



**Consultancy**



# **Market and Reference Data Compliance**

How compliant  
is your market  
data use?

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# Why do exchanges and vendors do audits?

COMPLIANCE WITH THE TERMS & CONDITIONS OF STOCK EXCHANGES, MARKET DATA VENDORS AND THIRD PARTY DATA PROVIDERS.

## Understanding the rationale and reasoning

Traditional stock exchanges are increasingly conducting audits, because they:

- want to address the fact that new ways of (automated) trading are making use of the exchanges' data that hadn't been anticipated
- are under pressure from new trading venues such MTF's (Multilateral Trading Facilities) and want to protect their own franchise
- want to address unlawful, piracy-like use of their data

Vendors are increasingly conducting audits, because they:

- see a shift away from their terminals to low-cost market data display providers, to internal display applications, and to non-display applications
- want to/need to grow revenues, even in difficult times
- want to be in a bargaining position with the client, to tie them in for the following years (or hit them with a substantial audit claim)

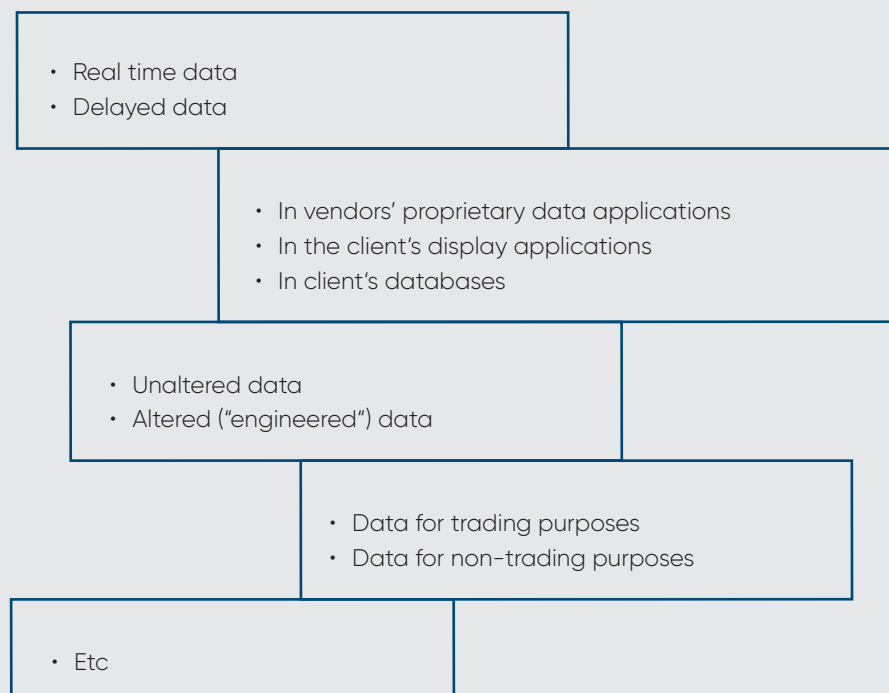
Third party providers (such as broker/dealers and benchmark index providers):

- want to push for wider brand recognition and capitalisation
- wish to protect sometimes decades' worth of proprietary research and analysis
- need to get a (better) return on many years of investment in technology and infrastructure

# What is it that auditors want to look at?

## Understanding the rationale and reasoning

The subject of audits is the (nature of the) use of the data of the originating source:



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- because the processes and procedures are not in place
- because no existing costs are concerned
- because the (internal) applications have often not been developed to allow user enabling/disabling of externally sourced data

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- Security exchange A
- Security exchange B
- Security exchange C
- Data vendor D
- Data vendor E
- Data vendor F
- Third party data provider G
- Third party data provider H
- Third party provider I

# The primary area: use of real time data

## How real is real time – some general principles\*

### What constitutes data in “real time”?

- Streaming data (continuous push)
- Every second, every tick is received
  - Multiple snap shots of real time data taken during the day
- Data delayed for a shorter period of time than demanded by the vendor
- When vendor says that the data is free of charge after a delay of 15 minutes, data delayed by 10 minutes is “real time”

### When is data no longer in “real time”?

- End of day batch retrieval (pull)
- Closing prices
  - Multiple snap shots per day, delivered in one file
  - Fewer snap shots of data during the day than qualify as “real time” (for instance: fewer than 8 snap shots per day is no longer real time)

*\* Individual exchanges and vendors may have differing definitions*

# But it is not only about real time data

## What else may compliance auditors look at ...

### Subject of an audit are the following:

- The records kept from the data distribution platform
- What is the entitlement system and how does it work?

- Usage of market data in non-terminal applications
- Is there an Open DACS\*, or is information about potential access kept in a different way?

- Redistribution and/or processing of the original data
- Is data processed further, without the possibility of “reverse engineering”?
  - Is data distributed further within the organisation, or outside the organisation?



Administration and Reporting is a burden

*\* Open DACS is an extension to DACS and enables individual user permissioning on other RMDS connected applications*

# Different categories of data access

## How and by whom can the data be accessed?

Data Access Category	How is the Data Access Declaration* done?
<ul style="list-style-type: none"><li>• Terminal Display Applications<ul style="list-style-type: none"><li>– Thomson Reuters Eikon</li><li>– Bloomberg Professional</li><li>– others</li></ul></li></ul>	<i>Direct from the TR DACS reports or, in the case of Bloomberg, directly to the exchanges</i>
<ul style="list-style-type: none"><li>• Internal Display Applications<ul style="list-style-type: none"><li>– SUNGARD FrontArena</li><li>– MISYS Summit</li><li>– SIMCORP Dimension</li><li>– others</li></ul></li></ul>	<i>Direct from DACS reports and from additional information and/or systems as far as individual end users are concerned</i>
<ul style="list-style-type: none"><li>• Non-Display User Applications<ul style="list-style-type: none"><li>– “Black box” applications for algorithmic trading</li><li>– others</li></ul></li></ul>	<i>Start with DACS reports (for the „first user“); add an „honesty statement“ that the NDIU clause is applicable</i>

\* Also known as DAD

# Compliance with the Datascope contract?

## Many variables to take into consideration

To make an assessment of the exposure we have to establish the following:

- How many DataScope data consumers are there that don't have an Eikon terminal
- Are all „Business Activities“ consuming data listed?
- Is the number of RICs that has been agreed upon accurate?
- Is the current RICs usage level steady, or is it growing?

# Terms & Conditions – Third parties

## Various categories of Third Party providers

Broker/Dealers

- TullettPrebon
- NEX
- Tradition
- GFI

Benchmark Index Providers

- MSCI
- FTSE
- STOXX

Independent Credit Research and Ratings Providers

- Moody's
- S&P
- Fitch

# Summary & Conclusions

## The most important findings – example

- Client firm is not compliant with the Terms & Conditions of the agreements it has with its sources of data.
- While the firm is not unique in this respect (TRG Screen estimates that more than 90% of user firms are non-compliant for an amount exceeding 20% of their total annual spend on market data) it is necessary to take remedying action straight away.
- The biggest area that needs to be addressed is the fact that, in System X, real time market data is available across the board.
- The business side is not (fully) aware of the financial exposure that the firm has and is not prepared, in budget terms, for a cross-charge of the actual costs, should this be imposed on them.
- The market data management department is not well-equipped to respond to market data compliance audits. Historical records are patchy, and the market data administration application is not (fully) used.

# Recommendations

## Taking the next steps

Recommendations are dependent on the particular issues found at the client firm, but here are some simplified examples:

1. Set up an administration system on a "per user" basis for application users.
  - Be in control of your market data spend and/or exposure.
2. Switch all real-time exchanges to delayed
  - Discuss with business, test appropriateness
3. Liaise with business to check real-time needs for the user group currently authorised
  - Check in particular FX/MM, Risk, Sales desk
4. Upgrade to a system version that supports Open DACS
  - Take control over all users. Open DACS is the entitlement system to support user entitlements outside immediate DACS control

### Who we are

Screen Consultants is part of TRG Screen, which offers a range of specialised services and solutions for the professional financial information services industry since 1990.

Screen Consultants is recognised as the global leader for **market & reference data** and **investment management solutions** advisory services, and known for its market expertise, independence, innovative products & services, and quick response to customer requests.

With offices & partners in all major financial centres TRG Screen has managed more than 750 market & reference data and investment management projects for **500+ clients** worldwide.

### What we do

Screen Consultants is an **independent boutique consulting firm** with a track record of assisting financial institutions globally with managing business processes, market & reference data management challenges, selection & implementation of specialised information systems, technology and risk & regulatory compliance issues.

Our areas of expertise include strategical and tactical change management, programme & project management and business analysis.

We have a diversified range of consultants with specialised skills, working within the investment banking, asset management, retail banking, insurance, energy and the hedge fund industry.

### Why we do it

Market & reference data and investment management solutions are **expensive** and **complex** (data variety, functionality, technology, billing). Therefore it needs to be managed professionally.

We want to **support the financial information services industry** in optimising its operational processes and market data services, as well as right-sizing its investment management systems.

With our innovative products and additional specialist services we want to help any (trading) firm using market & reference data and financial services solutions to flourish.



**TRG Screen**

[info@trgscreen.com](mailto:info@trgscreen.com)

[www.trgscreen.com](http://www.trgscreen.com)



@trgscreen



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