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VIA ELECTRONIC MAIL

February 13, 2012

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Re: Proposed Rulemaking - Prohibitions and Restrictions on Proprietary Trading and Certain Interests in, and Relationships with, Hedge Funds and Private Equity Funds (Rel. No. 34-65545; File No. S7-41-11)

Dear Sirs/Madams:

T. Rowe Price Associates, Inc. appreciates the opportunity to comment on the proposed rulemaking by the above-referenced agencies (the "**Agencies**") regarding Section 619 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (herein, Section 619 is referred to as the "**Volcker Rule**" and the proposed rulemaking is referred to as the "**Proposal**").[1] The Volcker Rule is an extremely important and complicated statute as it generally restricts banks and all of their affiliates (collectively, "**banking entities**") from engaging in proprietary trading, subject to limited exceptions. The Volcker Rule also restricts and severely limits banking entities from investing in or sponsoring hedge funds or private equity funds (these funds are collectively referred to as "**covered funds**").

[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. As of December 31, 2011, T. Rowe Price Associates, Inc. and its affiliates managed over $489 billion in assets. The T. Rowe Price Savings Bank (the "**Bank**") is a wholly–owned subsidiary of T. Rowe Price Associates, Inc. The Bank is regulated by the Office of the Comptroller of the Currency and its direct and indirect holding companies are savings and loan holding companies subject to regulation by the Federal Reserve System's Board of Governors. The Bank only offers FDIC-insured certificate of deposit accounts and does not provide any other types of deposit accounts or banking services.

As a general matter, we are in favor of regulatory changes which effectively reduce systemic risk, promote financial stability, and set appropriate boundaries for the activities of banking organizations given their unique role in the economy. In addition, we generally support the views expressed in the comment letters regarding the Proposal filed by the Investment Adviser Association, Investment Company Institute ("**ICI**"), ICI Global, and the European Fund and Asset Management Association. We are also writing to detail our concerns and recommendations regarding certain aspects of the Volcker Rule and the Proposal given its broad scope and scale.

Summary of Recommendations.

- Partial ownership of certain entities should not cause such entities to be affiliates of a bank under the Volcker Rule. In addition, investment funds that are not covered funds should not be considered affiliates of a bank.
- We believe the definition of covered funds unintentionally captures a broad range of funds and therefore it should be limited to investment vehicles that are traditionally considered to be hedge funds and private equity funds. In addition, certain restrictions on activities related to covered funds are either unnecessary or should be modified.
- Certain liquidity-related activities of banks and their affiliates should be expressly exempt from the proprietary trading rules and such activities should not have to be documented under a formal liquidity plan.
- The proprietary trading rules should be modified so as to not adversely impact the financial markets, and in particular, fixed income trading.
- The implementation date for establishing compliance programs should be extended given the complexities of the Volcker Rule and the short-time frame to assess the final rules once they are issued.

In the sections below, we provide additional details regarding these matters.

Recommended changes to the definition of "affiliate". Under the Volcker Rule, the prohibitions on proprietary trading and limits on investing in or sponsoring covered funds apply not only to banks, but also to their affiliates. Given the wide range of entities that could technically be deemed affiliates, we think it is important that the affiliate definition outlined in the Proposal be modified to recognize the realities of certain corporate relationships and avoid unintended consequences that, in our view, are contrary to desired public policy.

Treatment of firms. U.S. firms such as T. Rowe Price from time to time make strategic investments in, or enter into joint ventures with, global firms to diversify their activities or participate in attractive business opportunities. Under the Proposal, it appears that a U.S. firm could create obligations under the Volcker Rule for global firms as a result of establishing these types of relationships. We believe it would be quite burdensome and unreasonable for global

firms which are not otherwise subject to the Volcker Rule to analyze the Rule's requirements relative to their operations and build related compliance processes. As a practical matter, in cases where the U.S. firm holds less than a majority interest in the global firm, the U.S. firm would not have the ability to compel the global firm to comply with the Volcker Rule. Applying the Volcker Rule to these types of arrangements would discourage certain global firms from partnering with U.S. financial firms. Therefore, we believe the Proposal may create systemic competitive disadvantages for U.S. financial firms which would be harmful to the industry and overall economy. As a result, we recommend that the affiliate definition in the Proposal be modified so that it does not apply in cases where the banking entity holds less than a majority interest and neither the banking entity nor its executive officers are involved in the day-to-day operations of the partially-owned firm.

Treatment of investment funds. Just as covered funds are expressly excluded from the Proposal's definition of an affiliate, we believe it is appropriate to expressly exclude other pooled investment vehicles from this definition.[2] The Proposal correctly points out that it would be inconsistent with the purpose and intent of the statute to consider covered funds as affiliates. The Volcker Rule is designed to establish boundaries regarding a banking entity's investment in, or sponsoring of, covered funds. However, the Volcker Rule does not restrict the underlying investment and trading activities of covered funds. It is also noteworthy that the Volcker Rule does not prohibit investment in, or sponsoring of, other pooled investment vehicles such as bank collective trust funds relying on the registration exception under section 3(c)(11) of the '40 Act ("**3(c)(11) funds**") and registered U.S. '40 Act mutual funds. Therefore, it appears that lawmakers took into consideration the more robust regulatory framework for 3(c)(11) funds and registered U.S. '40 Act mutual funds and the fact that investing in or sponsoring these types of funds does not present the same risks to a banking entity as hedge funds or private equity funds. For these reasons, we strongly urge the Agencies to expand the current exemption from the Proposal's affiliate definition to also exclude all other pooled investment vehicles.[3] The availability of such exemption should not be impacted by whether, or the degree to which, the sponsor invests in such investment vehicles.

The definition of "covered fund" is overly broad. As noted in footnote 2, the definition of a covered fund is generally any fund that would be an investment company under the '40 Act but for sections 3(c)(1) or 3(c)(7) of the '40 Act. This definition potentially captures an array of funds in addition to those conventionally viewed as hedge funds or private equity funds. For example, there is significant concern within the global asset management industry that the proposed definition could be interpreted as capturing virtually every investment fund organized and operated outside of the U.S. ("**OUS funds**"). In light of the Volcker Rule's clear intent to not impose restrictions on investing in or sponsoring registered U.S. '40 Act mutual funds, it is not evident what public policy would be served by applying the Volcker Rule's restrictions to

[2] The Volcker Rule generally defines covered funds as those which would be investment companies but for sections 3(c)(1) or 3(c)(7) of the Investment Company Act of 1940 (the "**'40 Act**").
[3] At a minimum, the exemption should be expanded so that registered U.S. '40 Act mutual funds, 3(c)(11) funds, and OUS funds (as defined below) not falling within the covered fund definition, are expressly excluded from the definition of affiliate.

OUS funds if they are operated and regulated in a similar fashion to registered U.S. '40 Act mutual funds. For purposes of the Volcker Rule, we believe it would be appropriate to conclude that an OUS fund is regulated in a similar fashion to registered U.S. '40 Act mutual funds if the OUS fund's regulatory framework mandates disclosure, form of organization, custody, valuation, and certain investment restrictions (for example, leverage limits, eligible assets, and concentration/diversification standards). Therefore, we are in favor of modifying the covered fund definition so that it focuses on the characteristics of the fund as opposed to solely whether it is classified as an unregistered fund under sections 3(c)(1) or 3(c)(7) of the '40 Act. More specifically, we recommend that the covered fund definition not apply to OUS funds which are: (a) registered and offered to one or more segments of the public; or (b) subject to, as previously discussed, a regulatory framework which is similar to registered U.S. '40 Act mutual funds (for example, European UCITS, Canadian mutual funds, Australian unit trusts, and Japanese investment trusts). We also believe that an additional condition of classifying a fund as a covered fund should be the assessment of performance fees and/or imposition of significant restrictions on investor redemptions.

In addition to the recommendations noted in this section, the "Other considerations" section below contains several recommendations related to activities conducted by a banking entity with covered funds under the Volcker Rule.

Modification of the Proprietary Trading Rules to Reflect the Nature of the Financial Markets, and in Particular, Fixed Income Trading. A significant portion of asset managers' trades are conducted with banks and their affiliates. As a prominent asset manager representing a wide range of clients, we have a strong interest in preserving the orderly and efficient operation of the financial markets. As detailed below, we are concerned that the Proposal could harm the fixed income markets by reducing liquidity, increasing transaction costs, creating valuation difficulties, and constraining new issuances.

The market-making exception to the proprietary trading rules appears difficult to utilize and could discourage dealers from supporting certain markets. We believe it will be challenging for the fixed income dealer community to distinguish between prohibited proprietary trading and permitted market-making activities. Specifically, the narrowly written market-making exception is anticipated to make it difficult for dealers to buy fixed-income securities in cases where there is not a "two-sided" market (i.e., buyers and sellers identified contemporaneously). Given the fragmented nature of the over-the-counter fixed income market and the relatively low turnover rate of this asset class, the "near-term" client demand condition of the market-making exception is, in our view, too restrictive because it is not unusual for fixed income market-makers to hold certain instruments in inventory for an extended period of time until a buyer is found. Due to these timing issues, dealers may also have difficulty satisfying the Proposal's "source of revenue requirements" (i.e., market-makers are limited to revenues primarily generated by fees, commissions, and spreads, but not market appreciation). As part of day-to-day market-making activity, a dealer's inventory could increase while it seeks to find a buyer or holds itself out as willing to buy and sell positions.

Given the breadth of the Volcker Rule and the significant role of banks in the dealer community, the potential implications of the Volcker Rule and the Proposal on individuals and other investors should be carefully assessed. In addition to acting as market-makers to facilitate trading, many banking entities serve an important function by providing companies with access to funding. If these banking entities view the Proposal's restrictions as too difficult or burdensome, it could be more difficult or expensive for companies to obtain capital. Because the conditions for using the market-making exemption are so complex, we are also concerned that dealers will pass along their compliance costs to investors by increasing "bid-ask" spreads on many assets. If in fact the Proposal leads to reduced liquidity and wider spreads, investors would likely be adversely impacted and it could be more difficult for asset managers and their clients to achieve their investment objectives. Moreover, reduced liquidity would be expected to cause greater price volatility which, in turn, would create challenges in valuing assets, including the values used to process shareholder redemptions and subscriptions from funds.

The exemption from the proprietary trading restrictions for transactions involving municipal and state obligations is too narrow. The Volcker Rule also includes a statutory exemption from the proprietary trading restrictions for transactions involving state and municipal obligations; however, the Proposal does not reference agency obligations as part of this exemption. We do not believe that Congress intended to in any way restrict the types of state and municipal obligations that are eligible for such exemption. Because a large portion of this market includes obligations of state and municipal agencies and these obligations are generally considered one of the more conservative asset classes, we believe the Proposal's exemption is too narrow. Accordingly, we recommend that such exemption use the same definition of municipal securities as the Securities Exchange Act of 1934 in order to better reflect the full spectrum of the state and municipal bond market. We believe this recommendation also promotes financial stability since the current exemption could reduce banking entities' historically significant role as market-makers for obligations of municipal and state agencies, resulting in market disruption and reduced liquidity.

The "Foreign Trading Exemption" may harm U.S. funds. The Volcker Rule contains an exemption from the proprietary trading restrictions for activities conducted "solely outside of the United States" (the "**Foreign Trading Exemption**"). As more fully detailed in the ICI's comment letter, the Proposal's definition of a U.S. resident for purposes of the Foreign Trading Exemption is significantly broader than the well-established definition under Regulation S (Rules Governing Offer and Sales Made Outside of the U.S. without Registration under the Securities Act of 1933). Consequently, certain trades entered into on behalf of U.S. funds which conform to the requirements of Regulation S and are considered "offshore" transactions under U.S. securities laws would nonetheless be ineligible for the Foreign Trading Exemption. If such trades are not eligible for the Foreign Trading Exemption, U.S. funds could be further disadvantaged by not having as many investment opportunities as funds organized and operated outside of the U.S. Accordingly, we strongly support modifying the definition of a U.S. resident to be consistent with the framework under Regulation S.

The requirements for when a liquidity management plan is required in order for a transaction to be exempt from the proprietary trading restrictions should be refined. The Volcker Rule provides that if an activity is conducted for liquidity purposes in accordance with a formally documented liquidity management plan, then the activity is not considered proprietary trading. It is not unusual for investment management firms to invest in their registered U.S. '40 Act mutual funds as principal. As previously discussed above in the section regarding the definition of affiliates, the Volcker Rule was not intended to restrict banking entities from sponsoring or investing in registered U.S. '40 Act mutual funds. We fully support this notion as such funds are among the most highly regulated types of investment vehicles. Consistent with this view, we believe the proprietary trading rules should be clarified so that banking entities' purchases and sales of shares of the registered U.S. '40 Act mutual funds they sponsor do not constitute proprietary trading under the Volcker Rule.[4]

The implementation date for the compliance program should be deferred. We appreciate the Agencies' efforts to describe in great detail the components of the compliance programs to be established in connection with the Volcker Rule. Requiring banking entities to have such compliance programs is consistent with the statutory requirement for rulemakings that address internal controls designed to ensure compliance with the Volcker Rule. However, we have concerns with the proposed implementation date of July 21, 2012 for establishment of these compliance programs. Given the Proposal's length and complexity, along with the fact that it is not even a final rule, it will be an extremely time-consuming and difficult task for firms to satisfactorily analyze the impact of the Volcker Rule on their activities by this date. Such analysis is a key first step that must occur prior to the significant undertaking of creating and documenting the compliance program by July 21, 2012. In light of these realities, we recommend that the implementation date for the proposed compliance program be extended 12-24 months.[5]

Other considerations. As the Agencies are undoubtedly aware, a significant number of participants in the banking and financial services industry have strongly urged Congress to revisit the Volcker Rule given its complexity and the potential for unintended consequences that could have far reaching effects on the U.S. and global economies. While we recognize the

[4] We acknowledge that an investment management firm could theoretically document purchases and sales of shares of their own mutual funds under the formal liquidity management plan, however, doing so would only add to the Volcker Rule's extensive compliance costs and burdens and therefore serves no compelling public policy. If the Agencies are nonetheless unwilling to exempt these transactions from the proprietary trading rules, we ask that, at a minimum, purchase and sale transactions in shares of money market mutual funds be exempt from the proprietary trading definition without any requirement to document such activities in the formal liquidity plan as shares of these funds are held on a regular basis as short-term investments and a source of funding various corporate operating expenses.

[5] However, in the event the Agencies are not comfortable with our recommendation to extend the implementation date for compliance programs, we ask that the following phased-in approach be considered. During the first phase (which would be in place for at least one year), firms would need to have a principles-based compliance program that would be subject to CEO and board approval at the firm's next scheduled meeting following July 21, 2012, however the program would not have to include the specific features and requirements outlined in the Proposal or final rule. In the second (and final) phase which would begin no later than July 21, 2013, compliance programs would need to satisfy all of the final rule's requirements. Given that the Agencies already recognize that different levels of sophistication for compliance programs are appropriate based on a firm's specific activities as evidenced by the tiered requirements in the Proposal, we would hope that the Agencies would be receptive to this phased-in approach as a compromise.

challenges associated with revising existing statutes, we too believe that it would be beneficial for Congress to reassess certain aspects of the Volcker Rule. Our lawmakers rely greatly on the subject matter expertise of our regulatory agencies. Therefore, we encourage the Agencies to initiate discussions with Congress regarding this important topic. As noted above, in our opinion, it would also be prudent and in the best interests of the U.S. to postpone the statute's July 21, 2012 effective date as the potential implications of the Volcker Rule are too important and expansive to rush its implementation. In addition to the issues previously raised in this letter, we recommend that the following restrictions related to covered funds be eliminated or modified in the event Congress revisits the Volcker Rule: (a) the prohibition on sharing names or variations of names; (b) the one-year period for reducing "seed money" investments; and (c) limitations on investments by banking entity employees.

Naming prohibition. The Proposal states that the intended purpose of the prohibition on covered funds sharing the same or similar name as its related banking entity is to minimize the banking entity's incentive to "bail out" the covered fund should it encounter financial difficulties. However, the naming prohibition is not necessary since, by its terms, the Volcker Rule already prohibits banking entities from guaranteeing, assuming, or otherwise insuring the obligations or performance of a covered fund. In the event the naming prohibition is not removed in its entirety, we believe that, at a minimum, it should not apply to organizations where insured depository institutions represent a "de minimis" component of the organization's operations, as the incentive to "bail out" is unlikely to be a factor in these situations. As detailed in footnote 1, the assets under management for T. Rowe Price Associates, Inc. and its affiliates is over $489 billion whereas the total customer deposits held by the T. Rowe Price Savings Bank is approximately $173.5 million as of December 31, 2011.

"Seed money" limitations. With respect to the Volcker Rule's current limitations on "seed money" investments in covered funds, we believe the one-year period should be extended to four years and the percentage limit at the end of such four-year period for both the single fund ownership test as well as the tier 1 capital test should be increased from 3% to 10% - 25%. Since many institutional investors prefer to see at least a three-year performance track record prior to investing, we think our recommendations strike an appropriate balance in terms of recognizing market practicalities and establishing reasonable limits on seed money investments.

Employee investments in covered funds. Lastly, the Volcker Rule allows employee investments in covered funds only for employees who directly provide advisory or other services to the fund. The Proposal states that the objective of this restriction is to prevent a banking entity from evading the limits regarding direct investment in covered funds. We believe this objective would be better served by simply prohibiting banking entities from extending credit for the purpose of funding directors' or employees' purchases or guaranteeing directors or employees against loss on their investment in a covered fund.

If the prohibition on investments in covered funds by employees is not modified, it will be more difficult for firms subject to the Volcker Rule to offer their U.S. and non-U.S. employees similar choices in their retirement plans. For example, it is not unusual for investment

management firms such as T. Rowe Price to offer their U.S. mutual funds and 3(c)(11) funds to their employees as investment options in their U.S. retirement plan. However, given the Volcker Rule's broad definition of covered fund as discussed above, offering similarly regulated OUS funds in retirement plans for non-U.S. employees could arguably be prohibited under the Volcker Rule. Thus, even if our other recommendations for changes to the prohibitions on employee investments in covered funds are not adopted, we strongly encourage the Agencies to clarify that all employees are permitted to invest in their employer's covered funds through their retirement plans.

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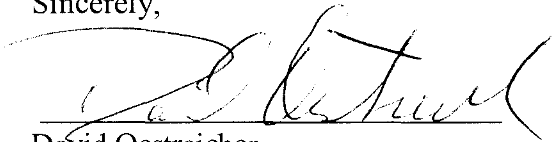
We appreciate your consideration of our views on this significant topic. If you have any questions or would like to discuss our letter, please do not hesitate to contact us.

Sincerely,



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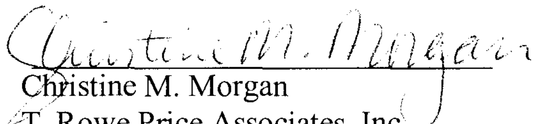

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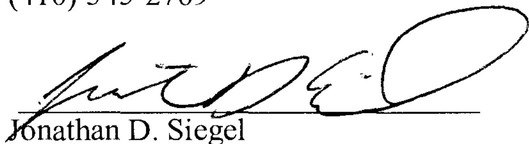

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