

March 16, 2021

Additional Cross Trade Topics of Interest to the Division of Investment Management

1. Cross trading practices

- a. Purposes for cross trading different types of securities
- b. Purposes for cross trading by investment strategy of fund, or by type of affiliated entity
- c. Connections between the ability of a fund to cross trade a security and a determination to execute a trade in that security
- d. Market conditions that make cross trading more or less beneficial to funds or their investors
- e. Prevalence of cross trading among fund complexes of different sizes
- f. Competitive advantages that cross trading may provide to certain types of funds or fund complexes

2. Pricing and liquidity

- a. Protective characteristics of pricing requirements under section 2(a)(41) and rule 17a-7
- b. Relationship between the value of securities as determined under section 2(a)(41) and under rule 17a-7
- c. Potential sources of observable pricing information that could inform the price of a security to be cross traded
- d. Potential valuation frameworks that could be used for cross trades, such as FASB Accounting Standard Codification Topic 820: “Fair Value Measurement”
- e. Role of independent pricing services or other independent pricing sources

3. Cross trading systems

- a. Potential role of trading venues or platforms in enhancing price discovery and liquidity
- b. Treatment of custodial fees or transaction fees for the funds participating in a cross trade on a venue or platform

4. Controls

- a. Existing controls that funds and advisers have in place to ensure that a cross trade is consistent with the investment strategy and targeted risk profile of each fund or affiliate
- b. Documentation and recordkeeping requirements to facilitate oversight by fund compliance, boards, and advisers
- c. Extent to which concerns about effects of cross trades on funds and their investors may vary according to the type of instrument to be cross traded or the source of pricing information

5. Transparency

- a. Reporting of cross trades to the Financial Industry Regulatory Authority’s Trade Reporting and Compliance Engine (“TRACE”), or the Municipal Security Rulemaking Board’s Real-Time Transaction Reporting System, as applicable, or other similar system that provides market transparency
- b. Transaction-specific information about cross trades, in addition to transaction size and price, that would be beneficial for market transparency

6. Potential costs and benefits

- a. Circumstances when a cross trade benefits both funds and their investors and the extent and nature of those benefits
- b. Circumstances when a cross trade could benefit one fund and its investors but harm the affiliate and its investors
- c. Differences in potential harms from cross trading depending on the type of instrument that is cross traded or the types of funds or affiliates involved in the trade