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SEC Proposes Expanding Securities Eligible for Cross Trading by Registered Funds: Mayer Brown

On October 9, 2026, the Securities and Exchange Commission (the “SEC”) proposed amendments to Rule 17a-7 under the Investment Company Act of 1940, as amended (the “Investment Company Act”), that would expand the types of securities eligible for cross trading between registered investment companies (“registered funds”) and certain affiliated persons. The proposed amendments are a welcome development for the industry, and effectively serve to reverse an unexpected regulatory development from 2020 that significantly narrowed the scope of securities eligible for Rule 17a-7 cross trading. In addition, the proposal would generally modernize the rule’s requirements (which could result in more efficient portfolio management and reduced transaction costs for registered funds and their shareholders) while maintaining appropriate safeguards against conflicts of interest and affiliated-party overreach. More specifically, the proposed amendments would, among other things, permit cross trading in most securities valued using observable market inputs, including securities classified as Level 2 under the fair value hierarchy established under U.S. generally accepted accounting principles; establish alternative pricing methodologies for cross trades; reallocate the responsibilities of cross trading oversight between registered fund chief compliance officers (“CCOs”) and boards of directors; and require aggregated reporting of cross-trading activity on Forms N-PORT and N-MFP.

The proposal represents a significant change for registered funds, particularly for those that invest in fixed-income securities, as well as for fund complexes that manage multiple registered funds with overlapping investment strategies and trading needs. Below we discuss the proposal and its potential implications in more detail.

Background

Section 17(a) of the Investment Company Act generally prohibits certain principal transactions between a registered investment company and its affiliated persons.¹ These restrictions are intended to protect fund shareholders from overreach and self-dealing in transactions in which an affiliate may have both the ability and the financial incentive to influence the transaction. Rule 17a-7 provides an exemption from these restrictions for qualifying cross trades subject to specified conditions.² Historically, registered funds have relied on Rule 17a-7 to execute cross trades in certain types of both equity and fixed-income securities. Such transactions may allow affiliated funds with complementary investment needs to transact directly, avoiding certain costs associated with open-market transactions, including brokerage commissions, bid-ask spreads and market impact.

Ed. Note: For our purposes, this article states:

Expansion of Eligible Securities

Under the proposed amendments, a security would be eligible for cross trading if there are “readily available market quotations” for the security or the security is valued using “observable inputs.” The

latter category would expressly include securities valued using Level 2 inputs under the fair value hierarchy, such as many fixed-income securities priced using observable market data, including prices for similar securities and other market-based inputs.⁴ Securities valued using significant unobservable inputs (such as Level 3 measurements) would remain outside the expanded eligibility framework. This change could restore cross-trading opportunities for a substantial portion of registered funds' fixed-income portfolios. **It may be particularly relevant to fixed-income funds, municipal bond funds and other funds that hold securities for which pricing is supported by observable market information but that do not trade in active markets with "readily available quotations."**

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