<sup>35</sup> We think these categorizations, distinguishing data usage between computers and humans, are too general and do not accurately assess the level of data a market participant uses. Moreover, given how technology has evolved, allowing all types of investors to use software applications to assist with and/or perform their day-to-day operations, we do not believe the non-display/display category fairly or accurately measures data usage. Instead, we think it inappropriately forces investors to pay much higher rates for market data and violates the requirement for an exchange to provide market data on terms which are not unreasonably discriminatory.<sup>36</sup>

4. Exchanges Need to Provide Greater Detail and Transparency on How They Assess Market Data Usage by Market Participants in Their SRO Rule Filings.

Our members report that exchange SRO rule filings concerning market data fee schedules are overly general in defining key terms, such as “non-display”, and as a result, we are concerned that such rules are vague and ambiguous.<sup>37</sup> Members report it can be difficult to obtain more clarity from exchanges on fee descriptions and that it isn’t until an exchange conducts an audit of a firm’s market data usage (generally through third-party audit firms) that a firm will learn whether it is complying with the exchange’s market data license agreement.

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<sup>32</sup> The general explanation for the non-display and display categorizations is whether a computer or a human uses the data.

<sup>33</sup> 15 U.S.C. 78k-1.

<sup>34</sup> See, e.g., *State of North Carolina, ex rel. Utilities Commission v. Carolina Utility Customers Association, Inc.*, 399 S.E.2d 98 (N.C. 1991).

<sup>35</sup> See Bloomberg Order *supra* n. 27 (suggesting that fees should be levied based on actual use).

<sup>36</sup> 15 U.S.C. 78k-1(c)(1)(D).

<sup>37</sup> Cf NYSE Non-Display Use Definition: NYSE Non-Display Use of real-time NYSE Market Information means accessing, processing or consuming NYSE Market Information, delivered via direct and/or Redistributor (defined below) data feeds, for a purpose other than in support of data recipient’s display or further internal or external redistribution, NYSE Non-Display Use Policy, available at: [https://www.nyse.com/publicdocs/nyse/data/Policy-NonDisplay\\_PDP.pdf](https://www.nyse.com/publicdocs/nyse/data/Policy-NonDisplay_PDP.pdf); Nasdaq Non-Display Definition: Nasdaq non-display usage is a means of accessing Nasdaq data that involves automated access or use by a machine, without access or use of a Display by a natural person or persons, Nasdaq Global Information Services Data Policies, available at: <http://www.nasdaqtrader.com/content/AdministrationSupport/Policy/DATAPOLICY.pdf>; and Cboe Non-Display Usage Definition: any method of accessing an Exchange Data product that involves access or use by a machine or automated device without access or use of a display by a natural person or persons, Cboe Global Markets U.S. Market Data Policies, available at: [http://cdn.batstrading.com/resources/membership/Market\\_Data\\_Policies.pdf](http://cdn.batstrading.com/resources/membership/Market_Data_Policies.pdf). See *infra* Section II.C.



Also, members report that exchanges place the burden of proof on market participants to demonstrate and provide evidence of how they use market data. If an exchange or its third-party auditor does not like a firm's entitlement system, then the firm is often assessed higher fees for not being able to prove that it used less market data. Since exchange market data fee schedules are ambiguous, it is very common for market participants to be assessed additional usage fees retroactively with monthly interest rates of one to three percent. We understand that exchanges will charge fees retroactively for inadvertent market data usage, but generally will not credit firms for market data fee payments where market data was not used due to a mistaken understanding of the ambiguous market data licensing agreements.

We are concerned that exchange rules concerning market data fee schedules are ambiguous and applied punitively in some cases on market participants through retroactive fee assessments and interest charges. Exchange rules should be explicit with respect to market data fees and how market participants are expected to demonstrate their market data usage. The current practices are inconsistent with Sections 6 and 11A of the Exchange Act as many exchange rules and the practices discussed above do not provide for the "equitable allocation of reasonable . . . fees", "promote just and equitable principles of trade", "protect investors and the public interest", nor do they protect market participants from "unfair discrimination between customers".<sup>38</sup> We believe the Commission should review exchange market data licensing terms and auditing practices for compliance with Sections 6 and 11A of the Exchange Act.

### **Recommendation**

We believe the Commission needs to conduct a more rigorous review of exchange rule filings concerning proprietary market data fees, including a cost assessment. While exchanges file fee changes with the Commission, currently, these filings do not include enough financial information for either the Commission or market participants to understand and analyze the reasonableness of these fees. These SRO fee schedule filings also do not include enough specificity and clarity for market participants or the Commission to understand how fees are assessed, or exchange market data usage audit procedures. We echo a concern raised by former Commissioners Cynthia Glassman and Paul Atkins, which is that "the size of market data revenues and lack of accountability for the use of these revenues by the SROs creates market distortions and inefficient allocation of resources."<sup>39</sup> Given our concerns with the fairness and reasonableness of existing market data licensing practices and fees, we urge the Commission to address the reasonableness of the market data licensing practices and rates charged by exchanges.

The Associations recommend that the Commission: (1) request financial information from exchanges on market data operating costs and revenue to ensure that fees are reasonable and not unreasonably discriminatory; (2) require that exchanges file more detailed rule filings with respect to market data fee schedules in terms of definitional specificity; and (3) conduct more rigorous reviews of exchange rule filings to determine whether rule filings concerning market data fees,

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<sup>38</sup> 15 U.S.C. 78f(b).

<sup>39</sup> Regulation NMS Adopting Release, 70 Fed. Reg. 37,496 (June 29, 2005), available at: <https://www.sec.gov/rules/final/34-51808fr.pdf>.

licensing terms and auditing practices meet the Sections 6 and 11A requirements of the Exchange Act, including the equitable, fair and reasonableness standards. We also recommend that the Commission promulgate rulemaking requiring an exchange to submit to the Commission adequate financial information regarding market data operating costs and revenue in exchange rule filings to justify fee schedule changes.

## **B. Conducting Greater Oversight of the SIP Plan Fees**

We echo the above concerns with respect to fees for consolidated market data. We do not believe the Commission can make a determination as to the fairness and reasonableness of fees without understanding the costs related to market data. For example, we find it hard to believe that the 6000% fee increase vendors are projecting to members as a result of consolidated data fee increases are cost-related hikes.<sup>40</sup> As such, we think the Commission needs to conduct a more rigorous, cost-based review of filings by SIP plan participants to ensure that fee increases are fair and reasonable, consistent with the District of Columbia Circuit Court of Appeals' decision in *NetCoalition I*.<sup>41</sup> In addition, Rule filings by SIP plan participants to increase fees should not be effective upon filing as Section 11A of the Exchange Act does not mandate it. The Commission needs time to make a determination as to the appropriateness of such filing and the public needs time for public notice and comment.

## **Recommendation**

We recommend that the Commission conduct a cost-based review of SIP plan fees, request that SIP plan participants file SIP Plan operating costs and revenue with joint-industry rule filings (and for the Commission to make such information public), and promulgate rulemaking to amend Regulation NMS to allow for public notice and comment prior to the Commission's approval or disapproval of SIP plan fee changes.<sup>42</sup>

## **C. Guidance on General Standards for Market Data Licensing Practices**

As discussed above, our members report that exchange market data licensing and connectivity practices are becoming more complicated and confusing. Section 11A of the Exchange Act grants the Commission broad authority to promulgate regulations necessary or appropriate in the public interest, for the protection of investors to assure that market participants

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<sup>40</sup> Bloomberg Notice to Customers of Bloomberg Server Applications Program Interface service, May 24, 2018. *See also* letter from Greg Babyak, Bloomberg LP, to Brent J. Fields, on February 7, 2018, regarding Motion to Stay the Effectiveness of CTA's Fee Amendments (SEC Rel. No. 34-82071; File No. SR-CTA/CQ-2017-04), available at: <https://www.sec.gov/comments/sr-ctacq-2017-04/ctacq201704-3010691-161881.pdf>.

<sup>41</sup> *NetCoalition I supra* n. 19. 15 U.S.C. 78f(b) and 78k-1.

<sup>42</sup> We support the December 6, 2017 Petition recommendation for the Commission to amend SEC Rule 608 by removing section 608(b)(3)(i) from SEC Rule 608. *See* December 6, 2017 Petition, *supra* n. 16 at 8 (explaining that the rule amendment would preclude SIPs' market data fee filings from becoming immediately effective, and would require a public notice and comment period prior to the SEC's approval or disapproval of any fee changes—thus allowing for transparency and stakeholder input).

may obtain on terms which are not unreasonably discriminatory market data distributed by any exchange or SIP.<sup>43</sup> In granting such authority, Congress intended for the SEC to “remove burdens on competition consistent with investor protection” and in situations in which natural competitive forces cannot, such as in the instance of an exclusive processor, the “SEC must assume a special oversight and regulatory role.”<sup>44</sup> We believe exchange and SIP market data licensing practices is an area in which the Commission should become more engaged to provide a “first line of defense against anti-competitive practices” and “to assure a processor’s neutrality and the reasonableness of its charges in practice as well as in concept.”<sup>45</sup> We urge the Commission to issue regulatory guidance to provide general standards concerning market data licensing practices and terminology for exchanges and NMS plans.

For example, exchanges tend to have similar, broad definitions for “non-display” market data,<sup>46</sup> however, the exchanges apply different categorizations and interpretations to the “non-display” definition. Even examples of uses for “non-display” provided by exchanges are often broad, such as operational control programs, surveillance programs, and clearing and settlement activities.<sup>47</sup> Exchanges also itemize fees differently, use different units of counts, and different interpretations and policies on “derived data”, among others. As a result, market participants find it very burdensome to fully comprehend and manage multiple exchange proprietary market data licensing agreements.

The inconsistent licensing practices and terminology used by exchanges create unnecessary burden across the industry and contribute to inadvertent noncompliance with licensing agreements. The status quo harms investors and creates inefficient allocations of resources within firms by forcing market participants to divert resources to the administration of market data licensing agreements and audits. Greater uniformity in market data licensing terminology and the application of agreement definitions would increase transparency, decrease costs related to the administration and implementation of agreements, as well as make it easier for Commission Staff to assess costs and fees.

Finally, we note that the discrepancies and confusion in market data licensing practices is not unique to the U.S. markets as many exchange groups are global. We encourage the Commission as a global leader in securities regulation to work with European regulators and through the International Organisation of Securities Commissions (“IOSCO”) to develop

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<sup>43</sup> 15 U.S.C. 78k-1(c)(1)(D).

<sup>44</sup> Senate Report *supra* n. 19 at 12.

<sup>45</sup> *See id.*

<sup>46</sup> *See* n. 37.

<sup>47</sup> *See, e.g.,* NYSE Non-Display Use Policy, March 2017, available at: [https://www.nyse.com/publicdocs/nyse/data/Policy-NonDisplay\\_PDP.pdf](https://www.nyse.com/publicdocs/nyse/data/Policy-NonDisplay_PDP.pdf); and Nasdaq Provides Clarification for U.S. Non-Display Policy, December 14, 2015, available at: <http://www.nasdaqtrader.com/TraderNews.aspx?id=dn2015-09>. Separately, we question the policy decision to charge fees for non-display usage relating to categories, such as surveillance and risk management, as we do not think it is smart public policy to deter market participants from conducting greater surveillance or risk management.

guidance with respect to market data licensing practices and terminology used by exchanges for basic market data products.

### **Recommendation**

We believe Commission guidance on exchange standards in market data licensing practices and terminology is necessary and in the public interest and will reduce complexity, burden and the inefficient allocation of resources by market participants and exchanges. Accordingly, we recommend that the Commission work with exchanges and the public to issue guidance on general standards with respect to market data licensing practices and terminology. We also recommend that the Commission recommend and work with European regulators and through IOSCO to develop guidance with respect to market data licensing practices and terminology used by exchanges for basic market data products.

#### **D. SEC Study on Market Data Reforms**

The Associations believe that the Commission should review the current regulatory framework for market data, including both consolidated SIP feeds and proprietary market data. The technology and markets have evolved tremendously since the Commission's last concept release on market data in 1999. Also, since then exchanges have shifted away from the public utility model to publicly-traded corporations. We believe it is timely for the Commission to evaluate whether the current regulatory framework concerning market data continues to serve "the public interest, the protection of investors, and the maintenance of fair and orderly markets."<sup>48</sup> The Commission should also evaluate standards for a cost-based framework that would promote "fair and reasonable" and "not unreasonably discriminatory" fees.<sup>49</sup>

Regarding SIP data feeds, we believe the Commission should review whether the current model for the dissemination of consolidated market data is optimal, including the governance structure. We have been concerned with the governance structure of the joint industry plans to distribute consolidated market data (the "**SIP governance model**") and believe that the SIP governance model under Regulation NMS does not effectively mitigate conflicts of interest.<sup>50</sup> The governance structure for SIPs under Regulation NMS establishes non-voting advisory committees and provides members with the right to submit their views to the operating committees of the SIPs. However, as non-voting members, the advisory committees have very little authority to influence issues of major impact to retail and institutional investors, broker-dealers and other market participants, such as SIP fee increases and technology upgrades. As a result, the advisory committees to the SIPs are not able to mitigate the conflicts of interest that exist between exchanges charged with overseeing the SIP data feeds, and that in turn sell proprietary market data products and connectivity offerings of their own that potentially compete with the SIP data feeds.

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<sup>48</sup> See 15 U.S.C. 78k-1.

<sup>49</sup> 15 U.S.C. 78f.

<sup>50</sup> See Regulation NMS Adopting Release *supra* n. 39 at 37,561.

**Recommendation**

Accordingly, we recommend that the Commission conduct a study on ways to reform the U.S. equity market data regulatory framework with respect to proprietary market data and the consolidated data processor model and its governance.

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The Associations greatly appreciate the Commission's consideration of the issues raised in this letter. If you or the Commission staff have any questions or comments, please do not hesitate to contact Jennifer Han, Associate General Counsel, MFA, at (202) 730-2600, and Adam Jacobs-Dean, Managing Director, Global Head of Markets Regulation, AIMA, or Jiří Król, Deputy CEO, AIMA at +44 20 7822 8380.

Respectfully submitted,

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CC: The Honorable Jay Clayton, Chairman  
The Honorable Kara M. Stein, Commissioner  
The Honorable Robert J. Jackson Jr., Commissioner  
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