

Software & Information Industry Association • Financial Information Services Division
General Meeting Roundtable on Redistribution
Outline for Discussion • December 11, 2003

Participants – Jack Sabo (NYBOT), Bill Lee (Morgan Stanley), Reg Pritchard (Rights Management)

The licensing of market data provides a critical revenue stream for information originators/distributors and represents a significant expense item for information consumers. As such, the policies, procedures and business models associated with the distribution and usage of market data are of essential interest to everyone involved in the information distribution chain. The lack of control over data redistribution (particularly in datafeed environments) can result in under-reporting, unauthorized redistribution and other forms of revenue leakage. Consider the following:

- Vendors (including financial institutions) don't have control of the downstream redistribution of market data in datafeed environments.
- Market data policies are complex and there are significant differences in the policies of information providers on a global basis.
- Market data compliance is governed by contracts which are frequently open to interpretation, don't always reflect the realities of existing technological environments and don't always translate well to real-world applications.
- Compliance involves many people (contracts, entitlements, IT/development, billing/reporting and sales) who don't always know about or understand the practical side of market data rules.

The goal of this roundtable is to put some context around the redistribution discussion within FISSD by identifying the primary categories of revenue leakage, defining and prioritizing the full range of potential industry responses and recommending a series of activities designed to both protect intellectual property rights and promote widespread (legitimate) data redistribution.

1. **Types of Redistribution:** The first task is to define and differentiate the various categories of redistribution – and the challenges associated with each. Discussions with FISSD members seem to suggest the following as potential areas for consideration (*NOTE: I realize these are not precise contractual definitions – my goal is to focus on the practical challenges associated with market data management rather than on the legitimate challenges of contractual language*).
 - Redistribution within financial institutions – focusing on the control and management of data usage within an entity (usually a financial institution) authorized to receive and distribute market data delivered via a datafeed – where the firm fully intends to comply with market data policies.

- Redistribution via web sites – focusing on the distribution and control of market data among entities that are either looking to avoid paying redistribution license fees (outright data pirates) or where market data is a secondary (or input) component of the application.
- Redistribution via electronic trading engines – focusing on market data delivered to electronic trading software vendors where exchanges have tended to waive fees to encourage the penetration of such systems.
- Redistribution via derived data – focusing on defining the fine line between “market data” and the creation of “original creative works” and determining whether exchanges or vendors have the right to charge for the use of their intellectual property as a raw material in the creation of these derived data products.

This part of the discussion is set-up – so for each of the above I’d like you to briefly outline the essential issues from your perspective – including why redistribution problems exist and where they fall in the spectrum of importance. We’ll refer back to these redistribution types as we get into a discussion of the issues.

2. **Redistribution Issues:** The second task is to define the core issue areas that need to be addressed to be able to balance the objectives of widespread distribution of market data with the commercial requirements to get paid for intellectual property.
 - Contractual/licensing issues – focusing on the creation of rational market data terms and conditions that can be flexible enough to be applied to a wide variety of existing and emerging applications, simple enough to be administered on a cost effective basis, and rational enough to provide some degree of assure that users are in compliance with commercial objectives.
 - Communication/compliance issues – focusing on the ability to both understand how to apply the variety of market data terms and conditions to the variety of applications and how to communicate the rules to the chain of individuals that are involved in data applications but are not market data specialists.
 - Entitlement control issues – focusing on the difficulties of tracking the downstream application of market data through multiple redistribution channels as well as the ability of vendors to assume contractual liability for the use of data that they can’t control.

- Business models and pricing issues – focusing on the challenges of developing flexible price/value models that cover a wide variety of market data applications without cannibalizing existing revenue streams.

3. **Redistribution Matrix:** The goal is to match up the core issue areas against the various redistribution types to help our members focus in on potential options moving forward as well as their likely priority. Perhaps the best way to view the roundtable is as a matrix

	Firms	Web Sites	Derived Data	Electronic Trading
Contracts				
Compliance				
Control				
Business Options				

- Financial Institutions – understand rules, agree with policies (particularly for non-traditional uses of market data), communication of rules (particularly as contrasted with information sales objectives), complexity of compliance (particularly with multiple approaches by information providers), difficulty of tracking rules (particularly with multiple entities involved in the distribution chain), the challenges of applying ambiguous contractual policies to the range of real world applications, administrative complexity (and business challenge s) of keeping track of every application
- Web Applications -- outright data theft, need for a level competitive playing field/uneven enforcement, care about/understand rules, communication problems (particularly with the existence of a complex redistribution chain); commercial mismatch between the price of market data and the perceived value of the application
- Electronic Trading platforms – policies that make sense, the relationship between fee waivers for electronic trading versus the exchanges commitment to maintain a level playing field
- Derived data – policies related to the distinction between market data and original creative works; licensing options associated with the rights to use data