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Filed electronically via email (IM-Rules@sec.gov)

April 14, 2021

Sarah ten Siethoff
Acting Director, Division of Investment Management
Securities and Exchange Commission
100 F Street NE
Washington, DC 20549

Re: March 11, 2021 Division of Investment Management Staff Statement on Investment Company Cross Trading (the "Staff Cross Trade Statement")

Dear Ms. ten Siethoff:

T. Rowe Price is a global investment adviser with approximately $1.5 trillion in assets under management. We serve a range of clients, from individual savers to large institutions and funds. As a sponsor of more than 170 registered investment companies ("RICs"), and manager of over $172 billion in fixed income portfolios, we are pleased the Securities and Exchange Commission ("SEC") staff issued the Staff Cross Trade Statement.[1] Given the evolution in trading practices and pricing tools, we agree with the SEC staff that it is the time to re-assess Rule 17a-7 under the Investment Company Act of 1940 (the "1940 Act"). The importance of this reassessment has only become more significant since the adoption last December of Rule 2a-5 under the 1940 Act (relating to valuation of assets held by RICs) and the discussion in its accompanying release of the new Rule's narrowing effect on the ability to cross fixed income securities.

After describing some of the situations where we may engage in cross trades and the benefits they provide, our letter provides recommendations for key elements to be included in an updated version of Rule 17a-7. As further discussed below, we support:

- *Utilizing a principles- and risk-based framework to regulate cross trades;*
- *Establishing a role for electronic trading platforms in crossing; and*
- *Continuing the ability to cross variable rate demand notes ("VRDNs") in a stream-lined manner.*

Examples of Cross Trade Situations and Benefits to Investment Companies. Opportunities to carry out investment decisions through a cross trade can arise in a variety of contexts and provide a host of benefits. When two funds seek to trade and the investment is appropriate for both sides, each fund avoids transaction costs that would have been incurred if the trade had been executed with a third party in the open market. In certain markets, typical bid-ask spreads tend to widen, further increasing the savings to funds on transaction costs. Funds may also

[1] All asset figures in this paragraph are as of February 28, 2021 and based on preliminary data.

[redacted]

avoid the inefficiencies and risks associated with having to break up a block of securities into smaller, fragmented trades. Cross trades can also benefit a buying fund wishing to acquire securities that are in very limited supply or which the fund may be unable to obtain from other market participants. Conversely, a selling fund may find a cross trade allows it to execute and settle an order more promptly, which in certain scenarios, may be especially important to the fund.

In many cross trade scenarios, the investment manager's view of the security has not changed. For example, one fund may be responding to redemptions at the same time another fund is deploying subscriptions or otherwise has excess cash it needs to invest. Funds may also have different duration or maturity profiles, so as a particular security's remaining life shortens, one fund may become a natural seller at the same time another fund is a natural buyer. Changes in the composition of a benchmark index for an actively-managed or passive fund can also lead to mutually attractive opportunities for crossing. The liquidation of a fund or termination of a separately managed account may also generate buying opportunities for the manager's other funds. If a fund is transitioning to a different investment strategy, this may also present unique buying opportunities for other funds advised by the manager. Another general dynamic that can contribute to interest in crossing opportunities is that it is not unusual for buying funds to have not received a full allocation of their desired trading interest when they previously purchased a new issue due to limited supply and/or how the underwriter allotted the offering amongst its buy-side clients.

Other scenarios for crossing may be more driven by the manager's outlook on the particular security. For example, the manager could be making broader adjustments to the fund's asset allocation or industry/sector weightings. Also, changes in the manager's assessment of an issuer's credit quality may cause the security to no longer be considered an appropriate or desired holding for one fund, while simultaneously being a useful addition to another fund given differences in investment objectives.

At T. Rowe Price, we manage a diverse range of funds and other client portfolios and this is one of the drivers of our interest in a well-designed regulatory framework for cross trades. We utilize over 140 investment strategies and we also typically manage multiple funds and accounts in each strategy. In addition, the portfolio manager makes the specific investment decision for their particular fund or client portfolio. As a result and for the reasons cited in the preceding paragraphs, there are numerous occasions where buying and selling accounts would benefit from being able to execute investment decisions through a cross trade. Therefore, we encourage the SEC to modernize Rule 17a-7 in a way that: (a) provides managers with the ability to cross a broad range of fixed income instruments with the execution price based on one or more independent pricing inputs deemed appropriate by the manager; and (b) focuses on managers' fiduciary role and duties of loyalty and best execution owed to each fund/portfolio involved in a cross trade. To provide sufficient breadth, it is important that any updates to Rule 17a-7 continue to permit the crossing of securities that would be Level 1 or Level 2 securities in the fair value hierarchy under U.S. Generally Accepted Accounting Principles.

Employ a Principles-Based Framework with Board Oversight as Opposed to Prescriptive Rules. We recommend that the SEC require funds and advisers to adopt policies and procedures that take a principles- and risk-based approach to evaluating, pricing, and approving potential cross trades, with varying levels of scrutiny by the manager of its cross trading activities depending on the associated risks.[2] For example, the manager should have discretion as to whether it will utilize broker quotes, a pricing service, or some other input as the transaction price for the cross trade. Utilizing a risk-based approach, the manager would be responsible for determining if and what additional data should be considered to help ensure the price input to be used for the execution price is within reasonable tolerances.[3] The price input should be from an independent source[4] and one over which the manager cannot unduly influence the price. The transaction price utilized should represent a price that is fair and accurate in the reasonable judgment of the manager. This type of principles- and risk-based framework would be more effective than the current rule's very specific protocols for pricing the cross transaction based on security type, which may lead to mechanical outcomes as opposed to taking a more comprehensive approach to determining the transaction price.

Principles- and risk-based policies and procedures, in conjunction with the manager's fiduciary, loyalty, and best execution obligations regarding cross trades, should be supplemented by oversight from the fund's board. Specifically, we believe an updated version of Rule 17a-7 should continue to utilize a framework where under Rule 38a-1 of the 1940 Act, the fund's chief compliance officer ("CCO") would report to the board material amendments to cross trade policies and procedures and any material compliance matters regarding the fund's cross trades should such matters arise. To properly balance the board's oversight function (as opposed to involvement in day to day operations that rest with the adviser), boards should not be required to receive and review transaction-specific cross trading information. Accordingly, we recommend the SEC codify the October 12, 2018 no action letter relief that allows a fund's board to rely on a representation by the CCO as to compliance with Rule 17a-7 rather than the board itself having to determine compliance. We believe this type of oversight structure would position boards to, if warranted, engage in further dialogue with the CCO regarding cross trades, and contribute to a framework designed to ensure these types of affiliated transactions only occur when they are in the best interest of the fund.

Establish a Role for Electronic Trading Platforms in Crossing. We are generally supportive of these platforms given the host of benefits they can provide, such as providing additional options for how to transact, improving price discovery and transparency, and facilitating best execution. Therefore, as the SEC looks to modernize its cross trade rules, it is important to establish a role for electronic platforms, such as permitting quotes and prices on these platforms to be an input for determining the cross trade price, if deemed appropriate by the manager. We also think the manager should be allowed to effect the cross between its funds/clients on the electronic platform, provided the manager believes equal or better overall execution is achieved (after taking into account any service or transaction fee charged by the platform) versus executing the trade with third parties in the open market.

Preserve the Ability to Efficiently Cross Variable Rate Demand Notes ("VRDNs"). A VRDN is purchased from a designated bank or broker-dealer (known as a remarketing agent)

[2] See further details regarding this approach in the Investment Adviser Association's and Investment Company Institute's letters on the Staff Cross Trade Statement.
[3] For example, in scenarios where the manager has determined that a mid-point price from the primary pricing service is appropriate for determining the net asset value of a fund involved in the cross, there may be little to no value in comparing that price to other inputs for tolerance purposes. However, when funds utilize different pricing services and/or the security involved presents unique liquidity or other considerations, additional risk-based controls on price determination for the cross may be warranted.
[4] Also see discussion below of VRDNs, which contain unique contractual terms that dictate the price as opposed to market driven factors.

acting on behalf of the issuer and as its name suggests, the VRDN's interest coupon rates periodically reset. The VRDN's governing terms include a put option that allows investors, including funds, to put the VRDN back to the remarketing agent at par with a one- or seven-day notice. The investor who puts their VRDN is paid from the proceeds of the sale of the VRDN to another purchaser by the remarketing agent. If the remarketing agent is unable to remarket the VRDN, redemption is made from a draw on a bank letter of credit. This put feature and the short duration of these instruments can make VRDNs a useful component within certain funds' liquidity buffers. At T. Rowe Price, VRDNs are held in money market and other bond funds. VRDNs often represent a significant portion of our cross trade activity as it can be very attractive to cross these securities when certain funds experience differing cash flows.

The SEC staff has recognized through long-standing no-action letter relief[5] that it is not practicable to obtain broker quotes on VRDNs since transactions are effected through the remarketing agent. This relief also calls for the cross transaction's price to be at par plus accrued interest given VRDN's put feature and their bank letter of credit for funding redemption proceeds, if needed. Therefore, because the market value of VRDNs does not fluctuate, there is no need to seek an evaluated price from a vendor when crossing.

We urge the SEC to incorporate this no-action relief in proposed amendments to Rule 17a-7 so that funds can complete crosses of VRDNs in a stream-lined fashion in terms of price-determinations and evaluations. Being able to effect VRDN crosses in a prompt fashion is especially important given these crosses are generally driven by cashflow needs. Taking a stream-lined approach in the case of VRDNs is also consistent with our recommendation that firms' cross trade procedures be risk-based, such that the particular steps and controls to be utilized may vary based on the nature of the security involved and the overall complexity of the cross trade scenario.

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Given the looming September 8, 2022 compliance date for Rule 2a-5 and the constraints it would impose on crossing fixed income securities if this situation is not remedied, we urge the Division of Investment Management to conduct a thorough and expeditious review of the comments on the Cross Trade Statement and work with the Commissioners to issue proposed amendments modernizing Rule 17a-7. If you would like to discuss our letter, please feel free to contact us.

Sincerely,

/S/ Dwayne Middleton
Dwayne Middleton
Head of Fixed Income Trading

/S/ Jonathan Siegel
Jonathan Siegel
Senior Legal Counsel – Legislative & Regulatory Affairs

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[5] See Benham California Tax-Free Trust, Fed. Sec. L. Rep. P 78,360 (1986).