Invesco

May 25, 2018

By Electronic Submission

rule-comments@sec.gov
Brent J. Fields, Secretary
U.S. Securities and Exchange Commission
100 F Street, N.E.
Washington, D.C. 20549-1090

Re: File No. S7-05-18
Comment on Transaction Fee Pilot for NMS Stocks

Dear Mr. Fields:

Invesco Ltd. ("Invesco") is pleased to have the opportunity to comment on the Securities and Exchange Commission's (the "Commission") Transaction Fee Pilot for National Market System stocks (the "Proposal").[1] Invesco is a leading independent global investment manager with approximately $972.8 billion in assets under management ("AUM") as of April 30, 2018. Invesco is a global company focused solely on investment management, and our services are provided through a wide range of strategies and vehicles, including traditional open-end mutual funds, closed-end funds, exchange-traded funds ("ETFs"), collective trust funds, separately managed accounts, real estate investment trusts, unit investment trusts, and other pooled vehicles. Our indirect wholly owned U.S. registered investment adviser subsidiaries, including Invesco Advisers, Inc., Invesco PowerShares Capital Management LLC and their investment adviser affiliates, advise mutual funds, ETFs, closed-end funds and unit investment trusts for a broad client base.

Invesco strongly supports the fact that the Commission, as the primary regulator for the asset management industry, is evaluating the effect of the "maker-taker" fee model commonly used in the U.S. equity markets and its impact on liquidity provision, liquidity taking and order routing. Invesco further supports the Commission's goal to use these findings to improve the

[1] Transaction Fee Pilot for NMS Stocks, Securities Exchange Act Release No. 34-82873 (March 14, 2008), 83 F.R. 13008 (March 26, 2018).

quality of the markets. Invesco believes that the data to be obtained by the Proposal will enable the Commission to identify any conflicts of interest and imbalances inherent in the current market structure and to propose new regulations to reduce or eliminate their effects. Invesco has been a vocal advocate for changes to the maker-taker model because of such conflicts and imbalances[2] and has long believed that the maker-taker pricing model may create unnecessary complexity in the market, reduce market transparency and, in certain instances, create incentives for brokers to route orders based upon the levels of access fees charged or rebates to be received, rather than in a manner that is consistent with best execution.[3]

Invesco agrees with the structure of the Proposal and is strongly supportive of the inclusion of the "no rebate"[4] test bucket. Invesco believes that this test bucket will provide crucial information to allow the Commission to evaluate fully the effect of elimination of rebates on order routing decisions and to evaluate what refinements to the maker-taker model would improve market quality.

While Invesco supports the structure of the Proposal, it has significant concerns about the inclusion of exchange-traded products ("ETPs"), such as ETFs, and the potential that such inclusion may have anticompetitive consequences for these products. Unlike shares of an operating company, ETPs offered by different sponsors may pursue a similar strategy and often compete for the same investors looking for the same targeted exposure. Because the exposure offered by these products is so similar, factors such as assets under management, spread size and daily trading volume of the ETP have a significant impact on an investor's decision. Invesco believes that there will be differences in the market quality amongst the Proposal's test groups, and those differences will have an impact on the trading characteristics for the ETPs included in each group. Given the similarity amongst certain ETPs, investors will be drawn to the ETP with the most favorable trading characteristics. This has the potential to create "winners" and "losers" amongst competing ETPs, solely based upon which test group an ETP is placed in as compared to its competitors.

Invesco believes that ETPs could effectively be included in the Proposal only if similarly situated ETPs would be classified as such. While possible in theory, we note that an effective classification should take into account an ETP's underlying index, portfolio constituents and

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[2] *See* Statement of Kevin Cronin, Global Head of Trading, Invesco, Ltd., U.S. Senate Committee on Banking, Housing and Urban Affairs, Hearing Examining the Role of Regulation in Shaping Equity Market Structure and High Frequency Trading, July 8, 2014.

[3] *See* id. *See also*, Letter from David Blass, General Counsel, ICI, to SEC Equity Market Advisory Committee, dated January 20, 2016, available at https://www.ici.org/pdf/29652.pdf.

[4] *See* Proposal at p. 54.

asset class to provide an appropriate "apples to apples" analysis, in addition to the factors that we have enumerated above. We are of the view that this would introduce unnecessary complexity into the Proposal. Invesco believes that ETPs can be excluded from the Proposal without compromising the integrity of the data to be collected, as the Proposal is designed to evaluate the effect of the maker-taker model on equity market quality, not its effect on ETPs. In fact, due to the requirement that stocks have "an unlimited duration or a duration beyond the end of the post-Pilot Period,"[5] certain target maturity ETPs that would mature during the duration of the Proposal will already be excluded.

Invesco also believes that including ETPs with laddered target maturity dates creates the potential for even greater confusion. This arises from the fact that the Proposal would include only the ETPs with longer maturity dates. We believe that the inclusion of only the ETPs with longer maturity dates (and the resulting effects on their market quality), as compared to the market quality of the ETPs excluded from the Proposal will create confusion amongst investors who do not know that those differences are attributable to the Proposal. Invesco urges the Commission to exclude ETPs from the Proposal to avoid these anticompetitive consequences and the resulting potential for investor confusion.

Thank you for the opportunity to submit this letter and for your consideration of these comments. Questions regarding these comments may be directed to the undersigned.

Sincerely,

Invesco Ltd.

By____________________
Kevin Cronin
Global Head of Trading

CC: The Honorable Jay Clayton
The Honorable Kara M. Stein
The Honorable Michael S. Piwowar
The Honorable Robert J. Jackson Jr.
The Honorable Hester M. Peirce

[5] *See* Proposal at p. 28.

Brett Redfearn, Director, Division of Trading and Markets
David Shillman, Associate Director, Division of Trading and Markets