TESTIMONY OF

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BEFORE THE

COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS
SUBCOMMITTEE ON SECURITIES, INSURANCE, AND INVESTMENT

UNITED STATES SENATE

ON

"COMPUTERIZED TRADING: WHAT SHOULD THE RULES OF THE ROAD BE?"

SEPTEMBER 20, 2012

Introduction

Chairman Reed, Ranking Member Crapo, and distinguished Members of the Senate Subcommittee on Securities, Insurance, and Investment, thank you for the opportunity to testify today on behalf of T. Rowe Price[1] regarding the effects of recent significant changes in trading technology and practices on market stability. My name is Andrew (Andy) M. Brooks. I am Vice President and Head of U.S. Equity Trading of T. Rowe Price Associates, Inc. I joined the firm in 1980 as an equity trader and assumed my current role in 1992. This is my 33rd year on the T. Rowe trading desk.

T. Rowe Price is celebrating its 75th year of advising clients. We are a Baltimore-based global adviser with over $540 billion in assets under Management as of June 30th, 2012 and more than 3 million client accounts. We serve both institutional and individual investors.

We welcome the opportunity for discussion regarding the industry and market practices.

Our firm is particularly focused on the interests of long-term investors. We appreciate the role other types of investors can have in creating a dynamic marketplace. However, as we talk with our clients, there is a growing distrust of the casino-like environment that the marketplace has developed over the past decade. We worry that the erosion of investor confidence can undermine our capital markets, which are so important to the economy, job growth, and global competitiveness. Re-affirming a strongly rooted commitment to fairness and stability of the market's infrastructure is critically important.

Over the past two decades the markets have benefited from innovation from new technology and competition. Generally, markets open on time, close on time, and trades settle. However there are problems below the surface.

Here are some things we find concerning:

Order Routing Practices

We question the nature of various order routing practices. The maker-taker model, payment for order flow, and internalization of orders all seem to present a challenge to order-routing protocols. Are order routing practices and incentives an impediment to the overarching requirement to seek best execution on all trades?

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[1] T. Rowe Price Associates, Inc., a wholly-owned subsidiary of T. Rowe Price Group, Inc., together with its advisory affiliates (collectively, "**T. Rowe Price**"), had $541.7 billion of assets under management as of June 30, 2012. T. Rowe Price has a diverse, global client base, including institutional separate accounts; T. Rowe Price sponsored and sub-advised mutual funds, and high net worth individuals. The T. Rowe Price group of advisers includes T. Rowe Price Associates, Inc., T. Rowe Price International Ltd, T. Rowe Price Hong Kong Limited, T. Rowe Price Singapore Ltd., T. Rowe Price (Canada), Inc., and T. Rowe Price Advisory Services, Inc.

Co-Location/ Market Data Arbitrage

We believe that the widespread use of co-location creates an uneven playing field that favors those who can and will pay for it. We question whether this has produced a market that values speed over fair access. In no other regulated industry is one party allowed a head start in exchange for payment. Our understanding is that current co-location practices allow for a market-data arbitrage where some investors get quotations and trade data faster than others. This advantage is traded upon, causing some participants to believe they are victims of front-running or are at least disadvantaged.

Speed and Impact on Market Integrity

Our sense is that the almost myopic quest for speed has threatened the very market itself. It also seems many high frequency trading ("**HFT**") strategies are designed to initiate an order to simply gauge the market's reaction and then quickly react and transact faster than other investors can. This seems inherently wrong. Our understanding is that the continued push for speed is not producing any marginal benefit to investors and in fact may be detrimental. This pursuit of speed as a priority is in direct conflict with the pursuit of market integrity as a priority.

Inaccessible Quotes and High Cancelation Rates

The growth of HFT has lead to increased volume; however, whether the corresponding volume is "good" or "bad" deserves analysis. Volume does not necessarily mean liquidity for large institutional investors. When you combine high HFT volumes and even higher cancelation rates, these forces can combine to undermine market integrity and cause deterioration in the quality and depth of the order book. We feel that this volume is transitory and misleading.

Challenges to the National Market System ("Reg. NMS")

We believe the original construct of Regulation NMS was laudable and designed to encourage competition. However, we do not believe this regulation contemplated today's highly fragmented marketplace, where we have 13 different exchanges and over 50 unregulated "dark pools". In such a fragmented market, can one really be confident in achieving best execution given the explosion of market data traffic? We question the markets' ability to process the overload of market data.

Conflicts of Interest

We question whether the functional roles of an exchange and a broker-dealer have become blurred over the years and could warrant regulatory guidance regarding the inherent conflicts of interest. It seems clear that since the Exchanges have migrated to "for profit" entities, a conflict has arisen between seeking volume to grow revenues and their obligation to assure an orderly marketplace for all investors.

HFT Trading Strategies

Professional and proprietary traders often have divergent interests from those of investors concerned about the long-term. When the average holding period for such traders is measured in seconds as opposed to months or years, have we destabilized the market. Given recent market volatility, more study is warranted to assess the impact of the exponential growth of short-term trading strategies. Most rules and regulations seem to further enable those with short term profit incentives as evidenced by the proliferation of new order types suggested by exchanges and approved by regulators.

Suggestions

We feel the time is appropriate to step back to examine market structure and how it impacts all investors. A good first step might be to experiment with a number of pilot programs to examine different structural and rule modifications. We suggest a look at the appropriateness of co-location as a general practice and enhanced oversight of high frequency trading and other strategies that might be unduly burdensome to overall market functionality. We would like to see a pilot program where all payments for order flow, maker-taker fees, and other inducements for order flow routing are eliminated. We envision a pilot where there are wider minimum spreads and mandated time for quotes to be displayed to render them truly accessible. These programs can include a spectrum of stocks across market caps and average trading volumes, among other factors. We also suggest a pilot program of imposing cancelation fees for unacceptable trade to cancelation ratios. A key question is should we foster consolidation in this fragmented market? At a minimum, should we raise the barrier for becoming an exchange? In our opinion, requiring a more robust testing for new software would seem to make sense.

Conclusion

T. Rowe Price appreciates all the efforts of the SEC and Congress as we look to make the markets better and fairer for all participants. The Consolidated Audit Trail, Large Trader ID, limit up/down initiatives are all improvements. We suggest any regulatory proposals be aligned with a goal of making the markets simpler, more transparent, and less focused on speed. We applaud the Committee’s interest in making sure the right questions are asked.

There are currently over 1000 order types to express your buy and sell interest and we suggest that a simplified model may be more efficient for all investors. The issues we face are enormously complex. We certainly do not have all the answers. We believe that it is time to revisit the historical responsibility to provide a fair and orderly market.