THE
INVESTMENT
ASSOCIATION

IA Comments on FCA Wholesale Market Study

About the Investment Association

The Investment Association (IA) champions UK investment management, a world-leading industry which helps millions of households save for the future while supporting businesses and economic growth in the UK and abroad. Our 270 members range from smaller, specialist UK firms to European and global investment managers with a UK base. Collectively, they manage £9.4 trillion for savers and institutions, such as pension schemes and insurance companies, in the UK and beyond. 44% of this is for overseas clients. The UK asset management industry is the largest in Europe and the second largest globally.

Executive summary

The IA and its members have long held concerns regarding the ever-increasing cost and complexity of wholesale data markets. From the largest global asset managers to the smallest firms, all members have faced high and rising prices to acquire data that is critical to their business. Key drivers of this have included:

- Greater requirements for data usage, with de facto requirements to purchase new data products that have come onto the market; and
- Licensing agreements and policies that are subject to variation and regular changes. Vendors will often separate use cases and impose separate licence charges for each.

These drivers have led to rising complexity which in turn has also increased costs. These costs have impacted market participants' ability to access data, acting as a barrier to entry for smaller and newer firms, and ultimately impacting the returns of the end client: the individual saver and investor.

In order to improve the functioning of the market, we recommend that:

- Data fees be tied to costs, with cost increases based on a reasonable profit margin, or demonstrable growth in operating expenses (excluding contracting and audit costs).
- Regulators should consider how to rationalize licensing agreements – by, for example, requiring standardized contract terms and standards.
- Regulators should also consider how to achieve greater pricing transparency, through public availability of pricing lists or models.
- An option for 'enterprise' licencing of market data (ie having one licence with a data provider for use throughout the firm) be introduced.
- The IA and its membership strongly encourage the FCA to explore concerns regarding market data providers disclaiming liability for accuracy, completeness, and timeliness of delivery, and to consider whether this would amount to an unfair contract term for a paid data provision service.

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Finally, we note that the relatively short time window for response to this study has led to these comments being by necessity quite high level. We would urge the FCA to continue to gather views, both formally and informally, from all stakeholders, and if necessary extend the timeline for the review to allow for stakeholders to gather and analyse sufficient data and provide a response that is suitably detailed.

We would welcome the opportunity to discuss further with the FCA any of the issues we raise in our response.

IA Comments

Issues in the Wholesale Data Markets

In recent years the costs associated with accessing market data have increased globally. This has been primarily driven by:

- Greater requirements for data usage, with *de facto* requirements to purchase new data products that have come onto the market, for example as a result of:
  - A growing requirement for ESG data;
  - Data requirements associated with mandates for new clients, particularly where there is a lack of widely available data elsewhere such as in the fixed income space; and
  - Regulatory changes.
- Licensing agreements and policies that are subject to variation and regular changes. Vendors will often separate use cases and impose separate licence charges for each. In practice this often results in investment managers paying multiple times for the same data. Examples include:
  - Derived data rights;
  - Access to and retention of historical data. Investment managers looking to move to another provider will have to continue to pay a fee to their former provider for necessary historical data, which both increases costs and discourages competition;
  - Research and advisory use; and
  - Location-based licensing (which has become increasingly antiquated and onerous as more and more employees work at least partially from home).

Rising complexity also plays a significant role in increasing costs for investors.

- Data licensing agreements are often too complex, with subscribers asked to pay for data on the basis of both individual use cases, and for each individual user.
- Firms also often bear the cost of complex audits of their licenses imposed by data providers. These audits can be lengthy, difficult to work through, require significant resource, and may in some instances take years to complete.
- Firms receiving market data also face significant complexity in managing ongoing variation in their licensing agreements, incurring operation costs and risks.

There issues are exacerbated by increasing consolidation of data providers and dominance by a small number of players, resulting in a monopolistic scenario where investors find it difficult to move their business to a competitor. For both benchmark providers and credit ratings agencies in particular, there are a relatively small number of large market players, and investment mandates will often require investment managers to use particular providers. This allows these providers to raise prices significantly with little recourse available to investment managers to move their business elsewhere. Increasingly, the IA's members are also seeing this trend now spreading to the area of ESG data, where the largest, global data providers are taking over smaller, specialised, providers.

All this has had the effect of greatly increasing the costs required for market participants to access a comprehensive view of market activity, acting as a barrier to entry for smaller and newer firms and ultimately impacting the returns of the end client: the individual saver and investor.

It is not at all clear to the IA and its members that these rising costs are associated with an improvement in data quality, or an increase in costs incurred by the data provider. Instead data providers are often seen to be simply charging more for the same level of service.

We also note that pricing models change frequently, with vendors frequently making changes to usage and licensing rules at each new renewal (for example by switching between unlimited usage per licence to per user pricing), driving up fees over time. There is often little transparency as to how these pricing models operate. In many cases, data providers will state that they are working from a strict pricing list which makes price reduction impossible, but more often than not these pricing lists are not visible to data users. These opaque models lead to highly variable commercial outcomes, make price comparison impossible, and make it difficult to determine whether the requirement to treat customers fairly is being met, as well as to anticipate any future cost increase from one year to another in the provision of a given service by data providers.

Finally, we note with concern the practice of market data providers disclaiming liability for the accuracy, completeness, and/or timeliness of delivery. This puts the risk of their errors onto the consumer, setting an unfair responsibility on investment managers as users of such data. Given that investment managers are paying for this data, the onus should be on data providers to ensure that the data is reliable and useable. As this is not the case currently, this often results in data consumers building teams and functions to verify the data at their own expense. Coupled with the persistent, unjustified cost increases the market data providers levy, this adds significant cost and time burden to the consuming company and potentially the end customer in the way of higher charges.

Recommendations
To improve the functioning of the market we believe regulators should focus on tackling these existing issues with costs and licensing practices. It is the IA's view these issues are ideally dealt with through regulatory intervention. With the overall goal of reducing complexity and ensuring costs are reasonable and sustainable, the IA in particular recommends that:

- Data fees be tied to costs, with cost increases based on a reasonable profit margin, or demonstrable growth in operating expenses (excluding contracting and audit costs). This is key for IA members. Costs of data have increased precipitously in recent years with little-to-no correlating increase in costs for providers. We would urge the FCA, as part of their analysis, to ask vendors to provide details on their revenues compared to costs in recent years, and to consider the impact this disparity has had on investment management firms and, ultimately, their end clients.
- In order to tackle overall costs by reducing complexity, regulators should consider how to rationalize licensing agreements – by, for example, requiring standardised

contract terms and standards, although it is important that this is not also accompanied by higher fees and worse terms.

- Regulators should also consider how to achieve greater pricing transparency, through public availability of pricing lists or models.
- An option for 'enterprise' licencing of market data (ie having one licence with a data provider for use throughout the firm) be introduced. This would enable users to fully realise the value of market data within their organisation by eliminating the possibility of additional fees or reporting requirements being incurred for new use cases defined by market data providers. As enterprise use does not necessarily lead to increased costs for the data provider, an enterprise model should still adhere to the concept that fees are in line with costs plus a reasonable margin.
- The IA and its membership strongly encourage the FCA to explore concerns regarding market data providers disclaiming liability for accuracy, completeness, and timeliness of delivery, and to consider whether this would amount to an unfair contract term for a paid data provision service.