MEMORANDUM

TO: File No. 4-619

FROM: Smeeta Ramarathnam
Office of Commissioner Luis A. Aguilar

DATE: March 12, 2012

SUBJECT: Meeting with Invesco

On March 6, 2012, Commissioner Aguilar and Smeeta Ramarathnam, Chief of Staff, met with the following individuals:

- Martin Flanagan, CFA, CPA, President & CEO, Invesco Ltd.;
- Karen Dunn Kelley, Senior Managing Director of Investments, Invesco;
- Tony Wong, Head of Global Cash Management and Investment Grade Municipal Research, Invesco;
- Kevin M. Carome, Senior Managing Director and General Counsel, Invesco Ltd.; and
- Douglas B. Kidd, Managing Director of Communications and public Affairs, Invesco.

Among other things, the discussion included Invesco's views on the effectiveness of the amendments promulgated by the Commission in 2010 to Rule 2a-7 under the Investment Company Act of 1940. Attached are materials provided at the meeting.

Attachment

2a-7 Money Market Reforms: Invesco’s Viewpoint

March 6, 2012

Invesco

2a-7 Reforms Are Working –Key Improvements in Governance, Portfolio Structure, Liquidity, and Transparency

I. IMPACT ON INDUSTRY

II. IMPACT ON INVESCO

III. KEY TAKEAWAYS

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IMPACT ON INDUSTRY

2a-7 Reforms From 2010 Are Working

Transformational improvement in governance, portfolio structure, liquidity, and transparency reduces the likelihood and mitigates potential impact of runs

- Greater governance required from fund boards with more oversight and responsibilities including a mechanism (pre-ordained orderly liquidation mechanism) to minimize or stop runs at an individual fund through its orderly wind-down
- Rules around this pre-ordained orderly liquidation mechanism ensure that objectives of shareholders, regulators, and advisors are aligned more than ever before
- Higher liquidity levels provide greater shareholder confidence in redemption availability even during periods of market stress
- Shorter maximum weighted average maturity and introduction of weighted average life result in lower volatility and greater flexibility to address changes in the market
- More frequent and detailed portfolio disclosures provide greater evidence of the stability and resiliency of MMFs
- Demonstrated stability in NAVs, even during periods of market stress
- Investor confidence in MMFs with assets of $2.7T due to success of reforms

Because current reforms are working, extreme proposals, such as a floating NAV, capital buffers and holdbacks, are not warranted. Introduction of unnecessary regulation during a period of slow economic growth will restrict access to credit for the economy, disrupt market functioning and damage a fragile economic recovery.

Recent Amendments to Rule 2a-7 - *Portfolio Liquidity*

Topic	New or Amended Rules	Previous Rule
Daily Liquidity	For all taxable money market funds - 10% of assets in cash, U.S. Treasury securities, or securities that can be converted (mature) into cash within one day.	No minimum liquidity mandates
Weekly Liquidity	For all money market funds (includes tax exempt) - 30% of assets must be in cash, U.S. Treasury securities, certain other government securities of 60 days or less, or securities that convert into cash within one week.	No minimum liquidity mandates
Illiquid Securities	Restricts limit to 5% of assets and redefines illiquid as any security that cannot be sold or disposed of within 7 days at carrying value.	Limit of 10% of assets
Periodic Stress Tests	Require fund managers to examine the fund's ability to maintain a stable NAV in the event of shocks such as interest rate changes, higher redemptions and changes in credit quality.	No stress test requirements
Know Your Investor Procedures	Funds need to develop procedures to identify investors whose redemption requests may pose risks to funds. Funds would need to anticipate the likelihood of large redemptions.	No KYC redemption risk requirements

Note: highlighted topics are most impactful on Invesco.

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Recent Amendments to Rule 2a-7 - *Portfolio Maturity*

Topic	New or Amended Rules	Previous Rule
Weighted Average Maturity (WAM) Limits	Restricts weighted average maturity (WAM) to 60 days.	Limit weighted average maturity (WAM) to 90 days
Weighted Average Life (WAL) Limits	Restricts weighted average life (WAL) to 120 days.	No limit on weighted average life (WAL) mandate

Note: highlighted topics are most impactful on Invesco.

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Recent Amendments to Rule 2a-7 - *Portfolio Credit Quality*

Topic	New or Amended Rules	Previous Rule
Rating Agencies *Implementation Delayed*	Follow existing requirements and require funds to designate annually at least 4 NRSROs whose ratings the fund's board considers to be reliable. Eliminate the requirement of investing only in NRSRO-rated asset backed securities.	Requires securities to be rated in the top two rating categories (or unrated securities of comparable quality) and require fund managers to perform independent credit analysis of every security purchased.
Second Tier Securities	Restrict limit to 3% of assets.	Limit of 5% of assets
	Limits exposure to any single second tier issuer to 0.50% of assets	Restrict exposure to any single second tier issuer to the greater of 1% or $1 million
	Maturity limit of 45 days to any second tier security.	Limit of 397 days
Repurchase Agreement Collateral	When using "look through" provision, repo collateral must be limited to cash items or government securities. Require fund managers to perform credit analysis on repo counterparties.	Fund managers allowed to "look through" to the underlying collateral for all highly rated securities.

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Recent Amendments to Rule 2a-7 - *Other Fund/Shareholder Protections*

Topic	New or Amended Rules	Previous Rule
Purchase by Affiliates	Expanding ability of affiliates to purchase distressed assets from funds in order to protect fund shareholders from losses, fund would have to notify SEC when it relies on this rule.	An affiliate cannot purchase securities from fund before a rating downgrade or a default unless it receives prior SEC approval.
Portfolio Holding Disclosure	Requires fund managers to post portfolio holdings on fund web sites each month and maintain holdings reports for six months after posting. Additionally, requires fund managers to report detailed portfolio data to SEC in a format that can be used to create an interactive database within five business days after each month.	No website posting is required. No existing SEC reporting database.
Shadow NAV Disclosure	Requires fund managers to report shadow NAV in a format that can be used to create an interactive database that the SEC can use to oversee funds and would be available to the public on a 60 day delay.	Money market fund's "shadow" NAV is reported twice a year on a 60-day lag.
Suspension of Redemptions	Permits fund's board of directors to suspend redemptions if the fund is about to “break the buck” and decides to liquidate the fund. Would require notification to SEC prior to relying on this rule.	Board of directors must request an order from the SEC to suspend redemptions.
Money Market Operations	Require funds to process purchases and redemptions electronically at a price other than $1.00.	No explicit requirement on processing transactions electronically.

Note: highlighted topics are most impactful on Invesco.

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Clarity on Suspending Redemptions & Fund Liquidation – Putting into Place a **Pre-ordained Orderly Liquidation Mechanism** for MMFs

Pre Reform Limitations	Protocols, procedures, and requirements for halting redemptions for MMF were not well defined or understood
Reform	New rule permits a MMF, with irrevocable Board approval, to suspend redemptions and liquidate the fund. Puts into place a **pre ordained orderly liquidation mechanism** for MMFs
Reform Results	Reform is designed to facilitate the ***permanent*** termination of a MMF in an orderly manner
Benefits	Fund Boards bear the responsibility to halt redemptions & liquidate if MMF is in jeopardy of "breaking the buck". Fund advisors are highly incentivized to enhance portfolio structure and stability to avoid this possibility. Funds advisors must have procedures and systems in place to facilitate an orderly liquidation.

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Increased Industry Transparency Through Disclosure

Pre Reform Limitations	SEC did not receive Portfolio Holdings on a scheduled, periodic basis. Investors, issuers, and industry lacked central data repository	Shadow NAV disclosure not standardized across industry and not easily obtained	Funds were not required to publicly post portfolio holdings other than quarterly. Additionally, no consistency in the information disclosed
Reform	Detailed portfolio holdings data reporting to SEC	Public disclosure of Shadow NAVs	Public and consistent monthly disclosure of portfolio holdings
Reform Results	Fund Advisors are now required by Rule 2a 7 to report standardized portfolio data within 5 business days after each month end. Posted to pubic interactive database	Fund Advisors are now required by Rule 2a 7 to report shadow NAVs monthly to the SEC. This information is publicly available on a 60 day delay	Rule 2a 7 requires fund managers to post portfolio holdings on fund web sites in a consistent format each month and maintain holdings reports for six months after posting
Benefits	A pubic interactive database allows for easy access to detailed information. It creates the ability to review and compare funds on a 60 day delay	NAVs provide statistical confirmation of the stability of a $1.00 NAV. Trends in NAVs can identify more aggressive, riskier funds	Public disclosure and uniformity of information gives investors, issuers, and the industry clarity and consistency of information

Source: Invesco

Transformational Changes in Portfolio Liquidity & Structure

Pre Reform Limitations	Restricted weighted average maturity (WAM) to 90 days or less	Rule 2a 7 did not impose a weighted average life (WAL) restriction	Funds not required to keep specified levels of liquidity in their portfolios
Reform	Weighted Average Maturity limited to 60 days or less. Current industry average is 40 days	Weighted Average Life limited to 120 days or less. Current industry average is 62 days	Funds must hold at least 10% and 30% of their assets in daily and weekly liquid assets
Reform Results	Limit weighted average maturity (WAM) to no more than 60 calendar days, reduced from 90 days	Limit weighted average life (WAL) to no more than 120 calendar days. No prior WAL requirement	Maintain minimum percentage of assets in highly liquid securities
Benefits	Funds are more resilient to changes in interest rates or other market shocks. Rule enhances the portfolio liquidity profile of the funds	To ensure funds can maintain stability even during volatile markets. Rule enhances the portfolio liquidity profile of the funds	Provides greater certainty and comfort that expected and unexpected redemptions can be met

Source: Invesco

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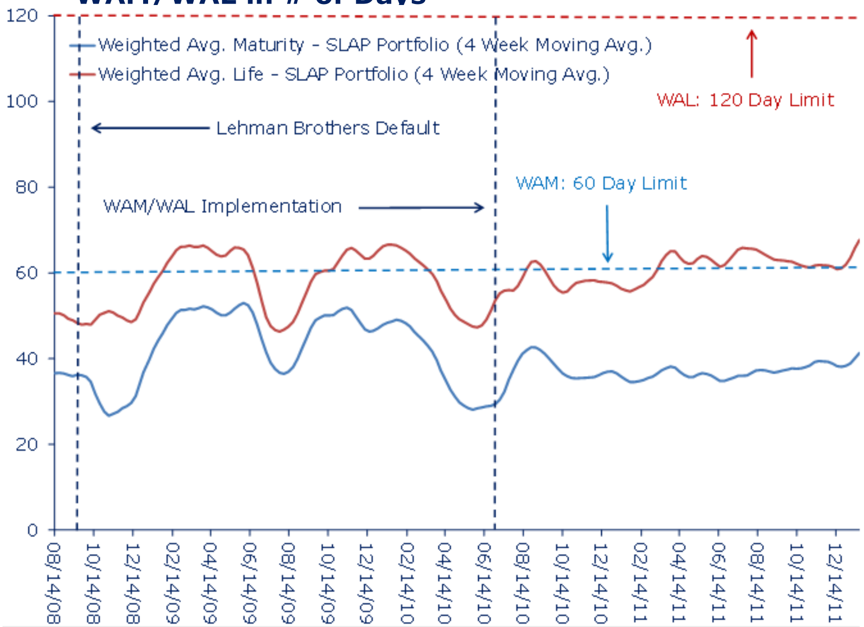
IMPACT ON INVESCO

2a-7 Money Market Reform: Portfolio Maturity

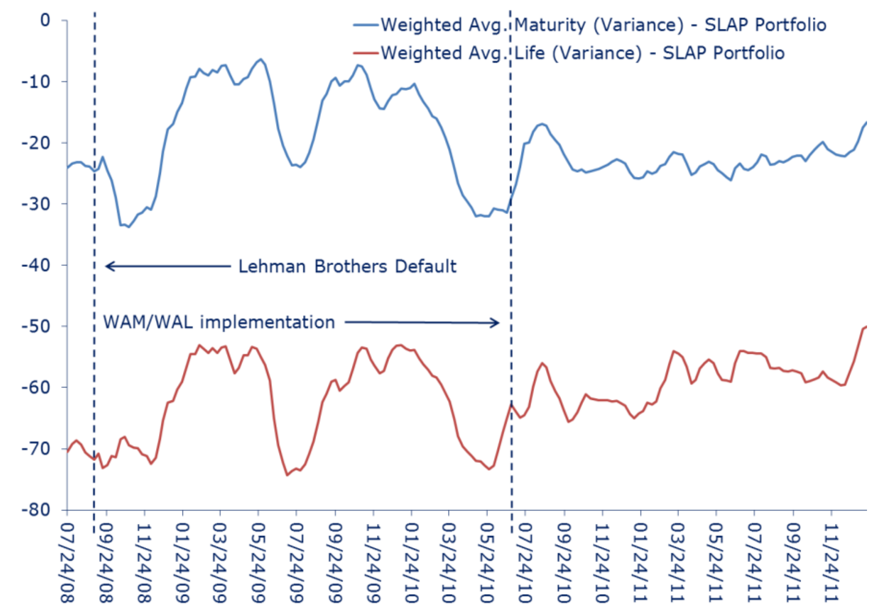
- Invesco has consistently structured its portfolios, including the STIT Liquid Assets Portfolio ("SLAP"), in accordance with 2a-7 stated guidelines: 60 day – weighted average maturity (WAM) & 120 day – weighted average life (WAL).
- Invesco structure allows more latitude to maneuver in various market environments, including periods of stress.
- The new 2a-7 reforms reinforced and formalized a process already in place for Invesco and resulted in more stringent parameters for the industry.

WAM/WAL in # of Days



Source: Invesco

WAM/WAL in # of Days (vs. guideline limit)

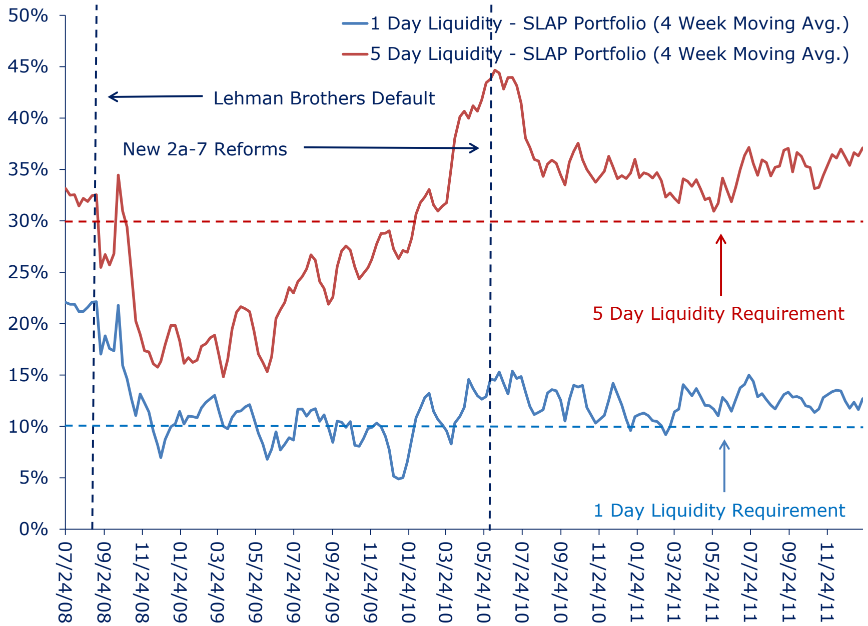


Source: Invesco

2a-7 Money Market Reform: Portfolio Liquidity

- Invesco consistently maintained levels of liquidity within stated guidelines: 10% - daily liquidity & 30% - weekly liquidity.
- High liquidity levels prior to Lehman, but even at the depths of the crisis favorable liquidity cushions were maintained without Advisor financial support.

1/5 Day Liquidity %'s



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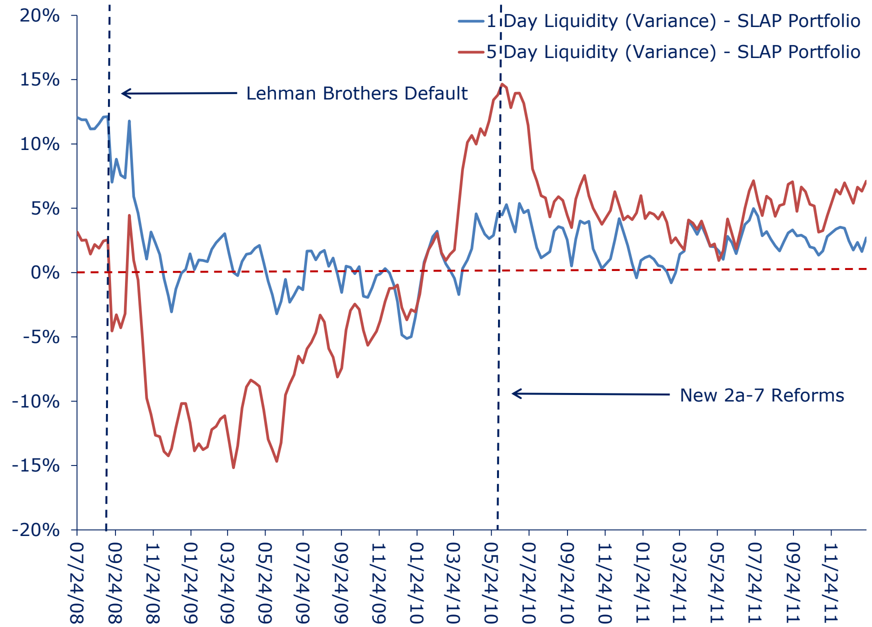
1/5 Day Liquidity %'s (vs. guideline limit)



Source: Invesco

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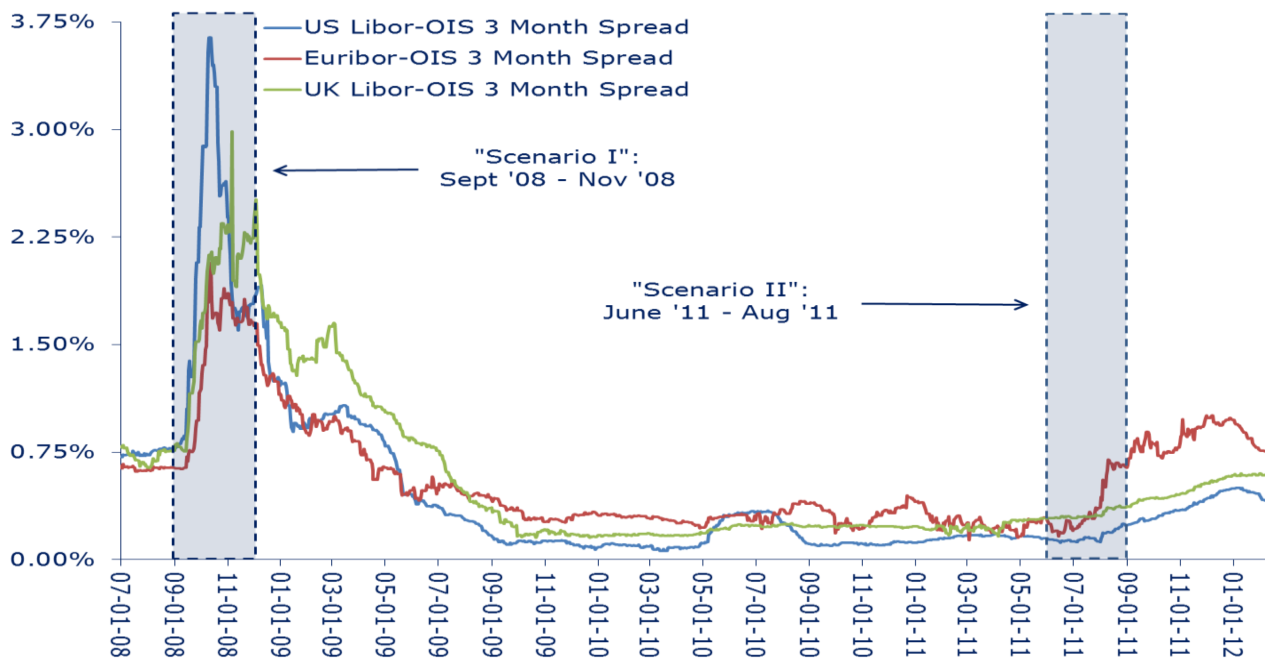
Analysis of Market Stress Scenarios

- Invesco focused on two different "stress" scenarios within the short-term fixed income markets to illustrate how the new Rule 2a-7 reforms have performed.
- A "stress" scenario was defined as a period of elevated Overnight Indexed Swap (OIS) spreads relative to the corresponding interbank rate (i.e. Libor)
- First period includes the Lehman Bros. bankruptcy and the second period includes the escalation in the European banking crisis and the US debt downgrade.

Shaded areas represent Stress Scenarios as defined by elevated OIS spreads



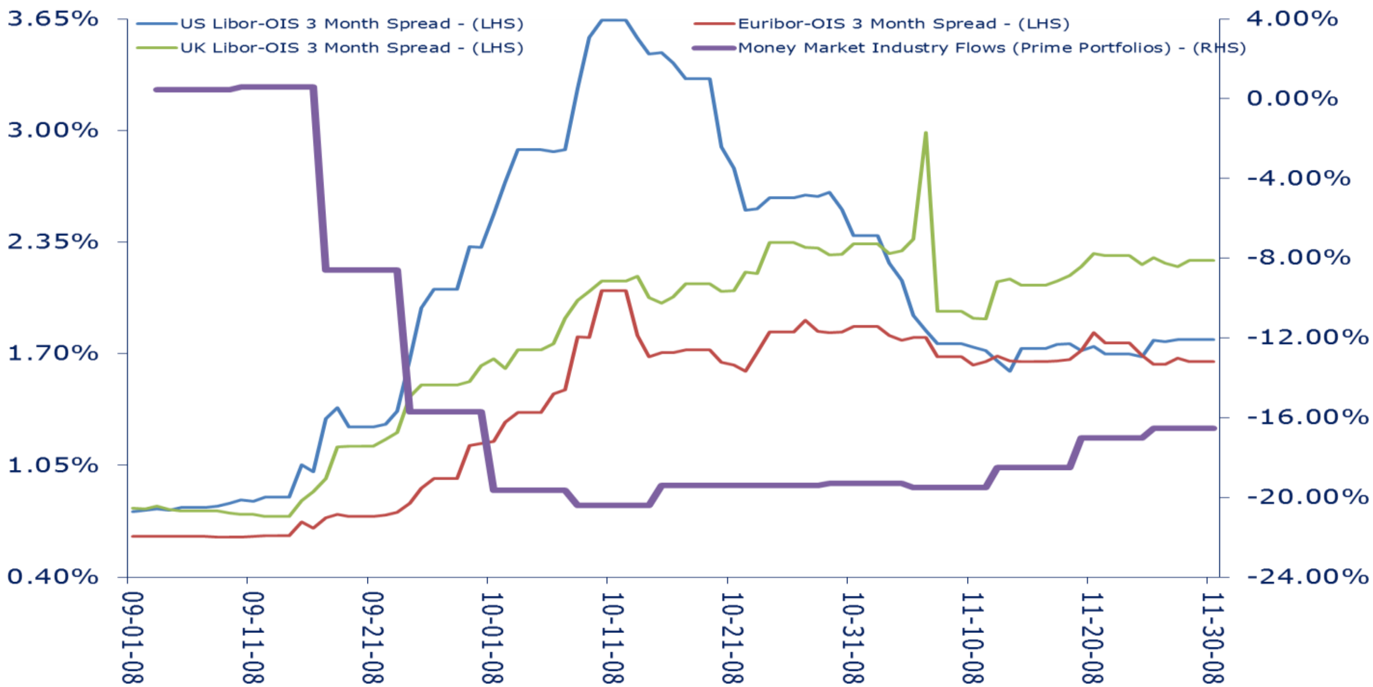
Source: Bloomberg

Stress Scenario I: September '08 – November '08

Industry

- Arguably the start of the credit crisis with Fannie Mae and Freddie Mac put into conservatorship; Lehman Bros. files for bankruptcy protection; the Reserve Primary fund "breaks the buck"; and the Fed takes control of AIG.
- Prime MMF industry loses ~$300 billion (15% of industry assets) during the week of Sept 15th.

Scenario I: September '08 – November '08



Source: Bloomberg

Stress Scenario I: September '08 – November '08

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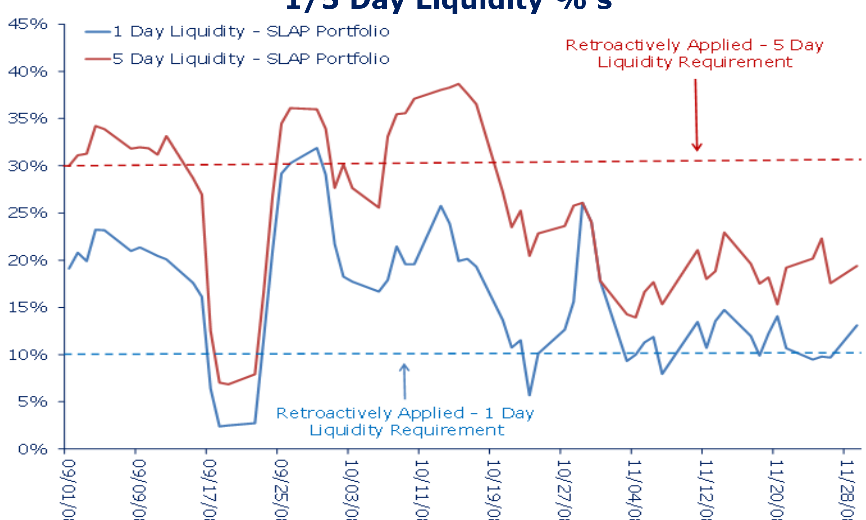
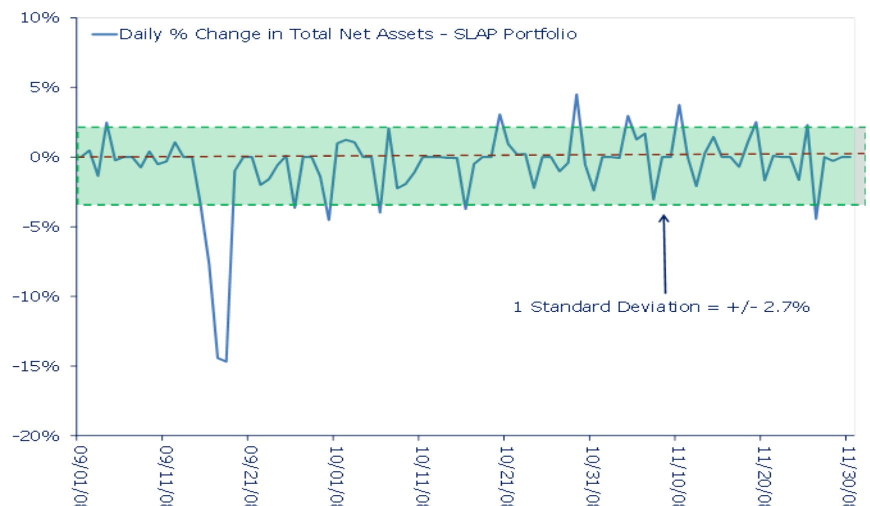
- SLAP Portfolio average daily percent change in total assets of -0.6%. Largest one-day redemption of 14.7%.
- Outflows on 37 of 65 days. Outflow days, average and median outflows of $584 million (2.8% of avg. AUM) and $312 million (1.5% of avg. AUM), respectively.
- Daily flows within 1 standard deviation (+/- 2.7%) 82% of the time.

1/5 Day Liquidity %'s



Source: Invesco

Daily % Change in Total Assets



Source: Invesco

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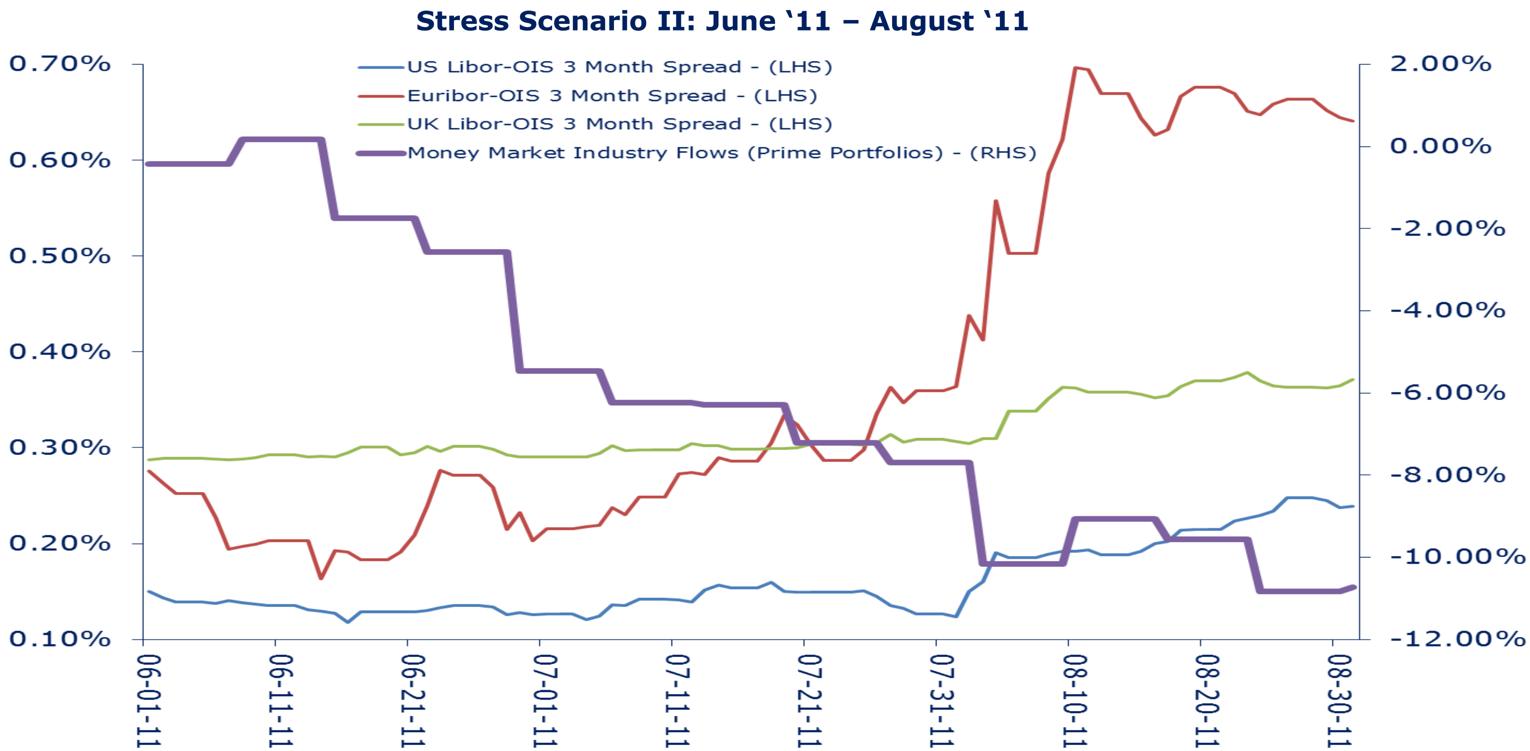
Stress Scenario II: June ‘11 – August ’11

Industry

- June 15th , Moody’s places French banks on review for downgrade.
- July 14th, S&P places USA’s ‘AAA’ and ‘A-1+’ ratings on review for downgrade.
- August 2nd, S&P downgrades USA to ‘AA+’ with a Negative outlook.
- Prime MMFs lost $172 billion, or 10.4%, during this period.



Source: Bloomberg

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Stress Scenario II: June '11 – August '11

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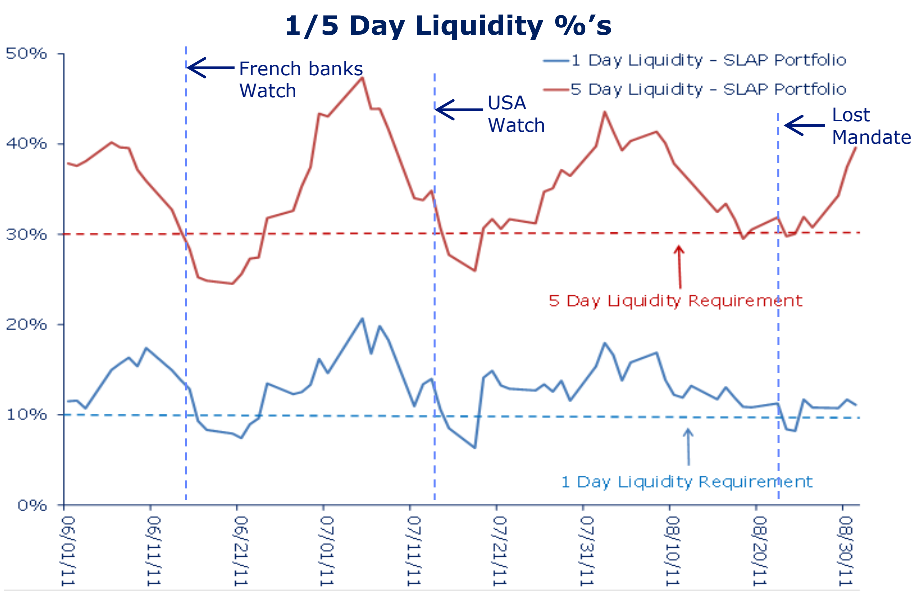
- SLAP Portfolio average daily percent change in total assets of -0.2% with largest one-day redemption of 4.2%.
- Outflows on 37 of 66 days. On outflow days, average and median outflows of $238 million (1.2% of avg. AUM) and $232 million (1.1% of AUM), respectively.
- Daily flows activity within 1 standard deviation (+/- 1.2%) 77% of the time.



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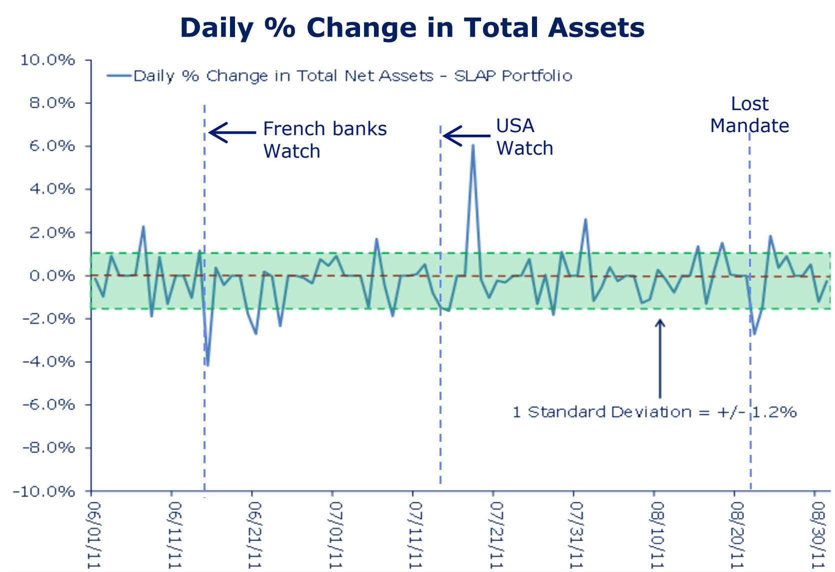

Source: Invesco

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Impact Pre- and Post-Reforms on Invesco SLAP

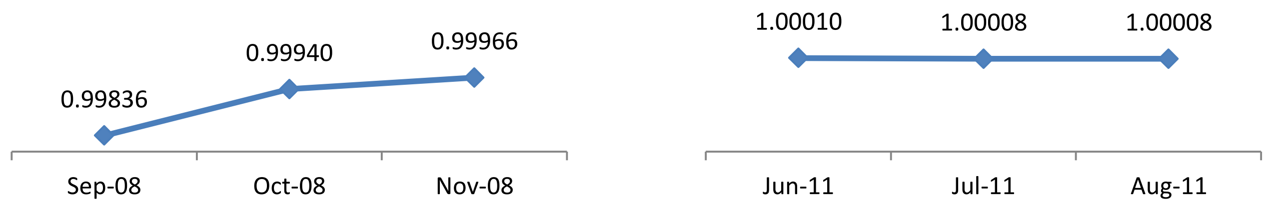
Scenario I – Pre-Reforms

Scenario II – Post-Reforms

Increased investor confidence has reduced volatility of flows

Month-over-month change in assets (percent)

SLAP portfolio's NAV has remained comfortably at $1.00 with less volatility

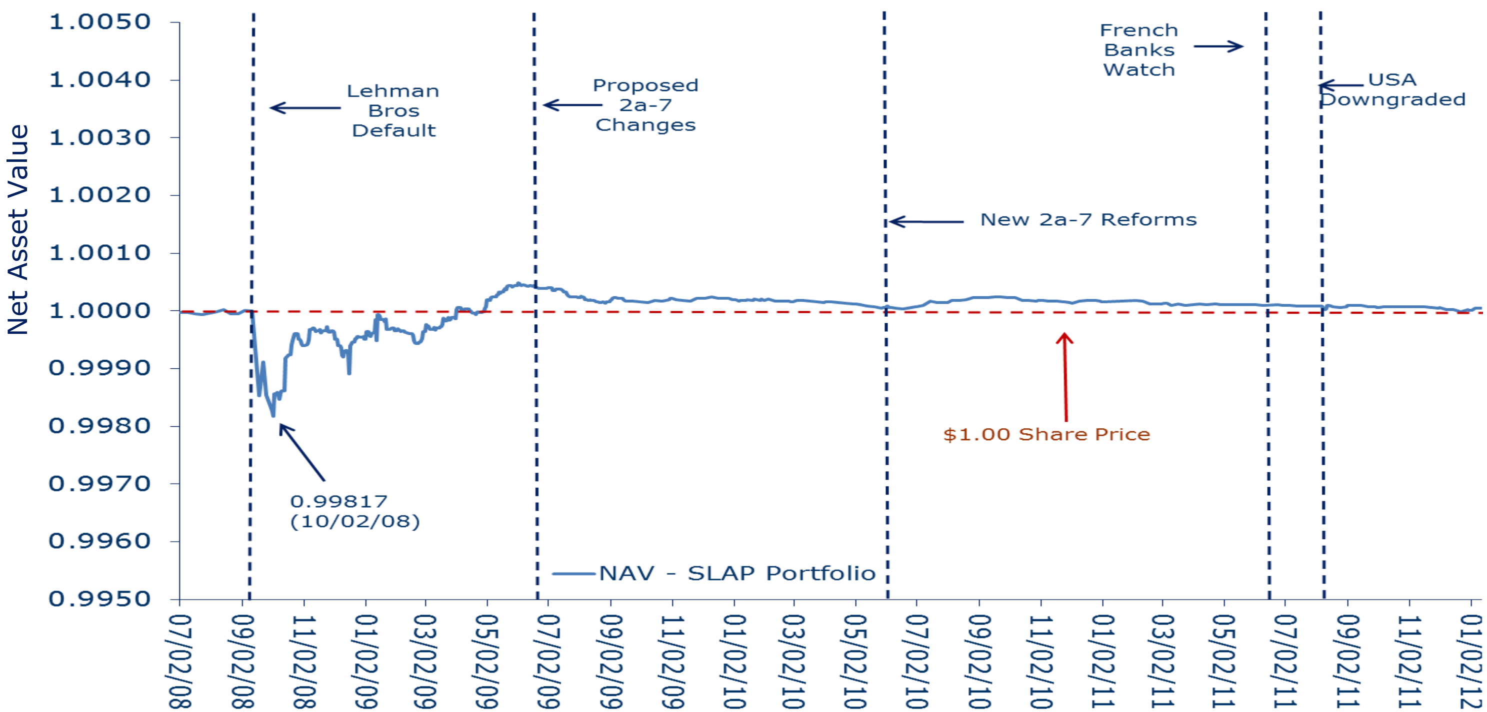


Market value of net assets (dollars per share)

2a-7 Reform: Positive Implications to NAV Stability

- New 2a-7 reform measures have stabilized NAVs for Invesco and for the industry as a whole.
- Invesco's assets under management performance has outperformed the industry, we believe due in large part to our conservative credit model and portfolio positioning.

Daily "Shadow" NAV – SLAP Portfolio



Source: Invesco

III. Key Takeaways

Key Takeaways

- **Significant reforms have already been made. 2010 reforms are working, as evidenced by resiliency of MMFs during European sovereign and U.S. debt ceiling concerns last summer**
- **Why have 2010 reforms worked?**

1. Improved Governance with more oversight and responsibilities of fund boards including a mechanism (pre-ordained orderly liquidation mechanism) to minimize or stop runs through an orderly wind-down of an individual fund
2. Rules around this pre-ordained orderly liquidation mechanism ensure that objectives of shareholders, regulators, and advisors are aligned more than ever before
3. Enhanced Portfolio Liquidity with higher natural liquidity to withstand redemption pressures during periods of stress
4. Shorter Portfolio Maturity Limits have led to more conservatively positioned portfolios and greater ability to address market shocks
5. Increased Transparency from more frequent and detailed reporting of portfolio holdings, NAVs, and portfolio metrics
6. Better Stability in fund NAVs post reforms, even during periods of stress
7. Reforms have resulted in greater investor confidence that MMFs are managed prudently and with greater conservatism

- **Devastating cost of additional regulations being floated will jeopardize our fragile recovery, adversely impact availability of credit to economy, and disrupt market functioning**