



October 16, 2017

**Re: Public Comment on Regulatory Reporting and Public Transparency in the Secondary Corporate Bond Markets**

To the Board of the International Organization of Securities Commissions (IOSCO):

ICE Data Services appreciates the opportunity to comment on the analysis, data and conclusions of IOSCO Consultation Report, “Regulatory Reporting and Public Transparency in the Secondary Corporate Bond Markets.” We believe that our experience as an independent provider of fixed income evaluated pricing services, related transparency data, reference data and analytics, serving more than 5,000 global organizations, gives us unique information and insights that may assist IOSCO in refining its analysis and recommendations related to transparency in the corporate bond markets.

**Background on ICE Data Services**

ICE Data Services is the business line responsible for the suite of pricing (including evaluated pricing), market data, analytics, index services, and related products and services offered by Intercontinental Exchange, Inc. (NYSE:ICE) and certain of its affiliates (including Interactive Data Corporation and its subsidiaries, including Interactive Data Pricing and Reference Data LLC, Interactive Data (Europe) Ltd. and Interactive Data (Australia) Pty Ltd.). Intercontinental Exchange, Inc. operates a leading network of global futures, equity and equity options exchanges, as well as global clearing and data services across financial and commodity markets. The New York Stock Exchange, one of the exchanges operated by ICE, is the world leader in capital raising, listings and equities trading.

Interactive Data Pricing and Reference Data LLC (“Interactive Data”), an ICE Data Services company, is an independent pricing vendor, providing evaluated pricing across a wide spectrum of instruments for more than 40 years. Our global security evaluations are designed to support financial institutions’ and investment funds’ pricing activities, research and portfolio management. Interactive Data offers evaluations for approximately 2.7 million fixed income instruments including more than 250,000 global corporate and sovereign bonds<sup>1</sup>, as well as Fair Value Information Services for international equities, options and futures, and valuations for complex structured products.

ICE Data Services has invested considerable resources to expand our coverage and provide our clients with greater transparency and insight into the inputs utilized to derive our evaluated prices as well as to help automate and streamline key valuations processes.

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<sup>1</sup> Total includes corporate money market securities, convertible and preferred securities.



ICE Data Services generally supports efforts to promote transparency in fixed income markets. As a provider of evaluated pricing and related services, we are a major consumer of market data made available through public transparency platforms such as those operated by FINRA for U.S. transactions involving corporate bonds and securitized products, and by the Municipal Securities Rulemaking Board for secondary market transactions in U.S. municipal bonds. We intend to obtain and incorporate in our services market data available through public transparency platforms pursuant to MiFID II mandated EEA venue published transactions and any published off-venue transactions in eligible securities as they become available. We also have developed a number of products and services designed to provide transparency around our evaluations, as described below.

Below we address a number of specific points in the Consultation Report.

### **How Transparency May Impact Bond Market Liquidity**

The Consultation Report discusses the potential impact of transparency on bond market liquidity, citing information developed in IOSCO’s previous reports, “Transparency of Corporate Bond Markets”, issued in 2004, and “Examination of Liquidity of the Secondary Corporate Bond Markets,” issued in 2017.<sup>2</sup>

In the years since IOSCO’s 2004 report on bond market transparency, progress in technology, market infrastructure, and regulation have contributed to the development of new tools for analyzing market liquidity. Many of these tools draw upon a wide range of market data that became available through pre-trade and post-trade transparency initiatives undertaken by both regulators and market participants. For example, since 2015 ICE Data Services has offered ICE Liquidity Indicators<sup>TM</sup>, providing investment firms with a means to quantify liquidity at the security and portfolio level in global fixed income and equity markets. This service involves projecting a security’s future potential trading volume capacity along with its expected price uncertainty to support determinations on how long it would take to liquidate a position at or near the current value ascribed to it by the security holder.<sup>3</sup> As outlined in more detail in our comment letter to the Liquidity report, our analysis shows that certain variables are statistically significant in forecasting the liquidity of financial instruments, including but not limited to reference data attributes, bid-ask spreads, price volatility, and information about holders. The availability of such data as well as tools for analyzing market liquidity that consume such data can help market participants make more informed decisions with regard to their trading activities.

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<sup>2</sup> ICE Data Services submitted a comment to IOSCO in 2016 on an earlier version of its 2017 Liquidity report. See <https://www.iosco.org/library/pubdocs/pdf/IOSCOPD541.pdf>

<sup>3</sup> A U.S. Securities and Exchange Commission final rule on Investment Company Liquidity Risk Management Programs will require U.S. registered mutual funds to classify each portfolio asset into one of four buckets based on number of days reasonably expected for an investment to be sold or converted to cash without “significantly changing” the investment’s market value. The rule’s initial compliance deadline is December 1, 2018 for fund families with more than \$1 billion in net assets under management, and June 1, 2019 for smaller fund families. See <https://www.sec.gov/rules/final/2016/33-10233.pdf>



We also note two additional transparency-related developments that may influence market liquidity, which were discussed in our 2016 comment letter on an earlier version of IOSCO's recent report on liquidity in corporate bond markets.

1. ***Intra-day price indications provided by third-party evaluation services.*** In recent years a growing number of trading platforms have begun displaying intra-day evaluated prices, such as ICE Data Services Continuous Evaluated Pricing,<sup>4</sup> along with bids and offers from participating broker-dealers and post-trade data from FINRA TRACE<sup>TM</sup> for U.S. market transactions in corporate bonds. By augmenting pre-trade price transparency, the expansion of independent evaluations (which display on many electronic trading platforms) may increase participants' confidence to trade; thus potentially spurring incremental market liquidity.
2. ***Execution quality scoring.*** ICE Data Services believes that the heightened attention devoted to transaction cost analysis for corporate bond trades in recent years, and the resulting deployment of execution quality scoring systems by asset managers and broker-dealers, may encourage greater electronification of trading and increase liquidity on electronic trading platforms.

### **Pre-Trade Information**

The Consultation Report recommends that regulatory authorities should have access to pre-trade information.<sup>5</sup> The report makes reference to MiFID II normalising data throughout the EU. Outside observers expect MiFID II to have only a small impact in making pre-trade information available to either regulators or the public<sup>6</sup>. Conversely, our conversations with industry participants expect that other requirements, including requirements contained in the standards published by the Basel Committee on Banking Supervision in connection with the Fundamental Review of the Trading Book,<sup>7</sup> may positively impact the availability of pre-trade committed quotes in the marketplace.

### **Buy/Sell Information**

The Consultation Report suggests that buy/sell indicators be included in the post-trade information reported to regulatory authorities and made available to the public.<sup>8</sup> ICE Data Services believes that both regulators and the public could benefit from including buy/sell indicators in post-trade information reported to regulators and released to the public. We note that such indicators are not required by MiFID II, but are required by FINRA in the U.S. and are part of the trade data disseminated to the public through the FINRA TRACE<sup>TM</sup> platform. Interactive Pricing and Reference Data utilizes buy/sell information within a number of our products and services:

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<sup>4</sup> Continuous Evaluated Pricing from ICE Data Services combines system and human analyses to generate a continuous stream of fixed income evaluations that processes and incorporates market data throughout the day.

<sup>5</sup> Recommendation 3, page 9.

<sup>6</sup> See [https://www.esma.europa.eu/sites/default/files/library/2016-666\\_opinion\\_on\\_draft\\_rts\\_2.pdf](https://www.esma.europa.eu/sites/default/files/library/2016-666_opinion_on_draft_rts_2.pdf)

<sup>7</sup> <http://www.bis.org/bcbs/publ/d352.htm>

<sup>8</sup> Recommendation 4 (page 11) and Recommendation 6 (page 18)



- Our evaluators consider buy/sell information when incorporating transaction prices in our evaluation process.
- Certain transparency products and services we provide to our clients provide post-trade information that includes buy/sell indicators.
- Our methodology for scoring execution quality of specific transactions in our Best Execution service relies on information about contemporaneous or historical trades, including buy/sell indicators.

### **Evaluated Pricing Approaches**

The Consultation Report states that participants in the U.S. markets are increasingly using evaluated pricing services when market quotations are not readily available.<sup>9</sup> We believe this trend is not limited to the U.S. markets, but is global in scope.

Footnote 23 on page 13 states in part that evaluated prices “are typically generated by computer-driven valuation models with a wide range of data inputs.” The following details about the evaluation process as practiced at Interactive Data may contribute to a deeper understanding of transparency in the evaluated pricing context.

Our bid-side evaluations are a market based measurement that represents our good faith opinion as to what the holder would receive in an orderly transaction (for an institutional round lot position typically \$1 million or greater current value USD or local currency equivalent) under current market conditions. Before incorporating market data in our pricing models, we perform a security and/or sector review that helps us determine whether or not trade or bid information is consistent with other recent information available to us or derived by us. Trade and bid information will be reflected in our evaluations for comparable bonds, to the extent the information impacts our opinion of what a holder would receive for those securities. If we determine that trade or bid information is not consistent with other information available to us, the trade or bid will not be reflected in that day’s evaluation. Our process also incorporates human oversight via intra-day, weekly, and/or monthly quality controls in support of our evaluations.

When compared with an approach that assigns a dominant role to computer-driven models, we believe that incorporating the expert judgment of a team of evaluators, each of whom has past experience analyzing financial instruments of the type they cover, adds value to the evaluation process. For example, selection of comparable transactions is a dynamic process whose outcome can be enhanced by the addition of human judgment alongside of algorithms that seek to identify financial instruments with common features.

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<sup>9</sup> “Non-Regulatory Transparency Provisions and Evaluated Pricing” (page 13)



## Consolidation of Post-Trade Data

IOSCO suggests that regulatory authorities should take steps to facilitate the consolidation of post-trade transparency data.<sup>10</sup> MiFID II mandates such consolidation, effective September 2019. For U.S. markets, post-trade information for various fixed income asset types is consolidated through public trade reporting platforms mandated and operated by FINRA. ICE Data Services believes that market participants have benefited from the consistency and efficiency created by the provision of consolidated post-trade information through a single source, and the development of third party analytics tools that consume this data, such as our Best Execution and ICE Liquidity Indicators services. We likewise believe that market participants could benefit from increased comparability and ease of use of market data if regulators beyond the U.S. adopted a similar consolidated approach, as Recommendation 7 of the Consultation Report suggests.

## Conclusion

ICE Data Services believes that our four decades of experience providing evaluated pricing and related data and metrics covering millions of securities globally can provide potentially useful insights into the impacts -- including benefits, costs and challenges -- of bond market transparency. We look forward to working with IOSCO and with members of the financial industry in efforts to assist in refining regulatory guidance and industry practices for releasing market information.

Sincerely,

Mark Heckert  
Vice President, Pricing and Analytics  
ICE Data Services

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<sup>10</sup> Recommendation 7: Data Consolidation (page 19)