



December 17, 2025

Mr. Brian Daly, Director, Division of Investment Management
Ms. Sarah ten Siethoff, Associate Director, Rulemaking Office, Division of Investment Management
U.S. Securities and Exchange Commission
100 F Street, NE
Washington, D.C. 20549-1090

Re: SIFMA AMG Recommendations on Amendments to Rule 17a-7

Dear Mr. Daly and Ms. ten Siethoff:

The Asset Management Group of the Securities Industry and Financial Markets Association (“SIFMA AMG”) supports the recent initiative of the Securities and Exchange Commission (the “SEC” or the “Commission”) to modernize and expand the availability of Rule 17a-7 under the Investment Company Act of 1940 (the “1940 Act”). SIFMA AMG appreciates the opportunity to provide our members’ recommendations for consideration by Commission staff regarding potential amendments to modernize Rule 17a-7 that we have summarized herein, which we believe in turn will improve execution quality of cross trades and reduce trading costs, in each case for the benefit of registered fund investors.

- I. **The Commission should amend Rule 17a-7(a) to expand the universe of eligible assets that may be crossed under the rule by replacing paragraph (a) with the following: “The transaction is a purchase or sale, for no consideration other than cash payment against prompt delivery of a security for which market quotations are readily available *or that can be valued based on observable inputs, either directly or indirectly*[.]” The proposing and adopting releases should clarify that this term is intended to encompass level 1 and level 2 assets under the U.S. GAAP ASC 820 and IFRS 13 fair value hierarchies.**
- As the Commission staff stated in the Staff Statement on Investment Company Cross Trading,¹ the term “for which market quotations are readily available,” has the same meaning under Rule 17a-7 and the valuation provisions of the 1940 Act and rules thereunder, including Rule 2a-5. As the Commission prescribed in the Rule 2a-5 Adopting Release, the definition ascribed to “readily available market quotations” “is consistent with the definition of a level 1 input in the fair value hierarchy outlined in U.S. GAAP [and] a security will be considered to

¹ *Staff Statement on Investment Company Cross Trading*, Division of Investment Management Staff (Mar. 11, 2021), available at <https://www.sec.gov/newsroom/speeches-statements/investment-management-statement-investment-company-cross-trading-031121>.

have readily available market quotations if its value is determined solely by reference to these level 1 inputs.”²

- We propose that Rule 17a-7 be amended to allow cross trades in investments that can be valued based on observable inputs developed by using market data (level 2 assets). Permitting cross trades in level 1 and level 2 assets would (i) allow investment companies to resume cross trading in fixed income assets in a manner generally consistent with that permitted under Rule 17a-7 prior to the adoption of Rule 2a-5; (ii) establish a clear and durable eligibility standard informed by fair value hierarchy under U.S. GAAP and IFRS; and (iii) continue to restrict cross trades in assets for which prices cannot be derived from observable inputs (level 3 assets).
- The Rule 17a-7 rulemaking should be expressly designed to modernize a regulatory framework that is appropriate for cross trades and that is separate from Rule 2a-5 and its related definition of “readily available market quotation”, since Rule 17a-7 is intended to serve different policy purposes.

II. The Commission should amend Rule 17a-7(b) to remove subparagraphs (1)-(4) and restate paragraph (b) as follows: “(b) *The transaction is effected at a price that the registered investment company or its investment adviser determines in good faith represents a current market price of the investment at the time of the transaction.*”The proposing and adopting releases should (i) explain that Rule 38a-1 will require investment companies and investment advisers to adopt and implement written policies and procedures reasonably designed to prevent violations of amended Rule 17a-7 and consistently and efficiently execute cross trades across applicable asset classes and markets, consistent with advisers’ obligations to seek best execution and mitigate conflicts of interest; and (ii) include non-exclusive, illustrative guidance on reasonably designed processes for determining reliable pricing sources and current market prices for various asset classes and markets.

- Given the wide and constantly evolving range of markets, pricing sources and methodologies available to and used by funds and investment advisers, Rule 17a-7(b) should be modernized and made less likely to become outdated through a principles- and process-oriented standard for determining cross-transaction prices. For fixed income investments in particular, an investment adviser should be afforded flexibility to determine – in good faith – pricing sources (including broker quotes and pricing vendors) and prices (including intraday quotes) for cross trades in the manner the investment adviser determines to be fair and reliable for the markets in which it is active, consistent with its fiduciary duties. This proposal recognizes that certain pricing sources and methodologies are more appropriate for certain asset classes or in certain markets. The proposed “determines in good faith” standard in effect places an affirmative obligation on the investment company or its investment adviser to implement reliable processes to determine a current market price for a proposed cross trade, which could include (i) assessing the asset class and markets in which the investment trades; (ii) assessing the quality

² *Good Faith Determinations of Fair Value*, Rel. No. IC-34128 at 89 (Dec. 3, 2020), available at <https://www.sec.gov/files/rules/final/2020/ic-34128.pdf> (“Rule 2a-5 Adopting Release”).

and reliability of pricing sources (including dealer quotes); (iii) applying in a consistent manner the processes for determining pricing sources and methodologies across asset classes and markets; and (iv) periodically evaluating the reliability of prices and pricing sources.

- To help guide investment companies and investment advisers in making these assessments, the proposing and adopting releases should explain that a good faith determination would generally involve processes designed to ensure that (i) the *source* of the price is reliable, and (ii) the *price* obtained from a reliable source is fair and represents a current market price of the investment at the time of the transaction. For example, a process designed to determine the reliability of a dealer as a source could include an assessment of the extent to which the dealer makes a market in the types of investments to be crossed. A process designed to determine that quotes obtained from the dealer are fair and represent a current market price of the investment at the time of the transaction could include assessments of whether the dealer quotes are executable and whether such quotes have become stale.

Similarly, the process designed to determine the reliability of a pricing vendor as a reliable source could include due diligence on the vendor's methods or techniques, inputs, and assumptions. These assessments could vary depending on the characteristics of the market or markets in which the asset transacts and with the characteristics of the asset itself.

These examples (and others) should be presented as non-exclusive methods to determine that sources and prices are reliable.

- This proposal recognizes that markets and pricing conventions evolve; if adopted, it would enable investment companies and their investment advisers to adapt more readily to changing conditions, subject to the oversight of an investment company's board of directors and chief compliance officer.
- Further, the proposed amendment would provide the necessary flexibility to accommodate cross trades among investment companies and separate accounts, and among investment companies from different complexes that are advised or subadvised by the same investment adviser.
- As the Commission noted in the Rule 2a-5 Adopting Release, Rule 38a-1 requires the adoption and implementation of written policies and procedures reasonably designed to prevent violations of the Federal securities laws. Each investment company and investment adviser can design its own processes for determining and validating sources and prices, subject, in each case, to the approval and oversight of the investment company's board of directors.

- III. The Commission should amend Rule 17a-7(e) to incorporate concepts from the IDC No-Action Letter,³ while retaining the board's ultimate oversight role. Specifically, we propose that the subparagraphs of Rule 17a-7(e) be restated as follows: “(e) *The board of directors of the investment company receives no less frequently than quarterly a written report from the investment company’s chief compliance officer (1) representing that all such purchases or sales made during the preceding quarter were effected in compliance with this section and with the investment company’s or its investment adviser’s methodologies for determining current market prices under this section and (2) summarizing or describing any material matters relating to such purchases and sales, including any material changes in (A) the investment adviser’s assessment of the risks associated with its compliance with this section and (B) the investment adviser’s procedures and methodologies for compliance with this section;*”⁴ While the rule would no longer expressly require that an investment company adopt procedures under the rule, the proposing and adopting releases should explain that Rule 38a-1 would require the adoption and implementation of written policies and procedures reasonably designed to prevent violations of the requirements of Rule 17a-7 (as discussed in Section II above). The proposing and adopting releases should further explain that the investment company should maintain (i) any written representations to the board from the chief compliance officer; and (ii) any information or materials upon which the chief compliance officer’s representations to the board were made.
- As the Commission staff recognized in the IDC No-Action Letter, the Commission has expressed the view that the proper role of the board with respect to compliance matters is to oversee the investment company’s compliance program without becoming involved in the day-to-day administration of the program. As it pertains to Rule 17a-7, the board can continue to exercise its oversight role without reviewing information on a transaction-by-transaction basis by relying on the written representations and reports of the chief compliance officer as to the day-to-day administration and review of cross trades on a summary basis. Specific summary reporting information, format and procedures should be left to boards to determine, but bulk or raw data reporting, review or approvals should not be required or expected. This approach allows directors to devote greater attention to whether the investment company’s (and the investment adviser’s) cross trading policies and procedures are appropriately designed to mitigate conflicts of interest and on material issues that may arise from the design or implementation of these policies. An amended rule would supersede the need for the IDC No-Action Letter in connection with Rule 17a-7.

³ *Independent Directors Council*, SEC Staff No-Action Letter (Oct. 12, 2018) available at <https://www.sec.gov/divisions/investment/noaction/2018/independent-directors-council-101218.htm> (the “IDC No-Action Letter”).

⁴ The recordkeeping requirements under Rule 17a-7(g) would be modified to reflect this change and would require an investment company to maintain these written reports.

IV. The Commission should not amend Rule 17a-7 to impose public reporting requirements related to cross trades by investment companies.

- We strongly oppose the public reporting of transaction level cross trading data, which would compromise confidentiality to the detriment of investment companies and advisory clients. We particularly oppose reporting cross trades to TRACE or to the MSRB because these systems were designed to provide transparency into pricing derived from market transactions. Parties providing prices such as pricing vendors incorporate TRACE and MSRB into their process. Reporting prices to TRACE and MSRB that in many cases will have been drawn, in whole or in part, from TRACE and MSRB marks is circular and does not contribute to price discovery.
- In addition, advisers and funds do not currently report transactions through TRACE or MSRB. Any new reporting obligation would impose expense and new technology and infrastructure burdens. Moreover, we cannot identify any benefit to investment company shareholders that would arise from public reporting of cross trading activity.

SIFMA AMG appreciates the opportunity to engage on this subject. Please contact us if you have questions or would like to discuss further.

Respectfully Submitted,

A handwritten signature in black ink, appearing to read "K. Ehrlich", with a stylized flourish at the end.

Kevin Ehrlich
Managing Director and Associate General Counsel
SIFMA AMG