

## **Reforming Canada's Market Data Regulation: Embracing Industry Proposals**

**Authored by Sam Uddin, IIAC**

As someone invested in the ongoing evolution of capital markets, I find the Investment Industry Association of Canada's (IIAC) recent proposal for changing Canada's market data regulation to be a much-needed step forward. Their February 10, 2023, comment letter to the Canadian Securities Administrators (CSA) addresses critical issues that have long plagued Canada's market data landscape, which has evolved over time without ensuring sufficient checks and balances regarding fair access to market data.<sup>1</sup> This diverges from the objectives set forth by securities regulators in Canada, which are aimed at promoting fair, efficient, and competitive capital markets.

While the CSA has made noteworthy strides, Canada is catching up with advanced market data regulatory reforms that have already been implemented in the U.S., E.U., and the U.K. These regions have taken additional steps to enhance access and competitiveness in their capital markets. For example, the U.S., Securities and Exchange Commission (SEC) has undertaken various initiatives over the years to modernize market structure and operations.<sup>2</sup> These efforts aim to enhance transparency, reduce complexities, and ensure market participants can access comprehensive, high-quality market data at reasonable costs, much like the IIAC's proposal. Similarly, the European Securities and Markets Authority (ESMA) published its guidelines on the MiFID II/MiFIR obligations on market data with recommendations on pricing, unbundling, transparency, quality and accuracy and non-discriminatory access and record-keeping, published in June 2021, more than a year ahead of the CSA Consultation Paper.<sup>34</sup>

Numerous factors contribute to the intricate nature of the market data landscape. To facilitate a focused discussion, I shall hone in on three pivotal dimensions: cost, complexity, and transparency inherent in the prevailing system. Let us explore the compelling reasons why this proposal deserves our collective support.

### **1. The Necessity for an Independent, Regulated Information Processor**

Unlike the U.S., Canada's market data ecosystem lacks an independent, regulated information processor to consolidate market data from multiple stock exchanges.<sup>5</sup> This gap perpetuates a system where market participants must deal with each stock exchange individually, inflating the costs of real-time market data

---

<sup>1</sup> [https://www.osc.ca/sites/default/files/2023-02/com\\_20230210\\_pagial.pdf](https://www.osc.ca/sites/default/files/2023-02/com_20230210_pagial.pdf)

<sup>2</sup> One key component under this broader umbrella is the National Market System Plan (NMS Plan) for market data and order handling, which seeks to modernize the existing frameworks governing how market data is collected, consolidated, and disseminated. This includes reforms to the governance and operation of equity data plans, which culminated in the approval of the new "Consolidated Market Data Plan," commonly referred to as the "CT Plan" or "CTP Plan."

<sup>3</sup> [https://www.esma.europa.eu/sites/default/files/library/esma70-156-4305\\_final\\_report\\_mifid\\_ii\\_mifir\\_obligations\\_on\\_market\\_data.pdf](https://www.esma.europa.eu/sites/default/files/library/esma70-156-4305_final_report_mifid_ii_mifir_obligations_on_market_data.pdf)

<sup>4</sup> [https://www.osc.ca/sites/default/files/2022-11/csa\\_20221110\\_21-403\\_real-time-market-data.pdf](https://www.osc.ca/sites/default/files/2022-11/csa_20221110_21-403_real-time-market-data.pdf)

<sup>5</sup> The U.S. Securities and Exchange Commission (SEC) has sanctioned new regulations concerning the financial support of an extensive market data monitoring system. These rules allocate the operational expenses across buyers, sellers, and the stock exchanges where transactions occur. Known as the Consolidated Audit Trail (CAT), this system is a comprehensive investor and transaction information database designed to provide regulators with a panoramic view of U.S. market activities.

---

(RTMD) and contributing to operational complexities and unnecessary expenses.

Under a regulated framework, establishing a Technical Information Processor (TIP) ensures a level playing field for investors, issuers, agents, intermediaries, and other market participants. By centralizing data feeds and ensuring regulatory oversight, a TIP would bring down the overall market data costs and make the Canadian capital market more competitive globally.

We have also seen this in the telecom sector. Much like the Canadian Radio-television and Telecommunications Commission (CRTC) has promoted network sharing and unbundling of services to reduce costs and improve access, the IIAC proposes an independent, regulated Technical Information Processor (TIP). By having a TIP consolidating market data from various stock exchanges, we can address the problem of having to contract with each exchange individually, which inflates costs and stifles competition.

## **2. Rationalizing Cost Methodology**

The proposal's emphasis on transitioning towards a cost methodology based on "actual costs and only reasonable, defensible margins" is a worthy initiative. It aims to unbundle market data costs and calls for re-evaluating fees, eventually reducing the financial burden on market data consumers. Moreover, applying this uniformly, irrespective of the consumer's residency, ensures fair treatment and makes Canada an attractive market for foreign investors and firms.

This proposal is not novel as it has been successfully applied in the energy sector. Regulatory agencies often scrutinize the cost structures of utilities to ensure that consumer rates are fair while allowing for a reasonable return on investment for providers.

## **3. Importance of Fee Transparency**

Transparency in fee structure has been a longstanding demand from regulators and market participants. Uniform disclosure levels, as proposed, would streamline the decision-making process for market data consumers while also aiding regulators in monitoring and governance. Increased transparency instills confidence and allows for more informed choices, thus fostering a competitive and robust market.

Consumer angst over hidden fees is not limited to financial markets; it's a universal pain point. Clear, itemized billing has allowed consumers to understand what they are paying for, leading to a more competitive and fair market. Applying such transparency to market data fees will empower market participants to make informed decisions and negotiate better terms, much like consumers can choose data plans that fit their needs in the other sector.

## **4. Revising Operational Procedures**

The proposal rightly identifies that several administrative requirements are outdated and contribute unnecessarily to the cost of market data. The proposal would lead to more cost-effective and efficient market operations by recommending operational changes that align with modern technological capabilities.

The IIAC's proposal offers a comprehensive, practical framework for addressing longstanding inefficiencies in Canada's market data system. It aligns with global best practices, offering a roadmap for making the Canadian capital market more competitive, transparent, and user-friendly. Therefore, it is in the best interests of regulators, market participants, and the wider financial ecosystem to strongly consider and implement these recommendations and speed up our progress.