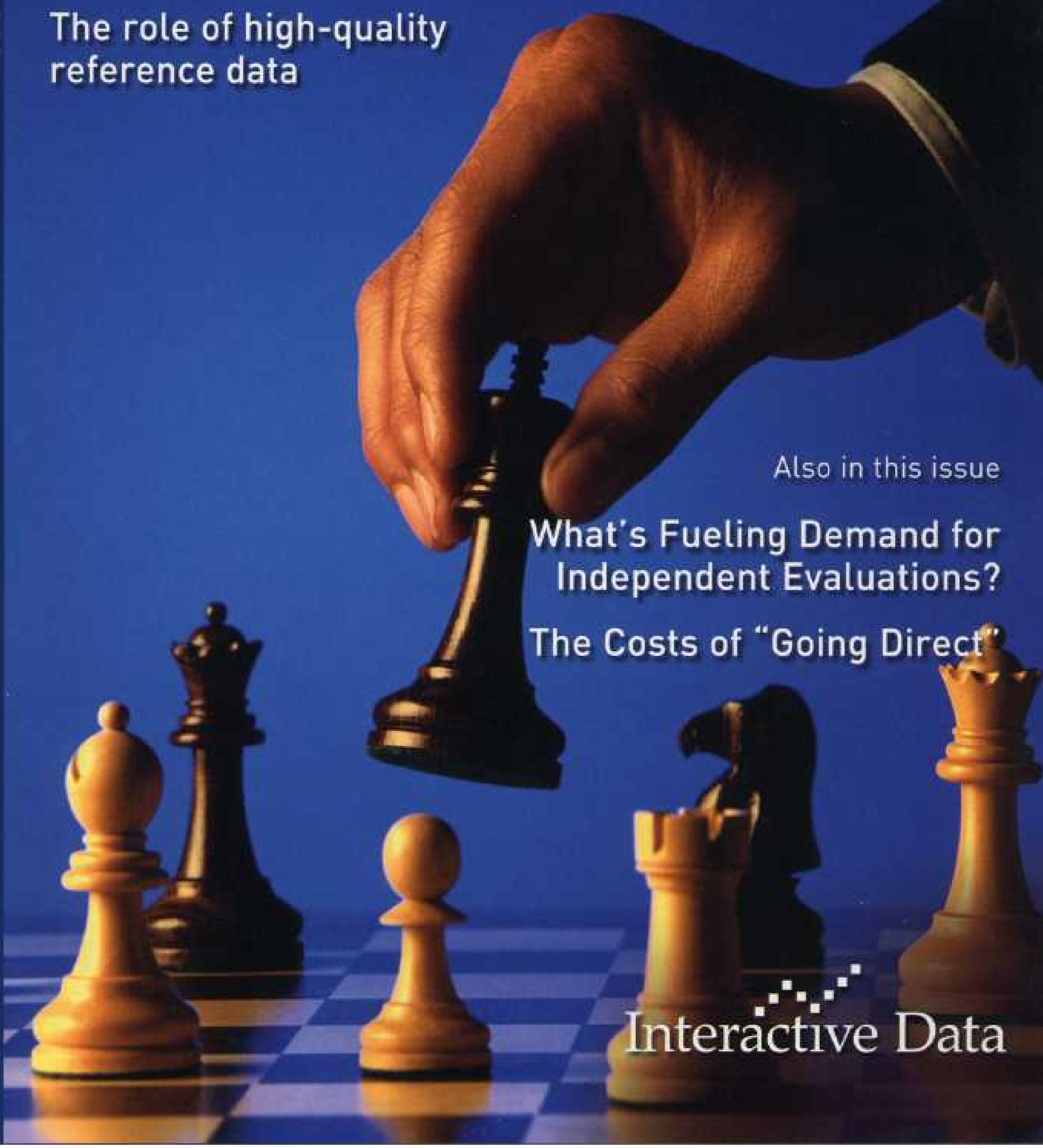
www.interactivedata-prd.com

connect

Risk management – a holistic approach

The role of high-quality reference data



Also in this issue

What's Fueling Demand for Independent Evaluations?

The Costs of "Going Direct"

Spring 2008

north america edition

Interactive Data

WELCOME to connect

contents

'connect' Spring 2008

FSC
Mixed Sources

Welcome to the Spring 2008 issue of Interactive Data Pricing and Reference Data's North American client newsletter.

This edition is designed to offer insight into the issues that you may be facing during these dynamic times, and provide information about how Interactive Data's broad range of products and services can help you work more effectively.

Highlights from this edition of the newsletter include:

- In-depth look at how to leverage reference data to effectively manage risk
- Perspective on the market forces driving demand for independent evaluations
- Analysis of the decline of "home bias" in U.S. investors' strategies, and how that is increasing interest in the Fair Value Information Service
- A review of important factors firms should understand when considering direct exchange datafeeds

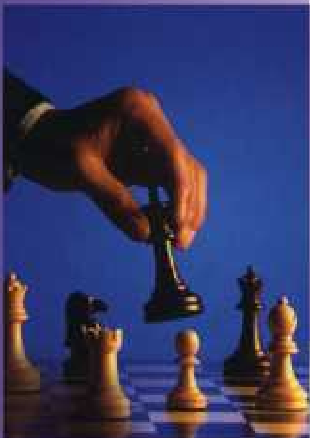
We hope that you find this issue of our newsletter informative, and welcome your feedback.

Best,

John Coffey
Editor-in-Chief
john.coffey@interactivedata.com

If you would like additional information about the topics covered in this issue, or about Interactive Data's offerings, please contact your account manager or call (781) 687-8800.

Interactive Data Pricing and Reference Data, Inc.
32 Crosby Drive Bedford, MA 01730 USA
Tel: +781 687 8800
Fax: +781 687 8289
Email: info@interactivedata.com



COVER STORY

Leveraging Reference Data for a Holistic Approach to Risk Management

Interactive Data believes that recent events, from the volatility of the global financial markets to the subprime crisis, have put a spotlight on risk management and the essential reference data supporting this process.

The fact is that only by optimizing reference data management, and thus having an in-depth knowledge of the millions of instruments flowing through its systems, can an institution take a holistic approach to effectively managing risk. Critical to this approach is the ability to take a 360° view of each financial instrument held by an institution.

Institutions want to understand the behavioral characteristics of each financial instrument, both on a stand-alone basis and within the context of the portfolio, under a variety of market scenarios. Determining how an instrument is going to behave under stress is essential to understanding the risk parameters of that instrument.

At another level, financial institutions want to understand the concentration and exposure they have to various segments of the market. This might include credit exposure and industry segment exposure, among others. Gaining this understanding requires knowledge of the full "family tree" of a financial instrument. For example, if an institution owns shares in a certain company, they may not realize that it is a far-flung subsidiary of a major auto company going through financial difficulties that could impact their holdings.

With reference data, an institution could have a better understanding of their "concentration risk" in a certain sector or among organizations that are facing challenges. For example, they could identify that exposure to the auto industry makes up too large a percentage of their portfolio, and then make an informed financial decision to address this issue.

Reference data providers can offer clients detailed entity linkage information that connects families of securities and helps institutions understand the relationships of the securities to the corporate family structure. This information is critical to maintaining compliance with regulations that require institutions to understand their exposure to a given firm, industry or market sector.

At yet another level, it is also imperative to have a comprehensive understanding of the underlying elements of a financial instrument. Over the past several months, the news has been filled with stories about organizations that didn't take these steps, and have been impacted by subprime securities.

Effectively managing and reviewing reference data can help investors understand the underlying dynamics of a security and help them determine their risk exposure. To illustrate this point, even though a security may have a AAA rating, that rating may be supported by internal or external credit enhancement. To understand the risk profile of that security, it can be crucial to know whether that credit enhancement will hold up under stress. Interactive Data delivers the underlying ratings details of municipal bonds needed to assess the underlying risk profile of insured municipal securities. This information is critical as it provides clients with additional transparency to somewhat opaque investments and can be used to measure risk exposure. With consistent, timely and accurate reference data, institutions can gain additional transparency into these details.

By prioritizing reference data management, institutions can get a more complete understanding of the financial instruments streaming through their applications and databases, and as a result manage risk more effectively.

For additional information, please contact Marty Williams at marty.williams@interactivedata.com.

What's Fueling Demand for Independent Evaluations?

For many years, major financial institutions have utilized independent evaluations of fixed income securities as critical inputs to their portfolio valuation process. But independent evaluations have gained even more prominence in recent months, with new regulations, market volatility, and the credit crunch combining to drive demand.

One recent accounting change in the U.S. stands apart in terms of its impact on the demand for independent evaluations. The Financial Accounting Standards Board's Statement of Financial Accounting Standards No. 157, or FAS 157, has resulted in firms reviewing their existing valuation policies and procedures and having to develop procedures for fair value disclosures in their financial statements.

To help clients prepare for FAS 157, Interactive Data has developed a set of informational resources that disclose the types of inputs by asset class that the company utilizes to prepare evaluations. Interactive Data believes that this "bucketed approach" can provide clients with enough information to establish their own fair value hierarchy determinations as required under FAS 157.

New regulations are not alone in driving demand for independent evaluations of fixed income securities. With the volatility in the global financial markets in mid-to-late 2007, financial institutions have been keenly focused on making sure that they have a firm grasp on the value of their holdings – especially thinly traded fixed income securities.

Providers of independent evaluations can deliver significant value to financial institutions during these times. Interactive Data has teams of experienced evaluators who incorporate available transaction data, credit quality information and perceived market movements into the evaluated pricing applications and models for fixed income securities.

Global institutions have also been impacted by a lack of liquidity as the credit markets have tightened, and they have had to take a step back to determine their risk exposure. Once again, many institutions have looked to Interactive Data as an independent provider of evaluations for their portfolio valuation process.

Interactive Data places an emphasis on building relationships with a broad range of market sources who can offer insight into market activity. By leveraging relationships with the buy-side, electronic trading platforms, and other major market makers, Interactive Data has access to a wide-range of market color. This can help to ensure that Interactive Data's evaluations reflect information that market participants would consider in pricing the asset.

With the constant market fluctuations and new regulatory mandates, Interactive Data has been seeing a greater demand for our mission-critical services. But this demand has also extended to new, complementary services that Interactive Data has developed based on our fixed income evaluations, an example being the recently introduced Basket Calculation Service℠ This service is designed to deliver indicative valuations for equity and fixed income exchange traded funds (ETFs) throughout the trading day.

We believe that this increased demand for Interactive Data's fixed income evaluations and innovative offerings such as the Basket Calculation Service are a sign of things to come, particularly as financial institutions continue to seek to invest in new, more complex financial instruments in an effort to diversify their portfolios and grow their business in these challenging times.

For additional information, please contact Shant Harootunian at shant.harootunian@interactivedata.com.

Decreasing "Home Bias" of U.S. Mutual Fund Investors, Increasing use of the Fair Value Information Service

Since its introduction in 2002, Interactive Data Pricing and Reference Data's Fair Value Information Service has gained broad acceptance, and is currently being utilized by nearly 160 fund families.

Interactive Data believes there are three interrelated factors driving this growth. One is an emphasis from SEC staff on the importance of using fair value procedures for international equities (see e.g., Douglas Scheidt, U.S. Securities and Exchange Commission, Letter to the ICI Regarding Valuation Issues [April 30, 2001]), and another is that the use of the Fair Value Information Service can help deter market timers. A third factor, less obvious but quite important recently, has been investors' increasing preference for foreign assets.

Many academics, financial advisors and other researchers suggest that investors include foreign equities in their portfolios to increase diversification, yet until recently U.S. investors highly favored U.S. equities. This preference is called "home bias." In a 2003 speech Alan Greenspan noted, "researchers have consistently found that, in general, investors direct too much of their savings domestically. Owing to risk aversion, they tend, to their own detriment, to over-discount foreign returns."

Although non-U.S. equities in 2003 represented about 50% of world equity capitalization, their portion in U.S. mutual funds was only 12%. Since then, however, investors have switched their favor to foreign equities, reducing this home bias. The table, based on Morningstar data, shows that during the last 4 years U.S. equities in U.S. mutual funds increased from $2.45 to $5.14 trillion (110%) while foreign equities increased almost 4 times as much – from $0.38 to $1.85 trillion (408%). (Simultaneously, the number of U.S. only funds increased by 31% while foreign funds increased by 45%.)

During this period, foreign equities rose by 55% while U.S. equities rose by only 25%. So, pure asset growth partially explains the increase but a significant portion came from investor inflows. In 2007, inflows into U.S. equities decreased by $38 billion, while inflows into foreign equity funds increased by $137 billion, a differential of $175 billion.

U.S. and foreign assets held in U.S. mutual funds	Dec. 2003	Dec. 2007	Percent Change
U.S. equities (in trillions)	$2.45	$5.14	110%
Foreign equities (in trillions)	$0.38	$1.86	408%

Will this trend continue? One could speculate that the answer is "Yes." As mentioned previously, in 2003 the percentage of foreign investments in U.S. mutual funds was only 12%; today it is 27%. But since foreign assets held by mutual funds, individuals and institutions represent approximately 62% of world equity capitalization, one could guess that the trend toward allocating investments to reflect world capitalization should continue until all home bias is eliminated and the percentage of U.S. mutual fund investment in foreign equity equals the percentage of foreign equity in world capitalization. While it is impossible to accurately predict, this potential asset reallocation is noteworthy and given its correlation with the Fair Value Information Service, Interactive Data will be following it.

For additional information, please contact Peter Ciampi at peter.ciampi@interactivedata.com.