

Via Electronic Mail

August 21, 2015

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

Re: Investment Company Reporting Modernization, SEC Rel. Nos. 33-9776; 34-75002; IC-31610; File No. S7-08-15

Dear Mr. Fields:

T. Rowe Price Associates, Inc. (“**T. Rowe Price**”), as sponsor and investment adviser to the T. Rowe Price family of mutual funds (“**Price Funds**”), appreciates the opportunity to comment on the above-referenced proposal (the “**Proposal**”) issued by the Securities and Exchange Commission (“**SEC**” or “**Commission**”). As of June 30, 2015, T. Rowe Price and its affiliates managed approximately \$773 billion in assets, and the Price Funds comprised 165 funds with aggregate assets of approximately \$500 billion.

Overall, we are supportive of the Proposal. We believe it will help the SEC, as the primary regulator of the asset management industry, to more effectively monitor and oversee the activities of mutual funds. While we are in general agreement with the underlying principles of the Proposal, we offer below some specific recommendations that we think will further enhance its effectiveness and reduce costs to shareholders. We are providing our perspectives with respect to the following issues:

Timing of Filing Forms N-PORT and N-CEN

- We recommend that the Commission provide adequate time for funds to compile, review, and file Forms N-PORT and N-CEN. We suggest a 45-day from month-end filing deadline for Form N-PORT and a 75-day from fiscal year-end filing deadline for Form N-CEN.

Proposed Form N-PORT

- **Certain Items should remain non-public:** We recommend that Parts B, C, D, and E of Form N-PORT be filed on a non-public basis for all months, not only the first two months of the quarter. Alternatively, portfolio level risk metrics (Item B.3) and illiquidity determinations (Item C.7) should be reported either under Part D of Form N-PORT, which is proposed to be non-public, or as an additional non-public schedule to Form N-PORT. We also recommend that the Commission assess which items

should be provided as of month-end and which items should be provided as a monthly average.

- **Include a definition of “derivative”:** We recommend that the Commission include a definition of “derivatives” in the reporting scheme that mirrors Topic 815 of the Financial Accounting Standards Board’s Accounting Standards Codification (“**FASB ASC 815**”).
- **Include a definition of “forward”:** We also recommend that the Commission include a definition of “forward contract” to avoid industry confusion and promote consistent disclosures under the Proposal.

Proposed Rule 30e-3: Shareholder Report Delivery

- **Remove postage paid reply form requirement:** We recommend that the Commission allow funds to provide a toll-free number *or* a pre-addressed, postage paid reply form.
- **Permit other accompanying materials:** We recommend that the Commission permit “Initial Statements” and “Notices” to be accompanied by other important account materials, such as new account welcome kits, account statements, dividend checks, and transaction confirmations.
- **Form of Notice filing requirements:** We recommend that the Commission require filing a form of Notice the first time that a fund relies on Rule 30e-3 as an exhibit to the fund’s Form N-CSR or Form N-CEN filings, and only require subsequent filings to the extent that the Notice has materially changed.

Our detailed comments on these issues are set forth below.

Timing of Filing Forms N-PORT and N-CEN

The Commission specifically requested comment on whether the proposed requirement that Form N-PORT be filed within 30 days of the close of the month will be sufficient time for funds to gather and report the information proposed to be required on the Form. We do not believe 30 and 60 days for Forms N-PORT and N-CEN, respectively, will be sufficient. We suggest a 45- and 75-day filing time period for Forms N-PORT and N-CEN, respectively.

Form N-PORT requests extensive information on a series-by-series basis, and often, an investment-by-investment basis. This information must be compiled from multiple business areas and different systems used within a fund complex, and often, one or more third-party service providers. The information must then be converted to Extensible Markup Language (“XML”). Further, as proposed, Form N-PORT requires each fund to report certain information for each investment held by the fund as of the end of the reporting period, including categorizing each investment consistent with GAAP. As required by GAAP, month-end holdings would be listed on a trade date plus zero (T+0) basis, reflecting transactions through the end of the month. Most funds, including the Price Funds, do not account for their day-to-day transactions on a T+0 basis, but on a trade date plus one (T+1) basis, which is specifically permitted by Rule 2a-4 under the Investment Company Act of 1940.

Conversions of this data from a T+1 basis on a monthly cycle, as would be required by Form N-PORT, would be significantly more burdensome than the quarterly conversions required under the current reporting on Forms N-CSR and N-Q. Additionally, funds currently have 60 days to complete these conversions and compile Form N-Q. Whereas, converting and compiling Form N-PORT is proposed to be completed within 30 days even though it will contain far more information than the current Form N-Q and be filed on a more frequent basis. This time constraint could be exacerbated for funds that rely on a third-party service provider to complete the conversion.

While we applaud the elimination of Form N-SAR in favor of Form N-CEN, we suggest that the filing deadline be moved to 75 days. The main rationale for this recommendation is that the proposed deadline for filing Form N-CEN with respect to a fund would coincide with the current deadline for filing that fund's annual report on Form N-CSR. This is a typically busy period for completing a fund's audit and extending the N-CEN filing deadline would allow more time for a fund complex to accurately complete the Form N-CEN in light of the competing priority for the annual audit and Form N-CSR.

Proposed Form N-PORT

A. Certain Items should remain non-public.

The Commission specifically asked for comment on whether all or a portion of the information requested on Form N-PORT should be submitted in non-public reports in order to alleviate potential harm from public disclosure. As stated above, our recommendation is that Parts B, C, D, and E of Form N-PORT, which will provide the Commission with substantially more detailed monthly information in a structured format for regulatory oversight purposes, should be filed on a non-public basis for all months, not only the first two months of the quarter. However, recognizing that the Commission will consider whether public disclosure is appropriate for each item of information requested on Form N-PORT, we alternatively suggest that portfolio level risk metrics (Item B.3) and illiquidity determinations (Item C.7) should be reported either under Part D of Form N-PORT, which is proposed to be non-public, or as an additional non-public schedule to Form N-PORT. We believe that these items, if publicly available, would have the greatest potential for harmful impact on investors, funds, and their advisers.

We support the Commission in seeking new and expanded information on Form N-PORT for its regulatory and oversight responsibilities. However, we do not agree that the highly detailed, structured data in Form N-PORT will be a valuable complement to other public fund disclosures for investor decision making, either directly or as filtered for them by fund industry service providers, commentators and other intermediaries. Providing only Items A and F of Form N-PORT to the public on a quarterly basis would provide the public with information that is substantially similar to the current Form N-Q framework and what is disclosed in shareholder reports. In connection with selective disclosure requirements, most funds also post full portfolio holdings on their website on either a quarterly or monthly basis, but these are typically limited to the same level of detail found in Form N-Q and shareholder reports. Finally, many of the risk metrics and other detailed portfolio information funds would provide under Form N-PORT is extremely complex and not easily understood by the investing public – so we question whether

disclosure of these metrics is necessary for the protection of investors. On the other hand, the public availability of this information could prove a useful, but potentially anti-competitive, tool for funds to obtain proprietary information about their competitors.

The additional data proposed to be required on Form N-PORT appears to pose more potential for harm than benefit to investors. We believe the Commission can better protect investors by requesting and obtaining information tailored to its regulatory needs, on a non-public basis, than by making that information publicly available. Form N-PORT will provide extensive new fund portfolio details to competitors and other market participants, who could then develop insights into fund strategies and potentially use the information to harm the fund and its shareholders. Fund shareholders pay for, and fund managers invest extensive time and resources in, developing these strategies. Since this information would be in a structured data format that is easily manipulated, attempts to derive an advisor's strategy would become significantly easier. We fear these dangers cannot be overcome by limiting the disclosure to quarterly filings, or delaying release of the information for 60 days.

In the Proposal, the Commission acknowledges some of the potential harms that can result from publically disclosing more information than is necessary, including front running, copy-cutting, and reverse engineering of a fund's or manager's investment strategy. We believe all of these potential misuses are dangers inherent in making public much of the additional information proposed to be required on Form N-PORT.

We recognize, however, that in making the public availability determination for Form N-PORT, the Commission will review each item and consider the reasons for and against public availability. We therefore alternatively suggest that portfolio level risk metrics (Item B.3) and illiquidity determinations (Item C.7) should be reported either under Part D of Form N-PORT, which is proposed to be non-public, or as an additional non-public schedule to Form N-PORT. We discuss each of these in more detail below.

i. Portfolio Level Risk Metrics

Measures of duration are inherently subjective and involve significant assumptions, choice of methodology, and other judgments. There could be several reasonable assumptions when computing duration and spread duration, including, for example, assumptions on prepayment rates and volatility, which will impact the final information that is reported in Form N-PORT. Because of this inherent variability, the proposed risk metrics will not provide investors with consistent comparability among funds. Two funds that hold identical securities, but are managed by two different advisers, may not report identical risk metrics. Furthermore, duration is just one measure of risk present in many portfolios that would be covered by the disclosure, and public disclosure of this measure is likely to cause undue focus on duration, to the detriment of other risk measures that may be more relevant to a particular fund. For example, in addition to duration risk and spread duration risk, bond funds are subject to other risks, such as credit risk, inflation risk, call risk, and prepayment and extension risks depending on the strategy, and investors may inadvertently view this limited risk information as indicative of overall portfolio risk.

In addition, certain risk metrics information is sensitive and proprietary. As noted above, risk metrics information is often based on a variety of subjective determinations that could lead to varied outlooks on risk. While this variability may prove useful to the Commission, it could be a source of confusion for investors. These decisions are part of a fund's unique investment and trading strategy in response to market changes. Investors in the Price Funds rely on T. Rowe Price to conduct thorough research and manage a fund's investment program and risks and public availability of these risk metrics will be of far more utility to potential predators than to potential investors. At this point, without a more universally accepted or uniform approach to measuring a fund's investment risks, it would be premature to disclose such information to investors.

For these reasons, we believe that public disclosure of this detailed portfolio information (which is not required of any other regulated financial product), either quarterly or at any other frequency, is neither necessary nor appropriate for the protection of investors.

In addition, we encourage the Commission in forming its final rule to carefully consider which portfolio level risk metrics and other data points are appropriate to provide as of a single point in time (i.e., as of the last business day of the month) and which would be more appropriately provided as an average over the period covered. In certain instances, a point in time may not effectively represent a fund's typical overall risk exposure. For example, a significant one-day drop in the value of a fund's debt-related holdings or an unforeseen change in portfolio composition at the end of a month could result in Form N-PORT not reflecting the risk exposure normally assumed by the fund.

ii. Illiquidity Determinations

Liquidity determinations, like portfolio level risk metrics, involve subjective determinations and can be complex. The Price Funds, like most funds in the industry, have developed their own policies for monitoring and determining whether an asset is illiquid to ensure that the Price Funds do not exceed the SEC's guidelines limiting illiquid investments in non-money market funds to no more than 15% of the fund's assets. The determination of liquidity involves a variety of factors, and different funds managed by different investment advisers could come to different yet equally reasonable conclusions regarding whether an asset is illiquid. For example, illiquidity determinations require fund personnel to make judgments based on their own (or a firm's) views on the markets. These judgments may vary among fund complexes.

While we are not opposed to reporting this information, we recommend that it not be required to be reported publically. Public disclosure of these variations could lead to confusion among investors who may not understand why different funds could come to different conclusions. Further, we can envision devoting time and resources to responding to inquiries from third parties who could "second guess" a fund on its illiquidity determinations, especially if differences are identified and highlighted in XML format.

We therefore recommend that the Commission find that public disclosure of illiquidity determinations is neither necessary nor appropriate for the protection of investors.

B. Include a definition of “derivative.”

T. Rowe Price submitted a separate comment letter dated August 11, 2015 in response to Proposed Amendments to Form ADV and Investment Advisers Act Rules (SEC Rel. IA-4091, File No. S7-09-15) (the “**Price ADV Letter**”). In the Price ADV Letter, we recommended that the Commission include a definition of “derivative” in Form ADV. We would also suggest that the Commission include the same definition of derivative in Form N-PORT to avoid potential confusion and provide consistency across fund complexes and filings.

In order for funds and advisers to know what to include in the “other derivatives” category and to help ensure firms interpret this term consistently, it would be useful to have a definition of derivatives. We suggest a definition which mirrors Topic 815 of the Financial Accounting Standards Board’s Accounting Standards Codification (“**FASB ASC 815**”). FASB ASC 815 defines a “derivative instrument” as a financial instrument or other contract with all three of the following characteristics:

1. It has (a) one or more underlyings; and (b) one or more notional amounts or payment provisions or both. Those terms determine the amount of the settlement or settlements, and, in some cases, whether or not a settlement is required.
2. It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.
3. Its terms require or permit net settlement, it can readily be settled net by a means outside the contract, or it provides for delivery of an asset that puts the recipient in a position not substantially different from net settlement.

FASB ASC 815 is a familiar standard for fund complexes and we believe the flexible nature of its language and common interpretations of it by funds, their auditors and FASB would help to capture new derivative products as they develop over time.

C. Include a definition of “forward.”

We recommend that the Commission include a clear definition of “forward contract” in its final rule. There appear to be differing views in the fund industry among accountants, regulators, and investment and risk professionals with respect to which securities and instruments should be classified as a forward contract. We believe the most common interpretations of a forward are: a contract that settles at T+2 and beyond; a contract that settles at T+3 and beyond; and any instance where settlement of the contract exceeds the customary settlement of the underlying security. While any of these definitions seem reasonable, it is necessary for the Commission to develop its definition of a forward contract to avoid potential confusion and to foster consistent derivatives disclosure under Form N-PORT, Form ADV, and Regulation S-X. In establishing this standardized definition, we encourage the Commission to include non-deliverable forwards in the “forwards” category as opposed to the “swaps” category.

Proposed Rule 30e-3: Shareholder Report Delivery

We support the SEC’s proposal to extend a form of “notice and access” framework to mutual funds by allowing funds to satisfy their shareholder reporting requirements by making the reports publicly available online. This much needed reform is consistent with investor trends favoring the use of digital technology to acquire fund information and transact in fund shares, and also would result in significant cost savings for funds and their shareholders. The Price Funds, in the aggregate, spend approximately \$3.8 million annually to print and mail shareholder reports to direct fund investors. For our direct investors, we estimate a savings of approximately 50% if we could provide shareholders with electronic access to the same paper information. We would expect additional savings for our shareholders who invest through a financial intermediary. Further, a clear majority of our fund investors prefer to engage with us through digital means, and this trend has increased every year as more millennials and other young technology users become fund investors. For example, in 2014, 89% of transactions processed by T. Rowe Price for the direct shareholders in the Price Funds were made through electronic means, which compares to 65% back in 2005. Further, investors who prefer a paper version of their shareholder report are able to request a mailed copy and the fund would be obligated to provide it under the proposed rule.

A. Remove postage paid reply form requirement.

We recommend that the Commission allow funds to provide a toll-free number *or* a pre-addressed, postage paid reply form. Provision of a toll-free telephone number is sufficient to provide investors with a means to obtain paper copies of shareholder reports or to opt out of electronic delivery. Requiring a pre-addressed, postage paid reply form would be unnecessarily burdensome and expensive for fund shareholders, with no significant benefit that would correspond to the increased costs. We estimate that including a reply form that is pre-addressed with postage paid under the proposed framework would cost the Price Funds’ shareholders approximately \$1,325,000 extra per year.

B. Permit other accompanying materials.

We recommend that the Commission permit “Initial Statements” (if adopted as proposed) and “Notices” to be accompanied by other important account materials, such as new account welcome kits, account statements, dividend checks, and transaction confirmations. We recognize the importance of Initial Statements and Notices to alert shareholders to the funds’ reliance on the rule, and to the availability of a new electronic shareholder report. We believe, however, that shareholders will be more likely to review Initial Statements and Notices if accompanied by materials such as account statements, new account applications, new account welcome kits, Notices from other funds with the same fiscal year end, dividend checks, or transaction confirmations. Permitting Initial Statements and Notices to be accompanied by other important account materials would greatly reduce the number of separate envelopes that shareholders receive and could provide cost savings to shareholders. We therefore recommend that the Commission permit Initial Statements and Notices to be accompanied by other important account materials.

C. Form of Notice filing requirements.

The Commission requested comment on whether the form of Notice should be filed as an exhibit to a report filed with the Commission (such as Form N-CSR or Form N-CEN). We recommend that the Commission require filing a form of Notice the first time that a fund relies on Rule 30e-3 as an exhibit to the fund's Form N-CSR or Form N-CEN filings, and only require subsequent filings to the extent that the Notice has materially changed.

As proposed, Rule 30e-3 would require funds to file a form of Notice with the Commission not later than 10 days after the Notice is sent to shareholders. We recognize that this requirement, as proposed, is similar to existing electronic delivery rules. For example, Rule 14a-16 permits internet availability of proxy materials and requires filing of a form of notice of internet availability. Unlike Rule 14a-16, however, funds relying on Rule 30e-3 will likely be sending shareholders Rule 30e-3 Notices with much greater frequency than they send notices of internet availability of proxy materials. A notice of internet availability of proxy materials is typically associated with either a special or annual proxy solicitation, whereas funds relying on Rule 30e-3 will be sending Rule 30e-3 Notices to shareholders throughout the year. Requiring funds to file a form of Notice not later than 10 days after the Notice is sent to shareholders would be a significant filing burden for funds with little to no benefit to the SEC, fund shareholders, or the public. On the other hand, permitting funds to file the form of Notice as an exhibit to the fund's Form N-CSR or Form N-CEN, and only requiring subsequent filings to the extent that the Notice has materially changed, would significantly reduce the filing burden for funds and also allow the SEC to sufficiently oversee the contents of the Notice.

For these reasons, we believe that the Commission should require a form of Notice to be filed the first time that a fund relies on Rule 30e-3 as an exhibit to the fund's Form N-CSR or Form N-CEN filings, and only require subsequent filings to the extent that the Notice has materially changed.

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We support the Commission's initiative in proposing monthly reports on Form N-PORT and annual reports on Form N-CEN in order to strengthen its regulatory oversight of the asset management industry and protect investors by obtaining more frequent and substantially expanded information about funds, in a structured format. We appreciate the opportunity to submit our comments on this Proposal.

Thank you again for the opportunity to express our thoughts on this important topic. Should you have any questions or wish to discuss our letter, please feel free to contact us.

Sincerely,

/s/David Oestreicher
David Oestreicher
Chief Legal Counsel

/s/Darrell N. Braman
Darrell N. Braman
Managing Legal Counsel

/s/Brian R. Poole
Brian R. Poole
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