VIA ELECTRONIC DELIVERY

December 4, 2017

CFA Institute
Global Investment Performance Standards
915 E. High Street
Charlottesville, VA 22902

Re: Guidance Statement on Overlay Strategies

Dear CFA Institute:

T. Rowe Price Associates, Inc. ("**T. Rowe Price**"), a registered investment adviser with the U.S. Securities and Exchange Commission ("**SEC**"), appreciates the opportunity to comment on the Global Investment Performance Standards' ("**GIPS®**") Overlay Strategies Guidance Statement ("**Guidance Statement**"). T. Rowe Price has claimed GIPS compliance for over twenty years and has long been supportive of the GIPS Executive Committee's efforts to provide global investment managers with comprehensive guidance for delivering meaningful and consistent performance data to our prospective clients.

While we support the underlying principles of disclosing overlay strategy methodologies, we believe that the Guidance Statement's proposed requirements on valuation methodology and performance calculation are too broad in their application. These requirements would subject portfolios and strategies that are already subject to a variety of specific and robust regulatory performance calculations and presentation requirements to additional unnecessary requirements. Furthermore, these requirements would be unnecessarily burdensome to firms due to the changes firms would need to make to their operational, technical, and compliance systems in order to comply with the proposed requirements. We believe the narrative disclosure required by the existing GIPS standards are sufficient and accomplish the goals of the Guidance Statement.

I. Scope of Guidance Statement on Overlay Strategies

The Guidance Statement defines an overlay strategy as the management of a certain aspect of an investment strategy carried out separately from the underlying portfolio. The Guidance Statement goes on to state that overlay strategies are typically designed to either limit or maintain a specified risk exposure that is present in the underlying portfolio or to profit from a tactical view on the market by changing a portfolio's specified risk exposure.

However, it is unclear which specific types of overlay strategies would be subject to the Guidance Statement's proposed requirements. The proposed requirements appear to apply to all overlay strategies regardless of the materiality of the overlay, which we believe is not the intent of the Guidance Statement. Applying the proposed requirements in instances in which firms have immaterial overlay positions would require firms to make substantial operational changes without adding commensurate value to the client, in our view.

Even if the proposed requirements are intended to apply only to strategies that are comprised mainly of overlay investments, we believe that, for the reasons described below, the proposed requirements would be incredibly difficult for firms to implement, would not result in greater comparability and consistence across strategies, and may create confusion on the part of clients. For example, it is unclear how the performance of the intermingled assets within the portfolio would need to be calculated. Would a firm be required to calculate separate performance components for securities with different valuation methodologies (e.g., bonds and forwards) held in the same portfolio? Applying the same performance calculation to these investments is not feasible and thus individual firms would have to interpret how to calculate overall portfolio performance, the result of which would be inconsistent application of the proposed requirements.

II. Total Overlay Exposure

The Guidance Statement would require one of three allowable valuation methods of overlay strategies to be used: the notional exposure of the overlay strategy being managed; the value of the underlying portfolios being overlaid; or a specified target exposure. While we generally agree that the three valuation methods proposed are appropriate, we have concerns with the application of the proposal.

First, we believe that the application of these methods would continue to be subject to interpretation by individual firms and therefore would continue to result in inconsistencies. For example, if the notional exposure methodology was used, one firm might use different timing frequencies or valuation approaches depending on the strategy than another firm. Requiring one of these three valuation methods will still result in variances among firms and will add little comparability value to the prospective client.

Second, the allowable methods would provide little transparency to a prospecting client. For example, if gross notional exposure was reported, the client would have little insight into the exposure risk. We believe that an explanation of the overlay risk in the composite description would be more helpful to the client.

Lastly, many firms have not designed their operations to support the above methodologies and their application. Firms may need to invest in systems to measure notational exposure or re-structure the recordkeeping of underlying overlay portfolios to capture the value of the overlay. These initiatives would be costly and time-consuming and may require substantial build out of operations for scalable support. We question the value obtained as a result of this significant operations enhancement.

We recommend that firms continue to apply the current GIPS standards and that the valuation methods described in the Guidance Statement become recommendations. Firms should disclose the overlay risk profile in their composite descriptions and be given the option to include additional information on the valuation methodology and calculation in disclosures.

III. Total Firm Overlay Exposure

The Guidance Statement requires the total firm overlay exposure to include all overlay strategies for which a firm has investment management responsibility and to be presented for total firm and composite overlay exposure as of each annual period.

We believe this proposed requirement should be changed to a recommendation since the total overlay exposure for the composite and firm may not be particularly useful information for prospective clients. Providing a total overlay exposure would reflect the sum of a variety of different valuation methodologies, which may not fully represent its risk and may mislead the investor. Furthermore, an overlay strategy may have a high total composite exposure but very little residual risk (i.e., investments in long and short positions with a market neutral risk) which may confuse the investor. We believe composite and firm assets under management along with the composite description provide sufficient information about overlay strategies to clients.

IV. Benchmarks

The Guidance Statement restates the current GIPS benchmark requirements and provides examples of specific overlay benchmark disclosures that include more details. The benchmark disclosure examples imply a more detailed benchmark description than what is currently required. Further clarification is needed as to whether the level of detail in these descriptions is a proposed requirement or a recommendation. We interpret the examples shown as recommendations only and that existing benchmark GIPS guidance is sufficient.

V. Treatment of Cash Flows

The Guidance Statement requires firms to apply large cash flow guidance to overlay strategy portfolios. Firms must define a large cash flow amount in terms of the exposure (or a percent of the exposure) to the overlay portfolio or overlay composite assets. The adoption of a significant large cash flow policy would be optional for overlays. Requiring firms to adopt this policy to overlays would be unnecessarily burdensome to firms, so as long as this proposal remains optional, we do not object to it.

VI. Collateral

The Guidance Statement requires collateral income to be included in the overlay portfolio return when the collateral is actively managed and the creation of a policy on the treatment of collateral in the portfolio return calculation on a composite-specific basis.

We believe this should be a recommendation since mandates with "actively managed" collateral will not be applied consistently throughout the industry, resulting in minimal value added. Firms would implement this guidance only when collateral is actively managed at the strategy level. If the proposed guidance is suggesting that the collateral is identified at the underlying overlay strategy level, firms would find this unnecessarily burdensome to identify and isolate in order to calculate the return.

VII. Presentation and Disclosure

The Guidance Statement would require several new overlay disclosures including total firm and composite overlay exposure, the methodology used to calculate the total overlay, the methodology used to calculate overlay portfolio returns, and whether collateral is included. For reasons outlined above, we believe the inclusion of this information should be made a recommendation. Providing this information may prevent prospective clients from focusing on other, more relevant information such as the composite and total firm assets. Also, requiring firms to include new quantitative disclosures in the compliant presentation format used in their marketing collateral (which, for larger firms, could number in the thousands), would require a substantial level of effort without, in our view, providing significant value to the client.

VIII. Effective Date of the Guidance Statement

The Guidance Statement's proposed effective date is January 1, 2019. We believe this date is unrealistic in light of the operational impacts it may have. The proposed requirements could result in adoption of new valuation methodologies, collection of new data, restructuring of portfolio records, calculating historical composite performance, etc. These initiatives could be costly and time-consuming and may require substantial build out for scalable support. Therefore, we suggest the effective date be changed to coincide with the effective date of the GIPS 20/20 standards.

IV. Recommendations

Given the extensive nature of the proposed requirements and uncertainty of the intent, we believe the current GIPS standards are sufficient and will accomplish the goals of the proposal. Current performance calculations and disclosure requirements are already subject to a variety of specific and robust regulatory requirements. We continue to believe that the current GIPS standards already accomplish the stated goals of the proposal.

T. Rowe Price continues to support the CFA Institute's efforts to provide investment managers with guidance and clarity for performance presentation standards under GIPS. However, we believe the potential burdens associated with the proposed Guidance Statement far outweigh its perceived benefits. We believe that narrative disclosure accomplishes the objectives of the proposal. We appreciate the opportunity to participate in this process and hope our comments will help the GIPS Executive Committee in evaluating the proposed requirements.

Please do not hesitate to contact any of the undersigned if you have any questions or require additional information or clarification regarding our comments on the Guidance Statement.

Sincerely,

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