

# Exchange traded funds

The key to addressing the evolving needs of the exchange traded structures markets is *flexibility*

**While the exchange traded funds (ETFs) market has expanded in many different directions in recent years, there were still some significant frontiers that had yet to be reached in mid-2007 – particularly in the fixed income market. At that point in time there were relatively few fixed income ETFs and those that existed were focused on highly-liquid issues, such as treasuries**

Several major ETF sponsors were interested in launching new ETFs that included US municipal bonds, but a major hurdle was the lack of real-time pricing information for these bonds. Without this critical information, the sponsors were unable to meet the requirement of publishing intra-day indicative valuations.

In mid-2007, a major ETF sponsor looking to expand into the municipal ETF market approached Interactive Data to help them overcome this challenge. Interactive Data produces daily evaluations for approximately 2.5 million fixed income and international equity issues and delivers real-time data for millions of financial instruments. Based on this experience, Interactive Data was able to create a new offering, the Basket Calculation Service<sup>SM</sup>, which uses evaluations from its Pricing and Reference Data business as an input to a calculation engine that produces intra-day indicative valuations for ETFs. These valuations, which are based on changes to the interest rate markets, can be calculated as often as every 15 seconds of the business day.

While the initial launch of the Basket Calculation Service in September 2007 was focused on municipal ETFs, Interactive Data quickly expanded the service to cover other securities, including US corporates, treasuries and sovereigns. In 2008, Interactive Data extended the Basket Calculation Service to cover hundreds of global stock and commodities exchanges. This enabled Interactive Data to produce intra-day indicative valuations including equities and commodities for ETFs, exchange traded notes (ETNs) listed in the US and values for market indices.

Interactive Data will soon expand calculation and publishing times to include European and Asian hours, which can enable it to service ETF sponsors as they launch exchange traded products worldwide

Today, the Basket Calculation Service has nine clients and produces intra-day indicative valuations for 140 baskets of securities. Continuing to build on this success, Interactive Data has shortened calculation times for

Although the US is the largest market for ETFs, this is not just a US phenomenon. Europe, Asia and Latin America all have fast-growing ETF industries. In 2007, the European ETF market grew faster than the US market; that growth has continued, with estimates of nearly 150 new ETFs having been launched in Europe so far this year. In a country-by-country breakdown, Germany has the largest number of primary listings, followed by France, the UK, Switzerland and Italy

producing indicative valuations for equities and commodities ETFs to one second, from 15 at the initial launch. This can help to quickly reflect market moves, especially during these volatile market times.

Interactive Data has also broadened the number of exchanges to which it can publish indicative valuations, which now include NYSE Alternext US, NASDAQ, New York Stock Exchange, OMX and the Singapore Exchange. Because the Basket Calculation Service has been designed for flexibility, Interactive Data can add new exchanges. Interactive Data will also soon expand calculation and publishing times to include European and Asian hours, which can enable it to service ETF sponsors as they launch exchange traded products worldwide.

While there has been a significant evolution in the ETF market since the middle of 2007, what is the next ETF frontier? With the flexibility of the Basket Calculation Service, Interactive Data is well-positioned to quickly address future market developments.

“Our Basket Calculation Service – which we believe to be the first offering to provide intra-day indicative valuations of equity and fixed income exchange traded funds – is designed to help ETF sponsors access the information required to launch funds that contain a broader range of fixed income securities, facilitating further growth and diversification in the ETF market”

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