

Inside Market Data

January 7, 2008

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Financial Information Forum: Ask the Audience

By Jeff Wells, Co-chair FIF Market Data Capacity Working Group, and VP of Product Management – Exegy Inc.

If 2007 were a game show, which one would it be? *Who wants to be a Millionaire?* Maybe *Jeopardy?* *Double or Nothing?* Or *Call My Bluff?* From any point of view, it was a tough year, with lots of questions and unanticipated challenges.

2007 was an extraordinarily busy year for the financial industry as a whole, and for the Financial Information Forum (FIF) in particular. The defining motif was the introduction of Reg NMS, which was pivotal to a host of FIF activity for both the front and back office.

The FIF helped smooth out many of the inevitable bumps in the regulatory rollout, and it turned out that the community was better off dealing with day-to-day problems under the auspices of the FIF, rather than by individual firm. Simple face-to-face meetings and regular teleconferences made a tremendous difference. Notably, this year the forum worked with SIFMA on Reg NMS, and with the US government in an Industry Pandemic Flu Exercise (maybe the analogous game show was *Survivor?*).

2008 is unlikely to deliver any respite. But we'll continue to pool resources and knowledge to effect rapid change via the FIF. No one wants to be *the Weakest Link*, and sometimes you really can find a solution by asking the audience.

Capacity

FIF members believe that capacity will be a big issue again in 2008. The FIF Capacity Working Group (CWG) recorded huge rises in market data peaks last year, especially through a tumultuous August. Underlying stock market data rates really picked up, with CQS and Level II order book feeds showing particularly rapid growth. For example, from February to September 2007, CQS was up 237 percent and UQDF up 60 percent. In addition, Opra continued to grow rapidly, retaining the largest share of capacity traffic, though no longer the fastest-growing segment.

In the heat of the battle, the CWG readily exchanged information on what was actually happening and what was coming next, in addition to openly discussing the effects of Reg NMS, the options penny pilot, automated trading, and different use cases. This year, Reg NMS will continue to have a strong ripple effect as exchanges and new trading systems grapple for market share

amid constantly changing trading patterns. The sheer volume of quotes is mindboggling, and the range of venues continues to evolve. The absolute amount of data is a burden on financial firms and those who service them. But most firms have come to terms with the fact that it is not possible to stop the growth—the question is now how to cope with it, whether through better planning, more hardware, some new fangled technology, conflating data, or a combination of the above.

Notably, SIFMA itself has now set up a Capacity Planning Committee whose remit will most likely include telecoms, servers and storage related to trading, market data, clearing, and settlement. The fact that this committee exists at all is an indication that the top sell-side players recognize there is a problem. What they will discover is many pain points behind the scenes that are difficult to measure, and though firms will complain about them in general, the issues are likely too sensitive to expose to competitors. In this case, the culture of *Survivor* undermines the effectiveness of a collective response.

Options markets will likely continue to expand penny pricing and new products, and compete by pushing out millions of quotes per day, like strewing bait over the surface of a fishing lake (like the Outdoor Channel's *Ultimate Match Fishing?*). There will certainly be more options data and trades in 2008, with Nasdaq becoming the seventh options market. In fact, Opra says that the combined exchanges will be capable of sending out 6.1 billion messages per day after July 8, 2008.

The US stock markets, on the other hand, seem engaged in a variation of *America's Next Top Model*. The two belles of the ball, NYSE and Nasdaq, will continue to compete across the board, no holds barred. But the attractive younger entrants—such as BATS and Direct Edge—are breathing down the establishment's neck. And BATS has signaled it is now ready for a more prominent role by filing to be an exchange.

In response, the incumbents—NYSE in particular—will move more of their heft from the floor, rolling out increasingly powerful technology. The end result will be more quotes and depth feeds (in case you haven't got enough already). Savvy customers will likely need to subscribe to

proprietary direct feeds for all the main markets, but still absolutely require SIAC to get the definitive one-shot market view. It's like getting new satellite premium channels as well as good old fashioned broadcast. If you don't get both, how can you keep up with all the game shows?

While the US is at the forefront of the capacity boom, data from FIF members Deutsche Börse and Eurex shows that rates are ramping up extremely fast overseas—by 300 percent, in fact—normally coinciding with the US market open. The power of technology and the algorithm—like the game show culture—knows no geographic bounds (*Wer wird Millionär?*).

Symbology

The intense, inter-market competition in the world of exchanges and trading venues brings with it a by-product in the form of dozens, if not hundreds, of changes to specifications and working practices, which frequently have to be translated into new or transformed software systems.

Symbology represents such an issue for 2008. This year, Nasdaq is introducing a symbol set consistent with its integrated platform, including \ and * characters, which means that some computer programs have to be rewritten, and valuable resources will be assigned to cope with the changes. It is also unfortunate that the symbols do not match up with the NYSE equivalents. Indeed, there is no authority for front-office symbol assignment in the US, and this is already leading to a number of headaches. Lastly, Opra is introducing a 17-character instrument to replace its outmoded Opra codes, while the Options Clearing Corp has a 21-character set.

If you have to complete an expense report in 2008 to attend a meeting on Symbology, you may need to explain to a financial controller or senior manager that while it has nothing to do with *The Da Vinci Code*, you still need to follow the plot very closely since real resources will have to be applied to accommodate big changes.

In conclusion, what we have suspected for years is true: The only way to win the show is to get some outside help by phoning a friend or asking the audience. This phenomenon is actually referred to as “the wisdom of crowds.” May the wheel of fortune be good to you in 2008!