



*VIA ELECTRONIC SUBMISSION*

April 12, 2021

Ms. Sarah ten Siethoff  
Acting Director, Division of Investment Management  
U.S. Securities and Exchange Commission  
100 F Street NE  
Washington, DC 20549-1090

**Re: Division of Investment Management Staff Statement on Investment Company Cross Trading (the “Staff Statement”); Request for Feedback Regarding Rule 17a-7 and Related Issues**

Dear Ms. ten Siethoff:

Invesco Ltd. (“**Invesco**”) appreciates the opportunity to provide its feedback and comments to the Division of Investment Management Staff (the “**Staff**”) of the United States Securities and Exchange Commission (the “**Commission**”) on the cross trading practices of registered investment companies (“**Funds**”) pursuant to Rule 17a-7 (“**Rule 17a-7**”) under the Investment Company Act of 1940, as amended (the “**Investment Company Act**”), in connection with the Staff’s and the Commission’s assessment of whether changes to Rule 17a-7 are warranted. In this letter, we focus our discussion on cross trading of fixed-income securities by Funds.

Invesco is a leading independent investment manager with approximately \$1,349.9 billion in assets under management as of December 31, 2020. Invesco is a global company focused on investment management, and our services are provided to a wide range of clients throughout the world, including open-end mutual funds, closed-end funds, exchange-traded funds (ETFs), unit investment trusts, collective trust funds, UCITS, real estate investment trusts and other pooled investment vehicles, as well as pensions, endowments, insurance companies and sovereign wealth funds. Invesco’s indirect wholly-owned U.S. registered investment adviser subsidiaries, Invesco Advisers, Inc. and Invesco Capital Management LLC, advise and sponsor mutual funds, closed-end funds, ETFs and unit investment trusts for a broad client base with assets under management of approximately \$675 billion as of December 31, 2020 (collectively, the “**Invesco Funds**”).

Following the September 8, 2022 compliance date of new Rule 2a-5 (“**New Rule 2a-5**”) under the Investment Company Act addressing Funds’ valuation practices and the role of Funds’ boards with respect to the fair valuation of investments, Invesco believes it is critical that Funds retain the ability to cross trade fixed-income securities with other affiliated Funds and client accounts. Notwithstanding New Rule 2a-5’s definition of “readily available market quotations”, which may operate to prohibit Funds’ existing cross trading practices with respect to certain fixed-income securities under Rule 17a-7, it remains true that Funds and their shareholders derive significant benefits from the ability to cross trade fixed-income securities. In Section I below, we identify and discuss some of the reasons that the Invesco Funds and Invesco find it desirable to cross trade fixed-income securities pursuant to Rule 17a-7 and the benefits arising therefrom to the Invesco Funds and their shareholders. Accordingly, we recommend that the Commission adopt



amendments to Rule 17a-7 before the September 8, 2022 compliance date to ensure that Funds can continue cross trading fixed-income securities pursuant to the rule and to preserve these important benefits for Funds. In Section II below, we provide recommendations for how Rule 17a-7 could be revised and modernized to better reflect the diversity and structure of fixed-income markets, while still retaining rigorous conditions to uphold the policy objectives of Section 17 of the Investment Company Act and ensure that cross trades are effectuated for the benefit of Funds and not their advisers. Generally, we recommend revisions to Rule 17a-7 to provide a principles-based framework pursuant to which Funds and their advisers would determine cross trading prices for various unlisted securities pursuant to written procedures that consider the unique characteristics of those securities.

## **I. Cross Trading Practices of the Invesco Funds and Associated Benefits**

The Invesco Funds engage in cross trades of fixed-income securities pursuant to Rule 17a-7 for a number of reasons. Invesco will frequently find it necessary or desirable to sell one or more securities from a Fund to ensure compliance with an investment guideline or restriction<sup>1</sup>, to maintain or re-establish targeted allocations to certain types of fixed-income securities or sectors in response to changes in the relative values of portfolio holdings or to raise cash to satisfy shareholder redemptions or in anticipation of acquiring other investments, including in the primary market. Because Invesco provides a variety of fixed-income and multi-asset investment strategies, other Invesco Funds and clients will often find it necessary or desirable to contemporaneously acquire those same securities. These acquiring Funds and clients, which may be managed by the same or different Invesco investment professionals, may be similarly motivated to acquire the relevant securities to comply with investment guidelines or restrictions, to maintain targeted allocations to certain types of fixed-income securities or to invest subscription, maturity or interest proceeds received.

Certain Invesco ETFs pursue passive investment strategies and seek to replicate the performance of a specified fixed-income index by investing in the securities constituting that index in approximately the same weights as assigned by the index sponsor. On specified rebalancing dates, the index sponsor reconstitutes the index by removing certain fixed-income securities, adding others as new constituents and modifying the weightings assigned to the remaining index components. On each rebalance date, an ETF will typically need to sell significant portions of its investment portfolio and concurrently acquire both new and existing component fixed-income securities in appropriate amounts to achieve the reconstituted index's weightings. At the same time, other Invesco ETFs, in response to rebalancings of their reference indexes, will frequently be seeking to acquire the same securities that the first ETF must sell, and to sell the same securities that the first ETF must acquire. Accordingly, these index rebalancings and the portfolio turnover they generate in the impacted Invesco ETFs present considerable opportunities for cross trades among the impacted ETFs that facilitate efficient implementation of required portfolio changes at a lower cost.

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<sup>1</sup> As examples, such investment guidelines or restrictions can include a net asset value based concentration limit on the value of below investment grade securities, a weighted average maturity, credit quality or duration target, a total asset value based concentration limit on the value fixed-income securities associated with certain industries or sectors or a net asset value based limit on investment exposure to certain countries or geographic regions.



For example, a suite of Invesco ETFs seeks to track the performance of a series of commonly sponsored indexes of U.S. dollar denominated fixed-income securities. Each index series and its corresponding ETF invests in a portfolio of bonds having “effective maturities” in a specified calendar year. The determination of a bond’s effective maturity and its inclusion in a particular index series depends (in part) on whether the bond has a call feature exercisable in the calendar year associated with that series and, if so, whether the bond’s yield to that call date is less than its yield to maturity. If the bond ultimately is not called in that calendar year or begins pricing to maturity (as opposed to the call), the index sponsor removes the bond from that index series at the next semi-annual rebalancing date, frequently adding it as a new component of a subsequent index series based on its maturity date (or next call date). If a bond included in a particular index series previously pricing to maturity begins pricing to an earlier call date, the index sponsor removes the bond from that index series at the next semi-annual rebalancing date, frequently adding it as a new component of an earlier index series based on its call date. On each rebalancing date, as the index sponsor migrates bonds from one index series to other index series (e.g., from the 2021 series to the 2022 or 2023 series) numerous cross trading opportunities are presented within this suite of ETFs. On each rebalancing date, certain of the ETFs are always purchasers of the same fixed-income securities that other ETFs are required to sell.

The ability to effectuate cross trades of fixed-income securities is of great benefit to the Invesco Funds. First, cross trading lowers the explicit cost of trading for both the Fund and the other affiliated Fund or account participating in the transaction. By executing the transaction at a price approximating mid-market for the relevant security, each party to the cross trade pays one-half of the security’s bid/offer spread. When executing the same transaction in the market through a broker-dealer or using the facilities of a fixed-income electronic trading facility, each party would instead incur the entire amount of that bid/offer spread. For example, analyzing the trading activity of the suite of Invesco ETFs discussed above on the previous five semi-annual rebalance dates, the opportunity for cross trading among these ETFs has ranged between 22% and 58% of the aggregate market value of securities traded by them on these rebalance dates, with a weighted average of approximately 45%. Based on bid/offer spreads observed on the fixed-income securities held by these ETFs, transacting at the mid-market prices provided by the ETFs’ independent pricing service (as opposed to in the market) generates average savings to the ETFs of approximately 33 bps on the aggregate market value of the securities traded on each date. The cumulative impact to these Invesco ETFs of saving 33 basis points perpetually on each semi-annual rebalance (instead of paying this amount to the market) significantly contributes to reducing the ETFs’ tracking error and the costs to shareholders. Further, cross trading reduces the implicit cost of trading fixed-income securities, which can frequently exceed (sometimes substantially) the explicit cost. Because cross trades are arranged and conducted privately between Funds and other clients of the relevant adviser, they eliminate the potential for information leakage and front running and do not cause market impact, each of which can cause the cost of a trade conducted in the market to increase substantially over the period of its execution. Avoiding market impact cost is especially beneficial when the size of a cross trade is large relative to the outstanding par amount of the applicable securities or when the securities are “off the run” or otherwise relatively less liquid than similar securities.

Second, the opportunity to cross trade fixed-income securities provides greater certainty that Invesco Funds will be able to source and acquire desirable securities. Unlike listed equities traded on centralized securities exchanges, fixed-income markets are over-the-counter,



extraordinarily diverse and generally reliant on broker-dealers or electronic trading facilities to intermediate transactions between buyers and sellers. Without an ability to cross trade, Funds seeking to dispose of particular fixed-income securities would need to sell in the market, while other affiliated Funds desiring to acquire those same securities will have no assurance that they will be available for acquisition in the market at that time or at all. By permitting Funds to match and trade privately within a fund complex, cross trading can address security availability and sourcing issues that are inherent in over-the-counter, broker-dealer markets. Accordingly, Rule 17a-7 provides a unique advantage with respect to fixed-income securities as compared to exchange-traded securities (for which security availability challenges are infrequent).

Third, cross trading can serve as a liquidity risk management tool for the Invesco Funds. If a Fund must raise cash quickly in connection with redemption activity or to fund the acquisition of an investment opportunity perceived as more desirable for it, cross trading can benefit the Fund by providing same day execution and settlement (or settlement on a “T+1” basis) and execution price certainty generally unavailable for a sell order executed in the market. At the same time, the acquiring Fund in the transaction is rewarded for providing that liquidity and price certainty through the opportunity to immediately acquire securities that might otherwise be unavailable at a lower purchase price. Finally, cross trading of fixed-income securities obviates trading, operational and administrative inefficiencies, risks and costs for Funds and their advisers that are associated with identifying broker-dealers with which to execute sell transactions on behalf of a Fund, separating the position in the relevant securities into appropriate order sizes to be effectively absorbed and traded in the market and settling each resulting trade individually, while contemporaneously seeking to reacquire the same or a similar position in those securities in the market for another Fund or client account.

Importantly, the desire to effectuate cross trades for the reasons discussed above, and the associated benefits, spans across the diverse segments of the fixed-income markets, including investment grade and high yield corporate debt, sovereign debt, municipal debt, syndicated bank loans, structured credit (including residential and commercial mortgage-back securities and asset-backed securities), and convertible bonds. Consequently, we believe that Rule 17a-7 should operate to provide a framework for Funds and their advisers to cross trade securities in all of these fixed-income market segments, subject to appropriate conditions to ensure the policy objectives of Section 17 of the Investment Company Act.

## II. Recommendations to Revise and Modernize Rule 17a-7

Invesco believes that the general conditions of Rule 17a-7 have operated effectively since 1981 to prevent an investment adviser from overreaching its Fund clients or placing its own or the interests of other clients ahead of those of its Fund clients. These conditions include requirements that a cross trade: (i) involve no consideration other than cash and be promptly settled (Rule 17a-7(a)), (ii) be consistent with the policy of each Fund participating in the transaction, as recited in its registration statement documents (Rule 17a-7(c)), (iii) generally not involve the payment of any fees or other remuneration to any person (Rule 17a-7(d)), (iv) be effectuated pursuant to procedures adopted by the Fund’s board (Rule 17a-7(e)(1)) and (v) be subject to ex post Fund board review for compliance (Rule 17a-7(e)(iii)). While requirements regarding the determination of an appropriate price for a cross trade are undoubtedly an essential element of the Rule 17a-7 safe harbor, we believe that these other conditions of the rule have functioned effectually to impose

baseline requirements on Funds and their advisers and to require an appropriate oversight structure for Fund's cross trading. Accordingly, we recommend that the Commission maintain these conditions as part of any revised Rule 17a-7.<sup>2</sup>

As noted in the Staff Statement, fixed-income markets and assets under management of fixed-income focused Funds have grown exponentially in the last 20 years. Today, Funds invest in a variety of fixed-income securities, some of which did not exist when the Commission last modernized Rule 17a-7 in 1981. Although New Rule 2a-5 and its definition of "readily available market quotations" have created urgency for the Commission to consider revisions to Rule 17a-7<sup>3</sup>, we believe that this tremendous growth in fixed-income investing by Funds and changes in fixed-income market structure since 1981 on their own justify the Commission's reevaluation of the rule's application to fixed-income securities. Accordingly, we are encouraged and supportive that consideration of potential amendments to Rule 17a-7 is on the Commission's rulemaking agenda.

Under Rule 17a-7(b)(4), the "current market price" for a fixed-income security is the average of the highest current independent bid and lowest current independent offer determined on the basis of reasonable inquiry, and Funds and their advisers typically seek to establish such price by soliciting two-sided actionable quotations from a group of broker-dealers. We believe this current methodology suffers from two shortcomings. First, the diversity and number of securities and issuers in the fixed-income markets, the specialization of broker-dealers in particular sectors of the fixed-income markets and broker-dealers' increased unwillingness in the post-financial crisis era to commit their balance sheets to fixed-income market making can, in combination, frequently avert Funds' ability to obtain two-sided actionable quotations from the requisite number of broker-dealers. Second, the process of obtaining two-sided actionable quotations is manual, requiring direct communication between investment adviser personnel and broker-dealer personnel for each fixed-income security identified for cross trading. This process

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<sup>2</sup> With respect to the condition in Rule 17a-7(d), we believe that Funds and their advisers would benefit from greater clarity regarding what constitutes a permissible "customary transfer fee". For example, in certain non-U.S. markets it may be necessary or customary to effectuate cross trades through a broker or dealer, which charges a relatively small administrative fee for its services. A Fund's custodian can charge a service or administrative fee for settling a cross trade, especially if it does not also act as custodian for the Fund or client account on the other side of the transaction. A syndicated bank loan's administrative agent will frequently charge a de minimis administrative fee to record the transfer of a loan interest on its books and records. We think these fees (and any similar fees) payable to a broker, dealer, custodian, bank or other market intermediary in connection with a cross trade, to the extent necessary or customary to effectuate or settle the cross trade in the relevant market, should be permissible. Accordingly, we recommend that Rule 17a-7(d) be revised to provide that: "*No commission, fee or other remuneration is paid in connection with the transaction (except for amounts payable to a broker, dealer, custodian or other market intermediary that are necessary or customary in the relevant market for the securities that are the subject of the transaction to effectuate or settle the transaction).*"

<sup>3</sup> New Rule 2a-5 provides that a market quotation is readily available only when that quotation is a quoted price (unadjusted) in active markets for identical investments that a Fund can access at the measurement date, provided that a quotation is not readily available if it is not reliable. Evaluated prices, indications of interest and accommodation quotations are not "readily available market quotations" for purposes of New Rule 2a-5. The application of this definition to Rule 17a-7(a), which requires that market quotations be readily available for a security for it to be eligible for cross trading under the rule, will operate to prohibit cross trading of some fixed-income securities under the rule, especially where Funds and their advisers rely on Staff no-action letters to effectuate cross trades at prices provided by an independent pricing service.

is not scalable, is administratively burdensome, is disfavored by broker-dealers and is frequently impractical for index-based Funds at the time of index rebalancings when numerous cross trading opportunities simultaneously present themselves. Consequently, beneficial cross trading opportunities can be foregone to the detriment of Funds and their shareholders because of the manual, operationally intensive process required to satisfy the “reasonable inquiry” condition and broker-dealers increasing aversion to providing such quotations. We do not believe that a Fund’s eligibility to cross trade a fixed-income security under Rule 17a-7 and the price of the transaction should depend entirely on whether a group of broker-dealers are providing two-sided actionable quotations that the Fund or its adviser can obtain at the relevant time.

In place of Rule 17a-7(b)(4), we recommend that the Staff and the Commission consider a principles-based framework that provides Funds and their advisers greater flexibility to establish the “current market price” at which cross trades of over-the-counter securities are effectuated. Such a framework would permit Funds and their advisers to use other, more tailored methods, beyond merely seeking multiple bids and offers from broker-dealers, to establish the price at which these transactions are effectuated and ensure that such price is fair and appropriate. We believe that the foundational element of the framework should be an articulation of an investment adviser’s duties of loyalty and to seek best execution for each Fund or client account involved in a cross trade, namely a requirement that the adviser reasonably determine that a cross trade’s price results in total cost or proceeds (as applicable) to each Fund or other client account involved in the transaction that is most favorable under the circumstances. Additionally, we believe that Funds desiring to cross trade over-the-counter securities should be required to supplement their written procedures adopted under the rule to specify the types of unlisted securities they expect to cross trade in reliance on the rule and how the price of those transactions will be determined. For each relevant security type, a Fund’s procedures should be required to be reasonably designed to consider market, trading, liquidity and other relevant security-specific considerations in formulating how fair and appropriate cross trading prices are to be established for those securities.<sup>4</sup>

For example, for highly liquid “on the run” government debt obligations or benchmark corporate bonds, a Fund might specify in its procedures that cross trades are effectuated at the end of day price provided by the Fund’s independent pricing service used to determine its net asset value pursuant to Rule 2a-4 under the Investment Company Act or, for intra-day cross trading of such securities, at a price determined based upon quotations or prices available on specified fixed-income electronic trading facilities.<sup>5</sup> With respect to fixed-income securities with less trading

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<sup>4</sup> We note that the Commission has recently adopted a principles-based approach with other significant rulemakings under the Investment Company Act, including in connection with registered fund liquidity (Rule 22e-4) and registered funds’ use of derivatives transactions (Rule 18f-4) and in New Rule 2a-5. Like regulation of Funds’ liquidity, derivatives use and valuation practices, we think that the determination of fair and appropriate cross trading prices for unlisted securities under Rule 17a-7 using a broad, principles-based framework that focuses on procedure, governance and oversight and on a Fund’s particular investments and opportunity to engage in cross trading is preferable to a single, prescribed approach for all Funds and security types (as Rule 17a-7(b)(4) currently operates).

<sup>5</sup> Electronic trading of U.S. government and corporate bonds is growing at an accelerating rate, and we believe that fixed-income electronic trading facilities can provide real-time information about a security’s trading activity, including prices and depth, that can be tremendously useful to establish an appropriate cross trading price. See, e.g., “The Bond-Trading Revolution Is Real This Time, Bloomberg Opinion, February 9, 2021, <https://www.bloomberg.com/opinion/articles/2021-02-09/the-bond-trading-revolution-is-real-this-time>.



activity, such as municipal securities, high yield bonds not included in benchmark indexes, syndicated bank loans and certain types of structured credit, a Fund could alternatively specify in its procedures that cross trades are permitted only at the end of day price provided by its independent pricing service used to determine its net asset value. In the United Municipal Bond Fund (SEC Staff No-Action Letter (January 27, 1995)) and Federated Municipal Funds (SEC Staff No-Action Letter (November 20, 2006)) letters, the Staff recognized the integrity of the daily prices assigned to municipal securities by Funds' independent pricing services given the robust due diligence procedures applied by the industry's leading pricing vendors and the oversight and testing of these vendors by Funds' advisers, boards and auditors. Additionally, in providing the relief in these letters, we believe that the Staff recognized that permitting cross trades of fixed-income securities between affiliated Funds with a shared pricing policy to occur at the independent pricing service price serves the policy objectives underlying Rule 17a-7 because the transaction cannot result in an immediate unrealized gain or loss to either Fund (as can be frequently be the case if a cross trade's price is determined on the basis of bid and offer quotations obtained from broker-dealers). For the reasons described in these no-action letters, Invesco believes that Funds should have the flexibility to implement reasonably designed procedures that use independent pricing services to establish fair and appropriate prices for cross trading certain unlisted securities.

Finally, for other types of fixed-income securities, we expect that Funds and their advisers could specify more detailed procedures for establishing a fair and appropriate cross trading price. For distressed or thinly traded fixed-income securities or fixed-income securities priced on the basis of unobservable inputs (such as indicative broker quotations or pricing vendor marks that are not corroborated by actual market transactions), a Fund might reasonably require that the cross trading price be determined on the basis of two (or more) pricing inputs. Using an "independent pricing source plus" approach as an example, a Fund could specify that cross trades of such securities will occur (x) at the end of day price provided by its independent pricing service used to determine its net asset value, but only if that price is separately corroborated within a reasonable threshold by reference to one or more other pricing sources or inputs (which could include a second pricing vendor, actionable quotations obtained from broker-dealers active in the security, dealer runs, electronic trading platform data or TRACE or EMMA reporting, each as relevant and appropriate) or (y) at the average of end of day mid-market prices or quotations sourced from one or more independent pricing services and broker-dealers active in the security and willing to provide quotations, but only if these sources corroborate one another within a reasonable threshold. Alternatively, a Fund could specify that cross trades of such securities will occur at a price established by one or more actionable quotations obtained from broker-dealers active in the security but only if those quotations are separately corroborated by reference to its investment adviser's proprietary assumptions or models for valuing the security within a reasonable threshold.

In addition to offering greater flexibility to Funds than existing Rule 17a-7(b)(4) in recognition of the variety and diversity of fixed-income securities in which Funds invest, our recommended framework would be inherently risk-based. To be reasonably designed, Fund's procedures would need to consider a security's market, trading, liquidity and other relevant considerations in formulating how a fair and appropriate cross trading price is established, and the Fund's investment adviser would be required to reasonably determine that the cross trading price results in total cost or proceeds (as applicable) to each client that is most favorable under the circumstances. To satisfy these standards and requirements for fixed-income securities that are relatively less liquid, distressed or structurally complex, or that exhibit significant trade price



volatility, Funds' Rule 17a-7 procedures would need to be increasingly rigorous with respect to the methodologies used to determine fair and appropriate cross trade prices, including by using an "independent pricing source plus" approach described above for some securities.

We acknowledge that the characteristics, status or structure of some unlisted securities can make them inappropriate for cross trading, regardless of the scrupulousness of the methodology proposed to be applied by a Fund and its adviser to determine a fair and appropriate price. For example, certain defaulted securities, securities subject to exchange controls, securities subject to international sanctions or securities priced on the basis of unobservable inputs that include only an investment adviser's proprietary assumptions or models may be inappropriate for cross trading under Rule 17a-7 in all circumstances, and we expect that Funds' Rule 17a-7 procedures should specify certain classes or types of securities that cannot be cross traded. However, we do not believe that Rule 17a-7 should be revised to condition a particular security's cross trading eligibility on its fair value hierarchy under U.S. GAAP. While imposing conditions on the procedures that Funds and their advisers must adopt and follow to determine a cross trade's price is elemental to the Rule 17a-7 safe harbor, we think that linking those conditions to U.S. GAAP's fair value hierarchy is too tenuous. As discussed above, we believe that effectuating cross trades of certain unlisted securities at the end of day price provided by an independent pricing service or established by applying an "independent pricing source plus" approach is entirely appropriate (notwithstanding that the securities are not valued for net asset value purposes using "level 1" inputs under U.S. GAAP) so long as the determination of price adheres strictly to reasonably designed procedures that properly consider relevant characteristics of the securities, the other procedural safeguards of Rule 17a-7 are complied with and the investment adviser reasonably believes that the transaction is consistent with its duties of loyalty and to seek best execution. Accordingly, we believe that Rule 17a-7(a)'s condition that market quotations be readily available for a security to be eligible for cross trading should be eliminated, at the very least with respect to the rule's application to unlisted securities (for which a principles-based framework like that recommended herein would instead be applied to ensure fair and appropriate pricing of a transaction).

Oversight and Fund board reporting are essential governance components of our recommended framework to replace Rule 17a-7(b)(4). We expect that Funds and their advisers should regularly review and assess transactions conducted pursuant to Rule 17a-7 for compliance with both the rule and the procedures adopted thereunder, including: (i) review by compliance personnel of the rationale for transactions to ensure they are consistent with the stated investment objectives and policies of the relevant Funds and adequately documented, (ii) review by compliance and securities valuation personnel to confirm that transaction pricing was determined in accordance with the rule and, for unlisted securities, in accordance with the Funds' procedures for the relevant security types and (iii) for transactions subject to an "independent pricing source plus" approach or that otherwise require price to be determined on the basis of multiple inputs, review by compliance and securities valuation personnel that secondary and tertiary (as applicable) pricing sources or inputs were obtained, observed and considered, and validated the primary pricing source within specified thresholds.

Additionally, Funds whose Rule 17a-7 procedures permit cross trades of unlisted securities to be effectuated at end of day prices provided by an independent pricing service (or that otherwise rely on pricing vendors to provide inputs for cross trade price determinations) should generally be





expected to provide for enhanced due diligence and monitoring of these vendors in their procedures. Monitoring procedures might include (i) rolling assessments of the number and notional value of security prices “challenged” by a Fund or its adviser as being incorrect or invalid in particular fixed-income segments to continuously evaluate the integrity of the vendor’s prices as an input for pricing cross trades and (ii) comparisons of pricing vendor prices to actual transactions effectuated proximately in the market to determine whether changes in a particular security’s market, trading or liquidity characteristics justify a Rule 17a-7 methodology change (such as implementation of an “independent pricing source plus” approach for the security). We think the Commission could impose enhanced oversight responsibilities in Rule 17a-7 itself for Funds seeking to cross trade over-the-counter securities in reliance on the rule, but recommend that the Staff and the Commission similarly consider a principles-based approach in recognition that Funds and their advisers will be best suited to identify and assess the risks associated with their Rule 17a-7 pricing procedures and how those risks can most effectively be mitigated.

Because Rule 17a-7(e)(3) requires a Fund’s board to determine at least quarterly that all transactions effectuated pursuant to the rule during the preceding quarter complied with the Fund’s Rule 17a-7 procedures, we believe that Funds and their advisers already provide directors with comprehensive information and materials so that boards can discharge their obligations under the rule and provide effective oversight of Funds’ cross trading practices. In connection with cross trading of unlisted securities, we recommend that the Staff and the Commission consider requiring a Fund and its adviser to supplement Fund board reporting under Rule 17a-7 to include detail on the various methodologies applied to price transactions in unlisted securities and any updates to those methodologies or their application to certain types of securities. Additionally, because the foundational element of our recommended framework for over-the-counter security cross trading is a requirement that a Fund’s investment adviser reasonably determine that a transaction’s price results in total cost or proceeds (as applicable) to each Fund or other client account that is most favorable under the circumstances, we are supportive of a requirement for a Fund’s investment adviser to represent to this effect to the Fund’s board, based upon its reasonable belief after due inquiry.

Finally, while Invesco believes that post-cross trade transparency, review and assessment and Fund board reporting are important elements of a modernized Rule 17a-7, we would not support a requirement for Funds or their advisers to report cross trades to a trade reporting system (such as TRACE) either in real time or on a delayed basis. As discussed herein, Rule 17a-7 should require Funds and their advisers to use information sourced from the market and market intermediaries to establish fair and appropriate prices for cross trades. Accordingly, because cross trades rely on market information to establish price without any independent element of price discovery, they cannot, in turn, provide the market with valuable information about price or enhance market efficiency. However, we believe that reporting cross trades to publicly accessible reporting systems would provide the market with valuable and proprietary information regarding Fund’s holdings and strategies, which could be used to Funds’ detriment and ultimately detract from the several benefits that cross trading opportunities provide. If the Commission is interested in understanding whether (and to what extent) Funds are engaging in cross trades, we recommend that the Commission consider revising Form N-CEN, which already requires Funds to provide census type information with respect their activities, to provide accordingly.

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We hope that our feedback and comments in this letter in response to the Staff Statement are helpful to the Staff and the Commission as the Commission assesses whether changes to Rule 17a-7 are warranted. We are available to discuss our comments and recommendations or provide any additional information or assistance that the Staff or the Commission might find useful.

Sincerely,

Invesco Ltd.

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Jeffrey Kupor  
Head of Legal, Americas

