FINANCIAL CONDUCT AUTHORITY

Market Study

MS23/1.4

Wholesale Data Market Study

Update Report

August 2023

How to respond

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You can send them in writing to wholesaledatamarketstudy@fca.org.uk

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Chapter 1

Executive summary

Why are we doing this work

1.1 Wholesale financial markets rely on data to function effectively and efficiently. Stakeholders use wholesale data to identify investment opportunities, execute trades, make investment decisions, evaluate firms' financial positions and meet regulatory obligations. Data markets need to function well so that capital markets make well-informed decisions on where and how to invest. This is essential for economic growth and the UK's international competitiveness. This market study helps us deliver our strategic aim to strengthen the UK's position in global wholesale markets and our commitment to promoting competition and positive change.

1.2 We launched this market study on 2 March 2023 following persistent user concerns about how well wholesale data markets are working. It focuses on competition in the provision of benchmarks, credit ratings data and market data vendor (MDV) services. Benchmarks are widely used in financial markets, often as a reference for index-tracking funds and to evaluate an asset manager's performance. Credit ratings assess the creditworthiness of a wide range of financial obligations. MDVs are key distributors of wholesale data such as benchmarks and Credit Rating Agency (CRA) data.

1.3 This market study is part of our wider work on wholesale data. This includes our trade data review, whose findings and next steps were published alongside the launch of the market study. We also launched a consultation (CP23/15) on our proposals to promote the emergence of a consolidated tape provider (CTP) for bonds data in July 2023, which includes discussion of extending such a framework to equities. A consolidated tape (CT) is a continuous live stream of data about prices, volumes, bids and offers and executed trades for different asset classes. We will consider further how this other work might affect the products and services we are looking at in the market study.

1.4 In the market study terms of reference we set out the 6 cross-cutting themes which collectively reflected the responses and concerns to the Call for Input (CFI), and which we would use to focus our analysis of competition in these markets:

Figure 1: The 6 cross-cutting themes

Update on progress

1.5 We received 28 responses to our terms of reference from a range of stakeholders including benchmark administrators, trading venues, MDVs, financial firms and trade associations. Overall, the potential competition concerns in these responses were in line with previous issues highlighted to us in these markets.

1.6 We have been engaging with regulators in other countries to see if they are facing similar competition issues and how they are tackling them. This engagement has highlighted similar concerns about market features such as lack of transparent pricing practices, excessive charging, bundling practices and complex licensing agreements.

1.7 We requested information from a range of firms across the markets for benchmarks and indices, credit ratings data and MDV services. We engaged with these firms to obtain qualitative information on a wide range of areas (including their product offering, business strategy, relationships with customers and redistributors, terms and conditions, as well as views on the competitive landscape and regulatory environment), financial information (such as revenues, costs, assets, liabilities and level of investments, both at a global and at a UK business level) and transaction data on historical customer contracts. We will continue to conduct analysis on the nature and scale of harm and potential remedies as the study progresses. We will also engage further with stakeholders and would welcome views on the issues highlighted in this report.

Market Investigation Reference

1.8 In response to the terms of reference, we received representations from 4 parties that we should make a market investigation reference (MIR) to the Competition and Markets Authority (CMA) for one or more markets in scope of the study. Based on our work to date, we are proposing not to refer any of the markets in scope of the study to the CMA at this stage. While we believe there are reasonable grounds to suspect there are features of each of the relevant markets that prevent, restrict or distort competition in the UK, our provisional view is that it is most appropriate for us to take forward further work to identify and address potential harm caused by these features ourselves. Chapter 4 contains our consideration of the representations we received and our response.

1.9 The purpose of this document is to consult on and set out our reasons for our provisional decision not to refer any markets to the CMA for a market investigation. It also provides an update on the progress of the study, including emerging themes and issues we are seeing.

Emerging themes and issues

Benchmarks

1.10 As of August 2023, the UK Benchmarks Register lists 36 UK benchmarks administrators and 10 third country administrators. Based on our analysis of information from firms, we estimate that aggregate UK revenues in the market were around £600m in 2022. Three providers account for a large majority of the UK revenues generated every year since 2017. Several firms have entered the market but are to date relatively small.

1.11 Based on our analysis to date, competitive dynamics among benchmark administrators are shaped by network effects; strong brand awareness, in particular at the level of end investors; barriers to entry due to input and start-up costs; and vertical integration. This may generate market power for some benchmark administrators, reducing their incentives to compete on price, quality and innovation. Our analysis shows that markets are concentrated and there is limited switching by benchmark users.

1.12 Market power might enable benchmark administrators to impose commercial practices that result in high costs for benchmark users and further weaken competitive pressures, such as complex, non-standard and non-transparent licensing terms, selling of products in packages, termination requirements and liability clauses.

Credit ratings data

1.13 Approximately 92% of revenue from UK credit ratings activities are from the 'Big Three' CRAs, Moody's Investors Service, S&P Global Ratings, and Fitch Ratings, a position that has remained largely stable over the past five years. There have been numerous smaller CRAs that have entered or expanded into the UK market since the 2007/8 global financial crisis. There are currently 13 CRAs authorised to issue credit ratings in the UK. Based on information gathered from firms, the profitability of the Big Three significantly exceeded that of smaller CRAs throughout the period for which we collected data (2017 to 2022).

1.14 Credit ratings are overwhelmingly paid for by debt issuing firms, with the resulting ratings given to CRAs' data affiliates to license and distribute as part of data services. The credit ratings data market is highly concentrated amongst data affiliates of the Big Three CRAs: Moody's Analytics, S&P Global Market Intelligence, and Fitch Solutions. Our analysis indicates that, among credit ratings data originators, data affiliates of the Big Three account for a large majority of revenues from UK-domiciled end users, with the market estimated to generate revenues of up to £100m annually.

1.15 CRAs are required to publish ratings data for free under Article 13 of the UK Credit Rating Agencies Regulation (CRAR), but this varies across other jurisdictions. Our survey of data users indicated many users did not utilise these free data sources, instead licensing data from CRA affiliates or via MDVs. This was due in part to the perceived quality of data from free sources, the cost of manually acquiring it, and uncertainty about the terms of use in absence of a licence agreement with CRA data affiliates.

1.16 In response to our survey, data users highlighted a perceived lack of transparency around how prices were set for credit ratings data, with some users suggesting they were paying significantly different prices to their peers. Fees schedules are not typically publicly available. Data users were unclear about pricing factors, and their respective weightings on end prices. Many larger firms indicated regulatory and end investor requirements meant they had to license credit ratings data from all of the Big Three CRA's data affiliates, with ratings from challenger CRAs not viewed as a viable alternative. This limits many users' choice of credit ratings data services. This situation may allow CRA data affiliates to price discriminate in ways which can limit competition, such as charging higher prices to firms who cannot switch service providers.

Market Data Vendors services

1.17 MDVs play a key role in the distribution of trading data and other sources of market data such as benchmarks and CRA data. In 2022, the UK revenue of our sample of MDVs was around £3.0bn. Bloomberg is and has been historically the largest MDV followed by Refinitiv. Other smaller but significant MDVs are SPGMI, ICE and FactSet, followed by a long tail of smaller specialised providers. There have been no major entrants in the last five years, and exit has occurred mainly via mergers and acquisitions. However, information from suppliers provides some evidence of existing firms in the market entering new market segments and developing new products and services.

1.18 Most of the buyers in this market are sophisticated users with procurement teams that review licences regularly. However, the majority of our demand-side respondents reported that they have little or no bargaining power when negotiating with the largest vendors. Well-established and large MDVs appear to hold market power resulting from switching costs and other frictions in the switching process.

Next steps

1.19 We have provisionally decided not to refer any of the 3 markets to the CMA and we are now consulting on this provisional decision.

1.20 Under section 131A of the Enterprise Act 2002, the FCA is required to publish a notice of its proposed decision to not make a market investigation reference and invite representations.

1.21 We invite stakeholders to share their views on this and the emerging themes and issues set out in this report. Please provide your views in writing to wholesaledatamarketstudy@fca.org.uk no later than 29 September 2023.

1.22 In the remainder of the market study, we plan to extend and develop our analysis of the information we have collected. We will consider any responses to this consultation and accompanying evidence submitted. Our market study report will include our findings on competition in these markets and our decision whether to make an MIR, an explanation of our decision and other actions to address the issues identified. We will publish this report by 1 March 2024.

1.23 There are a range of potential outcomes at the end of a market study to address the issues that we have identified. As well as making an MIR to the CMA, our options include introducing, changing, or removing of rules; issuing guidance; encouraging industry-led solutions; firm-specific remedies and recommending action by other authorities, for example, recommending to the Treasury to provide us with new or extended powers. Our scope to make and change rules in some cases may be increased as we bring retained European Union (EU) law across a range of different areas into our Handbook through the Future Regulatory Framework (FRF) Review reform process. If we consider that the issues found are most effectively dealt with at the international level, we will consider how to do this effectively. Alternatively, we may choose not to take any action. We will set out what action, if any, we plan to take in our market study report.

Chapter 2

Overview

Introduction and background

2.1 Wholesale financial markets rely on data to function effectively and efficiently. If wholesale data markets are working well, capital markets will function efficiently, and well-informed decisions will be taken on where and how to invest. Efficient allocation of capital is essential to economic growth. Markets in which firms compete to provide good quality wholesale data will also make the UK an attractive place to do business for a wide range of financial service providers, and so can improve the UK's international competitiveness.

2.2 This market study is a key piece of work in delivering our strategic aim set out in our Business Plan for 2023/24 to strengthen the UK's position in global wholesale markets and our commitment to promoting competition and positive change. Well-functioning wholesale data markets will play a central role in achieving these goals.

2.3 Given the extensive and varied use of wholesale data, including its importance in enabling investment activities and decisions, the potential harm to end consumers if these markets are not working well is very large. While most direct users of wholesale data are firms, such as asset managers, banks and brokers, they use this data as part of the investment process, which can impact the outcomes of end consumers, such as retail investors.

2.4 Our 2022 Financial Lives Survey highlighted that over 72% of all UK adults have a holding in a private pension (of which 57% is in accumulation). 9.3% of UK adults invested in an investment fund or endowment and 17% in a Stocks and Shares ISA. Therefore, if competition is not working well in wholesale data markets this will affect many consumers through its impact on the costs, quality, access and choice of investment products, and ultimately their investment decisions.

2.5 Over the years, a number of concerns have been raised about how well these markets function and how effective competition is for wholesale data. In particular, following our Call for Input (CFI) on access and use of wholesale data, we published a Feedback Statement (FS22/1) in January 2022 which highlighted concerns that competition may not be working well.

2.6 Our Feedback Statement outlined concerns from benchmark users in response to the CFI about unnecessarily complex and opaque contracts and barriers to switching between benchmarks. This leads to price increases that did not correspond to increases in costs or improvements in service quality.

2.7 The Feedback Statement also set out concerns about market data vendors (MDVs) and credit rating agencies (CRAs). Users highlighted various practices that could indicate that these markets are not working well. These included bundling of core services with other data services, making it difficult for users to switch, restrictive terms around data usage, high barriers to market entry, high charges for users when renewing their contracts and a low level of meaningful innovation in the market.

2.8 Many of the respondents' concerns about the markets for wholesale data have been highlighted in other jurisdictions. For example, the European Securities and Markets Authority (ESMA) set out in an Opinion paper the options it saw for addressing some similar findings about credit ratings data following responses to its Call for Evidence on this.

2.9 Following our Feedback Statement, we conducted a trade data review to look further at concerns in that market. Following the findings of that review, alongside those from our call for input and our wider wholesale market priorities, we launched the Wholesale Data Market Study. This market study allows us to look in more depth at competition in wholesale data markets and outcomes for data users. It focuses on competition in the provision of benchmarks, credit ratings data and MDV services. Benchmarks are widely used in financial markets, often as a reference for index-tracking funds and to evaluate an asset manager's performance. Credit ratings assess the riskiness of a wide range of financial obligations. MDVs are key players in the distribution of wholesale data, including benchmarks and credit ratings data.

2.10 We launched the market study using our competition powers under the Enterprise Act 2002 (EA02). The market study powers afforded by the EA02 will enable us to develop an in-depth understanding of whether a market is working well and, if not, why. The EA02 gives us broad information gathering powers. We are gathering information from stakeholders who create, distribute, and use wholesale data to understand how these markets work and the implications for direct users and end consumers. The use of these powers requires that we meet 2 statutory deadlines for this work:

- First, as we have received representations to make a market investigation reference (MIR) following the release of our Terms of Reference, we must publish our proposed decision on whether to refer one or more of the markets covered by the market study to the CMA for further in-depth investigation and begin consulting on this proposed decision by 1 September 2023.
- Second, we must publish a market study report setting out our findings and any action we propose to take by 1 March 2024.

2.11 A market investigation by the CMA is an in-depth investigation led by a group drawn from the CMA's panel of members. We have previously referred a market to the CMA for market investigation on competition grounds – the market for investment consultants – following the asset management market study.

Wider context for this market study

2.12 We are in the early stages of implementing changes following the Future Regulatory Framework (FRF) Review. This will bring a large amount of retained EU law on financial services under the FCA's direct responsibility. If we confirm suspected competition problems in one or more markets, we have the opportunity to make representations to the Treasury to amend existing powers, or grant the FCA new ones, where this is needed.

2.13 This market study is part of our wider portfolio of work on wholesale data. This includes our trade data review. We also launched a consultation (CP23/15) on our proposals to promote the emergence of a consolidated tape provider (CTP) for bonds data in July 2023, which includes discussion of extending such a framework to equities. A consolidated tape (CT) is a continuous live stream of data about prices, volumes, bids and offers and executed trades for different asset classes. We will consider how this other work might affect the products and services covered by the market study.

2.14 The markets covered by the study are international, with some firms in these markets based, and supplying data to customers, in other countries. Achieving better outcomes in these markets may require ongoing international cooperation between competition and financial services regulators. We would be well placed to undertake this task if the market study indicates that this is the most effective route towards competitive outcomes in UK markets. This is because of our position as the sector regulator for UK financial services and our expertise in competition, our knowledge of these markets and existing relationships with international counterparts.

2.15 On 29 June 2023 the Financial Services and Markets Act 2023 (FSM Act 2023) became law, introducing significant changes to the regulatory framework for financial services in the UK. One of these is giving us a secondary objective to facilitate the international competitiveness of the UK economy, and its medium to long-term growth, subject to aligning with relevant international standards, when advancing our primary objectives of consumer protection, market stability and effective competition in the interest of consumers.

Progress update

2.16 Following launch of our market study, we consulted on the terms of reference and whether we should refer one or more of these markets to the CMA. The consultation closed on 30 March. We received 28 responses from a range of stakeholders including benchmark administrators, trading venues and MDVs, financial firms and trade associations. Overall, the potential competition concerns in these responses were in line with previous issues highlighted to us in these markets.

2.17 Responses to our consultation also included 4 responses in support of an MIR covering all 3 markets in scope. We discuss these representations in Chapter 4 at paragraphs 4.7 – 4.10. These representations mean that we must now consult on this proposed MIR decision.

2.18 We have been engaging with regulators in other jurisdictions to see if they are facing similar competition issues across these markets and how they are tackling them. This has highlighted similar concerns about market features, such as lack of transparent pricing practices, excessive charging, bundling practices and complex licensing agreements.

2.19 We sent requests for information to different types of firms across the markets for benchmarks and indices, credit ratings data and MDV services. We have received around 50 responses from suppliers and around 140 responses from users of wholesale data.

Chapter 3

Competition analysis: how competition works, potential barriers and concerns

Introduction

3.1 Our terms of reference set out that for each of the markets in scope, our overall aim is to examine how firms compete to win and retain customers, and the implications of these market dynamics on the structure of the markets and on price, quality of data and service and on innovation.

3.2 Influenced by the competition issues set out in our 6 cross-cutting themes, we have undertaken extensive evidence gathering from both suppliers and users of products within scope of the market study.

3.3 Our analysis to date highlights that while there are important differences across the 3 markets, in each we observe a relatively small number of key providers, many of whom have maintained significant positions in these markets for a number of years. Elements of these markets appear to display high levels of persistent concentration.

3.4 Our evidence gathering and analysis focused on understanding the drivers of this concentration and whether key providers have the incentive and ability to prevent, restrict or distort competition. This can lead to harm or poor outcomes in terms of higher cost, lower quality services or lower levels of innovation than in effectively competitive markets.

3.5 While most direct users of wholesale data are firms, they use this data as part of the investment process. So wholesale data affects many consumers through its impact on investment decisions and costs of investment products.

3.6 Concentrated markets are not necessarily harmful to users. A small number of providers can be efficient and provide users with low-cost products and services, for example where there are network effects. This is especially true if new entrants can easily enter the market and there is competition for the market. This dynamic competition incentivises firms to innovate and to try to leapfrog their competitors by developing unique, highly valued products or services.

3.7 However, when market shares are relatively high and stable over time, this can be caused by firm behaviours or practices which aim to prevent, restrict or distort competition. For example, through pricing and contractual practices or mergers and acquisitions which can create barriers to entry, foreclose competitors or inhibit customer switching. Firms may also directly exploit their position through high pricing, low quality or insufficient innovation.

3.8 Over the coming months we will be doing further work to develop our assessment of the issues in each market. In particular:

- We are assessing customers' behaviour to understand whether they can – and do – switch between suppliers, or alternative data products, and the constraints this has on suppliers. If customers cannot easily switch, we want to know whether other factors enable customers to exert a degree of constraint on suppliers.
- We are assessing suppliers' use of complex and non-transparent contracts and licensing terms. These may increase the cost of switching providers and enable suppliers to charge different prices to users, which could have both a positive and negative impact on competition. We are also considering the value users get from data being conveniently provided in bundles of complementary products and services, but which may also create barriers to entry or expansion.
- Finally, where we identify potential harm to users, we are assessing what options are available to encourage greater, or more effective, competition or reduce harm to users.

3.9 We now consider our analysis to date for each of the 3 markets, and the further work we plan to undertake as we continue the study.

Benchmarks

How competition works: products, suppliers and users

What benchmarks are

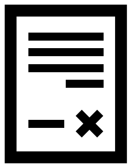
3.10 We are looking at competition in the supply of benchmarks within the scope of the UK Benchmarks Regulation (UK BMR). However, to form an accurate view of competition, we also need to consider the role played in the wider market by indices that fall outside of the scope of the UK BMR.

3.11 Firms and organisations use indices to provide information about a wide range of markets and economic realities. In the UK BMR, an index is defined as a figure that is publicly available and is regularly determined, either by applying a formula or other calculation, or by making an assessment based on the value of one or more underlying assets/prices (including estimated prices, actual or estimated interest rates, quotes and committed quotes, or other values or surveys). In wholesale markets, they are widely used to benchmark performance or determine the price of financial products.

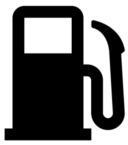
3.12 Indices are calculated based on a variety of input data and methodologies. One way to classify indices is by the asset class of the underlying assets. The figure below shows some of the main types of indices by asset class that are used in wholesale financial markets. In addition to the asset class, indices may also focus on specific geographic markets, sectors or themes (eg climate, ESG).

Figure 2: Examples of indices by asset class

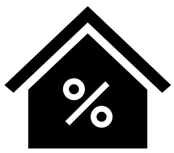
Equity indices: tracking the value of a basket of exchange-traded stocks, selected according to specified criteria eg geographies, sectors, company size ranges or investment strategies, and with weights specified by the index methodology. The main input into equity indices is transacted security prices from stock exchanges.



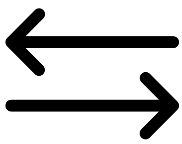
Fixed income indices: tracking the performance of debt instruments, using data on bond trades in and outside of exchanges.



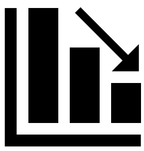
Commodity indices: can be of two types, commodity price assessments (assessments of the prevailing market price of a given commodity, based on data on physical trades in spot markets) and indices tracking the value of commodity derivatives (calculated using data from exchanges on trades of derivatives of a specific commodity).



Interest rate indices: determined based on the rate at which banks may lend to, or borrow from, other banks or agents in the money markets.



Foreign exchange indices: provide a view of the prevailing currency exchange rates for any the given currency pair or basket of currencies.



Others may include, for example, blended indices with multiple asset classes, or new asset classes such as cryptocurrencies.

3.13 Indices play an important role in financial markets. Their widespread use in investment products and financial contracts means that they affect investors' returns and costs, hence it is crucial that they are robust and reliable. This is ensured by the UK BMR, which regulates the provision of certain indices.

3.14 Publicly available indices fall within the definition of a benchmark under the UK BMR when they are used to:

- determine the amount payable under a financial instrument or financial contract, or the value of a financial instrument or
- measure the performance of an investment fund for the purpose of tracking the return, defining the asset allocation of a portfolio or computing the performance fees

3.15 Under the UK BMR, the distinction between whether an index is a benchmark or not depends on its use rather than on its product features. For example, other uses of indices such as internal risk management by financial services firms are outside of the scope of the UK BMR. Annex 1 contains more detail on the regulatory landscape.

3.16 We have not included LIBOR within the scope of the market study as it is undergoing a wind-down process. In July 2023 we announced that the US dollar LIBOR panel has now ceased.

Suppliers and licensing of benchmarks

3.17 Indices and benchmarks are supplied by index providers or benchmark administrators. These firms generally develop, calculate, and maintain a range of indices and earn revenue from licensing their use to clients, as benchmarks or for other purposes such as internal use or redistribution.

3.18 We estimate aggregate revenues from indices data and the licensing of benchmarks to UK-domiciled customers to be around £600m in 2022.

3.19 Benchmark providers typically supply benchmarks internationally. The UK BMR allows benchmark administrators from the UK and outside the UK to apply to the FCA to supply benchmarks in the UK. Additionally, the BMR is subject to a transitional provision until the end of 2025 allowing non-UK benchmark administrators to license benchmarks in the UK without making an application to the FCA until the end of this period.

3.20 The UK Benchmarks Register lists UK located benchmark administrators and administrators from outside of the UK who have received FCA approval under the third country provisions of the BMR (third country administrators). As of August 2023, the register lists 36 UK benchmarks administrators and 10 third country administrators. The register does not list administrators based outside of the UK relying on the transitional provision to supply benchmarks to the UK, but we are aware of some suppliers that are operating in the UK under this provision.

3.21 Based on the register and information we received during our evidence gathering from benchmark administrators, we observe that 10-15 providers have started administering benchmarks available in the UK in the last 5 years. Variations of the traditional business models have emerged over time, including:

- Self-indexers, ie firms who administer benchmarks predominantly to use in financial products within their group. These may include investment banks and asset managers. The benchmark administration business may be a cost centre for these firms, ie not directly contributing to revenue generation.
- Boutique index providers, who administer a small number of benchmarks, often measuring niche asset classes (eg cryptocurrencies, AI) or specific investment strategies (eg ESG benchmarks), and may focus on innovative methodologies.
- 'Outsourcers', who administer benchmarks on behalf of another entity, outsourcing core functions such as calculation, monitoring and surveillance.
- Academic institutions that publish and administer benchmarks.

3.22 Benchmark and index providers receive fees from clients to supply them with the index data and license its use as a benchmark. The scope and conditions of the licences vary significantly across providers, partly driven by the variety in applications of different types of indices, but broadly speaking the main licence products available are:

- subscriptions to receive index data as it is updated and some level of additional ancillary data, such as data on the index constituents, for uses outside the scope of the BMR
- subscriptions to use indices as benchmarks for a determined contract length where the fees are based on factors such as number of individual users at the clients' site or number of access locations
- subscriptions for use in index-linked financial products where fees are determined based on the value or volume of trading in those financial products
- redistribution licences
- licences for use of an index for the creation of another index

3.23 There is also considerable variation across providers in packaging of multiple indices: some providers allow clients to select individual indices they require, others license index families or offer blanket subscriptions to all their indices. Providers may also charge an additional fee to allow access to their data through a market data vendor (MDV).

3.24 Many benchmark administrators have additional business lines. Several are part of groups that operate in multiple areas in the financial sector. For example, generating other market data (eg credit ratings), distributing market data, exchanges and trading venues, asset management, research and analytics and brokerage services. There has been consolidation between index providers and along the value chain through mergers and acquisitions in the last decade, some of which have been subject to regulatory scrutiny (eg LSEG/Refinitiv, S&P/IHS Markit).

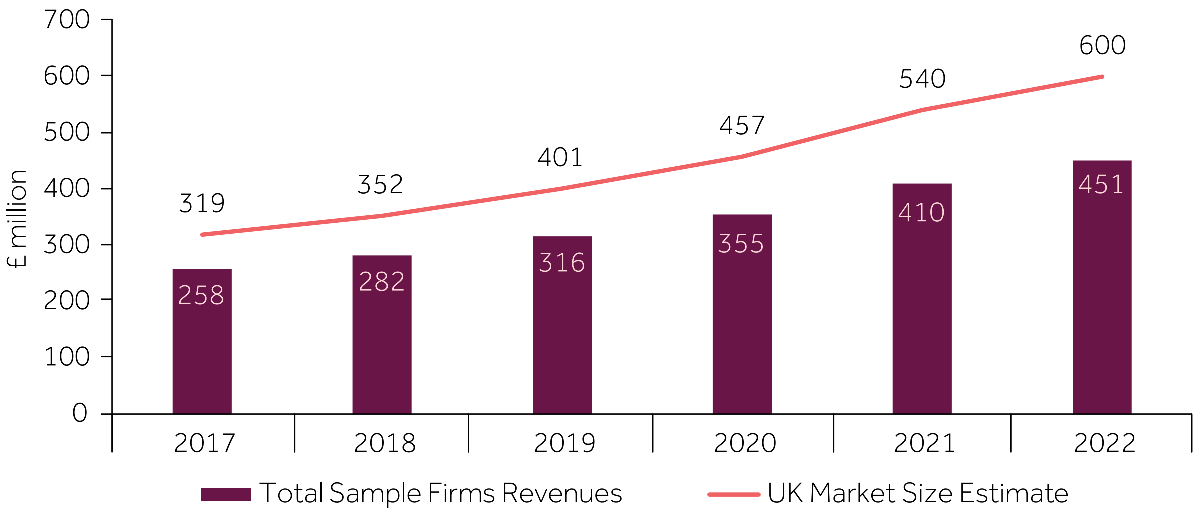
3.25 Benchmark administrators have told us they compete on several parameters. These include price, quality and accuracy of indices, independence, brand, innovation, flexibility to provide custom solutions, alternative methodologies, customer support, delivery solutions and quality of input data.

3.26 As a key part of our assessment of competition for indices and benchmarks, we have collected financial information from benchmark administrators. This allows us to analyse providers' profitability, market concentration and other metrics. We collected financial information from 14 providers, including UK and third country domiciled benchmark administrators. We estimate we have captured about 75% of the aggregate revenue from indices data and the licensing of benchmarks to UK-domiciled customers. Our sample is diversified across a number of variables, such as revenue size, geographical presence (global and only selling to UK customers), product offering (diversified and boutique), and business model.

3.27 Based on the information firms submitted, aggregate global revenues across providers within our sample are around £3.5bn in 2022, having grown at a compound annual growth rate (CAGR) of around 15% since 2017.

3.28 UK revenues reported by the firms in our sample exceeded £450m in 2022 (around 10% CAGR since 2017). Of these aggregate revenues, around 25% was earned by third-country benchmark administrators. Firms reported that in 2022 they generated an additional £90m in revenues from sales of additional services related to, but distinct from the supply of, benchmarks and indices (eg data insights, news and analytics, advisory, transactional services). We have currently not included these revenues in our market size estimates, as more analysis is required to understand whether they are independent from the provision of benchmarks. Should our analysis indicate that such revenue streams should instead be viewed as an integral part of the benchmarks market, we may revise our estimates accordingly.

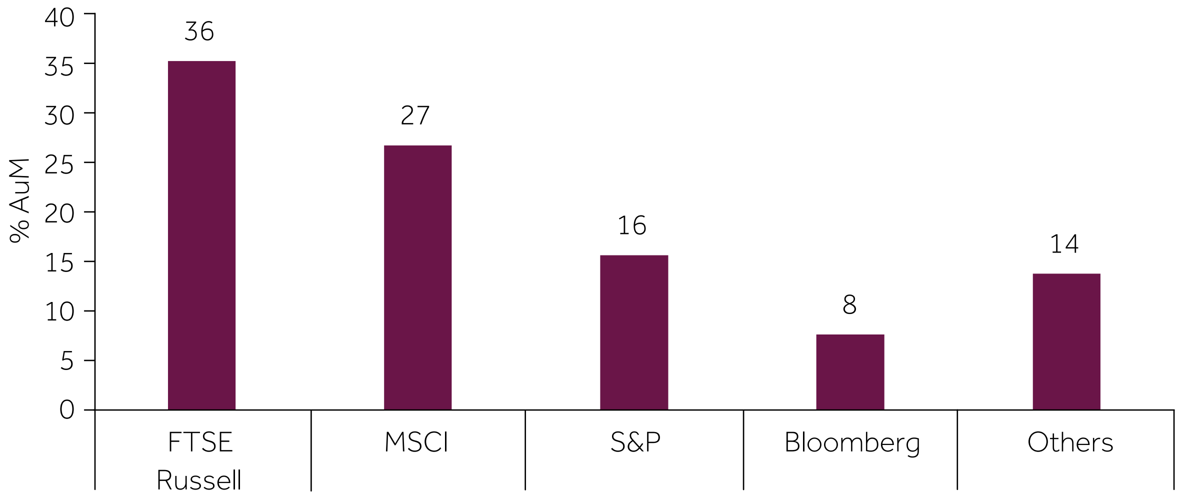
Figure 3: UK Market Size Estimate and Sample Firms' Revenues from Indices and Benchmarks



Source: FCA analysis of RFI responses and additional FCA data.

3.29 We estimate that three providers account for a large majority of UK revenues generated every year since 2017. However, market shares vary according to the nature of the benchmark and its use. For example, one important use of benchmarks is measuring the performance of an investment fund or defining the asset allocation of a portfolio. From public information on the benchmark providers used by open-ended funds domiciled in the UK and ETFs available in the UK, set up between 2000 and 2022, we observe that FTSE Russell, MSCI and S&P jointly account for over 75% of value of assets under management (AuM) in these funds. These shares have been quite stable since 2010. The next largest share is Bloomberg's, as shown in the figure below.

Figure 4: Market share of leading UK benchmark providers in UK funds and ETFs, 2022



Source: FCA analysis of data on funds set up between 2000 and 2022 in the UK publicly available from Bloomberg and Morningstar.

3.30 Within these funds, when considering specific asset classes or geographic focus, the market appears even more concentrated. For example, based on our analysis of the same funds data as in the previous paragraph, we estimate the 3 largest index suppliers by AuM for equity funds have almost 95% market share, and the leading provider for each geographic region (UK, rest of Europe, US, global indices) has between 50% and 85% market share.

3.31 This analysis confirms that the supply of benchmarks is highly concentrated, particularly in narrower subsets of the wider benchmark and index market, and has been in the last decade. The potential drivers and harm from concentration are further discussed below.

User types, behaviours and experiences

3.32 A wide variety of firms use benchmarks. Based on information provided by benchmark administrators, the majority of benchmark users are financial firms, such as asset managers, banks, wholesale brokers, Principal Trading Firms (PTFs), and trading venues. The remaining users are non-financial firms, such as data and analytics firms, technology providers, and education organisations. For certain types of benchmarks there are more niche end users, for example some commodities benchmarks are used by utility firms and manufacturing firms (eg power generators, cement manufacturers).

3.33 We surveyed a range of users on their experiences purchasing and using benchmarks and indices. The aim of the exercise was to understand what benchmarks and indices users buy, how they access them, how they use them within their business, and the criteria they consider when choosing a particular product and provider. We also sought views on users' procurement processes, ability to compare and negotiate with benchmark providers and to switch to alternative products. Finally, we sought users' views and experiences of pricing, terms and conditions, quality and the impact of changes in these on their own product offering. We received information from nearly 100 benchmark users, representing a variety of user types.

3.34 Our initial findings from the user survey show that firms use benchmarks and indices in many different ways. The figure below summarises the main uses, grouped in 4 broad categories.

Figure 5: Summary of main uses of benchmarks and indices

Financial Instruments and Contracts

Determining the value of a financial instrument, eg an exchange using an oil benchmark to determine the settlement price for a derivative contract

Determining the amount payable under a financial contract, eg a bank using an interest rate benchmark to determine the amount due in a mortgage agreement

Determining the amount payable under a financial instrument, eg a bank issuing a structured product which pays interest if the benchmark level meets a certain threshold at a specified date

Investment Funds

Creating index-tracking investment products, eg asset managers creating a passive fund replicating an equity benchmark

Defining investment criteria, eg a fund investing only in securities included in a certain benchmark

Tracking performance and computing fees, eg asset managers earning fees if a fund outperforms a specific benchmark

Client Reporting

Ongoing client reporting activities, eg a broker-dealer displaying reports to clients on how their investments are performing compared to a relevant benchmark

Internal Usage

Risk management activities, eg an asset manager tracking the constituents making up a fixed income index to ensure their own fixed income fund complies within the mandated risk levels

Conducting research and market analysis, eg a platform using an equity index that tracks UK firms to gauge the relative size of the UK equity market

3.35 Users access benchmarks and indices data in a variety of ways but based on responses we have received there are two main channels: (1) directly from providers or (2) indirectly through MDVs. Users usually consume directly from providers when granularity (eg understanding the underlying constituents of an index) and latency are important factors. Many users consume from MDVs because of ease of access to data, compatibility with their IT systems, and the convenience of having consolidated data feeds across different sources and types of market data. Users also value MDVs' ancillary services, such as messaging systems. The two channels are not mutually exclusive, as some users access benchmarks and indices data both directly from providers and through MDVs.

3.36 Users have reported that they generally require a range of benchmarks and indices across the use cases described in the figure above. Depending on the use case, their choice of benchmark is often driven by what benchmark is considered the 'industry standard' for the market it tracks. Certain benchmarks are considered a 'must-have' for users.

3.37 Contract terms are generally agreed on an individual basis, through negotiation with providers. Most users state that they have limited or no ability to negotiate with benchmark and index providers and many firms claim providers have a 'take it or leave it' approach to fees and terms and conditions.

3.38 The remaining firms said they were able to negotiate with benchmark providers. A few firms state this is more common when buying higher volume contracts as opposed to individual index licences, and with new entrants as opposed to large, well-established benchmark providers.

3.39 Most firms who responded to our user survey have not switched, or considered switching, between benchmark providers in the past 5 years. A few firms have switched successfully to an alternative provider to try and reduce costs or increase quality, while some have considered switching, but have not done it due to high switching costs.

3.40 Users have reported that switching between providers involves several costs.

- Costs related to adopting a new product: infrastructure cost of integrating a new data stream into a firm's systems; internal resource needed to develop new marketing material, training staff and educating clients; procurement cost of negotiating with new suppliers and establishing new licensing terms.
- Contractual costs of terminating a commercial relationship with the previous supplier: for example, when a contract is terminated, often firms must remove all historical data, apart from where needed for regulatory or compliance purposes, unless they pay for a perpetual licence. This is an extra cost if they need historical data for example to compare performance over time.

3.41 Users have also reported that they are deterred from switching due to challenges attributed to moving away from leading providers, specifically due to the following.

- Lack of suitable alternatives: there is often not a suitable 'like-for-like' alternative for specific indices. This means that even if the costs of switching were nil, firms would not be able to find a suitable alternative product.
- Breaching client agreements: firms are concerned that their reputation could be impacted if they switch benchmark providers during the lifecycle of a financial product.
- Brand awareness: firms do not switch to alternative providers due to the familiarity of the market leaders and a concern that deviating from the crowd may have reputational impacts.

3.42 Survey respondents had mixed views on the presence and importance of these barriers to switching. The majority of firms believe that these barriers are significant. Many of these firms claim that switching costs are enough to offset any cost savings they may gain from switching providers, and some highlight in particular the costs associated with the requirement to remove historical data.

3.43 A minority of firms do not believe there are barriers to switching. A few of these firms have switched successfully between benchmark providers. However, most of these firms have not switched in the past 5 years despite low perceived switching barriers. A small number of firms have never considered switching or did not have a view of the potential costs.

Trends, developments and future competitive dynamics

3.44 Demand for benchmarks and innovation are partly driven by recent market trends in financial markets, with index providers creating indices tracking new markets to match investment trends (eg cryptocurrencies, digital markets). Based on analysis of the information we have collected, the main trends observed in the last decade are:

- Growth of passive investment against active investment, leading to increased use of benchmarks. In the last decade, investors have shifted from actively managed funds, where the fund manager selects the individual securities, to passively managed funds, or index-tracking funds, and particularly exchange-traded funds (ETFs). These aim to track the underlying index they reference as closely as possible. These funds are less costly to set up and manage for asset managers. This trend has increased demand for benchmarks, with many index providers offering licences specifically for use in index-tracking funds. As the index name is typically stated in the name of an index-tracking fund, the index chosen is a prominent feature of the fund and immediately visible to investors.
- Demand for ESG-related investment products and relevant indices. The increased relevance of sustainability and climate change has significantly affected financial markets in the last decade, leading to the emergence of new markets and a shift in investors' preferences. For the index industry, this has led to increased demand for ESG-themed equity and fixed income indices, but also of indices tracking new commodity markets, such as renewable energy or climate factors.
- Increased demand for specialised and bespoke indices. Investors are increasingly interested in indices tracking very niche and specific markets. As a result, index providers have started working closely with clients to develop bespoke indices, or to provide customised versions of their existing products.

3.45 In the next stage of this market study, we will consider the role these recent trends have had in shaping competitive dynamics and ensure we consider recent and likely future developments in the context of evaluating the relative weight of competition concerns.

Concentration and market power

3.46 Our analysis above has identified that benchmark markets are concentrated, with some benchmarks considered a 'must-have' for users. Concentration is not inherently harmful, but in combination with other market features that reduce competitive constraints on benchmark administrators, such as barriers to entry and expansion and with barriers to switching for users, it may indicate firms have persistent market power. If benchmark providers have persistent market power, they may have less incentive to compete on price, quality and innovation, ultimately resulting in poor outcomes for end investors. We will assess this in the next phase of our analysis.

3.47 Certain features of the market for benchmarks are likely to facilitate the creation of persistent market power, as set out below.

Network effects

3.48 Benchmarks are more valuable to users if they are widely adopted by other market participants. This may result in markets tipping towards a specific benchmark, ie it becomes the standard choice once it has reached a certain level of adoption by the market. We have observed several cases of an industry standard benchmark being established for a specific market. Many users and suppliers have said there are certain market standard indices that most participants use, and they would be disadvantaged if they didn't.

3.49 The importance of network effects and impact on competition varies across different types and uses of benchmark products. Where benchmarks are used to determine the settlement price of a contract, it is important that the parties to the transaction are using the same benchmark value in the calculation. This means certain commodity price assessments, Forex and interest rate benchmarks tend to become the standard for specific uses.

3.50 Another source of network effects is the need for liquidity. Financial instruments, such as derivatives, referencing the main benchmarks are widely available, resulting in lower trading costs compared to trading products linked to less popular benchmarks. For other important uses of benchmarks such as performance benchmarking, there aren't significant network effects.

3.51 Market tipping leads to concentration but it doesn't necessarily mean there is no competitive pressure, as a 'must-have' benchmark might still be displaced. Based on our preliminary analysis, displacement of a leading benchmark is unlikely to happen in markets where network effects are strong – it would require a significant majority of industry participants to switch at the same time and in practice has not been observed frequently. A notable example is the wind-down of LIBOR, which required significant coordinated efforts by regulators internationally to implement over time.

3.52 The creation of persistent market power through network effects should be considered alongside the value that network effects create for users. We will further consider whether network effects are likely on balance to lead to poor outcomes for investors in different market segments.

Brand awareness as a key driver of behaviour of data users

3.53 Benchmarks users tend to choose well-known, established benchmark administrators or specific benchmarks that are considered the standard for the economic reality they track. Many users, particularly asset managers, claim that their choice is largely driven by their own clients' strong preference for well-known benchmarks, which discourages them from switching to alternative providers. Brand awareness reflects brand value to users and is a parameter on which firms compete. However, it may lead to sub-optimal outcomes for end investors where benchmark users have better knowledge about benchmarks' price and quality, but select the benchmark they use based on client preferences.

Barriers to entry due to input costs and start-up costs

3.54 As in most markets, firms face upfront costs to become a benchmark administrator and expand into sub-markets. Start-up costs include research costs of developing an index, the cost of obtaining input data, and the cost of setting up appropriate systems to comply with the requirements of the UK BMR and be authorised as a benchmark administrator. In addition, indices may take some time to be adopted by the industry (if they are at all). These costs and risks may be easier to sustain for benchmark administrators who have already reached a certain size, creating barriers to entry and expansion. Some benchmark administrators have reported the cost of input data, which includes trade data, pricing data and ESG data (for ESG benchmarks, an increasingly important segment), has been increasing, contractual terms are complex and burdensome and that it is costly to set up relationships with providers.

3.55 Such set-up costs are a common feature of many markets and are unlikely to raise competition concerns on their own. We have seen evidence of several firms that have entered the market in recent years, as described in paragraph 3.21, suggesting that entry costs are not insurmountable, although persistent high levels of concentration suggest there are barriers to expansion.

Vertical integration with input data providers

3.56 Benchmark administrators are increasingly part of groups that operate at multiple levels of the value chain, often following mergers and acquisitions. Some firms that are not integrated with input providers have flagged that this has resulted in difficulties with access to input data necessary for the creation of benchmarks. Vertical integration can be beneficial to users if it enables efficiencies and reduces costs at the different stages across the value chain. However, this is potentially harmful when vertically integrated firms provide inputs to other firms which compete across the value chain, if it results in barriers to entry or expansion and reduces choice. We are undertaking further analysis to assess the impact of vertical integration on competition.

3.57 A combination of the market features above may have led to persistent market power of some benchmark administrators. Our analysis so far indicates that network effects and brand awareness are the most important features shaping those competitive dynamics. We will conduct further analysis in the market study to assess the extent and nature of market power, including analysis of profitability of benchmark administrators.

Commercial practices raising competition concerns

3.58 In response to our survey and the CFI, benchmark users have raised a number of concerns about competitive practices or outcomes. Suppliers may engage in a variety of practices to exploit or enhance their market power. Particular issues that have been raised and we propose to look at further include the following.

Licensing terms are complex, non-standard and non-transparent

3.59 Benchmark administrators' fees are based on many drivers that vary across benchmark administrators. While benchmark administrators may have internal guidelines for setting prices, fee schedules are generally not available to clients, most contract prices are determined through individual discussions and the terms of the contracts are usually covered by confidentiality agreements. Non-transparent pricing can make it harder for users to compare the quality, charges, contract terms and innovation of alternative providers. This increases search costs and potentially discourages switching. Non-transparent pricing also gives benchmark administrators more freedom to price discriminate, varying customer charges to extract the maximum revenue each user is willing to pay. Price discrimination can have positive and negative effects on competition and access. We will use information from benchmark providers to assess how providers price discriminate across users, and whether this is likely to be harmful to users.

Benchmark products are often licensed in packages, which some users have said results in paying for more benchmarks than they require

3.60 Users have flagged they pay more to buy products they don't need on top of the 'must-have' benchmarks. Benchmark administrators may also use high demand for their 'must-have' products to gain market share in newer or niche markets, to the detriment of smaller providers and potential entrants. For benchmark administrators, the cost of supplying to one user does not increase proportionally with the amount of data delivered. So this practice may save negotiation costs for both suppliers and users, and result in an overall discount for the latter. We will do further analysis to establish how far these sales practices are detrimental to users.

Contracts often include termination requirements that may lead to extra costs for users and also directly increase switching costs

3.61 In particular, many users have flagged that suppliers impose the condition of removing all historical data, except for use for regulatory purposes, unless users enter into an additional licence. This may have some commercial justification for suppliers who invest in setting up a commercial relationship with users, but it also indirectly increases switching costs for users who need historical data, eg for comparing fund performance over time, potentially disincentivising switching. We will do further analysis on how far termination clauses are burdensome and the potential impact on competition.

Users have highlighted that a lack of competition reduces the need for providers to compete on the quality of their benchmarks

3.62 Clauses limiting or excluding the liability of benchmark providers for accuracy, completeness and timeliness of delivery are common in licensing contracts, effectively allocating risk to the user. Some users have suggested that a lack of viable substitute benchmarks leaves them with no choice but to accept these clauses and bear the risk of loss for errors. This leads users to allocate substantial resources to verifying data at their own expense. There may be good reasons for including these clauses, given that providers may not have control over how their benchmarks are used and licensing fees may reflect a proportionate and reasonable allocation of risk. We will do further analysis to establish whether and to what extent a lack of competition reduces the quality of benchmarks. In addition to this market study, we are conducting work on quality of benchmark data as part of our supervision of benchmarks administrators under UK BMR, as highlighted in the 8 September 2022 Dear CEO letter to benchmarks administrators.

3.63 For each of these practices, we will conduct further analysis to assess the extent and nature of any competitive harm. This will also inform any potential interventions, which may target specific commercial practices if we find them to be particularly harmful to users or to significantly strengthen market power.

Impact on end investors

3.64 If users of benchmarks were to pay higher prices as a result of weak competition that is likely to harm end investors.

- High benchmark fees paid by benchmark users may be passed through to end investors via higher prices. How much of the cost is passed through and how much is absorbed by users is likely to vary depending on the product and the nature of benchmark costs, eg if benchmark fees are variable costs or fixed costs, and on the competitive dynamics in user markets.
- Because of high benchmarks costs, benchmark users may not be able to access the optimal amount of benchmark products and offer reduced variety and quality of products to end investors.
- Because of capital misallocation as a result of high benchmark costs, users may spend less than the optimal amount on innovation and quality improvements.
- High benchmark costs may affect different users disproportionally, eg depending on their size, and distort competition in downstream markets by increasing barriers to entry.

3.65 The impact on end investors is likely to vary across user markets. We will conduct further analysis of the information received to assess the likelihood that benchmark costs affect users' business decisions, including their pricing and product offering.

Further competition analysis

3.66 In the next stages of our analysis of the information from benchmark administrators and benchmark users, we will focus on confirming our initial results and draw additional insights from the information collected from market participants, as described in the section above on potential barriers to effective competition and competition concerns. To summarise, we will:

- assess to what extent different features of the benchmarks market (network effects, brand awareness, entry costs and vertical integration) create persistent market power for certain benchmark administrators
- assess the extent that benchmark administrators' commercial practices harm users and reinforce market power
- consider in greater detail any relevant differences between asset classes or market segments
- assess the impact of competition not working well for benchmarks on end investors

Credit Ratings Data

How competition works: products, suppliers and users

3.67 The focus of this element of our study is on competition in the access, distribution, and licensing of credit ratings data, particularly to financial institutions. The UK CRAR (Credit Rating Agencies Regulation) regulates the production and distribution of credit ratings by Credit Rating Agencies (CRAs) registered in the UK (see annex 1). The regulations require ratings within scope to be issued free of charge via certain public distribution channels. However, many premium channels for accessing credit ratings data, such as via commercially licensed software, fall outside the scope of the CRAR. In many cases they are supplied by non-UK organisations. Our terms of reference states that while we will predominately focus on CRA data subscription services provided by CRAs and their affiliates, to understand the market for credit ratings data, we will also look at the provision of credit ratings services to issuers.

What credit ratings are

3.68 Capital markets are essential in helping firms raise funds to invest in new projects or expand existing commercial activities. Credit ratings play an essential role in this process. A credit rating is an opinion about the probability that a financial instrument or organisation is able or likely to pay back debt in full and on time. Credit ratings give a standardised approach for investors and lenders to benchmark credit risk for financial assets. Credit ratings typically use a standardised score rating from AAA (high quality) to C (high chance of default). They are critical to corporate debt issuers for attracting investment, capital market access and helping secure better interest terms on debt.

3.69 For the purposes of this report, 'credit ratings services' are any evaluation and assessment of the creditworthiness of a particular entity or financial instrument which results in a CRA issuing a regulated credit rating. 'Credit ratings data' is any product involving the licensing, access or distribution of credit ratings. This study predominantly focuses on credit ratings data services provided by CRAs and their affiliates. However, we are also investigating the provision of credit ratings services to issuers, as this directly affects the conditions of competition of credit ratings data services.

Figure 6: Buy and sell side credit rating services

Credit Rating Services	Credit rating data services
• FCA Regulated • Typically Paid for by organisations issuing debt ('sell side' firms) • Assesses the creditworthiness of a specific organisation or issuance	• Unregulated • Typically purchased investment firms ('buy side' firms) • Gives access to a database of credit ratings • Licenses credit ratings for use in commercial operations

3.70 Financial firms, including asset managers, investment firms, insurers and investment banks, rely on credit ratings data as an input into risk modelling, capital allocation and to inform investment and lending decisions. Historically, it has been essential for debt instruments to have at least one credit rating, due to regulatory requirements, risk diversification and investor demand.

3.71 In the UK, credit rating services are provided by CRAs registered in the UK. The resulting credit ratings disclosed publicly or distributed privately by subscription are regulated by the FCA. However, credit ratings are a global industry, with the leading CRAs (commonly referred to as the 'Big Three'); Moody's Investors Service, S&P Global Ratings and Fitch Ratings having operations in most countries. Though there are specific instances where credit rating services are paid for by investors (the 'buy side'), these services are overwhelmingly paid for by issuers (the 'sell side'). This is known as the issuer-pays model. Typically, issuers will pay for an initial rating and the monitoring of the rating over the lifetime of the financial instrument. Most ratings are updated at least annually, or on an ad hoc basis if there is a significant event such as a company merger. Prices depend on several factors, including the complexity, quantity and size of issuances. Analysis of data from CRAs in response to our evidence gathering suggests significant variation in the annual fees issuers pay.

3.72 A CRA may also provide a rating which does not involve a payment from that debt issuing firm. These are known as 'unsolicited ratings'. They might be created to sell to investors as part of an investor-pays business model. However, unsolicited ratings are typically not a direct source of revenue, and are more commonly created so that CRAs can gain sector coverage, particularly of large issuances which may be important to assess the broader dynamics of a market. They may also be created to demonstrate a CRA's technical skills to potential customers. Unsolicited ratings are mostly created by challenger CRAs. These ratings may still require establishing relationships with issuers, to get information not available in the public domain. This might include more detailed financial accounts, sales projections and business strategy documents.

3.73 An issuer's choice of a CRA will depend on several factors, including jurisdiction, asset class, capital structure, regulatory requirement and reputation. A significant proportion of issuers will get public ratings from 2 or more of the Big Three CRAs. This is typically to get a more comprehensive, diversified view of their credit risk. It might also be necessary to acquire multiple ratings to attract interest from investment firms who rely on specific CRAs, or whose investment mandates require multiple ratings to manage risk. For certain instruments, such as structured products, it may be a regulatory requirement to get ratings from several CRAs.

Credit ratings services market

3.74 Globally, there are hundreds of thousands of organisations and financial instruments which have credit ratings. The market is concentrated amongst the Big Three CRAs (S&P Global Ratings, Moody's Investors Services and Fitch Ratings), each with history stretching back over 100 years.

3.75 In November 2022 we published our first Market Share Report for UK registered CRAs, using revenue data from the end of 2021. Three CRAs (S&P Global Ratings UK Limited, Moody's Investors Service Limited and Fitch Ratings Ltd) represent 92% of the total UK market. Six firms hold the remaining 8%, based on turnover figures reported by each CRA (based on regulated credit ratings activities and ancillary services). We concluded that with a HHI score of 2,887 the UK CRA market was highly concentrated.

3.76 Market shares of the 3 largest CRAs in the UK are similar to those observed globally. ESMA analysis of many (though not all) global ratings suggests that the Big Three provide over 90% of global solicited ratings and account for a similar proportion of global revenue. Ratings of issuers domiciled in the UK and their issuances comprise around a 5% share of ratings internationally (EU Credit Ratings market 2023).

3.77 Many instruments and issuers are rated by multiple CRAs, with most instruments rated by smaller CRAs also rated by at least one of the Big Three. As such, the Big Three collectively have ratings coverage of up to 95% of core asset classes across the UK, Europe and the United States. These asset classes include corporate bonds, sovereign debt and structured products. There is a similar rate of coverage in the UK issuance market.

3.78 Since 2006, there have been many initiatives to increase regulation and competition between CRAs. Article 8d of CRAR in the UK requires an issuer to consider appointing at least 1 CRA with no more than 10% market share, when they are expecting to appoint 2 or more CRAs for the same issuance or entity. There has been a marginal increase in market share for smaller CRAs in the European Union since this article was implemented in 2015 of less than 2%, with the Big Three still accounting for more than 90% of the market globally, and a similar percentage in the UK.

3.79 CRAs have been gradually diversifying their businesses beyond credit ratings services to issuers to a suite of risk services for the investment management industry. In addition to credit ratings data, this includes research, analytical software, credit scores, and additional datasets beyond credit risk, such as ESG data and company financials.

3.80 As part of this study, we have gathered evidence from FCA regulated CRAs on their credit ratings services. At the time of our request, there were 12 CRAs authorised to issue credit ratings in the UK. Since then, a further CRA has been authorised. From the evidence received, we estimate aggregate UK credit rating services market size of £300m based on 2022 revenues of sample firms. This figure is comprised of revenues from public, ESG, cyber, private, and other ratings products sold to UK-domiciled customers and does not include revenues from ancillary services, credit ratings data services or intercompany revenue (and is not directly comparable with the approach adopted in the FCA's Market Share Report). Aggregate revenues appear to exhibit significant year-on-year variation, driven by debt market conditions, which largely dictate CRA revenues.

3.81 Based on the evidence collected during the market study, the Big Three accounted for a large majority of aggregate UK credit rating services market revenues in 2022, higher than in other jurisdictions. Globally the Big Three's market share can vary due to differences in the extent to which challenger CRAs have gained market share, for example challengers can focus on select geographic regions. While there have been a number of new entrants in the UK credit rating services market in recent years, resulting in a marginal uptick in market share attributable to challenger CRAs, none of the challenger CRAs currently has a significant market share of the UK credit rating services market.

3.82 Our analysis further supports the conclusions reached in our Market Share Report. The UK CRA market has remained persistently concentrated for a number of years.

Credit ratings data market

3.83 Credit ratings were not widely accessible publicly until the mid-2000s. Before this, institutional investors and financial professionals accessed them through direct channels with CRAs or other financial data providers. There have since been global efforts to increase the transparency of credit ratings, as broader availability and scrutiny of ratings can bring benefits to the integrity of financial markets. This includes requirements for CRAs to publicly disclose regulated credit ratings and underlying methodologies.

3.84 Under current UK regulation, CRAs must publish current credit ratings and ratings outlooks in a timely way, which is typically achieved through publication on each CRA's website. They must also disclose core metrics for individual credit ratings. Individual credit ratings that CRAs disclose to the FCA are then published and updated daily on the FCA's Public Ratings Database (PRD). These regulations apply to ratings issued by the UK CRA, and ratings issued by non-UK affiliates which are endorsed by the UK CRA. For the Big Three, this disclosure requirements covers most of their global ratings.

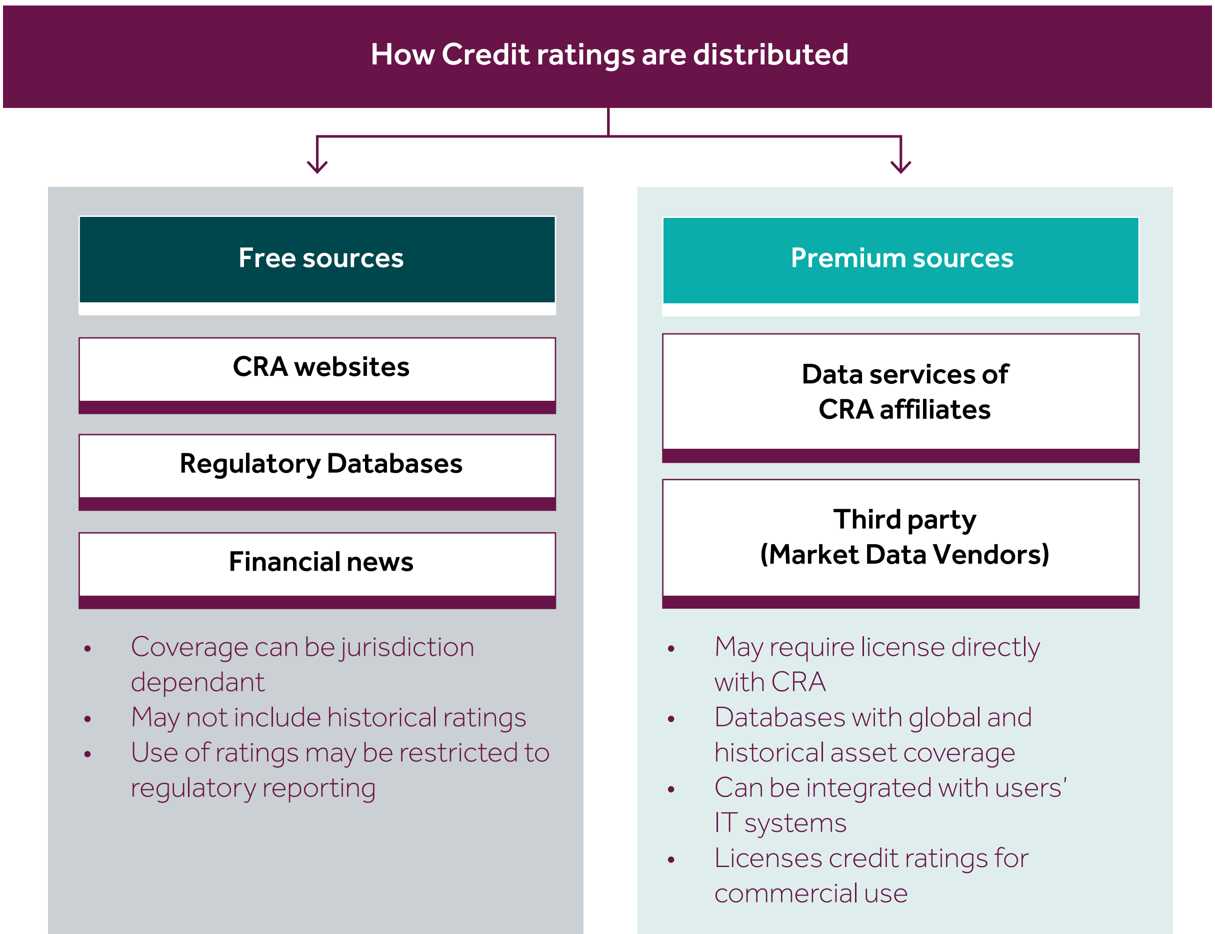
3.85 Despite public ratings being freely accessible online, as credit ratings are CRAs' intellectual property, there are limits on how these ratings can be used. Data affiliates of the Big Three charge licence fees for commercial use. Such licences, and associated fees, are typically not required if ratings are sourced online and used purely for regulatory purposes, and CRAs have told us they do not typically monitor how firms are using ratings.

3.86 With investment firms having global mandates for their investment portfolios, and to benchmark the relative risk of specific securities, these firms frequently require comprehensive credit ratings coverage of all potential investable assets. It is unlikely that any one CRA will have full market coverage, so these firms will need to source ratings from multiple CRAs to meet these requirements. Additionally, to manage any potential biases or inaccuracies from individual agencies, many firms have policies of creating their own composite credit ratings. These composite scores combine the ratings from multiple CRAs, most commonly from at least 2 of the Big Three.

3.87 Despite there being multiple free sources of credit ratings, our evidence gathering indicated users found free channels too disparate to create a complete and accurate database of ratings without incurring significant expense.

3.88 Given this, there is significant demand to access credit ratings data from commercial channels. The Big Three all offer credit ratings data services which include both commercial licensing and alternative channels to access each of their respective ratings, allowing the data to be accessed and downloaded more conveniently. Less commonly, investment firms may license only the use of ratings for particular asset classes, and in rare instances, specific ratings. These services will not only include a CRA's own data, with rating from other CRAs commonly being available as optional add-on services.

Figure 7: How Credit ratings are distributed



3.89 Credit ratings data services are not currently regulated by the FCA or international regulators, though affiliates or group companies of the firms offering these services might be, if they are also a regulated CRA. However, CRAs typically have separate affiliate organisations responsible for licensing data, referred to in this report as data affiliates. These separate data affiliates are partially the result of regulation requiring CRAs to manage potential conflicts of interest between ratings and consultancy arms of their businesses, which many CRAs also apply to their analytical and data services. In many cases, UK users will license ratings data from a CRA's non-UK data affiliate.

3.90 Smaller CRAs tend to have less restrictions on the use of their ratings compared to the Big Three. This is partially because they do not have the same degree of coverage, historical data, brand awareness and reputation which could allow them to charge investors for this data. Smaller CRAs have also told us that disseminating ratings for free can be a powerful strategy for enhancing brand awareness and technical expertise.

3.91 Data affiliates of the Big Three all offer a range of different products which include credit ratings data. The table below covers the main features of credit ratings data services. These services might be available as a standalone product or included as part of a wider data product. They may also include ad hoc access to the analysts responsible for research.

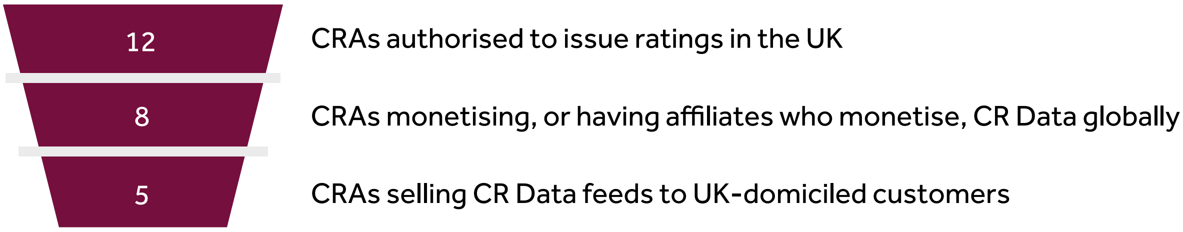
Typical features of credit ratings data services:

Access type	Included Data	Terms of usage
• Browser-based • Desktop Software • Server Querying (APIs) • Regular File transfer (Excel, CSV) • Third party channels (Market Data Vendors)	• Active ratings • Historical ratings • Sector/Asset-specific ratings • Research reports • Press releases • Additional risk metrics	• Research • Benchmarking • Risk management • Counterparty monitoring • Investment Management • Brokerage • Client Reporting • Marketing

3.92 Credit ratings data services can be accessed directly from CRAs. MDVs will typically pay fees to CRAs to license the redistribution of credit ratings data to their own customers. Our evidence suggests a significant share of users access credit rating data services via MDVs, although this sometimes might be on top of accessing the data directly from the CRA. The analysis in this section relates to CRAs and their data affiliates, and does not include MDV revenues. We will further assess information on the exact channels through which these data services are purchased and accessed, and whether this, for example, facilitates price discrimination.

3.93 Our evidence gathering also collected information from FCA regulated CRAs' affiliates which offer credit rating data services to UK customers, including from non-UK-domiciled entities. At the time of our request, of the 12 CRAs authorised to issue credit ratings in the UK, 8 were selling credit ratings data to end users globally, or made such sales through their data affiliates. Five of these 8 were selling directly to UK-domiciled end users.

Figure 8: FCA authorised CRAs selling credit ratings data



3.94 We estimate the size of the UK credit ratings data market to be up to £100m based on 2022 revenues from the five CRAs in our sample selling credit ratings data to UK-domiciled users. We estimate this represents approximately 10% of the global credit ratings data market.

3.95 Similar to the credit ratings services market, the credit ratings data market is highly concentrated amongst the data affiliates of the Big Three CRAs. Affiliates of the Big 3 account for a large majority of revenues from UK-domiciled end users. Our analysis of firms' responses indicates that challenger CRAs are investing in developing their credit ratings data services and wider analytical offerings to complement their rating services businesses.

3.96 Our initial analysis of RFI responses indicates that the UK CRA data market grew at a positive (single-digit) average annual growth rate over the 2017 to 2022 period. UK CRA data revenues accounted for approximately one-fourth of combined UK ratings services and CRA data revenues during this period. There is a degree of variability across sample firms with regards to the extent of CRA data monetisation and revenue growth, which is likely to be due to how firms define CRA data revenues.

3.97 Our analysis of the UK credit ratings data market does not account for instances where a foreign-domiciled entity purchases credit ratings data for international use and the data is subsequently shared with and used by a UK-domiciled entity within the corporate group.

3.98 MDVs play an important role in distributing CRA data to UK users. When users access credit ratings data through MDVs, they are typically required to pay a direct licence fee to the CRA affiliate. While revenue associated with the licence fee to the CRA affiliate is reflected in our aggregate credit ratings data revenue estimates, the estimate does not include revenues generated by MDVs in relation to distribution of credit ratings data.

User behaviour and experiences

3.99 Almost 70 firms responded to our demand-side survey on their use of credit ratings data services. This sample included financial institutions such as investment banks, asset managers, investment firms, brokerage firms and others. As we wanted to understand how widespread the use of credit ratings data and services were, we did not only include known users of credit ratings. Of the sample, 55 out of 69 firms said that they used credit ratings data in their operations, which forms the basis for the below analysis.

3.100 There was a mixed response regarding transparency of pricing. Some users highlighted a perceived lack of clarity around how prices were set for credit ratings data, though others reported having no issues. Some respondents flagged how they had to provide a significant amount of information about their firm's characteristics and projected use of the credit ratings data, but it was unclear the weight this had on end prices.

3.101 Users additionally had a mixed perception of their ability to negotiate. Many users said that they were able to negotiate prices, although it could be a very time and resource intensive procedure. Usually, negotiations were to reduce the expected annual price increases. The most successful way of achieving a discount was by entering into multi-year contracts. Firms have expressed concerns both about the annual increases in fees for data services and a perception that they paid significantly higher prices relative to their peers.

3.102 Our evidence suggests that users of credit ratings data most commonly access it through third party channels such as MDVs, though this was frequently in addition to accessing it from CRA affiliates.

3.103 Users also highlighted that they used a range of different sources to be notified of new ratings or changes to existing ratings outside of explicit data feeds. This included financial news websites, automated alerts from MDVs and from CRAs, new issuance roadshows and direct interactions with analysts from CRAs. There was little or no evidence that respondents depended on the FCA's website for accessing credit ratings.

Trends, developments and future competitive dynamics

3.104 Although credit ratings remain an essential component of assessing risk, the 2007/8 financial crisis raised questions about their reliability and accuracy, and whether firms depended on them too much for risk management, investment decisions and asset pricing. In recent years there has been a shift towards a more diversified approach to assessing credit risk, including more internal analysis of creditworthiness, and third-party research from organisations unrelated to CRAs. Regulators internationally have also been gradually adopting a similar approach to industry, removing explicit requirements for credit ratings, in favour of more internal risk management practices, conducting stress tests, and developing alternative risk assessment frameworks.

Concentration and market power

3.105 Despite credit risk assessments now including a wide range of inputs and services, our current understanding of the drivers of demand leads us to the provisional view that there is a distinct market for credit rating data. Based on our preliminary analysis, the data market is highly concentrated amongst affiliates of the Big Three CRAs. This is due to factors stemming from the issuer services market: comprehensive coverage of credit ratings, brand reputation, client preference and international presence of their credit ratings services to issuers. Additionally, the following features may limit effective competition in the credit ratings data market.

Behaviour of data users – substitutability

3.106 A key part of assessing competition is to consider the rivalry between firms in a market to assess the constraints they impose on each other, due to users' ability to switch suppliers. In the context of credit ratings data, this relationship is more complicated, as investors will typically use more than one source of credit ratings and buying from multiple sources is sometimes essential to meeting coverage requirements and to diversify risk. This results in some users being unable to switch between different suppliers of this data. This both limits choice and potentially customers' power to negotiate, increasing the likelihood that any individual supplier holds market power in the market.

3.107 Initial evidence from our user survey suggests that competition conditions may differ significantly between different classes of user, with constrained choice mainly impacting asset managers and investment banks with international clients and global mandates. However, a significant proportion of respondents to our survey only source credit ratings data from 1 CRA, and some did not use credit ratings. In the remainder of the study we will continue to assess the extent to which alternative credit ratings data services from CRAs and their affiliates are substitutable, the types of users who access ratings from more than one provider and the reasons why. We will also investigate how firms who do not buy data services directly from CRA affiliates are sourcing and using credit ratings data, given the apparent limitations on use.

Behaviour of data users – uncertainty around quality and usability of free ratings data

3.108 There are many free sources of credit ratings data, including CRAs' websites, ESMA's European Ratings Platform (ERP) and the FCA's own website. Despite this data commonly being available to use without licence for regulatory purposes, there is limited evidence that firms use free sources of credit ratings data, even for regulatory purposes. This is due to many factors, including download limitations, lack of awareness of these sources, limited coverage, perception of the ratings being potentially outdated and of the data being poor quality. Additionally, in its current format, aggregating the data from regulatory databases or CRA websites can be time and resource intensive.

3.109 If free-to-access CRA data services met users' needs, this could act as a significant constraint on suppliers of paid-for services ability to exploit their market power. We will continue to investigate in what circumstances users of credit ratings utilise these free data sources, their adequacy for use in regulatory reporting, their quality versus paid-for data services, and any further limitations on broader usage.

Vertical integration and barriers to entry and expansion

3.110 CRAs' data affiliates benefit from comprehensive ratings coverage generated by their issuer services entities. To compete directly with the scale and coverage of the Big Three's credit ratings data, an entrant is likely to require an international presence in the issuer services market. Although there have been a few new entrants in issuer services in the past decade, they face significant barriers to entry and expansion including brand reputation, investor preference and regulatory barriers. Our analysis has found that data and research services from challenger CRAs are occasionally used to supplement services from the Big Three, where they may specialise in local markets or specific asset types. We will continue to analyse the business strategy of challenger CRAs and evaluate the extent to which credit ratings data is a focus, versus other analytical services.

3.111 Whilst choice of credit ratings providers remains concentrated between the Big Three, competition in the distribution of credit ratings data appears stronger, with ratings data accessible through a number of alternative channels, including via MDVs. We are undertaking further analysis to understand the redistribution agreements between CRAs, their affiliates and third party data distributors, as well as the impact of these arrangements on end users of credit ratings data.

Commercial practices raising competition concerns

3.112 In response to our survey and the CFI, credit ratings data users have raised a number of concerns about competitive practices or outcomes. Suppliers may engage in a variety of practices to exploit or enhance their market power. Particular issues that have been raised and we propose to look at further include the following.

Complex, non-standard and non-transparent pricing

3.113 Respondents to our user survey were unclear about how prices were set for credit ratings data. Additionally our engagement with suppliers has found that fee schedules are not typically publicly available, and in some cases do not exist.

3.114 This situation can allow firms to price discriminate, and our analysis of supplier data does show significant variation in customer pricing, with factors determining price often unrelated to underlying costs. Instead, prices are often based on client characteristics such as assets under management, and projected use cases of the data.

3.115 As discussed in our trade data review, price discrimination can be beneficial if it allows certain customers to buy services they could not otherwise afford. However, pricing strategies can be designed to limit effective competition, for example, by discriminating between users who can switch to other providers or negotiate, and users with little to no alternatives but to purchase it.

3.116 We are continuing to analyse the drivers of customer price differences when purchasing credit ratings data and the impact this has on competition and consumer outcomes.

Excessive licensing fees and annual price increases

3.117 Respondents to our user survey had a mix of views about whether they were getting good value out of credit ratings data services. Some firms found licensing fees and annual price increases excessive. However, many users did not express any concerns around value. Some users also stated that value wasn't a driver of usage, particularly when using ratings was a regulatory, or end-client, requirement.

3.118 We are continuing to analyse the extent, and drivers, of price increases for credit ratings data services. To understand users' price sensitivity and identify in what situations credit ratings data may be considered essential, we will investigate users' substitution options and ability to negotiate, for example when agreeing multi-year contracts.

Further competition analysis

3.119 We would welcome consultation responses and evidence in relation to the following areas of interest.

- We will continue to evaluate the pricing practices of CRAs for data services, and how they differentiate prices between users, dependent on use cases and firm characteristics.
- Only a small proportion of firms in our user sample have data subscriptions with 2 or more of the Big Three CRAs. However, we expect a much larger proportion of firms use credit ratings in their operations. We will continue to investigate the different channels under which firms access credit ratings, particularly the role of financial news websites and other third-party sources.
- We are particularly interested in the role of MDVs and their commercial relationships with CRAs. Both our supply-side and demand-side analysis indicates that most users accessed credit ratings data via MDVs. We will the investigate the influence MDVs have on access, choice and pricing of credit ratings data.
- There is evidence that both investment firms and regulators are moving away from a dependence on credit ratings to more diversified models for assessing credit risk. We will examine the extent to which the use of credit ratings is an essential component of these newer models and to what extent other data and analysis can be used as an alternative, and how this influences the credit ratings data market. This will involve understanding the role of internal risk ratings and third-party risk management systems.
- We understand that many credit ratings data services include supplementary qualitative data on individual issuers, such as credit reports. We will further investigate the extent to which firms buy data services purely for the end rating, versus requiring this additional research.
- We will further investigate free sources of credit ratings data, and in what circumstances this can be relied upon for both regulatory and commercial operations.

Market Data Vendors (MDVs)

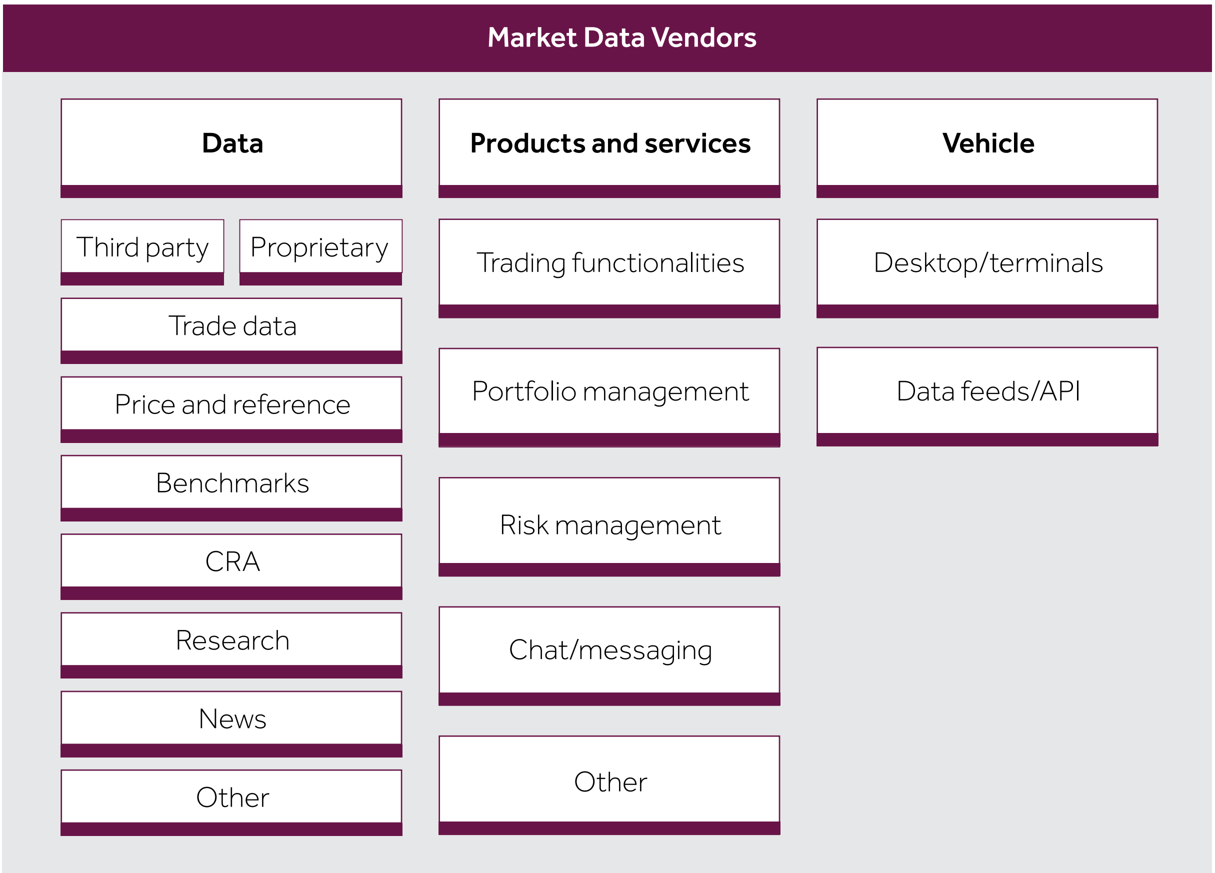
How competition works: Products, suppliers and users

What MDVs do

3.120 MDVs play a key role in the distribution of trading data and other types of market data such as benchmarks and CRA data. They provide desktop, web-based products and data feeds to distribute their own proprietary and third-party data. MDV products are also used to trade in markets, analyse and monitor portfolios and fulfil regulatory requirements. Given the central role that MDVs play and their scale of reach in financial markets, the potential harm to end consumers if this market is not working well is large.

3.121 There are different types of MDVs, providing a wide range of services which reflect different business models. The main differentiating factor revolves around the source of the data being sold. On one side, there are MDVs whose core offering involves buying and re-selling of third-party data. On the other side of the spectrum, there are vendors whose primary services involve the sale of proprietary data (eg trade data and credit ratings data). For the purpose of this market study, our analysis focuses on those firms, or business segments within them, that predominantly distribute third-party generated data, such as benchmarks and CRA data.

Figure 9: Market data vendors product map



Suppliers and licensing

3.122 Our analysis focuses on 7 MDVs based on criteria which includes core service offerings (as described above), scale and market relevance. This allows us to have a comprehensive understanding of the supply-side features that affect competition among MDVs in the UK market. Based on our initial findings, in 2022 aggregate revenues generated by the vendors within our sample were approximately £13bn globally, with around £3bn being generated from sales to UK-based customers. Our initial findings show that all firms within our sample achieved positive revenue growth between 2017 and 2022, with revenues increasing by approximately 9% per year globally, and around 4% per year from UK sales.

3.123 Two providers within the UK market, Bloomberg and Refinitiv, account for a large majority of the UK MDV revenue amongst the sample of firms from which we have collected data. This data appears to portray a highly concentrated market. However, our sample of firms has focused on those MDVs that primarily license data from third-party generators and sell them to users as part of an aggregated offering.

3.124 Additionally, MDVs may offer a variety of products and services, each of which might constitute relevant markets in themselves. These include access to data and analytics such as real-time and trading data, price, reference and valuation data (PRV), portfolio management and analytics, and research. Vendors' platforms can also include communication tools and trading platforms. As our analysis progresses, we will develop our understanding of the MDV market landscape and of firms' different business models.

3.125 The 2 main products that vendors offer (that are within scope for this study) relate to how the data is accessed: (1) Desktop/terminal solutions or (2) data feeds/Application Programming Interface (APIs). An API is a set of functions and procedures which allow the creation of applications that access the features or data of an operating system, application, or other service. Terminal solutions consist of physical or cloud-based solutions that need to be licensed, usually at the user level, although in some cases multi-user licences are also offered. Terminals have been widely used by financial market participants to consume and interact with data since the introduction of the Bloomberg terminal in 1982. The main competitor was the Reuters Xtra 3000 launched by Thomson Reuters in 1999, which used Microsoft operating systems. The Xtra 3000 was replaced by the Eikon terminal, now owned by Refinitiv, part of the LSEG.

3.126 Other desktop providers include ICE Data Desktop Solutions (part of the Intercontinental Exchange Group, owners of the New York Stock Exchange), FactSet, and Standard & Poor's Capital IQ. A desktop provides an interface which allows users to view a large variety of data, but it can also be used for trading, portfolio and risk analysis, or to access news and research. Desktops are typically bought at a fixed fee which may be negotiated if several units are bought. To incorporate other functionalities such as trading, execution management, or portfolio analytics, users need to license add-ons, some of which are charged by usage (eg. the number of instruments or volume of trades).

3.127 Data vendors provide access to wholesale data through desktops and terminals, but not all vendors offer the same functionalities. For example, the most established MDVs offer standard products which allow trading. Some other vendors do not offer trading capabilities but might differentiate themselves with other offerings, such as extensive research and company data. A few smaller MDVs offer highly personalised desktop solutions aimed also at trading on certain venues. This means not every desktop product is a substitute, and many users license with multiple vendors for different uses.

3.128 As an alternative or complement to desktop solutions, MDVs also distribute data as feeds. These are distributed via APIs but also as secure file transfer protocol (SFTP) or through web services. A variety of data can be accessed through feeds, from real-time trade data to news. Some of these feeds will be integrated in desktops, and some will be directly integrated in the users' systems. Licensing and pricing of data feeds is complex.

It can be charged by instrument or by market, by usage (eg trading vs non-trading), whether distributed to clients or not, or by volumes such as transaction fees.

3.129 For certain kinds of data/usage to be accessed through a given vendor, users might need to contract directly with the data generator as well as with the MDV. For example, to trade in real-time on a given exchange through a desktop might require a contract with the exchange itself. Exchanges also sell data feeds directly to users.

3.130 Whether accessed via feed or terminal, specific data categories can be distinguished and constitute market segments of their own. The main market segments are real-time and trading data, which makes up a significant proportion of MDVs' total revenue. This is followed by price, reference and valuation data (PRV), portfolio management and analytics, and research. Portfolio management and analytics is an evaluation tool many vendors offer to track performance or to carry out scenario analysis. PRV data is used for a large variety of reasons including end of day price valuations (including regulatory reporting), pricing of more illiquid markets, such as certain derivatives, or to populate reference databases. Finally, research can include insight on individual firms and instruments, forecasts, and expert opinion.

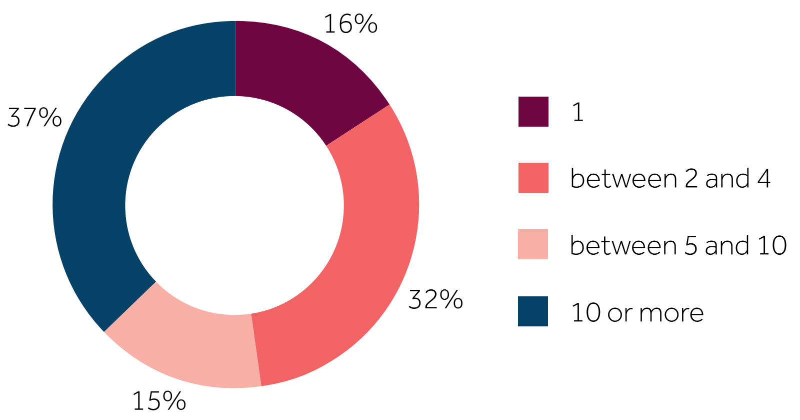
User types, behaviours, and experiences

3.131 More than 100 users responded to our survey about their usage and views on MDVs. Our sample includes large, medium, and small financial institutions, including banks, asset managers, hedge funds, broker-dealers, benchmark administrators, PTFs and wealth managers.

3.132 Well-established MDVs are used by a large proportion of our sample and some firms only employ these. Few firms use just 1 vendor, around half of the firms contract services from between 1 and 4 MDVs, and 30% of our sample use 15 MDVs or more. The figure below gives more detail.

Figure 10: Number of MDVs used by firms

Most users multi-source



Source: FCA analysis of RFI responses

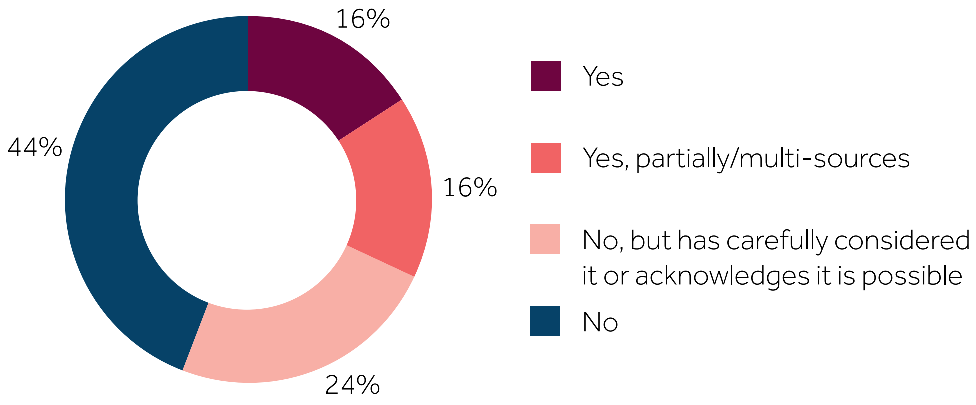
3.133 The main reason for contracting with several vendors reflects the differentiated products with varied functionalities vendors offer, so that different vendors are used for trading on different exchanges or accessing news and research. Another important reason is data coverage, as not all vendors provide access to all data sources that a firm might require. Several respondents emphasised that very few suppliers can cover all their needs, and for some users none can, so they need to buy data from different sources to meet their business requirements. A few respondents also told us that not all vendors can provide data with the same level of quality and reliability.

3.134 In certain cases, users will buy the same data from various vendors simultaneously, for different reasons. Some users use different sources to cross-validate or have different trading platforms as a back-up. At least 1 firm has expressed concerns about sometimes being forced to buy the same data from different sources because some vendors do not allow for certain data uses. The majority of users explained that it is impossible for them to negotiate terms on licences, especially with large well-established vendors, although some large users are able to negotiate favourable terms with small vendors.

3.135 A very small subset of users in our sample have switched vendors in recent years. Only a few users have switched providers completely. However, there is a significant proportion of users that have thoroughly considered the possibility of switching and decided not to. Many users have not switched from a provider completely but have substituted its use partially. For example, substituting the vendor used to trade in a given market.

Figure 11: Switching in the MDV market

Responses to the question: Have you switched MDVs over the last 5 years?



Source: FCA analysis of RFI responses

3.136 Many users have told us that the cost of switching MDVs are high, and a few users tell us that there are no credible alternatives. A firm that wants to switch from one vendor to another needs to train its staff, integrate the new vendor with its own systems, and incur procurement costs. In certain cases, users' clients would be using the same vendor as them, and firms tell us it is therefore impossible for them not to use the same one. On the other hand, a few users in our sample have switched vendors and a significant number of them explain that substitution is possible and potentially easy, even if they have not switched.

3.137 The views on the overall market are, as with switching experience, mixed. The majority of users explain that product quality is good, but many felt it is overpriced. Only a few respondents are either very satisfied or very dissatisfied.

Trends, developments and future competitive dynamics

3.138 The UK Government's Edinburgh Reforms committed to putting a legislative and regulatory regime in place by 2024 to allow the emergence of a UK consolidated tape. The FCA now has new powers under FSMA 2023 to make rules relating to consolidated tape providers (CTPS) for the purpose of advancing one or more of our operational objectives. In our proposed framework for establishing a consolidated tape (CT), MDVs may be affected directly by the regime, for example, as a potential CTP or indirectly as a key supplier of market data.

3.139 Our Trade Data Review highlighted that market data plays an increasingly important role in financial markets and that market participants are consuming an increased amount and variety of data. As explained above, all the firms in our sample have increased revenue in the last years.

3.140 There has been significant merger and acquisition activity amongst data providers. Most significantly LSEG's acquisition of Refinitiv and S&P's merger with IHS Markit. Some market participants have also suggested that new entrants, such as smaller technology innovators and FinTechs, have the potential to disrupt the market. Some providers are partnering with technology firms, for example, LSEG and Microsoft's strategic partnership.

Potential barriers to effective competition and competition concerns

3.141 As previously discussed, we have identified that there appears to be a high degree of concentration in the MDV market based on the data collected, although further analysis is required to understand the scope of the market and the extent of substitutability. We have also considered other factors that may limit effective competition between MDVs.

Barriers to entry

3.142 Start-up costs for distributing wholesale data can be high. We have heard from small vendors that they do not possess a large enough client base needed to penetrate certain market segments. Vendor entry has been limited and mostly through acquisitions, and some users have expressed concerns over a reduction in choice.

3.143 On the other hand, certain data is more readily available today than ever. As one vendor told us, '*firms now have access to a range of software tools (including machine learning and other AI capabilities) that has significantly reduced the time and resource associated with cleaning, standardising and packaging data into a format that can be redistributed*'. This is reflected in market entry. For example, Sentio was launched in late 2011 as a financial research engine designed for investors, using artificial intelligence search capabilities across a large volumes of company filings, press realises, and reports. It was acquired by AlphaSense in 2022. Aladdin (owned by BlackRock) launched its data cloud service in 2021 (together with Snowflake) promising to '*enable you to bring all your investment-*

related data together on a single, cloud enabled platform, making it easy to generate differentiated analytics and insights'.

3.144 These are just a few examples of start-up companies that have entered, and data generators are increasingly acting as competitors to MDVs, either by selling data directly through feeds or by establishing themselves as vendors. Thus, barriers to entry are not insurmountable. However, no entrant has yet overcome the barriers to growth that would enable them to achieve significant market share.

Network effects

3.145 Various network effects exist in regard to MDVs. Firstly, some users find value in the fact that many other market participants use the same vendor. These are direct network effects that can act as a constraint to switching and might be particularly prevalent when clients of the data user also use the same vendor. Secondly, indirect network effects occur when the number of participants on one side of the market (data generators) affects the value of participants in the other side (data users). Our analysis reveals that well-established vendors benefit from their large user base. We know that small and/or new data generators approach certain vendors to increase their market presence, and sometimes pay a fee for their data to be displayed. At the tail end of the value chain, users value data vendors that can provide a large variety of data, but users also tend to use different vendors at the same time (multi-sourcing). Multi-sourcing disperses users' activity, reducing the critical mass necessary to sustain strong network effects in a single platform.

3.146 The presence of network effects can potentially generate harm if they result in an abuse of dominant position or in markets tipping. Given the switching behaviour and multi-sourcing of users, network effects may not be a source of concern in the wider MDV market. However, there may be particular subsets of services that MDVs provide which offer incumbents relatively more influence and market power than others. We will investigate these relationships further in the remainder of this study.

Switching costs

3.147 Switching data vendors can be costly for firms due to the level of integration required to embed MDV systems within firms' infrastructure, and the need to train staff. While a few users tell us that there are no credible alternatives to their providers, several respondents have switched providers or have considered it (see the figure above). The variety in the responses might be due to the different uses that firms have for vendors, with certain activities being more difficult to substitute than others. We are refining our analysis to account for these different uses.

Vertical integration

3.148 Vertical integration is common for data vendors who operate across the value chain as data generators, data aggregators, index administrators and desktop solution providers. Vertical integration can be beneficial as it improves efficiency by enabling synergies and reducing costs. It may also cause competitive distortions at different points of the supply chain, for example, if vertically integrated data generator-vendors are charging different prices to MDVs who compete with them or by restricting access to certain input data.

3.149 We have heard from some MDVs that they are not always granted access to certain data on fair terms by vertically integrated data generator-vendors. We will review this further in the remainder of the study.

Innovation

3.150 While some users have expressed concerns over lack of innovation in the market, we have observed a number of examples of innovation occurring in the market: eg desktop solutions have been made available without physical terminals and in some cases in mobile phones, Bloomberg is about to release BloombergGPT, Refinitiv has started a strategic partnership with Microsoft to integrate Teams, ChartIQ is being integrated in S&P IQ Capital.

Suppliers' commercial practices

3.151 The features outlined above may allow firms to exert market power, but their presence is not a sufficient condition to expect poor outcomes for users. Furthermore, a certain degree of market power may enable providers to invest in research and development, thereby creating more innovative products. It can also incentivise firms to improve the quality of their products and offer a better customer experience, resulting in higher consumer satisfaction.

3.152 Beyond these market features there might be commercial practices which reflect issues with how competition is operating in this market. In the second half of this market study we intend to develop our assessment of these potentially problematic practices and the appropriateness of any regulatory response. We welcome consultation responses and evidence on the following practices.

Tying and bundling practices

3.153 Packaged products may be used strategically to deter entry of competitors and also generate artificial barriers to switching, thereby reducing competition. Some respondents to the terms of reference of this market study told us that we should mandate the unbundling of certain products and services. However, some individual users find value in one-stop-shop solutions provided by some vendors. Providers may use bundling practices to price differentiate to the detriment of consumers and also to deter entry. We will carry out further analysis to better understand whether there are market-wide or firm-specific concerns in relation to bundling practices.

Complex, non-transparent licensing

3.154 Complex and non-transparent licensing may be used by firms to price discriminate and extract higher rents from customers. Price discrimination impacts the prices users pay and the number of users that can access the products and services. It can also lead to positive and negative competition outcomes, as well as distributional consequences for the prices users pay and the number of users who can access the products and services. Non-transparent pricing can also increase search and switching costs for users.

3.155 We have received mixed views regarding these practices. Several users raised concerns over the growing variety of charges for the same data, and a few respondents have raised concerns about the lack of transparency of some licensing terms offered by MDVs (eg requirements for users to explain their needs before being offered a quote). On the other hand, many firms told us that licences are clear – usually while raising concerns over price increases.

3.156 Price transparency can increase consumer search, thereby improving market outcomes. However, it can also enable tacit collusion. We want to give further attention to this issue and would welcome consultation responses and evidence on this point. Finally, many users of MDV services raised concerns over rising prices, an issue that we are currently investigating.

Further competition analysis

3.157 In the next stage of the market study we will focus on confirming our initial analysis results and draw additional insights from the information collected from market participants. In particular, we will be focusing on the following issues.

- Tying and bundling and practices: we will examine in more detail which types of products are services are being packaged to better understand the potential impact on challenger firms.
- Complex and non-transparent pricing: we will review pricing practices of MDVs to better determine to what extent it hinders users from comparing MDV offerings and ultimately switching to better suited providers.
- We will clarify the origination of pricing practices and to what extent users are being charged multiple times for the same data.
- Vertical integration: we will investigate the extent to which vertically integrated vendors inhibit access to their rivals in other parts of the supply chain.

Chapter 4

Market investigation reference: proposed decision

Introduction

4.1 Our proposed decision is not to refer any of the markets in scope of the study to the CMA. In reaching our proposed decision, we have taken into account:

- responses to our Terms of Reference, including representations received in relation to a market investigation reference (MIR)
- our analysis to date of information from data providers and users in the benchmarks, credit ratings data and MDV services markets, and publicly available information
- engagement with relevant UK and international stakeholders

4.2 Our views on whether to make an MIR in the 3 markets are provisional. This reflects our current understanding and analysis of how the respective markets work. We want to gather feedback from our stakeholders through this consultation. We will also analyse these markets further in the next phase of the study, to develop a more refined view before we decide on whether to make an MIR.

MIR legal framework

4.3 Under the Enterprise Act 2002 (EA02) we have the power to make an MIR where we have reasonable grounds for suspecting that a feature or combination of features of a market or markets in the UK prevents, restricts or distorts competition.

4.4 As set out in our market studies guidance (FG15/9), in determining whether to make an MIR we will consider whether it is appropriate in the circumstances when judged against the criteria set out in the Market Investigation References guidance (OFT511), as detailed below. A further key factor is whether we foresee the need to implement remedies affecting firms that we do not regulate.

4.5 We expect to make an MIR where all of the following criteria are met.

- It would not be more appropriate to deal with the competition issues identified by applying the Competition Act 1998 (CA98) or using other powers available to us.
- It would not be more appropriate to address the problem identified by means of undertakings in lieu of a reference (UIL).
- The scale of the suspected problem, in terms of its adverse effect on competition, is such that a reference would be an appropriate response to it.
- There is a reasonable chance that appropriate remedies will be available to the CMA.

4.6 The MIR decision requires an exercise of discretion on our part based on the evidence about how competition works in these markets and the best way to address any harms. In this chapter, we provide our initial views on the considerations we deem relevant at this stage. As mentioned in our MIR notice, we welcome views from all stakeholders on both our proposed decision and the underlying rationale for it.

Representations on whether to make an MIR to the CMA

4.7 Our market study notice invited anyone wanting to make representations on the issues set out in the terms of reference, including whether we should make an MIR to the Competition and Markets Authority (CMA) under section 131 of the EA02. We received representations that we should make an MIR in relation to benchmarks, credit ratings data and MDV services.

4.8 We received representations to make an MIR from:

- BVI (German investment funds association)
- Information Providers User Group (UK association of financial markets data users)
- a benchmarks provider
- a financial data services consultancy firm

4.9 We summarise the representations in favour of an MIR for each market as follows.

- Benchmarks: It was alleged that the largest benchmark administrators have market power as their benchmarks are considered must-have for clients and investors. Benchmarks providers' fees are high and rising, without any increase in quality of service. Pricing practices are opaque, and users are forced to accept unreasonable contractual terms when licensing benchmarks. Must-have benchmarks are bundled with other benchmarks and indices requiring users to license benchmarks they do not require and creating a barrier to entry for suppliers who do not offer as broad a range of products as the incumbent benchmark providers.
- Credit ratings data: It was alleged that the largest credit rating agencies (CRAs) are in a position of market power and their credit ratings data are must-haves for clients and investors. Suggested remedies were publishing fees and pricing on a reasonable commercial basis.
- MDV services: It was alleged that essential contents and functions are bundled into the commercial products of MDVs. Suggested remedies were unbundling essential contents and functions from commercial products and requiring data policies and fees to be fair and reasonable.

4.10 Additionally, we received representations suggesting remedies for the suspected harms outlined in the terms of reference. We summarise these as follows.

- Requiring licensing fees charged for benchmarks and CRA data to be publicly available and charged on a reasonable commercial basis.
- Establishing rules and supervision of data providers to ensure data is of sufficient quality, contractual terms and practices are standardised, prices are not unjustifiably high, and that data is licensed on a non-discriminatory basis.

- Imposing a cost-based licensing mechanism where data licence costs should be based only on the marginal cost of providing and distributing the data service plus a reasonable profit margin. It was also suggested that the cost-based licensing calculation should be transparently available to users and regulators.
- Certain data licences could have significant impact for end clients and financial markets. It was suggested that these high-impact licences should be subject to additional controls. A respondent suggested prohibiting data cut-offs before a binding court or arbitration decision in licence disputes where the cut-off would harm the stability of financial services firms, markets or end users. The respondent also suggested prohibiting regulated data providers from outsourcing their regulatory obligations.
- Unbundling data services and products so that users are not forced to buy products or services they do not need.
- Requiring that historical data should remain available for regulatory and audit purposes without time constraint.
- Banning contractual clauses that require a user to delete or repurchase historical data if they intent to switch data provider.
- Some respondents highlighted the practice of data providers to contractually exclude or limit liability for accuracy, completeness or timeliness of delivery of data. It was argued that this allocation of risk to the user increases costs as users are required to verify data at their own expense. It was suggested by some respondents that regulation of liability clauses in data licences should be considered.
- Creation of public data utility for market data allowing the databasing and use of minimum benchmark data. The suggestion envisages a consolidated tape (CT) where the public sector collects benchmark data and makes it available for free to the public.

Our proposed MIR decision

4.11 We have provisionally decided not to make an MIR for any of the 3 markets. In this section we set out our view of the various factors which underpin our decision.

4.12 Based on our initial findings, we believe there are reasonable grounds for suspecting that some features of the benchmarks, credit ratings data and MDV services markets prevent, restrict or distort competition. We summarise these in the market-specific sections below.

4.13 Our consideration on whether to propose an MIR therefore turns on whether making an MIR would be the most appropriate way to address the competition issues we have identified.

4.14 The CMA has extensive powers under Schedule 8 of EA02 to impose remedies in the event that a market investigation finds adverse effects on competition in a market in the UK. The framework for remedies following a market investigation are set out in Part 4 of the Competition Commission Guidelines for market investigations: Their role, procedures, assessment and remedies (CC3) (Revised). These remedies can include structural remedies, such as divestiture and transfer of rights, and behavioural remedies which govern the conduct of market participants, such as enhancing transparency and prohibiting certain commercial practices.

4.15 Additionally, a key source of our powers to remedy competition harms is the Financial Services and Markets Act 2000 (FSMA). Such powers are generally focused on the firms that we regulate. CMA powers under Schedule 8 of EA02 are not restricted in the same way.

4.16 However, our provisional view is that an MIR is not the most appropriate course of action for all 3 markets at this stage. This is because:

- As a sector regulator, we are in a strong position to lead on shaping potential remedies to ensure holistic market regulation. Our supervisory role over market participants and our strong understanding of firms' operations will play a key part in developing remedies that will promote effective competition while also maintaining market integrity and protecting consumers. We also acknowledge that any intervention should not be developed in isolation, but rather considered alongside other related policy work as part of the wider Wholesale Markets Review.
- We have concurrent powers to enforce against suspected breaches of CA98. We will continue to examine whether anti-competitive conduct or agreements underpin persistent competition issues, and if so, whether action using our CA98 powers would be appropriate.
- While the outcomes of the market study focus on improving competition issues within the UK, we recognise the international nature of these markets. If appropriate remedies will require cooperation between international regulators to effectively tackle any harm we identify, we would be well placed to do this. The FCA benefits from established relationships with international counterparts. We also contribute to the work of standard-setting organisations to help shape and implement international standards.
- There are firms within scope of this market study that we do not regulate. We may conclude that remedies are needed to address harm that affects such firms. This is an important consideration in deciding on whether to make an MIR, as noted in paragraph 4.4. However, despite this, we think there are more appropriate ways of addressing the fact that we do not regulate some firms in these markets. In particular, where there are limits to our legal powers to tackle certain harms identified, it may be appropriate for the Treasury to extend our regulatory perimeter. We would be able to make the case for this as effectively as the CMA. Additionally, if it is appropriate for the Treasury to extend our powers, this recommendation could be made at an earlier opportunity by us following this market study than by the CMA following a market investigation.

4.17 As well as these overarching points, in the following sections we discuss our view of whether an MIR is appropriate for each of the benchmarks, credit ratings data and MDV markets based on the criteria set out in paragraph 4.5. Regarding undertakings in lieu of a reference, we have not received any proposed UIL or submissions that UILs would be appropriate to address issues in any of the 3 markets. As part of this consultation, we are open to UILs if proposed by parties. We will consider any proposals in line with our statutory obligations under the EA02 and our market study guidance.

4.18 We will continue to assess the factors in paragraph 4.5 alongside our analysis of competition in the 3 markets. Changes to our assessment of any of these factors could lead us to reach a different decision on whether an MIR is appropriate. We will publish our decision by 1 March 2024.

Benchmarks

Benchmarks – Features that could prevent, restrict or distort competition

4.19 Based on our current evidence and analysis we consider that there are reasonable grounds to suspect that the following features, either alone or in combination, prevent, restrict or distort competition in the supply of benchmarks in the UK. We discuss the features of the market raising competition concerns in Chapter 3. In summary:

- The market is concentrated, with 3 providers accounting for a large majority of revenue from the supply and licensing of benchmarks and indices. High levels of concentration for specific types and uses of benchmarks have been observed for the last 5 to 10 years.
- Network effects and brand awareness at the investor level result in certain benchmarks being considered a 'must-have'. In certain market segments, the more a benchmark is used, the more it is valuable to users due to network effects, resulting in markets tipping to a specific benchmark that is unlikely to be displaced. Brand awareness at the end investor level also results in specific benchmarks becoming 'must-haves', with benchmark users being constrained by their own clients' demand and not being able to choose alternatives.
- Input costs and vertical integration have been reported by users to enhance barriers to entry. Some suppliers have reported that the cost of input data into benchmark administration has been increasing and makes it difficult to operate in the market. We have also heard that the increasing levels of vertical integration have led to difficulties in accessing input data for independent suppliers. These features might further reinforce market power of the main benchmark administrators if they disproportionally affect small providers.
- Commercial practices of benchmark administrators, potentially enabled by market power, may result in high costs of benchmarks for users and further raise barriers to switching and entry. In particular:
  - Licensing terms for benchmarks are alleged by users to be complex, non-standard and non-transparent, enabling price discrimination and reducing users' ability to negotiate and compare products across suppliers.
  - Benchmark products are often licensed in packages, which some users have reported leads to paying for products they don't need in order to access 'must-have' benchmarks, and might also enable these suppliers to gain market share in niche markets leveraging their market power on 'must-have' benchmarks.
  - Contracts are alleged by users to often include termination requirements that lead to extra costs for users and also directly increase switching costs, in particular the requirement to remove historical data upon contract termination.

- Users have highlighted that a lack of competition reduces the need for providers to compete on the quality of their benchmarks. For example, contract clauses limiting or excluding the liability of benchmark providers for accuracy, completeness and timeliness of delivery are common, effectively allocating risk to the user.

Benchmarks – Appropriateness of an MIR

4.20 **FCA powers:** As discussed in Annex 1 – Regulatory landscape, our general rule-making powers apply to firms acting as benchmark administrators in the UK. Our general rule-making powers do not extend to benchmark administrators located outside of the UK providing benchmarks to the UK market. It is possible that action focused on UK-based administrators may not be sufficient to remedy harms in the market and that international cooperation and engagement may be required for an effective competition remedy. However, to the extent that we find evidence of harms that could be remedied by creating rules for authorised persons in the UK, we consider exercise of our rule-making powers to be a more appropriate option than making an MIR.

4.21 **Scale of suspected problem:** As discussed in paragraph 3.18 above, we estimate that aggregate revenue from indices data and the licensing of benchmarks to UK-domiciled customers amounted to £600m in 2022. As discussed in paragraphs 3.26 to 3.31, we observe growing revenues over the last 5 years and revenue share concentrated amongst the largest providers, particularly in narrower subsets of the wider benchmark and index market. While we have identified competition concerns within the benchmarks market as discussed in Chapter 3, it is currently unclear if and how far the issues lead to a significant adverse effect on competition. We aim to test our initial findings through this consultation and develop our view of the proportion of the market affected by the market features and the persistence of those market features.

4.22 **Availability of appropriate remedies to the CMA:** The CMA has broad powers to remedy competition harms identified in the UK market. However, the sale of benchmarks in the UK is part of an international market that extends beyond the UK's borders. The UK BMR allows for benchmarks to be provided to the UK market by non-UK administrators. Any competition remedy will need to assess the impact of non-UK administrators and the possibility of administrators relocating to jurisdictions out of scope of such remedy. Therefore, addressing any harm we identify with a UK-specific solution may not be effective without international regulatory cooperation. Further to paragraph 4.16, we regularly engage with international counterparts responsible for supervising benchmarks and contribute to the work of global benchmarks standard setters, including the International Organisation of Securities Commissions (IOSCO).

Credit ratings data (CR data)

CR data – Features that could prevent, restrict or distort competition

4.23 Based on our initial analysis of evidence, we consider that there are reasonable grounds to suspect that the following features, either alone or in combination, prevent, restrict or distort competition in the supply of credit ratings data. We discuss these features in Chapter 3.

- Highly concentrated credit ratings data services market through data affiliates of the Big Three CRAs. This is due to the market power of the Big Three in the issuer services market ensuring comprehensive global coverage of credit ratings data and brand reputation.
- Buy side coverage typically requires credit ratings data from at least 2 of the Big Three. This limits substitutability and constrains the user's ability to switch suppliers. It may further limit the user's power to negotiate contractual terms and fees.
- Vertical integration and barriers to entry. The Big Three data affiliates rely on comprehensive global credit ratings data coverage provided by their issuer services business. There is a significant cost and resource requirement for new entrants to build similar global coverage.
- Lack of price transparency for credit ratings data services with pricing factors not directly based on costs. This could lead to price discrimination by suppliers based around anti-competitive factors, such as users' inability to switch providers. Our analysis of suppliers does show significant variation in pricing depending on the customer. However, this analysis also found prices are typically based on client characteristics including assets under management and use cases of the data.

CR data – Appropriateness of an MIR

4.24 **FCA powers:** As discussed in Appendix 1 Regulatory landscape, the FCA regulates CRAs under the UK Credit Rating Agencies Regulation (CRAR). If we identify the source of any harms as originating from UK regulated CRAs then the FCA may, potentially, be able to address them. However, credit ratings data services are provided by separate/affiliated entities of the CRAs and are, therefore, not currently regulated.

4.25 **Scale of the suspected problem:** We estimate the size of the UK credit ratings data market to be up to £100m, with the data affiliates of the Big 3 accounting for a large majority of UK end user revenues. Based on our analysis so far, we have identified potential competition concerns within the credit ratings data services market. However, the scale of the suspected problem is currently unclear. We will be conducting further analysis to ascertain to what extent the issues lead to a significant adverse effect on competition, especially the proportion of the market affected and the persistence of those effects.

4.26 **Availability of appropriate CMA remedies:** The CMA possesses broad powers to make remedies where appropriate to address identified competition concerns. However, the market for credit ratings data services is global in nature and stretches beyond the UK. Credit ratings data is predominantly provided to the UK market by CRAs data affiliates based outside the UK and therefore, addressing any harms identified with a UK-specific solution may not be the most appropriate option. Any remedy implemented to address competition harm will require cooperation with relevant global supervisory authorities. The FCA is better positioned to liaise with these authorities already having well-established working relationships with counter party international regulators for CRAs particularly with the SEC and ESMA. We are also an active member of the Supervisory College of international regulators for CRAs.

MDVs

MDVs – features that could prevent, restrict or distort competition

4.27 Based on our initial analysis of evidence, we consider that there are reasonable grounds to suspect that the following features, either alone or in combination, prevent, restrict or distort competition in the supply of MDV services. We set these features out in Chapter 3. In summary:

- The provision of MDV services in the UK is highly concentrated, with 2 providers accounting for a large majority of the market revenue as of 2022.
- The very high start-up costs required to distribute wholesale data enhances barriers to entry, resulting in limited entry by smaller vendor firms.
- Network effects from incumbents' extensive user base and comprehensive access to different data sources on a single platform. This structural feature may enable firms to restrict competition through certain commercial practices.
- The high degree of integration required between MDV systems and firms' internal infrastructure which may create barriers to switching data providers.
- Vertical integration which may cause competitive distortions at different points of the supply chain.
- Commercial practices by MDVs which may impede effective competition:
  - Complex licensing may enable providers to price discriminate while also making it difficult for some users to compare product offerings and switch to alternative providers.
  - Tying and bundling practices may also create barriers to switching and may inhibit challenger firms from offering competitive products where the incumbent holds a strong position.

MDVs – Appropriateness of an MIR

4.28 **FCA powers:** While the FCA does not have specific rulemaking powers for MDV activity, there are UK regulatory requirements relating to the sale of trade data by trading venues and Approved Publication Arrangements (APAs). Findings from our information requests and our trade data review suggest that price increases and restrictive licensing terms are passed through the data supply chain, ultimately impacting users of MDV services.

4.29 However, taking action on the existing rules may not be sufficient or appropriate to address the competition concerns in the MDV market. Furthermore, in paragraph 4.33 we consider the development of a CT in the UK and its important role in shaping our approach to tackle harms.

4.30 **Scale of the suspected problem:** As detailed in Chapter 3, the UK MDV market is extensive and highly concentrated, with an estimated £3bn generated from sales to UK-based customers in 2022. At present, it is unclear if and how far the potential harms identified lead to a significant adverse effect on competition. We aim to test our initial findings through this consultation and develop our view of the proportion of the market affected by the market features and their persistence.

4.31 **Availability of appropriate CMA remedies:** Depending on our assessment of the root cause of the competition concerns, potential interventions could be implemented through the CMA's order making powers. However, this may not be the most appropriate way to address competition issues in the MDV services market, for the reasons set out below.

4.32 To effectively identify and address the drivers of harms, we need to assess issues across the wholesale data supply chain which ultimately affect users of MDV products and services. As previously highlighted, we consider that there are features of markets we do regulate (such as the UK trading venue market) which may generate harms seen in the MDV market. Also, we have regulatory oversight over some MDVs as firms conducting activities inside the scope of our perimeter, such as operating trading venues and DRSPs. As sector regulator, we believe we are best placed to identify how to tackle any harms in a holistic way, drawing on our knowledge of the markets and relevant firms.

4.33 Any actions to tackle harm must also consider the impact of other related policy development, in particular our work on developing a CT in the UK as part of the wider Wholesale Markets Review. Our July 2023 consultation paper (CP23/15) sets out our proposed framework for a CT for bonds and initial considerations for a subsequent CT for equities. A CT for these asset classes may have significant impact on the supply and distribution of trade data and could place competitive pressure on existing sellers of market data, including MDVs. This could lead to downward pressure on the price of market data and clearer licensing terms that are suited to individual use cases. As such, we would need to consider the impact of potential outcomes of the CT framework alongside any remedy development for the MDV market.

4.34 Considering these factors, our current view is that pursuing remedies through CMA orders would not be the most appropriate way to address competition issues in the MDV market.

Representation received on the trade data market

4.35 We have also received a representation for making an MIR for trade data. The production of trade data by trading venues and investment firms is out of scope of the market study terms of reference. However, the development of a CT and this market study form our package of work to help address concerns identified from the Trade Data Review.

Consultation on our proposed decision

4.36 Under section 131A of the Enterprise Act 2002, the FCA is required to publish a notice of its proposed decision to not make a market investigation reference and invite representations.

4.37 We invite stakeholders to share their views on our proposed decision and the underlying rationale. We also welcome views on the emerging themes and issues set out in the rest of this report. Please provide your views in writing to wholesaledatamarketstudy@fca.org.uk no later than 29 September 2023.

4.38 Our final market study report will include our findings on competition in these markets and our decision whether to make an MIR, an explanation of our decision and other actions to address the issues identified. We will publish this report by 1 March 2024.

Annex 1

Regulatory landscape

Benchmarks

1. In 2020 the EU Benchmarks Regulation (BMR) was onshored into UK law as the UK BMR following the post-Brexit transition period. The BMR builds on the IOSCO principles for financial benchmarks for ensuring benchmarks are robust and reliable. The BMR addresses, among other things, conflicts of interest and governance, and controls for reducing the risk of manipulation of benchmarks. The UK BMR regulates the:

- provision of benchmarks by UK benchmark administrators
- contribution of input data to a UK benchmark
- use of a benchmark by a UK supervised entity

2. Under the UK BMR, the FCA is responsible for the authorisation and registration of UK located benchmark administrators as well as recognition of third country administrators, and endorsement decisions of third country benchmarks for use in the UK. The Treasury may also deem other third country jurisdictions as equivalent. The FCA holds enforcement powers and supervisory oversight of UK located benchmark administrators, users who are supervised entities, and contributors, within the UK.

3. In terms of obligations under the UK BMR on different market participants:

- **Benchmark administrators:** UK located Benchmark administrators that are authorised or registered or recognised by the FCA to operate in the UK must comply with requirements to uphold benchmark integrity and transparency through appropriate governance, controls and reporting requirements.
- **Benchmark contributors:** Contributors of input data to a benchmark are subject to a code of conduct developed by the administrator of the benchmark, applying to their contribution of input data. Contributors who are supervised entities must also adhere to governance and control requirements set out in the UK BMR.
- **Benchmark users:** Supervised entities that are users of benchmarks in the UK are required to produce and maintain robust action plans for if a benchmark materially changes or ceases to be provided. Under UK BMR, supervised users must also only use benchmarks provided by an authorised or registered benchmark administrator listed on the UK Benchmarks Register, or a benchmark included on the register. This register contains a public record of all benchmark administrators that are: authorised, registered or recognised in the UK or that benefit from an equivalence decision that has been adopted by the UK, and certain benchmarks that are provided by non-UK benchmark administrators (or other supervised entities) for use in the UK.

4. Benchmark administrators which are not located in the UK can access the UK market through certain third country provisions of the UK BMR without being subject to FCA supervision. The UK BMR also contains a transitional provision until the end of 2025 allowing non-UK administrators to provide benchmarks to be used in the UK without needing to meet these third country provisions.

5. Acting as an administrator of a benchmark within the meaning of the UK BMR is a regulated activity in the FSMA 2000 (Regulated Activities) Order 2001 (RAO). Entities located in the UK administering a benchmark, as defined within BMR, are required to be FCA authorised persons. Section 137A of the Financial Services and Markets Act 2000 enables us to make rules in respect of FCA authorised persons where we consider it necessary or expedient to advance our operational objectives, including our competition objective. This general rule-making power applies to FCA authorised persons in respect of both their regulated and unregulated activities. This would include the licensing of benchmarks and indices by UK authorised benchmark administrators. The scope and extent of these rule making powers is broad but the exercise of those powers must be proportionate to the harm being remedied.

6. Our general rule-making power does not extend to non-authorised persons. These include, for instance:

- benchmark administrators located outside the UK which provide benchmarks to be used in the UK through the third-country regime (including the transitional provision) in the UK BMR
- other administrators located in the UK administering indices which are not benchmarks within the meaning of the UK BMR

7. Contributors and users of benchmarks are not required to be FCA authorised persons as a direct consequence of the UK BMR. However, where an FCA authorised person uses a benchmark, this use can be subject to our general rule-making power.

8. The UK BMR is one of the financial services files where firm-facing regulatory provisions will be eventually transferred from the statute book to our handbook as part of the Government's Future Regulatory Framework (FRF) as discussed in paragraph 2.12.

Credit ratings agencies

9. In December 2020 the EU Credit Rating Agencies Regulation was onshored into UK law (UK CRAR) following the Brexit transition period. The UK CRAR alongside the 2019 UK Credit Rating Agencies (Amendment etc) (EU Exit) Regulations (SI 2019/266) as well as various Commission Delegated Regulations, which the UK has adopted, creates the regulatory regime for CRAs in the UK. In addition, a small number of pieces of secondary legislation and provisions of FSMA 2000 apply to enable the FCA to supervise and enforce the CRA regime.

10. The UK CRAR:

- regulates the issuing of credit ratings publicly or via subscription in the UK
- restricts the use of credit ratings for 'regulatory purposes' (those needed for the purpose of complying with UK law) to those issued in accordance with the CRAR

The regulatory framework seeks to enhance the integrity, transparency, good governance and independence of credit rating activities. It provides conditions for the issuing of credit ratings and rules, including on the organisation and conduct of CRAs, as well as rules that apply to individuals who are directly involved in credit rating activities and CRA shareholders and members. These requirements are designed to promote CRAs' independence, the avoidance of conflicts of interest, and the enhancement of consumer and investor protection.

11. To issue credit ratings publicly or via subscription in the UK, CRAs must be established in the UK and registered by the FCA according to the UK CRAR. The FCA has supervisory oversight over CRAs operating in the UK and can take enforcement action against registered CRAs for breaches of the UK CRAR.

12. The UK CRAR also provides for endorsement of credit ratings issued abroad. Registered CRAs can endorse credit ratings issued in third countries where the rating was produced (whether fully or in part) by the endorsing CRA, or by CRAs belonging to the same group, where certain conditions are met. Credit ratings that are endorsed by a UK CRA are considered to be issued by that CRA, and it is regarded as fully responsible for such credit ratings under the UK CRAR.

13. Provided they have been authorised by their home country, CRAs from third countries that have been recognised as having an equivalent legal and supervisory framework to the UK can apply for certification under the UK CRAR. Certification enables third country CRAs to issue credit ratings that relate to entities established or financial instruments issued in third countries to be used for regulatory purposes in the UK.

14. The Wholesale Market Data Study is focusing on credit rating data services, which are typically provided by group companies/affiliates of the CRAs we regulate. These are separate legal entities and neither they, nor their activities, are in scope of the UK CRAR. Therefore, they are currently unregulated.

Market data vendors

15. The activity of formatting, aggregating and distributing wholesale data to end users by data vendors is unregulated and carrying on such activity does not require authorisation or permissions from the FCA. This is to the extent that such activities do not fall within the scope of the regulated activity of arranging deals in investments or operating an approved publication arrangement, an approved reporting mechanism or a consolidated tape provider. However, a number of data vendor operators, or their wider group, are regulated for other activities which do fall within the FCA's regulatory perimeter. Moreover, many users of MDV's services use them to inform their decisions in relation to their own regulated activities.

Annex 2

Glossary of terms used in this document

Asset class	A group of financial assets which share similar characteristics and are subject to similar laws and regulatory requirements. Asset classes include equities, fixed income and derivatives.
Benchmark	An index used within the scope of the Benchmarks Regulation, ie where: • it is used to determine the amount payable under a financial instrument or financial contract, or the value of a financial instrument • it is used to measure the performance of an investment fund for the purpose of: – tracking the return of the index – defining the asset allocation of a portfolio, or – computing the performance fees of a portfolio
Consolidated tape/ feed	A continuous electronic live data stream providing price and volume data of bids and offers, and/or executed trades in financial instruments taking place on trading venues and bilaterally.
Credit ratings	Opinion on the creditworthiness of an issuer or security, issued by CRAs.
Credit ratings data	Dataset including credit ratings and related information, that may be supplied by CRAs (or their affiliates) or through market data vendors.
Index	The BMR defines an index as a figure that is published or made publicly available and is regularly determined, either entirely or partially by applying a formula or other method of calculation, or by an assessment; and on the basis of the value of one or more underlying assets or prices (including estimated prices, actual or estimated interest rates, quotes and committed quotes, or other values or surveys).
Investment Grade	An issuer, or a security, rated BBB/Baa and above by a Credit rating agency.
Latency	The time that elapses from when a signal is sent to when it is received. Lower latency means lower delays in transmission.
Market data vendor (MDV)	An entity that provides desktop or web-based products with content from third parties. It may also provide content owned or developed by themselves.
Pricing and valuation data	End of day equity pricing or pricing for illiquid/non-transparent securities such as fixed income or derivative instruments.

Reference data	Static data by which financial instruments and entities can be referenced and categorised, including the terms and security identifiers (eg, instrument classification, sale information), end-of-day pricing, the terms of the security (such as dividends, interest rate and maturity on a bond), and any upcoming corporate actions (such as stock splits or proxy votes) related to the security. Examples: entity and instrument identifiers like LEI, UPI, ISIN, MIC, CFI.
Trade data	Trade data means the data trading venues, systematic internalisers (SIs) and approved publication arrangements (APAs) have to make public for the purpose of the pre-trade and post-trade transparency regime. Therefore, trade data includes the details set out in MiFID RTS 1 and MiFID RTS 2.
Wholesale data	Information (including, but not limited to, quantitative values and measurements in structured formats) generated, distributed and used by market participants in wholesale financial markets, such as: • trade data • pricing and valuation data • reference data • credit ratings data • benchmarks and indices • other products such as news, company information, research, analytics.
Wholesale market	A financial market which allows companies, financial institutions and public sector organisations to raise capital. It covers lending, equity, debt, derivatives, foreign exchange and commodities markets.

Annex 3

Abbreviations used in this paper

Abbreviation	Description
AI	Artificial intelligence
AuM	Assets Under Management
BMR	Benchmarks Regulation
CA98	Competition Act 1998
CAGR	Compound Annual Growth Rate
CFI	Call for Input
CMA	Competition and Markets Authority
CPI	Consumer Price Index
CR	Credit Rating
CRA	Credit Rating Agency
CRAR	Credit Rating Agencies Regulation
CTP	Consolidated Tape Provider
DRSP	Data Reporting Services Regulations
EA	Enterprise Act
ESG	Environmental, Social, and Governance
ESMA	European Securities and Markets Authority
ETF	Exchange-Traded Funds
FSM	Financial Services and Markets
IOSCO	International Organization of Securities Commissions
MDV	Market Data Vendor

Abbreviation	Description
MiFIR	Markets in Financial Instruments Regulation
MIR	Market Investigation Reference
PRV	Price, Reference, and Valuation data
PTF	Principal Trading Firms
RFI	Requests for Information
SFTP	Secure File Transfer Protocol
TOR	Terms of Reference
Treasury	His Majesty's Treasury

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