

UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

SECURITIES ACT OF 1933
Release No. 11150 / January 23, 2023

ADMINISTRATIVE PROCEEDING
File No. 3-21284

In the Matter of

BLOOMBERG FINANCE
L.P.

Respondent.

**ORDER INSTITUTING CEASE-AND-
DESIST PROCEEDINGS PURSUANT TO
SECTION 8A OF THE SECURITIES ACT
OF 1933, MAKING FINDINGS, AND
IMPOSING A CEASE-AND-DESIST
ORDER**

I.

The Securities and Exchange Commission (“Commission”) deems it appropriate that cease-and-desist proceedings be, and hereby are, instituted pursuant to Section 8A of the Securities Act of 1933 (“Securities Act”) against Bloomberg Finance L.P. (“Respondent” or “Bloomberg”).

II.

In anticipation of the institution of these proceedings, Respondent has submitted an Offer of Settlement (the “Offer”) which the Commission has determined to accept. Solely for the purpose of these proceedings and any other proceedings brought by or on behalf of the Commission, or to which the Commission is a party, and without admitting or denying the findings herein, except as to the Commission’s jurisdiction over it and the subject matter of these proceedings, which are admitted, Respondent consents to the entry of this Order Instituting Cease-and-Desist Proceedings, Pursuant to Section 8A of the Securities Act of 1933, Making Findings, and Imposing a Cease-and-Desist Order (“Order”), as set forth below.

III.

On the basis of this Order and Respondent's Offer, the Commission finds¹ that:

Summary

1. Pricing services are widely relied upon for determining the value of thinly traded or more complex assets. It is critically important for pricing services to provide accurate information to their customers about their valuation methodologies.

2. This matter concerns Bloomberg Finance L.P.'s ("Bloomberg") material omission to customers about its independent pricing service, BVAL. The BVAL service provides prices on a daily basis for over 2.5 million securities across all asset classes, including thinly-traded and hard-to-price fixed income securities. Since at least 2016, Bloomberg has disclosed to customers that its independent valuations of fixed income securities are derived by using proprietary algorithmic methodologies, and Bloomberg has described in detail the methodologies used to derive BVAL prices. From at least 2016 through October 2022 (the "Relevant Period"), however, Bloomberg made disclosures to its customers that did not explicitly include that valuations for certain thinly-traded fixed income securities could, in certain circumstances, be largely driven by a single data input, such as a broker quote. The omission that valuations could be largely driven by a single data input made the statements to customers regarding valuation methodologies materially misleading.

3. Investors and market participants use independent pricing services, such as BVAL, as a reference point for valuations or to facilitate price discovery for thinly traded or difficult to price assets, including many fixed income securities. Market participants pay Bloomberg for valuations of fixed income securities that are backed by Bloomberg's proprietary, algorithmic methodologies. Many of Bloomberg's customers, including mutual funds, money managers, and hedge funds, may utilize BVAL prices to determine fund asset valuations, including for valuing fund investments in government, supranational, agency and corporate bonds, municipal bonds and securitized products. BVAL prices, which customers may use when valuing their fixed income positions and making offers and sales of securities, therefore can impact the price at which securities are or were offered or sold to investors and prospective investors or purchased from investors. As such, Bloomberg's omission to state a material fact necessary in order to make the description of its valuation methodologies, in light of the circumstances in which they were made, not misleading, impacted offers and sales of certain securities during the Relevant Period in violation of Section 17(a)(2) of the Securities Act.

¹ The findings herein are made pursuant to Respondent's Offer of Settlement and are not binding on any other person or entity in this or any other proceeding.

Respondent

4. Bloomberg Finance L.P. is a subsidiary of Bloomberg L.P., a privately held financial, software, data, and media company headquartered in New York, New York. Through BVAL, Bloomberg provides daily price valuations for more than 2.5 million securities across all asset classes to more than 1,300 financial institution customers.

Background

5. Bloomberg, through its evaluated pricing service, BVAL, provides daily price valuations to its customers through paid subscriptions and licenses. Bloomberg's customers include broker-dealers, investment advisers, registered investment companies, accounting firms, banks, and other financial services entities. According to Bloomberg, BVAL valuations are based on sophisticated, proprietary, algorithmic methodologies, and it leverages a global team of hundreds of experienced market specialists (evaluators, pricing specialists, and financial engineers) to create and maintain the algorithms and the data incorporated into the algorithms.

6. BVAL provides customers with the BVAL score, which is designed to gauge the amount and consistency of market data used in BVAL's models with respect to a particular BVAL price. The BVAL score is measured on a scale of 1 (the lowest) to 10 (the highest), and changes dynamically as additional market data becomes available for a particular instrument.

7. According to Bloomberg, BVAL is an industry-leading pricing service providing coverage for many thinly-traded and hard-to-price fixed income securities. Due to the lack of observable liquidity for many fixed income securities, some investors in fixed income use independent pricing services, such as BVAL. According to Bloomberg, BVAL is known throughout the industry for its high-quality data, sophisticated pricing methodology, and the transparency of its valuation process and data inputs, which are intended to allow Bloomberg's customers to clearly understand the methodologies Bloomberg uses to value securities.

8. Bloomberg's customers use BVAL price valuations for a variety of purposes, including, potentially, evaluating whether to hold or sell securities or to purchase different securities, determining fund share prices and fund valuations, reporting prices of securities on investor account statements and in corporate books and records, complying with generally accepted accounting principles or other applicable obligations with respect to valuation, computing the value of securities and portfolios, and calculating advisory and asset management fees.

**Bloomberg's Valuation Methodology, Related Disclosures, and Failure To Disclose
Material Facts Necessary To Make The Disclosures Not Misleading**

9. Bloomberg discloses to customers that it values fixed income securities by using either the direct observations algorithm or the observed comparables algorithm. Direct observations include market data about a target security, such as institutional-size reported trades, executable levels, and indicative market quotes. According to Bloomberg's disclosures, the direct observations algorithm filters this market data to include only the highest quality observations. Additionally, the direct observations algorithm requires that executable levels and indicative market quotes are statistically corroborated, i.e., that there are quotes from at least two different sources, within a time and price proximity band. If these resulting highest quality observations are corroborated, the direct observations algorithm computes a price derived from the direct observations. If market data is not available or is not corroborated, BVAL uses the observed comparables algorithm, which, according to Bloomberg's disclosures, derives the price of a target security based on market data regarding comparable securities.

10. Bloomberg evaluators can also use the Evaluator Input Tool ("EIT") to incorporate into BVAL's algorithms a single data point about the target security, such as a broker quote that may not have been automatically incorporated by BVAL. At times during the Relevant Period, EIT was used by evaluators to incorporate data into the observed comparables algorithm, which in certain circumstances could result in BVAL prices that, in the time period shortly after the incorporation of that single data input (such as a broker quote), were largely based on that single data input. These circumstances were generally limited to the pricing of certain illiquid, thinly-traded securities for which little observable market data exists, and which would be assigned a lower corresponding BVAL score in the BVAL data provided to customers.

11. Bloomberg failed to disclose to its customers that the use of EIT could, in certain circumstances, result in a valuation based on an uncorroborated single data input. Due to this omission, Bloomberg's description of its valuation methodology was materially misleading because it conveyed that the prices of fixed income securities derived through the observed comparables algorithm were based on value relative to comparable securities only, when in fact certain of the prices of fixed income securities were based on a single broker quote with respect to the target security.

12. Bloomberg's customers, some of whom use BVAL prices in connection with the offer, sale, and purchase of securities, were unable to determine that certain BVAL prices were not generated in accordance with the disclosed methodologies.

Bloomberg's Customers Use the Valuations As Part of the Selling Process

13. Many fixed income securities are thinly traded and difficult to price. Therefore, Bloomberg customers use BVAL price valuations to facilitate price discovery and to perform valuations of fixed income securities.

14. Pricing services such as BVAL play a significant role in fund asset pricing, and BVAL prices may be sources of fund asset valuations. As Bloomberg was aware, many registered investment companies and private funds utilize BVAL price valuations to mark-to-market holdings of fixed income securities, including for determining net asset value (NAV) calculations and to compute the prices at which fund shares are offered to, sold to, or redeemed from investors.

15. Additionally, BVAL valuations are used as a reference point when market participants send offers to the market and when market participants determine whether to purchase or sell a security at a certain valuation. Although there is no evidence that BVAL's prices were erroneous or not reflective of the market during the Relevant Period, there are instances in which Bloomberg delivered valuations that were not derived in accordance with disclosed methodologies and for which market participants may have contemporaneously transacted at that exact BVAL valuation.

Omission of Material Facts Rendered Statements Misleading

16. Bloomberg's failure to disclose that BVAL prices for fixed income securities could, in a limited number of circumstances, be based on a single data input such as a broker quote rendered Bloomberg's disclosures about its pricing methodologies, in light of the circumstances in which they were made, misleading. During the Relevant Period, Bloomberg, for a very small fraction of total reported valuations, determined the prices of certain fixed income securities based on uncorroborated single broker quotes (with correspondingly low BVAL scores reflecting limited amount and consistency of market data), and did not inform its customers that the use of EIT could result in valuations based on single broker quotes. This omission caused Bloomberg's disclosures about its methodologies to be materially misleading.

Violations

17. As a result of the conduct described above, Bloomberg violated Section 17(a)(2) of the Securities Act, which prohibits "any person in the offer or sale of any securities ... directly or indirectly ... to obtain money or property by means of any untrue statement of a material fact or any omission to state a material fact necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading."²

² Negligence is sufficient to establish a violation of Section 17(a)(2). *See Aaron v. SEC*, 446 U.S. 680, 696-97 (1980).

Bloomberg's Remedial Efforts

18. In determining to accept the Offer, the Commission considered remedial acts promptly undertaken by Bloomberg, including its voluntary retention of an outside expert to examine and make enhancements to its BVAL line of business and its publication in October 2022 of additional disclosures with respect to its valuation methodologies, including with respect to the incorporation of single broker quotes in its valuation methodologies.

IV.

In view of the foregoing, the Commission deems it appropriate to impose the sanctions agreed to in Respondent Bloomberg's Offer.

Accordingly, pursuant to Section 8A of the Securities Act, it is hereby ORDERED that:

- A. Bloomberg cease and desist from committing or causing any violations and any future violations of Section 17(a)(2) of the Securities Act.
- B. Bloomberg shall, within 10 days of the entry of this Order, pay a civil money penalty in the amount of \$5,000,000 to the Securities and Exchange Commission for transfer to the general fund of the United States Treasury, subject to Section 21F(g)(3) of the Securities Exchange Act of 1934. If timely payment is not made, additional interest shall accrue pursuant to 31 U.S.C. §3717.

Payment must be made in one of the following ways:

- (1) Respondent may transmit payment electronically to the Commission, which will provide detailed ACH transfer/Fedwire instructions upon request;
- (2) Respondent may make direct payment from a bank account via Pay.gov through the SEC website at <http://www.sec.gov/about/offices/ofm.htm>; or
- (3) Respondent may pay by certified check, bank cashier's check, or United States postal money order, made payable to the Securities and Exchange Commission and hand-delivered or mailed to:

Enterprise Services Center
Accounts Receivable Branch
HQ Bldg., Room 181, AMZ-341
6500 South MacArthur Boulevard
Oklahoma City, OK 73169

Payments by check or money order must be accompanied by a cover letter identifying Bloomberg as a Respondent in these proceedings, and the file number of these proceedings; a copy of the cover letter and check or money order must be sent to Osman Nawaz, Division of Enforcement, Securities and Exchange Commission, New York Regional Office, 100 Pearl St., Suite 20-100, New York, NY 10004-2616.

B. Amounts ordered to be paid as civil money penalties pursuant to this Order shall be treated as penalties paid to the government for all purposes, including all tax purposes. To preserve the deterrent effect of the civil penalty, Respondent agrees that in any Related Investor Action, it shall not argue that it is entitled to, nor shall it benefit by, offset or reduction of any award of compensatory damages by the amount of any part of Respondent's payment of a civil penalty in this action ("Penalty Offset"). If the court in any Related Investor Action grants such a Penalty Offset, Respondent agrees that it shall, within 30 days after entry of a final order granting the Penalty Offset, notify the Commission's counsel in this action and pay the amount of the Penalty Offset to the Securities and Exchange Commission. Such a payment shall not be deemed an additional civil penalty and shall not be deemed to change the amount of the civil penalty imposed in this proceeding. For purposes of this paragraph, a "Related Investor Action" means a private damages action brought against Respondent by or on behalf of one or more investors based on substantially the same facts as alleged in the Order instituted by the Commission in this proceeding.

By the Commission.

Vanessa A. Countryman
Secretary