

A woman with brown hair tied back, wearing a white blouse, is smiling and looking towards the camera. She is in an office setting with blurred background elements like a desk and other people.

Equity Market Structure and Index Benchmark Survey Results

February 2021

Overview

In January, we sent out two surveys to our index and market structure followers to get a sense of industry positions on some of the important topics in 2021. Please keep in mind that the responses may be biased to a Canadian point of view, with approximately two thirds of responses from our Canadian friends in the investment community. Results are rounded to the nearest percentage.

Equity Market Structure Survey

Key Findings at a Glance

- 66 respondents as of January 31, 2021
- According to respondents, the most important equity market structure issues are market data reforms, off exchange volume growth in the U.S. and payment for order flow (PFOF)
- 90% of respondents support the real-time marketplace attestation of all off-exchange trading in the U.S.
- Nearly all participants support attribution of real-time broker activity in Canada, and most support use of anonymous (O1), but not with BP
- 65% of respondents support global exchange mergers amongst primary listings venues but this number skewed higher by global responses
- 70% of respondents support keeping OPR, 70% support a shorter North American trading day, and 100% support public hearings following primary exchange system outages
- A near even split regarding whether the SEC should re-file Transaction Fee Pilot (TFP) 2.0 and 30% of respondents say Canada should move forward on non-inter-listed TFP on its own.
- Alternatively, most participants voted for a trading fee cap (with a majority of the vote going to the lowest possible option at 5 mls)

[Dive into the Market Structure Survey results on page 3.](#)

Index Benchmark Survey

Key Findings at a Glance

- 77 responses as of January 31, 2021
- Top three most important benchmark issues:
 - Incorporation of ESG factors into custom index benchmark criteria
 - Size of China in Emerging benchmarks
 - Cost of benchmark licenses
- Over 70% of respondents believe an automatic inclusion rule should be added to the S&P 500 Index and S&P/TSX 60 Index based on float capitalization ranking
- 60% of respondents favour inclusion of multi-voting share classes in S&P 500 eligibility pool
- 50% of respondents plan on increasing ETF usage in 2021: most popular strategies are cash flow management, country exposure and completion strategies
- Most respondents believe the addition of China's A Shares warrants separating China from Emerging indices and into its own country benchmark
- Most important ESG factors according to participants are Emissions and CSR Strategy

[Dive into the Index Benchmark Survey results on page 10.](#)

Results shown are divided into **All Responses** and **Asset Manager/Asset Owner Responses**

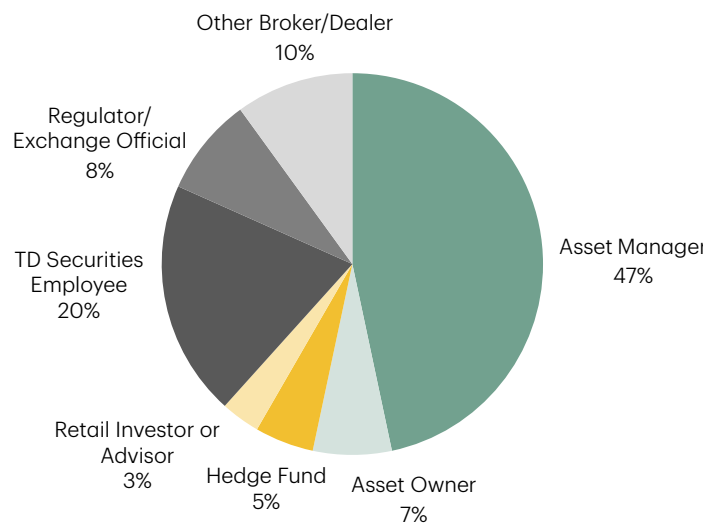
- All Responses
- Asset Manager/Owner Responses

Market Structure Survey

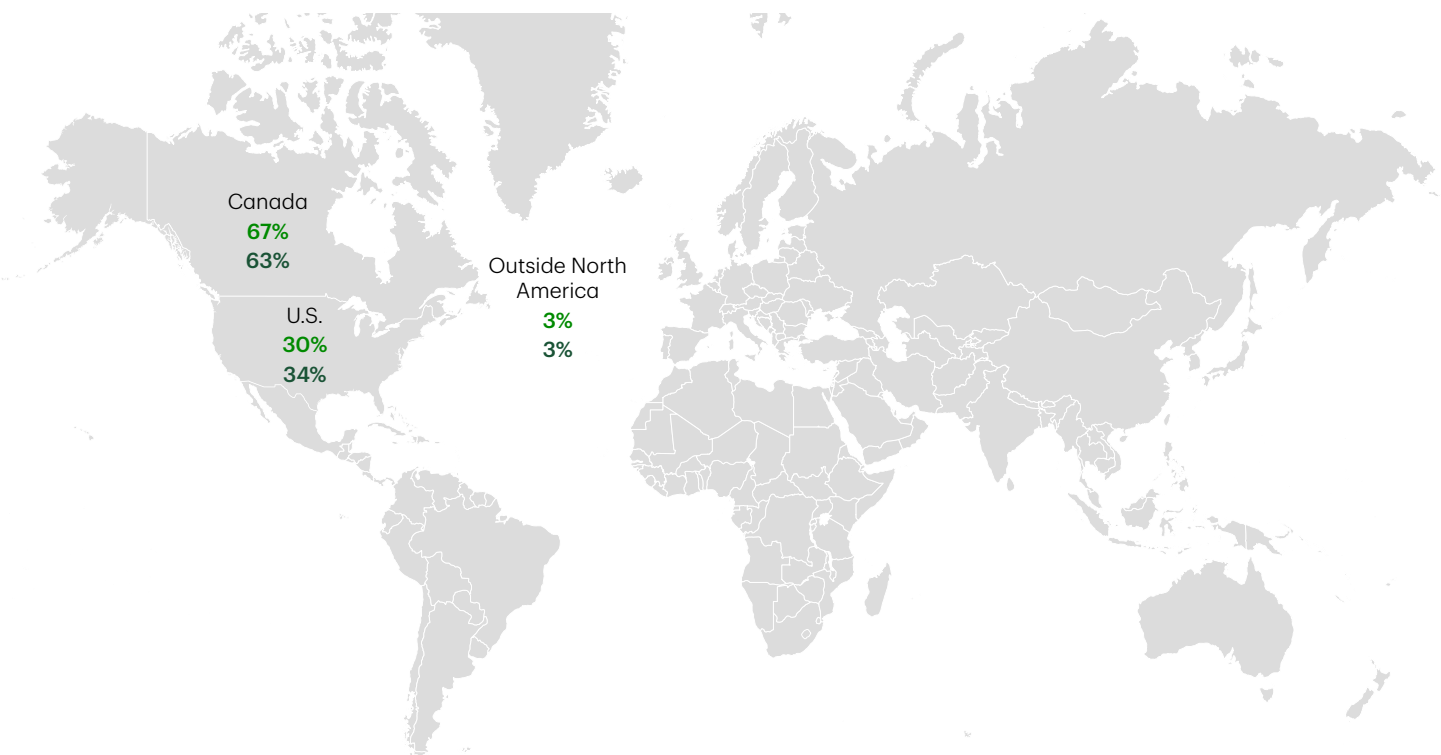
Profile of Survey Respondents

A total of 66 respondents as of January 31, 2021.

Category of Participants



Breakdown by Geographic Location



Top Equity Market Structure Issues in 2021

From the list of topics below, which are the most important equity market structure issues for 2021? (Pick up to 4.)

		All Responses	Asset Manager/ Owner
1.	Payment for order flow and the handling of retail orders	57%	56%
2.	Market data reforms	47%	56%
3.	Off exchange trading (particularly in U.S.)	38%	41%
4.	Changes to closing auction models	36%	41%
5.	Proliferation of marketplaces	36%	30%
6.	Financial transaction taxes in U.S. equities	25%	30%
7.	Exchange system outages and failover models	25%	22%
8.	Marketplace speed bumps and order types designed to limit adverse selection	23%	15%
9.	Proliferation of order types	21%	26%
10.	Marketplace trading fee (make-take) limits	21%	26%
11.	Changes to IPO pricing process	19%	15%
12.	MiFID II reforms and Brexit	15%	15%
13.	Latency arbitrage	13%	4%

Payment for Order Flow

Should Payment for Order Flow be banned in the U.S.?

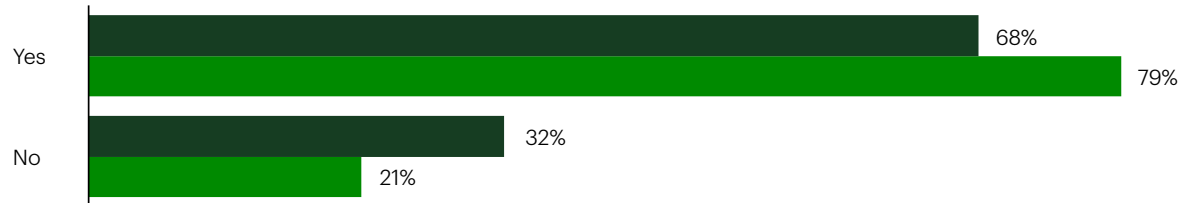


Should Payment for Order Flow be allowed in Canada (requiring rule changes to allow off-exchange trading for retail investors without full increment price improvement)?



Denotation of Retail Trades

At the STA Annual Market Structure Conference in October, 2020, SEC Commissioner Elad Roisman suggested that retail trades executed off exchange through bilateral arrangements with wholesalers should be denoted as such in order to reflect true accessible liquidity for institutions in Trade Cost Analysis. Do you support the denotation of retail trades on the trading tape?



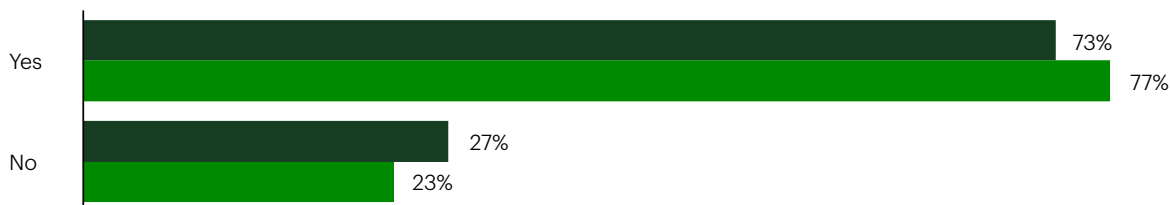
Off Exchange Trading in the U.S.

Do you support the real time attestation by marketplace of all off exchange trading in the U.S. (both wholesaling flow and dark pool activity)?



Attribution of Broker Activity

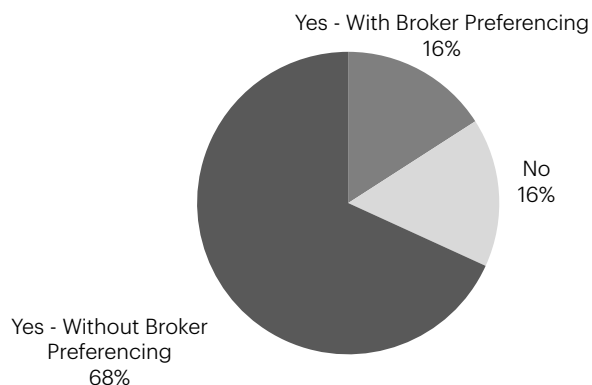
In Canada, broker activity is transparent at the transaction level in real time to allow investors to see which firms are active trading a stock at any given moment. Do you support the attribution of broker activity in real time?



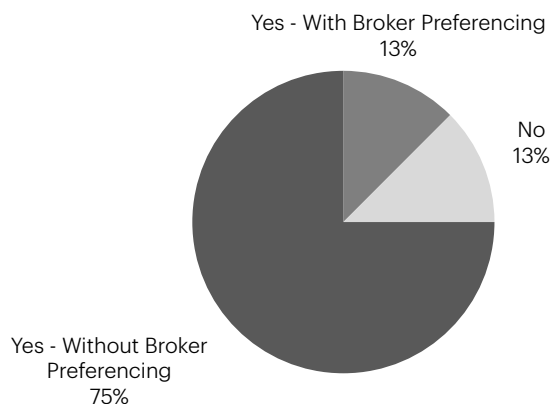
Broker Preferencing

Brokers in Canada have the option of using a catch all anonymous number (01) for executing trades. In Q4, 2020, the anonymous broker accounted for 26% percent of S&P/TSX Composite volume¹. The general market convention is to eliminate broker preferencing for orders marked anonymous. Do you support the use of 01 broker number with or without broker preferencing?

All Responses



Asset Manager/Owner Responses

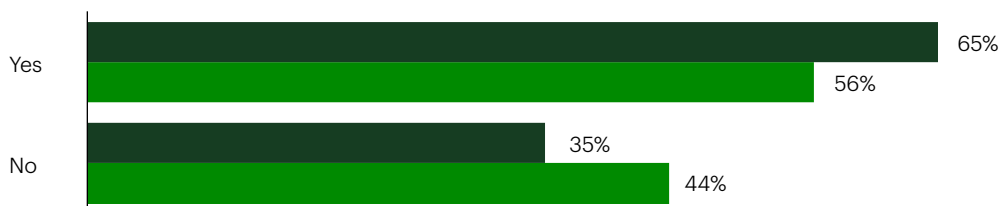


Transaction Fee Pilot

In the summer of 2020, U.S. Court of Appeal for the District of Columbia ruled in favor of the Exchanges who sued the SEC to halt its proposed Transaction fee Pilot. Should the SEC answer the questions raised by the Court of Appeal in a re-filed transaction-fee pilot rule proposal or move on to other matters?



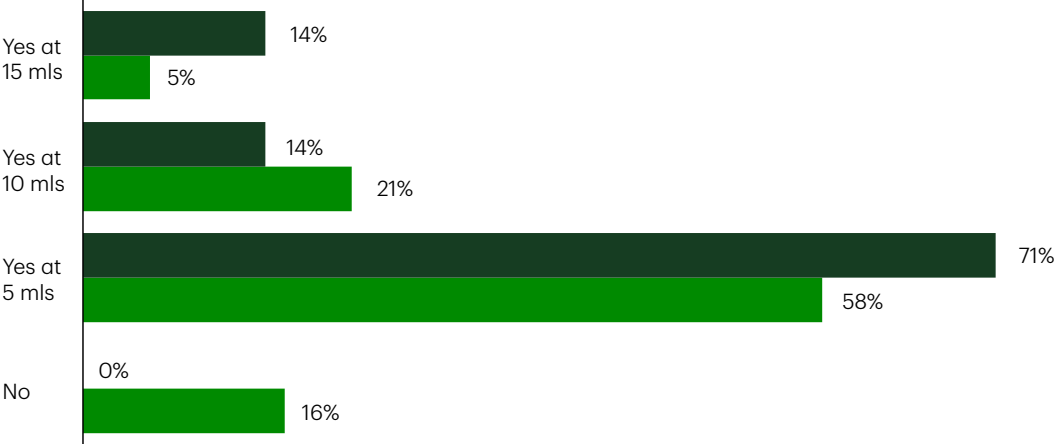
Canadian regulators approved a **Made in Canada Transaction Fee Pilot** that would run in parallel to the SEC study in order to eliminate cross border trading fee arbitrage between Canada and the U.S. in Canadian-based inter-listed securities. With the SEC's loss in court, should Canadian regulators abandon its study (yes) or continue alone but without inter-listed names (no)?



¹ Source: Bloomberg

Marketplace Trading Fees

An alternative to the transaction fee pilot is mandating a lower cap on access fees. Should marketplace trading fees (known as make/take fees) be capped at lower than the current 30 mls (0.3 cents) rate? Note: for the purposes of this question, this cap would apply symmetrically, meaning rebates are capped at the same level as access fees.



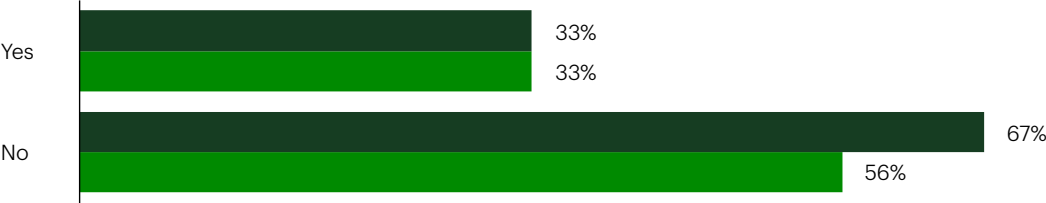
Dark Pool Price Increment Improvement

Should trades in dark pools in the U.S. require price increment improvement over the NBBO (a so-called trade-at rule)?



Order Protection Rules

Should regulators in Canada and the U.S. repeal order protection rules and instead rely on broker best execution obligations?



Market Data Fees

Should domestic regulators set prices for market data?



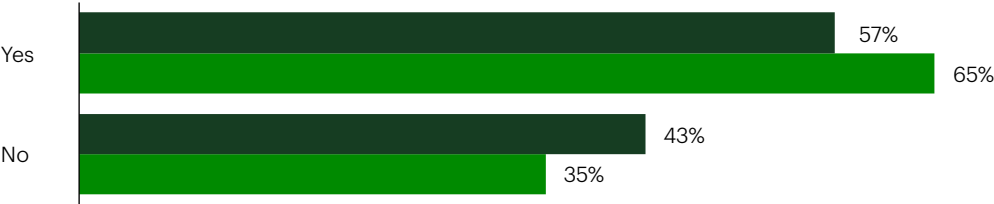
Market Data Reforms

Do you support the SEC's market data reforms on governance and definition of core data?



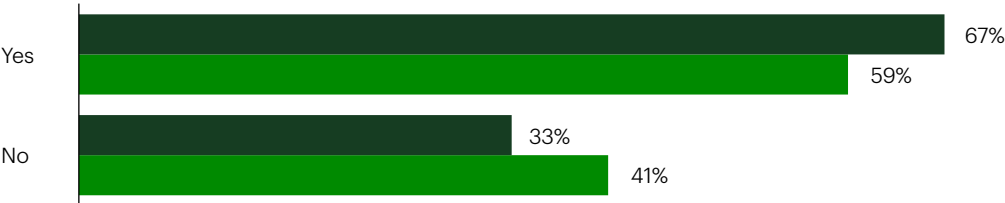
Latency Arbitrage

Is Market Structure Latency Arbitrage still a problem in equity markets?



Domestic Listings Exchanges

Do you believe primary domestic listings exchanges should be allowed to consolidate with global peers?



Length of the Trading Day

Participants in Europe are considering shortening the length of the regular trading day, which is currently 8.5 hours (8:00 am to 4:30 pm), in part to improve work-life balance and to concentrate trading activity during a shorter window. Do you think the North American trading window of 9:30 am to 4:00 pm should be adjusted?

	All Responses	Asset Manager/ Owner
No, Stay the same.	44%	30%
Yes, Shorten by ending earlier.	29%	40%
Yes, Shorten by staying later and ending earlier.	12%	15%
Yes, Shorten by adding a lunch break.	10%	10%
Yes, Shorten by starting later.	5%	5%
Yes, Lengthen by starting earlier.	0%	0%
Yes, Lengthen by ending later.	0%	0%
Yes, Lengthen by starting earlier and ending later.	0%	0%

Marketplace Outages and Public Hearings

Do you support public hearings to review robustness of primary marketplace infrastructure following system outages?

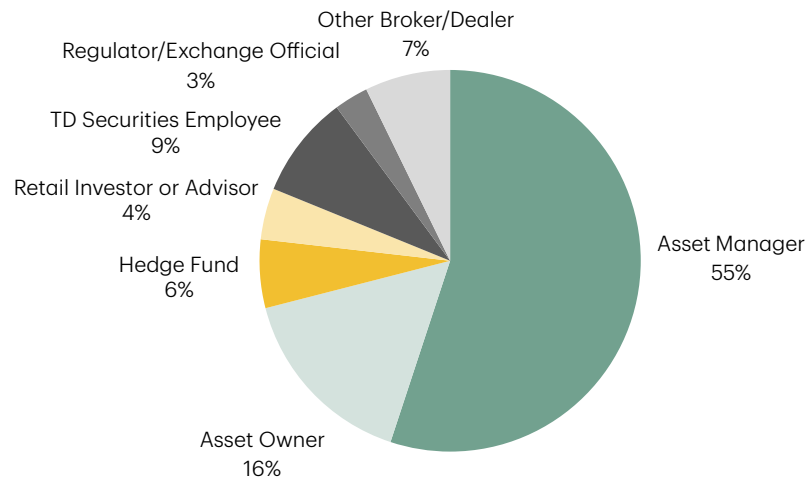


Index Benchmark Survey

Profile of Survey Respondents

A total of 77 responses as of January 31, 2021.

Category of Participants



Breakdown by Geographic Location



Assets by Geographic Region

If your firm manages index funds/index-based ETFs, list the percentage of indexed assets by geography (avg. of all respondents)



Top Index Issues for 2021

From the list of topics below, which are the most important index benchmark issues for 2021? (Pick up to 4.)

		All Responses	Asset Manager/ Owner
1.	Size of China in emerging benchmarks	38%	43%
2.	Cost of benchmark licenses	38%	40%
3.	Incorporation of ESG factors into index benchmark criteria	34%	37%
4.	Passive Investing is too big and causing undue influence on correlation of stock prices	36%	34%
5.	Index benchmark regulation including Self Indexing	28%	29%
6.	Relevance of primary domestic benchmarks such as S&P/TSX 60, S&P 500, DAX, FTSE	28%	23%
7.	Rules for inclusion for S&P 500 outdated	19%	26%
8.	Rules for S&P/TSX 60 outdated	19%	9%
9.	Definition of domestic stock (for instance, does it make sense for Apple to be considered a U.S. stock?)	11%	11%
10.	Index benchmarks are outdated and not fit for purpose	4%	6%

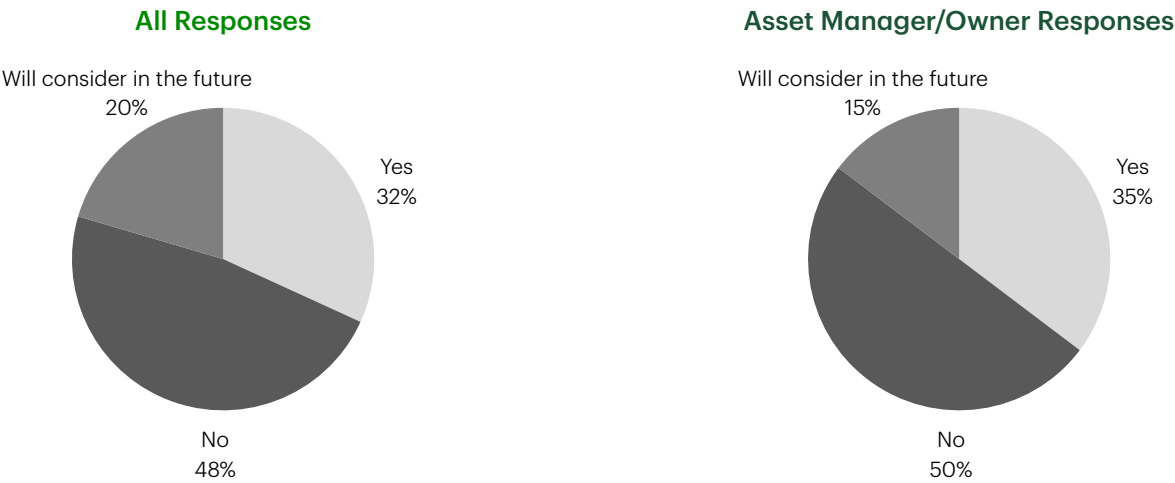
Equity Exposure

From an asset mix perspective, do you allocate equity exposure at the country level?



Small Cap/Completion Allocations

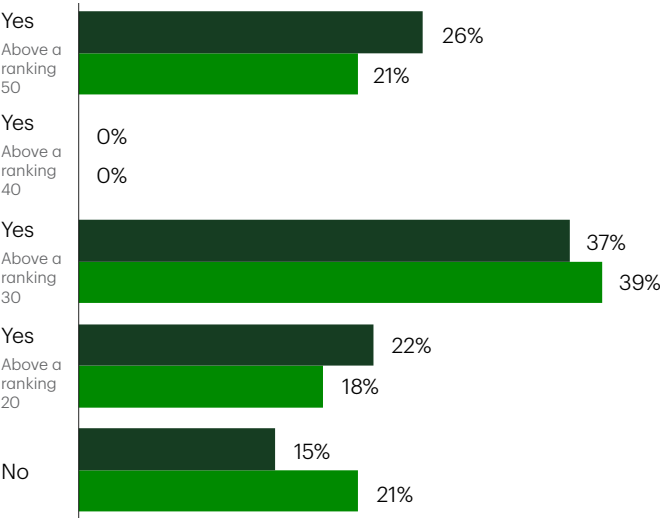
There is a school of thought that once a company makes it to a country's large cap benchmark (such as the FTSE 100 or S&P 500) that it is likely a global company and performance is often tied to macro flows and trends. In this vein, to gain true country exposure, investors should utilize country level small cap or completion benchmarks (ex-large caps). Do you allocate funds to small cap/completion indices to gain country level exposure?



Automatic Inclusion Policy Based on Index Criteria and Float Cap

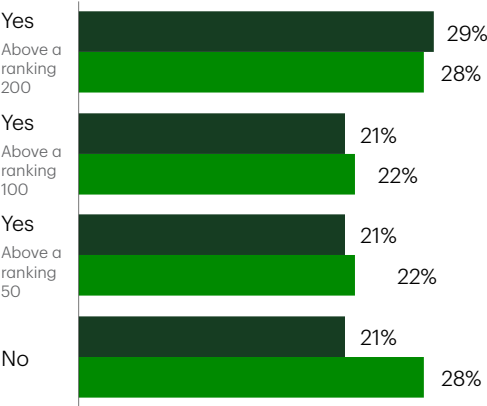
Based on Index Criteria and Float Cap

The S&P/TSX 60 Index is designed to reasonably replicate Canada's broad market. Changes to the 60 Index are discretionary and determined by the S&P/TSX Index Committee based on a broad set of criteria including size, industry representation and liquidity and designed in part to limit turnover. The downside of this rule is that large companies in overweight sectors might never be added to the Index. For instance, Intact is a Financial Services stock that after completion of an announced acquisition will rank approximately #25 yet remain outside the 60 Index. Do you support an inclusion policy for the 60 Index that automatically includes stocks that meet index criteria and rise above a certain float capitalization ranking?



Based on Float Capitalization

The S&P 500 Index is discretionary and managed by an internal committee of S&P index employees. The index is designed to measure the performance of the large cap segment of the U.S. market and considers sector representation in its decisions. Do you support a rule that automatically includes eligible stocks above a certain float capitalization ranking?



Multi-Voting Share Structures and S&P 500 Eligibility

The S&P 500 eligibility requirements are a hurdle for inclusion for some of the largest U.S. companies. One of these rules adopted in 2017 limits the inclusion of companies with more than one class of stock with differing voting rights. Over half of the 60 biggest non-index names in the U.S. do not qualify for inclusion based on this rule. Should companies with multi-voting share structures be eligible for the S&P 500 index?

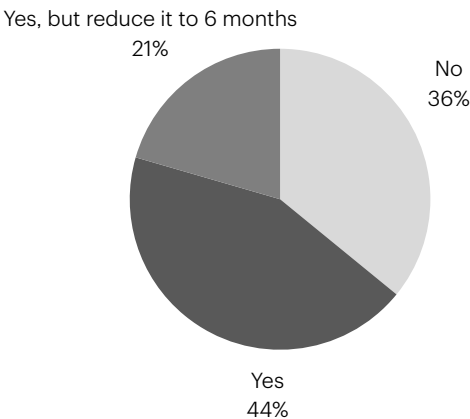


12-month Profitability Requirement for S&P 500 Index

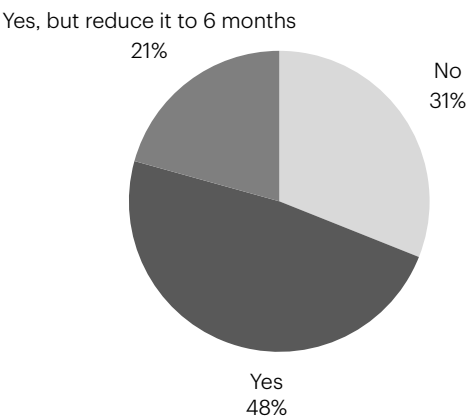
Another S&P 500 Index criterion is profitability for 12 months, which means no company can qualify for the Index until at least one year from the date of exchange listing. Recently, an IPO with a multi voting share structure, Airbnb, went public as an already profitable entity and now has an \$88 billion market capitalization. Another large issue, Tesla, waited 10 years to become profitable and was added to the Index eventually as the 6th largest company, creating a very disruptive event for benchmark tracking portfolios. Finally, as a result of significant capital in the private market, potential public companies are staying private longer and tend to list as more mature, larger issuers.

Do you support the profitability requirement which creates a minimum 12-month period for eligibility and means that some issues become outsized prior to inclusion?

All Responses

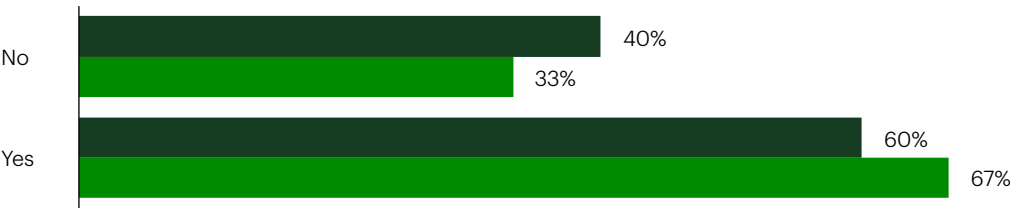


Asset Manager/Owner Responses



China A-Shares and Emerging Indices

If and when China A Shares are added to Emerging Market benchmarks at 100% weighting, China will represent over 50% of the weighting of popular Emerging benchmarks such as MSCI Emerging Markets Index, up from 40% currently (and with China A shares at only 20% of full weight)¹. Does this concentration warrant separating China into its own country benchmark and away from Emerging indices?

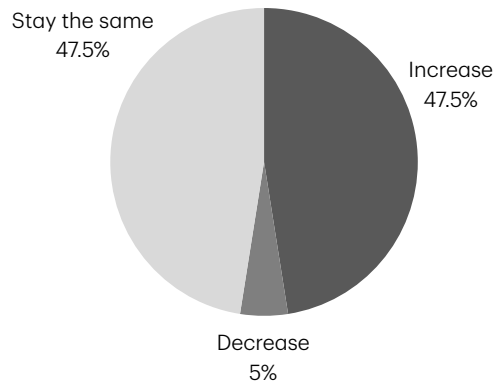


¹ Source: MSCI

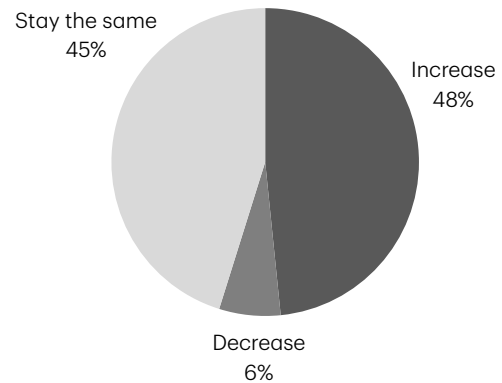
This Year's Usage of ETFs

Compared to 2020, in 2021, your use of ETFs will:

All Responses



Asset Manager/Owner Responses



Why Participants Use ETFs

Our firm uses ETFs for the following reasons (select all that apply):

		All Responses	Asset Manager/ Owner
1.	Cash Flow management (equitization)	75%	85%
2.	Country Exposure	63%	67%
3.	Completion Strategies (i.e. need gold sector exposure, but don't cover/own gold stocks)	56%	59%
4.	Asset Class exposure (credit, commodities, etc)	56%	56%
5.	Style Exposure (smart beta, Value/Growth tilts, etc)	50%	56%
6.	Hedging overweight/underweight single stock exposure	38%	33%

ESG Factors and Existing Benchmarks

ESG factors are becoming a core component of the investment process at most asset managers and asset owners. Should primary country benchmarks incorporate ESG overlay factors (yes) or should ESG considerations be left to customized indices (no)?

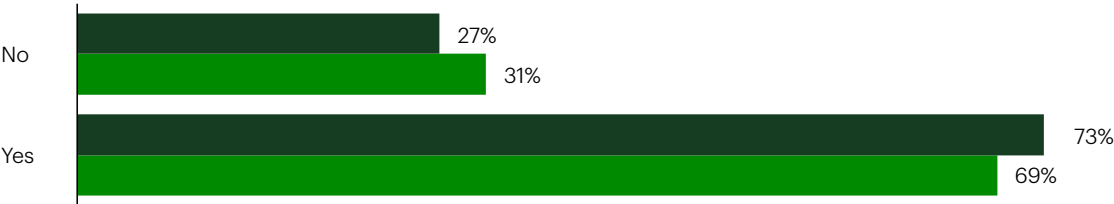


If yes to the previous question, should primary country benchmarks that include ESG factors be constrained in order to maintain a targeted tracking to existing primary benchmarks?



ESG Adoption

Will your firm adopt benchmarks with ESG factors as part of the construction process?



Top Three ESG Factors

Please select the most important ESG factors (choose up to three) for consideration in benchmark rules (using the ESG sub-categories as defined by Refinitiv):

		All Responses	Asset Manager/ Owner
1.	Emission	57%	60%
2.	Corporate Social Responsibility Strategy	48%	57%
3.	Human Rights	36%	33%
4.	Management (Including Diversity)	31%	37%
5.	Shareholder's Rights	29%	27%
6.	Product Responsibility (Including Data Privacy)	21%	20%
7.	Resource Use	19%	13%
8.	Workforce (Including Diversity and Inclusion)	12%	7%
9.	Health and Safety	10%	10%
10.	Innovation	7%	10%
11.	Community	7%	7%

For more information, contact [Peter Haynes](#).

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Answers that were "No opinion/answer" were omitted.