Interactive Data

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Technical Director
File Reference No. 1710-100
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Dear Sir or Madam:

Interactive Data Pricing and Reference Data ("Interactive Data") welcomes the opportunity to respond to the exposure draft of the Proposed Accounting Standards Update to Topic 820: *Fair Value Measurements and Disclosures*. Interactive Data is a leading provider of pricing and fixed income evaluations for the financial industry and other financial statement preparers in support of our clients' pricing, research, and portfolio management activities. We also offer a Fair Value Information service for global equity securities as well as valuations for certain derivative instruments. We have been actively engaged with clients and other industry particpants regarding the role of market data providers and the information that we can supply to support financial statement preparers in connection with their fair value requirements. Interactive Data supports the FASB's efforts to enhance disclosure and improve the transparency of financial statements. Our comments below address the usefulness to users of financial statements and the operationality and costs to financial statement preparers, particularly with respect to the sensitivity analysis required by the exposure draft.

Overview

Interactive Data utilizes evaluated pricing models that vary by asset class and incorporate available trade, bid, and other market information, and for structured securities, cash flow and, when available, loan performance data. Because many fixed income securities do not trade a daily basis[1], Interactive Data's pricing applications apply available information as applicable through processes such as benchmark curves, benchmarking of like securities, sector groupings, and matrix pricing to prepare evaluations. Interactive Data does not provide clients with the input hierarchy for evaluations. Interactive Data provides information about the inputs typically used to generate evaluations so that financial statement preparers can make their own assessments about the appropriate hierarchy level for their fair value measurements. Most clients view Interactive Data's evaluations for fixed income securities as Level 2 inputs. However, Topic 820 emphasizes that significant adjustments to observable inputs can result in a change in the hierarchy to Level 3 inputs and therefore different financial institutions can reach different conclusions based on their own judgment and how they use data from pricing vendors and quote providers regarding fair value hierarchy levels. As a result, Interactive Data expects that should a sensitivity analysis be required as described in the exposure draft, financial institutions will look to data vendors for information to help meet these requirements.

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[1] According to data provided by the Securities Industry and Financial Markets Association, only 0.23% of the dollar amount outstanding for U.S. corporate bonds traded on an average each day in 2008. Comparable data are not available for private label asset-backed securities.

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The exposure draft requires financial statement preparers to disclose for Level 3 fair value measurements, the results of changing "one or more significant unobservable inputs to reasonably possible alternative inputs" if such a change would increase or decrease fair value significantly. It is important to note that the exposure draft defines significance "with respect to earnings and total assets or liabilities" of the financial statement preparer. As a result, a pricing vendor or other third party will not be in a position to make any determinations with respect to whether a sensitivity analysis is required. Furthermore, this definition of significance results in circular logic where financial statement preparers will need to generate and review sensitivity analyses for a broad range of securities in order to determine if the changes in value are significant and therefore require disclosure of the sensitivity estimates. Consequently, market data vendors are likely to be asked to provide a range of sensitivity estimates for a broad swath of fixed income securities leading to significant operational costs for entities in and supporting the financial services industry.

In addition, there is no guidance in the exposure draft to determine which significant unobservable inputs to increase or decrease. This will lead different financial statement preparers and market data vendors to choose different variables with different ranges and different impacts on the reasonably possible alternative inputs provided. The end result is that the sensitivity analyses are unlikely to provide useful transparency to the users of financial statements, and due to a lack of comparability may lead to greater confusion when examining financial statements from different issuers.

Valuation Techniques

The sensitivity analysis described in the exposure draft may be operational for Level 3 fair value measurements using a pure income approach or modeled approach. In that case, one can readily identify and vary the assumptions developed for the model. In reality however, many financial statement preparers and data vendors use valuation techniques that combine elements of an income and a market approach. Using such an approach, one collects various price discovery points including transactions and quotes, and then uses modeling techniques to correlate like instruments and apply available market data. This is necessary because the majority of fixed income securities do not trade on a daily basis. The assumptions used in these models are based on market data (e.g., for residential mortgage-backed securities, assumptions might include prepayment or cumulative default rate) and a discount rate is then used to normalize the assumptions to fit market values, rather than the reverse as would be the case for a purely model based approach. With such an approach, determining which variables the market places the greatest emphasis on is highly subjective and prone to differing interpretations. It is also worth noting that market participants, by convention, generally value securities backed by such collateral as commercial mortgages and consumer loans with *no* variability in assumptions other than spread when trading and quoting. As such, any variation applied to assumptions to a market calibrated fair value determination is arbitrary at best and potentially misleading. Consider a scenario where two firms own the same asset and arrive at similar fair value determinations, yet their sensitivity analysis may differ based on randomly chosen variables, conveying to the user of the financial statements artificially varying levels of risk.

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Conclusion

Interactive Data believes improved transparency and disclosure is better provided by the qualitative disclosure of inputs to fair value measurements rather than the quantitative disclosures embodied in the sensitivity analysis of the exposure draft. Since the publication of FAS 157, Interactive Data has embarked on a number of ongoing initiatives to increase the granularity of the information it provides to clients regarding the inputs to evaluations. Improved disclosure of the available market data as described in 820-10-55-22A may permit financial statement users to better assess fair value measurements than an arbitrary range of values.

Interactive Data appreciates the opportunity to comment on the exposure draft and welcomes an ongoing dialog with the FASB and the financial services industry regarding the benefits and costs of additional fair value measurement disclosures.

Sincerely,

Elizabeth Duggan
Managing Director, Evaluated Services
Interactive Data Corporation