



# Index Licensing Fees – Pressure Drop!

Steve Ellenberg  
MDX (market data eXpert) Consulting

FISD General Meeting 18 Dec 2012



[www.mdsl.com](http://www.mdsl.com)



# Index Licensing Hits the Headlines!

- Oct 2 2012 – historically important event in index licensing
- Vanguard officials re-affirm their historically consistent goal of spend optimization, and confirm that lower index licensing fees weighed heavily in their decision to transition to FTSE and CRSP index benchmarks (<http://www.indexuniverse.com/sections/features/14738-vanguard-deal-a-splashy-first-for-crsp.html>)
- Why it Matters – So What !
  - Index Products viewed as fungible
  - Instance of true & healthy competition
  - Ongoing fund fee war – constant press coverage
  - High profile usage of new index licensing model



# What We Know

- \$537 billion managed by 22 Vanguard funds transitioning away from MSCI benchmarks
- New benchmarks have \$170 billion linked to FTSE indexes and \$367 billion linked to CRSP indexes
- \$537 billion in assets produce \$24 million in fees for MSCI  
( $\$537,000,000,000 * .000045 = \$24,165,000$ )
- Uncommonly granular fee details published in 100+ financial press articles to-date
- MSCI annual revenues of \$900+ million thus revenue loss of 2.5% yet shares fell 27%
- Typical ETF benchmark fees range from fraction of a basis point to several basis points – AUM is integral to negotiations



# What is Next?

- Why are index licensing fees tied to profitability and usage levels and actual cost of production is ignored?
- How can CRSP & FTSE use an AUM bps model and undercut MSCI?
- Why have sponsors not adopted the enterprise-wide usage models desired by their customers?
- Will the MSCI US Broad Market Indexes lose their user base once Vanguard has fully transitioned their funds?
- CRSP adopts a flat fee index licensing model – first two points above!