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March 21, 2011

Mr. David A. Stawick
Secretary of the Commission
Commodity Futures Trading Commission
Three Lafayette Centre, 1155 21st Street, NW.,
Washington, DC 20581.

Dear Mr. Stawick:

Interactive Data is pleased to provide comments to the Risk Management Requirements for Derivatives Clearing Organizations (RIN 3038-AC98) proposed by the Commodity Futures Trading Commission (CFTC) on January 20, 2011.

Background on Interactive Data Corporation:

Interactive Data Corporation is a trusted leader in financial information. Thousands of financial institutions, including many of the world's leading buy-side money management firms, subscribe to our fixed income evaluations, reference data, real-time market data, trading infrastructure services, fixed income analytics, desktop solutions and hosted, web-based solutions. Interactive Data's offerings are used to assist clients with mission-critical functions, including portfolio valuation, regulatory compliance and risk management.

For over 40 years, Interactive Data's Pricing and Reference Data business has provided global securities pricing, evaluations, and reference data. We collect, edit, maintain and deliver data on more than 7 million securities. These services include evaluated pricing for 2.8 million fixed income securities, international equities and other hard-to-value instruments covering not only traditional cash instruments but derivative instruments as well. These offerings are complemented by a comprehensive range of reference data that encompasses listed markets pricing, identification information, corporate actions, and terms and conditions for fixed income securities. We believe that the insights and experience we have gained over the years as we established our company as a leading provider of evaluated pricing services affords us a unique perspective on certain aspects of this proposal, particularly those pertaining to price data. Consequently, we have confined our comments to this area.

Interactive Data’s Perspective on Proposed Rules – Price Data:

Proposed § 39.13(g)(5) would require a DCO (Derivative Clearing Organization) to have a reliable source of timely price data to measure its credit exposure accurately, and to have written procedures and sound valuation models for addressing circumstances where pricing data is not readily available or reliable. Both initial margin and variation margin calculations require timely and reliable price data to be effective. DCOs should rely on prices from continuous, transparent, and liquid markets, wherever possible. It may be difficult to determine current market prices for certain over-the counter (OTC) products if there is no continuous liquid market or if bid-ask spreads are volatile. In these circumstances, DCOs would need to ensure that they would be able to measure their credit exposures accurately through the use of sound valuation models. The nature of such valuation models would necessarily depend on the particular products and the source of any relevant pricing data.

We recognize that a key concept in the CFTC’s position on price data is relying on prices from continuous, transparent and liquid markets, wherever possible. We agree with the CFTC that determining current market prices can be difficult if there is no continuous liquid market or if bid-ask spreads are volatile. The following statistics cited by the International Swaps and Derivatives Association (ISDA) and the Securities Industry and Financial Markets Association (SIFMA) underscore some of the liquidity challenges within various OTC derivatives markets:

**OTC Derivatives and Exchange Traded Derivatives
Market Size and Participation**

Product	Active Participants	Total Instruments	Ratio of market participants to instruments	Average number of trades per day
<i>Exchange Traded Markets</i>				
WTI futures	>20,000	70	>300	>250,000
S&P e-Minis	>150,000	5	>30,000	>200,000
<i>OTC derivatives markets</i>				
Single-name CDS	200	75,000+	<0.003	4,000
Index CDS	200	100	2.0	2,000
Vanilla interest rate swaps	500	100,000+	<0.005	1,000

Source: JP Morgan internal research, published in ISDA/SIFMA report on block trading for OTC derivatives markets, 1/18/11

Summary of CDS Trading Behavior

	Number of Reference Entities (RE)	Daily Trading Activity Average daily trades	% of RE with <5 trades	% of RE with > 20 trades	Mean (\$MM)	Trade Size 80 th percentile (\$MM)	90 th percentile (\$MM)
Single-name							
Corporates	935	3	79%	<1%	8	7	10
Sovereign	65	8	56%	11%	13	16	24
Total	1,000	3	77%	1%	8	8	11
Indices							
High Grade	80	15	79%	14%	15	100	150
High Yield	35	20	65%	16%	20	30	55
Total	115	17	75%	15%	16	80	120

Source: DTCC Credit Default Swap (CDS) trade repository for all trades from March-June 2010, published in ISDA/SIFMA report on block trading for OTC derivatives markets, 1/18/11

Comments to Proposed Rules – Price Data:

Given the trading trends illustrated above, we believe that transparency and liquidity may continue to be elusive in certain parts of the OTC derivatives markets even as this and other CFTC proposals stemming from the Dodd-Frank Act are refined, adopted and ultimately implemented. Consequently, we strongly assert that “the use of sound valuation models” will continue to be of critical importance to DCOs and their clearing members. Since price data can have a significant impact upon the risk management practices of DCOs as well as their clearing members, we believe that the concept of “sound valuation models” should be expanded further with additional, prescriptive guidance in four key dimensions:

1. Leveraging Greater Trade Transparency;
 2. Utilizing Multiple Sources;
 3. Mitigating Conflicts of Interest; and
 4. Sourcing of Independent Price Data.
- ***Leveraging Greater Trade Transparency:*** We generally support the CFTC’s Proposed Rule on Real-Time Public Reporting of Swap Transaction Data (RIN number 3038–AD08) as an important element in increasing transparency and trading efficiency for the OTC derivative markets. While we certainly recognize that there are challenges associated with reporting such trade information (which were articulated in the many comment letters submitted to the CFTC), we believe that improving access to swap transaction data will complement and in some cases strengthen the use of sound valuation models. Consequently, we suggest that the concept of sound valuation models should be expanded to incorporate relevant elements of the Financial Accounting Standards Board Accounting Standards

Codification Topic 820, which, among other things, defines fair value and establishes a framework for measuring fair value. More specifically, Topic 820 requires that statement preparers “maximize the use of relevant observable inputs and minimize the use of unobservable inputs.”¹ As it applies to the valuation of OTC derivatives, we believe that public reporting of swap transaction data would serve as important observable inputs underpinning the use of sound valuation models.

- ***Utilizing Multiple Sources for Price Data:*** In markets where liquidity and transparency are suboptimal, we believe that utilizing the price data or the underlying credit curves from a single source may interject additional risk. Valuation of issues with limited market activity is inherently difficult. Relying on a single valuation source introduces both valuation risk and potential operational risk, should the single source become unreliable or unavailable. Interactive Data’s derivative valuation services utilize a broad range of market inputs from multiple sources, including benchmark curves from leading interdealer brokers, reference rates and trade details from both buy and sell side market participants, and related trading activity from cash markets to develop independent valuations for a broad range of derivatives. In our experience, using multiple sources supports our ability to maintain our stringent quality standards. Based on this experience, we encourage the CFTC to specify that DCOs should incorporate and maintain robust valuation policies that address issues of quality, reliability and resiliency.
- ***Mitigating Conflicts of Interest:*** Interactive Data believes strongly that the adoption of sound valuation models and sourcing of any relevant pricing data should be free of material or perceived conflicts of interest that may exist between DCOs, their clearing members and other market participants and vendors. On January 6, 2011, the CFTC proposed rules to mitigate conflict of interest in the operation of certain DCOs, designated contract markets (“DCMs”), and swap execution facilities (“SEFs”) (RIN3038-AD01). In particular, we share the CFTC’s sensitivities regarding structural conflicts among these market participants that may result in prioritizing commercial interests over self-regulatory responsibilities. In addition to potential detrimental impacts on price discovery as covered in the proposed rule, we believe that conflicts of interest have potential to influence how DCOs value the derivatives contracts they are clearing. Consequently, we believe that this proposal should also incorporate the concept of mitigating conflicts of interest in relation to a DCO’s use of price data and/or sound valuation models.

¹ Accounting Standards Codification, Topic 820-35-16C

- **Sourcing of Independent Price Data:** We believe that increasing the number of swaps contracts cleared by DCOs represents an important milestone that supports the CFTC’s objective of improved liquidity and transparency in the OTC derivative marketplace. To achieve this goal when liquidity is not continuous or bid-ask spreads have become too volatile, we believe that independent price data, including swap valuation services, related curve data and other valuation and transparency tools, is fundamental to supporting the swap valuation methods, procedures, rules or inputs utilized by DCOs. More specifically, we believe that independent third-party valuation service providers with models that incorporate a broad range of inputs, including trade details, reference rates, credit curves and trading activity in the cash markets, produce higher-quality valuations than those resulting from automated, mathematically driven models based on unobservable data. Further, we believe the price data obtained from independent third-party sources can be valuable in resolving any valuation disputes between DCOs and their clearing members. Consequently, when pricing data is not readily available or reliable, we recommend that the CFTC encourage the utilization of independent price data by DCOs to either supplement existing inputs into their valuation models or further validate the quality of their valuation models, or both.

Summary:

Interactive Data appreciates the opportunity to respond to the Risk Management Requirements for Derivatives Clearing Organizations (RIN 3038–AC98) proposed by the CFTC. As noted above, we believe our experience, expertise and capabilities in delivering evaluated pricing and other valuation services for over 2.8 million fixed income securities and other hard-to-value instruments, including OTC derivatives, provides a unique perspective as it applies specifically to the price data provisions of this proposal. To that end, our comments reflect our conviction that leveraging greater trade transparency, utilizing a multiplicity of sources, mitigating conflicts of interest and sourcing price data from independent sources are keys to ensuring that DCOs and their clearing members will benefit from the highest quality price data and related valuation models.



Interactive Data

We would be happy to meet with you and your fellow CFTC colleagues to further discuss industry valuation practices and to help your agency better understand our approach to OTC derivative valuations, particularly in the absence of readily available, reliable price data. We look forward to working collaboratively with the CFTC on this and other issues that may arise in which our experience, expertise and capabilities could support your efforts to regulate the swaps marketplace.

Sincerely,



Mark Hepsworth
President, Institutional Business
Interactive Data Corporation