



FRAGMENTED LIQUIDITY UNDERSCORES NEED FOR CONSOLIDATED MARKET DATA

Firms leverage vendor standards to manage data access

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As liquidity becomes fragmented across venues and algorithmic trading becomes status quo, firms' market data practices become more complex. In addition to consolidated market data feeds – long the preferred source of traders – firms take in direct-exchange access for high-end trading applications. Yet with ongoing liquidity fragmentation, consolidated feeds' "complete and accurate" exchange coverage still appears to be the backbone for firms to ensure best practices in a regulated environment.

“Firms have to take consolidators – if not they'll become ticker plants.”

Market Data Manager, Global Bank

Introduction

Diversity across exchanges, the expanding number of instruments, and skyrocketing volumes solidified real-time market data vendors' function as a necessity to keep pace with markets. Over time, consolidators played an increasingly important role in aggregating global market activity and providing the industry with consistent datafeeds across sources.

Then program trading morphed into algorithmic trading. In looking to gain control and reduce any data latency introduced through consolidation, large firms looked to designated exchanges for direct access to real-time trades. Although going directly to exchanges was viewed as a necessity, firms have been constantly reminded of the cost of direct data management, including people, hardware and leased communications lines – not to mention the complexity of managing network capacity. As the number of direct sources increased, once again, so did these responsibilities.

Exacerbating the complexity, as new trading venues – like ECNs and MTFs à la MiFID – continue to take hold, liquidity fragments. “Fragmentation requires a fundamental change in infrastructure,” stressed a senior technologist.

With fragmented liquidity, traders need help to gain visibility and access, and there's more visibility and liquidity across venues. As important, liquidity can dry up, and traders may need immediate access to other trading venues. In short, cross-exchange sourcing provides an opportunity for traders to see “the market.” As a market data manager at a large global trading firm put it, “Vendors need to help us reach fragmented liquidity and listed derivatives worldwide.”

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This paper previews key issues in managing real-time market data across trading venues/exchanges. It presents high-level benefits of vendor consolidators in an environment demanding greater transparency, and compliance with greater regulation and government involvement.

Each new direct exchange feed adds infrastructure and hardware; each has unique requirements – as well as unique data like corporate actions.

For large firms, it resembles planning and managing a ticker plant – a business not core to their raison d'être.

“It's a lot of work, and independent consolidators make it their job to stay ahead,” said Jay Kilberg, managing director of Interactive Data's Real-Time Services business.”

Latency: More than meets the eye

Large institutions that employ high frequency trading strategies driven by quantitative/algorithmic and proprietary traders take direct exchange feeds of market data to reduce latency – that’s how it is.

A plethora of associated requirements to keep up with today’s volatile markets impact both data latency and access costs. To name a few, firms face ongoing investments in technology to keep current with volumes. Specifically, they need: bandwidth to accommodate 1+ million/ messages per second throughput and ongoing growth; distribution platforms to get information to end users; complementary insight, e.g., calculated stats, news, descriptive data and corporate announcements; and backup infrastructure to ensure uninterrupted coverage.

Institutions usually take direct feeds only from exchanges tied to high frequency strategies. They still need vendor consolidated feeds to ensure complete exchange coverage, uninterrupted delivery and standard formats. On the vendor side, real-time market data consolidators continue to invest in technology to reduce data latency and also to offer managed ultra-low latency direct exchange data services for their customers, so they don’t have to cope with the infrastructure.

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Standards plus leverage – two big consolidator benefits

“Consolidators automate and standardize data streams across global trading venues. We leverage that,” affirmed a market data manager at a global bank. “Some of us want both a view by venue and a consolidated view, and these vendors are now giving us those options.”

Simply stated, market data vendors cleanse, consolidate and normalize streaming trade and related market data from exchanges, other trading venues and sources worldwide – translating disparate data into a consistent, unified back-end service for distribution to end-user firms. That’s their business.

Supporting this business requires ongoing investment. Examples that underscore the magnitude of commitment needed to sustain high-quality service include:

- Going directly to the sources with interfaces to each. Sounds straightforward – but it means supporting about 450 interfaces from global sources and accommodating in excess of 5,000,000 instruments;
- Agility in adding prevailing exchanges that match customer trading priorities;
- Ability to provide data access to fragmented liquidity, electronic venues and emerging multilateral trading facilities (MTF);
- Business continuity and capacity management;
- Continually enhancing the distributed service with dynamic value-add information, consolidated volume, depth of market and market summaries.

There are explicit and implicit costs firms undertake in going direct. For instance, to connect to a trading venue/exchange requires a feedhandler.

Building a somewhat inefficient feedhandler introduces non-exchange related latency. The more direct exchange feeds taken, the more internal systems, controls and standards required.

The benefits to the customer include 1) quicker time-to-market – making feeds available to the end-user firm and, subsequently supporting dynamic trading strategies – and 2) lower cost of ownership by leveraging the consolidator’s investment and quality controls. “We’d prefer to go to consolidators – the technology is easier,” stated a global data manager at a leading US-based bank.

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In particular, the neutrality of a consolidator and its ability to bring in original data sets elevates in importance in a time of fragmented liquidity and expanding alternative trading venues. Established consolidators are positioned to move aggressively and keep up.

The reference data link: “Slow reference data is moving forward into the front office,” stressed a chief data officer at a leading global bank. In fact, today exchanges are adding reference data to their real-time streaming direct feeds for securities traded on their venue. However, disparate reference sources make it difficult to achieve a single, trusted source of reference data.

The cross-enterprise link: With proactive risk management in the limelight, front-to-back office data consistency is high on senior managers’ list. For most, “slower” reference data is maintained by operations in either data management or back-office functions. Trading support functions reach into operations’ databases to populate front-office order management and execution management systems, but what about the descriptive/static data that comes across consolidated market data feeds and through direct feed access?

The identifier link: Enabling end users to leverage common identifiers across reference data and real-time data services. As an example, consolidated market data sources should include references to ISIN, SEDOL, and CUSIP so that the security exchange symbols directly map in operations’ data stores.

The value-added link: Reference data that comes through consolidated feeds adds context to trade data and the market landscape. Risk measures, corporate actions, fundamental data and indexes offer insight into trading patterns which can be obscure due to fragmentation.

The extent to which market data consolidators can assist firms in achieving required consistency adds value and, once again, differentiates consolidated services from the direct route.

“Consolidators have to become strategic guides across exchanges,” stated senior data manager at a leading global bank.

Vendors leverage their economies of scale to get data up quickly and then can provide insight across markets.

As an example: The industry is crying for key data elements on contracts for listed derivatives worldwide. “We need consolidators to give us complete information behind options and future contracts that trade on North American, European and Asian exchanges,” stated a senior manager supporting trading at a global bank. Risk management and fragmentation increases the difficulty for financial services firms in getting quality data access to this information.

A vehicle to meet ongoing requirements

It goes without saying that the industry is going through extraordinary change as a result of the financial crisis culminating in 2008. The result will likely be forced transparency and requirements for systematic justification of trading practices. In the meantime, business and product innovation must continue. New “algos” in search of alpha will continue to proliferate; hedge funds will continue to jump from emerging markets in Vietnam to those in Dubai, driven by perceived opportunities. In this climate, consolidators provide the backbone for real-time market data, bringing reliability, complete data coverage and high accuracy. Industry participants are quite clear as to why they value market data consolidators.

- Stability counts and consolidators personify stability.
- Balancing trusted infrastructure from consolidators with agility supports growth in trading strategies.
- High frequency traders need data access path management and access path consolidation, i.e., to reach liquidity and gain visibility on liquidity across trading venues. Consolidators know how to accomplish this.

The industry certainly has a strong view on the value that consolidators bring. “We will always have to take a consolidated market data feed to get a complete picture of market data activity,” summed up a market data analyst at a global bank. Those consolidators who can be agile clearly have an advantage.

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Five-step formula for cross-trading venue market data stability:

- 1 Access sources; cleanse and normalize
- 2 Add value, consistency and context through reference links
- 3 Produce a uniform standardized consolidated market data feed for industry distribution
- 4 Keep an ear to the pulse of the industry leaders; demonstrate agility in adding trading venues
- 5 Provide the role model for “responsive stability” and uniform market data standards



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