



32 Crosby Drive
Bedford
MA 01730
USA

Tel: +1 781 687 8500
Fax: +1 781 687 8005
www.interactivedata.com

March 21, 2014

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 draft MSRB Rule G-18 on best execution of transactions in municipal securities. We support the objectives of the proposed rule to safeguard investor interests when they transact in the municipal securities market while promoting competition among dealers and improving market efficiency. At the same time, it is important to recognize that many of our clients in the dealer community have invested considerable resources to address the MSRB's existing rules, and compliance with the proposed rule may result in higher costs and other operational complexities related to ambiguous interpretations of the rule. To best achieve the proposed rule's objectives and help mitigate dealer concerns, Interactive Data believes that a best execution rule for municipal bond transactions should provide dealers with additional clarity regarding the use of evaluated pricing in support of best execution compliance.

Interactive Data Corporation's Expertise in the U.S. Municipal Bond Market:

As a leader in financial information, we have long supported our clients' mission-critical activities in the municipal securities markets. In particular, our Pricing and Reference Data business 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.¹ These services are complemented by best-in-class fixed income portfolio analytics². Interactive Data Pricing and Reference Data currently counts 40 of the 40 largest wealth managers as customers, as well as 50 of the top 50 U.S. mutual fund companies, 10 of the top 10 custodian banks, 48 of the 50 largest U.S. banks and 32 of the top 50 hedge funds. Our views in this comment letter reflect our unique perspective into and expertise in the U.S. municipal bond market, as well as ongoing dialogue with our clients, business partners and industry associations.

¹ 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.

² BondEdge named among the "Best-in-Class" solutions in the portfolio management category by CEB TowerGroup's Portfolio Modeling and Risk Analytics Technology Assessment, <http://www.interactivedata.com/prdetail.php?pr=318>.

Interactive Data's Perspective on Draft MSRB Rule G-18:

Simply stated, we believe that high-quality evaluated pricing information should play an important role in the best execution compliance efforts of brokers, dealers and municipal securities dealers ("dealers"). We reiterate our position, as outlined in our October 2013 comment letter³, that we believe that high-quality evaluated pricing and related transparency services represent important tools that dealers could employ to document and preserve diligence undertaken to substantiate the basis for obtaining a price that is as favorable as possible under prevailing market conditions. Our position is based on the following factors:

- The municipal securities market is likely to remain thinly traded and, as a result, there will be an extensive range of municipal securities without readily available or reliable market quotations. In such cases, evaluated pricing can be an important input for evidencing that a best execution standard has been met.
- High-quality evaluated pricing from independent sources unaffiliated with dealers, like Interactive Data, typically takes multiple sources into account including market participants' assumptions while maximizing the use of relevant observable inputs including quoted prices for similar assets, benchmark yield curves, credit and market corroborated inputs.
- Evaluated pricing helps mitigate conflicts of interest by incorporating information from both the buy-side and the sell-side in order to provide a balanced view into the trading-related activity for a given security.
- Evaluated pricing capabilities are advancing to incorporate continuous pricing processes and support intraday and even streaming delivery of this information, which we believe can further elevate the value of this information in supporting best execution compliance.

We believe that dealers would benefit from clear guidance from the MSRB that they can use evaluated pricing, along with other data, to validate their best execution policies and processes when they transact in the municipal securities marketplace. By specifying that evaluated pricing can help inform best execution assessments, dealers will be better positioned to determine the potential scope and cost of any changes to their existing compliance workflows. In this context, we have highlighted two areas of the proposed rule that the MSRB should further refine to provide firms with the necessary clarity and flexibility to integrate evaluated pricing into their best execution compliance activities:

1) "Similar Securities"

We believe that the following provision in proposed Rule G-18(a)(4), "the information reviewed to determine the current market for the subject security, or similar securities," represents an important factor for determining whether a dealer has used reasonable diligence to ascertain the best market for the subject security and to execute a buy or sell order in that market so that the resultant price to the customer is as favorable as possible under prevailing market conditions. This

³ See Interactive Data's comment letter on MSRB Notice 2013-16, http://www.msrb.org/RFC/2013-16/INTERACTIVE_DATA.pdf.

factor is notable, and distinguishable from FINRA Rule 5310, in that it provides firms with flexibility to consider information about similar securities since many municipal securities trade infrequently, if at all, on a daily basis.

- The concept of similar securities is one in which Interactive Data has considerable expertise. Interactive Data determines comparability in several ways including: assessing the subject security against other securities from that same issuer; or other securities from different issuers that may share one or more of the following characteristics: similar maturity, terms and conditions, credit ratings, sector and/or geographical affiliation. Accordingly, we believe that dealers would benefit if the MSRB provided a definition of similar securities that include the non-exhaustive list of criteria cited above.
- We also have developed valuation transparency tools, such as VantageSM, which enable clients to view 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. This market context and insight helps clients address regulatory and accounting driven concerns about their valuation processes, and is already used by clients to support their 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.
 - Additional market color – Vantage provides insight into quotes and other market data for the issue, enabling clients to compare this information against actual trade activity.
 - Comparable (similar) securities – Vantage identifies a range of comparable securities from the same issuer or securities from other issuers with similar characteristics, and provides clients the ability to drill down into the market activity for these 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.

2) “Securities with Limited Quotations or Pricing Information”:

- We believe that provision six of the supplementary material is also valuable in that it appropriately highlights the fact that “markets for municipal securities may differ dramatically” and it is important that dealers be especially diligent when transacting securities for which there is limited pricing information or quotations available. In particular, we support the MSRB's assertion that dealers should “seek out other sources of pricing information” and “analyze other data to which it reasonably has access” in making its best-execution determinations.

- However, we believe that the MSRB should integrate the concept of similar securities into this provision. Furthermore, this provision currently leaves significant room for interpretation by dealers and enforcement examiners as to what may constitute other acceptable sources of pricing information or other data that may be analyzed in making best-execution determinations. More specifically, we recommend that the MSRB offer a non-exhaustive list of examples of what constitutes “other data” which might include recent trade activity, evaluated pricing and related, relevant market, assumptive and reference data.
 - We recommend expanding on the last sentence of this provision to reflect the aforementioned recommendations. A new sentence added to this section (highlighted in bold italics) could be: “Additionally, a dealer generally should, in determining whether the resultant price to the customer is as favorable as possible under prevailing market conditions, analyze other data to which it reasonably has access. ***Such data could include, but is not limited to, recent trade activity, independent third-party evaluated pricing, and related market, assumptive and reference data on the subject security or similar securities.***”

Summary

Interactive Data appreciates the opportunity to comment on proposed draft MSRB Rule G-18. To help achieve the MSRB’s objectives and address important dealer concerns, we believe that the industry would benefit from greater clarity about the types of data that can be used to support best execution compliance activities. In particular, we believe that evaluated pricing from independent sources should be an important tool for dealers to consider in achieving best execution. Accordingly, we encourage the MSRB to modify its proposed rule to more explicitly reflect the value and utility of evaluated pricing in validating best execution. 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. We look forward to working with the MSRB and the dealer community on this important issue.

Sincerely,



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