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April 14, 2020

Filed Electronically

Ms. Vanessa Countryman
Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549

Dear Ms. Countryman:

Re: Use of Derivatives by Registered Investment Companies and Business Development Companies: Re-Proposal (File No. S7-24-15)

Dear Ms. Countryman:

T. Rowe Price[1] is pleased to provide comments regarding the above-referenced proposal (the "**Proposal**") of Rule 18f-4 (the "**Rule**") under the Investment Company Act of 1940 (the "**40 Act**"). We previously commented on the 2015 proposal and have participated in various industry discussions with the Securities and Exchange Commission on this topic. We believe the Proposal is a meaningful improvement over the 2015 version. Provided our "Key Recommendations" highlighted below are incorporated, we are strongly in favor of the SEC moving forward with a final version of the Proposal. We make several additional recommendations that we ask the SEC to consider as well.

KEY RECOMMENDATIONS

- Increase the 150% relative value-at-risk ("VaR") and 15% absolute VaR limits to 200% and 20%, respectively, and allow the derivatives risk manager to determine which method is appropriate for the fund.
- Extend the grace period for curing VaR exceedances from three to five days and eliminate the three-day "time-out" on new derivative transactions following a breach of a VaR limit.
- Address the unintended consequences for money market funds.
- Permit the fund's adviser to serve as the derivatives risk manager and, in those cases, determine the appropriate officer(s) or committee of the adviser that would administer the adviser's derivatives risk management program.
- Provide that an adviser that utilizes subadvisers should develop its own derivatives risk management program with an appropriate derivatives risk manager – the SEC should also acknowledge that the subadviser should appropriately support the derivatives risk management program established by the adviser or its personnel.

[1] T. Rowe Price Associates, Inc. and its advisory affiliates provide investment management services to numerous individuals, institutions, and investment funds, including the T. Rowe Price family of mutual funds. T. Rowe Price Associates, Inc. and its affiliates' preliminary assets under management as of March 31, 2020 is approximately $1.01 trillion.

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- Clarify that a summary analysis and assessment of stress testing and back testing results (e.g., an executive summary) satisfies the Proposal's "regular board reporting" provision without requiring detailed reporting of the underlying test results.

- Increase the transition period for complying with the final version of the Rule from 12 to 18 months.

ADDITIONAL RECOMMENDATIONS

- Make the frequency of conducting stress testing and back testing more flexible.

- Incorporate basic netting principles in the calculation of the limited derivatives user exception and exclude currency hedging from the 10% notional test.

- Establish a transition period for funds no longer able to rely on the limited derivatives user exception.

- Eliminate the proposed SEC reporting requirements that are comparable to or duplicative of existing public data; and change the other proposed reporting elements so they would be submitted to the SEC confidentially.

Each of our key recommendations is further detailed below.

RAISING THE VAR PERCENTAGE LIMITS; EXPANDING FLEXIBILITY TO SELECT RELATIVE/ABSOLUTE VAR

Summary of Our Position and the Potential Negative Impacts of Setting the VaR Limits at 150% and 15%. We favor monitoring VaR as part of a risk management program for funds that use derivatives at meaningful levels and believe VaR limits can help address the goals of Section 18 of the 40 Act ("**Section 18**"). As proposed, a fund that does not meet the limited derivatives user exception must maintain a VaR of no more than 150% of its designated reference index ("**Relative VaR**"), or, if there is no appropriate index, the fund's VaR must not exceed 15% of the fund's net assets ("**Absolute VaR**"). In our view, the appropriate levels for these limits are 200% for Relative VaR and 20% for Absolute VaR, and moving to these limits would not significantly increase funds' riskiness. Based on a historical analysis[2] of T. Rowe Price-sponsored mutual funds not classified as limited derivatives users, approximately 25% of our fixed income funds have approached or exceeded the 150% proposed limits. Moreover, we do not consider any of these funds to be speculative or to have taken on undue risks from a Section 18 perspective.

Also, like many global investment advisers, we often manage funds within the same investment strategy that are organized in a range of jurisdictions, not just the US. Increased consistency across portfolios in the same strategy can be beneficial for a fund's shareholders as it may lead to more efficient trading and generate economies that reduce portfolio transaction costs. This consistency also creates synergies for the individual portfolio manager and the investment implementation process. Under current law, many UCITS funds are subject to 200% or 20% limits on Relative VaR and Absolute VaR, respectively. As a result, the lower VaR limits in the Proposal are likely to cause unnecessary divergences in how accounts are managed that are in the same investment strategy or performance composite.[3] In addition, we are not aware of tangible evidence showing that additional investor protections would be realized by utilizing limits of 150% and 15% versus 200% and 20%.

Increased VaR limits would also reduce the instances where some funds would have to curtail legitimate and useful investment decisions intended to benefit fund shareholders merely because they need to

[2] The analysis looked at a fund's VaR data over a 5-year span (or from fund inception, if less).

[3] In our view, the alternative of adjusting the make-up of a UCITS fund to more closely track the lower VaR of its US mutual fund counterpart is not a reasonable alternative and could potentially disadvantage the UCITS fund.

comply with the 150% Relative VaR or 15% Absolute VaR limits. For example, a fund may utilize derivatives to "equitize" cash, change its asset allocation, or adjust its duration.

Before discussing why it is appropriate to increase the VAR limits while continuing to follow the principles outlined in Section 18, we believe it is useful to recap some of the regulatory and legislative history, including how the SEC developed the proposed 150% and 15% limits.

Historical Background. The Proposal notes that Congress had the following concerns when it adopted Section 18: (i) excessive borrowing and the issuance of excessive amounts of senior securities[4] by funds when these activities increase unduly the speculative character of funds' junior securities; (ii) funds operating without adequate assets and reserves; and (iii) potential abuse of the purchasers of senior securities. To put the Proposal in further context, the SEC highlights its long-standing position that investments in certain types of derivatives and other transactions that have a leveraging impact fall within the definition of "evidence of indebtedness" and are potentially senior securities.

Development of 150% Relative and 15% Absolute VaR Limits. The Proposal's requirement for the 150% Relative VaR limit is based on the Section 18 requirement for 300% asset coverage on bank borrowings. Under Section 18, an open-end fund can only borrow from a bank and those borrowings must have 300% asset coverage. By way of example, a fund with $100 could borrow no more than $50 because the ratio of $150 in total fund assets (initial assets of $100 plus the borrowed $50) to the $50 borrowing liability is 300%. In this case, the fund increased its market exposure by $50 due to the borrowing. The Proposal also states that the fund's VaR would be approximately 150% of its designated reference index because it achieved an additional $50 of market exposure from the borrowing. The Proposal then notes it might be more efficient for a fund to gain this additional market exposure through derivatives as opposed to using bank borrowings and then uses this point as its basis to propose 150% for the Relative VaR test. To arrive at the 15% Absolute VaR limit, the Proposal states that if a fund's reference index was the S&P 500 index, 150% of this index's historical VaR of approximately 10.4% (based on data from 1957 – 2019) would be roughly 15%.

Rationale for Increasing the Relative & Absolute VaR Percentages. As noted earlier, raising the proposed limits to 200% and 20%, respectively, would: (a) assist global advisers that manage US mutual funds and UCITS funds in the same investment strategy; and (b) reduce the instances where the proposed Rule could prevent mutual funds from making investment decisions that are within a fund's investment objectives and that would be beneficial to the fund. We think our recommended increases to the proposed limits can be made while staying true to the SEC's desired objective of tethering the proposed framework for regulating fund's derivatives use to Section 18. While we understand the proposed percentages are intended to be a logical extension of the asset coverage requirements for borrowings, when looking to Section 18 as a linchpin for regulating derivatives, we think a more appropriate point of reference is one of Section 18's key policy objectives, specifically, limiting leverage due to indebtedness. By focusing on this policy objective, we believe that the SEC could exercise some flexibility in setting the proposed Rule's percentages.

One of the reasons we think increased limits are appropriate is that certain investment factors that are unrelated to a fund's derivatives use, such as security selection and concentration levels, influence a fund's VaR calculation versus its reference index. Although not specifically referenced by the SEC, the 150% calculation above appears to hinge on two noteworthy assumptions: (i) the original $100 portfolio has the same VaR as its reference index; and (ii) the $50 of borrowing was used to purchase an additional $50 of securities in the same proportions as the original $100 portfolio. These assumptions might be warranted for a leveraged index fund but likely would not be for an actively managed fund that borrows to invest in additional securities.[5] As a result, the assumptions lead to a proposed VaR limit that

[4] The term "senior security" is defined as any bond, debenture, note, or similar obligation or instrument constituting a security and evidencing indebtedness, and any stock of a class having priority over any other class as to distribution of assets or payment of dividends.

[5] T. Rowe Price's actively managed funds generally do not borrow for investment purposes.

would be challenging at times for certain actively managed funds. This point is highlighted by the results of modeling we performed on our active funds that do not use derivatives and generally have only a slightly higher VaR than their benchmarks – these funds would exceed the 150% Relative VaR test if, as permitted by Section 18, they borrowed 50% of the fund's assets and used the proceeds to proportionally buy more of all the fund's existing holdings. Consequently, a higher VaR limit would more appropriately accommodate actively managed funds as well as funds that utilize other management styles.

We would support higher VaR limits for two additional reasons. First, increased limits would recognize some of the inherent differences between the various ways portfolio managers use derivatives versus the more limited role of borrowing for investment purposes. When a fund borrows, it is obligated to pay full principal and interest; however, in a derivatives transaction, typically a fund has a mark-to-market and/or interest rate obligation. Second, we think T. Rowe Price and many other firms would likely set internal VaR thresholds that are lower than prescribed by the final rule because of the proposed board and SEC reporting requirements for VaR exceedances. Higher limits, in practice, do not necessarily translate into meaningfully higher VaRs.

Use of Relative and Absolute VaR. The proposed Rule calls for funds that are not limited derivatives users to comply with the Relative VaR test or, if the derivatives risk manager is unable to identify a designated reference index, the Absolute VaR test. In our view, this approach should be modified so that the derivatives risk manager could choose between the relative and absolute methodologies based upon what the risk manager determines to be appropriate given the fund's risk profile and investment strategy. The choice between relative and absolute VaR involves complex considerations and judgment by the derivatives risk manager and we do not think it is productive to simply default to Relative VaR, as proposed.

LENGTHENING THE GRACE PERIOD FOR VAR EXCEEDANCES & REMOVING THE "TIME-OUT" ON NEW DERIVATIVES TRANSACTIONS

As proposed, a fund that exceeds its VaR limit has a three-day grace period. If there is still an exceedance at the end of the period, the fund may not engage in new derivatives transactions until the following occurs: reporting to the board, updating the risk management program's elements (if appropriate), and returning to compliance with the VaR limit for three consecutive business days.[6]

The grace period should be extended to five business days.[7] This slightly longer period would promote more orderly behavior, better accommodate settlement cycles, and reduce the number of instances where funds may need to liquidate derivatives or other positions at potentially fire-sale or depressed prices merely to return to compliance with the VaR limit. The fund's adviser or subadviser may also need time to negotiate early termination rights for certain derivative contracts and/or satisfy contractual notice obligations in order to terminate. It may be in the fund's best interest to hold particular derivatives, particularly during times of volatility or distress, so it would not be beneficial to a fund to unnecessarily and/or prematurely exit these investments.

We also believe the final Rule should not include the "time-out" period before engaging in new derivative transactions because it is not necessary to achieve compliance with the VaR limits. T. Rowe Price - and we believe other similarly situated firms - take their responsibilities and interactions with fund boards very seriously. Therefore, the Proposal's requirements that the risk manager report the breach to the board and explain how and by when the fund is expected to reduce its derivative exposure significantly disincentivizes a fund from exceeding the VaR limit. In addition, the requirement to report each VaR limit

[6] However, the Proposal does not apply this time-out to new derivative transactions that reduce the fund's VaR (see Proposal at p. 427).

[7] The 3-day grace period is based on the cure period for asset coverage in Section 18 (see Proposal at p. 129). In arriving at our recommendation to extend this period to 5 business days, we took into account the language in Section 18(f)(1) that a period longer than 3 days for curing asset coverage shortfalls may be prescribed by rules and regulations.

breach to the SEC provides another significant incentive for a fund to remediate breaches in a sustainable way.

It may not be in the best interest of fund shareholders to force funds to take a three-day pause from entering into new risk-additive derivative transactions. For example, some investment opportunities through derivatives may only be available for a short period of time at desired price levels and may no longer be available or attractive once the time-out period has expired. Given that derivatives are part of the overall construction of a portfolio and are entered into and adjusted based on their relationship to other holdings, we are wary of a proposed requirement that would hinder a portfolio manager's ability to utilize the full menu of instruments permitted by the fund's prospectus.

We strongly believe that other elements of the proposed Rule – board and SEC reporting, and re-assessment of the risk management program – are sufficient to address the SEC's concerns. However, if the SEC feels compelled to retain the "time-out" concept, we ask that the three days be reduced to one day to lessen the potential negative impacts noted above.

ELIMINATING UNINTENDED CONSEQUENCES FOR MONEY MARKET FUNDS

As the SEC recognizes, money market funds currently do not typically use derivatives or engage in the other transactions covered by the proposed Rule, such as reverse repurchase agreements. However, the Proposal does not appear to be intended to restrict the investments of money market funds. This is reasonable given Rule 2a-7 under the 40 Act provides a comprehensive framework for eligible securities of money market funds and includes various portfolio maturity, credit quality, diversification, and liquidity requirements. Rule 2a-7 also establishes certain portfolio reporting requirements and mandates periodic stress testing to measure the fund's ability to maintain a stable NAV and certain weekly liquidity thresholds. In many ways, these funds are subject to extensive and more stringent requirements that are designed to protect investors and help ensure these funds meet their investment objectives.

However, based on the current language of the Rule, certain securities utilized by money market funds may be unintentionally implicated by the proposed Rule. Therefore, we recommend the SEC clarify that these securities continue to be eligible for money market funds without implicating the proposed Rule. We think the most effective way to do this is to include a provision in the rule text stating that an instrument qualifying as an "eligible security" under Rule 2a-7 would be outside the final Rule's scope. For example, when-issued and delayed settlement transactions used by money market funds might be viewed as technically meeting one of the definitions of in-scope transactions under the Proposal, despite the fact that these instruments are fully funded and not entered into with the intent to generate leverage. The Proposal also suggests that a determination of whether a tender option bond ("**TOB**") is a similar instrument to a reverse repurchase agreement, and thus subject to the Proposal's asset coverage requirements, depends on the facts and circumstances. In our view, the "floater" tranche of TOBs, which are utilized by many money market funds, should be specifically recognized as a non-leveraged instrument and outside the proposed Rule's scope whereas the "inverse floater" tranche of TOBs should be classified as a "similar instrument" to a reverse repurchase agreement.

EXPANDING THE ADVISER'S INVOLVEMENT IN THE RISK MANAGER SELECTION PROCESS

As proposed, the derivatives risk manager would need to be one or more officers of the fund's adviser or subadviser.[8] Consistent with Rule 22e-4 (governing funds' liquidity risk management programs) under the 40 Act ("**Rule 22e-4**"), we recommend that the Proposal be revised to permit a fund's investment adviser to serve as the derivatives risk manager.

By allowing the adviser (as an entity) to be designated as the risk manager, it would obviate the need for the board to assess the experience of and approve specific individuals. We believe that the board acts in an oversight role and the selection of individuals would be more akin to a management activity that is

[8] Alternatively, a properly structured committee could also serve as the derivatives risk manager (see Proposal at p. 51).

better suited to a fund's investment adviser. We believe the fund's adviser would be better positioned than the board to assess the skill and acumen of the selected individual(s) that would administer the derivatives risk management program and would align the Proposal with Rule 22e-4 in this respect.

REFINING A SUBADVISER'S RESPONSIBILITIES

We believe an adviser that utilizes subadvisers should develop its own derivatives risk management program with an appropriate derivatives risk manager. We believe that the adviser and/or its personnel should retain full responsibility for reporting to the board and completing required SEC filings under the Proposal. Limiting the role of the subadviser is consistent with the broader framework for subadvisers generally as there is typically limited interaction with the fund's board, such as providing routine periodic performance updates from the subadviser's portfolio manager or responding to ad hoc requests. Our recommended approach would not restrict the adviser and subadviser from mutually agreeing on the level of support the subadviser may provide to the derivatives risk manager in terms of carrying out certain testing; facilitating communication between the subadviser's portfolio management/risk personnel and the designated derivatives risk manager; and setting up notification and escalation processes. We also believe our recommendation would promote consistency in the industry's approach and funds' expectations of their subadvisers.

CALIBRATING BOARD REPORTS ON BACK TESTING & STRESS TESTING

By way of background, the derivatives risk manager must provide, at a frequency set by the board, a report regarding the manager's analysis of exceedances of the risk guidelines, the results of stress testing, and the results of back testing. The proposed text of the Rule and discussion in the accompanying release are not explicit about whether the actual test results need to be reported or if a summary or more broader analysis of the results would satisfy this requirement.

We recommend this aspect of the Proposal be clarified to specifically state the derivatives risk manager can provide an executive summary and the findings from its review of the stress testing and back testing results, but the actual test results need not be provided, unless otherwise requested by the board. Fund boards receive a significant amount of information on a host of fund activities. We are sensitive to further inundating directors with large quantities of data, which can actually detract from active board engagement and oversight as opposed to facilitating it.

In recent years, the SEC's Division of Investment Management has spoken about its board outreach initiative and the importance of respecting the line between board oversight and day-to-day management. We think our recommendation to provide an executive summary of the test results (as well as our views above regarding the adviser serving as the derivatives risk manager) is very much aligned with properly differentiating these lines. We also encourage the SEC to modify the language in the Proposal discussing specifically how the board should oversee the derivatives risk management program that appears to go beyond board's historical roles and seems to contemplate a level of involvement by the board that is more managerial and likely outside directors' expertise.[9]

LENGTHENING THE TRANSITION PERIOD FOR COMPLYING WITH THE FINAL RULE FROM 12 TO 18 MONTHS

In light of the extensive new requirements of the proposed Rule, including selecting a derivatives risk manager, securing board approvals, adopting risk guidelines, and implementing systems and processes designed to ensure a sound testing program, we believe an 18-month period is warranted. An 18-month period between adoption of the Rule and its effective date would also be consistent with new Rule 22e-4.

[9] See first full paragraph on p. 80 of the Proposal.

REFINING THE TESTING FREQUENCIES UNDER THE DERIVATIVES RISK MANAGEMENT PROGRAM

We recommend certain changes to the Proposal's requirement that funds generally adopt a derivatives risk management program. As discussed below, we seek to balance the benefits of timely stress and back testing with the use of resources and personnel to conduct the tests and assess their results.

Stress Testing. The proposal requires the risk management program to include at least weekly stress testing to evaluate potential losses to the fund's portfolio due to extreme but plausible market changes that would have a significant adverse effect on the fund's portfolio.

We have experience running a variety of stress tests[10] and recommend the minimum frequency be changed to monthly. Our funds generally have relatively low portfolio turnover given our long-term approach to active management, so we have found, during normal market periods, that monthly stress testing is typically appropriate and allows us to effectively incorporate the results into our risk management decision-making, where appropriate. Of course, if the proposed Rule's minimum frequency was changed to monthly, the derivatives risk manager would still be able to (and should) test more frequently if it is warranted under the circumstances, for example, during more volatile market conditions. It would also be appropriate for the fund's board during its annual assessment of the program to provide feedback to the derivatives risk manager on its desired intervals for conducting stress tests. We note that the Proposal calls for the board to determine the frequency of reporting stress testing information to fund directors. We much prefer this flexible approach over the framework for money market funds where the board must be provided with updates on stress testing at each meeting.

Back Testing. The proposed Rule requires back testing that would compare the fund's actual gain or loss for a day with the corresponding VaR for that day and identify as an exception any instance where the fund experiences a loss exceeding the estimated loss under the VaR calculation. The Proposal also mandates daily back testing.

We recommend that back testing be conducted at least monthly, looking at each day within the month retroactively. We think a single day's back testing results should not be considered in isolation. Rather, the results should be evaluated over an appropriate trailing period that takes into consideration the expected number of exceptions based on the VaR model's confidence level. The costs of conducting a daily VaR back-test are unnecessary when a monthly back-test with a daily review provides the same relative benefit to the derivatives risk program. Also, our recommendation would allow for consistency with UCITS funds, which would be operationally efficient for firms managing both types of investment vehicles.

MODIFYING THE LIMITED DERIVATIVES USER EXCEPTION CALCULATION AND CLARIFYING THE TIME FOR FULL COMPLIANCE IF A FUND NO LONGER MEETS THE EXCEPTION

We are pleased the principle of proportionality was included in the Proposal through the establishment of a limited derivatives user exception that carves out qualifying funds from certain requirements of the proposed Rule. As proposed, a fund meets this exception if its: (a) derivatives are only used for currency hedging of specific positions, <u>or</u> (b) notional derivatives exposure does not exceed 10% of the fund's net assets. Below, we recommend two changes to the calculation methodology and propose a transition period for funds if they no longer qualify for the exception.

We believe our two recommendations for the calculation are aligned with the SEC's desire that the exception be an efficient mechanism to identify funds using derivatives in a limited way. A straightforward exception also facilitates compliance monitoring - both by firms and by the SEC - and reduces the chances of the exception being applied differently by firms.

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[10] In the US, we currently conduct stress tests under Rule 2a-7 and incorporate stressed conditions into testing utilized for the liquidity risk management program under Rule 22e-4. We also perform stress tests on various UCITS funds.

First, we recommend subtracting currency hedges of portfolio assets (i.e., those described in the first prong of the exception) from the fund's notional derivatives exposure for purposes of determining whether the fund's derivatives exposure is less than 10% of the fund's NAV. By making this change, the two prongs of the exception would work in concert as opposed to operating as mutually exclusive alternatives.[11] We think this is appropriate because the first prong provides an exception for qualifying currency hedges without regard for the amount of notional exposure resulting from the currency hedge. As currently proposed, the exception framework disadvantages a fund that uses more than a de minimis amount of "prong one" currency hedges in conjunction with other types of derivatives. For example, as proposed, a fund that engages in extensive currency hedging and utilizes no other derivatives would be able to utilize the exception. However, if that same fund began to use a swap (even if for risk management purposes such as credit protection or to reduce duration risk), it would no longer be allowed to rely on the limited derivatives user exception and would become subject to the full requirements of the proposed Rule. Another benefit of our approach would be that to the extent the size of a currency derivative transaction exceeds the amount necessary to hedge, only the excess would count towards the 10% prong. The transactions and types of exposure would not be different under our recommended approach, except that the fund may also appropriately hedge currency.

Second, we recommend that the Rule permit netting when instruments are in offsetting directions and cover the same reference asset. This refinement of allowing basic netting preserves the SEC's objective of having an exception that can be efficiently measured and utilized. It also addresses a clear distortion in prong two of the proposed exception where the numerator is based on gross notional whereas the denominator is based on net assets – this would create overstatements when calculating whether the 10% limit has been exceeded. The lack of netting in the exception also fails to properly account for the common market practice for certain derivatives where traders close their existing positions in contracts that are close to expiring and open another contract at the current market price for the same underlying asset with a future closing date.

We also believe that the SEC should clarify the amount of time funds have to meet the requirements of the Proposed Rule if they can no longer rely on the limited derivative user exception. We understand that various ideas are being submitted in this regard by certain trade associations and other commentators. We think one reasonable approach would be for the fund to begin complying with the full set of proposed Rule 18f-4's conditions no later than 45-days after the month-end in which it materially exceeds the 10% limit for an extended period of time. We think there are a number of ways the SEC could address the issue of technical breaches of the 10% limit in the final Rule, which could occur for a variety of reasons, including market volatility. The important point is there needs to be a delay and cure period for funds relying on the limited derivatives user exception, in recognition of the variety of tasks that would have to be completed during this transition period even for fund complexes that would have other funds already subject to the full requirements of the proposed Rule. For example, the derivatives risk manager for the fund would need to be approved by the board; certain risk limits for the fund that were not pertinent at lower levels of derivatives use may need to be established; and systems would need to be updated. We would also expect the derivatives risk manager to consult with the fund's portfolio manager as part of the transition to the full requirements of the proposed Rule.

REMOVING "DERIVATIVES EXPOSURE" FROM REPORTING REQUIREMENTS AND MAKING CERTAIN FILINGS TO THE SEC CONFIDENTIAL

The Proposal would amend Forms N-PORT, N-LIQUID, and N-CEN to include information on funds' derivatives exposure and certain VaR-related data, including breaches of VaR limits and exceptions in back testing results. Other than breaches of the VaR limits, the information would be publicly available.

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[11] In explaining its decision to include two mutually exclusive prongs, the SEC stated it wanted to preclude a fund that is operating as a limited user from engaging in a broad range of derivatives that my raise risks that should be managed through the full risk program and VaR limits (see Proposal at p. 165). We do not believe our recommendation for the 10% calculation undercuts the SEC's concern because it does not expand the permitted types of derivatives that can be used under the exception.

Aggregate derivatives exposure data would also be required to be publicly disclosed, although we believe it is not useful and potentially misleading to investors since it is based on gross notional amounts and does not provide real insight on a fund's economic risk or leverage.

We recommend the SEC reconsider its proposed public reporting of derivatives exposure. A variety of derivatives-related information is already captured in the fund's publicly available financial statements contained in the semi-annual and annual shareholder reports. These statements include details of each derivative position held in the portfolio of investments section and additional derivatives-related information is contained in the notes to the financial statements, including, but not limited to disclosures of the fund's objectives and strategies for using derivatives, fair value reported by risk category (i.e., interest rate risk, credit risk, currency risk, etc.) and location within the financial statements, gains and losses incurred during the period and their location within the financial statements, and collateral associated with derivatives held at the end of the period. Funds also discuss derivative usage in the management's discussion of fund performance section of the shareholder report if derivatives have a material impact on the fund's performance. The shareholder report includes a more complete and contextualized picture for investors of a fund's derivatives use than an aggregated gross notional figure such as the Proposal's "derivatives exposure" term.

The VaR and back testing information proposed for reporting to the SEC is not appropriate for public use. VaR data represents complex concepts and could be confusing to investors and may not prove useful when comparing funds. The reporting of back testing exceptions also does not provide actionable information to fund shareholders and, given that a certain level of exceptions is expected to occur even at the proposed 99% confidence level for VaR models, the reporting of these exceptions could very well lead to irrational reactions by fund shareholders and give others the opportunity to misinterpret or misuse the data for their own agendas. We strongly believe the existing derivatives information provided to fund investors represents a more useful set of information regarding these instruments.

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Thank you for your consideration of our comments. We would welcome the opportunity to speak with you more about our views on the Proposal. If you have any questions, feel free to contact me at 410-345-2284, or Christopher Edge (Head of Investment Risk Management) at 410-345-2432, Jeremy Mitzel (Senior Legal Counsel – Capital Markets) at 410-345-7853, or Fran Pollack-Matz (Senior Legal Counsel – 40 Act Regulatory Oversight) at 410-345-6601.

Sincerely,

/S/ Jonathan D. Siegel

Jonathan D. Siegel
Senior Legal Counsel, Legislative & Regulatory Affairs

cc: The Honorable Jay Clayton, Chairman
The Honorable Hester M. Peirce, Commissioner
The Honorable Elad L. Roisman, Commissioner
The Honorable Allison H. Lee, Commissioner
Dalia Blass, Director, Division of Investment Management