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September 21, 2010

Ms. Elizabeth M. Murphy
Secretary
Securities and Exchange Commission
100 F Street, N.E.
Washington, D.C. 20549

Mr. David A. Stawick
Secretary
Commodity Futures Trading Commission
Three Lafayette Centre 1155 21st Street, N.W.
Washington, D.C. 20581

Re: Definitions Contained in Title VII of Dodd-Frank Wall Street Reform and Consumer Protection Act (Release No. 34-62717; File No. S7-16-10)

Dear Ms. Murphy and Mr. Stawick:

We greatly appreciate the opportunity to comment to the Commodity Futures Trading Commission and the Securities and Exchange Commission (collectively, the "Commissions") on the definitions of key terms in the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Act") related to the regulation of swaps. We are writing to you on behalf of T. Rowe Price Associates, Inc. and its affiliates, which serve as investment advisers to numerous individuals, institutions, and investment funds, including the T. Rowe Price family of mutual funds. T. Rowe Price currently sponsors over 120 mutual funds. As of June 30, 2010, T. Rowe Price Associates, Inc. and its affiliates managed over $390 billion in assets.

As a member of the Investment Company Institute (the "ICI"), we fully support the views and positions articulated in the ICI's comment letter submitted to the Commissions on the swap-related definitions in the Act. Consistent with the ICI's letter, we are strongly in favor of an exemption for mutual funds from the definition of "major swap participant" ("MSP"). Even if such exemption request is not granted, we believe it is also imperative that registered investment advisers ("RIAs") not be considered MSPs and that the swap activities across the various funds and other accounts managed by an RIA or its affiliates not be aggregated for purposes of determining MSP status. Even though RIAs may have investment discretion over their clients' assets, this does not make the RIA a counterparty for purposes of the performance obligations of its clients. It is the RIA's client whose assets are at risk under a swap and who the counterparty must ultimately look to for performance. In addition, RIAs are already subject to recordkeeping, disclosure, inspection and other requirements under the Investment Advisers Act of 1940 and Commodities Exchange Act (if registered as a Commodities Trading Adviser). It would be an unintended and inappropriate consequence if a portfolio managed by an RIA, which did not engage in substantial swap activities from a systemic perspective, was subject to the MSP regime merely because of substantial and unrelated swap usage by other portfolios managed by the same RIA or its affiliates.

We would also like to emphasize for the Commissions that a careful analysis of which instruments will be subjected to regulation as swaps under the Act is crucial to ensuring that the Act's objectives are achieved and that the best interests of individual and institutional market participants are served. Accordingly, we recommend that the Commissions encourage the Treasury to exempt F/X forward transactions from the definition of swaps.[1] Although F/X forwards cosmetically appear to satisfy one of the provisions in the definition of a swap under the Act (i.e., an agreement that provides for the exchange of 1 or more payments based on the value or level of 1 or more currencies), we believe that their regulation as swaps is not appropriate because the costs and burdens of such regulation would not necessarily improve transparency or reduce systemic risk as envisioned in the goals of the Dodd-Frank Act. Moreover, imposing the framework of the Act on this market could, in fact, heighten such risk. The F/X forward market was not one of the causes of the financial crisis and, in our view, this market already has a sufficient level of transparency. Further, the Act already provides for the reporting of all F/X forwards to a swap repository or the CFTC even if the Treasury exempts F/X forwards from the definition of a swap. As a result, exchange trading is unlikely to provide significant additional transparency benefits or enhance regulators' ability to monitor risk.

With respect to systemic risk, F/X forwards tend to be shorter maturity instruments than credit default or interest rate swaps and thus present lower counterparty risk. We believe that longer-dated transactions involving currency derivatives tend to be structured in the form of currency swaps, not forward transactions. In addition, F/X forwards are often used for specific hedging purposes, and they do not typically provide an opportunity for leveraged returns, as a significant portion of the F/X forward market is comprised of deliverable forwards. Settlement for such forwards requires bilateral delivery of the actual currencies as opposed to a net payment that can be levered, based on a notional reference rate.

We also believe that a significant portion of the market's F/X forward transactions are conducted between banks. Given the prominence of banks in the F/X market, we believe that existing bank regulators could provide adequate supervision for this market if market participants were required to transact F/X forwards only with designated banks which would be subject to capital requirements on such transactions by their regulators. Of course, under such a framework it would be important for the universe of designated banks to be sufficiently large to facilitate best execution and diversification for market participants.

Furthermore, we are concerned that exchange trading of F/X forwards may actually increase systemic risk. If fixed-income investors and other market participants are limited to using standardized F/X forwards instead of using customized transactions as they do now, it likely would be harder and more costly for them to hedge their currency exposures. In addition, because U.S. regulators cannot mandate exchange trading for the entire F/X forward market

[1] Alternatively, the Treasury could determine to exempt those F/X forwards that have a maturity of one year or less.

given its global nature, imposing such requirements on just a segment of the market may increase fragmentation in the currency markets.

We also recommend that the Commissions clarify that repurchase agreements as well as tender option bonds are not swaps. Through the efforts of the Federal Reserve Bank of New York, many enhancements are already underway to the repurchase agreement market which should reduce systemic risks and facilitate operational efficiency. Repurchase agreements can be important components of a money market mutual fund's portfolio and subjecting them to a costly regulatory regime without the prospect of tangible benefits could be harmful to the millions of investors who rely on these funds for stability of principal and cash management. Repurchase agreements are important investment products for other investors and funds as well, in addition to serving as an important source of liquidity for banks and broker-dealers. We also do not believe that fully funded instruments, such as tender option bonds, have been or are likely to be sources of systemic risk. Similarly, many types of hybrid instruments (i.e., certain derivatives that combine various characteristics of securities, futures and/or options) are fully funded and we do not think their customized nature is conducive to regulation as swaps. In addition, we do not believe that fully funded hybrid instruments are potential sources of systemic risk.

Again, we very much appreciate the opportunity to comment on the Act given the prominent role that it will serve in the financial regulatory landscape for years to come. If you have any questions on our comment letter, please feel free to Jonathan Siegel directly at (410) 345-2284.

Sincerely,

Dan Shackelford
T. Rowe Price Associates, Inc.
Vice President, Portfolio Manager &
Chair of Fixed Income Derivatives Committee

Jonathan D. Siegel
T. Rowe Price Associates, Inc.
Vice President & Senior Legal Counsel

cc: David Oestreicher, T. Rowe Price Associates, Inc.
Vice President & Chief Legal Counsel