Statement of Karen Dunn Kelley, Chief Executive Officer, Invesco Fixed Income

Securities and Exchange Commission Securities Lending and Short Sale Roundtable

Panel 2: Securities Lending and Investor Protection Concerns: Cash Collateral Reinvestment; Default; Lending Agent Compensation and Fee Splits; Proxy Voting

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Invesco Ltd. ("Invesco") is pleased and honored to participate in this roundtable discussion on securities lending and investor protection concerns. Invesco is a leading independent global asset management firm with operations in 20 countries serving clients in over 100 countries. Invesco is a publicly traded company listed on the New York Stock Exchange and had approximately $389 billion in assets under management as of June 30, 2009, including $149 billion within the AIM mutual fund complex managed by Invesco Aim Advisors, Inc. ("Invesco Aim"). The AIM Funds operate a large securities lending program and Invesco Aim also manages securities lending cash collateral for various third party securities lending managers.

Introduction

Securities lending is the temporary transfer of securities on a collateralized basis from a lender to a borrower, usually under predetermined fee or contractual arrangements. In a broad market context, securities lending enhances liquidity in the equity, fixed income, and money markets by reducing trading costs and promoting market efficiency for participants. Securities lending enables borrowers to sell securities they do not currently own in order to execute their trading and investment strategies with sufficient confidence that those securities can be borrowed prior to settlement. Typical investment strategies that may rely in part on securities lending include merger arbitrage, convertible bond arbitrage and relative value arbitrage. For institutional investors such as mutual funds and insurance companies, a properly structured securities lending program can generate incremental returns with limited additional risk. The comments below provide an overview of various practices Invesco Aim employs to manage this risk in the operation of the AIM Funds lending program. Invesco Aim believes that clearly defining goals, establishing an extensive counterparty credit risk management framework, developing prudent, well-tested procedures and implementing a thorough legal and compliance oversight process are critical components of a successful securities lending program.

Cash Reinvestment Risk

In the United States, lenders typically require borrowers to post cash collateral for securities on loan and the lender generally bears the cash reinvestment risk. This risk is generally greater in lending programs where income is generated primarily from reinvestment spreads rather than the intrinsic value of the loan derived from borrower demand. Many of the recent losses relating to securities lending resulted from the reinvestment of cash collateral into higher-yielding but less conservative or liquid vehicles in an effort to generate additional lending income. As valuations for securities held by these vehicles began to fall, some securities lenders were left with less than a dollar in assets for each dollar of collateral they were obligated to return to borrowers, resulting in losses to the lending funds or institutions.

The AIM Funds' securities lending program is designed to produce reasonable risk-adjusted returns utilizing an approach that focuses on intrinsic value rather than volume and collateral reinvestment yields; securities lending collateral is invested in 2a-7 money market funds advised by Invesco Aim. Invesco Aim believes that this approach reflects the appropriate role of a securities lending program: to generate additional fund income without materially increasing the fund's risk.

Lending Agent Compensation

Under the AIM Funds' securities lending program, lending funds split cash collateral investment returns and premiums on high demand securities (after payment of borrower rebate) with the lending agent/principal. The fee split, which is approved by the AIM Fund board, is negotiated annually on a fund by fund basis and depends upon each fund's security holdings at the time. The lending agents/principal under the AIM Funds' securities lending program are not affiliated with Invesco Aim.

Proxy Voting

The holder of securities on the record date is entitled to vote the shares. If a lender wishes to vote proxies on a particular matter, it must act promptly to recall loaned securities when it becomes aware of the pending proxy item. In determining whether or not to do so, the lender must weigh the importance of the proxy matter under consideration against the economic benefits of allowing the securities to remain on loan. Lenders must also be prepared to act quickly given the short timeframe that often exists for recalling securities by the designated record date. Invesco Aim has implemented comprehensive procedures to recall loaned securities in a timely fashion in order to vote proxies in certain situations. These procedures are part of the AIM Funds' securities lending procedures that have been approved by the AIM Funds board.

Borrower Default Risk

Borrowers post collateral under the securities lending program to cover their obligations to return the loaned securities. Like most lenders, the AIM Funds require excess collateral (more than 100%) to mitigate the intraday and timing risk of posting additional collateral. This collateral is marked to market daily. If a borrower defaults and fails to return a loaned security, the lending funds may use the posted collateral to repurchase the security in the market. The collateral may be insufficient if the value of the security increased significantly overnight and additional collateral was not posted prior to the borrower's default. Lending agents generally indemnify lenders for any losses incurred in the event of a borrower default. These losses could include insufficient collateral as well as any penalties or fees charged on a sale of a loaned security that failed to settle timely because the security had been loaned and was not returned by the borrower.

Lenders should note, however, that lending agent indemnification does not protect the lending fund from lost opportunity costs (that is, opportunities missed as a result of the delay in obtaining a new security to replace the loaned security). Regular credit review of both the borrowers and the securities lending agents and principals are therefore a critical part of any securities lending program. In the light of recent events, lenders may wish to consider including cross-default provisions in loan documents in order to permit them to unwind positions on loan to counterparties with deteriorating financial health. It is also advisable to develop procedures that define triggers or processes and possibly including cross-default provisions in loan documents in order to mitigate deterioration in credit quality of securities lending counterparties and to facilitate the process for closing out outstanding loans.