



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)

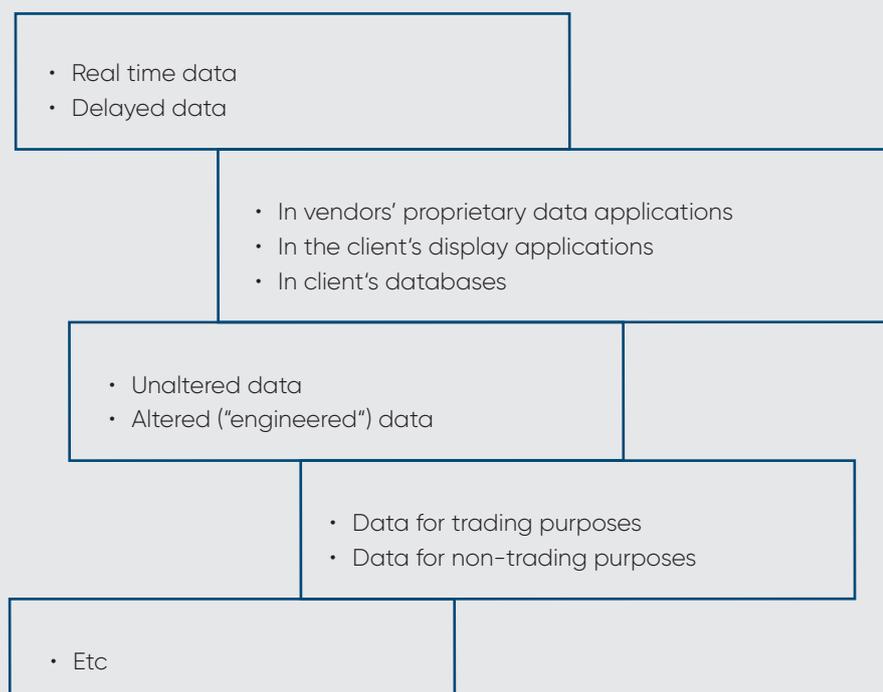
Third party providers (such as broker/dealers and benchmark index providers):

- 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:



How compliant is your market data use?

The importance of keeping complete, verifiable records

Distribution of market data via standard Distribution Platforms (e.g. TREP) has its limitations for compliance purposes

- Platforms like TREP and the associated DACS reporting do not go beyond permissioning of terminals and single instances of (internal) applications and data feeds
- As a result there is no standard, automated permissioning system for these applications and the end-users connected to them

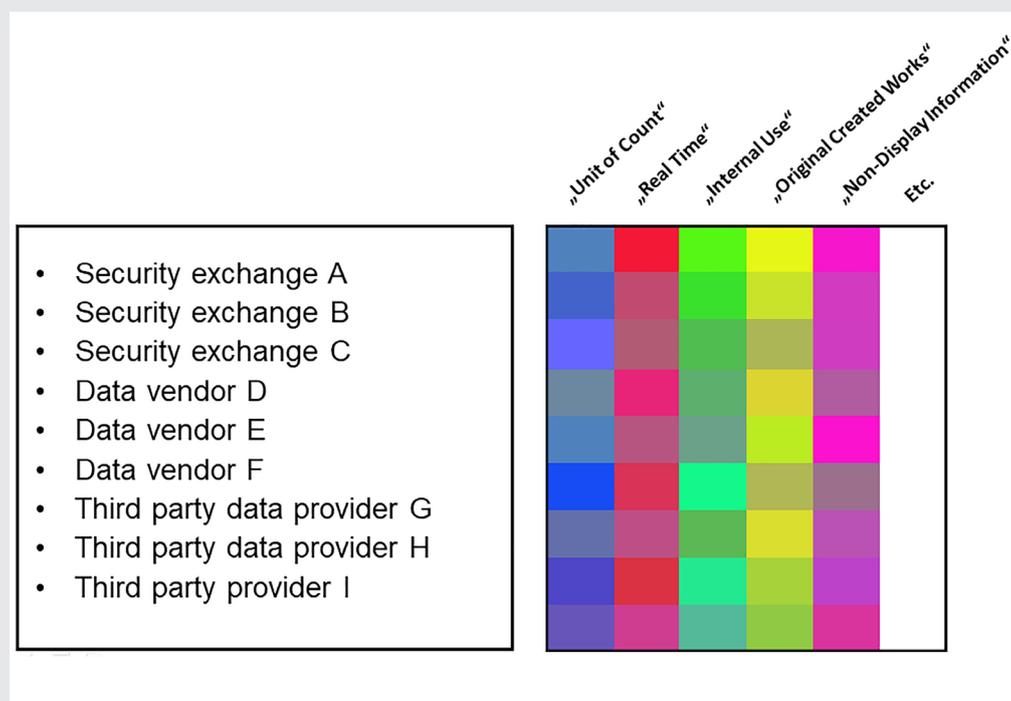
The limitations resulting from the above are not sufficiently compensated; not each and every potential access to the data that is subject of the audit is declared

- 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

Different rules from different data sources

Each entity has its own definition of the T&C concepts

Complying with the Terms & Conditions of one entity is no straight guarantee for compliance with the T&C's of others!



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

* 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.



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