

April 21, 2021

Sarah ten Siethoff, Acting Director
Division of Investment Management
US Securities and Exchange Commission
100 F Street NE
Washington, DC 20549

Re: Staff Statement on Investment Company Cross Trading

Dear Ms. ten Siethoff:

Dimensional Fund Advisors LP (“Dimensional”)¹ appreciates the opportunity to provide the staff of the Division of Investment Management with our views on investment company cross trading. We support the staff’s initiative in seeking feedback on existing cross trading practices and urge the Securities and Exchange Commission (the “Commission”) to modernize Rule 17a-7 under the Investment Company Act of 1940.

In general, we agree with the policy recommendations put forth by the Investment Company Institute in its April 2021 report entitled *Rule 17a-7 at the Crossroads: The Right Path Forward* (the “ICI Report”).² We encourage the staff to consider the following recommendations.

1. Securities that meet the definition of having Level 1 or 2 inputs under the GAAP fair value hierarchy should be eligible for cross trading.

Currently Rule 17a-7 requires, among other things, that a security have a readily available market quotation to be eligible to be cross traded. Under new Rule 2a-5, “a market quotation is readily available only when the quotation is a quoted price (unadjusted) in active markets for identical instruments that the fund can access at the measurement date...”,³ a definition which is consistent with the definition of a Level 1 input in the fair value hierarchy outlined in US GAAP. Most fixed income securities, however, have Level 2 inputs under GAAP and would not be eligible for cross trading under the new definition of readily available market quotation. We believe that broadening the range of securities that are eligible for cross trading to include securities with Level 2 inputs could benefit investors, as cross trading enables funds within the same complex to reduce fund transaction costs. As discussed in further detail in the ICI Report, there are many reasons that one fund in a complex may be seeking to purchase a particular fixed

¹ Dimensional Fund Advisors LP is an investment adviser registered with the Securities and Exchange Commission.

² Investment Company Institute, *Rule 17a-7 at the Crossroads: The Right Path Forward* (April 2021), included in a letter to Sarah ten Siethoff, Acting Director, Division of Investment Management, Securities and Exchange Commission from Susan Olson, General Counsel, Investment Company Institute, dated April 9, 2021.

³ Rule 2a-5(c) under the Investment Company Act of 1940.



income security while another fund in the same complex seeks to sell that same security, and cross trading securities in such situations can be beneficial to both funds and their investors.⁴ Furthermore, trading in fixed income markets can be challenging due to the fragmented nature of both fixed income markets and fixed income trading data.⁵ Cross trading provides funds with an additional tool through which they can execute trades where appropriate. For these reasons, we encourage the Commission to amend Rule 17a-7 so that securities that meet the definition of having Level 1 or 2 inputs under the GAAP fair value hierarchy would be eligible for cross trading.

2. Funds should be permitted to price cross trades using evaluated prices from independent third parties.

If the Commission permits funds to cross trade fixed income securities, the Commission should also permit funds to price cross trades using multiple inputs and sources of data, including evaluated prices from independent third parties and independent dealer quotes. Through its adoption of Rule 2a-5, the Commission established a robust framework for approving, monitoring, and evaluating pricing service providers. This framework, if applied in the context of Rule 17a-7, could provide further assurance that prices provided by a pricing service are reliable. We believe that if an evaluated price can be used for purposes of calculating the net asset value of a fund, the Commission should permit that same price to be used for purposes of determining the price of a transaction under Rule 17a-7.

3. The Commission should carefully consider the costs and benefits of requiring that cross trades be reported to TRACE or RTRS.

At Dimensional, we believe that increased price transparency can benefit investors and help foster a fair and efficient market for all participants. In its June 2020 recommendation, the Commission's Fixed Income Market Structure Advisory Committee suggested that advisers be required to report cross trades to FINRA's Trade Reporting and Compliance Engine ("TRACE") or MSRB's Real-Time Transaction Reporting System ("RTRS"), as applicable.⁶ While we generally believe that there should be complete and immediate post-trade dissemination for all securities in the market, the availability of transaction-specific information about cross trades may not actually provide much benefit in terms of price discovery. In liquid and competitive markets, we believe that prices reflect the aggregate risk and return expectation of market participants and that trading between unaffiliated parties leads to price discovery. On the other hand, if the execution price of a cross trade represents an evaluated price, it would not provide much *additional* information about the current market price of that security, as many pricing vendors already take TRACE or RTRS data into consideration when determining their evaluated price. Furthermore, reporting internal cross trades (*i.e.*, those not executed with the assistance of a broker-dealer) would likely require engagement of a third-party vendor, which could increase costs. We encourage the Commission to consider whether the potential benefits of cross trade reporting would outweigh the associated costs to funds and fund shareholders.

If the Commission determines that cross trades should be reported to TRACE or to RTRS, then we think it is very important that cross trades be identified as an internal cross, which would indicate to

⁴ See ICI Report at 10-12.

⁵ See *Id.* at 13-14.

⁶ US Securities and Exchange Commission Fixed Income Market Structure Advisory Committee, *Recommendation Regarding Modernizing Rule 17a-7 under the 1940 Act* (June 1, 2020).



market participants that the price for that trade was determined in accordance with Rule 17a-7 and not in the market. This would be a significant piece of information for market participants, should the Commission revise Rule 17a-7 to allow funds to price cross trades using evaluated prices.

Please do not hesitate to contact us if we could be of further assistance. We would welcome the opportunity to present an expanded discussion of our thoughts on these issues.

Sincerely,

/s/ Gerard O'Reilly

Gerard O'Reilly
Co-CEO and Chief Investment Officer