

Investment Company Cross Trading



On Oct. 9, 2026, the Securities and Exchange Commission proposed amendments to Rule 17a-7, the cross-trading rule, under the Investment Company Act of 1940 (“Investment Company Act”) to:

- Expand the scope of securities eligible for cross trades, which are transactions between a registered investment company (“registered fund”) and certain affiliates.
- Modernize the rule’s conditions, including those related to pricing and oversight of cross trades.
- Require aggregated reporting and recordkeeping for related trading activity.

Background

The Investment Company Act generally prohibits cross trades between a registered fund and its first- and second-tier affiliates to protect registered funds and their shareholders against overreaching or self-dealing by those affiliates. In recognition that cross trades can benefit registered funds and their shareholders by, for example, avoiding costs associated with open market transactions, the Commission adopted Rule 17a-7 in 1966 to permit cross trades under certain conditions. Today’s proposed amendments are designed to expand the scope of securities that are eligible for cross trading, including many fixed-income securities; modernize the rule’s conditions; and enhance investor protection.

For much of the time Rule 17a-7 has been in place, registered funds have relied on the rule to cross trade both equity and fixed-income securities to reduce transaction costs. In December 2020, the Commission adopted Rule 2a-5 under the Investment Company Act, which addresses fund valuation practices. However, Rule 2a-5 adopted a definition of “readily available market quotations” that Rule 17a-7 uses to determine which securities may be cross traded. That definition has, in practice, excluded most fixed-income securities. As a result, fixed-income securities that previously were cross traded under Rule 17a-7 generally have not been eligible for cross trading since the compliance date of Rule 2a-5. In addition, other conditions of Rule 17a-7, including those related to pricing and oversight of cross trades, have not been updated for many years and could benefit from modernization.

Highlights of the Proposing Release

The proposal includes the following key elements:

- The proposed amendments would expand the scope of securities eligible for cross trading under Rule 17a-7 to include securities that a registered fund values based on inputs that are observable, either directly or indirectly. This change is designed to be consistent with the current definition of a level 2 input in the fair value hierarchy outlined in U.S. generally accepted accounting principles. The amendments would permit cross trading of most fixed income securities because observable inputs are available for most fixed-income securities.

- The proposed amendments would replace prescriptive pricing conditions with the ability to price a cross trade using one of two methods:
 - A pricing determination based on the value of the security determined in the registered fund's next computation of its net asset value on the day of the cross trade; or
 - Utilizing the price that the registered fund's investment adviser determines reasonably represents the current market price for the security using unaffiliated pricing sources. (If the registered fund uses this method, the fund's investment adviser would be required to periodically review the reasonableness of these prices.)
- These proposed changes are designed to recognize market developments in pricing and the adoption of Rule 2a-5, which enhanced the regulatory framework for fund valuations.
- The proposed amendments would add or modify certain other conditions that cross trades must meet under the rule. For example, the registered fund's adviser would be required to determine -- prior to effecting a cross trade -- that the proposed trade is in the best interest of each registered fund involved. This condition would help ensure that an investment adviser puts the interests of each fund and its shareholders above its own and does not favor one client over another. In addition, as an exception to the rule's restrictions on payment of remuneration in connection with a cross trade, the proposed amendments would expressly permit *de minimis* payments to unaffiliated parties for services such as clearing, settlement, and custody. This change would permit the payment of administrative fees where necessary to effect the transaction. The proposed amendments also would provide that a cross trade must be consistent with the registered fund's policies and investment strategies.
- To reduce the burden on fund boards of directors associated with Rule 17a-7 and enhance oversight, the proposed amendments would require the registered fund's chief compliance officer (CCO) to:
 - Perform quarterly reviews of cross trades to determine compliance with the rule and report the results to the fund's board.
 - Conduct annual back testing of cross trades, which must include analyses of the ultimate prices realized when any security purchased by a fund through a cross trade is ultimately sold, to look for patterns suggesting disadvantages to the fund relative to affiliates and report the results to the board.
- The proposed amendments would require registered funds to maintain and preserve records of: (1) each cross trade; (2) the information and material used by the CCO to make the required determinations as part of the quarterly and annual reviews; and (3) reports provided to the board.
- The proposal would amend Form N-PORT and Form N-MFP to add requirements for registered funds that engage in cross trading to report aggregate information, by asset class, about the value of securities the registered fund traded during the preceding month and corresponding information about cross trading activity by asset class. The proposed amendments would enhance transparency related to cross-trading activities.

What's Next?

The public comment period will remain open for 60 days after the proposing release is published in the Federal Register.