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Mr. Steven Maijoor, Chair
European Securities and Markets Authority
103 Rue de Grenelle
75007 Paris
France

Re: ESMA's Consultation Paper ("**CP**") on Guidelines on Sound Remuneration Policies Under the AIFMD

Dear Mr. Maijoor:

T. Rowe Price[1] appreciates the opportunity to comment on ESMA's Consultation Paper on Guidelines on Sound Remuneration Policies Under the AIFMD ("**Policies**"). We are very supportive of the goal to ensure remuneration policies are consistent with sound risk management principles. Consistent with that goal, we believe alignment of performance rewards with a firm's risk control responsibilities is crucial to the long-term health and viability of an organisation. Such alignment also benefits the clients of the organisation and the shareholders of the funds for which it provides investment management services.

As background, investment managers generally do not engage in principal trading and the investment risk they take is on behalf of their clients pursuant to detailed investment guidelines that contain the specific investment/risk limits agreed by their clients. It is important to note that there is an alignment of interests between an investment manager and its clients. Excessive risk taking, and excessive compensation based on such risk-taking, runs counter to a successful client-manager relationship.

We would like to acknowledge our strong support for the comments submitted by the Investment Management Association, as well as the Investment Company Institute and ICI Global. In addition, we offer the following comments:

In general, the basic principles are a fair representation of appropriate methods to ensure proper linkages between risk and remuneration. However, we have significant concerns that a number of the specific requirements go too far in prescribing certain remuneration policy mandates that are not only contrary to the very principles the Policies are meant to support, but also unworkable for many firms covered by the AIFMD's expansive scope. Therefore, we believe it is important for ESMA to fully embrace the proportionality concept based on the nature of, and differing risks inherent in, their business.

Although we appreciate that managing a typical hedge fund, with its unique remuneration structure (e.g., carried interest), may present concerns relative to the proper management of risk, the AIFMD captures a much broader array of managers and funds.A result of the very broad scope of the AIFMD, firms that manage U.S. 40 Act funds, FCPs, Australian and Japanese

[1] T. Rowe Price International, Ltd. ("**TRPI**") is a U.K. investment manager with offices in multiple jurisdictions around the world, and is registered with the U.K. Financial Services Authority, U.S. Securities and Exchange Commission and various other global securities regulators. T. Rowe Price Group, Inc. ("**TRPG**") is a U.S. financial services holding company and the ultimate parent of TRPI and other registered investment managers. TRPG is publicly traded on The Nasdaq Stock Market. The generic "T. Rowe Price" is used to apply to all such entities unless otherwise specified. As of 30 June 2012, T. Rowe Price investment management subsidiaries had approximately $541.7 billion of assets under management as of June 30, 2012.

Investment Trusts, and other highly regulated fund products are also covered by the directive.. These managers will often already be subject to the remuneration requirements mandated by CRD III. In addition, requirements anticipated in future MiFID and UCITS Directives may apply. A coherent and consistent remuneration roadmap is essential to ensure managers subject to all such initiatives, as well as those from non-EU jurisdictions, are not caught in regulatory gridlock.

Application of a flexible proportionality regime is critical to protect firms and ensure a fair and workable remuneration program for investment managers.

There has been discussion whether the Level I text permits proportionality to apply below the enumerated thresholds for variable remuneration, holding periods, and the like. We think it is not only contemplated, but imperative, that the thresholds not be considered floors below which AIFMs may not go. Even if ESMA feels that total "neutralisation" is not permitted under Level I, we believe that a firm should be able to comply with the principles and alter any particular numerical requirement via proportionality. To determine otherwise would act to write the idea of proportionality out of the Directive – a result clearly not contemplated.

Of course, investment managers must have appropriate legal, compliance, and operational risk management processes to ensure they are equipped to meet regulatory requirements, client investment guidelines and expectations, and to protect the integrity of their firms. However, neither all investment management firms nor the funds they manage are alike in their risk profiles. As a result, the ownership structures and varied size, scale, complexity, and business models of investment management firms should allow organisations to meet the AIFMD requirements in different ways. Therefore, we strongly believe specific numerical models detailing remuneration mixes and restrictions are not appropriate in applying the AIFMD requirements to investment managers.

T. Rowe Price Remuneration Philosophy

A core element of the AIFMD requirements is to ensure risk is appropriately addressed in the remuneration policies of AIFs and their managers. We agree that poorly structured remuneration policies can hinder the sustainability of returns over the long term to the extent that they provide incentives for managers to take inappropriate risks. Gauging the quality, rigor and long-term effectiveness of a company's incentives is a core judgment our investment staff applies to the companies in our clients' portfolios. It is a framework that applies equally to the management of our company.

T. Rowe Price has always included risk analyses in the manner in which it conducts its business - from its investment philosophy for clients to the manner in which its senior executives are evaluated and compensated. The firm's reputation is its most valuable asset and, since our founding, we have maintained a focus on ensuring the firm's interests are aligned with those of our clients.

At T. Rowe Price, we have an Executive Compensation Committee of our parent company board made up of all non-executive directors. The firm believes that its compensation programs are designed to reward portfolio managers, executives and other senior officers for building and strengthening the very core of our company's long-term viability, which contributes to long-term value creation for our clients and shareowners. We seek to accomplish this through a balance of short-term fixed and variable cash compensation, and long-term equity-based incentives. We believe the stability of our management team over long periods of time, our executives' and staff-wide level of ownership in the company, and our unwavering focus on generating outstanding long-term performance for our clients are evidence that we have created a powerful alignment of incentives between our management team, associates, clients and shareholders.

Each year, the Executive Compensation Committee meets with senior management to identify goals, which are consistent with the firm's long-term objectives. Also, annual assessments focus on performance and factors related to positioning the company for long-term success. Building a company that can sustainably generate strong investment performance for our clients as well as TRPG shareowners requires a complex mix of managerial abilities. We believe the keys to such long-term success are:

- attracting talent in a highly competitive marketplace and effectively retaining that talent for long periods of time;
- protecting our corporate integrity and reputation as the keys to maintaining our valued clients' trust;
- providing our highest possible level of service quality and client focus;
- offering only products that we believe add value and can produce sustainable performance over complete market cycles;
- nurturing a culture of quality, collaboration and independent thought to create an organization of motivated, engaged, team-oriented professionals who are loyal to our clients and our company.

Approximately a quarter of our executive officers' and senior managers' annual compensation is equity-based, with four to six year vesting requirements. This significantly aligns their pay to the continued success of the company.

Remuneration Committees

Our Executive Compensation Committee has been an important element of our remuneration program. We also utilise internal committees to coordinate compensation policies and ensure fairness and foster a commitment to the firm's remuneration culture. That said, we appreciate that remuneration committees may not be appropriate for all AIFMs. Further, we think it is very important that global investment management complexes be permitted to utilise current remuneration committee, for example at the parent company level, as opposed to mandating individual subsidiary based remuneration committees. Such a mandate would unnecessarily complicate a firm's well-designed program.

We strongly oppose remuneration committees mandated at the affiliate level. First, remuneration should be a group-wide endeavor to ensure consistency across the enterprise. Second, many firms do not appoint independent directors for their affiliate boards. Remuneration policy should not dictate structural corporate governance policy.

Identified Staff

We believe it is critical that firms have the ability to exercise judgment in determining the appropriate subset of staff that can materially impact the risk profile of the firm. There should be no requirement that every employee, manager, executive or director in "the chain of risk" be covered. Firms apportion responsibilities for a reason, and coverage should be only applicable to those with the primary responsibility as defined by each firm. Also, any presumption that a particular function automatically be "covered" is inappropriate. For instance, we strongly believe that in the context of funds or mandates with clear and detailed investment guidelines, and a robust risk management process, the portfolio manager has little ability to significantly impact the risk profile of the fund. Of course, this may not be the case if the guidelines are too broad or no formal risk process exists.

At a minimum, for employees that wear more than "one hat," we believe firms should be permitted to determine the appropriate percentage of compensation related to any applicable "AIF related activities" and subject only that portion of their remuneration to the AIFMD requirements. This would be especially important in the context of group companies, where certain persons act on behalf of more than one company and may not even be based in the EU. We believe any other result would be unreasonable, and in many cases would be an inappropriate jurisdictional reach.

ESMA should allow sufficient flexibility to permit firms to classify "Identified Staff" consistent with the scope of their specific operations.

Delegation

We believe it is imperative to permit delegation of investment management activities to third parties, including affiliates of the AIFM. Many global complexes rely on delegation among affiliates in order to most effectively and efficiently provide investment management expertise to the funds and clients they serve. Further, many managers select unaffiliated sub-advisers to obtain specific exposure to certain mandates for which internal expertise is not as robust. In either case, we strongly believe that the AIFMD remuneration principles should not be applied to payments made to such delegates. The guidelines apply only to staff of the AIFM. It would be inappropriate to apply such principles to payments that are based on a percentage of assets under management.

Explicit Formulaic Requirements

We are most concerned about any requirement that dictates specific percentages or compensation mixes applicable to Identified Staff or the general staff of an investment manager. As noted above, TRPG's independent Executive Compensation Committee has created a remuneration program consistent with the firm's philosophy of rewarding long-term performance that is aligned with the long-term health of the firm, its clients and the funds it manages, and its shareholders. This program is also consistent with the goals of the AIFMD requirements. However, we believe T. Rowe Price, its associates, clients and shareholders would all be significantly harmed if the specific requirements in the AIFMD are mandated without appropriate flexibility through proportionality principles.

First, our compensation structure for senior managers is primarily incentive based. A modest base salary protects the firm's fixed capital requirements, thereby providing flexibility if circumstances require capital protection measures. Cash bonuses are variable and fluctuate depending on individual and firm performance and market conditions. The CP states that fixed salaries need to be high enough to permit variable bonuses to be "dialed down" to zero if circumstances dictate. Our independent Executive Compensation Committee is comfortable that variable bonuses can be "dialed down" if necessary. For example, in 2009, the bonuses of TRPG's Named Executive Officers were reduced by an average of over 41% compared to 2007 levels, even though the firm had over $1.4 billion in net cash and liquid investments on its balance sheet, positive cash flow and operating margins of over 37%. We believe the flexibility provided by modest fixed salaries and incentive-based variable bonuses, determined through appropriate performance and risk measures, should be viewed as consistent with AIFMD remuneration policies .[2]

Further, while the firm's long-term equity awards vest on a pro rata basis over a four to six year period, there are no deferrals of our variable cash bonus payments to staff. We see no need to take flexibility and responsibility away from compensation committees and instead require a specific percentage of one's variable cash bonus be deferred.

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[2] Attempting to "legislate" the appropriate balance of fixed and variable components to mandate a "sufficiently high proportion" to the fixed portion will saddle firms by driving up base costs and ultimately result in increased risk for firms and, therefore, the funds and clients that rely on them. Higher fixed costs will limit the ability of firms to reduce costs in a negative business environment. This result would be contrary to the purposes of the Policies.

Although we appreciate the initial FSB Principles specifically reference 40 and 60 percent (upon which the CRD, AIFMD and other Directives are based), we do not understand why deferral of those percentages is more appropriate than 20, 30 or any other percentage. The point being that there is no magic number. In fact, the FSB Principles caveat those percentages (and the stock-based compensation percentage) with words like "such as" and "for instance." Further, the CRD allows for proportionality (to apply lower or even no percentage requirements). Firms need to understand the principles under which they must craft their policies, but not be forced to apply a "one-size-fits-all" policy where the policy does not "fit all" and the businesses and their attendant risks are not "one size."

Clearly, firms should have a deferral program that works to appropriately align an employee's interests with that of the ongoing health and viability of the firm. It should also be constructed to support the fiduciary principles under which firms are governed. However, the exact nature of that program should be left to the individual firm as long as it is consistent with the AIFMD's general remuneration principles, rather than mandated specific percentages.

As noted above, T. Rowe Price's deferral program applies to the equity-based awards of stock options, restricted stock and restricted stock units. We understand the AIFMD requirements would mandate awards in shares of AIFs. We find this requirement to be another example of the inappropriate scope of the AIFMD. It would appear to make sense to apply this compensation requirement in a situation, for example, where the AIFM manages one AIF (when that AIF is truly a hedge fund). However, as discussed, we know that the directive covers managers with segregated account clients as well as highly regulated funds as long as they manage at least one AIF – even if such AIF is not a typical hedge fund (e.g., an FCP managed like a UCITS). These managers have many personnel that service such clients and funds, including portfolio managers that make the investment decisions for multiple funds – some of which may be AIFs. In these cases, the "fund shares" requirement presents more problems than it solves. For example, how does one determine how many shares of each fund must be provided as compensation? How does the award of multiple fund shares actually align risk and shareholder interests? How does this affect segregated account holders or clients of other products that are not able to issue ownership rights in the accounts managed by the manager? How would funds with different share classes be handled? What if a fund cannot be sold or issued in the jurisdiction where the manager resides? We understand that the 50% requirement would not apply if the AIFs managed by the AIFMD account for less than 50% of the total assets managed by the AIFM. However, it is not clear whether the entire requirement is negated or if a lower percentage would still be required. Further, there is the potential that certain products that should not be AIFs, like US 40 Act funds, would still need to be included as AIF assets. In general, the requirement is based on a perception that there is a "typical" AIFM, and would be unworkable in the context of many AIFMs captured by the Directive unless AIFMs are permitted to apply a proportionality standard to the requirement. For instance, we believe our current equity program, based on our long term incentive program for parent company stock, is a prudent and effective method of aligning risk and all of our constituents' interests.

That said, we want to clarify that we are very much opposed to requiring a particular percentage of any variable bonus to be paid in company stock, stock equivalents, or fund shares. For one, this requirement does not take into account the amount of an employee's equity holdings, or personal invested capital at risk.[3] Further, although we believe many firms strongly encourage their managers to own shares of the funds they manage, it is not a requirement (and, as noted above, may not even be legally permitted).[4]

In relation to company stock, firms, whether private or public, do not have an unlimited amount of stock, stock options or units to issue its senior managers or those ultimately deemed Identified Staff in order to comply with contemplated percentage requirements. In the context of corporate

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[3] The same can be said of any required percentages of a particular fund.

[4] Managers of US 40 Act funds must disclose their holdings in regulatory filings, based on generic ownership bands.

stock, the requirements would have the negative effect of limiting a firm's ability to push the "ownership culture" down through the organisation to other members of the firm, including the next generation of leadership. Further, our senior executives and senior managers have significant T. Rowe Price stock holdings, which clearly tie their overall financial health to the long-term health of the firm. Some, the named executive officers of TRPG and other senior executives, have specific holding requirements (multiples of their salary) of company stock. This is an Executive Compensation Committee requirement, based on their collective judgment, and such judgment should not be usurped by regulatory formula. Current CRD requirements recognize these issues and allow a proportionate response to the stated numeric requirements. We strongly believe ESMA should follow suit as it applies to AIFMD requirements.

Additional Requests for Clarity

Effect of Breaches

We are mindful that the need to allow for a proportionate response, including those related to the determination of Identified Staff and the formulaic requirements, raise a concern that firms will interpret "compliance" with those rules differently and, in some instances, inconsistently with the Policies. However, we believe it would be inappropriate for the applicable regulatory authorities to exercise their powers against firms and their employees retroactively. We believe it is important for the regulators to clarify that such enforcement activities would be forward-looking for firms making good faith efforts in their adoption and maintenance of such remuneration policies. Retroactive attempts to require firms to seek reimbursement from employees "incorrectly classified," or compensated pursuant to a program deemed "inconsistent" with the Code, would create apprehension and uncertainty throughout the industry. Firms could be sanctioned if they acted in bad faith in their attempt to apply proportionality but innocent employees should not be sought for redress.

Transitional Arrangements

The requirements contemplated by the Policies are significant and not all firms are at the same state of readiness to implement the requirements. Currently, it appears the Policies would become effective in July 2013. However, without clear and final guidance, firms are not in a position to make any necessary changes to their remuneration programs. As 2012 is already coming to a close and firms prepare for 2013, most will have already finalized their remuneration programs for 2013. Therefore, assuming final guidance is provided before year-end, firms will not be in a position to comply until at least 2014.

Conclusion

Rational, prudent, long-term stewardship is at the core of T. Rowe Price's investment process, our management and our oversight of the company. For these reasons, we believe our incentive structures are working as designed to facilitate sustainable, long-term value creation for the clients we serve as well as our employees and shareholders. Our management team and our senior officers have been dedicated to the company's long-term success throughout their lengthy careers here. In addition, they are shareowners, both of the public company stock and often of many funds we manage. The parent company Board of Directors, and the Executive Compensation Committee in particular, regularly review the firm's remuneration practices to ensure they maintain the close community of interests between our employees, our clients and our shareholders. Consistent with CRD III, representatives of the Human Resources, Legal and Compliance Departments also review the Firm's remuneration policies.

We have significant concerns that application of the strict requirements of the AIFMD Policies, primarily through the formulaic requirements, will damage the philosophy we have forged and the balance we have achieved through well-crafted, risk and performance-focused, remuneration policies. We also believe that if the Policies are inflexibly applied, the nature of remuneration practices across the industry will surely lead to higher fixed costs and negatively impact the ability of firms to ensure the alignment of pay, performance and long-term corporate strength.

We thank you for the opportunity to comment on this important proposal and we will be happy to answer any questions or comments you may have.

Yours sincerely,

JM Fisher

Jeremy Fisher
Vice President and Director of International Compliance