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April 10, 2006

VIA FEDERAL EXPRESS

Ms. Nancy Morris
Secretary
U.S. Securities & Exchange Commission
100 F Street, N.E.
Washington, DC 20549-9303

RE: Mutual Fund Redemption Fee Proposed Amendment
SEC Release No. IC-27255 (the **"Release"**);
File No. S7-06-06
File No. 4-512

Dear Ms. Morris:

We are writing on behalf of the T. Rowe Price family of mutual funds (**"Price Funds"**) and T. Rowe Price Retirement Plan Services, Inc. (**"RPS"**) to offer our views on Rule 22c-2 under the Investment Company Act of 1940 (the **"Rule"**) and the recently proposed amendments to the Rule (**"Proposed Amendments"**). As of December 31, 2005, the Price Funds held assets of approximately $170 billion, with more than 8 million individual and institutional accounts. RPS serves as a transfer agent to the Price Funds and recordkeeper to over 1,000 plans and 1.4 million participants with investments in the Price Funds and 150 outside funds. As such, the Rule and Proposed Amendments are of great interest to us.

We appreciate the Commission's considerable effort to understand the industry's concerns with the scope of the original Rule and we commend the Commission for issuing for comment the Proposed Amendments. We believe the Proposed Amendments will reduce costs and make compliance with the Rule less burdensome while continuing to further the purpose of the Rule. We appreciate the Commission's willingness to solicit and consider further comments on the Rule and Proposed Amendments, including feedback regarding the potential costs associated with the Rule. For this reason, we respectfully submit comments relating to: (1) extending the compliance date of the Rule (2) expanding the definition of financial intermediary to include persons submitting trades on behalf of financial institutions; (3) reconsidering the application of redemption fees to insurance funds; and (4) encouraging the Commission to perform an ongoing cost/benefit analysis of the Rule.

EXTENSION OF THE COMPLIANCE DATE

We strongly urge the Commission to extend the compliance date of the Rule to the latter of either: six months from the original compliance date of October 16, 2006 or six months from the adoption of the Proposed Amendments. Further, in order to allow affected parties to plan and budget for the Proposed Amendments, the Commission should announce the extension as soon as possible. We are recommending a six month extension to allow more time for funds and intermediaries to implement the technology needed to comply with the Rule and to further understand and prepare for the potential costs of complying with the Rule.[1] In addition, we believe the extension is necessary given the Proposed Amendments were recently published and are not yet final. Although the Price Funds have already sent the required Shareholder Information Agreement[2] ("**Agreement**") to its 311 Financial Intermediaries[3], less than 6% of the Agreements have been returned. We are concerned some intermediaries may be reluctant to sign the agreement until the Proposed Amendments have become final or until they have the necessary technology in place to meet the Rule's requirements. If the compliance date is not extended, it is likely not all of the Agreements will be executed by the deadline, forcing funds to reject purchases (including retirement plan contributions) from underlying shareholders and retirement plan participants - the same persons the Rule is designed to protect.

DEFINITION OF FINANCIAL INTERMEDIARY

We appreciate the Commission addressing the "chain of intermediary" issue raised by the Price Funds and others in the industry. Under the Proposed Amendment, funds are only required to enter into Agreements with financial intermediaries that "submit orders to purchase or redeem shares directly with the fund" ("**First-Tier Intermediaries**"). Under the Agreement, the First Tier Intermediary must agree to provide, or arrange to have provided, shareholder information from underlying financial intermediaries ("**Indirect Intermediaries**") or prohibit the Indirect Intermediary from purchasing fund shares. We believe this is a practical approach to the Rule and will reduce costs and burden to the funds but at the same time allow funds to look through several layers of intermediaries to receive shareholder data for review. However, as we will explain, in order to ensure that all First Tier and Indirect Intermediary accounts are covered by the Rule, we believe an additional change to the definition of Financial Intermediary is necessary.

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[1] A three month or shorter extension would also conflict with year-end tax season (one of the busiest times for funds and Financial Intermediaries).

[2] As defined under Proposed Amendment 22c-2(c)(5)

[3] As defined under Proposed Amendment 22c-2(c)(1)

There are some First Tier Intermediaries that submit trades directly to the fund but do not hold shares of the Fund (e.g., the account is registered in the name of an Indirect Intermediary). Because the definition of Financial Intermediary under the Rule only includes persons that "hold securities issued by the Fund" these First Tier Intermediaries do not fall within the definition of Financial Intermediary and therefore no Agreement is required. Likewise, under the Proposed Amendments, the fund is only required to enter into an agreement with Financial Intermediaries that submit orders directly to the Fund. Because Indirect Intermediaries do not submit orders directly to the Fund (they submit orders to the First Tier Intermediary), the Rule does not require the fund to enter into an Agreement with these intermediaries either (even if they hold shares). As a consequence, in situations where a First Tier Intermediary, trading on behalf of an Indirect Intermediary, does not hold shares of the fund, no Agreement is required. For this reason, we recommend the definition of Financial Intermediary be revised to add a new paragraph 22c-2(c)(1)(v) as follows: "Any person that submits orders to purchase or redeem shares directly to a fund on behalf of any of the foregoing persons."

APPLICATION OF REDEMPTION FEES TO INSURANCE FUNDS

With respect to the application of the Rule to insurance funds[4], we are disappointed that the Commission gave little more than a passing reference to the legal issues such funds would face in assessing redemption fees on underlying contractholders. We have surveyed our insurance company clients and have found that a vast majority of insurance funds do not impose redemption fees due to: (1) the lack of authority in existing insurance contracts; (2) the requirement to amend existing contracts to add the fees and obtain state insurance department approvals; and (3) operational issues associated with assessing the fees due to the unique pricing structure involved with operating insurance company separate accounts.

In footnote 12 to the Release, the Commission cites a single federal district court opinion as support for the proposition that a redemption fee is a fund charge as opposed to a contract charge, and therefore should not cause insurance companies to breach their annuity contracts. Yet, we are aware of other cases challenging the validity of market timing restrictions (which may also be imposed at a fund level) where courts have decided differently. In any event, a footnote to an SEC release will likely not deter other

[4] There are 10 Price Funds, which are offered exclusively to insurance companies as funding vehicles for their variable insurance products. These funds have assets as of April 5, 2006 of $3.7 billion, with 150 separate accounts as investors.

litigants from challenging such fees, nor will other courts likely give much deference to a statement that is not incorporated into the Rule itself. Thus, we believe the issue is not free from doubt. We have not found it necessary to add redemption fees to date, and have applied other means in seeking to deter market timing in our variable insurance funds. If we were to assess such fees, we would likely adopt a new share class with redemption fees, which would be offered to new insurance company clients or existing clients with new variable products, in order to mitigate the insurance contract issues described above.

We encourage the Commission to do a more thorough review of the issues facing variable insurance funds, and recognize that the adoption of redemption fees by these types of funds is not as simple and straightforward as the footnote seems to imply.

COST/BENEFIT ANALYSIS

The Commission is seeking feedback on the steps funds and Financial Intermediaries are currently taking to share information as well as the potential costs and benefits of the Rule and the Proposed Amendments. We encourage the Commission to continue to perform a cost benefit analysis and, in furtherance of that goal, we are providing the following information to assist with this analysis.

Current Environment. Currently, the Price Funds monitor cash flow and turnover in omnibus accounts to detect suspicious trading activity. When suspicious activity is detected, we contact the Financial Intermediary to determine if the trading activity was the result of the same or different shareholders (because one net trade is submitted by the Financial Intermediary this is not discernable to the fund). Generally, Financial Intermediaries are cooperative in providing information and restricting accounts when it is determined that the fund's excessive trading policy has been violated. This review can take place without the exchange of shareholder data.[5] It is our experience that the current excessive trading monitoring,[6] together with redemption fees and fair value pricing, are effective in curtailing short-term trading that may have a negative effect on the Price Funds and their shareholders.

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[5] When excessive trading is suspected, we contact the intermediary and request additional information on the trading activity and persons involved. Typically, this is a verbal conversation and the shareholder's identity may not even be made known. If the financial intermediary indicates that the trades were made by the same shareholder and it is determined that the shareholder has violated the fund's excessive trading policy, we ask the intermediary to take further action (for example, place a restriction on the account).

[6] In addition to the procedures for monitoring activity in omnibus accounts, the Price Funds monitor and restrict accounts held directly with the fund and individual accounts held through intermediaries but visible to the fund (e.g., NSCC Level 3 networked accounts).

The Effect of the Rule. We believe the Rule and required Agreement will have the positive effect of obligating Financial Intermediaries to provide information to the funds and act on instructions to restrict accounts. In this regard, the Rule will cause Financial Intermediaries to develop the necessary technology and infrastructure to assist the Funds. It will also help automate the process and establish standards for the timely response to these inquiries and instructions. In addition, the Rule and the required Agreement may be a useful tool for funds to audit a Financial Intermediary's assessment of the fund's redemption fees.

However, the Price Funds and RPS are concerned the Rule and Agreement requirement may result in: (1) funds unnecessarily requesting shareholder data more frequently and for longer periods than today or (2) Financial Intermediaries submitting daily data, making compliance with the Rule burdensome and costly. We are also concerned that funds may be expected to review and act upon insignificant trades, which will dramatically increase costs, especially if daily data is received. If this occurs, cost-effective omnibus accounts may become obsolete or, more importantly, mutual funds may become unattractive investment options for Financial Intermediaries and their clients. For this reason, we strongly urge the Commission to continue to perform a cost benefit analysis of the Rule and to encourage funds and Financial Intermediaries to work together to establish reasonable standards for the enforcement of the Agreements. We are grateful the Commission is encouraging feedback with respect to costs and, accordingly, are providing the following information to assist with your review.

Costs. In general, we believe the cost estimates published in the Release relating to identifying financial intermediaries and drafting and negotiating the agreements are reasonable. However, we believe the Commission may have underestimated: (1) the funds' costs associated with information sharing, storing and analyzing the data; and (2) intermediaries' costs with retrieving and sending data and applying restrictions imposed by the funds. Of course, as discussed below, much of the potential cost depends on how often funds intend to request information under the terms the Agreements as well as demands of Financial Intermediaries.

Information Sharing. If data continues to be requested "as needed" when unusual trading is suspected[7] and Financial Intermediaries respond only to these requests, for the Price Funds, the costs associated with information sharing

[7] For example, funds may detect unusual trading in an omnibus account where a large purchase is received on one day and a similar amount is redeemed on another day. The fund would request underlying shareholder data for the trades that occurred on those two days to determine if the same shareholder(s) traded on those two days (in violation of the excessive trading policy) or if the purchases and sales were the result of different shareholders.

(requesting and receiving data) should be comparable to the Commission's estimates. For example, the Commission estimates a fund complex with 300 Financial Intermediaries will request an average of 100,000 transactions a week through the NSCC at a cost of $.0025 per transaction ($250 a week/$13,000 annually). However, if Financial Intermediaries determine that responding to "ad hoc" requests from hundreds of funds is too burdensome, they may insist that the fund receive the shareholder data daily. If this occurs and the data is transmitted through the NSCC, the cost estimates could increase significantly (possibly ten times this amount or $130,000+ annually). As the Commission indicates in its Release, funds will also need to develop systems and procedures to request and receive data outside of the NSCC system to accommodate those Financial Intermediaries that do not use the NSCC. The Commission estimates these costs to be $50,000 set up charges and $20,000 annually. Since we do not know which Financial Intermediaries will participate in the NSCC, it is not yet known if these costs are reasonable.

Data Repository. In addition to the costs associated with information sharing, it may be necessary for funds to hire an outside vendor to act as a repository to receive and maintain the data received from Financial Intermediaries.[8] The Price Funds have received preliminary cost estimates for these services of up to $730,000 a year. We do not believe these costs were considered by the Commission.

Intermediary Charges. Some Financial Intermediaries may seek to charge the fund a fee for responding to shareholder information requests. It is unknown at this time what these charges may be or the number of Financial Intermediaries who may request them. We do know that a model agreement developed for retirement plan recordkeepers includes a provision to charge funds for "extraordinary requests" (not yet defined). We are also aware of one Financial Intermediary whose Agreement includes charges for every "ad hoc" request (at an unspecified amount) or requires the fund to pay a set up charge and an annual fee if the fund receives the data daily.

Intermediary Vendor Costs. As the Commission acknowledges, Financial Intermediaries will also absorb costs to comply with the Agreement. As previously mentioned, much depends on the frequency and volume of requests received from fund companies. If requests for information become frequent and

[8] These repositories would also produce acknowledgements that the requests were submitted, track pending requests, acknowledge receipt of data and provide sufficient analytics to streamline underlying shareholder reviews by the funds.

voluminous, it may be necessary for Financial Intermediaries to hire vendors to store their underlying shareholder data and make it available to the funds to retrieve as deemed necessary. RPS has received estimates for these vendor services of approximately $170,000 in set up charges and $360,000 a year, with a five year commitment. (This is higher than the $100,000 annual costs the Commission estimates). Financial Intermediaries will also incur the NSCC charges identified above to submit the information to the fund.

Staffing. Finally, both fund companies and Financial Intermediaries may need to increase staffing to comply with the Rule. As with the costs listed above, this will depend heavily on frequency and volume of requests and whether the fund will be expected to analyze and act upon each and every trade received, regardless of size. If volumes and frequency continue as today, for the Price Funds, there should not be a substantial impact on staffing (as many of these functions are already being performed). Thus, if Financial Intermediaries respond to the Price Fund's requests "as needed," and do not send data daily, staffing may only need to be increased slightly or not at all. However, if Financial Intermediaries insist that the fund receive data daily, it could have a significant impact on staffing. If this occurs, the Price Funds would need to significantly increase staff to: (1) analyze the thousands (or millions) of transactions received to determine which shareholders violated the excessive trading policy; (2) send instructions to the Financial Intermediary to restrict underlying shareholders (which could increase significantly if daily data is received and all transactions are reviewed); (3) follow-up on instructions to ensure the restrictions were placed and (4) monitor the restrictions and instruct the Financial Intermediary when to lift the restrictions, if permitted.

Similarly for Financial Intermediaries, if fund companies continue to request data "as needed" only for days in which there is unusual trading activity, for RPS, no significant changes to staffing should be needed. However, if funds request data more frequently or for longer periods,[9] intermediaries such as RPS would need to increase their staff significantly. Even if outside vendors are used to store the data for funds to retrieve on their own, staff will be needed to: (1) provide additional information to the fund (e.g., aged shares for redemption fee analysis); (2) restrict shareholders when instructed by the fund; (3) monitor the accounts to remove the restrictions; (4) provide confirmation to the fund of actions taken; and (5) communicate restrictions to participants and plan sponsors.

[9] For example, for RPS if all 150 funds request data on a monthly or quarterly basis and for 90 days of trading or more.

The Commission has focused much of its information sharing cost estimates on systems costs. As the above information indicates, staffing to comply with the Rule could also be quite costly for funds and Financial Intermediaries.

We believe all of the above costs should be taken into consideration as the Commission continues to perform its cost benefit analysis. We are encouraged that the Commission is requesting that funds and Financial Intermediaries provide ongoing cost information relating to complying with the Rule and will be happy to provide this information as it becomes available to us. We believe that the Commission should also encourage the industry and trade organizations such as the Investment Company Institute, Securities Industry Association and the SPARK Institute to develop reasonable standards for the enforcement of the Agreements required under the Rule.

If you would like to discuss these comments further or if you have any further questions, please do not hesitate to contact me at the above number or Laura Chasney, Associate Legal Counsel, at 410-345-4882.

Very truly yours,

Henry H. Hopkins
Chief Legal Counsel

Laura H. Chasney
Associate Legal Counsel

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