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Market Data Deathmatch Impacting Investors Despite Efficiency of U.S. Equity Market, Says TABB Group Research

Exclusive research reveals the large fee increases that are buttressing data, technology and access revenue growth at exchanges have led to a deathmatch between brokers and exchanges

NEW YORK & LONDON, January 27, 2016 – It is widely accepted that electronic trading has made the [U.S. equity market](#) significantly more efficient, helping reduce spreads, commissions, and market-maker revenues, while returning dollars into the hands of investors. At the same time that trading volumes and profits at market participants have declined, exchange revenues at the three largest U.S. equity exchange groups have risen nearly 16 percent, and the revenues for exchange data, access and technology are up 62 percent from the beginning of 2010 to the third quarter of 2015.

In TABB Group's latest research, "[The Market Data Deathmatch: The Increasingly Brutal Fight Over Equity Market Data Costs](#)," report author and TABB CEO [Larry Tabb](#) examines how the large fee increases spurring the growth of data, technology and access revenue at exchanges have led to a deathmatch between the exchanges and brokers. Although for-profit exchanges need to maximize their shareholder returns, the increases in data, access and session fees are putting pressure on the current business models of market-makers, alternative trading systems (ATs), and brokers.

"Exchanges have been faced with declining volume and revenue, but have found a way to replace those lost earnings by exerting further control over market data through demanding higher fees and creating increasingly faster products for those with deep pockets," says Tabb. "If these costs are not reined in, the markets will inevitably be harmed, as continuously increased fees will pressure market-makers to widen quotes and push brokers to also increase fees, ultimately leaving investors with a more expensive and less robust market."

In addition to buying data, effectively interacting with low-latency information forces customers into paying for a host of exchange-based proprietary, non-transactional technologies, such as co-location, session/port fees, high-bandwidth gateways, and cross-connects. The proof is in the TABB data, which reveals that over the past five years, exchange data revenues have increased 62 percent overall (39.2 percent when not including NASDAQ's Technology Solutions group, which provides market infrastructure to exchanges), while market-maker/liquidity provider revenues declined 75 percent, institutional equity commissions 20 percent and broker equity trading revenues 29 percent.

Sorting out this deathmatch will be challenging for the market. Over the long run, says Tabb, traders could shift business to fee-friendly exchanges, fund new competitors, or develop creative solutions. However, he adds, "if in the short term we cannot effectively pressure regulators to change the market

data governance structure, we are left with few options besides lawsuits and fighting to change public opinion.”

The 21-page, 12-exhibit report is now available for download by TABB equities clients and pre-qualified media at <https://research.tabbgroup.com/search/grid>. For more information or to purchase the report, contact info@tabbgroup.com.

About TABB Group

With offices in New York and London, [TABB Group](#) is the international research and consulting firm focused exclusively on capital markets, based on the interview-based, “first-person knowledge” research methodology developed by Larry Tabb. For more information, visit www.tabbgroup.com.

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