

Wholesale Data Market Study

Annex 4: Market Data Vendors

29 February 2024

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1 Introduction

- 1.1 This annex supplements Chapter 6 of the [Wholesale Data Market Study Report](#), which sets out our understanding of how competition in the supply of Market Data Vendor (MDV) services operates, the outcomes we observe and their drivers, and the next steps we propose.
- 1.2 This annex provides a more detailed discussion of MDVs, expanding upon concepts discussed in the Final Report. It provides a fuller description of our evidence sources, analytical approach and our assessment of how competition works in MDV markets, based on the consolidated evidence we have collected and analysed.

Rationale and approach to evidence gathering

- 1.3 Our [Terms of Reference](#) set out our intention to gather information to assess whether the markets in scope of the market study are working well. This included a broad range of relevant stakeholders, including suppliers of benchmarks, indices and CRA data, MDVs and users of these services and data.
- 1.4 We requested information from a range of MDVs based on criteria encompassing core service offerings, scale, and market relevance. We engaged with these firms to obtain:
 - Qualitative information on a wide range of areas (including their product offering, business strategy, relationships with customers and redistributors, terms and conditions, as well as views on the competitive landscape and regulatory environment). We received responses from 7 MDVs whose core business is within the scope of this market study.
 - Financial data related to the provision of in-scope wholesale data products and services sold to UK-based customers for the period 2017-2022.
 - Transaction data on historical customer contracts. We received transaction data from 5 market data vendors.
- 1.5 To gather information from customers of MDVs, we issued a survey to a range of potential MDV users to gather information on their experiences purchasing and using the products and services within scope of the market study. We received responses from around 100 UK-based MDV users, including banks, broker-dealers, asset managers, hedge funds, and trade associations.
- 1.6 We have also considered the representations we received in response to our [market study notice](#) and responses to our [Update Report](#). As well as the engagement we have had with a range of wider market participants and stakeholders.
- 1.7 This annex presents the consolidated evidence we have considered in reaching our conclusions.

Methodology

- 1.8 We identified 15 potential MDVs based on criteria encompassing core service offerings, scale, and market relevance. We received responses from 7 MDVs whose core business is within the scope of this market study. In relation to those firms that did not respond, we agreed that they were out of scope of the [Market Study's Terms of Reference](#).
- 1.9 The range of responses we received from suppliers of MDV services provided insight on respondents' perspectives on a range of supply-side factors influencing competition in the UK market.

Financial analysis

- 1.10 We analysed information for a select sample of firms to estimate the entire population. The composition of our final sample was mainly dictated by our assessment of which firms would provide a good representation of the whole market. However, the limited statutory timeframe of this market study required us to focus on the most efficient and effective way to request information from parties. As a result, after having engaged with firms post-launch, we de-scoped a small number of them, due to their comparatively smaller UK presence which would not materially affect our analysis.
- 1.11 Our analysis is based on a sample of 6 firms, which provided financial information across 7 entities in aggregate. We received limited information from 1 additional firm, which we were only able to use for the purposes of estimating total UK revenues.
- 1.12 Assessing profitability to understand the competitive dynamics within a market poses few inevitable challenges, mainly due to the quality and availability of data and certain necessary assumptions.
- 1.13 We have thoroughly outlined such considerations and caveats in the Methodology section of the [Financial Analysis Annex](#), so please refer to it for more details.

Transaction data

- 1.14 Transaction data was requested from MDVs over a 5-year time horizon – from 2017 to 2022. We received transaction data from 5 providers. The data includes, where available, information on revenue broken down at the client, contract, and product level. The transaction level dataset was analysed to inform our understanding of drivers of revenue and product pricing trends, and the extent and nature of supplier practices and behaviours such as price discrimination. We refer to findings from the analysis of the transaction level data throughout as "transaction level analysis".
- 1.15 While the data we received included information on revenue broken down at the client, contact and product level, it was not consistently available across all providers. As such, our analysis often focuses on metrics that allow consistent comparisons across providers and time. In particular, our analysis focuses on customers' total expenditure with a supplier rather than product pricing. This expenditure reflects both changes in the total products purchased by clients, and changes to the price of those services.

- 1.16 Where relevant, we focus analysis on a cohort of customers who stay with their data feed provider over a given period and customers whose payment structures allow for year-on-year comparisons.

User survey

- 1.17 To gather information from customers of MDVs, we issued a survey to a range of potential users to understand what products and services users buy, how they access them, how they use them within their business, and the criteria they consider when choosing a particular product and provider. We also sought views on users' procurement processes, ability to compare, negotiate and switch to alternative products or providers. Finally, we sought users' views and experiences of pricing, terms and conditions, quality and the impact of changes in these on their own product offering.
- 1.18 We identified potential sectors that could be users of benchmarks and indices, credit rating data and MDVs from across the financial services industry, including asset and wealth managers, alternative investment fund managers (AIFM), investment banks, insurers, pension providers, brokers and trading entities.
- 1.19 To provide a range of feedback from all potential users, we identified around 400 firms from across these sectors. We invited them to participate in an online user survey to provide feedback on their experiences and opinions, if they were users of the products and services within scope of the market study.
- 1.20 We were also aware that providers of the products and services within scope of the market study could also be users, for example benchmark providers being users of credit rating data. As such, we also offered those firms who were engaging with us as suppliers of the products and services within scope of the market study to participate in the user survey.
- 1.21 The survey was separated into 5 sections. Section 1 requested information from users about their business, industry and the costs of purchasing the products and services within scope of the market study. Sections 2 to 5 asked a series of questions to generate feedback from benchmark users, credit rating users for example debt issuers, credit rating data users and MDV users respectively.
- 1.22 Survey respondents were encouraged to only provide feedback to the sections that were relevant to them, as users of those products and services. In total we received around 140 survey responses covering a range of industries and users, including around 100 MDV users.
- 1.23 To provide users with the most flexibility to provide us with information to inform our understanding, most of our survey questions requested broad qualitative feedback, rather than quantitative or categorical answers. To analyse the information we received, and present our findings in an effective way, in many cases users' qualitative feedback has been converted into quantitative results. Given an element of judgement is necessary when interpreting and converting users' qualitative feedback into quantitative metrics, we generally present and discuss results and percentages in broad rounded terms.

- 1.24 Further, not all respondents responded to all survey questions. The total number of respondents for each market relates to the total number of respondents who provided feedback to at least one question. The total number of responses to specific questions, and therefore relevant percentages, can be different if some users did not respond to that question.

Structure of this document

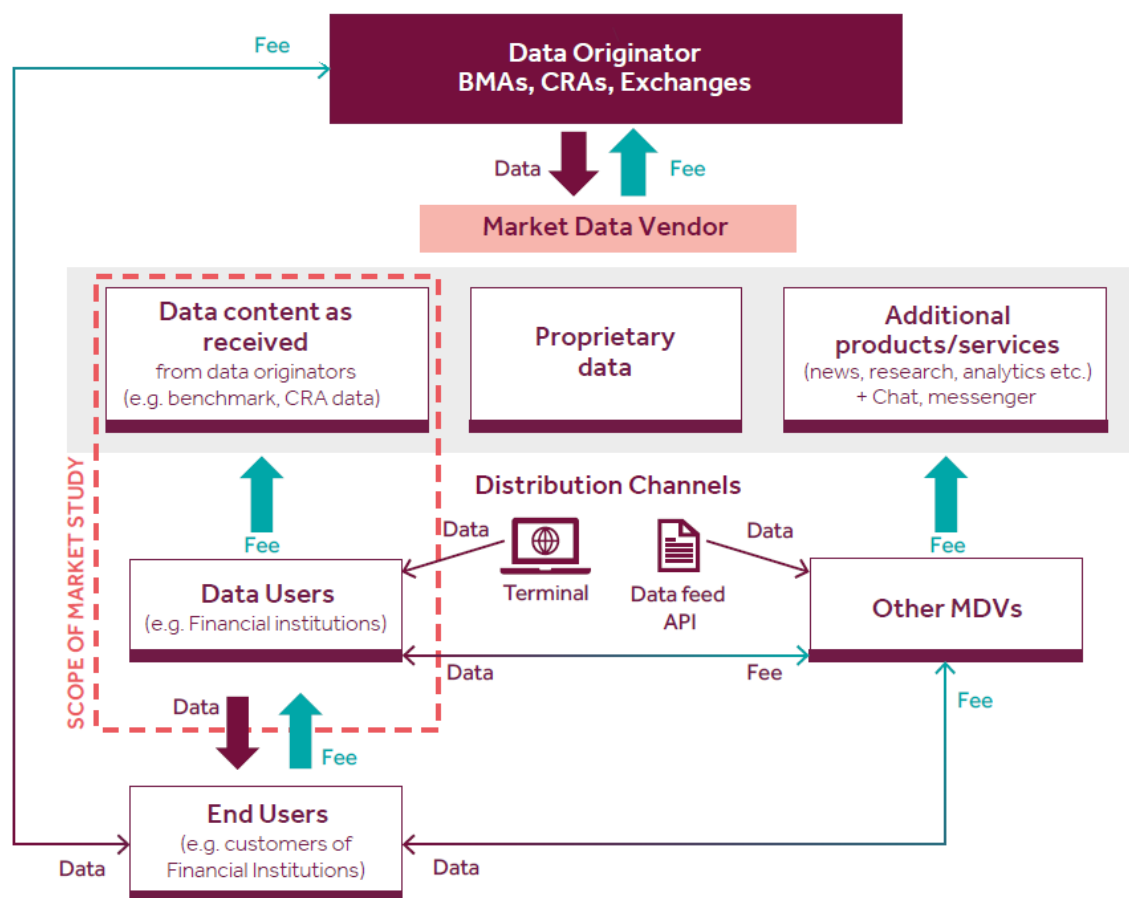
- 1.25 This Annex is structured as follows:
- Chapter 2 provides an overview of the MDV market
 - Chapter 3 describes the market features and user behaviours which determine the competitive dynamics between MDVs
 - Chapter 4 sets out the outcomes we observe in the market as a result of the competitive dynamics
 - Chapter 5 focuses on commercial practices or behaviours of MDVs which can result in excessively high fees and charges, or hamper effective competition further, for example by increasing barriers to switching, entry or expansion, and the impact on end users.

2 Market overview

Market overview

- 2.1 Market data vendors play a key role in the distribution of trading data and other types of market data such as benchmarks and CRA data. They aggregate, consolidate, and standardise data into user-friendly formats from a large number of sources, allowing users to easily interact with large amounts of data without the need to establish individual connections with each data generator.
- 2.2 MDVs provide desktop, web-based products and data feeds to distribute their own proprietary and third-party data. Participants in financial markets also use MDVs' products in many other ways beyond accessing data. For example, MDVs can also offer additional services and products to facilitate trading (which are usually regulated), analyse and monitor portfolios, and fulfil regulatory requirements.
- 2.3 In 2022, the aggregate revenues of the MDVs in our sample totalled over £12 billion globally, with over £3 billion generated from sales to UK-based customers. Given the central role that MDVs play and their scale of reach in financial markets, the potential harm to end consumers if this market is not working well is large.
- 2.4 There are different types of MDVs, providing a wide range of services which reflect different business models. The main differentiating factor revolves around the source of the data being sold. On one side, there are MDVs whose core offering involves buying and re-selling of third-party data. On the other side of the spectrum, there are vendors whose primary services involve the sale of proprietary data (eg trade data, credit ratings data).

Figure 1: Overview of MDV market



- 2.5 As explained in our [terms of reference](#), our analysis focused on the business activities of MDVs related to the redistribution of wholesale data, which includes trade data, index data, credit rating data, reference data, pricing and valuation data. We focused on firms that license these types of wholesale data from data originators, such as Benchmark Administrators, Credit Rating Agencies and Exchanges (which may also include entities within the same group as the market data vendor) and then distribute this data to users.
- 2.6 We did not focus on other types of information that MDVs provide, such as news, research and analytics. However, we did consider these product lines to the extent that they influence the competitive dynamics between MDVs as part of their redistribution activities.

Suppliers and business models

- 2.7 Bloomberg is and has been historically the largest MDV followed by LSEG (formerly Refinitiv). Other smaller but significant MDVs are SPGMI, ICE and FactSet, followed by a long tail of smaller specialised providers.

- 2.8 Two providers within the UK market, Bloomberg and LSEG, account for a large majority of the UK MDV revenues amongst the sample of firms from which we have collected data.
- 2.9 The 2 main products that MDVs provide that are the focus of this study relate to how data is accessed:

Desktops and terminals

- 2.10 Desktops or terminals consist of physical or cloud-based solutions which provide an interface for users to view data, amongst other things. Desktop solutions do not need to be a physical terminal, they can include remote access from a range of devices.
- 2.11 Terminals have been widely used by financial market participants to consume and interact with data since the introduction of the Bloomberg terminal in 1982. The main competitor was the Reuters Xtra 3000 launched by Thomson Reuters in 1999, which used Microsoft operating systems. The Xtra 3000 was replaced by the Eikon terminal, now part of LSEG. Other desktop providers include ICE Data Desktop Solutions (part of the Intercontinental Exchange Group, owners of the New York Stock Exchange), FactSet, or Standard & Poor's Capital IQ.
- 2.12 A desktop provides an interface from which to visualise data, but can also be used for trading, portfolio and risk analysis, or to access news and research as well offering communication functionalities.
- 2.13 The desktop in itself is a highly differentiated product, and different desktops are typically used for different activities such as:
- Trading: including pre-trade and post-trade functionalities. Certain providers can be specialised in different asset classes such as equities, FX, fixed income, commodities, or derivatives.
 - Research: certain providers specialise in providing company fundamentals or other types of data such as CR data or funds data.
 - Performance analytics of securities and/or portfolios
 - Asset allocation modelling
 - Risk Management tools: Value at Risk, stress tests
 - Wealth management dedicated applications

Messaging

- 2.14 An important feature of some desktop products is their messaging functionality. This feature is used for communication within a firm, but also across firms. For example, it can be used by traders to notify back-office staff who need execution information for regulatory or other purposes. Some users also use it to communicate with clients, for example to order trades to be made on their behalf. Respondents to our user survey suggested communication and messaging tools are subject to strong network effects, where the benefits of the service increase with the number of other users also using the service, and a market leading communication tool was identified by a number of users.

- 2.15 While there has been entry from new providers in the past, for example from Symphony, respondents to our user survey highlighted potential for more choice and competition if entry or partnerships with technology firms, for example LSEG and Microsoft's [strategic partnership](#), can overcome the network effects which provide a barrier to entry to providing alternative communication platforms.

News

- 2.16 Respondents to our user survey suggested MDVs can be an important source of financial and market news. News providers such as Regulatory News Service (RNS), part of the LSEG group, are approved by the FCA as Primary Information Providers (PIPs). In this role, they are responsible for the dissemination of regulated information released by issuers to the market.
- 2.17 PIPs may also issue other non-regulatory financial communications. However, PIPs fall within the scope of our supervision only when they are disseminating regulated information and hence acting in their PIP capacity (having regard to [DTR 8 of the FCA Handbook](#)). The FCA has the power to suspend or cancel a PIP.
- 2.18 Secondary Information Providers (SIPs), including MDVs, consolidate information provided by PIPs, amongst others, into a single information source and distribute announcements via subscription services to users who access via terminals, databases and financial websites.

Data feeds

- 2.19 MDVs distribute data directly to firms in different formats. Recently, there has been an increase in data consumed via APIs (Application Programming Interfaces). These allow data to be fed directly into internal applications for algorithmic trading, regulatory reporting, or portfolio management, among others. Feeds are also distributed as secure file transfer protocol (SFTP) or through web services. Feeds are generally distinguished by latency and data types.
- **Real-time data feeds:** Real-time data feeds provide continually updated financial information to be used as an input for applications, as algorithmic trading. A common product offered by certain MDVs consist of aggregating and normalising data from a large variety of sources into a consolidated real time data feed. An alternative to consolidated real time data feeds are direct feeds, which provide a lower latency direct connection with a given exchange or trading venue.
 - **Non-real time data feeds:** These feeds typically contain pricing and descriptive data on financial instruments. Reference data can include information such as the duration of a bond and the identification codes of the security.
 - **Data types:** Whether via desktop or feed, MDVs distribute a large variety of data, including:
 - Trade data: from regulated markets, OTC, OTF, MTF, APA; for any given asset class
 - Price and reference data (including identifiers such as CUSIPs, ISINs and SEDOLs)
 - Credit Ratings data and ESG ratings
 - Benchmarks and indices

- Valuations (eg commodities or OTC traded products)
- Company fundamentals (including financial statements, financial ratios and board composition)

Integrated product offering

- 2.20 MDVs are not only data redistributors. They offer a variety of complementary products and ancillary services including trading, analytical solutions such as portfolio and risk analysis, as well offering communication, news and research tools. An integrated platform, or ecosystem of complementary products, can provide significant benefits to users. Integrated, complementary products and services can increase the value of a vendor's overall service to a user, beyond the individual value of its component parts, and may also lower costs where there are economies of scale and scope. However, integrated platforms can also increase barriers to entry and switching.
- 2.21 Importantly, the scope of the product offering varies significantly among MDVs. Bloomberg and LSEG, the largest players in the market, are the only firms that cover all or most of the services and data types. They could be considered one-stop-shops. However, not all users agree on the degree of substitutability between them. While some users consider them good substitutes, other users emphasise certain features and/or offerings of one firm which cannot be covered by the other one. It is also important to note that the way in which the two firms supply and license their products and services is also differentiated.
- 2.22 Other MDVs specialise in certain data and/or services. For example, desktop products for investment management, portfolio management, trading applications and trading in specific asset classes.
- 2.23 Respondents to our user survey highlighted a number of market leaders or recognised specialisms amongst MDV providers, covering data services (eg asset class or geographical coverage) and add-on or complementary services and functionalities. Although respondents also highlighted that the same providers can be perceived as market leaders across multiple specialisms, many providers are continuing to expand their offerings through reinvestment or acquisition increasingly offering "one-stop-shops".

Licensing and pricing

Desktop/terminals

- 2.24 Desktop products are typically priced or licensed by user, although in some cases multi-user licences are also offered. Pricing models of desktops are highly heterogenous. Some MDVs offer relatively transparent, standardised contracts across all customers, while others offer highly personalised solutions and pricing.
- 2.25 Reflecting differentiation in desktops themselves and MDVs' business models desktop pricing varies greatly among providers. Certain desktops are priced uniformly as a bundle that includes a large variety of data and functionalities. Other desktops are sold at a base rate, with different datasets and functionalities having to be purchased

as an add-on. These are then usually billed monthly, and MDVs impose restrictions on the number of users that can access a desktop. MDVs may also impose restrictions on the volume of data that can be downloaded from a terminal, with contractual adjustments for non-compliance with contract terms.

- 2.26 To incorporate other functionalities such as trading, execution management, or portfolio analytics, users might need to license add-ons, some of which are charged by usage, for example, the number of instruments or volume of trades.

Data feeds

- 2.27 Data feeds are typically licensed at the entity level and priced on a variety of factors, including:
- Number of users accessing the feed
 - Number of instruments (eg securities)
 - Number of requests per day / month
 - Number of applications being fed
 - Usage and redistribution rights
- 2.28 MDVs may offer discounts to users that consume several products from them. For example, a non-real time data feed might be sold at a discounted price for a user that licenses real-time feeds. MDVs can also offer discounts at certain levels of consumption as well as imposing minimum charges.

Data licensing

- 2.29 MDVs offer value to customers by bringing together data from a large variety of sources. However, MDV users often need to license the data that they consume via MDVs directly from the upstream data originators, including trading venues, CRAs, and benchmark administrators.
- 2.30 A key difference of data markets from traditional upstream-downstream markets is that data is licensed, not purchased. The need for direct licensing varies based on the nature of data usage. Licences to use data are broadly split into 4 categories of usage (although data generators and MDVs may have more, or fewer, categories, respectively):
- display licences allowing data to be viewed on a screen (commonly sold as subscriptions)
 - non-display licences covering all other internal purposes
 - redistribution licences for when data is directly distributed onwards by the purchaser
 - derived data licences where data is used as an input to a calculation, such as an index
- 2.31 In instances where data is exclusively viewed through a terminal or desktop interface, additional licensing or charges are typically not required for delayed trading data, indices, ratings, company information, and news. This generally applies to certain types of data that do not involve real-time or non-display applications. For real-time or non-display use cases distinct licenses are typically required,

necessitating separate agreements with each data originator. The administration of these licenses varies, with some managed by the MDV on behalf of the data originator, while others involve direct dealings between originators and end-users.

2.32 The dual licensing structure, involving both downstream vendors and upstream data originators, introduces several implications for users:

- **Complexity and coordination:** Users face the complexity of managing licenses from both MDVs and data generators (venues, CRAs, benchmark administrators). Coordinating these licensing agreements adds an additional layer of administrative burden, as users need to navigate terms and conditions from multiple parties.
- **Heterogeneity in licensing terms:** The licensing terms and conditions may vary between MDVs and generators, leading to a diverse set of contractual obligations. Users must carefully negotiate and understand the terms of each license to ensure they comply with their obligations.
- **Intermediary role of MDVs:** MDVs can act as intermediaries between users and data originators, administering certain licenses on behalf of the originators. This intermediary role can simplify the licensing process for users but may also introduce complexities if there are disputes or changes in licensing terms. Data users and MDVs tell us that it has become increasingly common for data generators to require direct licensing.
- **Flexibility and customisation:** The licensing model in the market data industry allows for greater flexibility and customisation. Users can tailor their data access according to specific needs, choosing different datasets, delivery methods, and latency options. However, this flexibility comes with the responsibility of managing multiple licenses.

2.33 We asked users if they buy data directly from data originators such as trading venues, why, or why not and how easy is it to set up such a relationship. Around 40% of respondents to our user survey stated they buy directly from data originators, particularly trading venues for real time pricing data. Our transaction data includes responses from CRAs who indicated that around 70% of their clients used an MDV to access the CRAs' services.

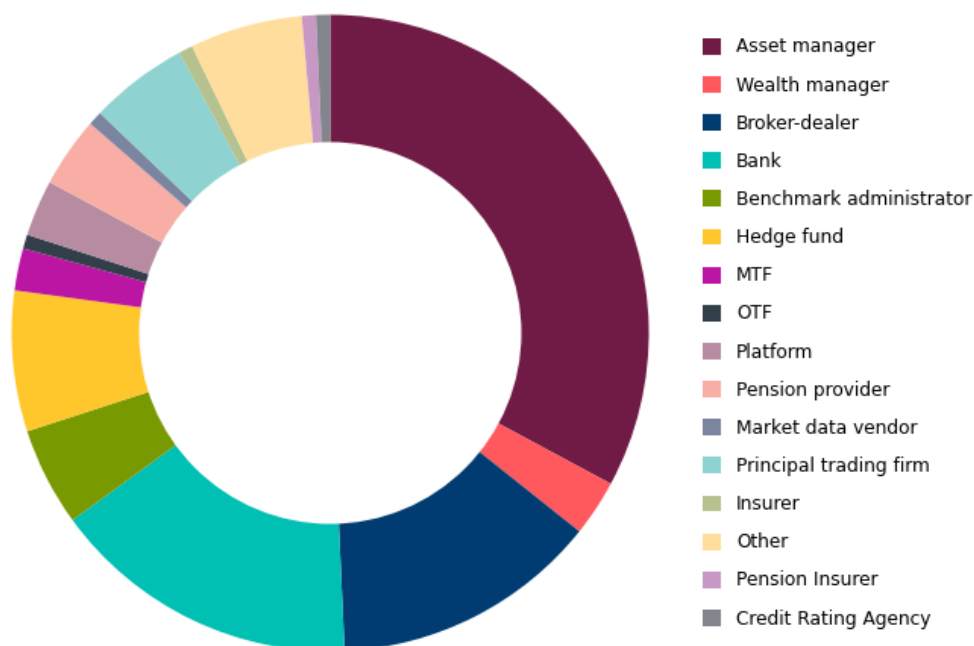
2.34 Users typically distinguished between directly accessing data from data originators (rather than an MDV), often due to market membership, data availability restrictions or where low latency is required, and a direct commercial relationship with a data originator, where data may still be accessed via an MDV, but a licence is required with the originating data provider. Some users suggested MDVs typically require users to comply with the requirements and restrictions imposed by data originator, but it is the users' responsibility to contact the data originator for information about licensing requirements.

2.35 Users who stated they do not source data directly from data originators suggested a preference for accessing data via MDVs given they provide sufficient coverage for their business needs, and it's more efficient to consolidate data sources instead of taking data directly from each source. Users highlighted efficiencies from reducing the number of individual negotiations required as well as the technology and operations costs from onboarding individual data providers, including the complexity of normalising, cleansing and standardising data from multiple providers.

Users and uses

- 2.36 The large variety of products and business models that MDVs offer is reflected in the variety of users that they serve. Some of the main users of MDVs include:
- **Banks:** Banks (retail and investment), and other financial institutions such as insurers rely on MDVs for real-time market data, analytics, and research to inform investment decisions.
 - **Asset Managers:** Asset management firms use MDV services for portfolio management, risk analysis, and market research to optimise their investment strategies.
 - **Hedge Funds:** Hedge funds leverage MDV data and analytics for market insights, risk management, and developing trading strategies.
 - **Broker-Dealers:** Brokerage firms and dealers use MDV services for market intelligence, trade execution, and compliance with regulatory requirements.
 - **Non-financial entities:** Some entities use MDVs to monitor market trends, currency exchange rates, and commodity prices, especially if they operate in sectors sensitive to market fluctuations.
 - **Public Bodies, Academic and Press:** Utilise MDVs for regulatory, academic and other uses.
- 2.37 In response to our survey request, we received responses from around 100 MDV users. A number of survey respondents provided feedback from the perspective of multiple user types, for example where MDVs are used by multiple subsidiaries or departments within a wider corporate group. As such our sample included 140 market data vendor user types, of which around 40% identified themselves as Asset/Wealth Managers or Hedge funds, and around 15% as Banks. We also received feedback from benchmark administrators, pension providers, insurers and trading entities.

Figure 2 : Market data vendor user types



Source: FCA analysis of responses to our user survey

2.38 Users identified a range of uses for MDVs, including:

Front office

- **Trading decision support:** MDVs provide extensive market data and analytics for analysing trends, identifying opportunities, and making informed investment decisions.
- **Order Management:** Trading platforms offered by MDVs facilitate the execution of buy and sell orders across various financial instruments.
- **Risk Management:** Front-office teams use market data to assess and manage risks associated with trading positions and market volatility.
- **Algorithmic Trading:** Quantitative traders leverage MDV data for algorithmic trading strategies, optimizing execution based on market conditions.

Middle Office

- **Portfolio and Performance Management:** Asset managers and institutional investors utilise MDVs for portfolio construction, optimisation, and to track performance.
- **Risk Analytics:** MDV services offer tools for assessing market and credit risk, helping financial institutions and investors manage their exposure.
- **Benchmarking:** MDVs provide benchmark data, including indices and performance metrics, which users can employ for performance evaluation and Market trends and developments.

Back Office

- **Settlement and Clearing:** MDV data is used in the back office for settlement and clearing processes, ensuring accurate and timely processing of transactions.
- **Accounting and Valuation:** Back-office functions rely on market data for accurate valuation of financial instruments, supporting accounting and financial reporting.
- **Record Keeping:** Market data is essential for maintaining comprehensive records of transactions, positions, and financial instruments for auditing purposes.
- **Data Reconciliation:** Back-office teams use MDV data to reconcile discrepancies and ensure data accuracy across various systems.

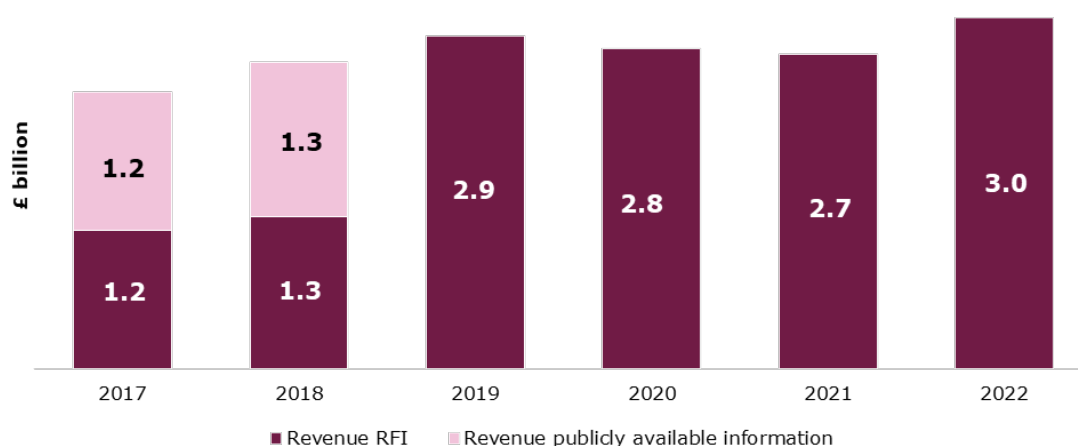
Cross-cutting functions

- **Research Analysis:** Analysts and researchers access MDV data for in-depth financial research, economic analysis, and forecasting.
- **Regulatory Compliance:** Financial institutions use MDVs to stay compliant with regulatory requirements by ensuring accurate and timely reporting.
- **Communications:** Users can use MDVs as communication platforms both within and across firms.

Trends and developments

- 2.39 Aggregate revenues of the sector have increased during the period 2017-2022. Based on our sample, UK revenues amounted to over £3bn in 2022, having grown at around 5% on average per annum since 2017 (see Figure 3). We obtained the revenue data in response to our request for information (RFI). To supplement partial submissions by some firms, we incorporated publicly available information relating to the same legal entities. This allowed us to estimate the revenue trend on a like-for-like basis.

Figure 3: UK Aggregate Revenues



Source: Financial Analysis Annex, Section 5

- 2.40 We asked firms to provide information by product, namely (i) terminal, (ii) API/ data feeds, and (iii) other ancillary products and services, such as news, chat, and analytical solutions.
- 2.41 Between 2017 and 2022, terminal/desktop sales accounted for almost half of our sample's aggregate revenues. Other ancillary products / services also accounted for a significant fraction of the total, approximately two-fifths of the total, albeit these include instances where firms provided aggregate revenue figures due to being unable to provide product breakdowns. Sales of API / data feeds accounted for the residual share of aggregate revenues.
- 2.42 Over the most recent years, the proportion of revenue made up by these 3 products remained broadly consistent with the 2017-2022 average.
- 2.43 We also asked users if there are particular types of MDV data or services that have grown in importance for their business over the last 5 years. Respondents highlighted a number of trends in their use of MDVs, including:
- **Regulation:** A number of users highlighted increased use of data sets required for regulatory compliance and reporting obligations including MiFID, MiFIR, Collateral Tagging, and Know Your Customer (KYC).
 - **Cloud and delivery channels:** Users highlighted growth in demand for accessing data in a programmatic way, including data-feeds and cloud-based environments to reduce the time it takes to ingest, model, consolidate and share wholesale data. Some users suggested the pace of innovation could be faster in this area.
 - **ESG:** Many users highlighted increased use of ESG vendors (for data and research) reflecting client demand and regulatory reporting obligations.
 - **Data frequency:** A number of respondents suggested the frequency of their data needs had changed, moving from monthly to daily or consuming more real time pricing data to aid trading decisions. Some users also suggested increasing use of "alternative data" sources, given its increasing availability, and competition in investment markets.
 - **Business and client needs:** A number of users highlighted a range of business needs driving recent MDV and data use, including innovating to create new data products for their own clients (and the barrier current licensing practices create), trading in new markets or regions (such as emerging markets – where data may be required across a range of providers or the largest MDVs who have the economies of scale to provide necessary coverage). A number of respondents stated that their demand for data is driven by client demand.

Regulatory developments

- 2.44 The activity of formatting, aggregating and distributing wholesale data to end users by data vendors is largely unregulated and carrying on such activity does not generally require authorisation or permissions from the FCA. This is to the extent that such activities do not fall within the scope of the regulated activity of arranging deals in investments or operating an approved publication arrangement, an approved reporting mechanism or a consolidated tape provider. However, a number of data vendor operators, or their wider group, are regulated for other activities which do fall within the FCA's regulatory perimeter.

- 2.45 In our [August 2023 update report](#) we highlighted that the FCA had new powers under FSMA 2023 to make rules relating to consolidated tape providers (CTPs) for the purpose of advancing one or more of our operational objectives. In our proposed [Policy Statement for the framework for UK consolidated tape \(CP23/15\)](#), we noted that MDVs may be affected directly by the regime, for example, as a potential CTP or indirectly as a key supplier of market data. A consolidated tape could incentivise the CTP, data providers (trading venues and APAs), and MDVs to differentiate their data aggregation products and services from those of competitors.
- 2.46 The FCA is progressing work to develop a consolidated tape (CT) for bonds which is expected to start operation in 2025. The CT aims to address the issues that have arisen from the highly fragmented fixed income market where many trades occur between parties away from venues. In our [July 2023 consultation paper](#) on developing a CT, we also discussed some of the main issues relating to a framework for a CT for equities. We noted that the bonds market structure is significantly different from equities and the market for trading data.
- 2.47 We will update on next steps for an equities CT in 2024. Our first step will be an analysis of the potential impact of the inclusion of pre-trade data in an equities CT on liquidity in central limit order books (CLOBs) and the quality of execution received by different types of investors.
- 2.48 In December 2023 we began [consulting on proposals](#) to improve the transparency framework for the bond and derivative markets in the UK. The proposals include transferring the RCB provisions relating to trading venues into the FCA Handbook. We will work with the Treasury to determine when the transfer of the rules from legislation to the Handbook will take effect. We also confirmed in our Policy Statement for a UK consolidated tape framework that the transfer of RCB rules for APAs and transfer and removal for CTPs are due to take effect in April 2024.

Consolidation

- 2.49 Another important trend has been significant merger and acquisition (M&A) activity amongst data providers. In the past 5 years the MDV market has undertaken significant consolidation through M&A activity. Consolidation has occurred both horizontally and vertically across the data supply chain, in particular [LSEG/Refinitiv](#), [S&P/IHS Markit](#), ICAP/CME, Cusip Global Services/Factset (see more detail in Chapter 4).
- 2.50 Many respondents to our user survey suggested consolidation had reduced choice and competition, increased barriers to entry, and diminished users' ability to negotiate with data providers, resulting in higher costs. Some users suggested that there have been adverse consequences from the integration of MDVs, benchmark providers, CRAs and trading data providers, including commercial policies and audit practices, and recommended that future consolidation should be closely monitored for its potential market impact (even when the acquired companies may be relatively small).

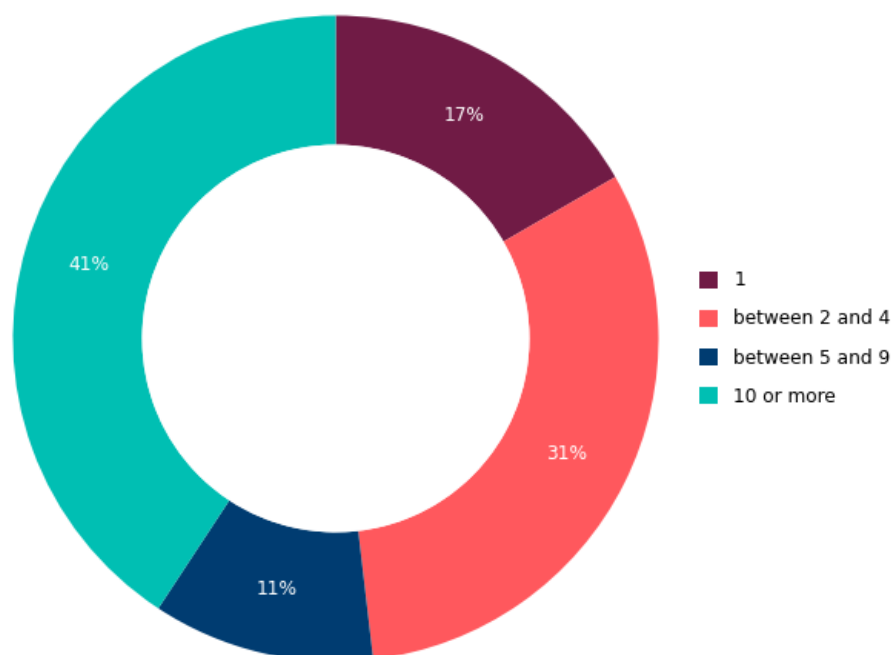
3 Competition Dynamics

- 3.1 In this chapter we present the market features and user behaviours which determine the competitive dynamics between MDVs. Chapter 4 presents the resulting market outcomes and Chapter 5 discusses MDV commercial practices and behaviours which can result in excessively high fees and charges, or hamper effective competition further, for example by increasing barriers to switching, entry or expansion.
- 3.2 To understand the nature of users' MDV choices we consider the **number of MDVs** they use and, where they use multiple MDVs, the reasons why.
- 3.3 To understand users' ability to choose between alternative MDVs we consider **users' criteria** when selecting MDVs, including the role **network effects** play in their choice, and the extent to which users consider alternative MDVs as fungible or **substitutable providers**.
- 3.4 Where users are able to choose between credible alternative providers, we consider the **barriers to switching** they can face when changing providers.
- 3.5 Even when users do not switch, they can obtain better deals by negotiating with their existing suppliers. We therefore examine the factors that could provide users with a degree of **bargaining power**.
- 3.6 Challenger firms are an important source of competitive pressure for incumbent providers. We consider the **barriers to entry** and expansion which might hinder the ability of potential entrants, or firms looking to expand, to provide a competitive constraint on existing providers.
- 3.7 Finally, we consider the role **vertical integration** plays in determining the competitive dynamics across the supply chain.

Multi-sourcing

- 3.8 To understand the nature of users' MDV choices, we asked users how many MDVs they use and, if they use more than one provider, why. Only around 20% of respondents suggested they use a single MDV provider, with the majority of respondents stating they use multiple MDVs, and a significant proportion of users suggesting they use a large number of MDVs (10 or more).

Figure 4: Number of MDVs used by survey respondents



Source: FCA analysis of responses to our user survey

- 3.9 In our update report we stated that the main reason MDV users contract with several MDVs is due to the differentiated products, with varied functionalities, vendors offer. Different vendors are used for trading on different exchanges or accessing news and research. Another important reason is data coverage, as not all vendors provide access to all data sources that a firm might require. Several respondents emphasised that very few suppliers can cover all their needs, and for some users none can, so they need to buy data from different sources to meet their business requirements. A few respondents also told us that not all vendors can provide data with the same level of quality and reliability.
- 3.10 In certain cases, users will buy the same data from various vendors simultaneously, for different reasons. Some users also use different sources to cross-validate or have different trading platforms as a back-up. In total, respondents to our user survey identified a range of reasons for contracting with multiple MDVs, including:
- **Data differentiation & coverage:** Users require coverage to obtain a complete, balanced picture of the market and investment opportunities, as well as due to client and regulatory requirements. Vendors who have the greatest breadth of coverage are preferred and coverage is often equated with quality. However, multiple MDVs are often needed to get comprehensive market coverage across geographies, markets, sectors, asset types/ classes and identifiers. Certain MDVs provide the best coverage, or unique proprietary data, for specific business needs or asset classes and therefore users will contract with multiple providers.
 - **Aggregation & composites:** Users aggregate information from across multiple sources to create new composite values, or use rules eg middle of 3, lower of 2 etc.

- **Consistency & verification:** Multiple vendors provide data validation, verification and data quality checks eg ensuring a primary source is within set variance of other sources.
- **Product differentiation:** Different teams/ departments have different requirements for functionalities and tools based on their roles and responsibilities. Variation in data delivery options and added functionalities and tools often mean an MDV's overall product offer is not fully comparable with alternative providers and some providers are better targeted at certain user groups. For users it can be easier, or more efficient, to use more than a single provider to meet different requirements.
- **User preference:** Individual users within a firm can have a preference for certain providers based on how their functionalities integrate with their workflow or familiarity with the interface, sometimes necessitating multiple providers across an entire organisation.
- **Client preference:** A service provider may be specifically requested by an investor or group of investors, or clients may have a preference for pricing data from a specific vendor used for their portfolios, or the use of specific identifiers. Clients may also wish to communicate or collaborate over certain platforms. Client or regulatory reporting requirements may also necessitate the use of multiple MDVs.
- **Cost:** Subject to licensing and pricing models, it can be cheaper to access data or services via a new provider rather than an existing one eg some MDVs may have licensing models more suited to specific use cases.
- **Operational resilience:** Multiple MDVs avoid dependency on a single provider ensuring resilience, and avoiding business discontinuity in case of a vendor being down. While failure in an originating data source (eg a trading venue) carries general market risk since the data will be unavailable to the market as a whole, the failure of an MDV would only affect the users that are dependent on that MDV. Users select multiple MDVs to ensure their position in the market is maintained if one provider is out of market.

Using a new provider

- 3.11 We also asked users if there are any new MDVs they have recently started using (in the last two years), and what they used them for. Around 50% of respondents suggested they have recently started using a new provider. Some respondents suggested that they had recently switched, or started a relationship, with a large MDV.
- 3.12 Most of the respondents that have started using a new supplier did so for business reasons, for example when launching new strategies in different asset classes, matching the products investment teams manage and sourcing pricing data from venues to facilitate trading in new regions or markets. Users look to source new MDVs, research or data providers who are specialised in these areas. A number of respondents identified ESG data, ratings and research along with climate risk, carbon or sustainable investment data as areas where they had recently onboarded new providers or data. Other markets and asset classes included energy, FX, healthcare, technology, crypto and alternative data. Some respondents stated they look for new data sets to replace existing vendors to lower costs.

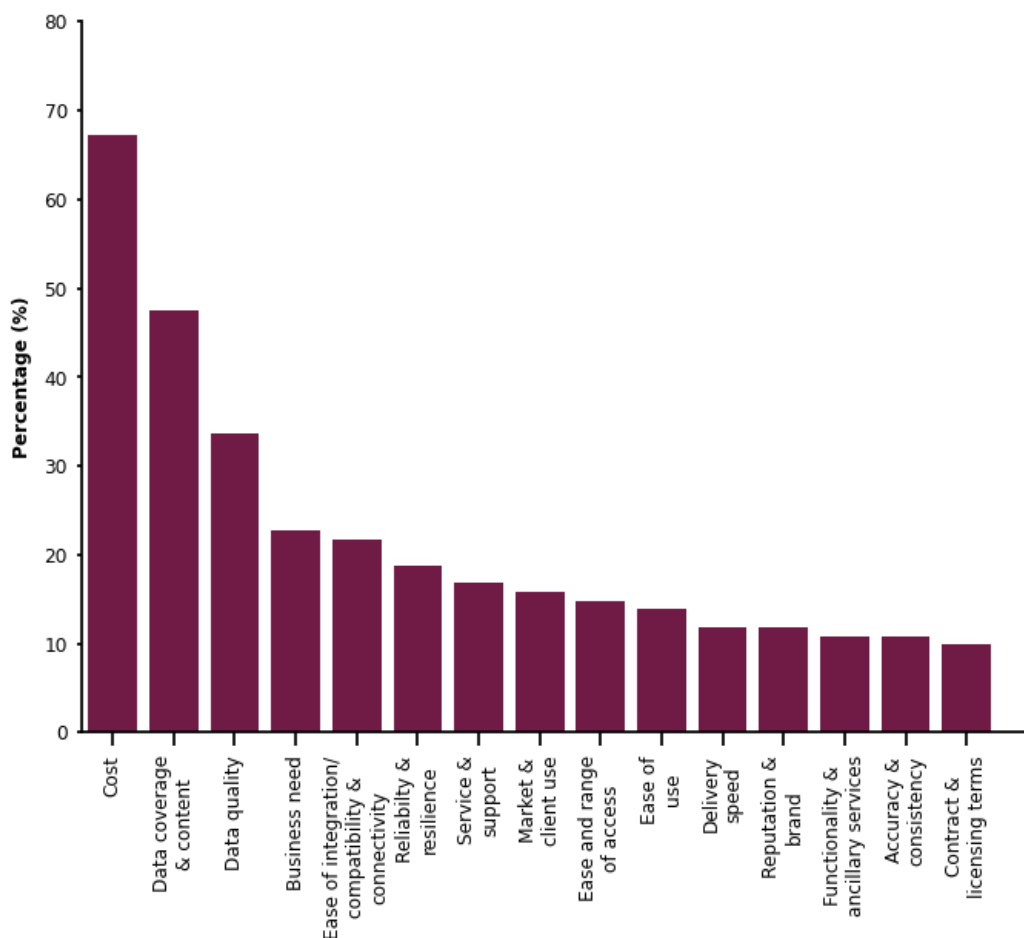
Choice drivers, network effects and vendor substitutability

- 3.13 To understand users' ability to choose between alternative MDVs we considered users' criteria when selecting MDVs, including the role network effects play in their choice, and the extent to which users consider alternative MDVs as fungible or substitutable providers.

Choice drivers

- 3.14 We asked MDV users what criteria they use when selecting an MDV. Figure 5 shows that almost 70% of respondents referenced cost or fees when making a choice over MDVs, and around 10% of respondents explicitly referenced contract and licencing terms. Users also identified MDVs data coverage (including the breadth and depth of data for asset classes (eg equities, fixed income, commodities, currencies), geographies and historical data), and other content, functionality and ancillary services as important criteria in their selection.
- 3.15 A number of respondents identified quality as a key criteria when selecting MDVs. Quality was reflected across a number of dimensions or characteristics including ease of use, data quality (its accuracy and consistency), delivery speed, reliability and resilience, and service quality in terms of support. Users also highlighted technical considerations such as ease of integration and compatibility with users existing systems and ease and range of access/ delivery options. Users also consider providers' brands and reputations as well as market or client use.

Figure 5: MDV user selection criteria



Source: FCA analysis of responses to our user survey

Network effects

- 3.16 Network effects mean that the value of a particular product or service to a user grows with the number of other users of that product or service.
- 3.17 As we explained in our update report, within the market for MDV services we distinguish between two types of network effects. Direct network effects arise when users of a particular MDV benefit from the fact that other participants use the same vendor. Direct network effects can act as a constraint to switching and might be particularly prevalent when clients of data users also use the same vendor.
- 3.18 Indirect network effects occur when the number of participants on one side of the market (data originators) affects the value of the service to participants on the other side (data users). Our analysis reveals that well-established vendors benefit from their large user base. We know that small and/ or new data generators approach certain vendors to increase their market presence, and sometimes pay a fee for their data to be displayed.
- 3.19 Network effects can make it difficult, or potentially inefficient for users to switch, challengers to enter or expand, and can be an important driver of concentration and

market power for incumbent providers. The presence of network effects can potentially generate harm if they result in an abuse of dominant position or in markets tipping. However, they also generate important benefits to users, as the value of the MDV's product offer increases with the size of the network.

- 3.20 Our update report highlighted that given the switching behaviour and multi-sourcing of users, network effects may not be a source for concern in the wider MDV market. Multi-sourcing disperses users' activity, reducing the critical mass necessary to sustain strong network effects in a single platform. However, there may be particular subsets of services that MDVs provide which offer incumbents relatively more influence and market power than others. In our update report we stated we would investigate these relationships further in the remainder of this study.
- 3.21 Some MDVs responded to our update report explaining that the presence of network effects is debatable given that the main purpose of MDV products is to offer access to data, not to offer communication with other data users. However, this contrasts with user experience, since around 80% of respondents to our user survey suggested network effects play a role in their choice of MDV.
- 3.22 Many users however suggested their importance varied by product and service, and were often one of many considerations. Respondents identified network effects playing a prominent role in sales (gaining exposure and communicating with clients) and trading (communicating with clients and counterparties). The presence and importance of network effects is therefore likely to vary among user and uses.
- 3.23 Users also highlighted the benefits of using a market leading provider, such as the need for a critical mass of users across market participants to support standardisation across products and applications, and the benefits of using consistent data sources used by other industry participants (using the same service as your counterparties, competitors and customers).
- 3.24 Users suggested wide data coverage was an important consideration in MDV selection, given the efficiency benefits of receiving data from a single provider. Although some users highlighted that there are a number of niche data vendors with strong offerings in a particular asset classes. Respondents also identified strong network effects where data quality is improved by the number of users inputting into a common platform. For example, market sentiment data where the wider or more comprehensive the number of users or coverage the more representative the data is.
- 3.25 Given these views from users it seems that network effects (mainly direct) do play a role in the choice of MDV, generating value for users at the same time that they create barriers to switching.

Substitutability

- 3.26 In order to understand how substitutable MDV providers are, we asked users if they consider there to be credible alternatives to the MDVs that they currently use, and the extent to which they would be able to fulfil all, or part of, their business needs. Around 60% of respondents suggested there were credible alternatives to existing MDVs. Although users highlighted a distinction between the credibility of competing alternatives in the distribution or delivery of data and data originators themselves. In the distribution or delivery of data (including terminals and feeds) users suggested

there are credible competing alternatives, although competing providers may have their own specialties and depending on the data set and use case, one may be preferred over another. However, amongst data originators, there are variable levels of credible alternatives (often depending on the data category). For example, some users suggested there is competition and substitutability, but only where the service is homogenous eg traded instruments, news, analytics, and reference data.

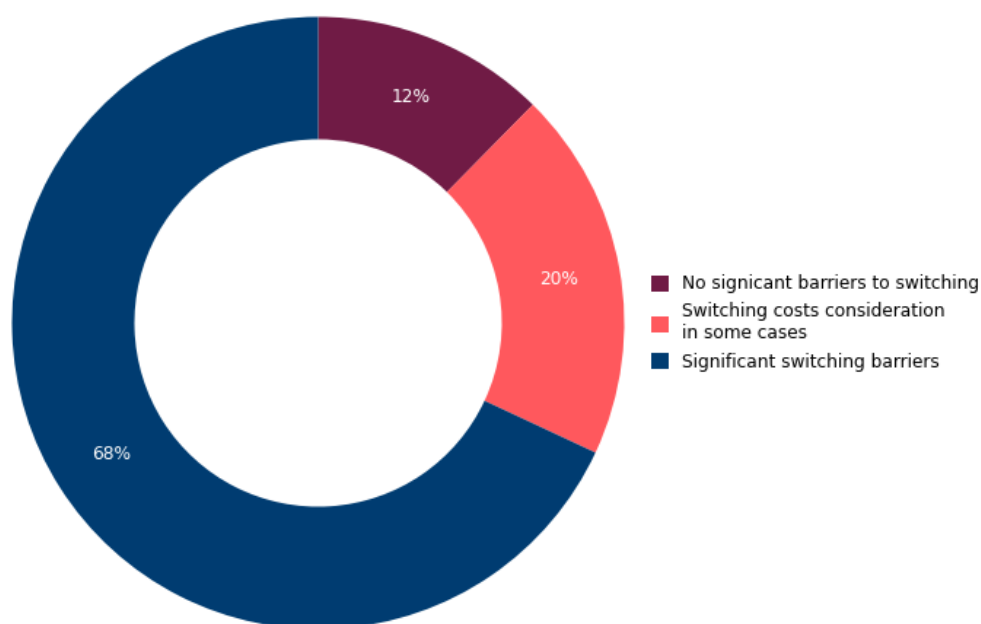
- 3.27 Of those that felt there were no alternatives (c.40%), users highlighted that they were using the best providers for their requirements (product offering, market coverage and customer service) or each provider fulfils a unique role that could not be substituted by an alternative in part or in full.
- 3.28 One of the reasons for the lack of credible alternatives that some users identified is product differentiation in itself. For example, if an MDV specialises in serving the needs of traders while another MDV specialises in serving the needs of investment bankers, each of the MDV can potentially enjoy a degree of market power. The same can be true regarding the content of data, or the latency of data feeds.

Barriers to switching

- 3.29 In our update report, we stated that many users told us that the cost of switching MDVs is high and some suggested there are no credible alternatives. We highlighted that a firm that wants to switch from one vendor to another needs to train its staff, integrate the new vendor with its own systems, and incur procurement costs. In certain cases, users' clients may be using the same vendor as them, and therefore it is impossible for users to switch. However, we also highlighted that a few users in our sample have switched vendors and a significant number of them explain that substitution is possible and potentially easy.
- 3.30 Barriers to switching can prevent, or deter, customers from taking their business elsewhere. In response to our questions on MDV substitutability, some respondents highlighted barriers or costs which may preclude switching, even when credible alternatives exist. In particular, users highlighted:
- the cost and investment of time and resource required to manage a co-ordinated switch across front, middle and back office to avoid data discrepancies from differing sources;
 - the costs of purging of data;
 - changes to integration in internal systems, applications and business processes;
 - user familiarity and reluctance to change;
 - client or market preferences;
 - convenience of a one-stop-shop (although some respondents suggested no single vendor provided complete coverage of all the services and functions needed, and therefore they attempted to balance a cost-effective combination);
 - bundled data and service offerings making substitution of specific components uneconomic or not possible;
 - unique or proprietary data, content, services or functionality that alternatives cannot provide;
 - difficulties comparing providers given the variable way data is packaged and sold across suppliers.

3.31 We also explicitly asked users how easy it is to switch MDVs, and if there are significant barriers to switching, what they are. Around 70% of respondents suggested switching was difficult or identified a barrier to switching. In a number of cases respondents suggested a significant barrier to switching was limited, or no, choice in alternative providers who could provide the same data coverage, quality or equivalent services as their existing provider. As such MDV providers were not completely fungible or substitutable.

Figure 6: Barriers to switching MDV providers

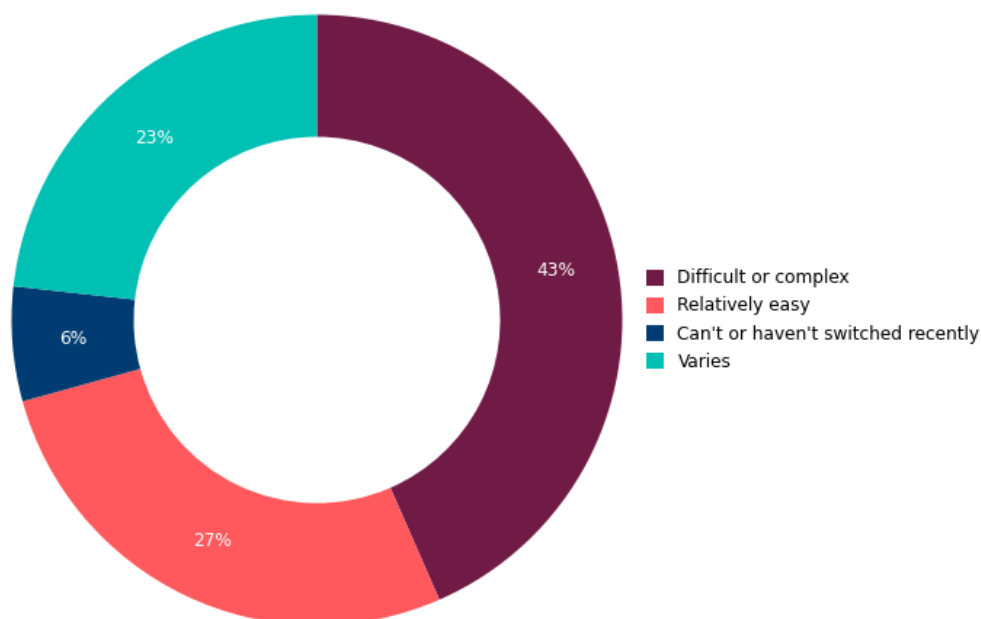


Source: FCA analysis of responses to our user survey

3.32 Where a credible alternative provider was identified, a number of respondents suggested significant transition costs would offset any cost savings from using an alternative provider and make switching uneconomic. The switching costs users identified included operational risk, the technology and development costs associated with changing system, processes and workflows to integrate the new MDVs (including remapping of data), contract termination clauses including notice periods and requirements to remove historic data, data validation and testing.

3.33 We also asked users how easy it is to compare offerings between MDVs on a like-for-like basis in terms of price and quality (and any other criteria they may use). Around 40% of respondents suggested comparing MDVs was difficult or complex, often highlighting difficulties as a result of product differentiation (including variations in data coverage and quality, delivery methods and ancillary services), a lack of pricing transparency and variable pricing models across providers. In contrast, around 30% of respondents suggested comparisons were relatively easy often highlighting MDVs willingness to provide details on coverage, demos and free trials when engaging with potential customers.

Figure 7: Ease of comparing MDVs price and quality



Source: FCA analysis of responses to our user survey

- 3.34 MDVs recognise some of the barriers to switching described above. They have also provided us with several examples and reasons of customers switching and emphasized the importance of multi-homing.
- 3.35 Internal documentation provided by MDVs reveals a large degree of awareness of customers that have switched providers. That is, MDVs are well aware of which customers are lost to which competitors. MDVs have also provided extensive documentation revealing research on their competitors and customers, which is often aimed at expanding their customer base, either offering new services or capturing customers from competitors.
- 3.36 MDVs have also explained that some customers are terminating contracts with them to obtain access directly from generators, for example for benchmark and index data.
- 3.37 Multi-sourcing has also been brought to our attention as an important feature that facilitates switching. In the words of one MDV, [multi-sourcing] enables switching as users can simply 'dial-up' or 'dial-down' consumption of a data via a particular MDV, rather than facing a binary decision of whether to switch all their products/services from one provider to another at once.

Ability to negotiate

- 3.38 Even when users do not switch, they can potentially obtain better deals by negotiating with their existing suppliers. We therefore examined the factors that could provide users with a degree of bargaining power.

- 3.39 Respondents to our user survey were generally evenly split on whether they could negotiate with MDVs. Although, whether or not they felt they could successfully negotiate, respondents highlighted similar factors influencing their bargaining power.
- 3.40 Users suggested the ability to negotiate varied across providers, or on specific data and services. Negotiation was possible with some providers, in particular new entrants and smaller providers with less critical products or where vendors were keen to build demand for new products. Negotiation was also possible where there are multiple providers and competition is high, in which case users hold more bargaining power. However, in contrast some MDVs set rigid price lists which are communicated market wide and leave little or no room for negotiation.
- 3.41 Some respondents highlighted an inability to negotiate with trade data and identifier providers, and highlighted the potential impact of regulatory recommendations towards transparency and equal treatment of all customers (eg MiFID) that has influenced MDVs and third-party providers' approach to negotiation. Users also suggested where data is required for regulatory purposes, there is a greater need to accept pricing and content on offer.
- 3.42 Users tended to distinguish between their ability to negotiate pricing and commercial terms, and their ability to negotiate contractual terms. Most respondents suggested that contractually, many providers have standard terms and conditions, from which they rarely diverge.
- 3.43 Respondents suggested some negotiation was possible on pricing and commercial terms, with varying degrees of success, with a number of respondents suggesting they often had limited bargaining power due to providers' strong brand positioning, high barriers to entry and users' barriers to switching or a lack of substitutability or choice between providers. A number of respondents, who stated they could not negotiate, suggested it was because of their relative size. Some respondents suggested their bargaining power had recently weakened further, as a result of market consolidation (in particular acquisition of small data providers by larger incumbents) and therefore fewer opportunities to run competitive tenders, and a change in providers' terms to align with their acquiring parent.
- 3.44 Where negotiation did take place, respondents stated cost reductions could be achieved via consolidation (bundling products and services) and longer contractual commitments (multi-year contracts) or agreeing implementation periods for new services with stepped costs. Respondents also suggested negotiation could take place over functionality, reducing licenses or price determinants such as use-case, number of users and locations, and through long-term relationship management.
- 3.45 Some users suggested that if vendors refused to negotiate, they seek alternative providers, if they have the option. Respondents also suggested it's difficult to determine how much scope, or success, there is from negotiation, as many MDVs do not publish their rate cards and it is therefore hard to benchmark any 'discount' they are offered against the price paid by their peers.

Procurement

- 3.46 We asked users what processes they use to procure services from market data vendor(s), for example, whether they run a competitive tender. Around 75% of

respondents suggested they run a competitive tender (requests for information (RFI) and requests for proposals (RFP)), market sounding/ survey, selection process or bilateral negotiation, with subsequent selection based on evaluation criteria (often costs, quality, coverage and usage rights).

- 3.47 A number of respondents suggested a procurement process would depend on the service/ data being sought. It is more likely for new use cases or products, where an existing provider could not provide it, and where there are sufficient like-for-like alternatives available to consider. Some respondents suggested, even with a small number of potential providers, they would still undertake this process if there was sufficient content overlap between providers.
- 3.48 Around 25% of respondents suggested they did not run a tender process for MDV services. Some respondents suggested that there were limited options (eg due to a preferred technical, coverage or client mandated solution) and insufficient competition to undertake competitive tenders (or the fact vendors were not like-for-like, made direct comparisons challenging). As such, they selected from existing providers, or cost considerations were secondary in their choice of provider.
- 3.49 Some users distinguished between a new dataset where they are unfamiliar with offerings in terms of quality and cost (where an RFP would be used), and purchasing additional or supplementary data from an existing MDV (when they would go direct to their existing vendor).
- 3.50 We also asked users how often they review their existing contracts with MDVs and whether they engage with other potential suppliers to test the market each time they review. Some users suggested they rarely review their needs. Most reviewed cases were in response to a change in business need or in response to repeated issues, or regularly every 1 to 2 years, or at contract renewal points.
- 3.51 Users suggested whether they engage with potential alternative providers, when reviewing existing contracts, depended on whether they felt there were credible alternatives to their existing provider, and whether the quality improvement and cost savings were likely to offset the cost of switching. For example, a number of respondents suggested that they will not test availability of other suppliers if they remain happy with their existing service, and if costs are not changing substantially, given the costs of doing so would only be justified if there is a genuine prospect of switching.
- 3.52 However, a number of respondents also suggested they regularly review the marketplace for new providers, and will trial or test new options to see if it improves their operations.

Barriers to entry

- 3.53 Barriers to entry in the MDV space can be high as they include the establishment of technological infrastructure as well as the acquisition and licensing costs of data from generators. Smaller MDVs have told us they do not possess a client base large enough to penetrate certain segments, which constitutes a key barrier to expansion. Some MDVs also highlight the increasing complexity of licensing data from data generators as a barrier to entry an expansion.

- 3.54 On the other hand, both small and large MDVs informed us that technological change is reducing entry costs. That is, potential entrants and challengers now have access to software tools that can reduce the cost of processing and distributing data. These include cloud computing, open-source software and machine learning, and AI capabilities. Some MDVs explained that technological change not only reduces barriers to entry and expansion but allows data users to circumvent certain MDV products, with the potential of displacing existing models.
- 3.55 Thus, barriers of entry are high but not insurmountable, and we have indeed observed several instances of entry. However, no entrant has yet overcome the barriers to growth that would enable them to achieve significant market share. Furthermore, the MDV market has undertaken significant consolidation through M&A activity (more detail is provided in Chapter 4).

Vertical integration

- 3.56 Vertical integration is prevalent in the wholesale data value chain, with several MDVs being in the same group as data generators, trading venues, or CRAs. Key players in the market for fixed income and other traded asset-classes wield substantial influence as both data generators and distributors. Their data can be distributed exclusively in certain segments, creating must have datasets for specific user groups.
- 3.57 Vertical integration can create efficiencies and benefits to users. However, a vertically integrated firm with significant market power may be incentivised to, for example, restrict access to certain data and functionalities which then raises substantial barriers to customers switching providers and foreclose competition in the market. Any such consideration needs to be given on a firm specific basis. In such cases it may be appropriate to consider whether there are potential issues under the Competition Act 1998 (CA98).

4 Market outcomes

- 4.1 In this chapter we set out the outcomes we observe in the market as a result of the competitive dynamics presented in Chapter 3. Including market concentration, users' views of the market, trends in users' expenditure on MDVs, switching rates, entry and innovation outcomes and MDV profitability.

Market concentration

- 4.2 The information we received from MDVs and users allows us to consider the breadth of suppliers operating in the MDV market, and how concentrated revenues are amongst the most widely used MDVs.

In 2022, aggregate revenues of the MDVs in our sample totalled over £12 billion globally, with over £3 billion generated from sales to UK-based customers. The UK MDV market is highly concentrated in terms of revenue generated, with Bloomberg and LSEG accounting for a large majority of revenue generated by the suppliers in our sample. Other firms' share of aggregate revenue is in the low single-digit percentage range.

- 4.3 However, our sample of firms has focused on those MDVs that primarily license data from third-party generators and sell them to users as part of an aggregated offering. Additionally, MDVs may offer a variety of products and services. Some of these products and services may be specialised or focused on particular use cases, each of these may constitute separate niche markets.
- 4.4 These include access to data and analytics such as real-time and trading data, price, reference and valuation data (PRV), portfolio management and analytics, and research. Vendors' platforms can also include communication tools and trading platforms. In our update report, we stated we would develop our understanding of the MDV market landscape and of firms' different business models.
- 4.5 Respondents to our user survey highlighted a number of market leaders or recognised specialisms amongst MDV providers, covering data services (for example asset class or geographical coverage) and add-on or complementary services and functionalities. Users highlighted MDVs with particular strengths in proprietary trade data, real-time feeds, fixed income, foreign exchange, company financials, valuation, energy and fund data, performance attribution and risk analysis, order management systems, portfolio management, analytics tools, trading/execution capabilities, research, news and communication tools.
- 4.6 Although respondents also highlighted that the same providers can be perceived as market leaders across multiple specialisms, many providers continue to expand their offerings through reinvestment or acquisition, increasingly offering "one-stop shops".
- 4.7 We also asked users about the MDVs they use. Users identified a mix of data aggregators and data originators, such as trade data providers, and also identified a

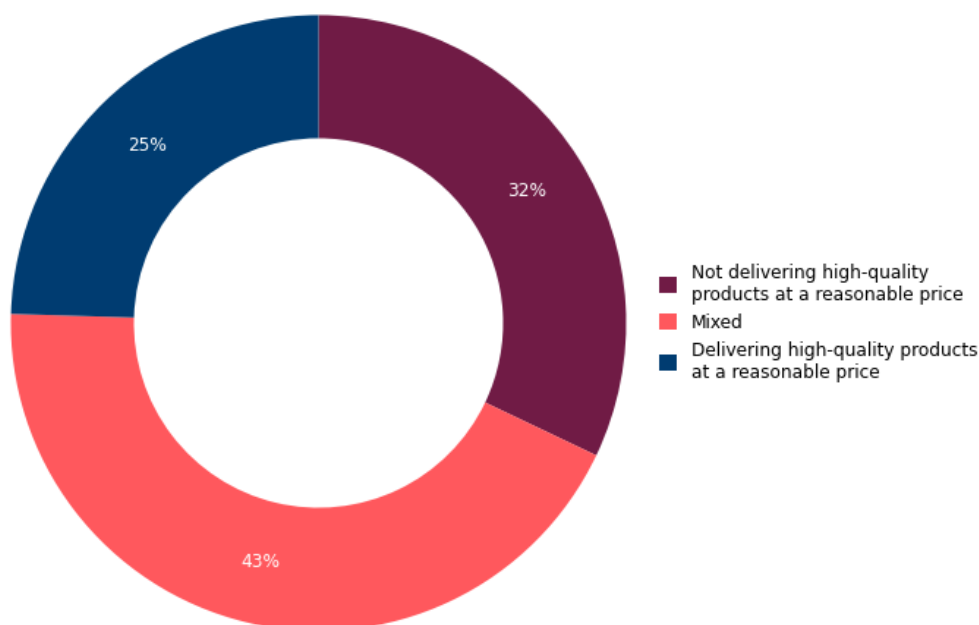
mix of subsidiaries and parent groups. Well-established MDVs are used by a large proportion of our user sample and some only employ these. However, there was also a long tail of providers that a relatively small proportion of respondents used. In total, respondents to our user survey referenced over 100 different data providers.

- 4.8 In response to our user survey, some respondents expressed concerns over the high level of concentration in the market, which can result in a lack of choice and cause harmful outcomes such as increasing prices and low incentives to improve quality or innovate.

User opinions on MDV products

- 4.9 Around 25% of respondents felt the MDV market was delivering high-quality products at a reasonable price, some suggesting the market is very competitive and quality and quantity of data and alternative data providers have increased in recent years.

Figure 8: User sentiment over MDV providers



Source: FCA analysis of responses to our user survey. Users often expressed views without differentiating between MDVs and data generators.

- 4.10 However, around 30% of users suggested they did not think the market was delivering high quality at a reasonable price. The remaining 45% of users were generally positive about quality, but raised concerns over pricing and the level of competition, or suggested quality and price varied across markets and providers. We note that some users often refer to data generators and MDVs interchangeably, without distinction, so some of these concerns may relate to the data generators or MDVs or both. In particular, users highlighted the following areas of concern:
- **Data quality.** Concerns over the timely delivery, standardisation, and quality of data. In particular, data can be inconsistent in format, with varying degrees of customer service, documentation and support. Users also stated vendors insert

liability clauses in their contracts, taking little responsibility or accountability for the quality of their data or its delivery.

- **Pricing practices.** Users reported that the price of vendor services and market data is high (and not aligned with the cost of provision) and users have experienced large, above inflation, annual price rises with little observable improvement in scope, quality or service of the vendors proposition. Users stated that they feel they are paying more for less rights to data, as vendors introduce new licensing requirements or commercial models to extract more revenue. For example, they charge new fees for data and derived data usage (potentially following intrusive reviews of where data is distributed and how it is used by the customer), with users having limited option but to accept. Some users also identified purging obligations and the charging of fees if a user cannot prove data has been fully purged as a driver of cost increases.
- **Service and Terms & Conditions.** Concern over poor engagement from venues and market data providers, and a lack of appropriate technical and service support.
- **Bundling.** A lack of flexibility in vendors' pricing models, restricting users' ability to limit their purchases to only the data they need, and being subject to price increases based on improvement in data elements they do not use. Some users said this had a disproportionate impact on small customers and the market worked less well for them. Users also highlighted examples where previously bundled functionalities were unbundled and charged separately.
- **Restricting access.** Concern that some providers are reluctant to provide appropriately licenced data and services to competitors.
- **Competition and concentration.** Concern over high levels of concentration, high barriers to switching (and "stickiness" driven by licensing practices), the high cost of entry into the market (due to network effects, data coverage, infrastructure requirements and economies of scale) and a lack of choice or competitive alternatives, creating dominant market positions and causing harmful outcomes such as non-negotiable high (and increasing) prices, and low incentives to improve quality or innovate. A number of users highlighted vendor consolidation through M&A and low-cost providers are being pushed out of the market, which contributing to further consolidation and limited options for product diversity and reasonable price negotiations.

4.11 We also asked users to provide potential recommendations which could improve the functioning of the UK MDV sector and allow them to deliver better product/service offerings to their customers. Users provided a range of recommendations, both on specific MDV commercial practices (discussed further below), and wider operation of the market, including:

- **Greater accountability for data and service quality:** Users suggested MDVs should take more responsibility for data quality and service levels. Including the ability for users to hold providers to account for data errors and inaccuracies through liability, redress and remediation in contracts and SLAs relating to service/data availability, incident management and recovery. As well as governance requirements to consult over contract changes, and limits on vendors' ability to unilaterally make contract changes and terminate or suspend services.
- **Regulatory oversight:** Some users suggested greater regulatory oversight of MDVs including audits on commercial and pricing models of critical services,

direct regulatory supervision, independent 3rd party or an industry body to ensure fair behaviour and a competitive market.

- **Restrictions on use audits:** A number of users suggested vendors' usage audits are onerous, time consuming and costly and should be restricted.
- **Fewer access restrictions:** To drive competition and lower prices respondents suggested less restricted access to data and services, including proprietary data. Users suggested an obligation that all users requesting data and access to a service cannot be unreasonably refused access if they are a potential competitor redistributing the data.
- **Greater interoperability & data standardisation:** A number of respondents suggested improved data standardisation (including formats and less restrictive and universal identifiers) and interoperability of technology, platforms and systems to facilitate switching between providers. Some users suggested they should have the ability to move licenses between service providers.
- **Competition:** Respondents suggested the MDV market is characterised by a limited number of providers. Merger and acquisitions across providers of wholesale data (MDVs, Benchmark Providers, CRAs, Trading Data providers etc.) should continue to be closely monitored for impact on the market, even when the acquired companies may be relatively small. Where this is not possible, there should be increased regulatory oversight to make sure the dominant market data providers don't abuse their position, and commercial practices remain acceptable. Some users suggested that there have been adverse consequences from the integration of MDVs and Exchanges, including commercial policies and audit practices, and a stronger position should be taken in future if other similar acquisitions arise.

- 4.12 MDVs have also provided general feedback on the market and possible interventions. Two MDVs have explicitly mentioned standardisation around identifiers, which aligns with user views. Most MDVs take the view that the market is highly competitive, but three of them have expressed serious concerns on the double lawyering of data licensing that we have explained above.

User expenditure on MDVs

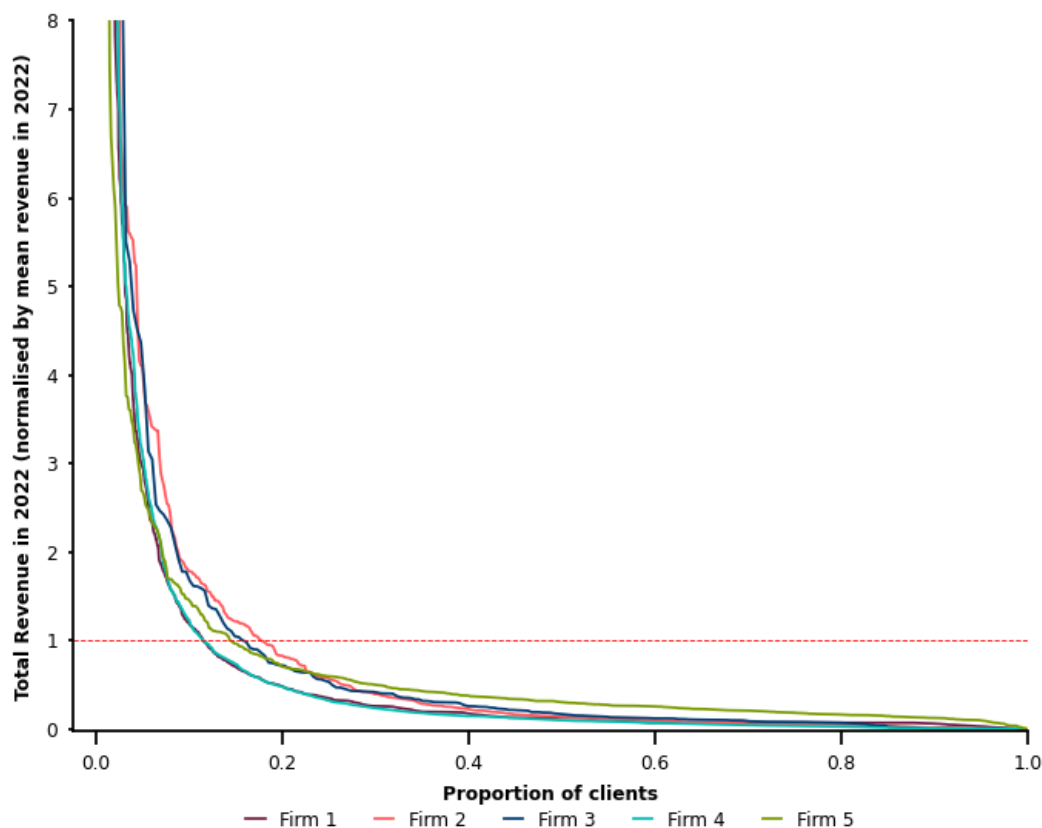
- 4.13 In this section, we report the findings from our analysis of contract-level data provided by a sample of MDVs. This allows us to consider the distribution in customers' MDV expenditure and trends over time. We report expenditure aggregated at the customer level, as a given customer might have more than one contract in place at any point in time.

Expenditure varies across customers

- 4.14 Figure 9 below shows the distribution of expenditure across clients at 5 MDVs. As we would expect, there is a long tail of customers who pay relatively low amounts across each firm. There is significant variation in expenditure across customers, with the highest-spending customer in 2022 paying many times more than the mean expenditure per customer at the same provider (Figure 9 capped at 8 for readability). There is variation across MDVs in the distribution of customers who pay prices above the mean expenditure per customer. However, across MDVs, between

82 and 90% of customers spend below the mean expenditure per customer. These findings are consistent over time.

Figure 9: Breakdown of MDV customer expenditure in 2022

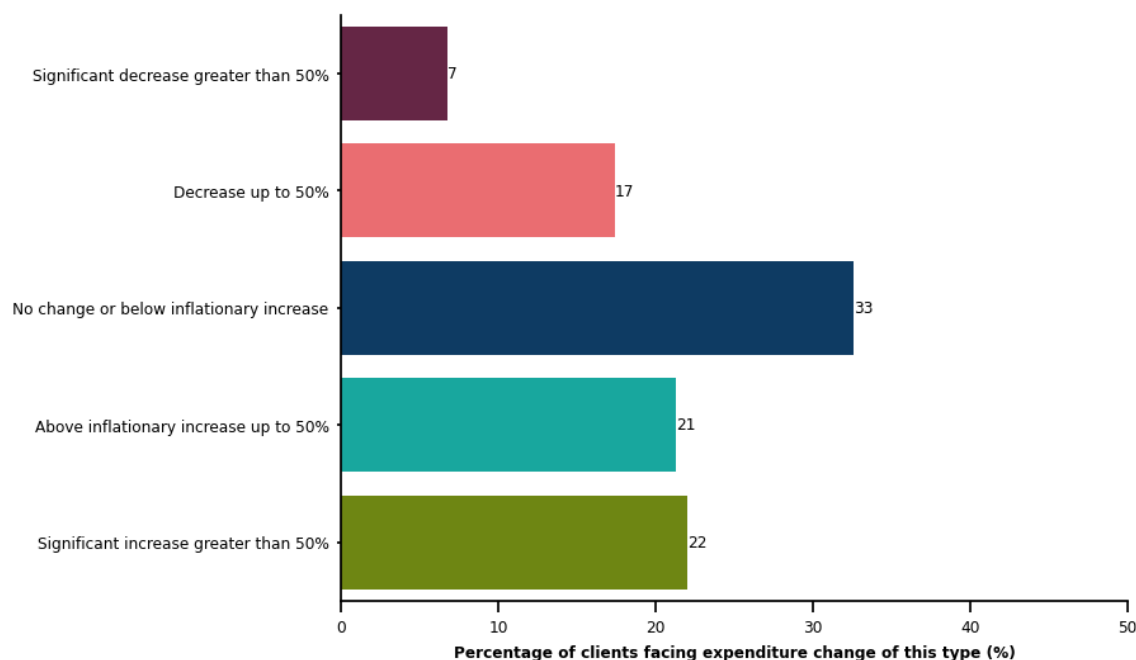


Source: FCA analysis of MDV transaction data. The y axis on this graph is capped at 8 for readability.

Expenditure per customer has increased over time for many users

- 4.15 Across the providers in our sample, around 24% of customers had a decrease in expenditure between 2019 and 2022 and around 33% had no change or a below inflationary change. This is based on a cumulative inflation rate of 12.9% across the period, which is calculated using the Consumer Price Index. More than 40% of customers saw total expenditure increase more than the inflation rate for the period. For 22% of customers the increase was over 50%.
- 4.16 The distribution of total expenditure growth also varies across MDVs in our sample. The proportion of clients experiencing an increase in total expenditure above the rate of inflation for the period varied between 39 and 55% across the different MDVs in our sample.

Figure 10: Change in total expenditure per customer



Source: FCA analysis of MDV transaction data. This data includes only customers who purchased services from a given provider across the whole period. Note: the cumulative inflation rate across the period was 12.9%. This is calculated using the Consumer Price Index.

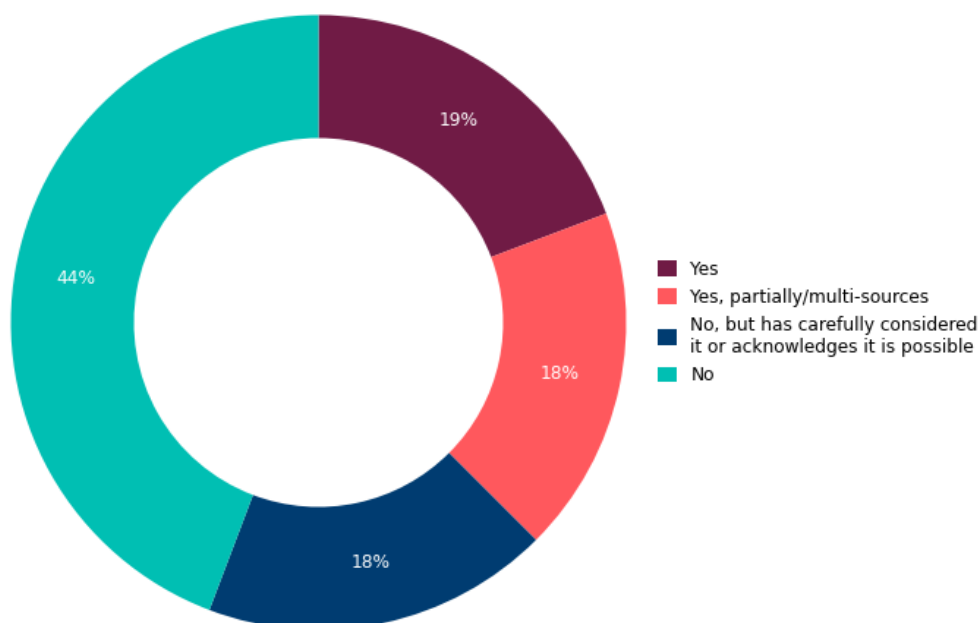
- 4.17 In some cases, the transaction data we received from firms allowed us to assess changes in product revenue over time, which can control to some extent for consumption changes, and will be a closer approximation for price changes (although product revenue will still be subject to some consumption changes, for example the number of user licences per client may rise or fall).
- 4.18 Terminal and desktop type products account for a significant proportion of MDV revenue for firms in our transaction data sample, although there is some evidence to suggest their share of revenue may be decreasing over the timeframe covered by the sample. Average revenue per customer has also risen over the sample period for a number of key products.
- 4.19 Between 2017 and 2022, terminal/desktop sales accounted for almost half of our sample's aggregate revenues. Other ancillary products / services also accounted for a significant fraction of the total, approximately two-fifths of the total, albeit these include instances where firms provided aggregate revenue figures due to being unable to provide product breakdowns. Sales of API / data feeds accounted for the residual share of aggregate revenues.
- 4.20 When asked to provide recommendations that could improve the functioning of the UK MDV sector, a number of users suggested a range of options designed to lower the costs of MDV services, often in combination with greater regulatory intervention. These included capping prices, limits on price increases, charging based on product and delivery only (and prohibiting other licensing based on use case, added-value/commercial potential to user or charging twice for the same data e.g. display and non-display) to enable commercial and contractual simplification, standardisation and comparability across vendors in terms of capability, cost, delivery and quality.

Users also suggested extending fair, reasonable, and non-discriminatory (FRAND) principles to more markets and data (e.g. identifiers and reference data), a cost-based licensing system, eg fees based on marginal cost of providing and distributing data, plus a reasonable profit margin. Respondents suggested trading venues rely on flexible interpretations of 'reasonable commercial basis' to justify pricing data based on the value of the data to individual market participants rather than the cost of producing data.

Switching

- 4.21 Customers who cannot freely switch may not access the product that best suits their needs. If firms cannot win business by offering better value, they have less incentive to cut prices, improve quality or innovate. The extent to which MDV customers can or do switch providers provides an indication of the potential for customers to impose a competitive constraint on MDVs by threatening to switch. As such, we asked users if they had ever switched MDVs, what motivated them and if they incurred any costs.
- 4.22 In our update report we stated a very small subset of users in our sample had switched vendors in recent years, and only a few users had switched providers completely. However, a significant proportion of users thoroughly considered the possibility of switching and decided not to. Many users have not switched from a provider completely but have substituted its use partially, for example substituting the vendor used to trade in a given market.
- 4.23 Within our sample, around 45% of users had not switched, often suggesting they felt their current provider(s) met their business needs and switching would be costly. Around 20% of users had not switched, but they had either considered it or acknowledged it was possible.
- 4.24 Around 40% of respondents suggested they had switched, or partially switched, for example switching the provider of a specific data product or enhancing their primary vendor's service with additional vendor services. Some users suggested it was challenging to completely migrate MDVs for all use cases, and that switching takes place on specific products.
- 4.25 Of those that have switched, some respondents suggested they did so to reduce costs (including by consolidating providers or migrating users between existing vendors to the most appropriate service for their use case), or because they had concerns about the quality they were receiving from their current provider (including data quality, reliability and service delivery). Respondents also suggested that switching could be motivated by the new provider offering data (including quality and coverage), functionality or service that their current provider could not.
- 4.26 Some respondents suggested that switching was straightforward, and they did not experience any significant costs or challenges when switching, while others suggested that significant time and resource was required to switch, including legal, procurement, technology and data teams as well as user training and overcoming user preferences.

Figure 11: Switching in the MDV market



Source: FCA analysis of responses to our user survey

Entry

- 4.27 The threat of future entry and innovation, or dynamic competition, can be enough to provide a competitive constraint on incumbent providers. However, as we highlighted in our update report, start-up costs for distributing wholesale data can be high. However, we also highlighted that certain data is more readily available today than ever. As one vendor told us, *'firms now have access to a range of software tools (including machine learning and other AI capabilities) that has significantly reduced the time and resource associated with cleaning, standardising and packaging data into a format that can be redistributed'*. This is in line with the type of entry we observe.
- 4.28 Below, we summarise some of the start-up companies that have entered the vendor space. Data generators are also increasingly acting as competitors to market data vendors, either by selling data directly through feeds or by establishing themselves as vendors.
- 4.29 We have also seen examples of established vendors penetrating in market segments in which they are not traditional leaders.
- 4.30 We also asked users if there had been any significant changes to the MDV market in the past 5 years, for example, significant entry or exit by MDVs. Many users identified significant consolidation through M&A activity as the key change in the market over the last five years, as data providers acquire data sets and IP content in an effort to broaden their offerings. Respondents highlighted both direct competitors merging and vertical integration across the data supply chain, in particular

LSEG/Refinitiv, S&P/IHS Markit, ICAP/CME, Cusip Global Services/Factset. Many users suggested consolidated had reduced choice and competition, increased barriers to entry, and diminished users ability to negotiate with data providers, resulting in higher costs.

- 4.31 Some respondents suggested that no new entrant has managed to disrupt the market. Other respondents suggested there was evidence of entry and increased choice, in particular from FinTech, Alternative Data, Crypto and ESG providers. A number of respondents highlighted that when a new/niche player comes into the market, they can often be acquired by established large MDVs to add them to their portfolio of product offerings, stifling competition further. For example users highlighted Morningstar's acquisition of Sustainalytics, Fitch buying Creditsights, Moody's acquisition of Vigeo ESG data and Ethical Investment Research, S&P buying ESG vendor Trucost and Shades of Green.
- 4.32 When asked for recommendations which could improve the functioning of the UK MDV sector, some users suggested competition is low and the MDV market is subject to high barriers to entry, in particular network effects: newcomers offer interesting product/services, but they do not expand because they are not adopted by enough players in the industry. Users suggested regulation could encourage the use of new services and/or aim to lower barriers entry, incentivising low cost providers to compete with the larger more established players in the market. Some users suggested that the complexity of terms dictated by data originators creates a barrier to entry for alternative MDVs. They indicated that it is time consuming and costly to establish the coverage and governance required to operate at sufficient scale across markets and asset types. For example, they suggested that trade data should be provided more freely and cheaply to encourage more data carrier vendors.
- 4.33 Given the cases of entry we have observed, barriers to entry are not insurmountable. However, no entrant has yet overcome the barriers to growth that would enable them to achieve significant market share. These are some examples:
- [Snowflake](#). A cloud-based, one-stop shop for warehousing and accessing third-party data.
 - [Sentio](#). Launched in late 2011 as a financial research engine designed for investors, using artificial intelligence search capabilities across a large volumes of company filings, press releases, and reports. It was acquired by AlphaSense in 2022.
 - [ChartIQ](#). A browser hosted system that is able to source data and analytics from third-party feeds and vendors and render them on a single interface for pre- and post-trade workflows, and which was recently acquired by S&P Global/IHS Markit.
 - [DTCC](#). DTCC launched its FRTB market data service in November 2019. This product provides customers with access to "real" price data across different types of derivatives, cash bonds and cash equities.
 - [A7 Analytics](#). Deutsche Börse entered the historical market data space through their launch of the A7 analytics platform in 2020. This platform allows customers to access intraday and historical un-normalised order-by-order market data for all traded instruments on Eurex, Xetra and European Energy Exchange (EEX).
 - [Global Financial Information Services](#). Founded in 2019 and provides market data, research, news and fundamental data to customers.

- [Databento](#). Founded in 2019 and provides customers with both real time and nonreal time data across equities, FX, futures and options.
- [Inven](#). Established in 2022 and specialises in the application of artificial intelligence (including natural language processing and machine learning) to structure vast amounts of unstructured data sources in relation to more than 8 million companies.
- [Symphony](#). Began in 2014 as a messaging platform, has continued to grow through various acquisitions (e.g., Amenity Analytics, Cloud9, and StreetLinx)

Innovation

- 4.34 Our update report highlighted that, while some users have expressed concerns over a lack of innovation in the market, we have observed a number of examples of innovation occurring. For example, desktop solutions have been made available without physical terminals and in some cases in mobile phones, Bloomberg is about to release [BloombergGPT](#), LSEG has started a [strategic partnership with Microsoft to integrate Teams](#), ChartIQ is being integrated in [S&P IQ Capital](#).
- 4.35 We asked users if there had been any significant innovation in MDVs' products and services, with a number of users suggesting services had evolved with technology, but there had been limited transformative or disruptive innovation. Some users suggested 'innovation' took the form of repackaging, rebranding and repricing existing services, rather than innovation in product functionality, while others stated there had been an evolving change in commercial strategies to tighten contracts and introduce new use cases for data, resulting in increasing costs for users.
- 4.36 The mixed views of users align with what we have seen in the market. On the one hand, we can corroborate that MDVs frequently expand their product offering with new tools and functionalities, as well as in incorporating new data. On the other hand, we have also seen numerous instances of repackaging and repricing that often seem to be aimed at extracting more value from customers (see Chapter 5). With respect to the latter, we believe these are better classified as commercial practices, not as innovation.
- 4.37 Some innovation takes place in the collection and provision of new types and sources of data, content and added functionalities and analytical tools, in particular, ESG, Alternative Data and expanding breadth and depth of product offerings as a result of consolidation. Other innovation takes place in the infrastructure, delivery platforms and technology MDVs use. Such as browser-based access allowing portable workspaces and mobile access, cloud-based services and API feeds to increase automation and speed of data delivery.
- 4.38 MDVs and some users explained that MDVs continuously develop innovative new functionalities and tools to provide users with an integrated service. Some users, however, point out that this increases their operational reliance on the MDV and increases the costs of switching.
- 4.39 A number of users, as well as MDVs, highlighted cloud solutions, open data and APIs as the most significant recent innovation. These provide flexibility, scalability, and enabling easier integration with users' internal systems, applications, and technologies. Both agree that cloud solutions are likely to grow further,

complemented with innovation from increased use of AI and machine learning applications, although some users suggested they were not sure any efficiencies would be reflected in lower costs. Some users also highlighted the potential for Big Tech to play a future role in the wholesale data market, including by overcoming the network effects which provide a barrier to entry to providing alternative communication platforms.

- 4.40 MDVs have gone further and argued that various of these technologies could have a major disruptive impact on the market. The ease of integration that cloud computing and other technological services provide can remove some of the traditional advantages of MDVs, according to one supplier. All MDVs expressed the view that the fast pace of technological change will be a determining trend for the sector, and some have highlighted the potential disruptive role of Big Tech.

MDV profitability

- 4.41 Our analysis focused on businesses that predominantly licence wholesale data from data generators and re-distribute it to end users, as opposed to firms whose primary offering is centred on the distribution of own-generated data, either directly or indirectly via group affiliates. We estimate that revenues generated from sales to UK customers by these firms exceeded £3bn in 2022, having grown at around 5% on average per annum since 2017.
- 4.42 We did not find evidence of consistently strong financial performance in the MDV market. Our findings indicate that some firms exhibit stable high performance and others stable low performance. There is also a group of firms with comparatively volatile operating margins and returns during the 6 years under review.
- 4.43 We found that the average operating margin earned by sample firms throughout the 2017-2022 period was 15%, only 2 percentage points above that earned S&P 500 constituents. However, it was significantly lower, by at least 8 percentage points, than that achieved in comparable sectors, such as Diversified Financials and Software & Services.
- 4.44 These levels of profitability contrast with the ones achieved by nearly all established benchmark administrators (56% average margins) and trading venues (average margins for those specialising in equities and derivatives above 40%), both consistently well above broader industry levels.
- 4.45 We found evidence of returns being consistently above cost of capital only for two firms throughout the 6-year period. Our results do not highlight a systemic trend of high returns within the MDV market. Please refer to the [Financial Analysis Annex](#) for more details about the methodology of our profitability analysis and the relevant results.

5 Commercial practices and impact on end users

- 5.1 In this chapter we consider the commercial practices adopted by MDVs and potential impact on end users.

Bundling practices

- 5.2 Bundles can include data bundles and functionality bundles, as in terminals. For example, an MDV could bundle trade data and reference data feeds together. If offered in discount, this could discourage a competitor that only provides reference data but not trade data. Enterprise level deals sometimes offer discounts for larger amounts of data consumption, thus, making it harder to switch partially to a different provider. Similarly, a terminal/ desktop product could contain different functionalities as trading applications and/ or messaging.
- 5.3 Users highlighted a lack of flexibility in vendors' pricing models, restricting their ability to limit their purchases to only the data they need, and being subject to price increases based on improvement in data elements they do not use. Some users suggested that this had a disproportionate impact on small customers and the market worked less well for them. Users also highlighted examples where previously bundled functionalities were unbundled and charged separately.
- 5.4 When asked to provide potential recommendations which could improve the functioning of the UK MDV sector, a number of respondents suggested MDVs' data and service options should be unbundled, including more discrete data packages, unbundling of complementary value-add services, like chat functionalities, and more granular fees based on the functions and volume of data a customer uses, rather than subscribing to a much broader product set than users actually need. Respondents suggested this would give users greater flexibility to purchase only the data and services they use, make comparing and switching between providers easier and avoid providers unbundling existing data offerings and bundling with new ones, to the disadvantage of users. Users also suggested that firms' pricing of unbundled service packages should be reflective of the unbundling.

Complex and non-transparent licensing

- 5.5 In our update report we highlighted that complex and non-transparent licensing may be used by firms to price discriminate and extract higher rents from customers. Price discrimination impacts the prices users pay and the number of users that can access the products and services. It can also lead to positive and negative competition outcomes as well as distributional consequences for the prices users pay and the number of users who can access the products and services.
- 5.6 Non-transparent pricing can also increase search and switching costs for users. Price transparency can increase consumer search, thereby improving market outcomes.

- 5.7 In our update report we set out our intention to review the pricing practices of MDVs to better determine to what extent it hinders users from comparing MDV offerings and ultimately switching to better suited providers. As well as clarifying the origination of pricing practices and to what extent users are being charged multiple times for the same data.
- 5.8 As explained in Chapter 2, the licensing of data on wholesale data markets typically occurs at 2 levels. Data is usually consumed via an MDV but many users also need to obtain a license from data generators, for example, with trading venues.
- 5.9 When analysing the licensing models of MDVs, we have found both similarities and important differences with trading venues. On the one hand, close to 25% of users we surveyed responded that they do not consider pricing structures of MDVs are complex and/ or opaque. On the other hand, a similar percentage of users have expressed concerns. These include:
- multiple charges for a single use case
 - expanding number of use cases
 - significant usage restrictions
 - significant fees to retain historical data upon contract termination
 - non-standardised contract terms and presentation
- 5.10 Our analysis indicates that the restrictions contained in the licences that users have with MDVs can reflect the restrictions imposed by the data generators themselves. This relationship was highlighted to us by both MDVs and users. For example, one MDV explained to us that data generators are increasingly requiring information of users' data consumption and usage, and demanding pre-approvals on downstream products.
- 5.11 One MDV explained that *"customers are getting hit twice by price increases - once by wholesale data providers (whether it be license fees or royalties) pursuant to the direct agreement in place between the customer and provider, and again from data vendors that normalise and distribute the data to the customer. Each time a wholesale data provider increases license fees, the customer will pay a fee increase imposed directly by the provider as well as from vendors to cover their own cost increases."*
- 5.12 In our [Trade Data review](#) we highlighted the growing trend among trading venues to impose charges for various use cases, resulting in increased costs and administrative complexities for users. We stated that complicated licensing design and contract terms result from trading venues' lack of incentives to simplify these arrangements given the profitability of charging different prices to different users, by charging for how data is used, compared to uniform pricing. We found that complicated licensing design and contract terms had implications that were not clear from the outset, making it difficult for users to monitor trade data costs and make effective choices between different trade data offerings. The licensing complexities create frictions for users when assessing their trade data needs, comparing prices across trading venues and predicting their overall expenditure.
- 5.13 Some users explained to us that they considered that data generators' contracting practices were the driver of the restrictions in users' licences, not the market data

vendors. However, we have seen instances where MDVs are applying similar pricing strategies to trading venues in their own products, for example, in data feeds.

- 5.14 Some MDVs have justified these pricing strategies explaining that they represent a clear advantage over uniform pricing. By increasingly charging separate licenses for different data uses, MDVs can charge more for the same data to users that generate more value from it, for example, because they redistribute it or use it for a larger number of internal applications. Similarly, users that utilise the data limitedly pay less. We observed that the majority of the revenue obtained by MDVs is originated from a small proportion of clients. Uniform pricing could be detrimental as it could result in higher prices for a long tail of firms.
- 5.15 However, some users suggested they felt pricing was inconsistent and unpredictable, with smaller firms disadvantaged in negotiations with vendors. As such, pricing should ensure that all users are provided access on a fair, reasonable, transparent, and non-discriminatory basis.
- 5.16 When asked to provide potential recommendations, which could improve the functioning of the UK MDV sector, a number of respondents suggested licensing and pricing standardisation and simplification, greater transparency of fees, use-cases and licensing structures. As well as methodologies that are easier to understand and compare across competing vendors, including a requirement to publish rate cards and provide more support and information to users to help them monitor their usage.
- 5.17 A number of users suggested licences or restrictions on derived data were a barrier to innovation, and there should be limits on MDVs' ability to impose restrictions or increase the cost of derived data beyond those required by the data originator or those needed to avoid directly competing with the redistribution of the source data. Users suggested these restrictions are a barrier to innovation and improved engagement, transparency and information sharing between financial institutions and their clients.
- 5.18 A few users suggested where MDVs include non-competition/ non-substitution provisions in their contracts, they should be reasonably scoped and aim to achieve an appropriate balance between protecting the MDV's business, and promote competition and innovation in the industry.
- 5.19 In contrast, a number of users highlighted the benefits of flexible pricing and suggested greater flexibility over pricing for smaller users including tiered or à la carte offerings for smaller firms, or standardisation of pricing models that suit benefit both large and small firms.
- 5.20 It is also important to notice that there is variation among MDVs with regards to their data licensing models. As we saw in Chapter 2, these are one factor for consideration when choosing an MDV. This last point is crucial since a desirable outcome of competition would be a licensing model that offers value to users. Similarly, transparency over licensing terms is not homogeneous among MDVs, with some MDVs offering highly transparent pricing menus.

Contract exit terms

- 5.21 A number of users explained to us that MDVs impose onerous exit terms. Most notably, MDV contracts generally require users to purge historical data from their systems. In some cases, MDVs allow users to keep the data for audit and regulatory purposes or negotiate a fee to keep using the data in an alternative manner. However, in the latter case, some users tell us that the costs can be prohibitive. Given that for certain activities it is crucial to maintain historical data, these clauses can constitute an important barrier to switching to a new provider.
- 5.22 When asked to provide potential recommendations, which could improve the functioning of the UK MDV sector, a number of respondents highlighted onerous exit terms which prevent users switching between vendors, and act as a barrier to new entrants. Including contractual obligations to purge historical data (with associated audits) and penalties from terminating access before the end of a contract. Some users suggested that MDVs should be prevented from imposing post-termination data retention restrictions, or at least, provide for legal, regulatory and audit purposes without requiring a perpetual licence. Some users suggested the establishment of a broad-based set of rules for the provision of a *transfer process* (including rights to historic data and identifiers).
- 5.23 On the other hand, some suppliers, suggested that termination clauses are necessary to prevent users from free-riding on their intellectual property, which is essential to protect their investments. If customers could retain data for commercial purposes after contract termination, they could continue to benefit from data that is not licensed anymore. Some suppliers also informed us that they allow historical data to be used for regulatory and internal audit purposes, and that these arrangements are usually negotiated at the start of the contract.

Impact on end users

- 5.24 We asked users if they had ever changed their own product offering (direct or indirect) in response to changes in the terms of provision from their MDVs, for example, changing or withdrawing a product or passing through MDV price changes to their customers. Around 23% of respondents suggested they had responded to changes in their terms by changing their own product offering or processes, including:
- **Contract adjustments:** examples included amending contracts to allow prices to increase with inflation, in response to equivalent clauses set by data providers, and updating T&Cs to state the risk of pricing errors originated by MDVs is borne by investors, given the allocation of liability.
 - **Vendor/ data source substitution:** examples included replacing a data source due to licence restrictions on redistribution to clients (and using a provider's data less extensively to avoid crossing end-user thresholds for contract renegotiation), switching providers due to inadequate quality, switching providers due to the removal from market, or refusal to supply, original data source (to the detriment of clients).
 - **Withdrawing products or reducing quality:** Respondents highlighted examples where loss of asset class or security data from a vendor would require removal from their offer to clients, if products are not selling (or are priced incorrectly given

the cost of underlying data) they will be removed from the market, clients choosing to receive data gaps in reports to avoid paying additional data costs, exiting and considered exiting products due to new and/or increased costs in the required data, brokers limiting access to specific markets to avoid access charges, switching from real time to delayed to reduce costs.

- **Product innovation:** Respondents suggested the restrictive use cases imposed by MDVs are a significant factor in limiting users' ability to innovate and launch new products due to the lack of financial viability, with some innovations or new activity cancelled, or reduced in scope, if the impact from data cost is too negative or the licensing conditions are too restrictive. Respondents also suggested they have chosen not to introduce products due to prohibitive pricing of market data products and not evolved their business in ways that would require them to use real-time exchange pricing, given prohibitive costs and usage restrictions.
- **Cost pass-through:** A number of respondents suggested they would pass through the cost of any bespoke client data requirements involving additional MDV licenses or costs (eg new, unique, or specific data set that cannot utilised more broadly), or already pass on a proportion of market data costs to clients, given they have become prohibitively high. However, respondents also highlighted limits to their ability to pass through costs, including price sensitive clients and causing detriment to the client relationship, especially if the client is subscribing to the same data and already paying for this.

6 Abbreviations used in this paper

Abbreviation	Description
AI	Artificial Intelligence
APA	Approved Publication Arrangement
API	Application Programming Interface
BMA	Benchmark Administrator
CAGR	Compound annual growth rate
CME	Chicago Mercantile Exchange
CRA	Credit Rating Agency
CT	Consolidated Tape
CTP	Consolidated Tape Provider
DTR	Disclosure Guidance and Transparency Rules
EEX	European Energy Exchange
ESG	Environmental, Social and Governance
ESMA	The European Securities and Markets Authority
FCA	Financial Conduct Authority
FRAND	Fair, reasonable, and non-discriminatory
FRTB	(Basel Committee on Banking Supervision's) Fundamental Review of the Trading Book
FX	Foreign Exchange
ICE	Intercontinental Exchange
IP	Intellectual Property
KYC	Know Your Customer
LSEG	London Stock Exchange Group
M&A	Mergers and Acquisitions
MDV	Market Data Vendor
MiFID	Markets in Financial Instruments Directive
MiFIR	Markets in Financial Instruments Regulation
MTF	Multilateral Trading Facility
OTC	Over the Counter
OTF	Organised Trading Facility
PIP	Primary Information Provider
PRV	Price, reference and valuation
RCB	Reasonable Commercial Basis
RFI	Request for Information
RFP	Request for Proposals
RNS	Regulatory News Service
SFTP	Secure Fire Transfer Protocol
SIP	Secondary Information Provider
SPGMI	Standard & Poor's Global Market Intelligence



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