

# A ROUGH GUIDE TO MARKET DATA SOURCING

## Background

Data Sourcing is both an art and a science. This brief presentation is about basic principles and approach which DataContent uses to benchmark data currently being sourced or potentially will be sourced. It is divided into 2 Sections.

Section 1: Business Principles of Sourcing Data.

Section 2: Data Attribute Principles & Applications.

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## Why DataContent?

- ✓ We are independent from any Market Data Supplier.
- ✓ We have a proven 20 year track record with major global financial institutions.
- ✓ We employ best practise principles



# A ROUGH GUIDE TO DATA SOURCING-1

## Introduction to Business Principles of Sourcing Data

There are 3 basic business principles to assess and consider when considering sourcing requirements, and these are:

1. Content & Coverage. Can potential suppliers meet the requirements of the business, and if not to what extent do gaps impact the
2. Cost & Dollar Return.
3. Contract Checklist.

If any of these 3 principles are not met the user of this data is at an automatic business disadvantage.

The key to best practice sourcing is effective processes for sourcing data, and then validating usage during the contract life cycle while maximising usage rights, and minimising out of scope usage.

## The Importance of Data Governance

- Data Sourcing is a core data governance competence.
- This requires establishing effective policies for the processes involved for the successful procurement, and licence for use, of market data services.



# 1.1 Content & Coverage

- **Content. Things to look out for.**
- It may seem obvious that content is the first item on the agenda when sourcing market data, however, there are important considerations. These include:
  - How is the content itself being defined both internally and externally, in terms of?
    - Asset class.
    - Geographic location and market.
    - Breadth and depth of each and every market in terms of instruments and per instrument attributes.
    - Contractual usage.
    - Other parameters, especially the core performance data attributes (*See Section 2*).
    - Can the market data suppliers demonstrate they can meet the parameters of the business requirements.
- What is often forgotten is the ability to self-source, either through own proprietary information, i.e. trade data (*Subject to regulatory approval*), or through the existing availability of other service subscriptions.



# 1.1 Content & Coverage

- **Coverage. Questions that should be asked?**
- Is the market data required being sourced in isolation.
- Should the content be accessed direct from the source, or via a third party.
- If from the source, is the cost greater taking direct in return for associated investment in infrastructure, or the deals an aggregator can offer.
- If via a third party, do they provide the full content sets required.
- Paying for the more expensive option may have distinct business benefits in terms of information delivery, latency, and content.
- Are there business policy or regulatory requirements for sourcing from 2 or more providers.
- This is an important consideration for OTC market data.
- Are there opportunities to leverage the supplier and/or source to meet other existing or future requirements.
- How should the relative strengths and weaknesses of different sources and vendors be balanced to optimise value?



## 1.2 Cost & Dollar Return

- **Cost of Service. Transparent Fees.**
- While many exchanges, and even some vendors, publish their fees, other do not, therefore there is a reliance upon a 'Request For Quotation'.
- Unfortunately many vendors ignore the questions asked in the RFQ and simply provide their own stock answers.
- Equally there are no standard fee structures, and vendors bundle their services in different ways.
- For instance in datafeeds, some have fees for applications (naturally each defines this differently), yet others do not, while the fees for instrument usage vary.
- This makes head to head comparative analysis difficult, i.e. comparing low instrument usage and high application fees with the opposite.
- A clear understanding of what the market data subscribed to is for and what usage it entails is required.
- If necessary, create an example and require the vendors to cost it.
- Less reliance upon ticked boxes, and more real world analysis produces more exact cost comparisons.



## 1.2 Cost & Dollar Return

- **Dollar Return. Hidden Costs.**
- Unsurprisingly there are potential hidden costs to be aware of (too many to mention here), and these include:
  - Effective control management, is this in place, and does it meet contractual requirements? Why?
  - Inadequate reporting is a major driver for exchange audits.
  - Incorrect billing and audit liabilities. Too often it is a vendors error or poor client reporting which lead to a costly exchange audit.
  - Suppliers must reduce risk by demonstrating control, monitoring and reporting capabilities.
  - There must be the appropriate infrastructure to access and distribute the required market data.
  - How much investment is required to take market data services?
- **New Technology & Infrastructure**
- Often over-looked, will the amount of investment in infrastructure required to take a service reduce, or even preclude, the ability to switch market data suppliers over a given time frame in the future?
- Being locked into legacy technology can place the business at a significant disadvantage.



## 1.3 Contract Checklist

- **This is a quick checklist when reviewing contracts.**
- Sources are highly protective of their ownership of data, and vigorously enforce their Intellectual property rights.
- Agreements must be transparent with regard to usage rights, and responsibilities.
- Contracts are a snap shot in time.
- Do they reflect your existing and future needs?
- Usage Rights and Policies. Are they clear and concise? Do your sources provide enough notice of changes.
- Database maintenance, especially after termination of agreement. Are terms included? Do they take into account regulatory requirements?
- Derived data usage and distribution. Are these included, are clear and concise?
- Terms and definitions. Note the lack of common standards by the data sources in terms of policies and usage rights.
- **Does your Data Source adequately provide for your intended usage of their data?**



# A ROUGH GUIDE TO DATA SOURCING-2

## Introduction to Data Attributes Principles & Application

The 3 basic data attributes to consider when considering sourcing requirements are based upon quality in terms of:

1. Price Accuracy.
2. Price Consistency.
3. Price Timeliness.

If any of these 3 attributes are not met the user of this data is at an automatic Competitive Disadvantage.

The key to best practice sourcing is effective processes for sourcing data, and then validating usage during the contract life cycle while maximising usage rights, and minimising out of scope usage.

Importantly does the source offer Service Level Agreements (SLAs)?

Exchanges, Sources, and Market Data Vendors are notorious for their get-out-of-gaol free cards, but that must not excuse poor performance.

Performance should be benchmarked, and validated on a regular basis.



## 2.1 Price Accuracy

- **Accuracy. Why?**

- For all Markets, prices must be as accurate as possible, and issues relating to sourcing OTC prices need to be understood.
- Prices should reflect where the market actually is at any given point in time.
- It should be clear what pricing types are being sourced, i.e. indicative (lol), tradable, and/or traded.
- Evaluated prices must be based upon proven methodology.
- Access to accurate market data provides for investor and client confidence.

- **What if Prices are not Accurate?**

- Price Discoverers and Clients will go elsewhere to providers with more accurate price levels = Lost Business.
- Allows savvy investors to arbitrage against the house.
- Does the source have a reputation for price accuracy?
- Does the source have a record for good performance?



## 2.2 Price Consistency

- **Consistency. Why?**
  - Changes in market levels should be reflected by changes in price movement.
  - Consistent pricing, and price discovery, is essential to sustain market liquidity, in order to accurately value the market and/or instrument.
  - Too often a lack of intra-day and end-of-day pricing provides zeroed out data directly impacting analytics, risk and portfolio management.
  - This is of interest to regulators.
- **What if Prices are not Consistent?**
  - Lack of a consistent flow and quality of prices is a market barrier.
  - Investors required confidence in the prices and the flow to be able to trade into and out of the market.
  - Does your source guarantee providing a flow of constant prices?
  - What needs to be in place to price illiquid markets and instruments?



## 2.3 Price Timeliness

- **Timeliness. Why?**
  - Timeliness is as important to real time data as well as non real time data.
  - Consistently up to date data provides a competitive advantage, especially for electronic trading, algorithmic trading and direct market access.
  - Each different data type has a different impact depending on data usage.
  - For instance late corporate actions information can lead to incorrect instrument and portfolio valuation.
  - Timeliness promotes liquidity.
- **If Prices are not Timely?**
  - Stale data=stale markets.
  - Automatic competitive disadvantage to other market players.
  - Investors go to those providers delivering prices on time.
  - Does your source guarantee or have a track record in providing timely prices?



**DataContent**

Consulting. Reinvented

## Market Data Strategies. Re-invented.

About DataContent.

Rafah Hanna and Keiren Harris inaugurated DataContent as new strategic consulting practice to advise players in the financial markets on how to resource and leverage information and market data benefiting their businesses directly to the bottom line.

Expert innovation is the key driver in approach and delivery, all built on proven track records.

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