More Details on SEC’s Proposed Order for a New Consolidated Data Plan

Summary

On Wednesday, the SEC issued a proposed order for public comment that could ultimately compel the exchanges to develop a "New Consolidated Data Plan" that would replace the three NMS plans currently. The full proposed order was published after the close, with key details from the order as well as our thoughts outlined below.

What Happened? The SEC issued a proposed order for public comment that could ultimately lead to the development of a single "New Consolidated Data Plan" for US equities, which would replace the current three NMS plans. Our preliminary takeaways from that meeting/vote can be found in our note here. The SEC's proposed order can be found here.

Bottom Line: The most significant change in the proposed order relates to the consolidated data plan governance structure. The voting power of the three large public exchange groups would be diluted significantly under the proposal, and capped at two votes per exchange group. Additionally, the new operating committee will be responsible for both developing and maintaining fair and reasonable fees. This wording is ambiguous, and may cause some near-term uncertainty for investors around the future trajectory of SIP data revenues. In all, this may be a long road to implementation. However, we also believe the SEC is focusing SIP governance as a first step to address exchange conflicts of interest related to market data, so it’s possible that headline risk regarding further changes to the SIP (related to content or other changes) may persist longer term, even past the implementation of a new consolidated tape.

Change in Voting Structure. Under the proposal, SROs will receive two-thirds voting power and non-SROs (non-exchanges) will receive one-third voting power, with this ratio fixed permanently. Non-SROs currently sit on the SIP advisory committee but have no voting power. Within SRO voting, each exchange group would only get 1 vote (or 2 votes if trading market share exceeds 15%). This is meaningfully different from the current operating committee voting, where exchange groups receive 1 vote for each medallion (ICE has 5 votes, CBOE has 5, NDAQ has 4). With respect to non-SROs, the SEC has suggested that six representatives join the operating committee: (1) an institutional investor, (2) a retail broker, (3) an institutional-focused broker, (4) a securities market data vendor, (5) a corporate issuer, and (6) a retail investor. What does this mean for the exchange groups’ voting power? The three large public exchange operators (ICE, CBOE, NDAQ) currently control over 80% of the voting power of the SIP operating committee. However, assuming this SEC order is finalized as proposed, and assuming MIAX and MEMX both receive exchange licenses later this year, we calculate that this would reduce ICE, CBOE, and NDAQ’s cumulative voting power to 36% under the New Consolidated Data Plan.

See page 2 for more details/thoughts.

Glossary of Terms
**Augmented Majority Vote.** The SEC is proposing that all actions made by the new operating committee require both a two-thirds majority of all votes and a majority of the SRO votes. This contrasts with the current SIP voting, which requires a simple majority for certain matters or a unanimous vote for other matters. We expect the large exchange groups (ICE, CBOE, NDAQ) to control over half of the SRO votes (as of now) under this proposal, which is of material note. However, we also note that this may change over time, if new exchanges form or if any of the existing public exchange groups dip below 15% trading market share.

**Obligations Regarding Pricing of New Consolidated Data Plan.** The proposed order imposes "a direct responsibility on the operating committee of the New Consolidated Data Plan to keep abreast of changes in the marketplace regarding demands for and pricing of equity market data, and to ensure that SIP data meets those demands and are widely distributed at fair and reasonable prices." Further, the order also states that the schedule of fees for the data products offered by the New Consolidated Data Plan should be filed by the new operating committee. We believe this would then need to be approved by the SEC as fair and reasonable.

**Exchanges Would Not Be Able to Administer New Consolidated Tape.** The SEC also believes that the new consolidated tape should not be administered by a corporate entity that sells separate and potentially competing market data products, which would include the exchanges.
Companies Mentioned in This Report

- Cboe Global Markets, Inc. (CBOE: $117.01, Market Perform)
- Nasdaq, Inc. (NDAX: $105.83, Market Perform)
- Intercontinental Exchange, Inc. (ICE) (ICE: $93.60, Outperform)

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**Cboe Global Markets, Inc. (CBOE)**

**Target Price:** $119.00

**Risk Factors:**
Risks to our price target include the following: market conditions and events may not ultimately reflect our assumptions and/or projections. Volatility in the markets carries the potential for shifts in confidence among investors. Investment in securities invariably involves risk and potential for loss of principal.

**Valuation:**
Our 12-month price target is $119, which is roughly 22.5X our discounted 2021 EPS estimate.

**Intercontinental Exchange, Inc. (ICE) (ICE)**

**Target Price:** $103.00

**Risk Factors:**
Risks to our price target include the following: market conditions and events may not ultimately reflect our assumptions and/or projections. Volatility in the markets carries the potential for shifts in confidence among investors. Investment in securities invariably involves risk and potential for loss of principal.

**Valuation:**
Our price target of $103 is an implied 22.5X our discounted 2021 EPS estimate.

**Nasdaq, Inc. (NASDAQ)**

**Target Price:** $105.00

**Risk Factors:**
Risks to our price target include the following: market conditions and events may not ultimately reflect our assumptions and/or projections. Volatility in the markets carries the potential for shifts in confidence among investors. Investment in securities invariably involves risk and potential for loss of principal.

**Valuation:**
Our price target of $105 is approximately 18X our discounted 2021 EPS estimate.

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**Rating and Price Target History for: Cboe Global Markets, Inc. (CBOE) as of 01-08-2020**

- **Outperform (OP)**
- **Market Perform (MP)**
- **Underperform (UP)**
- **Restricted (RES)**
- **Suspended (SP)**
- **Not Rated (NR)**
- **Covered -Not Rated (CNR)**

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Note: The boxes on the Rating and Price Target History Chart above indicate the date of Report/Note, the rating and price target. Each box represents a date on which an analyst made a change to a rating or price target.

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