

**T. ROWE PRICE INVESTMENT SERVICES, INC.**

**STATEMENT OF FINANCIAL CONDITION**

**DECEMBER 31, 2019**

**(FOR PUBLIC DISCLOSURE)**

(Filed as public information pursuant to Rule 17a-5(d) under the Securities Act of 1934)

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

ANNUAL AUDITED REPORT  
FORM X-17A-5  
PART III

FACING PAGE

Information Required of Brokers and Dealers Pursuant to Section 17 of the  
Securities Exchange Act of 1934 and Rule 17a-5 Thereunder

REPORT FOR THE PERIOD BEGINNING 01/01/2019 AND ENDING 12/31/2019  
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER: T. Rowe Price Investment Services, Inc.  
ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)  
100 East Pratt Street

(No. and Street)

Baltimore MD 21202  
(City) (State) (Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT

Susanne Piccirillo Voelker 410-345-6634  
(Area Code – Telephone Number)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report\*

KPMG LLP  
(Name – if individual, state, last, first, middle name)

750 East Pratt Street Baltimore MD 21202  
(Address) (City) (State) (Zip Code)

CHECK ONE:

- ☒ Certified Public Accountant  
☐ Public Accountant  
☐ Accountant not resident in United States or any of its possessions.

FOR OFFICIAL USE ONLY

\*Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for the exemption. See Section 240 17a-5(e)(2)

SEC 1410 (06-02)

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OMB Number:..... 3235-0123  
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SEC FILE NUMBER

8-25130

## OATH OR AFFIRMATION

I, Susanne P. Voelker, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of T. Rowe Price Investment Services, Inc. as of December 31, 2019, are true and correct. I further swear (or affirm) that neither the Company, nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer.

Susanne P. Voelker

Susanne P. Voelker

Vice President

Title

Teresa Ann Hackshaw

Teresa Ann Hackshaw

Notary Public, Carroll County, State of Maryland

My Commission Expires October 17, 2020



This report \*\* contains (check all applicable boxes):

- ☒ (a) Facing Page.
- ☒ (b) Statement of Financial Condition.
- ☐ (c) Statement of Income (Loss).
- ☐ (d) Statement of Cash Flows.
- ☐ (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietors' Capital.
- ☐ (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
- ☐ (g) Computation of Net Capital.
- ☐ (h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3.
- ☐ (i) Information Relating to the Possession or Control Requirements Under Rule 15c3-3.
- ☐ (j) A Reconciliation, including appropriate explanation of the Computation of Net Capital Under Rule 15c3-3 and the Computation for Determination of the Reserve Requirements Under Exhibit A of Rule 15c3-3.
- ☐ (k) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation.
- ☒ (l) An Oath or Affirmation.
- ☐ (m) A copy of the SIPC Supplemental Report.
- ☐ (n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.

**\*\* For conditions of confidential treatment of certain portions of this filing, see section 240.17a-5(e)(3).**



KPMG LLP  
750 East Pratt Street, 18th Floor  
Baltimore, MD 21202

## **Report of Independent Registered Public Accounting Firm**

To the Stockholder and the Board of Directors  
T. Rowe Price Investment Services, Inc.:

### *Opinion on the Financial Statement*

We have audited the accompanying statement of financial condition of T. Rowe Price Investment Services, Inc. (the Company) as of December 31, 2019, and the related notes (collectively, the financial statement). In our opinion, the financial statement presents fairly, in all material respects, the financial position of the Company as of December 31, 2019, in conformity with U.S. generally accepted accounting principles.

### *Basis for Opinion*

This financial statement is the responsibility of the Company's management. Our responsibility is to express an opinion on this financial statement based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement, whether due to error or fraud. Our audit included performing procedures to assess the risks of material misstatement of the financial statement, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statement. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statement. We believe that our audit provides a reasonable basis for our opinion.

**KPMG LLP**

We have served as the Company's auditor since 2001.

Baltimore, Maryland  
February 27, 2020

**T. ROWE PRICE INVESTMENT SERVICES, INC.**  
**STATEMENT OF FINANCIAL CONDITION**  
**December 31, 2019**  
(in thousands, except share data)

**ASSETS**

Cash and cash equivalents	\$ 82,312
Other receivables	86
Other assets	4,022
Prepaid expenses	5,516
Furniture and equipment, net of accumulated depreciation of \$277	256
Distribution and servicing fees receivable from Price Funds	10,118
	<hr/>
Total assets	<u><u>\$ 102,310</u></u>

**LIABILITIES AND STOCKHOLDER'S EQUITY**

Liabilities

Payable to parent company	\$ 33,605
Accounts payable and accrued expenses	4,138
Distribution and servicing fees payable	10,118
Supplemental savings plan liability	6,887
Total liabilities	<hr/> <u>54,748</u>

Stockholder's equity

Common stock, \$5.00 par value - 20,000 shares authorized; 300 shares issued and outstanding	2
Additional capital in excess of par value	32,279
Retained earnings	15,281
Total stockholder's equity	<hr/> <u>47,562</u>

Total liabilities and stockholder's equity	<u><u>\$ 102,310</u></u>
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The accompanying notes are an integral part of this financial statement.

**T. ROWE PRICE INVESTMENT SERVICES, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

T. Rowe Price Investment Services, Inc. (Investment Services), a wholly-owned subsidiary of T. Rowe Price Associates, Inc. (Price Associates), provides introducing brokerage services on a fully-disclosed basis through Pershing LLC, an affiliate of the Bank of New York Mellon. We also are the underwriter and distributor of the T. Rowe Price U.S. mutual funds (Price Funds) and the distributor of the Alaska and the Maryland college savings plans for which Price Associates acts as investment adviser. We also provide distribution services for T. Rowe Price Associates.

Price Associates is the sponsor of the Price Funds and is a wholly-owned subsidiary of T. Rowe Price Group, Inc. (Price Group), a publicly-traded company.

Basis of preparation

These financial statements have been prepared by our management in accordance with accounting principles generally accepted in the United States. These principles require that we make certain estimates and assumptions. Actual results may vary from our estimates.

New accounting guidance.

We adopted Accounting Standards Update No. 2016-02 - Leases (Topic 842) on January 1, 2019. The update required the recognition of right-of-use lease assets and liabilities on the balance sheet and the disclosure of qualitative and quantitative information about leasing arrangements. We adopted this standard using a modified retrospective approach without restating prior comparative periods. We also elected to use certain practical expedients that allowed us to not perform the following: (1) reassess whether expired or existing non-lease contracts that commenced before January 1, 2019 contained an embedded lease, (2) reevaluate the accounting classification of our existing operating leases, and (3) determine whether initial direct costs related to existing leases should be capitalized under this guidance. At 01/01/2019 and 12/31/2019, T. Rowe Price Investment Services did not hold any leases subject to the revised guidance.

Cash and cash equivalents

Cash equivalents consist of short-term, highly liquid investments in T. Rowe Price money market mutual funds. The cost of these funds is equivalent to their fair value of \$1 per share, which is the quoted closing net asset value, or NAV, per share for these funds. These quoted values are considered Level 1 inputs, that is, quoted prices in active markets for identical securities. Cash equivalent investments in our money market mutual funds aggregate \$82,312,000 at December 31, 2019.

Concentration of credit risk

As the introducing broker, we indemnify the clearing broker for losses sustained when customers fail to settle trades or default on margin calls. Our related risk is believed to be minimal in that customer assets held in accounts at Pershing collateralize receivable balances.

Furniture and equipment

Furniture and equipment are stated at cost net of accumulated depreciation computed using the straight-line method. Provisions for amortization and depreciation are based on weighted average estimated useful lives of 4.2 years for furniture and other equipment and 3.0 years for computer and communications equipment.



**T. ROWE PRICE INVESTMENT SERVICES, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 2 - NET CAPITAL AND RESERVE REQUIREMENTS**

We are subject to the Securities and Exchange Commission (SEC) Uniform Net Capital Rule 15c3-1, which requires the maintenance of minimum net capital and requires that the ratio of our aggregate indebtedness to net capital, both as defined, not exceed 15 to 1. At December 31, 2019, our statutorily computed net capital of \$26,203,394 was in excess of required net capital of \$3,756,550. The aggregate indebtedness to net capital ratio was 2.2 to 1 at the end of 2019.

Investment Services and Price Associates have entered into an agreement whereby Price Associates will contribute additional capital to Investment Services, if necessary, to ensure that Investment Services maintains an aggregate indebtedness to net capital ratio of no more than 10 to 1. This agreement is automatically renewed in June each year unless terminated with thirty days notice.

We claim an exemption per the provisions in paragraph (k)(2)(ii) of SEC Rule 15c3-3. As stated in the Exemption Report filed on February 27, 2020, we have met exemption provisions throughout the year except as disclosed in the report. The firm has segregated \$200,000 in a special reserve bank account for the benefit of customers and is included in other assets.

**NOTE 3 - RECEIVABLES**

Receivables from contracts with customers at December 31, 2019 are detailed below:

Distribution and servicing fees receivable from Price Funds	\$ 10,118
Other receivables	86
Total receivables from contracts with customers	<u>\$ 10,204</u>

**NOTE 4 - RELATED PARTY TRANSACTIONS**

Investment Services is an affiliate of Price Group and has extensive transactions as part of its ordinary course of business with affiliates of Price Group. We earn revenue from Price Associates to distribute the Price Funds and the Alaska and Maryland college savings plans. Related party expenses that we recognize include fees charged to us by our affiliates, primarily our parent company, for the use of facilities, technology services, and other administrative services. These costs are allocated among all members of the affiliated group on a consistent basis. Price Associates serves as the paying agent for all U.S. subsidiaries, including Investment Services, of Price Group. For the period ended December 31, 2019, the payable to Price Associates is primarily comprised of year-end compensation costs offset by receivables from Price Associates for distribution and servicing activities of \$16,800,000. We periodically settle our intercompany account due to or from Price Associates by cash transfer.

We also earn distribution and servicing fees directly from the Price Funds. These fees are offset entirely by the distribution and servicing costs paid to third-party financial intermediaries that distribute certain share classes of the Price Funds. We enter into a tri-party agreement with each intermediary and Price Fund and, as such, recognize the fees earned from the 12b-1 Plans as distribution and servicing fees in our income statement. The fees paid to third-party financial intermediaries are recognized as distribution and servicing costs in our income statement. At December 31, 2019, the receivable from the Price Funds for the fees earned was \$10,118,000.

**NOTE 5 - STOCK-BASED COMPENSATION**

As part of the employee compensation program for its subsidiaries, Price Group may award stock-based incentives in the form of restricted shares, restricted stock units or stock options with a maximum contractual term of 10 years. In general, vesting of these awards is based on the individual continuing to render service to an affiliated company

**T. ROWE PRICE INVESTMENT SERVICES, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

and generally occurs over an average 5.0-year graded schedule. Price Group did not grant stock options or restricted stock awards to our employees in 2019.

We recognize the grant-date fair value of these stock-based awards as compensation expense and additional stockholder's equity in the form of contributed capital over the requisite service period. The fair value of the restricted shares or units is determined on the grant-date based on the closing market price of Price Group's common stock. The weighted-average fair value per-share of the 55,118 restricted stock units granted to our employees in 2019 was \$120.64.

Our future stock-based compensation expense before income taxes to be recognized over the remaining requisite service periods of the restricted shares and unvested options outstanding at December 31, 2019, is \$10,643,000. Actual expense will vary as additional stock-based awards are made, employees terminate prior to vesting, and employees transfer to or from Investment Services from or to another Price Group affiliate.

**NOTE 6 - INCOME TAXES**

Our results of operations are included in Price Group's consolidated U.S. federal tax return and several state combined tax returns. We separately determine our relative contribution of either tax expense or benefit to the consolidated or combined income tax expenses and, accordingly, recognize our current and deferred tax expense or benefit.

The provision for income taxes differs from the amount computed by applying the federal statutory income tax rates to income before income taxes primarily due to state income taxes for the current year, net of federal income tax benefits and the effects of permanent differences.

Our U.S. federal income tax liability as well as our liability for state combined returns is included in our payable to parent company. As stated in Note 4 - Related Party Transactions, we periodically settle our payable to parent company which is inclusive of these returns. We also file stand-alone tax returns in several states that do not have combined reporting.

Deferred income taxes and benefits arise from temporary differences between taxable income for financial statement and income tax return purposes. The net deferred tax asset of \$3,410,000 at December 31, 2019, is included in other assets and arises primarily from temporary differences associated with stock-based and other compensation. A valuation allowance has not been recorded against Investment Services' gross deferred tax assets as management believes it is more likely than not that the deferred tax assets will be fully realized.

There are no material uncertain tax positions as of December 31, 2019.

**NOTE 7 - LEASES**

Per the Price Group press release dated May 30, 2018, the firm did not renew its office lease in Tampa, Florida and closed the Tampa Operations Center in June 2019.

Of the three remaining investor centers, one is in an affiliate leased facility located in Baltimore, Maryland and the other two are located in an affiliate owned facility in Colorado Springs, Colorado and Owings Mills, Maryland. All three have shifted to an appointment-only model.

We occupy certain office facilities under noncancelable operating leases. Future minimum rental payments under these leases aggregate to \$465,000 in 2020, \$477,000 in 2021, \$40,000 in 2022, \$0 in 2023 and \$0 later years.



**T. ROWE PRICE INVESTMENT SERVICES, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 8 - SUPPLEMENTAL SAVINGS PLAN**

The Supplemental Savings Plan provides certain senior officers of Price Group and its subsidiaries the opportunity to defer receipt of up to 100% of their cash incentive compensation earned for a respective calendar year during which services are provided. The amounts deferred are adjusted in accordance with the hypothetical investments chosen by the officer from a list of mutual funds. The officer can initially defer these amounts for a period of two to fifteen years. For the year-ended December 31, 2019, our senior officers elected to defer \$1,881,000.

**NOTE 9 - SUBSEQUENT EVENTS**

We evaluated all subsequent events through February 27, 2020, the date these financial statements were available to be issued, and did not identify any other recordable or disclosable events that were not otherwise reported herein.