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LEGAL DEPARTMENT

Filed Electronically

May 18, 2018

Mr. Brent J. Fields
Secretary
U.S. Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

Re: Investment Company Liquidity Disclosure Proposed Rule (File No. S7-04-18)

Dear Mr. Fields:

T. Rowe Price Associates, Inc. ("**TRPA**"), as a sponsor and investment adviser to over 180 T. Rowe Price mutual funds ("**Price Funds**"), appreciates the opportunity to comment on the U. S. Securities and Exchange Commission's (the "**SEC**") above-referenced proposal ("**Proposal**"). As of March 31, 2018, TRPA and its affiliates managed approximately $1.01 trillion in assets, and the Price Funds' aggregate assets were approximately $613 billion.

General Summary of the TRPA Liquidity Risk Management Program

Rule 22e-4 (the "**Rule**") under the Investment Company Act of 1940 (the "**1940 Act**") requires funds to adopt and implement a written liquidity risk management program that is reasonably designed to assess and manage a fund's liquidity risk.[1] TRPA strongly supports the principles underlying the Rule and the need for a robust liquidity risk management program.[2] We take liquidity risk management very seriously, and we believe that our current processes have provided the appropriate information to our investment staff in order to assess and manage each fund's liquidity risk. Our program, which is described more fully below, was in place prior to the Rule's adoption and will continue alongside new processes implemented to comply with the requirements of the Rule.

Our existing liquidity risk management framework applies broadly across our firm, but is constructed with differences for various asset classes and security types and to respond to evolving changes in the markets. The firm's Enterprise Risk Group is responsible for administration and oversight of the program, which is carried out by the Investment Risk team that works closely with subject matter experts from the investment divisions and trading desks. Liquidity assessments on Price Funds' portfolios are carried out assuming both "normal" and "stressed" conditions, including significant levels of redemptions. Based on various characteristics, available data and other liquidity-

[1] *Investment Company Liquidity Risk Management Programs*, SEC Release No. IC-32315, 81 Fed. Reg. 82142 (Nov. 18, 2016).

[2] In addition to the adoption of a written liquidity risk management program, TRPA is very supportive of the Rule's requirements for a Board appointed liquidity risk management program administrator and general board oversight requirements, adoption of redemption in-kind procedures, and evaluation of "open-end" appropriateness for strategies.

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related information, we make certain assumptions to categorize various investment types for the purpose of reviewing and classifying their status as "liquid" or "illiquid" (unable to be sold or disposed of within seven days at approximately the investment's stated price). For certain categories of investments that are not presumptively assigned to the liquid or illiquid buckets, at time of purchase and on a monthly basis, we review the positions in such investments and then assign a liquidity classification (liquid or illiquid) to such securities. Factors considered when classifying securities include frequency of trades and quotes for the security, stale prices, nature of the security and nature of the trading market, issue size, volume and/or open interest, and dealers undertaking to make a market and the number of other potential purchasers. If at any time our investment staff or pricing team, including the Valuation Committee, becomes aware of a material change in the liquidity factors of a security, we may change the security's liquidity classification prior to the month-end review.

We believe this program is very much the type of liquidity risk management program contemplated by the Rule, as it is reasonably designed to assess and manage our funds' liquidity risks. It is intended to provide portfolio managers, investment division leadership, and risk personnel with insight into the expected ability of Price Funds' portfolios to satisfy potential client redemptions and to provide the Price Funds' Board appropriate periodic reporting with respect to liquidity risk management.

As noted above, we plan to continue to operate our current liquidity risk management program alongside new processes implemented to comply with other specific requirements of the Rule.

Liquidity Classification Requirements

While we strongly support the requirement for a liquidity risk management program, in light of our current process and in assessing the totality of the Rule, we continue to believe the liquidity classification provision of the Rule, known as the "bucketing requirement," will create a costly and complex liquidity compliance exercise. We believe the bucketing requirement goes beyond what is necessary for a robust risk management regime, and will ultimately prove to be of limited additional utility to fund managers, fund boards, and fund shareholders.[3] As we work to factor in the bucketing requirements to coincide with our already existing liquidity risk management program, our existing compliance monitoring processes are being further complicated by the need to build an internal technology infrastructure to incorporate vendor data for the liquidity classifications into our existing compliance systems. This process is costly, resource intensive, and distracts from other important initiatives, including building parallel processes and procedures to collect and compile investment and risk data to comply with the recently adopted fund disclosure and reporting amendments. We estimate that the initial cost will exceed $1 million, which includes the cost of the initial build of internal technology infrastructure necessary to support the bucketing and reporting requirements of the Rule and the cost of contracting with a vendor to facilitate the bucketing requirements.

Moreover, the requirement for bucketing also impacts the cost of monitoring the two requirements that will be derived from the buckets, the 15% illiquid restriction and the highly liquid investment minimums ("**HLIM**"). The bucketing requirement has turned out to be more than a month-

[3] See our comment letter dated January 13, 2016, available at https://www.sec.gov/comments/s7-16-15/s71615-72.pdf.

end exercise, as the SEC also expects fund managers to make provisional changes to liquidity classifications prior to the required month-end review in the event of market or issuer-specific events that might impact a security's liquidity. The recent "SEC Frequently Asked Questions" dated February 21, 2018 ("**FAQ**") make this clear by acknowledging that compliance monitoring of these restrictions based on voluntary provisional liquidity classifications could occur on an intra-month frequency. If upon verification of provisional classifications, a breach of either restriction is identified for a fund, the FAQ further states that the fund would be subject to applicable reporting requirements of such breach. The implementation of a provisional bucketing classification process to facilitate intra-month monitoring of market events, as well as a process to verify or adjust such classifications, would require us to add one-off, automated or manual review processes to our compliance monitoring of these restrictions (*i.e.*, implementation of liquidity buffers, compliance alerts, and an intra-month classification process in addition to the month-end classification process in order to verify provisional classifications). As a result, the implementation of a provisional bucketing classification process adds an additional layer of complexity and cost to compliance monitoring with little resulting benefit.

In an effort to adhere to the compliance monitoring guidance of the FAQ and incorporation of the tenets of the bucketing requirement of the Rule, instead of building a one-off manual process to identify positions with problematic liquidity based on market or issuer events and then making a provisional classification based on such events, we have made the decision to build a daily liquidity classification environment to capture the provisional classification in an automated fashion. Doing so ensures that the bucketing process used for month-end required reporting is also included as a factor in the daily compliance monitoring of these restrictions in order to ensure timely and accurate monitoring of the 15% illiquid restriction, HLIM restriction and reporting of exceptions via Form N-LIQUID and to our Price Funds' Board. This essentially transforms the month-end review process the SEC envisioned when it adopted the Rule into a daily monitoring process that is akin to pricing securities daily in order to calculate a fund's net asset value.

For example, in order to continue the monitoring of the 15% illiquid restriction and implement monitoring of the HLIM restriction using investment book of record data ("**IBOR data**"), which is used for all other daily compliance monitoring of 1940 Act restrictions, complex adjustments are needed to our existing internal compliance monitoring technology to ensure that bucketing data outputs from our vendor (which we anticipate will use IBOR data on a daily basis) flow into our internal technology infrastructure. The use of IBOR data will permit the compliance monitoring of these provisions to ensure portfolio managers are aware of an investment decision's impact on a fund's liquidity at time of purchase. We will also use IBOR data to report on Form N-LIQUID, as necessary. However, because Form N-PORT requires the Funds to use the accounting book of record data ("**ABOR data**") in a Fund's monthly reporting, we will also need to implement an additional month-end process with our vendor to ensure that vendor-provided liquidity data is also calculated using ABOR data and flows into our technology infrastructure that is also being built to support the Form N-PORT reporting requirement.

This work to change our internal technology systems in an effort to automate our compliance with the tenets of the Rule's bucketing requirements and guidance of the FAQ is proving to be very costly, resource intensive and complex. And to reiterate, we do not believe that the bucketing requirements are a necessary addition to our existing liquidity risk management program in order to fulfill the essential element of the Rule, which is to require funds to adopt liquidity risk management programs reasonably designed to manage liquidity risks. We believe that the Rule's requirement for funds to adopt a liquidity risk management program with a board-appointed liquidity risk program administrator sufficiently reduces the risk that funds will be unable to timely meet their redemption obligations pursuant to section 22(e) of the 1940 Act and other regulatory requirements, diminishes potential investor dilution, and allows funds to more effectively manage liquidity risk. Accordingly, while we applaud the SEC for reconsidering public disclosure of the liquidity classifications, we are disappointed that the SEC did not address the classification process in the Proposal and agree that the SEC can and should re-examine the utility of the Rule's liquidity classification and HLIM requirements.[4]

Proposal to Provide Narrative Liquidity Information in the Annual Report

Our concerns regarding the bucketing process naturally extend to the disclosure of the resulting liquidity determinations. Accordingly, we are very supportive of the Proposal's elimination of the current requirement in Form N-PORT under the 1940 Act requiring funds to publicly disclose aggregate liquidity classification information about their portfolios. We strongly agree that presenting liquidity classification information in a standard format – as the final rule requires – implies to investors a level of specificity regarding liquidity that belies the nature of the process and could also lead to the impression that the resulting classifications would be comparable across funds. The degree of subjectivity that will be used by fund advisers, coupled with the variations in methodologies and assumptions used by vendors (if applicable) to conduct liquidity classifications will diminish the usefulness of such information in an investor's attempt to compare liquidity risks across funds and fund complexes.

While we support the removal of the requirement for a fund to publicly report its aggregate liquidity classification information, we have some concerns with respect to the Proposal's requirement for new disclosure in the fund's annual shareholder report that provides a narrative discussion of the operation and effectiveness of a fund's liquidity risk management program over the reporting period. We support providing shareholders with a description of a fund's liquidity risk management program, which would provide shareholders with an overview of the program's operation, structure and tools that may be used to meet the liquidity needs of a fund. However, in lieu of providing such narrative in the shareholder annual report, we believe it is better suited for inclusion in the fund's statement of additional information ("**SAI**") along with other details commonly found in the SAI regarding a fund's investment operations and shareholder services. The purpose of a fund's SAI is to afford an opportunity to expand discussions of matters described in the prospectus by including additional information that the fund believes to be of interest to some investors.[5] As part of the Rule, the SEC also adopted amendments to Form N-1A to include disclosure of fund policies concerning various ways a

[4] See Commissioner Michael S. Piwowar, Statement at Open Meeting on Investment Company Liquidity Disclosure (March 14, 2018), https://www.sec.gov/news/public-statement/statement-piwowar-open-meeting-fund-liquidity-2018-03-14; Commissioner Hester M. Peirce, Statement on Proposed Amendments to Public Reporting of Fund Liquidity Information (March 14, 2018), https://www.sec.gov/news/public-statement/statement-peirce-open-meeting-fund-liquidity-2018-03-14a; Commissioner Hester M. Peirce, Remarks at the Investment Company Institute's ("ICI") 2018 Mutual Funds and Investment Management Conference, (March 29, 2018) .

[5] Section C.2(b) of Form N-1A.

shareholder may redeem fund shares.[6] Currently in the Price Funds' SAI, we include disclosure with respect to certain liquidity risk management tools that can be used by the Funds (*i.e.*, interfund lending, line of credit, redemptions in-kind, etc.). Including a narrative of the overall structure and operations of the liquidity risk management program in the SAI would serve as an appropriate means to permit funds to expand discussions of fund policies concerning their ability to meet redemptions. Further, since liquidity risk programs will likely be similar for all funds across a complex, a discussion of the operation of the effectiveness of the program, and insights into how the program functions, would be better suited for the SAI, which typically covers all funds or groups of funds in a complex.

Our recommendation also recognizes that, as a practical matter, each fund's disclosure will remain largely the same period to period unless the fund was materially impacted by liquidity risks or utilized liquidity management tools during the reporting period. In that case, in addition to requiring a narrative of the overall structure and operations of the liquidity risk management program in the SAI, the Rule could require additional disclosure as part of the Management's Discussion of Fund Performance ("**MDFP**") section of a fund's annual or semi-annual shareholder report. The Rule should make it clear that the disclosure in the MDFP should be limited to liquidity events and the use of liquidity risk management tools, if any, that had a material effect on the investment operations and performance of a particular fund.[7] This may include, for example, instances where the fund sold a significant amount of assets, employed a liquidity risk management tool, or took other measures to manage this risk during the reporting period.

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We appreciate the opportunity to submit our comments on this Proposal. If you have any questions regarding our comment letter or would like additional information, please contact Savonne L. Ferguson at [redacted] [redacted] or Bob Grohowski at ([redacted].

Sincerely,

/s/David Oestreicher

David Oestreicher
Chief Legal Counsel
T. Rowe Price Associates, Inc.

Cc: The Honorable Jay Clayton
The Honorable Kara M. Stein
The Honorable Michael S. Piwowar
The Honorable Robert J. Jackson Jr.

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[6] Item 11(c)(7) and (c)(8) of Form N-1A.

[7] As an alternative, we would support the ICI's recommendation to exempt funds that are "primarily highly liquid" from the proposed narrative disclosure in the shareholder annual report. As a result, only funds that are not "primarily highly liquid" would be subject to the narrative disclosure requirement of the Proposal. *See* Letter from Paul Schott Stevens, President and CEO, ICI, to Brent J. Fields, Secretary, SEC, dated May 18, 2018, available at https://www.sec.gov/comments/s7-04-18/s70418-3669117-162439.pdf.

T.RowePrice®

The Honorable Hester M. Peirce
John Cook, Senior Advisor to the Chairman
Dalia Blass, Director, Division of Investment Management