

The Multi-Billion-Dollar Shakedown: How Stock Exchanges Abuse Their Privilege and Power for Monopolistic Profits

IEX Provides Unique Transparency by Disclosing the Cost of Offering Exchange Market Data and Connectivity

IEX has become the first stock exchange to publicly disclose extensive details about its own costs to provide market data and connectivity to market participants such as investors, brokers, and market makers. The report provides detailed evidence that NYSE, Nasdaq, and Cboe are leveraging their unique regulatory position to egregiously overcharge the industry for the market data and connectivity needed to compete in modern markets.

IEX's Mission: Build Fairer Markets

IEX is an independent stock exchange founded to build fairer markets. We are different from the entrenched exchanges in every way; most notably, we offer our market data and connectivity for free to lower the barrier for any broker to connect and trade on our exchange.

The Industry and Regulators Demand Transparency

In October 2018, the SEC convened a two-day roundtable to discuss market data and connectivity provided by exchanges, where both the regulators and industry participants demanded greater transparency from exchanges on the cost to offer these products. Without knowing the costs, how can regulators and the industry ever determine whether the prices that exchanges charge are “fair, reasonable, and competitive,” as required by the Securities Exchange Act of 1934?

Cost Transparency from an Independent Exchange

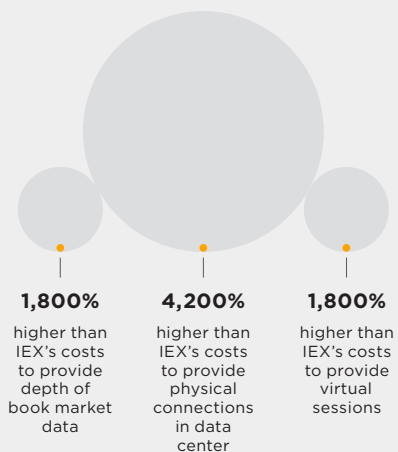
In response to this clear need for transparency, IEX prepared a detailed report, examining every part of our operations to quantify and disclose what it costs IEX, in dollar terms, to offer market data and direct connectivity products. IEX also explains why its own costs provide a basis and methodology for understanding and calculating the costs for other exchanges. This timely report is also the first public description of the inner workings of electronic exchanges.

IEX describes three basic categories of exchange offerings: market data, physical connectivity, and logical connectivity. We then compare IEX's costs to provide these services to fees charged by other exchange operators for comparable products and services, and find:

- **For depth of book data products, other exchanges charge fees 900-1,800% over IEX's costs to offer a comparable product.**
- **For physical connectivity in their data centers, other exchanges charge fees 2,000-4,200% over IEX's costs to offer comparable services.**
- **For virtual sessions needed to trade (“logical connectivity”), other exchanges charge fees 500-1,800% over IEX's cost to offer comparable services.**

The size of these markups suggest the entrenched exchanges engage in monopolistic pricing. There are no viable alternatives to these products nor is there healthy competition that would otherwise drive prices lower, validating the industry's opposition to entrenched exchange pricing.

Stock exchanges' monopolistic pricing power is reflected in the excessive fees they charge compared to the cost of providing these products. IEX analysis shows that on a per-unit basis, the large exchanges charge fees marked-up as high as:





Why does this matter?

Exchanges Have Failed to Meet A Higher Standard

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Stock exchanges operate with government licenses, which give them unique and special privileges, including regulatory power to discipline and penalize their industry members. In addition, by regulation, these same industry members are effectively required to connect to and obtain market data from stock exchanges in order to serve their clients and compete in today's markets.

These factors combine to arm the entrenched exchanges with de facto monopoly pricing power over market data and connectivity — power that the Securities Exchange Act of 1934 is designed to hold in check. The law is designed to prevent the exchanges from abusing their privileges by requiring them to distribute market data and conduct all other operations on terms that are “fair and reasonable” and do not create a “burden on competition” among brokers, market makers, and other participants.

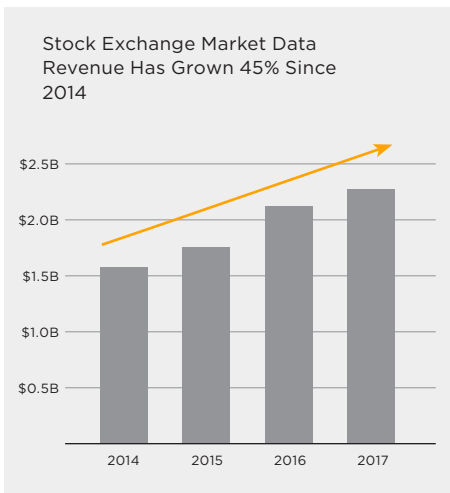
Unfortunately, the implied markups over IEX costs suggest the entrenched exchanges have clearly abused their privilege and power.

Billions in Monopolistic Profits for Exchanges Have Hurt Competition and Innovation

For over a decade, entrenched exchanges have consistently hiked prices for market data and connectivity despite growing protests, and some lawsuits, from investors, brokers, and market makers. Revenues from market data alone have grown over 40% since 2014, which, when combined with the business of selling connectivity, generate billions in revenue for the entrenched exchanges.¹

These monopolistic profits for exchanges come at the expense of competition among smaller brokers and market makers. FINRA reports that the number of brokers has fallen 24% since 2008.

The capital markets ecosystem depends on symbiotic relationships among companies, investors, brokers, and exchanges. By siphoning billions in excessive fees from this ecosystem, exchanges have abused their privilege and deprived all other players of valuable reinvestment to further growth and innovation.



Source: Committee on Capital Markets Regulation, based on an analysis of company filings.

The Path Forward

For years, entrenched exchanges have tried to deflect any and all criticism: back to their paying customers, back to the institutional investor community, even back to their regulators. More recently they have challenged brokers and market makers to disclose how they make money. But this is a distraction from the true issue: exchanges **are the ones facing unprecedented scrutiny** because they profit from a unique regulatory position and have abused this position to the detriment of the capital market ecosystem.

“The Cost of Exchange Services” report escalates a growing movement to hold all exchanges accountable for business practices that affect who can participate in our capital markets and who can gain the tools needed to represent investors.

We encourage other exchanges to match IEX's level of transparency and detail exactly how much it costs them to produce the various levels of data and connectivity they offer. If they fail to do so, we believe the SEC now has the evidence needed to take further action to require transparency by all exchanges and make sure they adhere to the “fairness and reasonableness” standards the law requires.

[Get the full report at iextrading.com/ShowMeTheData](http://iextrading.com/ShowMeTheData)