T. ROWE PRICE ASSOCIATES, INC.

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August 30, 2010

Elizabeth M. Murphy
Secretary
Securities and Exchange Commission
100 F Street, N.E.
Washington, D.C. 20549-1090

Re: Ms. Murphy

Dear Ms. Murphy:

T. Rowe Price Associates, Inc. and its affiliated registered investment advisers (collectively, "**T. Rowe Price**")[1] appreciate the opportunity to provide the Securities and Exchange Commission ("**SEC**" or "**Commission**") with thoughts and concerns regarding the conditions we currently see in U.S. and Global markets, especially in light of the events of May 6th. Besides the significant erosion to investor confidence, this event exposed a troubling lack of a market-wide commitment to fairness and equal access.

T. Rowe Price believes the current market structure is increasingly oriented towards short-term traders. These traders appear to have little motivation to contribute to what efficient and reliable capital markets were designed for: transferring capital from investors to businesses.

Below we identify some of the issues that have made us increasingly concerned about both the fairness and quality of our markets.

Liquidity and High-Frequency Trading (HFT)

The growth of High-Frequency Trading ("**HFT**") has lead to increased liquidity; however whether the corresponding liquidity is "good" or "bad" deserves analysis. HFT volumes are estimated to account for 73%[2] of total daily trading volume. This volume does not represent liquidity in the traditional sense. We feel that its very nature is transitory and

[1] T. Rowe Price Associates, Inc., a wholly-owned subsidiary of T. Rowe Price Group, Inc., together with its advisory affiliates, had $391.3 billion of assets under management as of June 30, 2010. T. Rowe Price has a diverse, global client base, including institutional separate accounts; T. Rowe Price sponsored and sub-advised mutual funds, and high net worth individuals. The T. Rowe Price group of advisers includes T. Rowe Price Associates, Inc., T. Rowe Price International, Inc., T. Rowe Price (Canada), Inc., and T. Rowe Price Global Investment Services Limited.

[2] See Rob Iati, The Real Story of Trading Software Espionage, *AdvancedTrading.com*, July 10, 2009 ("For example, high-frequency trading firms, which represent approximately 2% of the 20,000 or so trading firms operating in the U.S. markets today, account for 73% of all U.S. equity trading volume.")

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misleading. This may lead to an erosion of confidence and exacerbates uncertainty in the market.

HFT traders also have an exceptionally high cancelation rate (over 90%),[3] which can lead to market dislocation during "fast markets". We suggest a system whereby fees for cancelled orders are imposed. As HFT has grown, we are of the opinion there has been a corresponding deterioration in the quality and depth of the order book, which is detrimental to both the market and long term investors. The fees assessed for cancelled trades could be scaled and become more punitive as cancellation rates are found to be systematic or persistent. Currently 4 options exchanges (NYSE AMEX, PHLX, CBOE, and ISE) charge members for cancellations in excess of customer orders. We would encourage the commission to analyze the potential impact of instituting this type of policy within the equities market.

Latency and Co-Location

We believe the widespread use of co-location creates an uneven playing field that favors those who can and will pay for it. Though we certainly support innovation, we question whether such progress has produced a market that values speed over fair access. In no other regulated industry is one party allowed a head start in exchange for payment. Our understanding is current co-location practices allow for a market-data arbitrage where some investors get quotation and trade data faster than others. This advantage is traded upon, causing some participants to feel they are victims of front-running or are at least disadvantaged. One suggestion might be to impose rules to increase minimum time quotes that must be displayed.

Transparency

We strongly believe that regulators must be able to reconstruct a day's trading events across multiple asset classes in a timely manner. The current lack of transparency leads to a convoluted picture of market structure. We found it very troubling that no regulatory body could recreate the events that led up to May 6th's flash crash in specific names. An end-of-day, consolidated audit trail, which captures all trade orders, trade venues, trades in correlated instruments, and trader identities, is a necessity. This would allow regulators to monitor markets for illegal activity harmful to investors and identify firms utilizing predatory trading strategies. The information should only be made available to those entities responsible to regulate the markets. Furthermore, the SEC should consider the impact of single stock circuit breakers on equity derivative products (ETF's, Futures, Index Options).

Order Routing Practices

The Maker/Taker model, payment for order flow, and internalization of orders all seem to present a challenge to order-routing protocols. We question whether or not this incentive

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[3] http://www.sec.gov/rules/concept/2010/34-61358fr.pdf

challenges best execution obligations. The activity on May 6^{th} may suggest there is a disconnect between the quest for speed of execution, and best execution. We would especially like to bring attention to the conflicting incentive that Maker/Taker pricing creates for brokers. By having such a large difference in trade execution economics, we ask the commission whether brokers will continually be routing client orders to seek best execution or possibly be swayed by the pure economics of the Maker/Taker model.

Conclusion

As we work together towards an environment committed to fairness and equal access, it is important to remind ourselves that both practitioners and observers are frustrated by the current workings of equity markets. Order routing practices, quote volatility, and unequal dissemination of market data have caused investors to fear front running and other manipulative practices. We believe that it is time to revisit the historical responsibility of how to provide a fair and orderly market in an electronic, screen-based marketplace.

It is critical for us to avoid a repeat of May 6^{th}. We further urge you to work with international regulators so we can all improve market structure on a global basis and across asset classes. Global cooperation would help ensure that this commitment to fairness and access is adopted more broadly. We appreciate the opportunity to comment on overall market structure and share the Commission's goal of fair and orderly markets.

Sincerely,

Clive Williams
Head of Global Equity Trading

Andrew M. Brooks
Head of US Equity Trading

Christopher P. Hayes
Sr. Legal Counsel

cc: Robert W. Cook, Director of Trading and Markets
Buddy Donahue, Director of Investment Management Division

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