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January 5, 2021

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

Re: *SEC Proposal on Tailored Shareholder Reports, Treatment of Annual Prospectus Updates for Existing Investors, and Improved Fee and Risk Disclosure for Mutual Funds and Exchange-Traded Funds; Fee Information in Investment Company Advertisements (File No. S7-09-20)*

Dear Ms. Countryman:

Founded in 1937, T. Rowe Price Group is an independent global asset management company with $1.42 trillion in assets under management as of November 30, 2020. The firm is focused on delivering investment excellence for institutional, intermediary, and individual investors investing for retirement and other short- and long-term goals.

T. Rowe Price Associates, Inc. ("T. Rowe Price"), as sponsor and investment adviser to the T. Rowe Price family of funds[1] (the "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 November 30, 2020, the Price Funds comprised 190 funds.

Overall, we are very supportive of the Proposal. We believe the SEC's objective of "creating a new layered disclosure approach designed to highlight key information for retail investors" will benefit fund shareholders by satisfying investor preferences in terms of how they receive and consume information, and the Proposal's cost savings are compelling for fund shareholders without reducing the nature and quality of the information available to them, which we reference in more detail in our letter.

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 provide greater efficiencies to funds. In this regard, we are generally supportive of the Investment Company Institute's ("ICI's") comments on the Proposal,[2] and specifically, very supportive of electronic delivery. We urge the Commission to permit funds to deliver documents required to be

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[1] We use the term "fund" to refer to mutual funds and exchange-traded funds ("ETFs").

[2] *See* Letter to Vanessa Countryman, Secretary, US Securities and Exchange Commission from Susan Olson, General Counsel, and Dorothy M. Donohue, Deputy General Counsel – Securities Regulation, Investment Company Institute, dated December 21, 2020 ("ICI's Comment Letter"), available at: https://www.sec.gov/comments/s7-09-20/s70920-8186011-227164.pdf

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delivered under the Federal securities laws electronically unless a shareholder selects a different delivery method.

In this comment letter, we provide our perspectives with respect to the following issues:

<u>How Funds Communicate with Investors – Disclosure Delivery Framework:</u>

- ***E-Delivery***: The Commission should permit funds to electronically deliver disclosure documents required under the Federal securities laws to shareholders so long as shareholders are given advance notice of the change to e-delivery and provided with an opportunity to choose to receive paper copies at any time as their preferred method of delivery or upon request.
- ***Access Equals Delivery – Semi-annual Shareholder Reports***: The Commission should permit funds to meet their semi-annual shareholder report transmission obligations by filing them with the SEC, posting them on the fund's website, and delivering them upon request to shareholders in a way that is consistent with the shareholder's delivery preference.
- ***Proposed Rule 498B***: We strongly support proposed Rule 498B and believe it will provide our funds and their shareholders with significant cost savings.

<u>Content of Shareholder Communications – Shareholder Reports and Prospectuses:</u>

- ***Streamlined Shareholder Report**:* We strongly support the SEC's proposed streamlined shareholder report. However, we recommend certain targeted changes to the proposed disclosure requirements, which are described in more detail below.
- ***Proposed Prospectus Disclosure Changes***: We support some, but not all, of the proposed disclosure changes as described below.

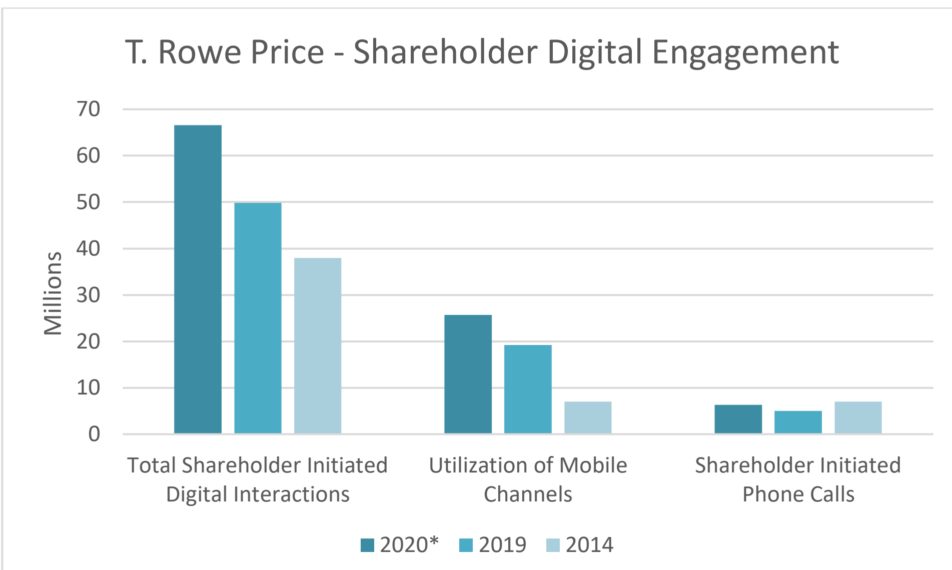
Our detailed comments on these issues are set forth below.

I. E-Delivery

We strongly encourage the Commission to modernize the guidance it issued over 20 years ago regarding electronic delivery and permit funds to send documents required under the Federal securities laws (including prospectuses and shareholder reports) electronically, unless a shareholder opts out of electronic delivery and requests to receive paper copies of their documents. Access to the internet and broadband is now widespread, and thus we believe it is appropriate for electronic delivery to be the default manner of transmission for all regulatory fund documents. We believe that using electronic delivery as the default method for communicating with shareholders (while still allowing investors to choose to receive paper at any time) will provide numerous benefits. In addition, as discussed more below, using electronic delivery as the default method for communicating with shareholders would provide funds and their shareholders with a significant cost savings.

We are concerned that without a change in the SEC's current regulations and guidance on e-delivery, the approach referenced in the Proposal would further entrench an outdated paper delivery model that is incongruous with how most of our investors obtain and consume information. The Proposal noted that in response to the SEC's 2018 Request for Comment on the Retail Investor Experience, many fund investors across all ages and demographics indicated that they visit fund websites to get information about their fund investments. Many investors also expressed a preference for receiving fund disclosure electronically, either through email, mobile application, or website availability. Under the current regime, shareholders must affirmatively opt-in to receive documents electronically, and our experience is that this creates an element of inertia around shareholder requests for e-delivery.

Our in-house data shows that in interactions outside of the e-delivery context, T. Rowe Price fund shareholders prefer to engage with T. Rowe Price digitally, and that this trend has steadily increased over time.[3] The following table shows how digital interactions (as a whole) and the use of mobile channels have increased from 2014 through November 30, 2020,[4] and that shareholder initiated phone calls have decreased.



* 2020 data is from January 1, 2020 through November 30, 2020.

The recent adoption of Rule 30e-3 provided important insight into shareholders' preferences.[5] Rule 30e-3 creates an optional "notice and access" method for delivering shareholder reports.

[3] Additionally, we believe that retirement plan participants, specifically older participants, overwhelmingly prefer to engage electronically with their funds. We conducted a survey in 2016 that showed that a substantial number of plan participants across all demographic groups reported a preference for accessing content on electronic platforms as opposed to print or "other." The preference was held by 88 percent of Baby Boomers as well as 93 percent of Millennials (for this purpose, individuals were Millennials if they were born between 1981 and 1996, and Baby Boomers if they were born between 1946 and 1964).

[4] At the time that this letter was submitted, data from December, 2020 was not yet available; however, we believe our shareholders' digital interactions have continued to increase into December.

[5] The Proposal contemplates excluding mutual funds and ETFs from the scope of Rule 30e-3.

With this new option, a fund may deliver its shareholder reports by sending shareholders a paper notice of each report's availability online by mail. Shareholders who prefer to receive the report in paper may request a paper report free of charge at any time. In order to rely on Rule 30e-3, funds have included a notice on the front cover of prospectuses and shareholder reports informing shareholders of the upcoming change and providing them with information on how they can opt to continue receiving paper shareholder reports in the future. To date, we have received only 1,387 requests for paper (which is approximately 0.1% of all shareholders who own shares of our funds directly).[6] Nothing in this data suggests that shareholders are fundamentally uncomfortable with reviewing their shareholder reports electronically. Although shareholders won't begin receiving notices until January, 2021, we do not expect the number of shareholders opting-in to paper delivery of shareholder reports will significantly increase.

The recent events related to COVID-19 highlight longer-term trends that favor electronic communications between funds and their shareholders. The pitfalls of paper communication were exposed early in the pandemic, when certain print vendors experienced challenges in printing and mailing fund regulatory documents (such as prospectuses and shareholder reports), and the reliance on electronic delivery became even more pronounced. The pandemic brought existing concerns regarding print delivery to the forefront and created an opportunity to modernize how funds communicate with their shareholders. This is consistent with the long-term trend in shareholders' preferences for electronic communications over traditional—and more outdated— paper communications.

During the pandemic, the Commission recognized the importance and effectiveness of electronic communications and assisted funds by, among other things, providing temporary relief allowing them to use digital tools when sending communications to shareholders. Regardless of whether a fund manager relief on the relief, these digital tools—including capabilities relating to electronic delivery of regulatory documents—were essential for fund managers and demonstrated that specific regulatory modernizations permitting greater digital communication are effective alternatives to outdated pre-pandemic delivery methods prescribed in the rules. These alternatives allowed for the safe and successful fulfillment of certain regulatory documents, while protecting the health and safety of industry employees. Moreover, they provided a mechanism for funds to communicate information in a much timelier fashion than traditional paper delivery models.

Former Chairman Clayton recently recommended making it easier for funds to deliver disclosure electronically. At a recent Asset Management Advisory Committee, he stated that:

> Like other stress tests, planned and unplanned, the test imposed by the effects of COVID-19 has provided lessons and insights to the Commission and to market participants alike. Take, for example, electronic delivery of required regulatory documents. The Commission last comprehensively addressed digital delivery in guidance issued over 20

[6] This figure only includes shareholders who invest directly with T. Rowe Price (and not shareholders who hold shares of a T. Rowe Price Fund through an intermediary).

> years ago, and has discussed plans to revisit that guidance. Among the pandemic's most obvious disruptions were those challenging firms' ability to deliver paper documents to investors. … Looking back at that period, the importance of electronic delivery is clear, and I believe the Commission should consider how to best and promptly update our guidance to make it easier for funds, advisers and investors to use electronic delivery, while ensuring that any investor who wants paper delivery remains fully able to receive it. … [O]ur efforts to meet the challenges presented by COVID-19 have unquestionably demonstrated that our regulations should not cling to the mails and paper as the default or preferred paradigm for communications.[7]

Similarly, in the wake of the COVID-19 pandemic, the Commission's Asset Management Advisory Committee unanimously voted to recommend that the SEC, among other things, permit firms to use an investor's digital address, such as an email or smart phone telephone number, as the primary address when delivering regulatory documents.[8]

We believe that potential concerns that funds could use an incorrect email address for a shareholder are unwarranted. This is unlikely to occur because the shareholder provides the fund with his or her email address in the first instance, just like they provide their own physical mailing address. For a prospectus or shareholder report, if a shareholder's email is returned as undeliverable for any reason, we send them their documents in paper.

In addition, changing the default for electronic delivery of fund materials from opt-in to opt-out would provide our funds and their shareholders significant cost savings. We estimate that our shareholders would save approximately $3.2 million annually for switching to default electronic delivery.[9]

For these reasons, to better serve shareholders' preferences and to save shareholders money, we recommend that the SEC change the default for delivery mechanism of fund documents from paper to electronic. More specifically, the Commission should permit funds to electronically deliver fund disclosure documents to shareholders provided that shareholders are notified in advance of the upcoming change to e-delivery and allowed to affirmatively opt to receive paper at any time. We support the ICI's proposed model of e-delivery, which is summarized below.

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[7] See Chairman Clayton, Opening Remarks at the November 5, 2020 Asset Management Advisory Committee *available at* https://www.sec.gov/news/public-statement/clayton-amac-2020-11-05.

[8] *See* U.S. Securities and Exchange Commission Asset Management Advisory Committee Preliminary Recommendations of Operations Panel Regarding COVID-19 Operational Issues November 5, 2020, *available at* https://www.sec.gov/spotlight/amac/operational-issues-amac-recommendations-final-110520.pdf

[9] This savings is based off the current delivery model (where funds send an annual prospectus update and a 30e-3 notice to shareholders, unless they have requested to receive their shareholder reports through e-delivery or paper). This estimate also assumes that we are able to obtain a valid e-mail address for approximately 75% of our entire shareholder base. Currently, approximately 40% of shareholders who own shares of our funds directly have opted-in to e-delivery.

- ***Existing Investors Who Currently Elect E-Delivery*****.** Shareholders who currently receive e-delivery would continue to do so.

- ***Existing Investors Who Currently Receive Paper Delivery and an E-Mail Address Is Available*****.** Existing investors who currently receive paper but previously have provided their email address or other electronic contact information, would automatically begin receiving communications through e-delivery at the end of the transition period unless they have affirmatively requested paper.[10] The shareholder would be informed that the fund will use the email address on file (which the fund will identify) to send all future disclosure documents to the investor unless the investor elects otherwise or informs the fund to use a different email address.

- ***Existing Investors Who Currently Receive Paper Delivery and an E-Delivery Address Is Not Available*****.** Existing investors who currently receive paper and have not previously provided their email address or other electronic contact information would receive notification during the transition period of the new electronic delivery method and a request to provide an e-delivery address. If a shareholder does not provide an e-delivery address, that shareholder would continue to receive disclosure documents via paper delivery.

- ***Flexible Delivery Method.*** The SEC would not mandate that the information be conveyed in a "notice." Rather, funds would be free to choose the manner of informing shareholders, similar to the SEC's approach in the Proposal.[11]

- ***New Investors*****.** All new investors, including investors who open new accounts on paper applications, would be informed that they will be enrolled automatically in e-delivery when they provide an e-delivery address. The account opening statement would request an e-delivery address.

- ***Ongoing Changes to Delivery Elections*****.** An investor would be permitted to change delivery elections at any time for these disclosure documents. The available methods to change elections could include changes via an electronic platform of the fund, or by

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[10] Consistent with a recent staff statement, *Staff Statement Regarding Temporary International Mail Service Suspensions to Certain Jurisdictions Related to the COVID-19 Pandemic* (June 24, 2020), available at https://www.sec.gov/tm/temporary-international-mail-service-suspension**,** we recommend that funds be provided the flexibility to use reasonable best efforts to timely deliver documents electronically using contact information for the shareholder (*e.g.*, an email address) that the fund has a reasonable basis to believe is current and, in the transmittal message, explain why the fund is delivering such documents electronically.

The statement also noted that "if the email bounces back for some reason, the Commission should permit the fund to use reasonable best efforts to obtain current contact information for electronic delivery of such documents to the shareholder (*e.g.*, through commercially available resources)." We are not aware of any such available resources.

[11] *See* Release at 248.

contacting the fund telephonically by calling their firm's representative (or by contacting his or her financial intermediary).

- ***Transition Period.*** The SEC should provide funds a transition period of one year to notify investors who currently receive paper delivery of the change to the new e-delivery method.

II. Access Equals Delivery – Semi-annual Shareholder Reports

The Proposal would require funds to transmit semi-annual shareholder reports to shareholders consistent with their delivery preference (i.e., in paper or electronically), just as funds do today. The Proposal states that the Commission considered alternatives to requiring transmission of semi-annual shareholder reports, including by allowing funds to meet the transmission requirement by filing certain information on Form N-CSR, or updating information posted to its website.

We support the ICI's recommendation that the Commission permit funds to fulfill their semi-annual shareholder report transmission obligation by making the semi-annual shareholder report available online provided that the fund:

- posts the semi-annual shareholder report to its website and files the semi-annual shareholder report with the SEC on Form N-CSR not more than 70 days after the semi-annual period end;
- sends the semi-annual shareholder report to any shareholder requesting a paper copy upon request free of charge within a reasonably practicable amount of time, but in no event later than five business days after receiving the request; and
- includes disclosure in the preceding annual shareholder report indicating that a semi-annual report covering the ensuing six-month period will be made available on the fund's website no later than [DATE] and that shareholders may obtain a paper copy of the semi-annual shareholder report free of charge by contacting the fund at [PHONE NUMBER AND WEBSITE ADDRESS].

The recommended approach would be consistent with the Commission's objective of creating a layered disclosure model. It also would recognize that the semi-annual shareholder report may be less informative to shareholders than the annual shareholder report. Unlike the annual shareholder report, the semi-annual report covers only six months, is not audited, and is not required to include performance information or other fund information. Shareholders would be notified of the availability of the most recent online semi-annual report in each annual report and would be directed where to find it.

In the Proposal, the SEC expressed concern about adopting a disclosure framework in which fund shareholders would have the onus to periodically "pull" regulatory disclosures from various sources (e.g., information that is periodically updated on a fund website) versus one in which shareholders have regulatory information "pushed" to them on a semi-annual basis (e.g., the required direct transmission of shareholder reports twice a year). The Commission noted that such a disclosure framework would represent a significant change in current practices, and that the SEC does not have evidence that investors would prefer a disclosure approach in which they would receive no notification that updated disclosures are available.

However, we feel that the proposed approach adequately addresses the SEC's concerns since shareholders would be provided notification of the availability of the most recent semi-annual shareholder report in the preceding annual report. In addition, shareholders who prefer to receive semi-annual shareholder reports delivered to them (either electronically or a paper copy through the mail) could opt to have their reports sent to them.

Importantly, all shareholders would benefit from the cost savings associated with permitting funds to meet the transmission requirement by making the semi-annual shareholder report available online. We estimate that shareholders across the T. Rowe Price family of funds would save approximately $5.79 million annually.

III. Proposed Rule 498B

We strongly support adoption by the Commission of Rule 498B. Under the proposed rule, investors would continue to receive a prospectus in connection with their initial fund investment, as they do today. Thereafter, a shareholder would no longer receive annual prospectus updates, in light of the fact that the fund's current prospectus would be available online, and the shareholder would be receiving (1) tailored shareholder reports (which would include a summary of material fund changes in annual reports), and (2) timely notifications regarding material fund changes as they occur. We agree with the Commission that this new rule would improve fund disclosure by tailoring it to the needs of new versus existing investors, address concerns about duplicative and overlapping disclosure materials, and respond to investors' expressed preferences for simplified, layered disclosure that highlights key information.

Importantly, our fund shareholders would experience a significant cost savings associated with Rule 498B. We estimate that our funds and their shareholders will save approximately $5.4 million annually by relying on Rule 498B.

Notice of Material Changes

Proposed Rule 498B would require funds to provide shareholders notice within three business days of either the effective date of the fund's post-effective amendment filing or the filing date of the prospectus supplement filing, by first-class mail (or other means designed to ensure equally prompt receipt). Further, the proposed rule would not specify the form of this notice. A fund could satisfy this requirement, for example, by sending existing shareholders the prospectus supplement filed with the Commission, an amended prospectus which reflects the material change, or another document that describes the change.

While we generally support the proposed requirements, the proposed three business day delivery timeframe is an insufficient period of time to transmit this type of mailing to a fund's entire shareholder base. The proposed three-business-day period commences upon either the effective date of the post-effective amendment filing or the filing date of the prospectus supplement (as the case may be). Producing and mailing an unplanned disclosure document to a fund's entire shareholder base simply is not possible within that short of a timeframe. We note that if the SEC adopts an e-delivery default model, it will allow funds to provide shareholders with supplements and other communications on a more timely basis than mail, while significantly reducing a fund's printing and mailing costs. However, if the SEC does not adopt an e-delivery default model, we recommend instead that any final rule require funds to deliver notice of material changes "as soon as reasonably practicable but in no event longer than fourteen business days."

We have a proven history of successfully fulfilling periodic requests for prospectuses, shareholder reports or SAIs in a three-business day period, but the volume of these requests is always limited to a small portion of a fund's shareholder base. In sharp contrast, mailing a document to a fund's *entire* shareholder base is not always possible within that short window of time.

For example, we occasionally need to communicate certain changes to fund shareholders with relatively little advance notice. A common example is when a fund has an unexpected change in its portfolio manager. Typically, we file a prospectus supplement disclosing the portfolio manager change with the SEC and post the supplement on the fund's website within a couple of days or so and mail the supplement to existing shareholders as soon as practicable. Sometimes, this can take about a week, depending on the size of a fund's shareholder base.

Moreover, like others in the industry, we rely on print vendors to help us deliver prospectus supplements to certain shareholders. Practically speaking, vendors conducting such a large volume mailing need approximately four to five business days just to gather underlying beneficial owner contact information from intermediaries. After that, the vendors may take approximately six to seven business days to finish the mailing. Additionally, we note that the COVID-19 pandemic has increased the time vendors need, given that social distancing requirements limit the number of operators per printer.

We are concerned that requiring a three business-day hard deadline presents significant operational burdens, particularly for events that cannot be planned for, leaving funds between "a rock and hard place" in terms of balancing the interests of investors for timely disclosure versus compliance with the strict regulatory deadline. This result is counterproductive to the SEC's goals of ensuring that shareholders are notified of upcoming changes in a timely manner. It also increases the risk that funds unintentionally miss the deadline given the multitude of factors involved in completing a mailing.

We therefore recommend that any final rule require funds to deliver notice of material changes "as soon as reasonably practicable but in no event longer than fourteen business days" which better reflects the reality that funds cannot always control the timing of material disclosure events and what is reasonable in terms of shareholder notification should be based on the facts and circumstances.

IV. Shareholder Report Content

We generally support the Commission's proposed design and content of funds' annual and semi-annual shareholder reports and support the ICI's recommendations for minor improvements. Our comments on certain specific items are included below.

"Broad-Based Securities Market Index" Definition

Currently, an open-end fund must compare its performance to that of an "appropriate broad-based securities market index" in its prospectus and annual shareholder report.[12] The Proposal would add the following to this defined term:

> A 'broad-based index' is an index that represents the overall applicable domestic or international equity or debt markets, as appropriate.

We believe the definition of "appropriate broad-based securities market index"—in both its current form and as proposed to be amended—is overly narrow. Requiring funds to compare their performance to a limited set of benchmarks creates potentially misleading and confusing performance presentations, particularly for active fund managers, and may add unnecessary costs.

The SEC's requirement to compare a fund's performance to an index that is both "broad-based" and "appropriate" may, at times, conflict. In some cases, the use of a broad-based index (as the SEC contemplates) could produce misleading performance presentations. Index selection based completely on "appropriateness" (without also needing to meet a competing "broad-based" requirement) will produce more meaningful comparative information for investors. If a fund's opportunity set or objective is not seeking "broad-based" investments, it should not be required to compare its performance to that of a "broad-based" index.

For example, funds investing primarily in specific sectors (such as the technology sector, like the T. Rowe Price Global Technology or the T. Rowe Price Communications and Technology Funds) may outperform a broad-based index such as the S&P 500 Index. However, this outperformance does not necessarily indicate how a technology fund performed as a *technology* fund. While most

[12] Items 4(b)(2)(iii) and 27(b)(7)(ii)(A) of Form N-1A. The Form defines "appropriate broad-based securities market index" in relevant part as "one that is administered by an organization that is not an affiliated person of the Fund, its investment adviser, or principal underwriter, unless the index is widely recognized and used." These funds also may compare their performance to one or more "additional indexes" in their prospectuses and shareholder reports. Instruction 6 to Item 27(b)(7) of Form N-1A states that these would be indexes other than the required broad-based index, and may include "other more narrowly based indexes that reflect the market sectors in which the Fund invests" or "an additional broad-based index, or to a non-securities index (*e.g.*, the Consumer Price Index), so long as the comparison is not misleading."

technology sector funds may have outperformed the S&P 500 simply because of their sector concentration, comparing the fund instead to a more appropriate technology specific benchmark may show that the fund's performance was in fact significantly above average.

The current definition also produces some potentially confusing performance presentations for multi-asset funds (*e.g.*, the T. Rowe Price Target Date Funds)[13] since no single widely-used index may be sufficiently appropriate or broad. For instance, our target date funds compare their performance to a target date index and, additionally, to a "blended" index (*i.e.*, one that combines the performance of multiple indexes, weighted based on the fund's approximate asset allocation). A broad-based equity or bond index may meet the SEC's definition and yet still provide a misleading comparison for a target date fund due to the diversity of the fund's asset allocation and investment exposures. We see no reason why such a fund should not be permitted to include only an appropriate target date and/or blended index.

Lastly, certain alternatives funds (such as the T. Rowe Price Dynamic Global Bond or T. Rowe Price Multi-Strategy Total Return Funds) that seek low overall volatility are designed with a goal of providing consistent returns during any market environment. For instance, a fund may have a goal of providing an average annualized total return of a Treasury Bill Index plus 5% over a specific time period. In a down market, the fund may outperform a broad-based index (for example, the S&P 500). However, this outperformance would not indicate how the fund performed in relation to its goals. The fund may have successfully met its performance goals when compared to a more appropriate Treasury Bill index.

In light of the foregoing, we agree with the ICI and recommend that the SEC require the following:

- Require only that a fund compare its performance to an "appropriate" index and define that term (in relevant part) as follows: "An 'appropriate index' is one whose objective (i.e., what it seeks to measure) is reasonably related to the Fund's investment objective and principal investment strategies."
- Provide an alternative to this general requirement, whereby a fund that determines that it does not have an appropriate index (as defined above) could select a cash-oriented benchmark and explain why it is appropriate, given the fund's investment objective and strategies.
- Require that a fund using a blended benchmark (which may serve as an appropriate index) identify its underlying components and their weights.
- Correspondingly amend the definition of "additional indexes" to read: "A Fund may, but is not required, to compare its performance not only to the required appropriate index, but also to other appropriate indexes, so long as the comparison in each case is not misleading."

Statement Regarding Liquidity Risk Management Program

[13] Other T. Rowe Price Funds that fit into this category include the T. Rowe Price Balanced and T. Rowe Price Spectrum Funds.

As part of the 2018 liquidity disclosure amendments,[14] open-end funds subject to Rule 22e-4 (the "liquidity rule") must "briefly discuss the operation and effectiveness of the Fund's liquidity risk management program over the past year" in their shareholder reports. The proposed amendments would require these funds to continue including liquidity disclosure in streamlined shareholder reports, subject to certain modified instructions. We believe that the proposed changes would place excessive emphasis on liquidity risk for most funds and likely result in lengthier and less tailored liquidity disclosure.

We agree with the ICI and we recommend that the SEC:

- require funds to provide this liquidity disclosure in the streamlined shareholder report only if they do *not* (i) meet the definition of "In-Kind ETF" or "primarily highly liquid fund" under the liquidity rule, or (ii) consistently hold a majority of their assets in highly liquid investments; and
- permit all other funds to provide their liquidity disclosure on Form N-CSR.

The liquidity rule itself recognizes that "primarily highly liquid funds" (in addition to In-Kind ETFs) have lower liquidity risk by exempting them from Highly Liquid Investment Minimum, or HLIM, requirements. Consistent with this, we believe similar disclosure-related distinction would be appropriate. We also believe this distinction should be extended to funds that, while not designated as "primarily highly liquid," nevertheless invest a majority of their assets in highly liquid investments. Given the fact that the streamlined shareholder report is meant to be concise and succinct, only key items should be included. Generally speaking, we do not believe that liquidity disclosures for these funds will rise to this level of importance.

In some cases, these funds could experience elevated liquidity risk during any particular period. To address possibility, the SEC could reiterate its view that "liquidity events are factors that may materially affect a fund's performance [and] to the extent a liquidity event has such an effect, this event must be discussed in the management's discussion of fund performance ("MDFP")." This would provide ample reassurance that all funds would provide relevant liquidity disclosure in the tailored shareholder reports, as applicable.

We also recommend modifications to the proposed liquidity disclosure instructions. We support the SEC's stated goal of making this disclosure "more tailored, concise, and informative." But the proposed changes, which would replace a relatively straightforward requirement with a three-part requirement, would not meet this objective. The second part's requirement to summarize "key features of the Fund's liquidity risk management program" is likely to produce the type of lengthy and boilerplate disclosure that the SEC seeks to discourage. Further, we believe that most funds would not have meaningful disclosure for most periods in response to the first part of the instruction, which is to summarize "key factors or market events that materially affected the

[14] Investment Company Liquidity Disclosure, SEC Release No. IC-33142 (June 28, 2018)("Liquidity Disclosure Release"), available at www.sec.gov/rules/final/2018/ic-33142.pdf.

fund's liquidity risk during the reporting period." Funds with low liquidity risk will likely find it difficult to identify factors or market events *materially affecting* this low-level risk.

We therefore recommend modifying the current requirement to require a fund to "briefly discuss the fund's liquidity risk, and how effectively that risk was managed, during the period. Explain why the risk was low and well-managed." For funds with low and well-managed liquidity risk during a period, a concise statement should suffice, along with a brief explanation as to *why* the risk was low and well-managed. These recommended modifications would allow funds to appropriately contextualize their liquidity risk thereby producing useful liquidity disclosure for investors.

Exempt Funds Offered Exclusively to Other Funds from the Obligation to Prepare Shareholder Reports

The Commission indicates that the proposed streamlined shareholder report is intended to "highlight information that we believe is particularly important for retail shareholders to assess and monitor their ongoing fund investments." We believe these benefits are inapplicable for funds offered exclusively to other funds (i.e., serving only as acquired funds). Moreover, shareholders investing in funds that invest in these underlying funds would benefit from the cost savings associated with no longer preparing, transmitting, and filing shareholder reports for these funds. Six of our funds are currently not available for public purchase.

Funds investing in other funds could instead rely on the financial statements and other Form N-CSR requirements, which the acquired fund prepares and files. Those financial statements contain more detailed information on the acquired fund's performance, expenses, and portfolio holdings than the retail-oriented shareholder report.

Bundling of Certain Shareholder Reports

We agree with the ICI's suggestion and recommend that the Commission allow target date funds, money market funds, and state tax-exempt funds to be bundled in a single shareholder report. Target date funds typically follow a similar underlying investment philosophy (e.g., our target date funds follow the same underlying glide path). Similarly, money market funds pursue similar investment objectives through differing investment strategies (e.g., Treasury, prime, or municipal). For state-specific funds, investors would be able to easily choose among a fund group's municipal fund options if they are looking to invest in their resident state and to reduce their state tax obligation. This flexibility would allow funds to efficiently organize their similarly managed funds into one report.

V. Prospectus Content

As with our comments on the streamlined shareholder report and Form N-CSR, we support much of what the Commission has proposed with respect to the prospectus. Our comments on certain of the proposed prospectus changes are included below.

New, Simplified Fee Terminology

The Proposal would change the terminology that funds use to describe fees in the prospectus. These changes are designed to enhance shareholder understanding by using everyday language and more effectively communicating the nature of the fees and charges.

We agree with the ICI and generally support proposed terminology changes and agree that they will enhance shareholder understanding, except for the proposed changes to the presentation of fee waivers. We support the ICI's recommendation that the Commission perform investor testing of the proposed terminology changes to ensure that they do in fact improve understanding before proceeding.

With respect to fee waivers, currently, if there are contractual expense reimbursement or fee waiver arrangements that will reduce any fund operating expenses for no less than one year from the effective date of the prospectus, a fund may add two captions to the fee table: one caption showing the amount of the fee waiver and a second caption showing the fund's net expenses after the fee waiver or reimbursement. The Proposal would permit one additional line in the fee summary: "ongoing annual fees with temporary discount" (displaying the amount of ongoing annual fees after waiver or reimbursement). The Proposal would permit two additional lines in the fee table: "temporary discount" (showing the amount of the waiver or reimbursement); and "total ongoing annual fees with temporary discount" (displaying the ongoing annual fees after waiver or reimbursement).

We believe use of the term "temporary" to describe the fee waiver or reimbursement suggests that termination of the waiver is imminent and conflicts with the requirement that the waiver be in place for no less than one year from the effective date of the prospectus. Furthermore, many advisers (including T. Rowe Price) may waive their fees for several consecutive years (for example, until a fund or share class scales), even though the adviser commits to waive only for the current year. Where the adviser has no present intention of discontinuing such an arrangement that may in fact remain in place for years, characterization of that waiver as "temporary" could be considered misleading. We therefore recommend that the Commission retain the existing terminology to describe fee waivers and reimbursements and avoid their characterization as temporary.

In addition, the proposed changes do not provide funds with an opportunity to explain more details about ongoing fee waiver arrangements in the fee table. The current requirement, on the other hand, allows funds to explain fee waiver arrangements in a footnote to the table. Many of our funds, for example, have more than one contractual fee waiver in place, and these fee waivers sometimes work differently from one another and have different expiration dates. For example, a many of our funds' Investor Class' have contractual fee waiver agreements in place limiting the class' total expense ratio to a specific amount until a certain date, and many of our funds' I Class' operating expenses (as opposed to its total expense ratio) may be contractually limited through a different date.[15] We feel that disclosing the nuances of these different fee waiver arrangements provides shareholders with important context when evaluating a class' expenses. Therefore, we recommend that funds continue to be permitted disclose pertinent details of expense limitation arrangements in a footnote to the fee table included in the summary prospectus, as they do today.

Performance Expenses

Under the Proposal the "ongoing annual fee" amount in the fee summary and fee table generally would be the same figure that funds currently report as "total annual fund operating expenses" (*i.e.*, the expense ratio). The Proposal requests comment on whether the expense ratio should include currently excluded performance-related expenses—such as securities lending costs or fund transaction costs. Alternatively, it asks whether performance-related expenses that are included in the expense ratio, such as interest expense on borrowings or dividends paid on short sales, should be excluded from the expense ratio.

Significantly, where performance-related costs are excluded from the fund's expense ratio they are, nevertheless, deducted from fund assets and diminish the fund's total return. For example, brokerage commissions paid on portfolio transactions are included in the cost basis of securities purchased and deducted from proceeds on sale and thus reduce reported gains (or increase reported losses). Securities lending fees paid are typically offset against income earned from securities lending and the net amount is reported as securities lending income in the fund's statement of operations (*i.e.*, the fees paid reduce the reported amount of income). Furthermore, these costs are fully disclosed in the SAI under existing N-1A disclosure requirements, and the fee table discloses the fund's portfolio turnover rate and includes a related statement about transaction costs.

We recommend that the Commission exclude performance-related expenses from the fund's prospectus fee table expense ratio. Our recommendation would focus the fee table expense ratio on the fund's recurring operating expenses (*i.e.*, management fees, 12b-1 fees, shareholder servicing fees, custody fees, audit fees, registration fees, trustee fees, *etc*.) and enhance investors' ability to compare operating expenses across funds. Specifically, by excluding performance-related expenses from the fee table expense presentation, investors would be able to compare recurring operating expenses on an "apples to apples" basis.

Similarly, under our recommendation, interest expense paid on borrowings and dividends paid on short sales would be excluded from the fee table expense ratio because it would provide investors with a more stable measure of recurring operating expenses, because interest and dividend expenses can vary significantly over time, depending on market conditions. We believe these costs are best viewed as investing strategy-related expenses. Mixing these strategy-related expenses into the fee table presentation causes funds employing them to appear more expensive than funds that do not. Furthermore, funds engage in these strategies where they believe there is opportunity to increase the fund's return on a net basis (*i.e.*, the incremental return earned on the

[15] Our Investor Classes generally require a $2,500 minimum initial investment while our I Classes typically require a $1 million minimum initial investment.

strategy exceeds the related cost). Requiring the fee table presentation to include these costs without any context or mention of the potential for increased net returns discourages funds from employing them, even where they may be beneficial to shareholders.

Under our recommendation interest expense and dividends paid on short sales would continue to be disclosed in the fund's statement of operations and reflected as expenses in the expense ratio included in the fund's financial statements and shareholder report. If the Commission adopts our recommendation, it could consider adding a short, qualitative statement to the fee table—like that currently required for portfolio turnover and related transaction costs— to disclose that certain investment portfolio-related expenses such as securities lending fees paid, interest expense, and dividends paid on short sales are excluded from the fee table expense presentation and referencing the fund's SAI and financial statements.

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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/Vicki Booth	/s/ Laura Chasney	/s/Fran Pollack-Matz	/s/Bob Grohowski
Vicki Booth Senior Legal Counsel	Laura Chasney Managing Legal Counsel	Fran Pollack-Matz Managing Legal Counsel	Bob Grohowski, Senior Legal Counsel, VP Legislative & Regulatory Affairs