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

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

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Information Required of Brokers and Dealers Pursuant to Section 17 of the  
Securities Exchange Act of 1934 and Rule 17a-5(b) hereunder

REPORT FOR THE PERIOD BEGINNING 01/01/13 AND ENDING 12/31/13  
MM/DD/YY MM/DD/YY

**A. REGISTRANT IDENTIFICATION**

NAME OF BROKER-DEALER: T. Rowe Price Investment Services, Inc.

OFFICIAL USE ONLY
FIRM I.D. NO.

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)

100 East Pratt Street

(No. and Street)

Baltimore

Maryland

21202

(City)

(State)

(Zip Code)

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

Barbara A. O'Connor

410-345-6842

(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)

1 East Pratt Street

Baltimore

Maryland

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)

Potential persons who are to respond to the collection of information contained in this form are not required to respond unless the form displays a currently valid OMB control number.

*MM*

OATH OR AFFIRMATION

I, Barbara A. O'Connor, 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, 2013, 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.

**Teresa Ann Hackshaw**  
**Notary Public**  
**Carroll County, Maryland**  
**My Commission Expires 10/17/2016**

Barbara A O'Connor  
Barbara A. O'Connor  
Vice President  
Title

Teresa Ann Hackshaw  
Teresa Ann Hackshaw  
Notary Public, Carroll County, State of Maryland  
My Commission Expires October 17, 2016

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.
- (o) Independent Auditor's Report on Internal Control

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



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

**STATEMENT OF FINANCIAL CONDITION**

**DECEMBER 31, 2013**  
**(For Public Disclosure)**

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



**KPMG LLP**  
1 East Pratt Street, 6th Floor  
Baltimore, MD 21202

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

The Board of Directors  
T. Rowe Price Investment Services, Inc.:

We have audited the accompanying statement of financial condition of T. Rowe Price Investment Services, Inc. as of December 31, 2013, that is filed pursuant to Rule 17a-5 under the Securities Exchange Act of 1934 and the related notes to the statement of financial condition (the financial statement).

### ***Management's Responsibility for the Financial Statement***

Management is responsible for the preparation and fair presentation of this financial statement in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statement that is free from material misstatement, whether due to fraud or error.

### ***Auditors' Responsibility***

Our responsibility is to express an opinion on the financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Opinion***

In our opinion, the financial statement referred to above presents fairly in all material respects, the financial position of T. Rowe Price Investment Services, Inc. as of December 31, 2013, in accordance with U.S. generally accepted accounting principles.

**KPMG LLP**  
**KPMG LLP**

Baltimore, Maryland  
February 27, 2014

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

**STATEMENT OF FINANCIAL CONDITION**

**December 31, 2013**

(in thousands, except share data)

**ASSETS**

Cash and cash equivalents	\$	17,827
Receivables		394
Leasehold improvements, furniture, and equipment, net of accumulated depreciation of \$2,186		1,474
Prepaid expenses		3,930
Other assets		<u>1,932</u>
Total assets	\$	<u>25,557</u>

**LIABILITIES AND STOCKHOLDER'S EQUITY**

**Liabilities**

Payable to parent company and affiliates	\$	6,804
Accounts payable and accrued liabilities		<u>3,332</u>
Total liabilities		<u>10,136</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		3,393
Retained earnings		<u>12,026</u>
Total stockholder's equity		<u>15,421</u>

Total liabilities and stockholder's equity	\$	<u>25,557</u>
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The accompanying summary of significant accounting policies and notes to financial statements are an integral part of these financial statements.

**T. ROWE PRICE INVESTMENT SERVICES, INC.  
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. Price Associates is the sponsor of the T. Rowe Price U.S. mutual 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, which require the use of estimates. Actual results may vary from our estimates.

**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 money 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.

**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.

**Leasehold improvements, furniture, and equipment**

Leasehold improvements, 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 estimated weighted average useful lives of 6.8 years for leasehold improvements, 4.9 years for furniture and other equipment and 3.1 years for computer and communications equipment.

**Subsequent events**

We evaluated all subsequent events through February 27, 2014, the date these financial statements were available to be issued.

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

**NOTE 1 - NET CAPITAL AND RESERVE REQUIREMENTS**

We are subject to the Securities and Exchange Commission 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, 2013, our statutorily computed net capital of \$7,929,000 was in excess of required net capital of \$809,000. The aggregate indebtedness to net capital ratio was 1.5 to 1 at the end of 2013. As described in Note 5, we declared a dividend of \$3,000,000 subsequent to December 31, 2013.

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.

Cash of \$200,000 has been segregated in a special reserve bank account for the benefit of customers under Rule 15c3-3 of the Securities and Exchange Commission and is included in other assets.

**NOTE 2 - RELATED PARTY TRANSACTIONS**

Investment Services is a member of the T. Rowe Price group of affiliated companies and has extensive transactions as part of its ordinary course of business with members of the group. We earn revenue from Price Associates to distribute the Price funds and the Alaska and Maryland college savings plans. We also earn administrative revenue from our parent company and affiliates for other administrative services we perform for the Price funds on their behalf. 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. We periodically settle our intercompany account due to or from Price Associates by cash transfer.

We also earn distribution and servicing fees from 12b-1 Plans of the Advisor, R and VIP class shares of certain Price Funds. These fees are offset entirely by the distribution and servicing costs paid to third-party financial intermediaries that distribute these share classes. The distributions and servicing fees are included in distribution fees and other administrative revenue on the income statement. Because the costs we incur are limited to the fees earned from the Price funds, we have instructed the Price funds to pay the third-party financial intermediaries directly on our behalf. Accordingly, we have not recorded a receivable from the Price funds nor a payable to the third-party financial intermediaries in our statement of financial condition.

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

**NOTE 3 - STOCK-BASED COMPENSATION**

As part of the employee compensation program for its subsidiaries, Price Group awards stock-based incentives in the form of restricted shares and stock options. In general, vesting of these awards is based on the individual continuing to render service to an affiliated company and occurs over a four- to six- year graded schedule for restricted shares and over a five- to six year graded schedule for stock options. The stock options granted are qualified and nonqualified incentives and have a maximum term of ten years.

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 vesting period. The fair value of the restricted shares on grant-date is based on the closing market price of T. Rowe Price Group common stock. The weighted-average fair value per-share of the 11,475 restricted shares granted to our employees in 2013 was \$71.73. Price Group uses the Black-Scholes option-pricing model to estimate the fair value of each option granted to our employees. The estimated fair value of the 28,250 options granted to our employees in 2013 and the related assumptions used in the option-pricing model are as follows:

Weighted average market price of common stock at the date of grant and exercise price of options granted	\$71.73
Weighted average grant date fair value per option awarded	\$19.63
Weighted average assumptions used:	
Expected life in years	7.0
Expected volatility	31.4%
Dividend yield	2.1%
Risk-free interest rate	1.9%

The expected life assumptions used by Price Group are based on the vesting period for each option grant and historical experience with respect to the average holding period from vesting to option exercise. The assumptions for expected volatility are based on historical experience for the same periods as expected lives. Dividend yields are based on recent historical experience and future expectations. Risk-free interest rates are set using grant-date U.S. Treasury yield curves for the same periods as expected lives.

Our future stock-based compensation expense before income taxes to be recognized over the remaining requisite service periods of the restricted shares and options outstanding at December 31, 2013, is \$1,713,000. This amount includes future expense related to restricted shares and stock options held by employees who transferred to Investment Services from a Price Group affiliate during 2013. 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.

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

**NOTE 4 - INCOME TAXES**

Our results of operations are included in T. Rowe Price Group's consolidated U.S. federal tax return and several state combined tax returns. We, as well as each of the other subsidiaries that are included in these returns, 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. Our U.S. federal income tax liability as well as our liability for state combined returns is included in our payable to parent company.

Deferred income taxes arise from temporary differences between taxable income for financial statement and income tax return purposes. The net deferred tax asset of \$1,226,000 at December 31, 2013, is included in other assets and arises primarily from temporary differences associated with the recognition of rent expense liabilities related to the closure of certain investor centers.

There are no uncertain tax positions as of December 31, 2013.

**NOTE 5 - CHANGES IN STOCKHOLDER'S EQUITY**

The following table presents the changes in stockholder's equity in thousands:

	Common Stock	Additional Capital in Excess of Par Value	Retained Earnings	Total Stockholder's Equity
Balance at December 31, 2012	\$ 2	\$ 2,577	\$ 11,168	\$ 13,747
Net income	—	—	2,858	2,858
Dividend paid to stockholder	—	—	(2,000)	(2,000)
Capital contribution arising from T. Rowe Price Group stock based compensation	—	816	—	816
Balance at December 31, 2013	<u>\$ 2</u>	<u>\$ 3,393</u>	<u>\$ 12,026</u>	<u>\$ 15,421</u>

On February 25, 2014, our board of directors declared an aggregate dividend of \$3,000,000 payable on March 21, 2014 to its stockholders of record on March 19, 2014.

**NOTE 6 - OTHER DISCLOSURES**

We occupy certain office facilities under noncancelable operating leases. Future minimum rental payments under these leases aggregate \$1,279,000 in 2014, \$1,069,000 in 2015, \$844,000 in 2016, \$722,000 in 2017, \$717,000 in 2018, and \$1,511,000 in later years.