

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



Interactive Data

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‘connect’ Spring 2008



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,

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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.



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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.

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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.SM 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.

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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.

Will this trend continue?

One could speculate that the answer is “Yes.” As mentioned previously, in 2003 the percentage of foreign

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%

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.

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Interactive Data Corporation Expands Offerings for Global Wealth Managers

Increasingly frequent regulatory changes, escalating market data volumes, and the evolving role of financial advisors are just a few of the challenges that global wealth management institutions are facing in 2008. These issues, combined with the current market volatility and ongoing vendor consolidation, have caused many of these firms to redouble their efforts to deploy efficient and cost effective workstation offerings that more closely align with their market data usage profiles.

Although Interactive Data is best known for delivering premium end-of-day pricing and reference data, the company has made progress towards enhancing its offerings to include high-quality data and sophisticated tools that are designed for the front and middle offices at financial institutions. These offerings leverage Interactive Data's state-of-the-art ticker plant for all pricing and fundamental content, which can help with timely data delivery despite increases in volume.

Interactive Data also understands the issues that are faced by institutions in the global wealth management segment. For example, by properly defining their consumption patterns, firms can begin to conflate data. This is critical as wealth managers try to manage costs by working diligently to identify the appropriate level of data and tools that are needed by their internal users and by their clients.

With modular technology, flexible APIs, support for multiple operating systems and frameworks, the ability to integrate proprietary, derived and third party content, an easy-to-use entitlement system, and the availability of a private labeled solution to reflect an institution's own look and feel, Interactive Data can offer a broad range of solutions for key segments of the wealth management market, including:

Global Wealth Management – for these clients, Interactive Data offers a Java-based application that can be customized to meet a firm's proprietary requirements. This hosted solution is designed to meet the needs of portfolio managers, analysts and wealth managers who require access to premium fundamental content and analytics, as well as real-time and historical data. This offering can be tailored to support clients' specific data and workflow requirements.

Global Futures and Commodities Traders – Interactive Data provides a Windows®-based application that offers quotes, charts, news, and option analytics with content and functionality relevant to the commodity and energy markets.

North American Brokerage – Interactive Data offers these clients the option of a Windows-based solution or a hosted service, depending on what is best for their needs. These applications feature quotes, charts, news, and fundamental data that is designed for brokers, financial advisors and the



Interactive Data provides award-winning software programs that offer cost-effective market data and professional tools.

global wealth management segment. These offerings are optimized to help meet the needs of both smaller, regional offices as well as geographically diverse enterprise customers.

Interactive Data expects to continue to expand its offerings for the global wealth management segment, and will work closely with clients to better understand their requirements as the global financial markets continue to evolve.

For additional information, please contact Matt Spedden at matthew.spedden@interactivedata.com.

The Costs of “Going Direct”

For many financial institutions, data sourced directly from an exchange is a must-have for certain latency sensitive applications. Generally, the firms that implement direct solutions understand that the start-up and maintenance costs associated with direct sourcing are typically higher than they would be for consolidated sourcing, but they believe the benefits associated with the lower latency data offset those costs. In fact, the latency improvement from “going direct” may very well make the difference between a winning and losing trading strategy for a firm.

Hosted market data services such as Interactive Data’s DirectPlus,SM a fully managed, ultra-low latency direct exchange data service offered through Interactive Data’s Real-Time Services business, are becoming an increasingly appealing way to take advantage of the benefits of direct exchange feeds without many of the drawbacks. Following are some of the key factors that should be taken into consideration by financial institutions when they are making the decision to “go direct” or to work with a vendor such as Interactive Data.

Communication costs

The cost to take in direct feeds from the exchanges to the client location can be staggering, due to the large amounts of data bandwidth required to bring in the generally uncompressed data from an exchange. In addition, for redundancy, these costs may double.

With a hosted solution such as Interactive Data’s DirectPlus, the vendor sources the exchange data from diverse carriers into BT Global Financial Services’ Radianz hosting facility and incurs the communication costs associated with acquiring the data. Once in the data center, clients just need to pay for the appropriate level of “cross connect” bandwidth to pull the data from Interactive Data’s ultra-low latency ticker plant to their co-hosted application.

Ticker plant maintenance

Interactive Data believes that firms are dedicating a substantial portion of resources to maintenance projects, and in particular keeping up with the frequent changes exchanges made to data formats and protocols. For example, one large U.S. exchange announced 22 feed changes in 2007, nine of which can be considered major changes. These changes required approximately 49 man-weeks of development and quality assurance at Interactive Data.

With a fully managed service such as Interactive Data’s DirectPlus, direct exchange feeds are fully maintained by Interactive Data, and all data format and protocol changes that the exchanges make are implemented centrally by Interactive Data at the hosting facility. This can enable clients to focus on their own proprietary applications.

Ticker plant capacity

Ticker plant capacity management is another key aspect of going direct that is often underestimated. Market data volumes have increased by at least 90% every year for the past four years. Based on historical numbers, firms must factor in the need for constant systems expansion and reengineering to double processing capacity annually at a considerable cost.

Interactive Data’s ticker plant infrastructure is engineered to handle current market data volumes, with up to 40% excess capacity. Interactive Data also monitors bandwidth capacity to confirm that incoming exchange lines are provisioned with sufficient excess capacity.

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Interactive Data Managed Solutions Delivers Web Services to Help “Visualize” Market Data

Each month, thousands of new securities are created, and it can be difficult to keep up with the influx of new data. Combine this with information on the millions of existing financial instruments around the world, and it can be clear how challenging it is for firms to efficiently process and work with such large volumes of data.

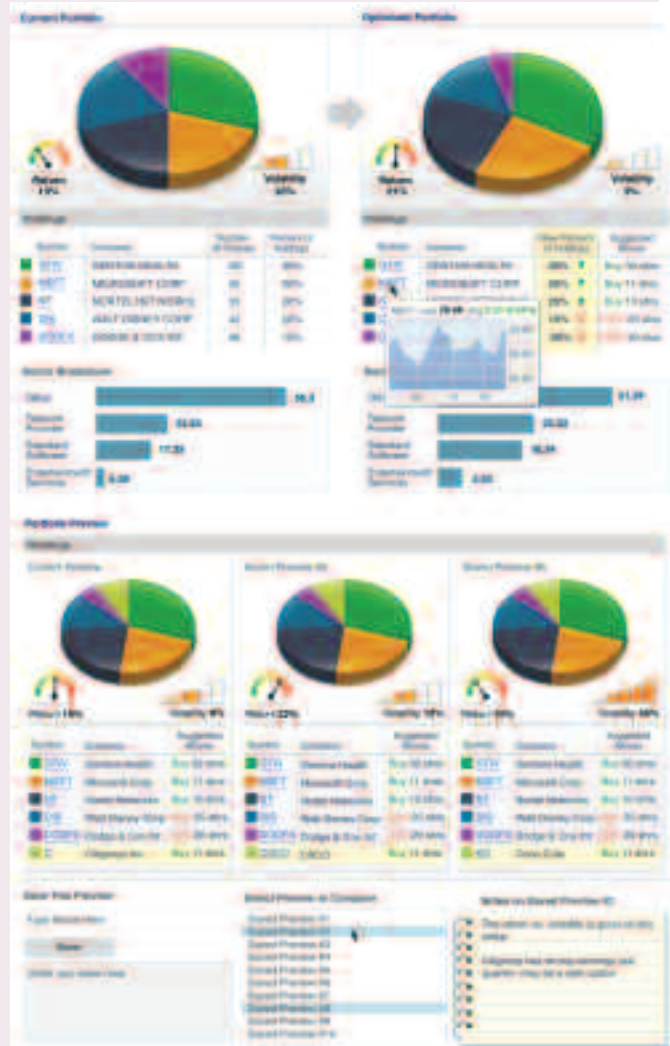
While handling and processing this data is difficult for firms, how can investors cope with this huge amount of information? One approach is for financial and media web sites to make this information more useful and understandable.

Interactive Data Managed Solutions has been helping businesses to “visualize” their data in a clear and concise way by implementing sophisticated, yet easy-to-use analytical tools and web-based applications. The combination of these services and data from across Interactive Data’s businesses can help clients’ end-users better grasp the information so they can act on it and make more informed decisions.

Many of the world’s leading financial institutions and top media companies are realizing more and more how important it is to offer these data visualization tools to help their online businesses thrive in today’s competitive market. By providing these tools, firms can allow investors to get a comprehensive view of relevant data in a clear visual format and enable them to dig deeper by performing trend analysis and projections in order to make more calculated investment choices. This type of analysis can be much more productive than the traditional way of calculating data in spreadsheets.

One example of data visualization can involve a financial portfolio. If an investor wants to determine her next move based on her portfolio holdings, she can first start off by choosing from several calculated data points. She also has several different tools to choose from, including a performance chart to see the historical performance of her portfolio against a benchmark. She can then view a breakdown of the portfolio by asset class, region and currency of the investment. An “optimizer” shows the current allocation as a pie chart view of the holdings, with the potential allocation based on the risk tolerance level chosen by the investor. Visualization tools such as these can help investors make more informed choices.

Technology plays a major part in the visualization of financial market data. For instance, “AJAX” (Asynchronous Javascript and XML – a technique to exchange data asynchronously with the web server without requiring a page refresh) is increasingly being used for innovative web sites, and Interactive Data Managed Solutions has experience working with such Web 2.0 technologies. Today’s technology is also making it easier for private traders to access and process



The portfolio optimizer shows current allocation as a pie chart view of the holdings, with the potential allocation based on a given risk aversion.

large amounts of data at home, making it even more important that financial web sites enhance their product scope. By taking advantage of advanced technology, Interactive Data is helping firms capitalize on this growing trend within the online financial industry.

For additional information, please contact Chris Riggio at chris.riggio@interactivedata.com.

NEWS IN BRIEF Highlights from Interactive Data's businesses

Interactive Data Delivers Intra-Day Indicative Valuations for Exchange Traded Structures

Interactive Data now offers the Basket Calculation Service,SM which is designed to provide clients with the indicative optimized portfolio value (IOPV) for equity and fixed income exchange traded funds (ETFs), exchange traded notes (ETNs) and a broad range of market indices. Currently, seven clients are utilizing the Basket Calculation Service.

The Basket Calculation Service utilizes inputs based on fixed income evaluations from Interactive Data Pricing and Reference Data and real-time data from market sources to calculate and deliver updated IOPVs every 15 seconds through a fully-hosted web-based application powered by PlusFeed,SM Interactive Data Real-Time Services' consolidated low latency digital datafeed.

Interactive Data Expands IRS Valuation Service; Now Covers Nearly 95% of Total Notional Amount of Interest Rate Swaps

Interactive Data Pricing and Reference Data has expanded the coverage of its interest rate swap valuation service by adding independent valuations of fixed-for-floating interest rate swaps in Australian Dollars and Japanese Yen, in addition to existing coverage of British Pounds, Euros, Swiss Francs and U.S. Dollars. Interactive Data estimates that the company now covers nearly 95% of the total notional amount of interest rate swaps outstanding.

In addition, to meet the growing demand for different, more complex structures of interest rate swaps, Interactive Data now delivers independent valuations of forward starting swaps. The interest rate swap valuation service is available on a standalone basis and as a module of FTS,SM Interactive Data's online portfolio administration service.

Interactive Data's New European Ticker Plant Goes Live

In early 2008, Interactive Data announced that the new European ticker plant for its Real-Time Services business went live. The new ticker plant significantly reduces delivery times by at least 80 milliseconds for European consumers of European real-time data distributed by PlusFeed.SM All European customers receiving PlusFeed can benefit from this enhancement.

Interactive Data also announced the availability of a low latency co-location facility. Customers in Europe will have the option of co-locating their applications in data centers close to the new London-based ticker plant to take advantage of the low latency delivery of European data.

Interactive Data is First to Deliver Evaluation Service for GNMA Serial Notes Backed by Puerto Rico Collateral

Interactive Data Pricing and Reference Data now provides daily evaluations for Government National Mortgage Association (GNMA) Serial Notes backed by 100% Puerto Rico collateral. By delivering evaluations for a broad range of securities, Interactive Data can help clients reduce the time, cost and effort associated with their valuation processes.

Interactive Data is initially providing evaluations for nearly 37,000 Serial Notes backed by 100% Puerto Rico collateral, and plans to continue to expand its coverage. This information, which is of particular interest to brokerage firms and financial institutions conducting business in Puerto Rico, is conveniently available to clients through Interactive Data's existing evaluation services.

Interactive Data Participates in The Municipal Bond Club of New York's 75th Anniversary Celebration at the NYSE

In late 2007, several members of Interactive Data Pricing and Reference Data's evaluated services team joined The Municipal Bond Club of New York (MBCNY) for events celebrating the Club's 75th Anniversary. These events included the opening bell ceremony and a reception on the floor of the New York Stock Exchange. As a member of the Board of Governors for the MBCNY, Jerry Brennan of Interactive Data joined the officers of the club on the NYSE's bell ringing platform.



The Costs of "Going Direct"

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Supplemental data

Firms generally do not get all the data they need for their applications from an exchange. As a result, they may have to source this data externally and integrate it with the direct exchange data (e.g., cross reference and corporate actions data). This integration can be complex, laborious and costly.

DirectPlus integrates several components of Interactive Data's real-time product set at the Radianz hosting facility, resulting in a feature-rich offering. Using the same protocol/API, DirectPlus can allow clients to access a plethora of supplemental data to support the directly sourced data, including data from global markets, fundamental data, cross reference data and tick data.

Monitoring tools

Firms that "go direct" generally do so because they need high-quality, ultra-low latency data for revenue-critical trading applications. Any solution implemented needs to have sophisticated monitoring tools designed to ensure that data quality and data latency is optimal.

As a fully managed service, DirectPlus uses a suite of sophisticated monitoring tools designed to detect quality issues, in addition to monitoring data latency at the microsecond level.

By taking these factors into consideration, Interactive Data believes that institutions can make more informed decisions about project plans and budgets for their low-latency data needs.

For additional information, please contact Don Finucane at donald.finucane@interactivedata.com.

Mutual Funds Against Cancer Names Interactive Data as its Foundation Sponsor

Mutual Funds Against Cancer (MFAC), one of the leading advocates in the fight against cancer within the mutual fund and financial industry, recently announced Interactive Data Corporation as its Foundation Sponsor for the next two years.

Through a series of fundraising events, including the "Expect Miracles Golf Classic" and the "Expect Miracles Wine Extravaganza," MFAC, Interactive Data and other leading mutual fund and financial services companies will work together to raise money and awareness to fight cancer.



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