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August 11, 2015

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

Mr. Brent J. Fields  
Secretary  
U.S. Securities and Exchange Commission  
100 F Street, NE  
Washington, DC 20549

**Re: Investment Company Reporting Modernization  
File No. S7-08-15  
Amendments to Form ADV and Investment Advisers Act Rules  
File No. S7-09-15**

Dear Mr. Fields,

Invesco Advisers, Inc. ("Invesco") is pleased to have the opportunity to comment on the Securities and Exchange Commission's (the "Commission") proposals to modernize and enhance the reporting and disclosure of information by investment companies and investment advisers (the "Proposals").<sup>1</sup> Invesco is a registered investment adviser that, along with its investment advisory affiliates, including Invesco PowerShares Capital Management LLC ("PowerShares"), advises more than 250 registered investment companies ("Funds"), including traditional open-end mutual funds, exchange-traded funds ("ETFs") and closed-end funds, with combined assets as of June 30, 2015, of approximately \$283 billion. Invesco, PowerShares and their affiliates are indirect, wholly-owned subsidiaries of Invesco Ltd., a leading independent global investment management firm, with approximately \$803 billion in assets under management as of June 30, 2015. Invesco Ltd. manages assets through a wide range of investment strategies and vehicles, including Funds, ETFs, collective trust funds, separately managed accounts, real estate investment trusts, unit investment trusts ("UITs"), and other pooled vehicles and separately managed accounts across the globe.

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<sup>1</sup> Investment Company Reporting Modernization, Investment Company Act Release No. 31610 (May 20, 2015), 80 Fed. Reg. 33590 (June 12, 2015) (the "**Fund Proposal**"); Amendments to Form ADV and Investment Advisers Act Rules, Investment Advisers Act Release No. 4091 (May 20, 2015), 80 Fed. Reg. 33718 (June 12, 2015) (the "**Advisers Act Proposal**").

Invesco supports the Commission's efforts to improve the quality and type of information that Funds provide to the Commission and investors in a format that better enables the Commission to aggregate and analyze the data that it collects. In our capacity as a registered investment adviser, we are deeply committed to ensuring the Commission's continuing ability to monitor for systematic risk and to fulfill its mission of investor protection, the maintenance of fair, orderly, and efficient markets, and the facilitation of capital formation.

Broadly speaking, Invesco supports the Proposals as they should assist the Commission in its role as primary regulator for the fund industry. Obtaining fund information in a structured data format should help the Commission improve its ability to carry out its regulatory mission. However, we have significant concerns with certain aspects of the Proposals. These include matters related to the timing and cost of complying with the proposals, public disclosure of potentially sensitive and complex fund information, and the aggregate volume of data being requested by the Commission. Our concerns with respect to each of these matters are discussed below.

In addition to our own views expressed herein, we also wish to communicate our support for the comments and recommendations set forth in the comment letters to the Proposals submitted to the Commission by each of the Investment Company Institute ("ICI")<sup>2</sup> and Securities Industry and Financial Markets Association – Asset Management Group ("SIFMA AMG"),<sup>3</sup> respectively.

## **Introduction**

On May 20, 2015, the Commission published two releases (the "Releases") setting forth the series of proposed rules, forms and amendments that comprise the Proposals, for the purpose of modernizing and enhancing the reporting and disclosure of information by investment companies and investment advisers. The Proposals are made up of five basic components:

- A new monthly Form N-PORT, which would replace current quarterly Form N-Q and would require funds to provide expanded information about fund portfolio holdings (including derivatives), returns, risk metrics, and other matters, in a structured data or "XML" format; information reported in Form N-PORT filed for the third month of a

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<sup>2</sup> The Investment Company Institute (ICI) is a leading, global association of regulated funds, including mutual funds, exchange-traded funds (ETFs), closed-end funds, and unit investment trusts (UITs) in the United States, and similar funds offered to investors in jurisdictions worldwide. ICI seeks to encourage adherence to high ethical standards, promote public understanding, and otherwise advance the interests of funds, their shareholders, directors, and advisers.

<sup>3</sup> SIFMA represents the broker-dealers, banks and asset managers whose 889,000 employees provide access to the capital markets, raising over \$2.4 trillion for businesses and municipalities in the U.S., serving clients with over \$16 trillion in assets and managing more than \$62 trillion in assets for individual and institutional clients including mutual funds and retirement plans. SIFMA, with offices in New York and Washington, D.C., is the U.S. regional member of the Global Financial Markets Association (GFMA). The Asset Management Group within SIFMA ("AMG") is the voice for the buy side within the securities industry and broader financial markets, which serves millions of individual and institutional investors as they save for retirement, education, emergencies, and other investment needs and goals. The AMG's members represent U.S. asset management firms whose combined assets under management exceed \$30 trillion.

fund's fiscal quarter would be publicly available 60 days after the end of each quarter;

- A new annual Form N-CEN, which would replace current Form N-SAR and would require submission of considerable new "census-type" fund information to the Commission in a structured data format;
- Amendments to Form ADV, which would require information about separate accounts and other information related to the risk profile of individual advisers;
- A new Rule 30e-3, which would permit Internet delivery of fund shareholder reports if a fund makes the reports accessible on a website and satisfies certain other conditions; and
- Amendments to Regulation S-X, which would require standardized, enhanced disclosure about derivatives and other matters in investment company financial statements.

As the Commission recognizes, the Proposals will impose significant time and cost burdens on the industry, and ultimately investors. Invesco believes that these time and cost burdens can be partially mitigated through refinement of the Proposals. To that end, Invesco believes the Proposals should be amended as described below, and summarized as follows:

- I. Compliance Timeline.** Extend the date for compliance with the Proposals from 18 months to 36 months. Change monthly Form N-PORT filing timeframe from 30 days after month end to 60 days after month end. Change annual Form N-CEN filing timeframe from 60 days after fiscal year end to 75 days after fiscal year end.
- II. Public Disclosure of Information.** Remove from the Proposals public disclosure requirements with respect to risk metrics data, proprietary information about derivatives, illiquidity determinations, and proprietary information about securities lending.
- III. Form N-PORT Data Simplification.** Modify and simplify a number of data points to be collected in Form N-PORT, including information about risk metrics for every fund, securities lending counterparties, and calculations contained in schedules of investments.
- IV. Form N-CEN Data for ETFs.** Modify a number of the requirements of Form N-CEN with respect to ETFs, including modification of timeframes for reporting tracking error and tracking differences.
- V. Internet Delivery of Shareholder Reports.** Modify the proposed internet delivery requirements of financial reports in Rule 30e-3 to increase the likelihood that Internet delivery pursuant to Rule 30e-3 will be more widely used.
- VI. Form ADV Information.** Modify a number of confidentiality and definitional items in the proposed Form ADV Amendments and Amendments to Advisers Act Recordkeeping Rule.

None of the refinements and amendments to the Proposals that we recommend would adversely impact the Commission's ability to achieve its regulatory objectives. The refinement and amendments would, however, ease the time burden and a portion of the

cost burden of complying with the Proposals. We believe that we are in a unique position to comment on the Proposals, especially the expected costs and burdens associated with implementing the Proposals, due to our position as a leading investment adviser and sponsor of traditional open-end mutual funds, ETFs, closed-end funds, UITs, and separately managed accounts.

## **Specific Recommendations**

### **I. Compliance Timeline**

#### **A. Compliance with Effective Date**

The Commission proposes a tiered set of compliance dates based on asset size for Form N-PORT. Larger funds, specifically funds that together with other investment companies in the same "group of related investment companies"<sup>4</sup> have net assets of \$1 billion or more as of the end of the most recent fiscal year, would have to file Form N-PORT 18 months after the effective date of the rule. Smaller funds, specifically those that together with other investment companies in the same "group of related investment companies" have net assets of less than \$1 billion as of the end of the most recent fiscal year, would have an extra 12 months, or a total of 30 months after the effective date of the rule, to file.<sup>5</sup>

The Commission proposes to provide funds with 18 months from the effective date to comply with Form N-CEN, and the related amendments to other rules and forms. The Commission proposes to provide funds with eight months from the effective date to comply with the proposed amendments to Regulation S-X.<sup>6</sup>

We recommend that the Commission provide longer compliance periods for Form N-PORT, Form N-CEN, and amended Regulation S-X. Specifically, we recommend a compliance date of 36 months after the effective date for fund groups of all sizes, implemented on a rolling basis according to a fund's fiscal year-end. We believe that a 36 month implementation period would better recognize the significant operational and resource challenges, both from a cost and personnel perspective, of collecting and filing the information in the format required by the Proposals.

With respect to Form N-PORT, implementation will require us to undertake significant systems development and operational updates. Based upon a preliminary internal analysis, we have calculated approximately 1.8 million data points, 72 manual inputs and 37 automated inputs per 250 funds, with information being pulled from over 10 separate data sources. We believe that systems analysis, vendor RFPs, development, testing and final implementation could take 36 months to complete, cost approximately \$800,000 to \$1.5 million (based on early estimates) and require the hiring of a number of internal and external project managers, developers and other staff. Implementation of a project of this size and magnitude will require an internal project team overseen by a multi-departmental executive steering committee and a separate project development team comprised of members from 7-10 internal departments. Implementation of the Proposals will also require us to retain multiple external vendors. More specifically, we estimate that it will require over

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<sup>4</sup> The threshold would be based on the definition of "group of related investment companies," as that term is defined in rule 0-10 under the 1940 Act.

<sup>5</sup> See Fund Proposal at 33654.

<sup>6</sup> *Id.*

6000 man hours to conduct analysis, develop and test newly created interfaces between the reporting solution and internal and external data sources in an attempt to automate the collection, aggregation and validation of data from the multiple sources where it currently resides. Once implemented, a solution to comply with the ongoing reporting requirements of Form N-PORT may require an ongoing interdepartmental support team of up to 10-15 members. Given this initial estimate of the man hours and resources needed to implement the Proposals, we request a minimum of 36 months in order to prepare for full compliance with the Proposals.

Even with a longer period of time to prepare for compliance with the Proposals, we believe that it would be prudent to allow for a rolling or staggered compliance period based upon each fund's fiscal year-end. A rolling compliance period will make implementation more manageable, especially for fund complexes with multiple fiscal year-ends. We recommend that the Commission provide for a phase-in period based on a fund's fiscal year-end, such that each fund would be required to first begin filing its Form N-PORT as of its next fiscal year following the compliance date.<sup>7</sup> A rolling phase-in would provide a more manageable implementation period for the industry and would provide an opportunity to address more easily any issues that may arise in the initial months of preparing and filing the new forms.

B. Extend the Filing Period for Form N-PORT

Invesco strongly recommends extending the filing period for Form N-PORT from 30 days to 60 days, from month end. We also recommend extending the filing period for the first and third quarter portfolio holdings schedules from 30 days to 60 days, from month end, to align with the existing periods for filing Form N-Q and Form N-CSR. Extending these filing periods would provide funds with the necessary time needed to collect and review the data needed to prepare these filings. It would be burdensome for a fund complex with a small number of funds, let alone a complex with more than 250 funds, to complete this filing within a 30 day window each and every month. We do not believe that comparisons to Form N-MFP's five day filing requirements are relevant because fund complexes typically have a very limited number of money market funds compared to the number of traditional debt and equity funds that they sponsor. Moreover, Form N-MFP is much less complex than Form N-PORT.

The proposed requirement to file Form N-PORT within 30 days after the end of the month would not provide sufficient time for funds to gather, process and review the data necessary for the filing. The amount of data requested is significantly greater than what is currently required of funds by the Commission.<sup>8</sup> Funds would be required to find alternative methods to more quickly collect and validate data. Contrary to the Commission's belief, the data required for Form N-PORT is not "readily available to funds as a general business practice."<sup>9</sup> For example, funds would need additional time to convert risk metrics data received from third-party systems to XML format for filing. Third-party EDGAR filers often will need additional time to convert filings into an XML format, a process which can take up to 48 hours. We therefore believe that 60 days would be a more reasonable period of time in which to complete these processes given the volume of data to be collected and filed.

<sup>7</sup> We note that the Commission permitted a similar rolling phase-in period for the mutual fund summary prospectus. See Enhanced Disclosure and New Prospectus Delivery Option for Registered Open-End Management Investment Companies, 72 Fed. Reg. 67790 (Nov. 30, 2007).

<sup>8</sup> See Fund Proposal at 33611-12.

<sup>9</sup> *Id.*

The proposed requirement to file Regulation S-X compliant portfolio holdings schedules for the first and third fiscal quarters within 30 days of the end of the quarter, rather than the 60 days funds currently have to file reports on Form N-Q, similarly provides funds with inadequate time to prepare and review these schedules. While the Commission notes that eliminating the portfolio holdings' certification requirement would save funds time, the amount of that savings is a small a portion of the overall time spent in preparing the schedule. In addition to certification, funds spend substantial time obtaining, reviewing and conducting quality checks on the data. Just because the filings are not "certified" does not mean that funds will not employ the same or similar processes to ensure the accuracy of the information contained in the filing. These actions would be burdensome to accomplish in a 30-day time period with the degree of accuracy we would expect for a federal securities form filing.

C. Extend the Filing Period for Form N-CEN

In light of the additional filing burdens placed on funds by monthly filings on Form N-PORT and the additional requirements for ETFs and UITs with respect to Form N-CEN, we recommend that the filing period for Form N-CEN be lengthened from 60 days to at least 75 days. Providing a longer filing period will ensure that funds have adequate time to obtain the necessary data following year-end, including data that may reside in multiple systems or must be obtained manually. The additional time to file the form would not reasonably be expected to diminish the regulatory relevance of the data.

**II. Public Disclosure of Information**

While Form N-PORT would be filed on a monthly basis, information filed for the first two months of a fund's fiscal quarter would not be made publicly available. Information filed on Form N-PORT for the third month would be publicly available commencing 60 days after the end of the fund's fiscal quarter. We support the Commission's intention to keep information filed on Form N-PORT non-public for the first two months of a fund's fiscal quarter. However, we strongly believe that information concerning portfolio level risk metrics, illiquidity determinations and derivatives, should at all times remain non-public. We also believe the proprietary securities lending information required by the proposed changes to Regulation S-X should also remain non-public. We believe public disclosure of any of this information would be confusing to investors and potentially harmful to funds and the interests of their shareholders due to the complex and proprietary nature of this information. Therefore we believe that public disclosure of these items is neither necessary nor appropriate in the public interest or for the protection of investors.

With the advent of the summary prospectus, the Commission has advocated for greater uniformity and standardization of certain disclosures to allow investors to compare funds on an equal basis.<sup>10</sup> These requirements by the Commission staff have taken the form of standard fee and performance table disclosures and requirements to keep out of the summary prospectus anything not specifically enumerated in items 1-4 of Form N-1A.

Form N-PORT, by contrast, has been designed primarily to provide raw data to the Commission in its capacity as a regulator. Form N-PORT is designed to allow the

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<sup>10</sup> See Enhanced Disclosure and New Prospectus Delivery Option for Registered Open-End Management Investment Companies, Investment Company Act Release No. 28584, 74 Fed. Reg. 4546, 4563 (Jan. 26, 2009).

Commission to easily aggregate data across the industry in order to facilitate its own analysis. It has not been designed to facilitate narrative reading of plain English fund disclosure. The data in Form N-PORT will be unfamiliar, difficult to navigate and not user friendly to the average investor.

In addition to our concerns with potential investor confusion regarding public Form N-PORT data, we also have serious concerns about the proprietary nature of some of the information required to be filed by Form N-PORT that could lead to reverse engineering and/or front-running of a fund's investment portfolio. With state-of-the-art technologies, publication of proprietary data could leave a fund more susceptible to replication or other copycat action. The Commission states that because only information for the third quarter will be made public, and only on a 60-day delay, this approach will maintain the status quo with respect to front-running and copycat issues.<sup>11</sup> We do not believe this delay is sufficient to protect against abuse. We believe that sophisticated firms could still use the information to the detriment of the funds and their shareholders. There are also a number of items required by Form N-PORT whose disclosure would adversely impact the bargaining power of the fund's adviser, such as derivatives financing rates, that are confidential and/or competitively negotiated. Disclosure of this information does not materially contribute to an investor's ability to make informed investment choices. Accordingly, while we respect the Commission's interest in obtaining the information on Form N-PORT for its own regulatory purposes, we propose that the items enumerated below be retained by the Commission in a confidential format.

Invesco believes that the following items of information are not appropriate for public disclosure at any time:

A. Portfolio level risk metrics<sup>12</sup>

We believe that raw portfolio level risk metrics data should not be made publicly available to investors due to the potential for investor confusion. Risk measures and risk metrics are not standardized and can vary based upon a number of factors including calculation methodologies and assumptions made by each fund's adviser. There is a serious risk that the public may view risk metrics disclosure in Form N-PORT as they view other regulatory risk-related disclosures contained in prospectuses and financial reports and assume that it is standardized information comparable from one fund to the next. The variability of portfolio level risk metrics makes it a potentially very confusing and imprecise data point for investors to use in reviewing a fund. Therefore, we do not believe that disclosure of this information, either quarterly or at any other time, would complement the thorough and plain English risk disclosures that are contained in the registration statement in any meaningful way, nor would it be useful in helping investors to make more informed investment choices.

In addition to our concern over potential investor confusion associated with public disclosure of risk metrics information, we believe this information should also remain nonpublic due to its sensitive and proprietary nature. From the adoption of risk management systems to the formation of assumptions, methodologies and other inputs, a fund makes several choices when implementing its investment risk management program, including choices that impact duration and spread duration computations. These choices are part of a fund's unique portfolio management process and, if made public, could

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<sup>11</sup> See Fund Proposal at 33614.

<sup>12</sup> See Item B.3 of Proposed Form N-PORT.

potentially enable a competitor to better understand a fund's trading strategy and investment patterns in response to market changes. Allowing competitors and others in the financial industry access to a fund's risk metrics and providing them with an opportunity to view and understand patterns in the information, better enables them to understand how a fund reacts in different economic environments. That information could provide them with the ability to triangulate and anticipate the fund's trading strategy through reverse engineering, front running or other actions that may negatively impact the fund and its shareholders. These dangers cannot necessarily be eliminated by presenting the information to the public on a 60-day delayed release basis.

B. Derivatives Information<sup>13</sup>

Form N-PORT would require funds to disclose certain characteristics and terms of derivative contracts that are important to understanding the instrument, such as the category of derivative that most closely represents the investment<sup>14</sup> and information about the counterparty (including the name and LEI of the counterparty).<sup>15</sup> Form N-PORT also would require funds to report terms and conditions of each derivative investment that are important to understanding the payoff profile of the derivative, depending on the category of derivative.<sup>16</sup> This information would include whether the derivative was a put or call, written or purchased, or long or short.<sup>17</sup> Funds also would disclose other information regarding the nature and terms of the derivative, including the number of shares per contract, the exercise price or rate of the contract, the notional amount, and delta of an option,<sup>18</sup> in addition to the unrealized gains or losses of the derivative. For swap agreements and the catch-all category of "other derivatives," funds would disclose a description of the terms of payment, including financing rates, floating rates, fixed rates, payment frequency and the description and terms of payment to be paid to and received from the counterparty.<sup>19</sup> All of this information would be required to be made publicly available for the third month of each quarter.

The selection and structuring of individual derivative instruments by a fund's portfolio manager reflects the application of that portfolio manager's unique and proprietary investment process. As with disclosure of risk metric data, detailed derivatives information, such as reference assets and other specific terms, could potentially enable a competitor to better understand and anticipate a fund's trading strategy and investment patterns in response to certain market changes. For example, over time, public disclosure of derivatives terms, conditions or other data points could allow brokers or other market participants to create a mosaic of information which establishes a pattern of a fund's trading and investments and allows them to understand what derivatives a fund utilizes in response to specific market conditions. This knowledge would give the broker or other market

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<sup>13</sup> See Item C.11 of Proposed Form N-PORT.

<sup>14</sup> See Item C.11.a of Proposed Form N-PORT.

<sup>15</sup> See Item C.11.b of Proposed Form N-PORT.

<sup>16</sup> See Items C.11.c-g of Proposed Form N-PORT.

<sup>17</sup> *Id.*

<sup>18</sup> The Fund Proposal describes the delta of an option as the ratio of the change in the value of the option to the change in the value of the reference instrument. See Fund Proposal at 33608. Proposed Form N-PORT also would require reporting of the delta for convertible debt.

<sup>19</sup> See Items C.11.f and g of Proposed Form N-PORT.



participant the ability to front-run the fund by buying/selling an asset in advance of the fund's trades causing a price change in the derivative or related security to the detriment of the fund and its shareholders.

We also strongly oppose publicly disclosing derivatives information such as financing rates and contract terms and conditions because that information is sensitive, proprietary and could lead to a competitive disadvantage for funds, while not providing any useful or understandable information to investors. Public disclosure of this data could impair the ability of a fund to negotiate with various counterparties the best possible terms for derivatives transactions on behalf of fund shareholders.

Invesco urges the Commission, consistent with its approach to sensitive and proprietary information contained in Form PF,<sup>20</sup> to find that public disclosure of the foregoing derivatives information is neither necessary nor appropriate in the public interest or for the protection of investors. We further urge the Commission to not amend Regulation S-X in a manner that would require disclosure in a fund's financial statements of any of the derivatives information to which we object making public in Form N-PORT.

### C. Illiquidity determinations<sup>21</sup>

Form N-PORT would require funds to identify whether an asset is an illiquid asset and make that information publicly available every third month of the quarter.<sup>22</sup> Consistent with the Commission's prior guidance on liquidity, Form N-PORT would define "illiquid asset" as "an asset that cannot be sold or disposed of by the [f]und in the ordinary course of business within seven calendar days, at approximately the value ascribed to it by the [f]und."<sup>23</sup>

Like other fund sponsors, Invesco has developed its own standards and policies for determining and monitoring whether an asset is illiquid to ensure that these illiquid assets do not exceed 15% of the fund's assets, based on Commission guidelines.<sup>24</sup> These policies require fund personnel to make reasonable, yet subjective judgments about whether an asset can be sold for its approximate carried value within seven calendar days based on their views of the markets and other factors. These judgments may differ from one fund complex to the next.

Invesco and other fund complexes could reasonably differ in their assessments of the liquidity of a particular security, even though both complexes have a sound method for determining liquidity and follow their own reasonable procedures. Publicly disclosing these variations could lead to confusion among investors who may not understand how or why a particular security could be deemed liquid by one fund complex but illiquid by another. As

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<sup>20</sup> See Reporting by Investment Advisers to Private Funds and Certain Commodity Pool Operators and Commodity Trading Advisors on Form PF, 76 Fed. Reg. 71145 (Nov. 16, 2011), ("Form PF Release"); Rules Implementing Amendments to the Investment Advisers Act of 1940, 76 Fed. Reg. 42950 (July 19, 2011), ("Form ADV Release").

<sup>21</sup> See Item C.7 of Proposed Form N-PORT.

<sup>22</sup> See Item C.7 of Proposed Form N-PORT.

<sup>23</sup> See General Instruction E of Proposed Form N-PORT. See also, Acquisition and Valuation of Certain Portfolio Instruments by Registered Investment Companies, 51 Fed. Reg. 9773, 9777 (Mar. 21, 1986) (providing characteristics of illiquid securities).

<sup>24</sup> See, e.g., Statement Regarding "Restricted Securities," 35 Fed. Reg. 19989 (Dec. 31, 1970); Revisions of Guidelines to Form N-1A, 57 Fed. Reg. 9828 (Mar. 20, 1992).

with public disclosure of risk metrics, the lack of uniformity and standardization associated with illiquidity determinations makes the public disclosure of this item not helpful to investors at best, and potentially confusing at worst. Public disclosure of illiquidity determinations could have the unintended consequence of stifling robust illiquidity processes and determinations, including by causing fund complexes to seek boiler-plate liquidity determinations from third-party vendors.

For these reasons, we recommend that the Commission find that public disclosure of assets deemed illiquid is neither necessary nor appropriate in the public interest or for the protection of investors. Keeping this information non-public will still provide the Commission with access to this information for its own regulatory purposes and will avoid confusion among investors that could be caused by illiquidity determination differences among funds due to the lack of standardization inherent in the liquidity analysis. For these reasons, we recommend that the Commission find that public disclosure of assets deemed illiquid in Form N-PORT is neither necessary nor appropriate in the public interest or for the protection of investors. We further urge the Commission to not amend Regulation S-X in a manner that would require disclosure in a fund's financial statements of investments that have been deemed illiquid.

#### D. Securities Lending Information

We do not support requiring the disclosure of non-public information about funds' securities lending activities as proposed in the amendments to Rule S-X. The Commission proposes extensive new disclosure requirements with respect to a fund's securities lending activities and cash collateral. Specifically, the Commission proposes to require disclosure of (1) the gross income from securities lending, including income from cash collateral reinvestment; (2) the dollar amount of all fees and/or compensation paid by the registrant for securities lending activities and related services, including borrower rebates and cash collateral management services; (3) the net income from securities lending activities; (4) the terms governing the compensation of the securities lending agent, including any revenue sharing split, with the related percentage split between the registrant and the securities lending agent, and/or any fee-for-service, and a description of services included; (5) the details of any other fees paid directly or indirectly, including any fees paid directly by the registrant for cash collateral management and any management fee deducted from a pooled investment vehicle in which cash collateral is invested; and (6) the monthly average of the value of portfolio securities on loan.<sup>25</sup> The Commission believes that these proposed disclosures would allow investors to better understand the income generated from, as well as the expenses associated with, securities lending activities.

This information may be useful to the Commission as part of its regulatory mission and oversight, however, we do not believe it will provide meaningful information to investors. On the contrary, disclosure of confidential details about the financial arrangements of fund securities lending activities could have an adverse competitive effect on these activities, both for funds individually and for securities lending by funds more generally. Individually, funds might have more difficulty negotiating rates in their best interest if rates are publicly disclosed. As for the industry, publicly detailing securities lending counterparty exposures could result in counterparties seeking out lenders that do not need to make similar disclosures. Accordingly, while we understand the Commission's interest in obtaining such information, we propose that it do so in a confidential format.

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<sup>25</sup> See proposed rule 6-03(m) of Regulation S-X.

### **III. Form N-PORT Data Simplification**

While we generally support the Commission's data collection efforts in Form N-PORT, we have a number of specific comments related to the form which are explained more fully below. We are concerned, however, by the sheer volume of data to be reported to the Commission every month on a fund-by-fund basis. For Invesco, that is more than 250 separate new filings every month. Our initial estimates point to over 1.8 million data points per 250 funds to be analyzed and potentially reported each month. While most, if not all of the data required by Form N-PORT exists, it is housed in a myriad of different internal and external systems that previously did not need to and were never intended to communicate with each other. New systems will need to be developed and/or purchased to automate the collection of data and connect the current systems housing the data in order to make the data available for completing Form N-PORT on a monthly basis. Moreover, some of the data points, such as contract terms and conditions, do not necessarily lend themselves to automation and will need to be gathered on a manual basis, at least initially. We have the following specific suggestions that we believe would ease some of the burden associated with the monthly N-PORT filing.

#### **A. Recommended Modifications to Portfolio Level Risk Metrics**

As proposed, Form N-PORT would require funds that invest in debt instruments or derivatives that provide exposure to debt instruments or interest rates to report durations and spread durations over key rates along the risk-free interest rate curve. The requirement would apply to funds whose debt instruments and related derivatives' notional values represent at least 20% of the fund's net asset value as of the reporting date.<sup>26</sup> To determine duration, a fund would be required to calculate the change in value in the fund's portfolio from a one basis point change in interest rates (commonly known as DV01) for each applicable key rate along the risk-free interest rate curve (*i.e.*, 1 month, 3 month, 6 month, 1 year, 2 year, 3 year, 5 year, 7 year, 10 year, 20 year and 30 year interest rate), for each applicable currency in the fund.<sup>27</sup> To determine spread duration, a fund would be required to calculate the change in value in the fund's portfolio from a one basis point change in credit spreads (commonly known as SDV01) for each of the same key rates along the risk-free interest rate curve, aggregated by non-investment grade and investment grade exposures.<sup>28</sup> The Commission looks to benefit from risk metrics information by getting a better understanding of the risk profiles of funds and the credit spreads of fund investments.

Invesco recommends increasing the proposed 20% threshold used to determine whether a fund must report risk metrics to an amount greater than 30%. The basis for the Commission's proposed 20% threshold is its belief that the threshold would result in only requiring funds that use debt instruments as a significant part of their investment strategy to monitor and report risk metrics. While the 20% threshold would not subject certain funds to monthly monitoring and risk metrics reporting requirements, it still would capture many funds that do not use debt investments as a significant part of their investment

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<sup>26</sup> See Item B.3 of Proposed Form N-PORT. Notional value would be the sum of: (i) the value of each debt security; (ii) the notional value of each swap for which the underlying reference asset or assets are debt securities or an interest rate; and (iii) the delta-adjusted notional amount of any option for which the underlying reference asset is an asset classified in (i) or (ii). See Instruction to Item B.3 of Proposed Form N-PORT.

<sup>27</sup> See Item B.3.a of Proposed Form N-PORT.

<sup>28</sup> See Item B.3.b of Proposed Form N-PORT.

strategy, but rather use them from time-to-time and/or in unique circumstances in order to obtain a desired exposure. We believe that the 30% threshold number is a more reasonable cutoff than 20% in determining which funds will need to report additional risk metrics. The 30% number will capture funds that use debt or derivatives instruments as part of their principal investment strategy, without also having to report on funds that may have used these instruments in a de minimus amount or in a unique situation but not as part of their principal investment strategy.

**B. Limit Securities Lending Disclosure to Top Five Counterparties**

Form N-PORT would require the identification of all counterparties and the disclosure of the aggregate value of securities on loan to those counterparties. Funds also would disclose the LEI of the counterparty (if any).<sup>29</sup> According to the Fund Proposal, the Commission believes that this information will help the Commission and investors better understand the level of potential counterparty risk assumed as part of the fund's securities lending program.<sup>30</sup>

We support the Commission's efforts to increase transparency regarding funds' securities lending activities by requiring additional data about these activities. However, in an effort to lower the complexity and burden of compiling the data each month for Form N-PORT, we recommend that the disclosure be limited to the top five counterparties to which the fund has the greatest exposure. Information about a fund's top five counterparties would give the Commission and investors the information necessary to understand the material exposure that a fund has to securities lending counterparties, without imposing unnecessary costs on funds and their shareholders. In our experience, the top five counterparties generally represent 68% of the Funds' securities lending exposure. Funds often have multiple securities lending counterparties, exposure to many of which constitutes only a mere fraction of a fund's overall assets and represents only a minor portion of the fund's securities lending activity. Providing information about all securities lending counterparties would capture counterparties to whom the fund does not have material exposure. In addition, a fund's borrowing pool is ever changing, so responses would contain information about many counterparties that may change frequently.

In addition, we believe that it would be quite burdensome and costly to report all counterparties. As a practical matter, the counterparty data is generally maintained by and would need to be obtained from the fund's securities lending agent. This is not information maintained on our fund systems. In order for us to obtain the data, we would need to employ a time-consuming manual process that likely will require, among other things, negotiation with each of the fund's third-party securities lending agents to modify existing securities lending agreements to provide this information to us for public disclosure on a monthly basis.

In our view, any incremental benefit that would be obtained in filing information about every counter-party, every month on a fund-by-fund basis, does not outweigh the burdens and costs of providing that information.

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<sup>29</sup> See Item B.4 of Proposed Form N-PORT.

<sup>30</sup> See Fund Proposal at 33602.

### C. Schedule of Investments

With respect to the Form N-PORT schedule of investments requirements, we have practical concerns about presenting Form N-PORT on a T+0 accounting basis as required by the Proposals. As proposed, Form N-PORT would require each fund to report certain information on an investment-by-investment basis as of the end of the reporting period consistent with GAAP.<sup>31</sup> However, we generally do not account for day-to-day transactions on a T+0 basis, but rather on a trade date plus one or "T+1" basis, which is specifically permitted for NAV determinations.<sup>32</sup> Under the T+1 standard, transactions that occur on a particular day are not reflected in a fund's records or NAV until the following day.

While we do convert to T+0 for reporting under Forms N-Q and N-CSR, we have sixty days in which to accomplish this task. Moreover, conversion to T+0 for Forms N-Q and N-CSR currently only needs to be done on a quarterly basis.<sup>33</sup> Form N-PORT would require that this be done every thirty days. This would be expensive and inefficient and, we believe, would provide little incremental benefit to the Commission or investors. To convert to T+0 accounting for the period, a fund would have to obtain various data from the first business day of the next period and aggregate it with information from the remainder of the period. A fund would also have to eliminate information from the first business day of the current NAV reporting period. Often, in order to convert to T+0, a fund must obtain the necessary transaction information from its third-party administrators, custodians or other service providers. Before providing this transaction information to the fund, these service providers generally must reconcile the data as part of a process that may add several business days or more after the close of the period. After obtaining the data, a fund often must make amortization and accretion computations, gather information from several different sources for any adjustments to gains and losses, and quality check the data. These critical steps can add multiple days to the process. Given that Invesco and many other fund complexes have hundreds of funds, a 30-day filing period would be insufficient to provide data on a T+0 basis, especially in conjunction with the other information that Form N-PORT would require within 30 days of month-end.

We therefore recommend that the Commission permit funds to prepare Form N-PORT on a T+1 basis. Permitting funds to prepare their Form N-PORT on a T+1 basis would fully satisfy the Commission's regulatory objectives, while significantly reducing the effort and costs funds would be required to incur to convert to T+0 accounting.

### IV. Form N-CEN Data for ETFs

The Commission proposes to amend the framework by which funds report census-type information by rescinding Form N-SAR and proposing Form N-CEN, which would require funds to report data publicly in a structured data format.<sup>34</sup> Form N-CEN would update the reporting requirements for funds, including requiring information on, among

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<sup>31</sup> See General Instruction A to Proposed Form N-PORT (requiring funds to report portfolio holdings as of the last business day of the month). We interpret this to mean that the Commission requires funds to provide portfolio holdings information on a T+0 basis. See also FASB ASC 820.

<sup>32</sup> See rule 2a-4 under the 1940 Act (permitting T+1 accounting for purposes of computing NAV).

<sup>33</sup> See Form N-CSR and N-Q.

<sup>34</sup> See Fund Proposal, note 363 at 33633.

other things, ETFs, securities lending, and variable insurance products.<sup>35</sup> Funds would report annually, rather than semi-annually, as is currently required for Form N-SAR.

While we support most of the Proposals as they relate to Form N-CEN, we have a number of comments with respect to the data being requested for ETFs.

#### A. Tracking Error and Tracking Difference Calculations

Proposed Form N-CEN would require index funds (including most ETFs) to report certain standard industry calculations of relative performance. In particular, index funds would be required to report a measure of the difference between the index fund's total return during the reporting period and the index's return both before and after fees and expenses—commonly called the "tracking difference"—and also a measure of the volatility of the day-to-day tracking difference over the course of the reporting period—commonly called the fund's "tracking error."<sup>36</sup>

While we believe that tracking error reporting is appropriate, we believe it should be ideally reported based on a monthly basis, not a daily basis. We believe that daily tracking error calculations often contain temporary anomalies outside portfolio management control such as differences in holidays or pricing sources used by the fund and/or index providers or temporary market aberrations which may cause a higher daily tracking error. These tracking error deviations typically revert quickly, often the following day and causes an artificial spike in tracking error. We believe that tracking error based on a monthly calculation better reflects management's long-term tracking of the underlying fund index and eliminates noise coming from factors beyond management control.

With respect to tracking difference, the Proposal states that the methodology to be used is the return difference between the fund and the index it follows.<sup>37</sup> The Commission questions whether a different methodology should be used?<sup>38</sup> We believe that a more appropriate methodology is the more widely used excess return calculation. The excess return calculation is the fund's annual return minus the index's annual return. The difference between the two formulas is that the Proposal annualizes the difference in the two cumulative returns, whereas the excess return calculation that we suggest, annualizes the fund and index returns first and then calculates the difference. We believe that the latter is not only more commonly used in the industry, but is a more accurate calculation that better represents a shareholder's investment experience in the fund.

#### B. ETF Purchase/Redemption Reporting

Form N-CEN proposes to require ETFs to report certain information regarding the interaction between ETFs and authorized participants ("APs"). The Commission indicates that it believes collecting information concerning authorized participants would provide greater transparency to ETF operations and facilitate assessing the size, capacity and concentration of the AP framework.<sup>39</sup> In practice, however, we have concerns that requiring such information may unintentionally cause the opposite result. Increased transparency as

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<sup>35</sup> See Fund Proposal, note 456 at 33641.

<sup>36</sup> See Fund Proposal at 33640-41.

<sup>37</sup> *Id.*

<sup>38</sup> See Fund Proposal, note 550 at 33646.

<sup>39</sup> See Fund Proposal, note 547 at 33646.

to the trading activities of APs, including the identity of the specific AP associated with the trading, may discourage APs from participating in the ETF market entirely. This could lead to consolidation and further concentration in the AP community, which may have detrimental impacts on the vibrant ETF market and individual shareholder investment.

Form N-CEN also requires that ETFs report the total value of certain units (i) that were purchased by authorized participants primarily in exchange for portfolio securities on an in-kind basis; (ii) that were redeemed primarily on an in-kind basis; (iii) that were purchased by authorized participants primarily in exchange for cash; and (iv) that were redeemed primarily on a cash basis.<sup>40</sup>

Additionally, Form N-CEN requires that ETFs report applicable transactional fees—including each of “fixed” and “variable” fees—applicable to the last creation unit purchased and the last creation unit redeemed during the reporting period of which some or all of the creation unit was transacted on a cash basis, as well as the same figures for the last creation unit purchased and the last creation unit redeemed during the reporting period of which some or all of the creation unit was transacted on an in-kind basis.<sup>41</sup> Although we appreciate the Commission’s intention to better understand the effects of primary market activity on ETF pricing, we believe that absent greater clarity in the form, the resulting data will not serve this purpose. Developing a reporting system that treats an ETF creation that is almost entirely in-kind, with a small balancing amount, as being equivalent to one that is effected with nearly half the value in cash would render the distinction between in-kind and cash creations/redemptions nearly illusory. Further, because transaction fees are contractual in nature, we are concerned that all ETF sponsors and APs may not have uniform definitions of the “fixed” and “variable” components of such fees. For example, depending on the portfolio holdings of the ETF, there may be costs associated with acquiring such securities that are passed to an AP purchasing the creation unit with cash. In such instance there should be clear guidance as to whether such costs charged to the AP would be included in the “variable fee” calculation. As such, we request that the Commission provide definitional guidance on what is a “fixed” fee and what is a “variable” fee in order for accurate and standardized information to be reported.

## **V. Internet Delivery of Shareholder Reports**

Proposed Rule 30e-3 would permit a fund to make shareholder reports available on its website rather than having to deliver them to shareholders in paper via U.S. mail (hereinafter referred to as “print” or “paper” shareholder reports), provided the fund satisfies certain conditions. A fund seeking to do so would have to: (i) obtain implied consent from shareholders; (ii) provide notices via U.S. mail to these consenting shareholders of the availability of each shareholder report on the website; and (iii) deliver print shareholder reports to requesting shareholders.<sup>42</sup>

To obtain a shareholder’s consent, the proposed rule would require a fund to mail to the shareholder a separate written statement (“Initial Statement”), at least 60 days before it begins to rely on the rule. The Initial Statement would notify the shareholder of the fund’s intent to make future shareholder reports available on the fund’s website and alert

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<sup>40</sup> See Fund Proposal, note 549 at 33646.

<sup>41</sup> See Fund Proposal at 33679.

<sup>42</sup> See proposed rule 30e-3(c).

the shareholder to the fact that he or she would no longer receive print reports unless the shareholder notifies the fund of a preference for them. Thereafter, the fund would mail a notice ("Notice") to the shareholder in connection with the publication of each shareholder report, notifying the shareholder that the report is available online and again providing information on how to obtain a paper copy of the report.<sup>43</sup>

While we strongly support the Commission's proposal to permit funds to transmit shareholder reports electronically, we believe that without modifications to the proposal we will not be in a position to use and take advantage of new Rule 30e-3 due to its onerous and potentially costly compliance requirements. Therefore, we believe the following modifications would facilitate wider use of proposed Rule 30e-3:

- **Remove postage paid reply form requirement.** With respect to the Notice mailing, the Commission should allow funds to provide a toll-free phone number, website or a pre-addressed, postage paid reply form. The costs of including a postage paid reply form in every Notice for every fund for every annual and semi annual report would outweigh any potential cost savings associated with the elimination of the mailing requirements. Moreover, we have found that shareholders rarely use postage pre-paid envelopes, with rates of return as low as 2%.
- **Eliminate requirement to file Notice with the Commission.** We do not see any shareholder or regulatory benefit in requiring the filing with the Commission of the Notice for each fund for each annual and semi annual report. The Commission can review adviser compliance with the Rule upon routine examinations, or in a one-time affirmation. We believe that the cost and time associated with the filing of the Notice outweighs any associated benefits.
- **Permit other important accompanying materials.** The Commission should permit Initial Statements and Notices to be accompanied by other important account materials, such as new account welcome kits, account statements, and dividend checks. In addition, the Commission should permit funds to provide a shareholder with Notices from all funds in a single mailing. Many fund shareholder servicing platforms hold shareholder information based on an "account" basis, not a "fund" basis. To mail Initial Statements and Notices individually by fund, even for funds with the same fiscal year end, would be cost prohibitive and may require a complete re-working of systems to handle shareholder information by fund. The Commission should also consider permitting a shareholder's consent to cover all series and funds in which they are invested within in any single fund complex; and permit a shareholder's consent to cover all funds held through a single intermediary. Shareholders' implied consent should also be permitted to carry through to any new investments in that fund complex or through that intermediary. Under the proposed Rule, a fund must meet the notice requirement in order to obtain implied consent from an investor.<sup>44</sup> As currently proposed, a registrant offering multiple series would need to obtain a separate implied consent from a shareholder for each series held by the shareholder.<sup>45</sup> This means that an investor would receive a separate Initial

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<sup>43</sup> See Fund Proposal at 33632.

<sup>44</sup> In the context of variable insurance products, an investor may hold an insurance product that has a contract with 30-40 underlying funds.

<sup>45</sup> See, e.g., rule 14a-3 under the Exchange Act.



Statement for each fund in which he or she is invested.<sup>46</sup> We believe that simplification of the Notice requirement will result in further use of the Internet for better and more streamlined shareholder communications.

- **Clarify the role of intermediaries.** We recommend that the Commission state in any final rule that funds or financial intermediaries, including insurance companies with respect to variable insurance products, are permitted to deliver Initial Statements and Notices. The final rule should permit intermediaries to act as an agent on behalf of funds as they are permitted to act with respect to other fund communications. This approach is critically important given the role of intermediaries in communicating with fund shareholders who are their clients, and particularly for shares held in omnibus accounts. Our approach is also consistent with the aspect of the rule that requires the fund or the financial intermediary to transmit paper shareholder reports upon request,<sup>47</sup> as well as existing regulatory requirements.<sup>48</sup>
- **Permit "Householding" of Initial Statement.** The Commission should allow funds to "household" the Initial Statement in addition to the Notice, as is proposed. Similar to the Commission's rules on householding prospectuses, shareholder reports, and proxy statements and information statements, proposed Rule 30e-3 also would allow funds to send one Notice to shareholders who share an address so long as the fund addresses the Notice to the shareholders individually or as a group. The SEC has sought comment on whether it also should permit funds to send the Initial Statement in a "household" manner, as proposed for the Notice. We recommend allowing funds to "household" the Initial Statement as proposed for the Notice. The Commission has deliberately constructed an appropriate regulatory framework for householding of prospectuses, shareholder reports, and proxy statements and information statements. We see no reason to treat Initial Statements differently.

In addition to our recommendations to streamline rule 30e-3, we propose that the Commission apply any final rules on communication of shareholder reports to other regulatory documents required to be delivered to shareholders, including prospectuses. Funds and their shareholders would benefit further if the Commission allowed funds to provide internet delivery of summary and statutory prospectuses, and any amendments thereto, to shareholders expressing a preference for that manner of delivery rather than continuing to provide them print copies. Importantly, our systems, and we believe those of others in the industry, are not able to specify differing delivery methodologies (internet vs. mail) for different types of regulatory documents. Rather, regulatory documents receive either internet based delivery or mail based delivery. Differing delivery methodologies for different regulatory documents cannot be accomplished without costly manual intervention. Therefore, it would be difficult for Invesco to use internet delivery for just shareholder reports unless prospectuses were also included.

Invesco's mutual funds currently spend almost \$3 million on paper delivery of summary and statutory prospectuses. If the SEC adopted an implied consent approach, the

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<sup>46</sup> See proposed rule 30e-3(f).

<sup>47</sup> See, e.g., rule 154 under the Securities Act (permitting householding of prospectuses); rules 30e-1 and 30e-2 under the Investment Company Act (permitting householding of fund shareholder reports); rules 14a-3 and 14c-3 under the Exchange Act (permitting householding of proxy statements and information statements).

<sup>48</sup> See proposed rule 30e-3(d)(5).

Invesco mutual funds would be able to mail Initial Statements and Notices alerting shareholders that their prospectuses were posted on a website at a substantial savings to fund shareholders. Given the magnitude of the potential cost savings to funds and shareholders, and the likely non-use of Rule 30e-3 without it covering all regulatory documents, we strongly encourage the Commission to consider moving towards an implied consent framework for summary and statutory prospectuses as well.

**VI. Form ADV Information**

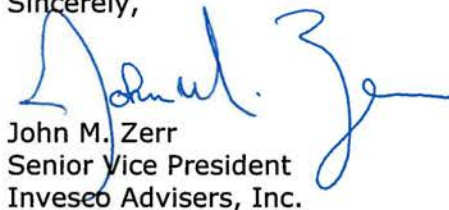
While we generally support the Commission's statement that the separately managed account data requested by the amendments to Form ADV will allow for better monitoring of this segment of the investment advisory industry,<sup>49</sup> we believe that public disclosure of certain separately managed account information raises concerns that the information could be used to identify particular clients and their investment profile. In addition to these confidentiality concerns, we believe certain definitions and other aspects of the Advisers Act Proposal should be clarified to prevent inconsistent responses or confusion among advisers.

We believe that the Commission's requirement to report the composition of SMA assets by asset type, and request for aggregate data on derivatives and borrowing transactions should be maintained as non-public information. We believe that public disclosure of this information could result in indirect disclosure of the identity of an adviser's clients and proprietary information about their investments. For instance, an adviser with one or a few accounts in a particular asset category may be revealing the client's identity and potentially proprietary investment information, if it can be inferred that a particular client has hired that adviser. In addition, we are concerned that the disclosure of derivatives exposure based on gross notional value, in the absence of more contextual information such as the manner in which the related derivative instruments are being used within the fund's portfolio, would be highly susceptible to misinterpretation by investors. If the Commission deems it important to track this information for monitoring overall industry trends, it could alleviate this concern by making this data non-public.

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

Sincerely,

  
John M. Zerr  
Senior Vice President  
Invesco Advisers, Inc.

<sup>49</sup> See Advisers Act Proposal at 33720.