



32 Crosby Drive  
Bedford  
MA 01730  
USA

Tel: +1 781 687 8500  
Fax: +1 781 687 8005  
[www.interactivedata.com](http://www.interactivedata.com)

May 27, 2014

Ms. Melissa D. Jurgens  
Secretary of the Commission  
Commodity Futures Trading Commission  
1155 21<sup>st</sup> Street NW  
Washington, DC 20581

Dear Ms. Jurgens:

We are pleased to respond to the Commodity Futures Trading Commission's (CFTC's) request for comments on Review of Swap Data Recordkeeping and Reporting Requirements. Publicly available, post-trade swaps data represent potentially valuable transparency into previously opaque markets. While the CFTC has taken important steps to make this information accessible, we believe that that additional modification of the current reporting and recordkeeping rules is important to ensure that market participants can maximize the utility of this information. In particular, we recommend that the CFTC evolve its reporting requirements to further enhance the timeliness, consistency and completeness of the post-trade swaps data that is published by swaps data repositories (SDRs). In terms of the valuation data that is provided to SDRs, we believe that the marketplace would benefit from additional guidance from the CFTC on the key principles that should guide the development and use of sound valuation models, as well as insight into the key inputs and assumptions that inform those models when pricing data is not readily available or reliable.

### **Background on Interactive Data Corporation**

Interactive Data Corporation is a trusted leader in financial information. For over 40 years, Interactive Data's Pricing and Reference Data business has been collecting, editing, maintaining, and delivering financial data, and has established itself as a leading provider of evaluated pricing for 2.7 million fixed income securities, international equities and other hard-to-value instruments including over-the-counter (OTC) derivatives. These offerings are complemented by a comprehensive range of reference data for more than 10 million current and historical securities that encompasses listed markets pricing, identification information, corporate actions, and terms and conditions data. We also aggregate and deliver real-time pricing information from over 450 sources including stock exchanges and OTC interdealer brokers. Our views in this comment letter reflect our expertise in the fixed income and OTC derivatives data market, as well as ongoing dialogue with our clients, business partners and industry associations.

### **Overall Views on Swaps Data Reporting and Swaps Data Repositories**

Our observations and recommendations are primarily focused on those sections of the Proposed Rules that we believe can have the most significant impact on the valuation efforts of market participants.

#### *Observations*

- ***There is Tangible Value in Making Swaps Transaction Data Publicly Available:***  
As part of our processes to determine our credit default swap (CDS) evaluated prices, we consider CDS trade data as a potential input, along with other inputs such as dealer marks from multiple major dealers, indicative quotes (dealer runs) from the sell side to the buy side, interdealer broker quotes, and interdealer broker trades. Having access to more publicly available market data is intrinsically valuable to our evaluated

pricing processes and we believe that it would help further elevate the overall quality of our clients' valuation processes. Just as important, this information helps market participants better assess broader trends within and across various asset classes, thereby helping to facilitate more informed decision making.

- ***The Utility of Post-Trade Data via SDRs Remains Limited by Several Factors:***

From a valuation perspective, we believe that there are several important factors that limit the utility of publicly available post-trade data from SDRs:

  - *Insufficient Trading Volume:* Trading in certain OTC derivative asset classes remains relatively illiquid with the average number of daily trades varying considerably.<sup>1</sup> Consequently, examining post-trade data in isolation may be inadequate in order to determine the valuation of a particular instrument on any given day. For this reason, we strive to ensure that our valuation processes incorporate a variety of factors from multiple sources.
  - *The Quality of Post-Trade Data Available on SDRs Is Inconsistent:* We have observed that certain CDS post-trade data from SDRs appears to contain errors or inconsistencies, and certain data that is available may be challenging to interpret. Examples include the following:
    - Fixed coupons are occasionally comingled with running spreads ;
    - The PRICE\_NOTATION\_TYPE column is used inconsistently, often saying “Price” or “Basis points” erroneously;
    - The same index, with the same identifying code, may sometimes be referred to in two different ways (e.g. “CDX.NA.HY.21:2I65BRJV3” and “Dow Jones CDX HY(21) 500 V1:2I65BRJV3”);
    - Price and Spread – The trading of certain CDS indices may be reported by an SDR in price whereas other SDRs may report a trade in spread. Such inconsistent practices may create confusion or lead to inadvertent errors in converting price to spread or vice versa.
    - Cross-border trading between counterparties in the U.S. and Europe can lead to duplicative post-trade information being posted on the SDRs; and
    - Certain SDRs do not make a guide defining or detailing all of the fields that are available. Such information would be beneficial to maximizing the overall utility of the data.
  - *Timeliness and Representation of Certain Trade Information:* We understand the rationale for subjecting block trades to delays in public dissemination. Nonetheless, such delays limit the value of this information, particularly if those delays result in next-day dissemination of this information. Further, the capped notional values of block trades mask the actual size of the transaction being reporting, which makes it difficult to interpret the true volume of trading that occurs in any given period for that instrument.
  - *A Holistic View into Trading of Credit Default Swaps Is Not Yet Possible:* It is important to note that post-trade data pertaining to single-name CDSs has not yet become readily available. Consequently, SDRs currently present a partial view into the credit default swap marketplace.

---

<sup>1</sup> <http://www.swapsinfo.org/>

- **The Value of Implementing Data Standards (Section 3, F, ii):** Interactive Data has been supportive of the efforts of regulators to advance new standards in order to improve data quality and make it easier for market participants and regulators to integrate this information within their infrastructures. We have supported the efforts of the CFTC to drive adoption of the legal entity identifier (LEI) by integrating LEIs as part of our reference data content, giving each security a connection to an LEI, where one exists. We also offer our Business Entity Service which goes beyond the LEI's current scope by including portions of the corporate structure that are not directly involved in financial transactions. We believe that LEIs and additional data standardization efforts will be critical to helping firms and regulators more effectively and efficiently analyze their overall market and counterparty risk. Accordingly, we support SIFMA's recent advocacy efforts to accelerate adoption of LEIs by regulators in the U.S.

While we are optimistic that the Central Operating Unit (COU) will be able to oversee the Local Operating Units (LOUs) being established today, we believe that certain challenges will continue to exist regarding the overall utility of LEIs including:

- LEIs, in isolation, are not enough to help market participants assess risk. The LEI lacks mapping relationships between legal entities. While the inclusion of an ultimate parent is slated to be addressed in a later phase of the LEI, capturing a company's hierarchy and complete corporate structure is not currently in scope.
- Additionally, the LEI is not mandatory for all legal entities, only those participating in financial transactions. This could mean that if a particular company has twenty legal entities and only three of them are involved in financial transactions, linkages to the other seventeen would still need to be created for a full risk profile of that company.

#### *Recommendations:*

- **Enhancements to Improve the Utility of Post-Trade CDS Data via SDRs:** We believe that there are additional modifications that would help SDRs further evolve their public reporting:
  - We encourage regulators to continue evolving their requirements for public dissemination of post-trade CDS information, including raising the notional caps for block trades and shortening the delays in public dissemination of block trades following the second anniversary of the compliance date for rules pertaining to delays in the public reporting of block trades. We believe that the steps that regulators such as FINRA and the MSRB have taken to provide greater granularity into the notional levels of transactions that are reported on both TRACE<sup>®</sup> and EMMA<sup>®</sup> may be useful to consider as regulators advance the reporting of post-trade data by SDRs.
  - In addition to the publishing of timely trade data, we believe that SDRs should publish all of the primary economic terms (PET) data, and time of trade information. Just as important, we advocate that the Commission continue to standardize reporting conventions used by SDRs to ensure the consistency of reported trade terms and conditions. For example, as it relates to the aforementioned example of inconsistent reporting by SDRs in price and

- spread, we believe that SDRs should publicly report trades using consistent conventions for the same instrument (or alternatively, consistently reporting in both price and spread for the same instrument).
- Over the past several years, TRACE and EMMA have gradually evolved public reporting of fixed income trading activity to include markers or flags to indicate the types of counterparties involved in the transaction (i.e. dealers vs. buy-side firms). This information has enabled market participants and vendors to better analyze and determine the impact of trading costs, and further inform valuation processes. We believe a similar flag for CDS post-trade data would prove equally valuable.
  - Netting of Trades (Section 3, E, ii) – While the netting of swap trades is an important and pragmatic risk management practice, we believe that market participants would also benefit from being able to clearly determine the magnitude of any swaps used in the netting and compression of the overall trade that is being reported by an SDR.
- **Valuation Data Reporting (Section III, B, ii):** We believe that CFTC oversight of the swaps marketplace benefits from valuation reporting by SDRs via market participants. However, without a clear understanding of how market participants are deriving those valuations, particularly when pricing data is not readily available or reliable, we believe that the value of this information may be diminished. Given the lack of liquidity within certain asset classes, we believe that independent price data, including swap valuation services, related curve data and other valuation and transparency tools, are fundamental to supporting the swap valuation methods, procedures, rules or inputs utilized by market participants and Derivative Clearing Organizations (DCOs).

While we respect the CFTC's position that it is not necessary to provide prescriptive guidance regarding the use of "sound valuation models when pricing data is not readily available or reliable"<sup>2</sup>, we believe that DCOs, counterparties, and other market participants (including pricing vendors) would be well served by interpretative guidance on the key principles that the CFTC believes should inform the development and use of sound valuation models. Related to this, we believe that DCOs should provide transparency into the key inputs and assumptions that inform their valuation models. Gaining a better understanding into the valuation models and key inputs utilized by DCOs would enhance the ability of market participants and regulators to determine the quality and usefulness of these prices and help support a more robust process for resolving valuation disputes.

## Summary:

Interactive Data appreciates the opportunity to respond to the Review of Swap Data Recordkeeping and Reporting Requirements. Our comments reflect our conviction that this data has significant value to market participants, vendors and the public. However, the utility of this information is currently limited due to a variety of factors.

---

<sup>2</sup> <http://www.cftc.gov/LawRegulation/FederalRegister/FinalRules/2011-27536>, page 69372



# Interactive Data

We urge the CFTC to continue evolving the publishing practices of SDRs to ensure that the marketplace benefits from consistent, high-quality data that presents an accurate picture of trading activity in the swaps market. We would be happy to meet with the CFTC to further discuss our perspective into SDR reporting practices and how such information can be used to support the valuation of OTC derivatives, particularly in the absence of readily available or 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,



Andrew Hausman  
President, Interactive Data Pricing and Reference Data  
Interactive Data Corporation