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MARKET DATA PRICING

2023 in Review

Edited Highlights

For the full version please contact us at:
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INTRODUCTION

Substantive Research is delighted to publish the 2023 Market Data Pricing White Paper, outlining our latest findings on wholesale market data pricing. These insights are published ahead of the FCA's Wholesale Market Data Study, due to be released by 1st March 2024.

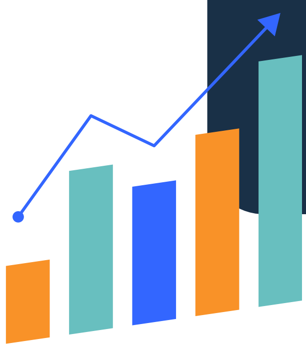
To respond to concerns from both the buy side and sell side, in March 2023 the FCA (the UK regulator) launched a study into the wholesale market data market, using its powers under the Enterprise Act to look into the opacity and inconsistency of pricing reported by consumers throughout the industry. The FCA believes that *'there are reasonable grounds for suspecting that some features of the benchmarks, credit ratings data and Market Data Vendor (MDV) services markets prevent, restrict or distort competition'*. Having run a series of consultations and gathered evidence for over a year, the FCA is expected to announce its findings by 1st March 2024, covering providers of indexes, credit ratings data, terminals and market data feeds.

Our March 2023 survey found that some consumers of market data products were paying many multiples more than peers for similar products and use cases. For example, for certain index products, some institutions were paying over 26 times (2632%) more than peers. A more recent study showed that vendors were raising prices aggressively on renewal, 12%-13% on top of inflation during the latest renegotiation cycles.

What this White Paper shows is that if the FCA's study does not come back with concrete changes for the market, market data consumers will have to look at the viability of their current data budgeting and procurement approaches, and make some tough, structural decisions in the coming years.

60%

of financial institutions' market data costs rose by an average of more than 20%.



SURVEY UNIVERSE

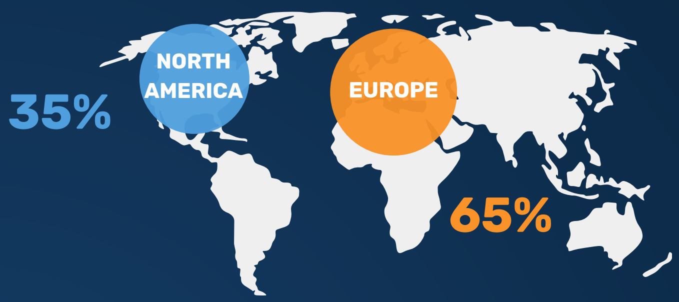
BUYSIDE

40 FIRMS

$ 17 trillion
Total Assets under Management Represented

65%/35%
UK&EU/North America
Regional Coverage

70%/30%
Long Only/Hedge Fund
Type of Asset Manager

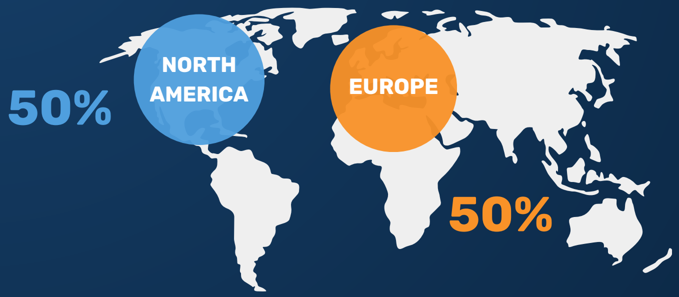


SELLSIDE

20 FIRMS

$ 20 trillion
Total Assets Represented

50%/50%
UK&EU/North America
Regional Coverage



METHODOLOGY

This study dives into pricing inconsistencies in the market data industry. Examining historical pricing data, surveys, and interviews, we aim to uncover how much prices differ for similar products, what factors drive those discrepancies (like company size or data exclusivity), and how these inconsistencies impact the market. Historical pricing data were analyzed using techniques like regression models to identify statistically significant relationships.

PRICING MODEL CHANGES IN 2023:

SHIFT TOWARD ENTERPRISE AGREEMENTS

Many market data vendors are strongly urging clients to move toward global/enterprise agreements - which cover unlimited access to content or unrestricted user, location, or regional access. The impact to overall cost depends on clients' existing agreements.

200% cost increase

This push towards enterprise agreements has resulted in cost increases of as much as 200% compared to the previous agreements that were in place.

WHY AGREE AND CHANGE?

Because the vendor stipulates that renewing the current structure unchanged would incur increases that are even larger than 200%.

While individual contracts offer flexibility, consolidating into an enterprise deal has the potential to unlock significant cost savings – up to 30% for organizations with multiple regional subscriptions or large user bases in each corporate division (most frequently in the case of sell-side firms with global operations).

30% cost saving

WHY?

Because global companies gain immense negotiating power due to the sheer volume and value of the combined contract. One big contract means bigger discounts and better leverage.

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CHANGES IN VARIOUS PRICING MODELS

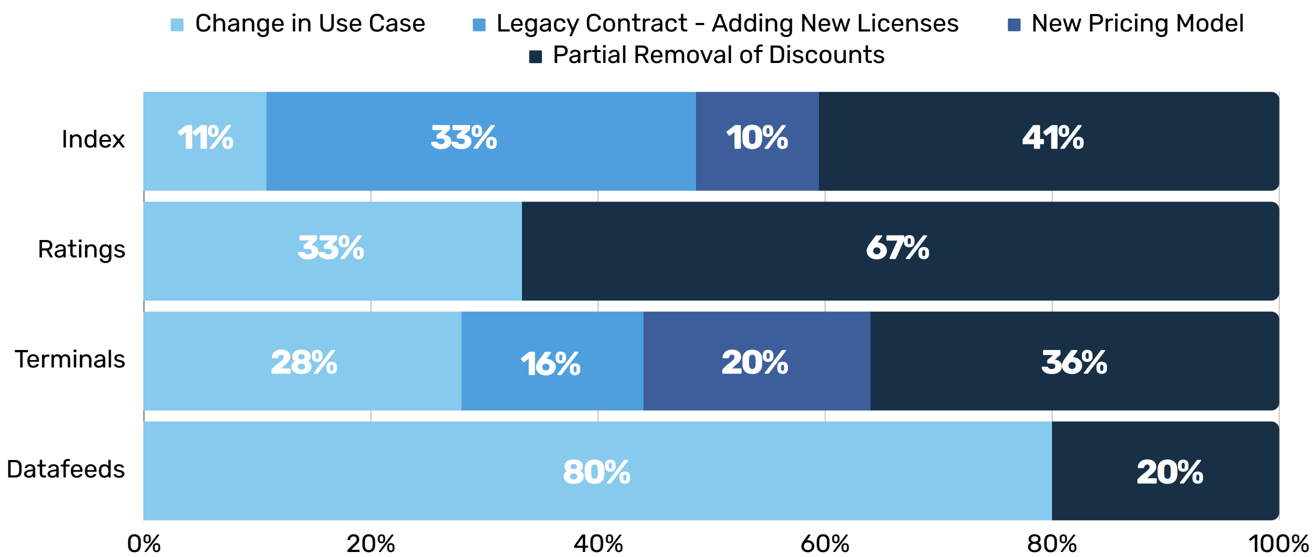
Apart from urging clients to shift towards an enterprise agreement, several market data vendors are introducing changes to their current pricing structures that hike prices by up to 50% for the same use case.

PRICE INCREASE JUSTIFICATIONS

Market data vendors, while citing inflation as a factor, frequently employ additional justifications for notable price hikes during contract renewals.

These can include changes in client data usage, expanded licensing requirements, the implementation of new pricing models (different bundling/recategorizing of products), or the gradual removal of discounts to bring clients to current commercial pricing.

PRICE INCREASE JUSTIFICATIONS



PRICE HIKES BEYOND INFLATION

- ‘Removal of discounts’ was a significant justification given by vendors for large market data price increases, representing 67% of price increases in ratings; 36% of price increases in data terminals; 41% of price increases in indexes; 20% of price increases in data feeds.
- In indexes, changing use cases represented just 11% of the justification for price increases from vendors, with 33% of justifications citing the addition of new licenses to existing contracts and 10% of increases put down to ‘new pricing models’.
- The majority of price increases in data feeds (80%) were due to changes in use case (accessing new datasets) with the remaining 20% justified by ‘removal of discounts’ (as mentioned above).

THE CYCLICAL FRUSTRATION OF MARKET DATA PRICING

Resistance is not futile. Transparency and data-driven insights unlocked significant negotiation opportunities for clients. Peer group data and market price insights empowered them to identify leverage points and secure favorable terms during renewals. Knowing which products offered flexibility and when to shift focus proved invaluable, ensuring efficient negotiations without wasting time on unpromising propositions.

65%

of our client base has been told that they are currently under heavily discounted prices and that pricing needs to be adjusted to reflect current market prices and closer to peers' payments.

90%

Proportion of clients renewing with more than 1 major provider in 2023

25%

Average savings per provider using Substantive's data versus the original proposal

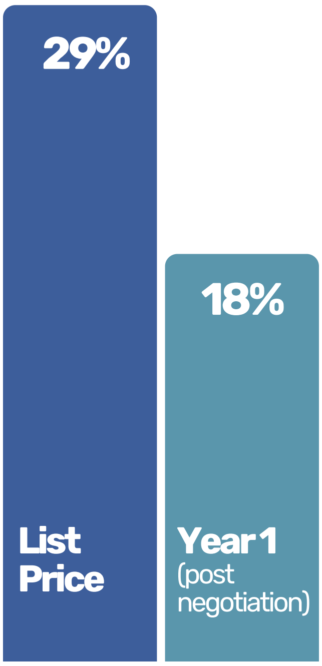
CHASING THE "LIST PRICE"

Proposals often refer to the "list price" but market data consumers typically receive reduced rates during their subscription period. The level of discount is reduced year-on-year to bring the client closer to the original "list price" by the end of the agreement. The cycle, however, continues with each renewal, leaving the client chasing an ever elusive "list price".

By Numbers:

- 29% - average increase in "list price" vs previously quoted "list price"
- 65% - market data consumers receiving discounts on the "list price"
- 35% - average discount on year 1 of multi-year agreements
- 18% (12%-13% on top of CPI) - average increase in actual payments post-negotiation

AVERAGE % INCREASE PRICE



HOW DO PROVIDERS' PRICING MODELS DIFFER BETWEEN SELL SIDE AND BUY SIDE CLIENTS?

Similarities

Statements of Use
Statements of Use are often filled in to determine the cost of service.

Platforms and Analytics
44% of the budget on both sides goes to platforms and analytics - both are investing in technology and platforms to create data-driven insights.

Data feeds: Same drivers, different prices
Data vendors offer lower prices to clients who purchase larger amounts of data.

ESG
ESG constitutes a relatively small portion of market data budgets (10%) and even smaller in the US (8%)

The bigger the contract, the bigger the potential savings
Both parties can actively negotiate better deals, especially in larger contracts where crucial relationships recognize their leverage.

Differences

Larger allocation to index-related costs
For buyside firms, accurately gauging performance against benchmarks is crucial, justifying their larger allocation to index-related costs.

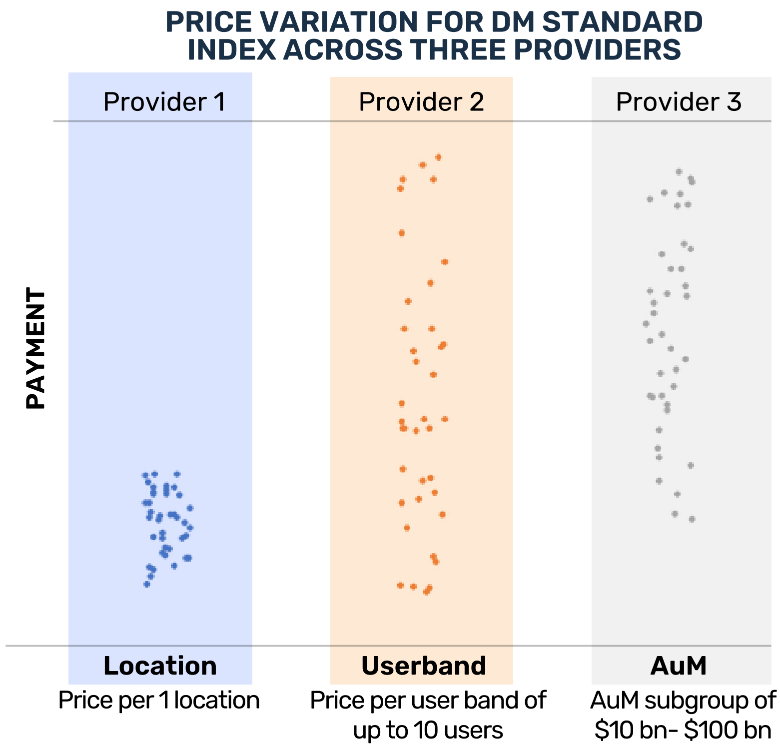
10x difference in price
While their purposes differ, the cost disparity between sellside and buyside ratings sparks curiosity.

Navigating a pricing maze:
The buyside's regional contracts and the sellside's division-per-region structure create a tangled web of agreements and multiple currencies, making consolidation a complex dance.

PRICE INCREASES FOR 2023 AGREEMENTS:

INDEXES

PRICING INCONSISTENCY

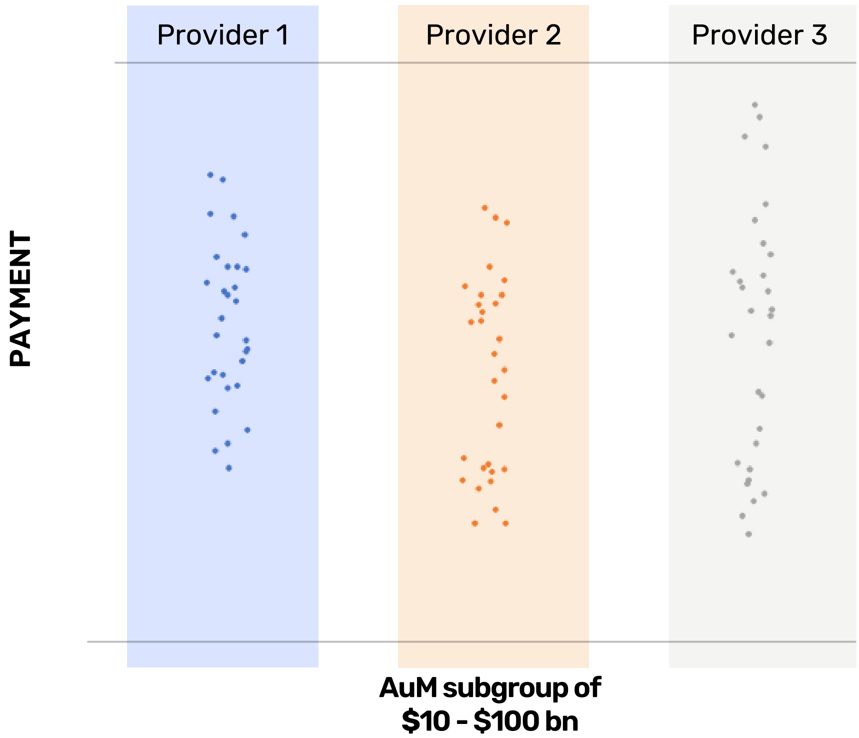


- Provider 1's range from lowest to highest pricing is **323%**, Provider 2's range is **1,410%**, and Provider 3's range is **402%**.
- Index providers have been steadily increasing individual index costs by 5-7% in the past 3 years, however, the licenses are where the big jump in costs can be seen.
- The range of pricing in index products is still extremely wide - some firms are paying **14 times** more than others for identical products and use cases. But this is an improvement from 2022, when the widest range ran up to 26 times for identical products.

RATINGS

PRICING INCONSISTENCY

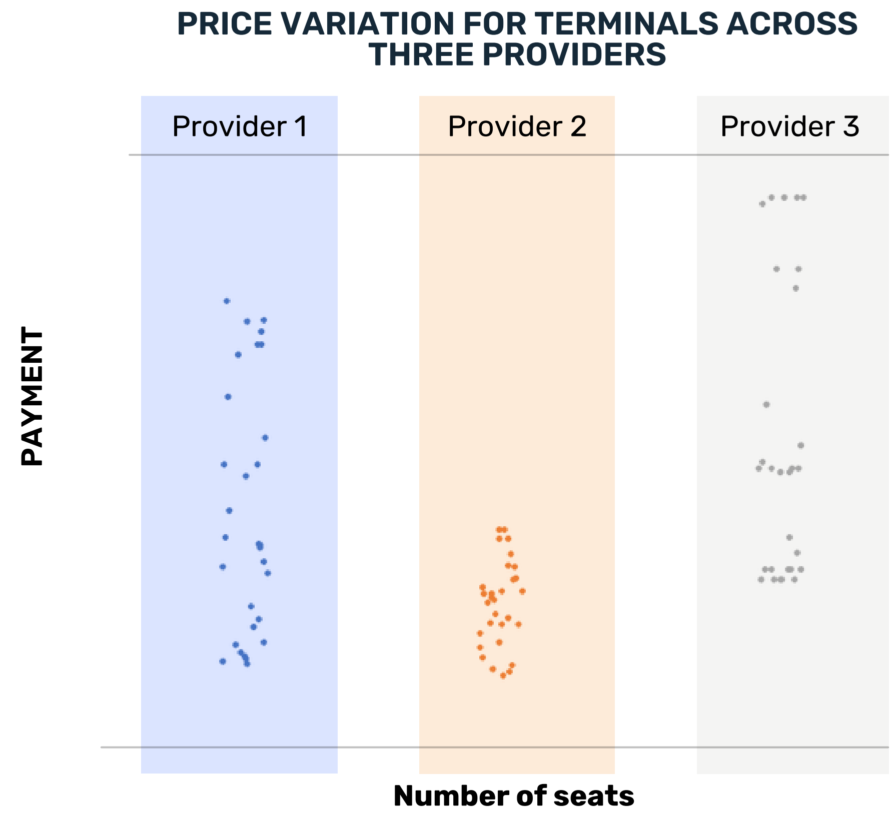
PRICE VARIATION FOR STANDARD RATINGS ACROSS THREE PROVIDERS



- Inconsistency in pricing remain high with pricing ranges for identical use cases for controlled peer groups at **263%, 354%, 475%.**
- Even though there is already a disparity in existing prices for identical use cases, all consumers in the range will still experience an increase in the proposed renewal agreements.
- In addition, the reliance on discounts and differences in the quoted list price contribute to a complex landscape in the renewal process, similar to the challenges observed with index providers.
- Rating providers generally exhibit consistent average increases across the three major ratings providers, but the range of these increases remains quite broad, spanning from 8% to 28%.

TERMINALS

PRICING INCONSISTENCY



- 2023 numbers for terminals show inconsistency in pricing for the same access amongst firms of similar size and strategies - with ranges of **578%**, **337%**, **326%** for providers 1, 2 and 3 respectively.
- Terminal vendors behave a little more differently than the index and ratings providers. While they do still offer discounts (with varying approaches), the discounts are more about the number of seats rather than a discount from the total price.
- Terminals are experiencing fairly consistent renewal increases this year, typically falling within the range of 9% to 10%.

CONCLUSIONS

FINANCIAL INSTITUTIONS

Many banks and asset managers benefit from rigorous, data-driven market data and procurement teams, but they are negotiating from a position of weakness given the lack of viable alternatives in many areas.

PRICING CHALLENGES

Crucially, core pricing models are not being applied consistently. Every eventual agreement and resulting price is a product of a bilateral negotiation, where some policies and pricing factors are standardized and many others are not.

COMPLEX LICENSING

To be fair to providers, pricing consistently would be a big challenge - their clients' needs are constantly changing and they all differ enormously from each other in terms of requirements, internal structures and business models. But this is a challenge born out of complex licensing models that have created price increases YoY even when requirements and use cases stay the same.

ENDLESS CYCLE

The main justifications given for material increases from providers are that clients are under heavily discounted prices from their initial sign up agreement, and vendors are simply trying to get them level with other clients. But this is a cycle that continues in perpetuity - the list price goes up so firms never catch up.

REGULATORY HOPES

Market data consumers are pinning their hopes on regulation on both sides of the Atlantic to help encourage competition and innovation, but this can only work if financial institutions look very closely at how to diversify their supplier base, encourage challenger providers and incorporate agnostic delivery channels.

WHO ARE WE?

Substantive Research is best known for offering an independent and impartial price discovery and comparison service across the entire external investment research and market data universe.

Launched in 2015 Substantive Research has grown rapidly to become the trusted partner to leading financial institutions globally focused on increased transparency and cost optimization.

PLEASE EMAIL THE TEAM FOR MORE INFORMATION

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