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Mr. Giles Ward International Organization of Securities Commission (IOSCO). Calle Oquendo 12 28006 Madrid, Spain

Comments on "Market Data in the Secondary Equity Markets"

Dear Mr. Giles Ward,

The Japan Securities Dealers Association (JSDA¹) appreciates the opportunity to provide the following comments on "Market Data in the Secondary Equity Markets" published on December 3, 2020 by the International Organization of Securities Commission (IOSCO).

The JSDA expresses its respect for IOSCO in its ongoing initiatives to address the issues concerning market data, an area of concern for market participants in many jurisdictions.

While the members of the JSDA are primarily consisted of securities companies that operate as broker-dealers, the JSDA also includes as members Proprietary Trading System (PTS) operators that operate trading venues. In Japan, a PTS enables market participants to trade listed stocks. PTS operators must be registered with the Financial Services Agency as securities companies and are members of the JSDA. We submit the comments herein as compiled views received from broker-dealers and PTS operators who are members of the JSDA, but not necessarily as the consensus of the JSDA.

Since the market structure of Japan² is different from that of Europe and the United States, the situation regarding market data is also significantly different, and it would be greatly appreciated if

¹ The Japan Securities Dealers Association (JSDA) is an association that functions as both a self-regulatory organization and as an interlocutor between market participants and various stakeholders, including government authorities. Its legal status is a Financial Instruments Firms Association authorized by the Prime Minister. Both functions operate independently. The JSDA is made up of approximately 490 members that include securities firms and other financial institutions running securities businesses in Japan.

² For instance, in Japan, the market share of Tokyo Stock Exchange is significant, and the market share of other trading venues including other stock exchanges and PTSs amounts to around 10% only. Also, the best execution obligations are focused on the execution policies of each company. That is, broker-dealers must execute transactions with a comprehensive consideration of not only price but also various other factors such as cost, speed, and certainty of execution.



you could read the following responses in consideration of these differences.

As a premise in addressing the issues mentioned in the IOSCO report, it is worth noting that, in comparison to that of institutional investors, the ability of retail investors to make and execute orders is relatively lacking because the infrastructure used for trading is different from that of institutional investors. Even if market data is improved, it is difficult to eliminate or shrink this gap in ability. Therefore, separately from the problem of market data itself, some securities companies believe that it is more important to encourage retail investors to understand the current characteristics of the market and the existing gaps in information.

We hope that the comments submitted by our members will be thoroughly considered when discussing international standards and guidance related to market data going forward.

○ Responses to Each Question

Q1: Please identify the data elements that are necessary for investors and/or market participants to participate effectively and competitively and make informed trading decisions in today's markets. In your response, please consider:

- The type of investor (e.g. retail or institutional) that uses the data;
- How orders are sent to a trading venue (e.g. electronic, manual, direct access by clients; and
- How orders are routed

Please provide the reasons why each element is necessary.

(Opinion)

In general, the type of investors who use secondary market data may be divided into investors who require low-latency and those who do not. Broker-dealers focusing on retail business tend not to require low-latency, while broker-dealers serving institutional investors and high frequency trading investors tend to require low-latency. Trading venues connect both types of broker-dealers through electronic communication methods. For the high frequency trading investors, they support improved latency by offering co-location services. Routing of orders are determined by the brokers, and trading venues do not intervene in how orders should be routed. Online retail broker-dealers disclose the fact that they use smart order routing (SoR) programs to route orders between the Tokyo Stock Exchange, PTS, as well as dark pools.

Trading venues believe that each of these elements is necessary for the broker-dealers to satisfy requirements from their clients, i.e., the retail, institutional and high frequency trading investors,



depending on their trading strategies.

Q2: Are there other data elements that, while not necessary to all market participants, may be necessary for some market participants or business models? Please provide the reasons for your answer.

(Opinion)

One of the PTS operators responded that data that is provided with low latency is necessary for the investors who engage in high frequency trading activities. Other investors do not require such high-speed data. In order to leverage such data investment in setting up programs, procuring hardware and software to process large amounts of data and other special resources are thought to be necessary.

Q3: Please share your view on defining Core Market Data and how such a definition can be used (for example, for compliance purposes or as a mechanism to make routing decisions, etc.).

(Opinion)

One of the PTS operators responded that they believe they should start by defining Core Market Data as the best bid offer (top-of-book information) or a certain degree of depth-of-book data for each name traded on each trading venue.

They think that if they consolidate the data, they can use it to back test the quality of the order routing system used by the brokers-dealers and executions on dark pools. Please note that consolidated market data is not under consideration under current Japanese regulations.

Q4: How is market data used by different types of investors or different functions of your firm? Consider, for example:

- Type of investor (e.g. retail or institutional)
- Trading Desks (proprietary or client-servicing including retail and institutional), Institutional, proprietary)
- Compliance
- Risk-Management
- Back office functions

(Opinion)

One PTS operator believes that a certain degree of depth-of-book data from trading venues is used to make investment decisions for all types of investors. As discussed previously, the latency required is



different between high frequency trading investors and other investors. For high frequency trading, real time market data is used.

Q6: What factors should be considered in the context of evaluating "fair, equitable and timely access"? How should these factors be considered?

(Opinion)

The expected time horizon for each investor should be considered when evaluating fairness, equitableness and timeliness.

Q7: What types of access do trading venues and RDPs provide? Are some forms of access provided only to specific market participants?

(Opinion)

One of the PTS operators responded that they provide two types of access—low latency access and ordinary access—and the access speed is different due to the protocol that is used to access their system. Participants may choose which type of access they prefer, so they do not limit access to certain investors. However, according to them, in order to receive high-speed data, hardware, software and network connectivity to receive and process such data is necessary on the recipient side. This will require investment and may limit the participants who can actually receive low latency data.

Q8: Please identify the type of access necessary for different investors and/or market participants to participate and make informed trading decisions in today's markets and the rationale for the type of access and identified differences. In your response, please consider:

- Type of investor (e.g. retail or institutional)
- Trading Desk (Proprietary or client-servicing including retail and institutional)
- How orders are sent to a trading venue (e.g. electronic, manual, direct access by clients)
- Order routing
- Business models
- Compliance and regulatory issues

(Opinion)

(a) Low Latency

For high frequency traders and some institutional investors, low latency access is necessary to engage in high frequency trading strategies. On the other hand, broker-dealers serving retail clients do not require low latency access. This is understood to be due to the trading strategy that each of the end-



users adopts and deploys.

(b) Order Routing

Institutional investors and online retail broker-dealers use order routing systems that look into the available price and/or volume at each trading venue and place orders. The algorithm is configured by the investors and/or broker-dealers and thus trading venues are not involved in determining the behavior.

Q9: What issues or concerns arise in the context of fair, equitable and timely access to market data?

(Opinion)

Currently, in Japanese market, the top two market data vendors capture a large share of the market, and there is an issue that market participants effectively have only two options for data vendors. It seems that both companies often sign contracts by combining market data and their own terminal usage fees.

Another issue is that the scope of data covered by contracts with these companies are quite expansive. Although market-by-market and asset-by-asset contracts are allowed, contracting only part of the data can be expensive. Also, multiple maintenance personnel must be secured to support the system. In a practical sense, it can be difficult for users who have existing contracts to switch to other companies.

On the other hand, users require market data on all asset classes of the countries in which they operate, including Tokyo Stock Exchange (stocks, listed futures), bonds, and market data in overseas markets. Currently, only the top two data vendors can provide such comprehensive market data at a sufficient level. It is difficult, for instance, to go into a contract with data vendor X only for market Y. Therefore, even if market data vendors other than the top two companies have a better ability to provide data for a specific market, there are many cases where they are not retained as data vendors. The barriers to entry appear to be high for data vendors at the moment.

Q10: Please share your view on interchangeability of market data between trading venues. If concerns are identified, please provide suggested mechanisms to address them.

(Opinion)

One of the PTS operators responded that in order to achieve interchangeability, it is essential to have regulations that tie the fragmented trading venues into one holistic national market, such as strict



enforcement of best execution obligations, market data consolidation and dissemination systems, trading rules, and order protection rules. They believe that they cannot determine whether there is interchangeability or not, since Japanese regulations do not adopt several core items—including, but not limited to, consolidation and dissemination of market data.

Q11: How should market data fees be assessed? How could this be implemented in practice? What factors should be considered and how can they be defined or applied?

(Opinion)

In a fragmented market environment, in principle, level of fees to access market data should be assessed through competition.

However, one securities firm responded that market data fees are largely determined by the relationship between users and market data vendors, and there are many uncertain factors such as price increase rates and discount rates, which are taken into consideration to determine final market data fees. Another issue is that the way in which market data fees are calculated varies from vendor to vendor. Some market data vendors have a seemingly irrational fee structure, such as cumulatively counting and charging all stocks provided in the past. In particular, some market data vendors have a fee structure under which all data that was provided in the past, but not provided at present, is also counted and charged. Despite the fact that fees are calculated in a way that is very detrimental to data users, there is no room for individual securities companies to negotiate with major data vendors.

The firm also mentioned that due to the potential risks associated with using only newly-emerging market data vendors, market participants tend to act conservatively to use the services of major market data vendors used by other users. It commented that such tendency hinders the selection of appropriate market data vendors.

Because of these issues, the firm proposed that if "public organizations" such as exchanges disseminate market data, there will be no difference in fees between market data vendors, and it will be possible for all users to take advantage of market data at a reasonable price based on the same fee calculation standard.

Q14: Please provide your view on the need for consolidated data where there are securities trading on multiple trading venues. What should be the primary objectives of consolidated data and what outcomes should it lead to? How should these objectives and outcomes inform the nature of the consolidated data made available?



(Opinion)

One of the PTS operators responded that consolidated market data for the best bid/offer at a certain point in time during trading hours is necessary to assess the quality of a broker-dealer's order routing technology. It also believes that this will allow broker-dealers to show price improvements to their clients and the fruit of the competition on this aspect will be returned to the general public.

Sincerely yours,

V: Ani

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