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May 29, 2015

Secretariat of the Financial Stability Board
c/o Bank of International Settlements
CH-4002, Basel, Switzerland

Re: Assessment Methodologies for Identifying Non-Bank Non-Insurer Global Systemically Important Financial Institutions

Dear Sirs/Madams:

T. Rowe Price International Ltd[1] appreciates the opportunity to comment on the March 4, 2015 consultative document, entitled "Assessment Methodologies for Identifying Non-Bank Non-Insurer Global Systemically Important Financial Institutions" (the "**2015 Consultation**"), published by the Financial Stability Board (the "**FSB**") and the International Organization of Securities Commissions ("**IOSCO**"). We strongly support the efforts of regulators to study systemic risk in the financial markets and, where needed, enhance regulation to reduce such risks and promote a well-functioning financial system for all market participants. However, as detailed below, we are concerned by regulatory efforts to potentially designate specific asset managers or investment funds as systemically important and subject them to enhanced prudential, bank-like regulation.

The Unique Role and Structure of the Asset Management Industry Constrains its Potential to Generate Systemic Risks. We continue to believe that traditional asset management firms are not a source of systemic risks and should not be deemed non-bank/non-insurer global systemically important financial institutions (known as "**G-SIFIs**"). Several factors support this notion. Specifically, asset management firms primarily manage assets of their clients, not the manager's own assets. Furthermore, managers do not generally hold client assets or securities. In addition, managers are not obligated to guarantee a level of performance or the absence of investment losses, nor do clients expect such a guarantee. It is important to recognize that there are inherent risks that market participants face when investing and that these should be distinguished from systemic risks. We support the reduction of undue risk through appropriate regulation, but emphasize that market risks provide opportunities and are a key element of the success of our capital markets. Further, managers, as fiduciaries, are typically subject to specific investment guidelines, restrictions, and objectives for each portfolio they manage and these

[1] T. Rowe Price International Ltd 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 March 31, 2015, T. Rowe Price International Ltd and its affiliates managed approximately $772 billion in assets.

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requirements can be quite varied. The clients of an asset manager generally include pooled investment vehicles (e.g., mutual funds), other legal entities, or natural persons. Given the diversified client types, risk profiles and investment objectives, it is difficult to envision a traditional manager or any of its client portfolios putting the financial stability of the United States at risk even if the manager has significant assets under its management.

We also note that the FSB's and IOSCO's 2014 consultative document on systemic risk did not advocate the designation of managers and many commentators agreed with excluding them. As a result, we are disappointed that the 2015 Consultation includes a proposed methodology for designation of managers and we do not view a designation approach for managing systemic risk as appropriate for the asset management industry.[2] The Consultation also appears overly focused on non-core activities of managers. To the extent managers' non-core business is an actual risk to the global financial system, it ought to be evaluated through the activity-based lens discussed below, not a designation framework.

The Timing of the 2015 Consultation is Questionable. A number of jurisdictions have undertaken or are considering programs to further enhance the regulation of various aspects of the asset management industry. For example, the Securities and Exchange Commission (the "**SEC**") is currently pursuing a comprehensive program to further enhance its regulation of investment companies and asset managers. As noted by SEC Chair Mary Jo White last December, the SEC is developing recommendations related to the management of risk by advisers, including addressing areas such as liquidity and leverage risks in certain collective investment vehicles. We strongly urge that any consideration of potential new regulation by the FSB and IOSCO should be deferred until the SEC has completed its work in this area given that it appears that the bulk of the firms and funds potentially subject to G-SIFI treatment are regulated by the SEC. As a result of the SEC supplementing its already robust framework of regulation for U.S. asset managers and mutual funds, the minimal risks to the financial system presented by asset managers will be further mitigated. Additionally, the 2015 Consultation was released in March so it was developed without the benefit of the extensive comments made by the industry on the U.S. Financial Stability Oversight Council's Asset Management Notice or the results of the FSB's new activity-based work stream described in further detail below.

Lack of Supporting Evidence. As we have noted when commenting on other regulators' releases on systemic risk issues, we continue to see a lack of compelling evidence regarding instances where traditional asset managers and/or the portfolios under their management have generated systemic risks for the global financial system.

[2] The 2015 Consultation indicates that the FSB and IOSCO are considering excluding pension funds and we support such an exclusion. The Consultation states that pension funds pose low risk to global financial stability due to their long-term investment perspective. There is a similar justification for excluding traditional investment managers as such managers and their clients (many of which are retirement plans) often have long-term investment perspectives as well.

In addition to these concerns, we outline below specific observations that we believe are important for the FSB and IOSCO to consider as the asset management industry continues to be studied in the context of potential systemic risk.

Specific Observations

Risk Management Programs. In our view, there would be a benefit to introducing requirements that asset management firms establish formal risk management programs suited to their size, scale, and the nature of the firm's specific business activities. A flexible, principles-based framework for the programs would be appropriate as opposed to prescriptive rules. We think any requirements for firms to have such risk management programs should be developed by the firm's primary regulator.

Liquidity. As noted above, management of liquidity risks is an important component of an effective risk management program. Firms should have a reporting infrastructure that is sufficient to allow portfolio managers to readily access information on their accounts' liquidity profiles. Senior management should consider when and if it is appropriate to limit a portfolio's size and/or put in place additional sources of liquidity for a portfolio, such as committed lines of credit. Different investment strategies and portfolios may require varying amounts of liquid assets and alternate sources of funding. As a result, we do not believe it would be helpful for regulators to prescribe a "one-size fits all" regime for addressing liquidity risks.

When evaluating liquidity risks, it is important to do so in the proper context. For example, liquidity issues do not necessarily prevent assets from being traded – rather, in some instances decreased liquidity merely introduces more market volatility. In addition, in the context of pooled investment vehicles, which often have a diverse shareholder base, not all shareholders will make the same redemption decisions when faced with a major market event. With respect to U.S. mutual funds, which represent a substantial amount of the assets invested in pooled investment vehicles, liquidity risks are further constrained by the Investment Company Act of 1940's conservative limits on illiquid holdings. Certain investment vehicles in other jurisdictions, such as "UCITS" funds, are subject to similar regulatory constraints that limit exposure to illiquid and/or non-transferable investments.

Leverage. The 2015 Consultation focuses much of its investment fund discussion on leverage as a source of systemic risk. However, we do not think the 2015 Consultation gives proper weight to the regulatory initiatives that have been established or are under development in the U.S., Europe, and other jurisdictions and market centers across the globe. These efforts have dramatically changed the market structure for derivative instruments and the central clearing requirements imposed on market participants to post initial and variation margin are important controls that discourage extreme leverage risk. It is also market practice to pledge collateral on various types of uncleared derivatives and certain regulators have instituted, or are proposing, such requirements for uncleared derivatives. In addition to these market-wide requirements, certain pooled investment vehicles, such as U.S. mutual

funds and UCITS funds, are subject to their own regulatory leverage or asset coverage requirements which effectively limit leverage and serve as additional protection. Similarly, many separate account clients impose contractual restrictions/limits on the use of instruments by the asset manager that can generate leverage. However, even if such clients do not impose these constraints, portfolio managers may nonetheless refrain from employing extensive leverage in these accounts because other accounts utilizing the same strategy are subject to regulatory leverage constraints and there is a desire for consistency of style.

We also note that although leverage is typically inherent in most derivatives, these instruments should not be viewed as per se harmful or negative. Investment professionals, including asset managers, use derivatives for a variety of worthwhile purposes (which are not limited to pure hedging), including, for example: (a) managing or establishing exposure to changes in interest rates, securities prices, and foreign currencies; (b) efficiently increasing or decreasing a portfolio's overall exposure to a specific part or broad segment of the market; (c) enhancing income; (d) protecting the value of portfolio securities; (e) facilitating cash management; and (f) managing volatility.

Operational Matters. The 2015 Consultation raises various questions regarding the impact of client decisions to change managers. A client changing its asset manager is a common and routine occurrence. Some clients may choose to retain a transition manager ("**TM**") who is focused on controlling risk by restructuring the portfolio to be transferred to the successor manager; however, in many cases clients determine that a TM is not needed and/or would like most of the assets transferred in-kind as opposed to being liquidated. Custodians are also very accustomed to manager changes and can effectively and efficiently process those changes.

Products & Activities. We are cautiously optimistic regarding the FSB's recent announcement that it will commence a new work stream on the asset management industry to evaluate the role that existing or additional activity-based policy measures could play in mitigating potential financial stability risks. We supported the U.S. Financial Stability Oversight Council's recent shift in focus from potential designation of individual asset management firms or investment funds as systemically important to evaluating the industry's activities and products. We encourage the FSB and IOSCO to do the same with respect to its initiatives. We strongly believe that: (a) the most effective way for the FSB and IOSCO to achieve their goal of mitigating systemic risks is to focus on the identification of specific market-wide products and activities that demonstrate potential for negative impact to the stability of the global financial system and whether enhanced monitoring or regulation of them would be appropriate; and (b) the selective regulation of a small number of managers and investment funds is a misguided approach.

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We appreciate your consideration of our views on this significant topic. We also would like to note that we support the comment letters being submitted by the Investment Adviser Association, the Investment Company Institute, and the Asset Management Group of the Securities Industry and Financial Markets Association. If you have any questions or would like to discuss our letter, please do not hesitate to contact me.

Sincerely,

David Oestreicher
Chief Legal Counsel