# SEC Roundtable on Market Data and Market Access

**Opening Statement by Hal S. Scott**
**October 25, 2018**

The Committee on Capital Markets Regulation (the "Committee") has found that the U.S. equity markets are performing well for U.S. retail and institutional investors as the cost to buy and sell stock is near record lows. However, we believe that *marginal* reforms to the U.S. equity market structure could further reduce trading costs for U.S. investors and we have identified "critical" market data services as one potential area for improvement. By this I mean the fact that broker-dealers must pay exchanges for access to the securities information processors (SIPs), proprietary (or depth-of book) data feeds and connectivity services to efficiently execute investor orders and fulfill their best execution obligation.

While trading venues (exchanges and so-called dark pools) clearly compete for order flow from broker-dealers, and this competition has been the primary driver of reduced costs for investors, it is fairly clear that this competition has not constrained the cost of exchanges' critical market data services. This is due in part to the fact that broker-dealers do not pay for market data services when they are choosing a trading venue to execute a customer order. Instead, broker-dealers must pay fixed costs to access these market data services apart from their order routing decisions. These costs, however, are passed through to customers, so investors have a direct interest in the cost of data fees.

There are a wide range of options that the SEC could undertake to examine whether the cost of critical market data services are excessively high and, if so, then to take action to reduce these costs.

First, a measure that the Committee recently supported, would be to require exchanges to make standardized and thorough disclosures as to their revenues from all critical market data services and the underlying *direct* cost of providing those services. Such transparency would provide the SEC and the public with the information necessary to determine if the cost of critical market data services is meaningfully and unnecessarily increasing the cost of trading stocks.

Second, the SEC could require that when exchanges file for fee approvals that the exchanges provide further evidence that the fees that they charge for critical market data services are fair and reasonable, not discriminatory and subject to competitive forces. As we all know, the Commission recently made it clear that they are doing so. I applaud those actions.

Third, the SEC could allow for competition among consolidators of SIP data. The Committee has also supported this measure, as we believe it would address concerns that the SIPs represent a single point of failure for the U.S. equity markets and could improve the speed and quality of consolidated sources of market data while also reducing their cost.

However, these reforms by themselves would not subject proprietary data feeds and connectivity services to competitive forces. Without such competition, the SEC will be unable to exit the "rate-setting" business whereby they must act as an arbiter of fees for these services—a burdensome, imprecise and potentially impossible task. The SEC should therefore accept public comment as to regulatory changes that could better subject these fees to competition. And if the SEC determines that doing so is not possible, then the SEC should consider whether it would be more appropriate to only allow exchanges to charge fees for these services that match the direct cost of providing them.