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July 21, 2020

Ms. Vanessa A. Countryman
Secretary
U.S. Securities and Exchange Commission
100 F Street, NE
Washington, D.C. 20549-1090

Re: Comments Concerning the Good Faith Determinations of Fair Value and Proposed Rule 2a-5

File No. S7-07-20

Dear Ms. Countryman:

I am writing on behalf of Massachusetts Financial Services Company ("**MFS**" or "**We**")[1] in response to the invitation by the U.S. Securities and Exchange Commission (the "**Commission**") to provide comments on the Commission's recently proposed changes to the fair valuation regulatory framework.[2]

We appreciate the opportunity to provide our comments on the Release, including the proposal to adopt new Rule 2a-5 (the "**Rule**") and rescind certain existing guidance and no-action letters. MFS has extensive experience managing investment funds that are registered under the Investment Company Act of 1940, as amended (the "**1940 Act**"), including supporting the fair valuation of portfolio holdings of such funds. MFS additionally has the perspective of serving in the capacity as a primary investment adviser and as a sub-adviser to these funds.[3]

We believe that the valuation of portfolio holdings is one of most important functions performed by a board and adviser of funds registered under the 1940 Act. Valuation is

[1] MFS Investment Management traces its history back to 1924 and the creation of the country's first open-end mutual fund, Massachusetts Investors Trust. Today MFS is a global investment manager managing approximately $527 billion in assets as of December 31, 2019, through a variety of collective investment vehicles and separate accounts, including approximately $259 billion managed in registered investment companies for which MFS serves as the primary investment adviser.

[2] *Good Faith Determinations of Fair Value*, Investment Company Act Rel. No. 33845 (April 21, 2020), 85 FR 28734 (May 13, 2020), available at https://www.govinfo.gov/content/pkg/FR-2020-05-13/pdf/2020-08854.pdf (the "**Release**").

[3] As of the date of this letter, MFS served as the appointed investment adviser to 88 funds and an appointed sub-adviser to 60 funds registered under the 1940 Act.

the key component in determining (i) the price paid or received by shareholders when transacting in a fund, (ii) the performance track-record of a fund, (iii) the amount of asset-based fees paid to advisers and other service providers, and (iv) compliance with a fund's investment policies and restrictions. The determination of a portfolio holding's value when a market quotation is not readily available is a particularly important area given the growth in the complexity of instrument types and markets, the technical expertise required, and the conflicts of interest that exist with a fund's adviser. We support the Commission's initiative to codify a modern approach to fair valuation that largely standardizes current industry best practices. We are particularly supportive of the Commission's proposal to permit a board to assign day-to-day fair valuation responsibilities to a fund's adviser and thereby allow a board to focus on conducting appropriate oversight of a fund's fair valuation process. We do, however, encourage the Commission to consider the comments articulated in this letter and the comment letters submitted on the subject by the Investment Company Institute ("**ICI**") and the Securities Industry and Financial Markets Association – Asset Management Group ("**SIFMA-AMG**"), both of which we largely agree with. We believe that by revising the Rule through the implementation of the targeted comments discussed in this letter and the letters submitted by the ICI and SIFMA-AMG, the Commission can continue to protect investor interests while establishing a regulatory framework that appropriately reflects the complexity of this area.

I. Executive Summary

The following summarizes our comments[4] on the proposed changes included in the Rule and Release:

- ***The Commission should remove the prompt board reporting requirement from the Rule or revise this requirement to codify that a board has full discretion to determine what, when, and how this reporting is performed.***
- ***The Commission should not require the adoption of specific criteria triggering an adviser to challenge a vendor's price, but rather should preserve an adviser's flexibility to make this determination.***
- ***The Commission should clarify in the Rule that an adviser is provided the flexibility to use the pricing methodology that is most appropriate based on the facts and circumstances when fair valuing a portfolio holding.***
- ***The Commission should revise the Rule's recordkeeping requirements to reflect a distinction between fair value determinations made by an adviser and fair value prices provided by a pricing vendor.***
- ***The Commission should consider the unintended consequences of providing a board the flexibility to assign fair valuation responsibilities to a sub-adviser and the Commission should adopt a reconciliation framework for multi-manager fund structures.***

[4] For purposes of this letter, we are assuming that a fund's board will assign day-to-day fair valuation responsibilities to a fund's investment adviser as permitted under the Rule.

II. The Commission should remove the prompt board reporting requirement from the Rule or revise this requirement to codify that a board has full discretion to determine what, when, and how this reporting is performed.

Where a board elects to assign fair valuation responsibilities to an adviser, the Rule establishes a very robust board reporting framework, which includes both periodic and prompt reporting requirements.[5] Specifically, the Rule mandates that several standard reports be provided to a board on a quarterly basis[6] and that an adviser promptly (i.e. within three business days) report in writing to a board any matters that materially affected or could have materially affected the fair value of a portfolio's holdings.[7] While we support the proposed periodic reporting framework, we encourage the Commission to reconsider the necessity of the prompt board reporting requirement in light of the current and proposed board reporting obligations. Alternatively, if the Commission elects to retain the prompt board reporting requirement in the Rule, we encourage the Commission to codify that a board has full discretion to determine what, when, and how this reporting is performed.

We believe that overall the Rule establishes a board reporting framework that reflects industry best practices and permits a board to focus on oversight of a fund's fair valuation process, rather than day-to-day issues. We are, however, concerned that the prompt board reporting requirement is too subjective and may inundate a board with information that is more appropriately reported on a quarterly basis.[8] This issue is compounded by the fact that "materiality" is not defined in the Rule and, therefore, an adviser may feel compelled to over-report issues to a board to avoid second guessing from auditors or regulators. Furthermore, the requirement to promptly report matters that "could have materially affected" the fair valuation of a portfolio's holdings is overly vague and would require an adviser to provide a board with reporting that is based on speculation and estimation.[9] We additionally believe that this requirement is contrary to the spirit of the SEC's recent Board Outreach Initiative, which, in part, is seeking to identify ways to focus a board's efforts on oversight rather than granular day-to-day tasks that are more

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[5] Rule 2a-5(a)(4)(B)(1).

[6] Rule 2a-5(a)(4)(B)(1)(i) requires quarterly reporting of an assessment on the adequacy and effectiveness of an adviser's fair value program, including (i) assessment and management of material valuation risks, (ii) material changes or deviations from pricing methodologies, (iii) results of fair value testing, (iv) adequacy of resources, (v) material changes or events impacting pricing vendors, and (v) any other materials the board deems relevant.

[7] Rule 2a-5(a)(4)(B)(1)(ii).

[8] *See* Release at 48-49 and n. 113, noting that material changes in a fund's valuation risks would trigger prompt board reporting, including changes in price challenge and override activity.

[9] Furthermore, we would expect the volume of reporting under this standard to increase dramatically during periods of heightened market volatility, such as those experienced during the recent Covid-19 pandemic. In these situations, such over-reporting may unnecessarily tie up the resources of an adviser and a board and dilute the impact of any single issue raised.

appropriately handled by an adviser, such as addressing issues that have not yet met a standard of materiality.[10] We also think that truly material matters are already required to be reported to a board under a fund's Rule 38a-1 compliance program, which requires that a fund's chief compliance officer promptly report "serious compliance issues" to a board.[11] Finally, in practice, boards already engage in ongoing dialogue with advisers concerning material developments impacting a fund, including material valuation issues, and requiring a formal written report may have a "chilling" effect on this informal and likely more candid dialogue between a board and an adviser.[12]

Alternatively, if the prompt board reporting requirement is retained as part of the Rule, we strongly encourage the Commission to incorporate the following changes:

- Provide a board the discretion to determine what triggers a prompt board report. We note that "material" is not defined in the Rule or Release, but, as drafted, the prompt board reporting requirement hinges on the definition of this term. We believe this lack of definition will make compliance with this requirement challenging and ripe for second guessing. As such, we are in favor of a prompt board reporting standard that requires a board, in consultation with an adviser, to determine the parameters of what types of issues should be promptly reported. This approach would allow for the development of a tailored process that is based on the specific risks posed by the types of instruments held by a fund and the nuances of an adviser's fair valuation process. Under this approach, a board would have the flexibility to adopt a bright-line threshold for reporting or adopt a standard that is based on more malleable criteria.

- Provide a board the discretion to determine when prompt board reports should be delivered. We believe that the Rule's requirement that an adviser report such issues to a board within three business days is too prescriptive and implies that all valuation issues are capable of being adequately evaluated by an adviser within a standard timeframe.[13] We are instead in favor of a prompt reporting

[10] *See* the keynote address by Dahlia Blass at *ICI 2018 Mutual Funds and Investment Management Conference*, stating in regards to the Board Outreach Initiative: "[w]hile we have compiled a list of current [board] responsibilities that potentially blur the line between oversight and management, we want to endeavor not to add to such responsibilities in future policy decisions", available at https://www.sec.gov/news/speech/speech-blass-2018-03-19.

[11] *See Compliance Programs of Investment Companies and Investment Advisers*, Investment Company Act Rel. No. 26299, at n. 84 (Dec. 17, 2003), stating "[s]erious compliance issues must, of course, always be brought to the board's attention promptly, and cannot be delayed until an annual report.

[12] We note additionally, as an industry best practice, board members are typically invited to participate in regular meetings concerning an adviser's valuation program, such as meetings of an adviser's internal valuation committee, and generally have access to all relevant materials.

[13] We note that the Release contemplates providing an adviser an additional three business days to

standard that preserves a board's discretion to determine, after collaboration with an adviser, the appropriate frequency in which an adviser should report these issues. Under this proposed framework, each board would base this determination on its own preferences and risk assessment and would ultimately retain the ability to set a strict reporting period (for example, three business days) or establish a more flexible timeline, which may not be tied to a specific reporting window.

- Provide a board with the flexibility to determine how prompt board reports should be delivered. As this requirement is designed to alert a board to urgent matters, we think a board should decide how this information is ultimately communicated. Oral reporting may, in certain instances, lead to more "real time" reporting that is necessary for particularly time sensitive issues. Additionally, oral reporting may encourage more candor in discussing issues and proposed remedies, whereas written reports may result in formulistic statements. In either case, recordkeeping requirements should reflect the relevant details of the prompt board report, such as through maintaining a log or meeting minutes.

III. *The Commission should not require the adoption of specific criteria triggering an adviser to challenge a vendor's price, but rather should preserve an adviser's flexibility to make this determination.*

The Rule requires that an adviser using a pricing vendor must, among other things, identify specific criteria for initiating vendor price challenges.[14] The Commission elaborates on this requirement in the Release, indicating that an adviser could satisfy this requirement by establishing objective thresholds that would trigger a vendor price challenge.[15] The Rule also codifies additional controls around the price challenge process by requiring an adviser to (i) identify and mitigate conflicts of interest, (ii) adopt policies and procedures, (iii) identify specific personnel involved in the price challenge and override process, and (iv) report information concerning price challenge and override activity to a fund's board.[16]

We largely agree with the above requirements and generally believe that these reflect

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assess the materiality of particularly complex valuation issues, however this flexibility is not codified in the Rule and ultimately still suffers from the same flaw of assigning uniformity to the evaluation of valuation issues that may vary widely. *See* Release at 50.

[14] Rule 2a-5(a)(4)(B).

[15] *See* Release at 26. We also note that the Release does not provide any further context or other examples of criteria that an adviser could consider when challenging a vendor's price.

[16] Rule 2a-5(a)(1), 2a-5(a)(5), 2a-5(b)(1)(i)(E), and 2a-5(b)(2).

current industry best practices. We do not, however, think that the Rule should require an adviser to identify specific criteria for initiating vendor price challenges. We believe that such an approach is too rigid and will result in a mechanical and less informed price challenge process by removing discretion from market experts.[17] While we recognize that this requirement may create consistency and standardization in price challenge processes across the industry over time, we do not think such benefits outweigh a process that is rooted in maximizing the discretion of market experts. As such, we encourage the Commission to revise this requirement to maximize an adviser's flexibility in this area by simply codifying that an adviser must establish a process for vendor price challenges.[18] This approach would allow an adviser to implement a tailored process based on its in-house expertise and capabilities.[19] Specifically, we believe that an adviser's investment and trading personnel are often best positioned to understand the market dynamics impacting the price of a fund's holdings and any price challenge process should therefore provide wide discretion to these individuals, subject to appropriate oversight and separation of duties.

Furthermore, any specific criteria will inherently reflect the prevailing market conditions at the time the criteria is established. As such, the criteria may not account for pricing issues that arise in different market environments, such as the recent periods of high market volatility associated with the Covid-19 pandemic. In these instances, we would expect the number of "presumptive" price challenges resulting from breaches of the criteria, such as objective thresholds, to increase dramatically without the flexibility to consider the broader market environment. This could unnecessarily burden both an adviser and the pricing vendors by tying up valuable resources to address mechanical price challenges, instead of addressing more novel issues that tend to arise during periods of market stress.

We recognize that requiring an adviser to establish specific criteria triggering a vendor price challenge is meant, in part, to mitigate an adviser's conflict of interest in the fair valuation process. Specifically, we note that an adviser may have an incentive to inflate asset prices to improve performance or increase asset-based fees and that a lack of appropriate oversight in this area has been a central theme of numerous enforcement

[17] We recognize that the Rule could be interpreted as providing flexibility for an adviser, as part of its criteria, to include the ability to disregard a threshold breach or other criteria if there is a compelling reason. We believe, however, in practice such an override would infrequently occur, as it could expose the adviser to potential second guessing from auditors or regulators.

[18] We note that the Rule states that an adviser must establish "criteria for initiating price challenges", whereas the Release indicates that an adviser should establish criteria under which prices would "typically" be challenged. The Release indicates a more flexible process, which, at minimum, the language of the Rule should be amended to reflect this flexibility. *See* Release at 26 and Rule 2a-5(a)(4)(B).

[19] This approach would preserve an adviser's ability to utilize pre-determined criteria, including objective thresholds, if such approach is believed to yield the best results.

actions.[20] The Rule, as drafted, establishes a robust level of oversight of the price challenge process through periodic board reporting requirements and by requiring, among other things, that an adviser adopt policies and procedures that (i) identify personnel with responsibilities associated with price challenges and overrides and (ii) establish appropriate segregation of duties.[21] We believe that this oversight framework alone is sufficient to mitigate an adviser's conflict of interest in this area without the need for an adviser to establish criteria for triggering vendor price challenges.

IV. *The Commission should clarify in the Rule that an adviser is provided the flexibility to use the pricing methodology that is most appropriate based on the facts and circumstances when fair valuing a portfolio holding.*

The Rule requires that an adviser select and apply in a "consistent manner" an appropriate methodology or methodologies when fair valuing a fund's investments and identify the key inputs and assumptions specific to each asset class or portfolio holding.[22] We believe that this standard, and in particular the use of the phrase "consistent manner", is confusing and raises interpretive questions regarding the extent of an adviser's flexibility to apply a chosen fair valuation methodology. Specifically, we are concerned that using the terminology "consistent manner" in the Rule without including further clarification may prioritize historic usage when selecting a methodology or suggest that a prescriptive hierarchy of methodologies be established for individual asset classes. We believe that either of these interpretations risks setting a *de facto* default methodology or group of methodologies for specific instrument types. We are instead in favor of a standard that provides an adviser with the flexibility to use whatever methodology that appears to be the most appropriate based on the individual facts and circumstances for each portfolio holding, which may also include the consideration of such methodology's historic usage or use for comparable instruments. We think that this can best be accomplished by an adviser maintaining a broad list of board approved methodologies that may be used interchangeably based on the current market conditions and other facts and circumstances unique to each individual instrument.[23] We note that the Release

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[20] *See* In the Matter of UBS Global Asset Management (Americas) Inc., Investment Company Act Release No. 29920 (Jan. 17, 2012), In the Matter of Morgan Asset Management, Inc., *et al.*, Investment Company Act Release No. 29704 (June 22, 2011), In the Matter of Heartland Advisors, Inc., *et al.*, Investment Company Act Release No. 28136 (Jan. 25, 2008), and In the Matter of Evergreen Investment Management Company, LLC, *et al*., Investment Company Act Release No. 28759 (June 8, 2009).

[21] The Rule requires an adviser to (i) identify and periodically review material conflicts of interest, (ii) evaluate and monitor a vendor's price challenge process, (iii) adopt policies and procedures that include a process for reviewing price overrides, and (iv) identify specific personnel with responsibilities associated with price challenges and the authority to override a price. Additionally, the Rule requires a board to receive quarterly reporting concerning (i) an assessment of an adviser's valuation risks, including conflicts of interest (ii) information on material events related to service providers, such as price overrides, and (iii) the option to receive regular reporting on price challenge and override activity and back-testing of this activity.

[22] Rule 2a-5(a)(2)(A).

[23] The standard could further be enhanced by requiring an adviser to promptly notify a board if it intends

clarifies that this provision is not intended to impact an adviser's flexibility to adjust a methodology in circumstances where it is appropriate to achieve a more representative fair value,[24] however we encourage the Commission to revise the Rule to more clearly reflect this flexibility.

V. *The Commission should revise the Rule's recordkeeping requirements to reflect a distinction between fair value determinations made by an adviser and fair value prices provided by a pricing vendor.*

The Rule proposes recordkeeping requirements for all fair value determinations, including the maintenance of appropriate documentation to support such determinations and information regarding the specific methodologies applied and the assumptions and inputs considered.[25] The Commission clarifies in the Release that "appropriate documentation" should be interpreted as documentation sufficient for a third party, such as an auditor, to verify the fair value price.[26] For purposes of this recordkeeping requirement, the Rule does not make any distinction between fair value prices received from a fund's pricing vendors and fair value determinations made by an adviser based on its internal methodologies and processes. We agree with the Rule's proposed recordkeeping for fair value determinations made by an adviser given that this information is readily available. We do not, however, think that the same standard should apply to fair value determinations made by a fund's pricing vendors. Requiring such a granular level of documentation supporting each fair value price provided by such vendors is not consistent with current industry practices and places an unreasonable burden on advisers, which may rely on such vendors to provide fair valuations for thousands of instruments on a daily basis. This is particularly evident with fixed income instruments, many of which do not trade every day and therefore typically require an adviser to use a pricing vendor's evaluated bid, which is not generally accompanied by the level of detailed information required by the proposed recordkeeping provision. Additionally, in practice, an auditor will typically require additional information supporting a fair value price for a sample of a fund's holdings and for fixed income evaluated bids that exceed a predetermined tolerance when compared to the evaluated bid from an auditor's pricing vendor. As this tends to amount to only a small fraction of a fund's portfolio, we do not believe that the added recordkeeping burden imposed on an adviser by the Rule is supported by the actual need for this information in practice. Furthermore, we believe the Rule establishes a robust oversight framework for pricing vendors, which is sufficient to monitor the valuation process of such vendors. This oversight framework requires, among other things, initial and on-going due diligence of pricing vendors by an adviser, which

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to use a methodology that was not included in the board-approved list of available methodologies.

[24] *See* Release at 21 and *see also* Release at 20, stating that "[w]e recognize, however, that there is no single methodology for determining the fair value of an investment because fair value depends on the facts and circumstances of each investment, including the relevant market and market participants."

[25] Rule 2a-5(a)(6)(i).

[26] *See* Release at 29.

includes an evaluation of valuation methodologies used and any testing performed by a pricing vendor.[27] We note further that pricing vendors are subject to independent audits of their valuation processes and the results of these are typically made available to an adviser.

VI. *The Commission should consider the unintended consequences of providing a board the flexibility to assign fair valuation responsibilities to a sub-adviser and the Commission should adopt a reconciliation framework for multi-manager fund structures.*

In the Release, the Commission clarifies that the Rule provides a board with the flexibility to assign fair valuation responsibilities to one or more sub-advisers of a fund.[28] Specifically, for funds utilizing a multi-manager structure, the Release describes a framework where each sub-adviser is responsible for fair valuing its portion of a fund's portfolio.[29] Under this structure, a fund's policies and procedures would need to account for the added complexities of overseeing the fair valuation activities of multiple advisers.[30] We do not believe that the Rule, as drafted, sufficiently contemplates the potential complexities imposed on boards and sub-advisers in this area and we strongly encourage the Commission to consider the unintended consequences of assigning this function to a fund's sub-adviser. Additionally, the Commission should adopt a reconciliation framework for multi-manager fund structures.

As discussed in the Release, the Rule is meant, in part, to relieve a board of the complex and onerous task of fair valuing a fund's holdings[31] and codifies current industry practice in which a board already relies on an adviser to perform the day-to-day tasks in this area.[32] The Commission, however, neglects to recognize that providing a board the flexibility to assign fair valuation functions to a sub-adviser is a departure from current industry practice and that this new function will introduce unaccounted for complexities that impact both boards and sub-advisers. Specifically, under this new structure, a board would need to devote resources to administering the oversight of and the reporting from a fund's sub-advisers, which may amount to numerous sub-advisers in a multi-manager fund structure. We believe that in this regard, the Commission has relieved a board of the onerous and complex task of fair valuing a fund's holdings only to replace it with a new similarly

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[27] Rule 2a-5(a)(4) and *see* Release page 25.

[28] *See* Release at 33.

[29] *See* Release at 33.

[30] *See* Release at 34.

[31] *See* Release at 14 and 94.

[32] *See* Release at 32 and 33, stating "[w]e understand that, for practical reasons, few boards today are directly involved in the performance of the day-to-day valuation tasks required to determine fair value. Instead they enlist the fund's investment adviser to perform certain of these functions, subject to their supervision and oversight."

onerous and complex task of overseeing a fragmented fair valuation process, which in the case of multi-manager funds could be many sub-advisers.[33] Additionally, we do not believe that the Release adequately captures the added liability and resource burdens that will be imposed on a sub-adviser in assuming fair valuation responsibilities.[34] Under current industry practice, sub-advisers, upon request, will typically provide advisers with information or other assistance in the fair valuation process. A sub-adviser, however, is not liable for any valuation errors or other valuation-related deficiencies that occur in a sub-advised fund. If the Rule is adopted as drafted, this would result in shifting this liability to sub-advisers that are assigned fair valuation responsibilities. Sub-advisers are also generally not responsible for performing board reporting of fair valuation matters or ensuring day-to-day compliance with a fund's fair valuation policies and procedures. In assuming this new function, a sub-adviser would, at minimum, need to (i) amend its investment management agreement with a fund's adviser, (ii) update its policies and procedures to account for this new function, (iii) on-board a fund's administrator and potentially new pricing vendors, and (iv) devote resources to manage board reporting and other oversight functions required in the Rule. We are particularly concerned with the resource implications of compliance with the Rule's board reporting framework, which presumably will require periodic attendance and reporting at board meetings, preparation of quarterly board materials that will likely be tailored for each board, and compliance with the new prompt board reporting requirement.[35] Therefore, we are not supportive of this new flexibility as currently proposed by the Commission, and in order to remedy these concerns, we strongly encourage the Commission to consider the above unintended consequences when adopting the final provisions of the Rule.

If the Commission were to move forward with this flexibility, it should amend the Rule to require a board to establish a fair valuation reconciliation process for multi-manager fund structures. In these fund structures it is not uncommon to have several sub-advisers selecting investments from the same asset class. An adviser, and ultimately a board, may find it valuable to have multiple sub-advisers selecting investments from the same universe, but using different investment styles, such as growth vs. value or quantitative vs. fundamental analysis.[36] These structures undoubtedly result in overlap of positions across multiple sub-advisers and the potential for circumstances where such advisers fair

[33] For example, MFS currently serves as a sub-adviser for a multi-manager fund, which has a total of twelve sub-advisers investing in global equity instruments.

[34] While the Rule does not require that a sub-adviser accept the assignment of fair valuation responsibilities from a board, we believe in practice a sub-adviser would be compelled to perform this function if requested by a board in order to avoid potentially losing a sub-advised mandate.

[35] We note that this would represent a significant departure from the current level of board reporting and interaction between a sub-adviser and a board, which is generally once a year to provide a board with an investment update.

[36] For example, an international equity fund may have several sub-advisers that specialize in selecting foreign equities, with certain sub-advisers focusing on issuers domiciled in specific regions or issuers within a specific capitalization range.

value a commonly held instrument at a different, but equally justifiable price.[37] We believe that this risk is heightened during periods of market volatility, such as those experienced during the current Covid-19 pandemic. To illustrate this point, we note that an international equity fund may fair value a large percentage of its holdings on a regular basis to account for significant events that occur after the close of various international markets but before a fund calculates its net asset value (typically 4:00 p.m. EST), such as the large swings experienced in the U.S. markets during the Covid-19 pandemic. In these scenarios, advisers may arrive at different fair values due to the use of different indices as a proxy for various markets, varying thresholds triggering fair valuations, and the use of various pricing vendors that employ different proprietary pricing models. The Release and Rule, as drafted, do not account for this specific, but very foreseeable, conflict and instead note that a board should adopt policies and procedures that account for added complexity.[38] To address this issue, we encourage the Commission to require a board to establish a reconciliation procedure that assigns a specific entity the responsibility for performing a portfolio reconciliation to identify and address these pricing differences.[39] We believe that providing this additional clarity is important to ensure consistency and predictability for boards that implement this structure and sub-advisers that assume fair valuation responsibilities.

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We appreciate the opportunity to provide comments on the Rule. If you have any questions, please contact me at 617-954-5761 or Chris Bohane at 617-954-5822.

Sincerely,

Heidi Hardin

Heidi W. Hardin

[37] The Commission acknowledges this stating "[w]e continue to believe that for any particular investment there may be a range of appropriate values that could reasonably be considered to be fair value…" *See* Release at 22.

[38] *See* Release at 34.

[39] We note that a fund's appointed investment adviser may not be best placed to perform this function, as a lack of expertise or resources to perform fair valuations may have been a motivating factor for a board in deciding to assign this function directly to a sub-adviser. As such, a fund's custodian or other service provider may be more qualified to serve in this capacity, and such flexibility should be reflected in the Rule.

cc:

The Honorable Jay Clayton
Chairman
U.S. Securities and Exchange Commission

The Honorable Allison H. Lee
Commissioner
U.S. Securities and Exchange Commission

The Honorable Hester M. Peirce
Commissioner
U.S. Securities and Exchange Commission

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