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Submitted electronically through <http://www.regulations.gov>

Ms. Vanessa A. Countryman
Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, D.C. 20549

Re: Good Faith Determinations of Fair Value, File Number S7-07-20

Dear Ms. Countryman:

Invesco Advisers, Inc. (together with its investment advisory affiliates, "Invesco") is pleased to have the opportunity to comment on the Securities and Exchange Commission's (the "Commission") proposed Rule 2a-5 (the "Proposed Rule") under the Investment Company Act of 1940 (the "1940 Act") regarding good faith determinations of fair value.¹

Invesco is a registered investment adviser that, along with its investment advisory affiliates, advises more than 400 registered investment companies, including mutual funds, exchange-traded funds ("ETFs") and closed-end funds. Invesco and its affiliates are indirect, wholly-owned subsidiaries of Invesco Ltd., a leading independent global investment management firm, with approximately \$1,053.4 billion in assets under management as of March 31, 2020. Invesco Ltd. manages assets across the globe through a wide range of investment strategies and vehicles, including mutual funds, closed-end funds, ETFs, unit investment trusts ("UITs"), collective trusts, separately managed accounts, real estate investment trusts, private funds and commodity pools, among others.

I. Executive Summary

Invesco supports the Commission's Proposed Rule and believes it largely codifies current practices with respect to the determination and oversight of fair value prices. Invesco agrees with the Commission's description of accounting standards currently used in the fair value determination process of registered investment companies. By rescinding prior Commission guidance on valuation² (in recognition of funds'

¹ Good Faith Determinations of Fair Value, SEC Release No. IC-33845 (Apr. 21, 2020) (the "Proposing Release"), available at: www.sec.gov/rules/proposed/2020/ic-33845.pdf.

² See Proposing Release at 9. The accounting releases are Accounting Series Release 113 (Oct. 21, 1969) and Accounting Series Release 118 (Dec. 23, 1970).

reliance on existing accounting standards), the Commission will provide clarity and mitigate the potential for conflicting guidance. Invesco believes valuing fund assets solely in accordance with existing accounting standards would reduce any industry disparities and accordingly benefit fund shareholders. Invesco further believes the Proposed Rule appropriately reflects that (i) the role of a fund board is typically one of oversight and that (ii) the fund's investment adviser is often tasked with establishing and testing valuation methodologies and is primarily responsible for daily fair value determinations.

While the Proposed Rule formalizes or expands on current practices, it would impose more specific fair valuation practices, policies and procedures, reporting, and recordkeeping requirements. Invesco agrees with the comments and recommended edits to the Proposed Rule submitted by the Investment Company Institute (the "ICI") with the Commission. Invesco recommends that the Commission:

- Modify the Proposed Rule to specifically allow funds to rely on the methodologies of pricing service vendors;
- Allow investment adviser designees to establish methodologies for specified investments as necessary and appropriate;
- Eliminate the need for redundant testing of pricing methodologies;
- Modify the Proposed Rule to require that investment adviser designees establish a process for challenging prices, but not require a list of objective criteria for initiating price challenges;
- Modify the Proposed Rule to allow a UIT trustee or its designee to perform UIT fair value determinations;
- Clarify when prompt board reporting is triggered (*e.g.*, provide a materiality definition) and extend the 3-day turnaround period for prompt board reports; and
- Include an 18-month compliance period.

II. Invesco Comments to the Proposed Rule

A. Support for the Investment Company Institute comment letter

Invesco agrees with the comments and recommended edits to the Proposed Rule submitted by the ICI with the Commission. Below are supplemental comments regarding noteworthy elements of the Proposed Rule that Invesco deems material.

B. Fair Value Determinations

Pricing Methodologies, Testing Methodologies and Use of Pricing Vendors

Invesco supports the codification of current industry practice to select and apply an appropriate methodology for determining the fair value of fund investments. This practice includes identifying material inputs and assumptions specific to each asset class or portfolio holding and the methodologies that will apply to future fund holdings. Invesco is concerned, however, that the Proposed Rule does not accurately

reflect the delegation of certain responsibilities by investment advisers to pricing vendors. Although the Commission acknowledges the use of pricing services by fund advisers, the Proposed Rule may inadvertently minimize the vendor's role in establishing and applying fair value methodologies.

Advisers frequently rely on pricing services to make fair value determinations, subject to an initial due diligence of the vendor and continued oversight. It is common practice for investment advisers to have annual due diligence meetings with pricing vendors and ad hoc meetings as needed during the annual cycle. In practice, the results of such oversight meetings are reported to a fund's board on an annual or as-needed basis.

Accordingly, Invesco respectfully requests that the Commission (i) modify the Proposed Rule to specifically allow funds to rely on pricing service vendors to establish and apply pricing methodologies and (ii) to permit investment advisers to establish and/or apply their own methodologies for specified investments (e.g., Level 3 investments) as necessary and appropriate.

Invesco supports the Commission in permitting a fund to exercise discretion as to the type and frequency of testing. Invesco does not advise that the Proposed Rule be amended to require minimum testing frequencies. Invesco recommends that testing be left at the investment adviser designee's discretion. Investment advisers should retain the flexibility to implement testing frameworks that include daily, weekly, monthly and quarterly tests, as appropriate. Nor should the Commission amend the Proposed Rule to require that funds use specific types of testing. Invesco believes that back-testing which measures against non-executed prices may not be effective and can be highly subjective (*i.e.*, accommodation quotes may only represent the opinion of a dealer).

Invesco agrees with the ICI that the availability of hard trading data will help determine the frequency and scope of testing and joins the ICI in respectfully requesting that the Commission explicitly recognize this in an adopting release. Finally, Invesco notes that it is common practice for investment advisers to engage pricing services to perform testing and respectfully requests that the Commission remove any elements of the Proposed Rule that would require fund advisers to perform redundant testing.

Price Challenges

The Proposed Rule further requires that funds establish criteria for initiating price challenges and suggests that such criteria should include "objective thresholds."³ Invesco respectfully disagrees with the Commission on this point. The process for challenging prices can vary by specific facts and circumstances; this includes stress resulting from periods of market volatility and industry specific challenges. Investment advisers tasked with making fair value determinations must use their reasonable judgment and discretion to determine when a price merits a challenge and what criteria should be used to implement the challenge.

A specific set of criteria and procedures could cause an investment adviser to challenge a price that it otherwise deems to be reasonable or to refrain from challenging a price that fails to meet specific pre-established criteria. Accordingly, any process for challenging a price needs to give deference to the board or its investment adviser designee. Invesco recommends a modification to the Proposed Rule that would require an investment adviser designee to establish a process, and not a list of objective criteria, for initiating price challenges.

³ See Proposing Release at 26.

Investment advisers typically have long-established processes for initiating price challenges and which, in Invesco's view, can enhance vendor oversight. Fixed-income price challenges, for example, are initiated if security prices hit certain tolerance levels (*i.e.*, executed trade prices vs. vendor prices; primary to secondary vendor price comparisons; day-over-day security price movements). Volatile market and social conditions can introduce stress to fair value prices, but an investment adviser's active engagement with its pricing service vendors can improve the challenge process and quality of service.

Finally, Invesco further recommends that the Proposed Rule be modified to specifically allow a board or its investment adviser designee to obtain challenge reports from pricing vendors. This would ease the duplicative burden on an investment adviser designee to record each challenge and the associated result.

UITs

Invesco is generally supportive of the applicability of the Proposed Rule on UITs. As the Commission notes in the Proposing Release,⁴ under the Proposed Rule a UIT's trustee would conduct fair value determinations. Invesco believes, however, that this element of the Proposed Rule is inconsistent with current UIT industry practice and could potentially cause disruptions for the trusts and their unitholders.

Current valuation guidance,⁵ as mentioned by the Commission in the Proposing Release,⁶ states that a UIT's trustee "or an appointed person" may perform the fair value calculation for UITs. It is common industry practice for a UIT trustee to delegate fair valuation tasks to the UIT's sponsor, evaluator or third-party in accordance with the terms of the UIT's trust agreement. The Proposed Rule, however, does not explicitly contemplate anyone other than the Trustee performing that function.

Invesco recommends that the Proposed Rule be modified to allow a trustee, or a person appointed by the trustee pursuant to the terms of a trust agreement, to make fair value determinations for UITs. This modification would allow a continuity of services to UITs and would mitigate any potential disruptions to unitholders.

C. Oversight of Fair Value Determinations

Under the Proposed Rule a board may assign fair value determinations to the fund's investment adviser, but the assignment would require continued board oversight of the adviser. Invesco firmly agrees with the Commission's statements⁷ in the Proposing Release that oversight should not be passive, but instead be an interactive process where questions are raised and relevant information is requested. Invesco, however, has specific concerns with respect to the board reporting elements of the Proposed Rule.

Board Reporting

The Proposed Rule would impose a detailed oversight regime that would include periodic and prompt reporting by an adviser to the fund's board. This periodic board reporting would require quarterly and annual

⁴ See Proposing Release at 95.

⁵ Investment Company Act of 1940, Investment Company Act Release No. 15612, Appendix B, Guide 2.

⁶ See Proposing Release at 16.

⁷ See Proposing Release at 34-38.

assessments of the adequacy and effectiveness of the adviser's fair value process.⁸ Many of the reports described in the Proposed Rule are standard industry practice for investment advisers (e.g., assessment and management of material valuation risks and annual price vendor assessments). Invesco agrees with the edits recommended by the ICI regarding the frequency and detail of periodic reporting to the board.

Under the Proposed Rule, advisers would also be required to promptly report (*i.e.*, in no event later than three business days after the adviser becomes aware of the matter) in writing to the board on matters associated with the adviser's process that materially affect, or could have materially affected, the fair value of the assigned portfolio of investments, including a significant deficiency or material weakness in the design or implementation of the adviser's fair value process or material changes in the fund's valuation risk.⁹ Invesco respectfully requests that the Commission modify the "prompt" reporting element of the Proposed Rule.

Importantly, a three-day window for prompt reporting is insufficient to investigate, address and prepare a report to the board. Without a definition of what constitutes "material," a prompt report regarding a matter that materially affects or "could have materially affected" fair value is highly speculative. Invesco is concerned this could lead to inconsistent or over reporting to the board on matters that can be managed at the investment adviser's discretion and reported quarterly. If the Proposed Rule had been in effect in March 2020, during a period of material financial stress, Invesco would have created an unmanageable amount of reports under the requirements of the Rule. This would have created unnecessary burdens for both the adviser and board.

Finally, Invesco does not recommend that the Commission include a requirement under the Proposed Rule to report all pricing overrides to the board;¹⁰ such a broad requirement could be difficult to manage and be quite onerous. Tracking and documenting an exceptionally high volume of price overrides on a daily basis would prove not only burdensome for advisers, but such reporting would not add value or clarity to a fund's board oversight.

D. Compliance Period

Invesco recommends an 18-month, and not 12-month, compliance period. Fund valuation is a complex daily function that requires a high degree of collaboration and coordination. An 18-month compliance period would permit funds to update relevant policies and procedures, coordinate communications with impacted parties and introduce any necessary technology updates.

⁸ The Proposed Rule requires quarterly assessments of the adequacy and effectiveness of the adviser's fair value process, including a summary or description of: (i) assessment and management of material valuation risk; (ii) any material changes to, or material deviations from, established fair value methodologies; (iii) testing results; (iv) adequacy of resources allocated to the fair value process, including any material changes to the roles or functions of the responsible persons; (v) any material changes to the adviser's process for selecting and overseeing pricing services, as well as material events related to this oversight (such as changes in service providers or price overrides); and (vi) any other materials requested by the board.

⁹ See Proposing Release at 116.

¹⁰ See Proposing Release at 48.

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We appreciate the opportunity to comment on the Proposed Rule. If you have any questions regarding our comments or would like additional information, please contact me at [REDACTED].

Sincerely,

Veronica Castillo

Veronica Castillo
Assistant General Counsel

cc: Honorable Jay Clayton, Chairman, U.S. Securities and Exchange Commission
Honorable Hester M. Peirce, Commissioner, U.S. Securities and Exchange Commission
Honorable Allison H. Lee, Commissioner, U.S. Securities and Exchange Commission
Honorable Elad L. Roisman, Commissioner, U.S. Securities and Exchange Commission
Ms. Dalia Blass, Director, Division of Investment Management, U.S. Securities and Exchange Commission