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August 10, 2015

SENT VIA ELECTRONIC SUBMISSION

Secretary,
Securities and Exchange Commission,
100 F Street, NE,
Washington, DC 20549-1090

Re: File No. S7-08-15
SEC Release 33-9776, "Investment Company Reporting Modernization"

To the Secretary:

Interactive Data Pricing and Reference Data LLC ("Interactive Data") appreciates the opportunity to comment on the Securities and Exchange Commission's proposed rule concerning Investment Company Reporting Modernization.

In general, Interactive Data supports regulatory initiatives aimed at increasing the transparency of fund portfolios and investment practices, and at utilizing advanced technology for presenting information to regulators and the public. Our comments focus on the following topics within the proposed rule:

- Fair Value Hierarchy Level Reporting
- Illiquid Assets Identification
- Pricing Services Disclosure
- Standardized Identifiers
- Country of Risk
- Asset Type Classification
- Debt Securities Disclosures
- Risk Metrics
- Option for Website Transmission of Shareholder Reports

Interactive Data

Background on Interactive Data Pricing and Reference Data

Interactive Data is a Registered Investment Adviser with the Securities and Exchange Commission ("Commission") under the Investment Advisers Act of 1940 and has been in the evaluations business for more than 40 years. We provide global security evaluations, reference data, risk analytics and other information designed to support financial institutions' and investment funds' pricing activities, research, and portfolio management. We offer evaluations for approximately 2.7 million fixed income securities (including security-based swaps and loan products), and our Fair Value Information Services for international equities, options, and futures, and valuations for complex structured products and over-the-counter derivatives. These offerings are supplemented by a comprehensive range of reference data for more than 10 million global financial instruments, including descriptive data, corporate actions, and terms and conditions for current and historical fixed income securities.

Our company has built a strong presence within the U.S. mutual fund marketplace and currently counts as customers 50 of the top 50 U.S. mutual fund companies, 49 of the top 50 U.S. asset managers and 33 of the top 50 global hedge funds (rankings as of April 2015). We believe that our extensive experience as a third party pricing and reference data provider serving more than 5,000 global organizations gives us insight into the practices and processes through which asset management companies obtain and utilize data about their portfolio holdings. In addition, Interactive Data maintains active collaboration with the asset management industry through advisory boards and working groups we lead to discuss a variety of developments that impact fund management.

Fair Value Hierarchy Level Reporting Disclosure

Part C of proposed Form N-PORT, "Schedule of Portfolio Investments," and proposed amendments to Rule 12-13, would require funds to report whether each investment is categorized by the fund as a Level 1, Level 2 or Level 3 fair value measurement in the fair value hierarchy under U.S. Generally Accepted Accounting Principles ("U.S. GAAP"). The Commission states that, among other benefits, this proposed requirement would enable its staff to better identify anomalies in reported data by aggregating all fund investments industry-wide into the various level categories.

Interactive Data offers a service that assists clients with current fair value hierarchy level disclosures for U.S. GAAP (ASC-820) and International Accounting Standards Board (IFRS 13) accounting standards. In the course of developing and providing this service our company has held numerous conversations with members of the funds industry on this topic and is uniquely positioned to understand the wide variation in accounting policies that currently exists within the market. For example, some of our clients classify on-the-run U.S. Treasury securities as Level 1 while others classify them as Level 2.

We support the principle of requiring funds to disclose the fair value hierarchy level for each investment in their portfolios. However, the anticipated benefit of aggregating investment data across fund companies may be reduced to the extent that different fund families employ different accounting practices when classifying similar investments into fair value categories. In light of disparities in accounting practices across fund companies, we suggest that Commission staff reconsider the expectation that this proposed disclosure will create comparability among different funds with regard to fair value hierarchy classifications.

Illiquid Assets Identification

Part C of proposed Form N-PORT, "Schedule of Portfolio Investments," would require funds to report, among other things, whether the investment was a restricted security or illiquid asset. Form N-PORT would define "illiquid asset" as "an asset that cannot be sold or disposed of by the fund in the ordinary course of business within seven calendar days, at approximately the value ascribed to it by the Fund."

We agree with the Commission's statement that liquidity is an important consideration for a fund's investors in understanding the risk exposure of a fund. Indicating which investments are deemed illiquid would allow an investor to understand which holdings in a fund are likely to be sold at a discount if a portion of the fund's investments must be sold to meet cash needs, such as redemptions or distributions.

In view of the importance that liquidity risk management carries for fund shareholders, investment advisers and regulators, a disclosure requirement limited to a simple "liquid/illiquid" distinction may not be sufficient. Interactive Data believes that the proposed rulemaking's stated purpose – to "modernize the reporting and disclosure of information by registered investment companies" – is instead best served by considering innovative new approaches and technologies that exist for quantifying the liquidity of portfolio assets. We believe a more granular measure of liquidity will positively impact the marketplace as a whole in the long term. For example, a granular liquidity measure could: (a) potentially allow Commission examiners to focus their attention on those instruments that pose the highest degree of liquidity risk; (b) provide investors and analysts with a more granular understanding of the liquidity risks of their investments; and (c) enable certain funds to modernize their liquidity risk management workflow processes.

We also believe that firms would benefit from more specific guidance to describe a suitable range of price variation in order to qualify as a liquidation price that is close enough to the current value ascribed to it by the fund. For instance, the definition of an "illiquid asset" could include a general guideline around price variation within the 7 day liquidation period, such as +/- 10% of the current value ascribed by the fund, which may vary depending upon the asset's duration or current price. This type of additional guidance could help support a fund's ability to systematically comply with the rule in a standardized way.

Interactive Data has developed and is currently beta testing a service for quantifying liquidity at the security level. The approach used in our Liquidity Indicators Service involves projecting the security's future potential trading volume capacity along with its expected price uncertainty in order to support determinations of how long it would take to liquidate a position at or near the current value ascribed by a fund. Since the majority of the fixed income universe does not actively trade on a frequent basis, it is important to estimate the "potential" trading volume capacity to understand how long it may take to liquidate a position in a certain security. Additionally, a measurement of price uncertainty is needed to gauge the potential impact on the selling price from the amount of time it takes to liquidate a position. Stress testing at the portfolio level would then be achievable; for instance, estimating the percentage of the portfolio that can be liquidated under various stressed market assumptions (i.e., suggesting additional competition among sellers creates an imbalance compared with the number of available buyers, limiting a firm's ability to access the full projection of trade volume capacity, and lengthening the estimated time to liquidate and thereby elevating potential price impact estimates).

In addition to quantifying the potential days to liquidate a position and the corresponding potential price impact and effect on the portfolio, one could form a view as to the liquidity profile of the fund by analyzing a set of security-specific liquidity scores generated on a relative scale across the universe or asset class for efficient comparability. Liquidity scoring of fixed income securities within various populations (e.g., security vs. universe, security vs. asset class, security vs. issuer, security vs. duration bucket) can enable fund managers to understand liquidity risk in multiple dimensions, fostering proficient identification of high risk and low risk segments of the portfolio.

Pricing Services Disclosure

Part C of proposed Form N-CEN would require management companies to identify current and prior-period providers of pricing services. In addition, the Commission is seeking comment on whether to require disclosure of third-party pricing sources on Form N-PORT.

Interactive Data understands that the details of pricing services employed by each fund could assist the Commission in assessing the use of pricing services by the fund industry and the role they play in valuing fund investments. However, we believe this purpose does not require that the pricing service information thus collected be disseminated to the public. In view of the complex nature of many funds' valuation policies, we believe that public disclosure of the identities of pricing services used by each fund would not increase the transparency of the pricing of thinly traded securities, and could potentially confuse investors.

Funds use information provided by pricing services to assist the funds in determining fair values for their investments. For investments that do not have readily available market quotations, the process of determining fair value in compliance with Generally Accepted Accounting Principles entails complexities both procedural and technical. Rule 2a–4 under the Investment Company Act provides that portfolio assets for which market quotations are not "readily available… shall be valued at fair value as determined in good faith by the board of directors of the registered company.'' The Commission has stated that the evaluated prices provided by pricing services are not, by themselves, ''readily available'' market quotations or fair values, and that a fund's directors cannot delegate their statutory duty to determine the fair value of fund portfolio securities[1].

To fulfill their responsibilities associated with fair value determinations, fund boards have established valuation policies that may include, among other procedures: hierarchies comprised of multiple third-party pricing vendors; explicit rules for when to override or challenge third-party prices; internal valuation committees; and independent price validation teams. In view of these complexities, Interactive Data believes that public disclosure of the identities of pricing services used by each fund could potentially confuse investors who are unfamiliar with fund industry practice regarding the use of pricing service information. Absent a demonstrated benefit to investors from publicly disclosing each fund's pricing service providers, we recommend that the Commission obtain this information from fund management companies in a form not subject to public release.

Standardized Identifiers

The Commission proposes that funds report on Form N-PORT the Legal Entity Identifier ("LEI") number of the registrant and series, and report certain identifiers for their investments. We recommend that the Commission expand its support for the use of LEIs by asking funds to use available LEIs at the instrument level as well as the fund level.

Interactive Data supports the development, use and disclosure of standardized identifiers within the financial industry. The need for a common system of identifiers for parties to financial transactions has been expressed by various global authorities including the Financial Stability Board, IOSCO, and G-20 finance ministers and leaders[2]. We believe that the LEI is well suited to fill this role, in view of its universal availability and low cost to obtain or utilize. With respect to LEIs, Interactive Data has (i) engaged with the Private Sector Participatory Group

[1] Commission Release No. 33-9616, "Money Market Fund Reform; Amendments to Form PF".

[2] Securities Industry and Financial Markets Association, "Global calls affirming the importance of developing an LEI standard," http://www.sifma.org/uploadedFiles/Issues/Technology_and_Operations/Legal_Entity_Identifier/LEI-Global-Calls.pdf

established by the Financial Stability Board to gather feedback during the establishment of the Global Legal Entity Identifier Foundation (GLEIF), (ii) spoken at numerous industry events in support of the LEI standard, and (iii) incorporated issued LEIs into certain products to facilitate reporting on behalf of our clients.

Country of Risk

The proposed Form N-PORT would require funds to report for each investment the country that corresponds to "… the concentrations of the risk and economic exposure of the investment," along with the country in which the issuer is organized if that is different from the country of risk and economic exposure. The Commission is seeking comment on whether to provide specific guidance or instructions for determining the country with the greatest concentration of risks and economic exposure, and whether to allow funds to report more than one country of economic risk or a geographic region of economic risk.

Based on conversations with fund managers, Interactive Data believes that if required to report a country of risk for each investment, many reporting entities would choose to use a vendor's solution. Security-level data offerings currently available in the market use a variety of approaches to identify the investment's country of risk. We believe that the diversity of approaches employed by different vendors stems in part from the inherent complexity of information about issuers of securities, which can have widely distributed business operations and corporate structures.

We recommend that the Commission recognize that the prevailing diversity of approaches toward identifying country risk is a necessary consequence of the complex nature of the underlying data.

Asset Type Classification

The Commission proposes requiring funds to report on Part C of proposed Form N-PORT the asset type for each investment, using a set of categories based in part on staff review of how funds currently categorize investments on their schedule of investments, and in part on the categories of investments required by private funds under Form PF. However, the Commission proposes that funds should report collateral used in repurchase and reverse repurchase agreements based on a separate classification scheme, which aligns with the categories currently used to report tri-party repurchase agreement information to the Federal Reserve Bank of New York.

Interactive Data intends to develop a security-level attribute for its clients that will align with any classification rules that funds will ultimately be required to use in Form N-PORT. However, we believe consistency is desirable between the categories used for reporting collateral backing repurchase agreements and those used to report a fund's investments. Accordingly, we believe the Commission should consider extending the more granular set of categories it has proposed for classifying each investment a fund holds, to the classification of collateral types for repurchase and reverse repurchase agreements.

We understand that proposing a separate taxonomy for repurchase collateral is meant to align with Federal Reserve Bank of New York reporting requirements. However, we believe that reporting entities, regulators and the investing public could each benefit if investments were classified on a consistent basis for both portfolio and repurchase agreement purposes. Consistent asset classification requirements would ease the reporting burden for funds. Reporting entities will have to create the more granular classification for N-PORT in all cases. We believe that in many instances an entity is likely to hold similar assets in its portfolio as it employs as collateral for repurchase transactions. In addition, regulators and fund shareholders may benefit from increased transparency into a fund's exposures if repurchase collateral types are reported using more granular categories than the proposed taxonomy provides.

Debt Securities Disclosures

The Commission requests comments on new disclosures that are specific to debt securities to better understand the profile and risks inherent to these types of investments. For example, the Commission is requesting to collect the maturity date, coupon formula, and default status of debt securities and further disclosures for convertible bonds such as the delta.

In general, we believe that a more granular classification scheme for debt instruments is useful for investors in understanding the nature of the obligation supporting the instrument. Asset type schemes in use in the financial services industry can become quite complex and detailed. However, it is possible to request a more detailed scheme without being overly complex. Interactive Data classifies debt instruments as corporate bonds, municipal securities, asset-backed, mortgage-backed and so on. In turn, we further classify mortgage-backed securities, for example, by the type of mortgage that is used to support the debt security with cash flow. These levels of detail enable the investor to make informed decisions about the nature of risk they are taking when they purchase funds that include debt instruments.

In addition, we believe disclosure of the obligation or support behind a debt security is useful, especially if such obligation is borne by or supported by any entity that is not the issuer. This includes bond insurance, conduit municipal financings, letters of credit etc. We do not believe these disclosures need to reach the level of the payment schedule, but should include identification of debt ranking.

Risk Metrics

a. Interest Rate Risk and Credit Risk

The Commission proposes that funds measure interest rate sensitivity by shifting the following yield curve points by 1 basis point for each applicable currency in the fund: 1 month, 3 month, 6 month, 1 year, 2 year, 3 year, 5 year, 7 year, 10 year, 20 year, and 30 year.

Interactive Data believes it would be helpful for the Commission to clarify whether these shifts should be applied to a par yield curve or a spot yield curve, and to specify that the measurement procedure should include shifting rates both upward and downward.

The Commission proposes that funds measure credit sensitivity by shifting credit spreads 1 basis point, using the same maturity points used for interest rate sensitivity. We believe it would be helpful for the Commission to clarify whether the curve segments should be defined based on maturity or average life, particularly for amortizing assets such as mortgage backed securities. We also recommend that the Commission consider whether to exclude certain issues, such as US Treasury securities, from credit spread sensitivity reporting.

The Commission does not specify whether the credit spread to be shifted is the nominal or option adjusted spread (OAS). From an analytical perspective, we believe that shifting OAS would provide a more robust measure of credit risk, particularly for securities with embedded optionality.

Through our interaction with market participants, Interactive Data believes that portfolio managers often consider moves greater than 1 basis point when managing and monitoring interest rate and credit risk for their portfolios. This is particularly true for funds with exposure to bonds with call or prepayment risk, where risk exposures can change more substantially for modest shifts in interest rates or credit spreads. Using 1 basis point moves to measure risk is more applicable to traders, in our experience.

b. Convexity

The Commission is seeking comment on whether "Convexity" should be added to the risk measures funds will be required to report. The Commission states that based on its outreach, "funds more commonly analyze non-linear changes to interest rates through stress testing, rather than through calculating convexity."

In Interactive Data's experience, portfolio managers consider convexity to be critical when measuring the interest rate risk of their funds. This is particularly important for portfolios that have material exposure to mortgage backed securities. Such securities currently account for more than 25% of broad based U.S. fixed income benchmarks[3.]

c. Position Level vs. Portfolio Level Reporting

The Commission is seeking comment on whether requiring funds to report risk exposures at the position level (rather than only at the portfolio level, as proposed) would place an unreasonable burden on fund management firms. Based on Interactive Data's experience with the more than 300 clients of our portfolio risk analytics software, funds already measure their risks at the position level and then aggregate by market value weighting to calculate portfolio level risk. Consequently, we believe that position level reporting would align with what is a standard

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[3] As of June 30, 2015, the MBS component of the Barclays Aggregate Index made up 28.1% of the market value of that index.

practice in the industry, and so would not be burdensome. Position level reporting would provide the Commission with greater insight into sources of risk within a portfolio.

In connection with portfolio level risk metrics, we believe that both the Commission staff and investors could benefit from considering the following alternatives:

a) Requiring funds to report aggregate risk metrics at the asset class level, aligning with the asset categories already proposed for Form N-PORT disclosures. Commission monitoring of funds' risk profiles could benefit from the ability to compare risk exposures across funds or fund companies at the asset class level.
b) Requiring funds to report aggregate risk metrics for composite portfolios. Such composite metrics would provide insight into a fund manager's risk for all portfolios, or for groups of portfolios with similar characteristics.
c) When calculating risk metrics at either a portfolio or sub-portfolio (asset class) level, the aggregation method should account for interactions among the investments being aggregated. If interactions among assets are not factored in, the risk profile for a portfolio or subgroup could be misstated.

The Commission also is seeking comment on whether to require, or permit, funds to report duration and spread duration only for the maturities that represent the highest exposures in the fund. On this question, too, Interactive Data believes that full reporting of all positions would provide the Commission and investors with greater insight into portfolio sources of risk.

d. Threshold for Fixed Income Exposure

The Commission proposes a 20% threshold for fixed income allocation for risk reporting and is requesting comment on whether this is the appropriate level and how it should be measured. Interactive Data believes the 20% level is reasonable and should be measured by considering notional value for derivatives and market values for bonds.

e. Standards for Calculations

The Commission is seeking comment on the inputs and assumptions underlying the methodologies that funds use for the proposed risk measures and whether standardization of calculations is desirable.

Standardizing analytical models is difficult in fixed income. Inputs and assumptions include term structure, option, and prepayment models, volatility assumptions, and initial pricing levels. Interactive Data recommends that the Commission require the use of analytical models for computing risk sensitivities for securities with embedded options such as callable bonds and mortgage backed securities. We agree with the Commission's proposal to not prescribe specific analytical models, inputs or assumptions.

<u>Option for Website Transmission of Shareholder Reports</u>

Proposed new rule 30e-3 would create an option for funds to use online publication to fulfill their obligations to transmit reports to shareholders. Interactive Data supports efforts to enable the use of modern technology for fund reporting and disclosure. We agree with the Commission that electronic transmission of periodic information would benefit both shareholders and fund companies, by improving the information's overall accessibility and by reducing burdens associated with printing and mailing shareholder reports.

<u>Summary</u>

Interactive Data appreciates the opportunity to present our views on modernizing the reporting and disclosure of information by registered investment companies. We support the Commission's goals of increasing the transparency of fund portfolios and investment practices, harnessing advanced technology to modernize the fund reporting regime, and reducing unnecessary reporting burdens on the industry, where appropriate.

With regard to specific provisions of this rule proposal:

<u>Fair Value Hierarchy Level Reporting Disclosure</u>

- Interactive Data supports the principle of requiring funds to disclose the fair value hierarchy level for each investment in their portfolios. However, the increased comparability among funds that the Commission anticipates from these disclosures might be limited, because different fund families employ different accounting practices when classifying similar investments into fair value categories.

Illiquid Assets Identification

- Considering the importance that liquidity risk management carries for fund shareholders, investment advisors and regulators, a disclosure requirement limited to a simple "liquid/illiquid" distinction may not be sufficient. We believe that a more granular measure of liquidity would better fulfill the Commission's goals of focusing examinations on illiquid instruments, giving investors and analysts a more granular understanding of the liquidity risks of their investments, and helping funds modernize liquidity risk management workflow processes.

- We also believe that firms would benefit from more specific guidance to describe a suitable range of price variation in order to qualify as a liquidation price that is close enough to the current value ascribed to it by the fund.

- Interactive Data has developed and is currently beta testing a service for quantifying liquidity at the security level. The approach used in our Liquidity Indicators Service involves projecting the security's future potential trading volume capacity along with its expected price uncertainty in order to support determinations of how long it would take to liquidate a position at or near the current value ascribed by a fund.

Pricing Services Disclosure

- Interactive Data believes that the Commission's goal of assessing the use of pricing services by the fund industry and the role they play in valuing fund investments does not require that pricing service details be disseminated to the public. Releasing such details could confuse investors who do not understand the intricacies of fund pricing policies.

Standardized Identifiers

- We support requiring the use of standard identifiers for each investment held by a fund. We recommend that the Commission expand its support for the use of LEIs by asking funds to use available LEIs at the instrument level as well as the fund level.

Interactive Data

Country of Risk

- We recommend that the Commission recognize that the prevailing diversity of approaches toward identifying country risk is a necessary consequence of the complex nature of the underlying data.

Asset Type Classification

- We recommend that the Commission should consider extending the more granular set of categories it has proposed for classifying each investment a fund holds, to the classification of collateral types for repurchase and reverse repurchase agreements.

Debt Instrument Disclosures

- In general, we believe that a more granular classification scheme for debt instruments is useful for investors in understanding the nature of the obligation supporting the instrument. In addition, we believe disclosure of the obligation or support behind a debt security is useful, especially if such obligation is borne by or supported by an entity beyond the issuer (e.g., bond insurance, conduit municipal financings, letters of credit).

Risk Metrics

- When measuring interest rate sensitivity, Interactive Data believes it would be helpful for the Commission to clarify whether rate shifts should be applied to a par yield curve or a spot yield curve, and to specify that the measurement procedure should include shifting rates both upward and downward.

- When measuring credit sensitivity, we believe it would be helpful for the Commission to clarify whether the curve segments should be defined based on maturity or average life. We also recommend that the Commission consider whether to exclude certain issuers from credit spread sensitivity reporting.

- Requiring funds to report risk exposures at the position level (rather than only at the portfolio level, as proposed) would provide the Commission with greater insight into sources of risk within a portfolio. Position level reporting would not be burdensome for funds that already measure their risks at the position level and aggregate to calculate portfolio level risk. Alternatively, the Commission could consider having funds report risk exposures for groups of securities using the same taxonomy they would employ for classifying investments on Part C of Form N-PORT.

- Interactive Data believes the proposed 20% threshold for fixed income allocation for risk reporting is reasonable and should be measured using notional value for derivatives and market values for bonds.

- We believe it would be desirable for the Commission to require the use of analytical models for computing risk sensitivities for securities with embedded options. We agree with the Commission's proposal to not prescribe specific analytical models, inputs or assumptions.

Option for Website Transmission of Shareholder Reports

- We support proposed new rule 30e-3 that would allow funds the option of using online publication to fulfill their obligations to transmit reports to shareholders.

We look forward to working with the Commission and the fund management community toward upgrading both the content and format of fund disclosures.

Sincerely,

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