

# Interactive Data

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September 30, 2010

Mr. Russell Golden  
Technical Director  
Financial Accounting Standards Board  
401 Merritt 7  
P.O. Box 5116  
Norwalk, CT 06856-5116

Re: File Reference No. 1810-100  
Accounting for Financial Instruments (Topic 825) and Revisions to the Accounting for Derivative Instruments and Hedging Activities (Topic 815)

Dear Mr. Golden:

Interactive Data Corporation ("Interactive Data") welcomes the opportunity to respond to FASB's proposed Accounting Standards Update of Topic 825, Accounting for Financial Instruments, published May 26, 2010.

Interactive Data's Pricing and Reference Data business is a leading provider of pricing and fixed income evaluations for the financial industry in support of our clients' pricing, research, and portfolio management activities. We also offer valuations for a range of derivative instruments. Interactive Data has responded to our clients' increased demand for transparency by providing a range of new resources and information in support of our evaluation services.

Interactive Data supports the goal of the FASB to provide a more comprehensive and simplified set of principles governing the accounting for financial instruments. Interactive Data also generally supports the use of fair value measurements for financial instruments. As acknowledged in paragraph BC57 of the Exposure Draft, the use of fair value measurements has been a controversial subject. Numerous parties have expressed concern that requiring fair value measurements for certain financial instruments does not reflect the business strategy of the financial statement preparer, would not be operational, and could have a potentially destabilizing and negative, procyclical effect on institutions and the financial system. In this comment letter we do not address whether the proposed guidance reflects management's strategy or the potential procyclical effects; however, as a data vendor with more than forty years experience in the financial services industry, we believe we can add value to the debate regarding operationality.

Many banks and other organizations responding to the Exposure Draft spotlight the challenges of producing market-based valuations for individual whole loans. Interactive Data is taking steps to overcome this challenge for whole loan residential mortgages. Leveraging modern technology along with our analytical expertise in providing evaluated prices for a wide variety of fixed-income instruments, we are currently building a robust process for valuing residential whole loans based on observable inputs from the securities markets.

We believe that we can bring substantial economies of scale to support the residential whole loan valuation process on a timely basis. Through our existing client network and relationships with third-party resellers, Interactive Data anticipates that we will be able to make this service available at a cost that is practical for many smaller entities, helping to address the concerns noted in paragraph BC242 of the Exposure Draft.

# Interactive Data

## A Market-Based Technique to Value Residential Whole Loans

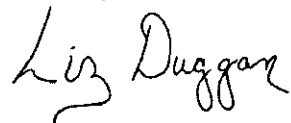
Interactive Data's methodology for valuing residential whole loans comprises two distinct components: one for "conforming" loans that qualify to be purchased, guaranteed and re-sold by Fannie Mae and Freddie Mac, and one for "non-conforming" loans. Both methods seek to tie residential whole loan valuations to the securities markets, producing results that are consistent with the evaluations that Interactive Data generates for approximately 1 million U.S. agency and non-agency residential mortgage-backed securities. Each method also generates a number of related data points that include: present value of a loan's servicing rights (if any); present value of the guarantee fee (if any); and total projected losses and present value of projected losses.

The method for valuing conforming loans starts from the average market price of a basket of agency pools comprising loans with similar characteristics. The average pool price (an observable market input) is then adjusted by adding the present value of the whole loan's interest rate in excess of the average pass-through coupon for pools of similar loans, and subtracting the present value of projected default losses over the life of the loan (estimated by a commercially available prepayments/defaults/loss severities model).

For non-conforming loans, our approach utilizes price inputs from the market in non-agency structured residential mortgage-backed securities. By performing regression analysis over thousands of pools of non-conforming mortgages that back structured bond deals Interactive Data evaluates, a formula is constructed that generates a market-based yield spread for a residential whole loan as a function of various widely quoted loan characteristics. An evaluated price for the loan is then generated by combining its market-based yield spread estimate with projected loan cash flows and a benchmark yield curve.

Interactive Data would be happy to discuss our proposed evaluation process for residential whole loans in greater detail with the Board. A copy of this letter is being provided to Upasna Laungani, FASB Project Manager.

Sincerely,



Liz Duggan, Managing Director, Evaluated Services