

Exchange-Fee Confusion Abounds, Study Finds

By David Valiante

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Research into the market data fees charged by the world's exchanges shows disparities in the way exchanges charge institutions for real-time quotes, which increases the costs of accessing market data on trading floors and causes confusion as to what the varying exchange's policies are and therefore where fines might be incurred.

The study, conducted by Peter Esler, managing director of PVE Consulting (and former global head of market data at Bear Stearns and Citigroup) and trading-floor solution provider [Mightier](#), queried many of the largest exchanges and global investment banks about exchange fees. Of the 88 equity exchanges, 23 futures exchanges, 17 commodity exchanges and 11 fixed income exchanges in the study, only eight allow the netting of market data fees across multiple market data platforms, on a per user basis. But this policy, called MISU (Multiple Instance Single User) is not providing the cost benefits it should, according to the study -- many of the banks reported that the difficulty of calculating the fees accurately and the fact that they must often pay exchange fees up front and wait for a rebate (resulting in the loss of working capital) make the MISU inefficient.

The remaining exchanges are then split into two main categories, those that bill clients on an end-user basis and those that bill on a per device/unique user ID basis. More than 50 percent of the exchanges charge on a per device/per user basis, including the London Stock Exchange, Deutsche Borse and NYSE Euronext.

"The confusion and misunderstanding over exchange fees has been examined by professional bodies such as SIFMA, IPUG, the FISD and COSSIOM, but the industry is no closer to a standard resolution," said Esler. "One way around the confusion is to create a central access point for multiple devices to satisfy those exchanges that charge on a 'per unique user/device' basis demands and remain compliant with their 'device' policy. It is proving increasingly important for tier-two banks to find a way to achieve this as they have less power to strike deals with the exchanges to net their fees."

The research also found that the tension between banks and exchanges is growing. For instance, many exchanges believe firms are under-reporting the market data count by standardizing on a per-user basis. Fines are then levied if a bank cannot prove that the market data count was made by reporting users who are under a "controlled access point," i.e. where a user cannot share his/her user ID to grant access to market data quotes to others. And from the bank

perspective, exchanges have exacerbated the issue by being too vague in their count policy definition, stating simply that counts should be made per "device."

"Our research shows the strain caused by technological developments such the 'arms race' around advanced algorithmic trading methods," said Mike Murton, CEO of Mightier. "This has inevitably led to an increasing number of machines and devices at desks and introduced complications with existing exchange fee models. There is a large risk of incurring heavy fines, in some cases many millions of dollars, if the bank under-reports its usage or breaks the exchange rules."