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August 1, 2011

Elizabeth M. Murphy
Secretary
Securities and Exchange Commission
100 F. Street, N.E.
Washington, DC 20549
File Number S7-14-11

Office of the Comptroller of the Currency
250 E. Street, S.W., Mail Stop 2-3
Washington, DC 20219
Docket Number OCC 2010-0002

Jennifer J. Johnson
Secretary
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue, N.W.
Washington, DC 20551
Docket Number R-1411

Robert E. Feldman
Executive Secretary
Attention: Comments
Federal Deposit Insurance Corporation
550 17th Street, N.W.
Washington, DC 20429
RIN Number 3064-AD74

Alfred M. Pollard
General Counsel
Attention: Comments/RIN Number 2590-AA43
Federal Housing Finance Agency
1700 G Street, N.W., Fourth Floor
Washington, DC 20552

Regulations Division
Office of General Counsel
Department of Housing and Urban Development
451 7th Street, S.W., Room 10276
Washington, DC 20410-0500

Re: Request for Comment: Credit Risk Retention, File Number S7-14-11

Ladies and Gentlemen:

This letter is in response to the request for comment on proposed rules to implement the credit risk retention requirements of Section 15G of the Securities Exchange Act of 1934, as added by Section 941 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Proposal").

Invesco is a leading independent global investment manager that provides a wide range of investment strategies and vehicles, including open-end and closed-end retail mutual funds, exchange-traded funds and institutional money market funds. Invesco is submitting this letter to supplement and support the Investment Company Institute's ("ICI") comment letters dated August 2, 2010 and July 29, 2011. Invesco agrees with the points raised by the ICI, especially in reference to the potential treatment of municipal tender option bonds ("TOBs") under the Proposal. An affiliate of Invesco is submitting a separate comment letter dated as of August 1, 2011 expressing its view that it and other managers of open market collateralized loan obligations ("CLOs") are not subject to the credit risk retention requirements in

Section 941 or under the Proposal or, if they are subject to such requirements, should be exempted pursuant to the agencies' discretionary authority.

A central purpose of the Proposal is to require sponsors of asset-backed securities ("ABS") to retain for their own accounts a portion of the risk associated with the products they sponsor. As currently defined in the Proposal, ABS could be interpreted to include TOBs, as the Proposal is silent regarding these securities, among others. Invesco strongly believes that the final risk retention rules should explicitly exclude TOBs because they are fundamentally different from products traditionally designated as ABS.

TOBs are typically created by a sponsor bank through the use of a special purpose trust (or underlying dealer trust) that holds highly rated (usually AA or above) long-term fixed rate bonds and sells two classes of beneficial interests: short-term floating rate interests, which are sold to third party investors, mainly tax-exempt and taxable money market funds; and inverse floating rate residual interests, which are purchased by mutual funds that, in most cases, provide the underlying bonds from their own portfolios. The short-term floating rate interests have first priority on the cash flow from the bonds held by the special purpose trust, and the holders of inverse floating rate residual interests are paid the residual cash flow from the bonds held by the special purpose trust. The holders of the short-term floating rate interests may tender their interests for purchase by the trust at par plus accrued interest on any date that the rate changes (most often weekly); such tenders are backed by a liquidity facility from a highly rated financial institution. The holders of the inverse floating rate residual interests also have the option to redeem their interests at par plus accrued interest on short notice, usually seven days or less. The TOB structure therefore provides liquidity that is not found with typical structured finance products that are the subject of the Proposal.

The industry generally does not include TOBs in the definition of "structured finance products" or ABS. The prospectuses for the Invesco mutual funds, for example, classify TOBs as derivative municipal securities, <u>not</u> as ABS. ABS are defined as securities that represent ownership in pools of underlying assets that may include such items as motor vehicle installment sales contracts or installment loan contracts, leases of various types of real and personal property, and receivables from credit card agreements and from sales of personal property. Other fund complexes classify TOBs as "tax-exempt derivative securities" or "inverse floating rate securities" and similarly do not include them within the description of ABS.

ABS (and mortgage-backed securities) differ from more conventional municipal bonds in that the principal is paid back to the investor as payments are made on the underlying assets in the pool. Additionally, the ability of an issuer of ABS to enforce its security interest in the underlying assets may be limited. In contrast, TOBs do not have such diversification of credit risk. The underlying bonds generally are from one original issuance and have the same issuer and borrower/obligor. Investors analyze the credit risk of the underlying borrower as they would for any other municipal investment, and the inverse floating rate residual interests are deemed to have the same rating as that of the underlying bonds. In addition to the issuance documentation of the underlying bonds, TOBs are offered pursuant to a separate set of disclosure documents that provides details of the TOBs structure and tax treatment. As mentioned above, TOBs typically are backed by a liquidity facility provided by a highly rated financial institution which affords yet another level of protection from risk not afforded by the traditional structured finance products that the Proposal seeks to address.

At \$70-80 billion, the current TOB market remains very significant, although it has decreased from its earlier height of approximately \$200 billion. TOBs and other types of municipal repackagings continue to offer an important financing option for municipal issuers by providing access to a more diverse investor base, a more liquid market and the potential for lower interest rates. If TOBs were subject to the risk retention requirements of the Proposal, the cost of such financing would increase significantly, sponsor banks would likely scale back the issuance of TOBs, and as a result the availability of tax-exempt investments in the market would decrease. This impact would be particularly significant with respect to the short-term floating rate tranches of TOBs, which are most often purchased by short-term tax-exempt money market funds that are already grappling with limited investment options due to new investment constraints imposed by recent changes to Rule 2a-7 under the Investment Company Act of 1940, which governs these funds.

Invesco manages a large number of funds that invest in TOBs. These funds use TOBs to create leverage, generate income and, to a significant extent, retire outstanding auction rate preferred shares ("ARPS") issued by the funds. The ARPS market has been illiquid since early 2008 and many fund complexes have utilized (and continue to utilize) TOBs to replace leverage in the funds when ARPS are retired. Although other forms of financing are currently being developed to retire ARPS, TOBs remain a critical component of many closed-end fund portfolios and an attractive option for maintaining leverage while replacing ARPS.

The Proposal states it is appropriate in the public interest and for the protection of investors that securities issued or guaranteed by a state or municipality be exempted from the risk retention requirements, in light of the role of the state or municipal entity in issuing, insuring or guaranteeing the ABS or collateral and the special treatment afforded such securities by Congress. Similarly, securities that are collateralized by such exempted securities should also be exempt from the risk retention requirements. Requiring the sponsors of TOBs and similar securities to retain risk would not further the goal of prudent underwriting and would impose an unnecessary burden on sponsors of such securities. Invesco therefore recommends that the exemption relating to ABS issued or guaranteed by a state or municipal entity be broadened to include securities collateralized by such exempt securities.

In summary, Invesco believes that TOBs are fundamentally different in nature from the "structured finance products" that the Proposal is intended to cover and that the application of the Proposal to TOBs would impact financial markets in a variety of unintended and unwelcome ways. We therefore urge the agencies responsible for the implementation of the Proposal to make it clear that the Proposal does not apply to TOBs. If you would like to discuss this response in further detail or if you have any questions, please feel free to contact me at (713) 214-1739. Thank you.

Sincerely,

Lyman Missimer
Head of Global Cash Management and Municipals