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October 7, 2013

Mr. Ronald W. Smith  
Corporate Secretary  
Municipal Securities Rulemaking Board  
1900 Duke Street, Suite 600  
Alexandria, VA 22314

Re: MSRB Notice 2013-16

Dear Mr. Smith:

Interactive Data appreciates the opportunity to respond to the MSRB's request for comment on whether to adopt a "best execution" standard for dealers executing customer orders for municipal securities. As explained in greater detail below, we believe that high-quality evaluated pricing for municipal securities from independent sources represents an important input into the processes that a dealer may utilize to determine whether a best execution standard has been met. Accordingly, should the MSRB propose a best execution rule, we believe that it should provide guidelines that support the use of evaluated pricing when evidencing best execution.

**Background on Interactive Data Corporation:**

Interactive Data Corporation is a leader in financial information. Thousands of financial institutions, including many of the world's leading investment companies, subscribe to our fixed income evaluated pricing, 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 been collecting, editing, maintaining, and delivering financial data, and has established itself as a leading provider of evaluated pricing for 2.8 million fixed income securities, international equities and other hard-to-value instruments including OTC derivatives. In recent years, we have invested considerable resources to expand our coverage and provide our clients with greater insight and transparency into the inputs used to derive our evaluated prices, as well as help automate and streamline key valuation processes. These offerings are complemented by a comprehensive range of reference data for more than 10 million securities encompassing listed markets pricing, identification information, corporate actions, and terms and conditions for current and historical fixed income securities.

We have long supported our clients' mission-critical activities in the municipal securities markets. In particular, Interactive Data currently delivers evaluated pricing on more than 1.1 million municipal securities and our descriptive reference data on this asset class covers over 4.6 million municipal securities.<sup>1</sup> These capabilities are complemented by best-in-class fixed income portfolio analytics.

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<sup>1</sup> Interactive Data's reference data coverage counts include instruments that are available in Interactive Data services, some of which may have matured or otherwise be inactive.

Interactive Data Pricing and Reference Data has built a strong presence within the U.S. mutual fund marketplace and currently counts 50 of the top 50 U.S. mutual fund companies as customers as well as 10 of the top 10 custodian banks, 48 of the 50 largest U.S. banks and 32 of the top 50 hedge funds.

## **Interactive Data’s Perspective on Evaluated Pricing as it Relates to Best Execution:**

Should the MSRB determine that adopting a best execution standard would further promote a fair and efficient municipal market, we believe that such a standard would be strengthened by incorporating the concept that high-quality evaluated pricing for municipal securities from independent sources can be an important input to validate best execution. In particular, our positions below can be viewed in the context of the MSRB’s request for comments on tools that dealers could employ to document and preserve diligence undertaken to substantiate the basis of the prevailing market price:

- ***Established MSRB and FINRA Rules Validate the Importance of Independent Pricing:*** Existing MSRB guidance outlines some of the challenges surrounding the pricing of bonds, particularly hard-to-value securities. We believe that it is appropriate to reflect these key concepts as part of a potential best execution rule. For example, as stated in the request for comment, current MSRB rules G-18 and G-30 establish requirements for dealers to trade with customers at fair and reasonable prices, and to exercise diligence in establishing the market value of municipal securities, including issues relating to the pricing of hard-to-value securities. In addition, MSRB rule G-43 outlines, among other things, how objective pricing criteria (which could include evaluated pricing services) is required to support the predetermined parameters of a broker’s broker as part of its efforts to obtain a price for the dealer that is fair and reasonable in relation to prevailing market conditions.<sup>2</sup> Additionally, we believe that certain concepts within FINRA Rule 5310, including those covering “orders involving securities with limited quotations or pricing information” are relevant for consideration by the MSRB in terms of how evaluated pricing can be used to support best execution compliance for corporate and other fixed income securities.<sup>3</sup>
- ***The Municipal Securities Market is Likely to Remain Thinly Traded:*** We believe an important aspect of a potential best execution rule concerns the overall liquidity of the municipal securities marketplace. While we applaud the steps that the MSRB has taken to bring new pre- and post-trade transparency to the municipal securities market in recent years, the reality is that the municipal market remains thinly traded. For example, in 2011, there were 41,257 trades on just 15,217 unique securities.<sup>4</sup> This implies that less than 2% of the potential universe traded that year (based on over one million different municipal bonds outstanding as of December 31, 2011<sup>5</sup>), and that most of the bonds traded in the secondary market traded fewer than three times per year. While we are optimistic that future MSRB’s initiatives can increase transparency and thereby help improve liquidity to a certain extent, it is not realistic to think that the trading activity in this market will transform into anything

<sup>2</sup> <http://www.msrb.org/Rules-and-Interpretations/MSRB-Rules/General/Rule-G-43.aspx?tab=2>.

<sup>3</sup> [http://finra.complanet.com/en/display/display\\_viewall.html?rbid=2403~element\\_id=3031&element\\_id=10455&print=1](http://finra.complanet.com/en/display/display_viewall.html?rbid=2403~element_id=3031&element_id=10455&print=1).

<sup>4</sup> [http://www.msrb.org/msrb1/pdfs/MSRB-FactBook-2012\\_WEB.pdf](http://www.msrb.org/msrb1/pdfs/MSRB-FactBook-2012_WEB.pdf), page 39.

<sup>5</sup> <http://www.sec.gov/news/studies/2012/munireport073112.pdf>, page i.

resembling the liquidity of U.S. equity markets. As a result, there will continue to be an extensive range of municipal securities without readily available or reliable market quotations. In such cases, evaluated pricing can be an important input into the processes that a dealer may utilize to determine whether a best execution standard has been met.

- ***High-Quality Evaluated Pricing from Independent Sources Typically Takes Multiple Sources into Account and Helps Mitigate Conflicts of Interest:*** Interactive Data's bond evaluation techniques reflect market participants' assumptions and maximize the use of relevant observable inputs including quoted prices for similar assets, benchmark yield curves, credit and market corroborated inputs. Further, by incorporating information from both the buy-side and the sell-side whenever possible, we take a balanced view into the trading-related activity for a given security. The independence of such pricing information is another important, related concept. While we recognize that the input of a firm's traders or portfolio managers is very valuable, overreliance on the perspective of a firm's front office professionals is fraught with conflict. Accordingly, we believe that the use of evaluated pricing helps firms safeguard investor interests and develop appropriate oversight controls.
- ***Evaluated Pricing Capabilities are Advancing:*** Evaluated pricing vendors like Interactive Data are investing aggressively to keep pace with the continued evolution of the fixed income markets. For example, we are implementing continuous pricing processes and expanding our range of real-time fixed income pricing services to include real-time fixed income evaluated pricing.<sup>6</sup> We believe that real-time evaluated fixed income pricing will be a significant advancement for the industry, further extending the use of our evaluated pricing in a variety of pre-trade activities<sup>7</sup> including those involved with supporting best execution compliance.

We also believe that the evolution of public reporting of fixed income transactions can provide valuable information that can further inform both institutional and retail market participants. More specifically, we worked with a prominent academic authority to jointly publish research on trading costs for large and small trades in the corporate and municipal bond markets.<sup>8</sup> We believe this analysis, which was made possible by the MSRB's addition to EMMA of the direction of trade variable (or reporting party side variable), can be used to develop additional valuation services that support a firm's compliance with best execution on behalf of its retail clients.

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<sup>6</sup> <http://www.interactivedata.com/prdetail.php?pr=315>.

<sup>7</sup> Interactive Data plans to submit a response to the MSRB's Concept Release on Pre-Trade and Post-Trade Pricing Data Dissemination through a New Central Transparency Platform.

<sup>8</sup> <http://www.interactivedata.com/uploads/File/2010-Q4/prd/WhitePaper-201008.pdf>.

- **Valuation Transparency Tools Can Also Support Best Execution:** Given the current trading and liquidity dynamics of the municipal securities market, we believe that further enhancements to pre- and post-trade market transparency can further support compliance with a best execution mandate. However, it is important to balance the benefits associated with improved access to data against the risks of enabling investors to rely on information that may be of dubious quality or offering so much information that it may confuse investors or otherwise become too challenging to integrate and process –any or all of which can be detrimental to trading, valuation and related compliance activities.

The approach we have taken to evolve our services and provide the industry with new levels of transparency into our evaluated pricing is one that we believe can be used to support best execution compliance. For example, Interactive Data’s Vantage<sup>SM</sup> web application enables clients to visualize Interactive Data’s evaluated prices within the context of a broad range of relevant market information, including public and proprietary market data inputs used in the evaluated pricing process.<sup>9</sup> This market context and insight helps clients address regulatory and accounting driven concerns about their valuation processes, and is already helping clients with FINRA Rule 5310 compliance activities. In particular, Vantage supports best execution compliance-related workflows through:

- Analysis of actual trade data – Clients can examine the size of the trade, the side of the trade, the timing of the trade and the direction of the trade.
- Access to issuer data – When trade activity in a particular issue is limited, Vantage provides access to activity in other securities from that same issuer.
- Additional market color – Vantage provides insight into quotes, enabling clients to compare this information against actual trade activity.
- Comparable securities –Clients can view a range of comparable securities so that clients can view the market activity for similar issues.
- Workflow – By combining these various components into a single display and enabling the creation of time-sensitive reports, clients can use Vantage to reduce manual efforts and streamline validation workflows.

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<sup>9</sup> For more information about Vantage, please visit <http://www.interactivedata.com/VantageEvaluatedPricing/>.



## Summary

Interactive Data appreciates the opportunity to comment on the potential adoption of a best execution standard for dealers involved in municipal securities transactions. We believe that evaluated pricing from independent sources can be an important tool for dealers to consider in supporting their best execution analysis. We believe that third-party valuation service providers like Interactive Data will continue to play an important role in helping participants in the municipal securities market value securities, and comply with a wide range of regulatory requirements. Accordingly, we look forward to working with the MSRB and the broker/dealer community on this important issue.

Sincerely,

A handwritten signature in black ink that reads "Mark Hepsworth".

Mark Hepsworth  
President, Interactive Data Pricing and Reference Data  
Interactive Data Corporation