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John R. Gilner
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April 17,2003

VIA OVERNIGHT MAIL
Jonathan G. Katz
Secretary
Securities and Exchange Commission
450 Fifth Street, N.W.
Washington, D.C. 20549-0609

Re: File No. S7-03-03; Proposed Rules: Compliance Programs of Investment Companies and Investment Advisers

Dear Mr. Katz:

Enclosed please find an original and two copies of our Comment Letter regarding Compliance Programs of Investment companies and Investment Advisers.

Should you have any questions, please do not hesitate to contact **me.**

Sincerely,

John R. Gilner
Vice President &
Associate Legal Counsel.

JRG:ycw

Enclosures

T.RowePrice

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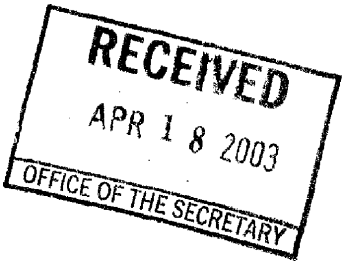

Re: File No. S7-03-03; Proposed Rules: Compliance Programs of Investment Companies and Investment Advisers

Dear Mr. Katz:

We are writing in response to the request by the Securities and Exchange Commission (the "Commission") for comments on the proposed new rules under the Investment Company Act of 1940 and the Investment Adviser's Act of 1940 that would require investment companies and investment advisers to develop compliance programs in accordance with specific mandated requirements (the "Proposed Rules").

T. Rowe Price as a Financial Services Provider

T. Rowe Price Group, Inc. through its operating affiliates provide investment advisory services; **brokerage;** trust services; and related administrative services including transfer agent and record keeping (principally related to our mutual funds) for individual and institutional accounts. T. Rowe Price Associates, Inc., **is** a registered investment adviser under the Investment Adviser's Act and, together with its advisory affiliates had assets under management of approximately $140 billion as March 31,2003. Therefore, T. Rowe Price has a **keen** interest in compliance issues as well **as** how compliance and regulatory issues impact the integrity of the mutual fund industry and our investment advisory business. Accordingly, **we** appreciate the opportunity to comment on the **Proposed** Rules.

Strong Compliance Programs Equate to Good Business Practices

The T. Rowe Price complex of operating companies has always been committed to a strong compliance program that is integral to our operations. We believe that a strong compliance program with established internal controls:

1. Represents sound business practices;
2. Can assist an advisory firm in fulfilling its fiduciary responsibility to its clients;
3. Creates an environment that promotes increased awareness of, and compliance with, applicable **laws** and regulations; and
4. Reduces the potential liability for violations of the securities laws.

We therefore support the Commission's goal of ensuring that investment companies and investment advisers have a rigorous internal compliance program. However, we are concerned that certain aspects of the Proposed Rules **impose** upon investment **companies** and investment advisers compliance duties and responsibilities that are impractical and overly burdensome. We are particularly concerned about unnecessary practical burdens arising from the duties which the Proposed Rules mandate as investment company board of director responsibilities. We believe it is critical that any regulatory rules that **are** adopted provide investment advisers, investment companies and the investment companies' boards with flexibility to determine their own compliance programs and the means by which the investment company boards will oversee the compliance programs.

T. Rowe Price Concurs with the Comments Submitted By the ICI and ICAA

Representatives from T. Rowe Price have participated in discussions with the membership of **the** Investment Company Institute ("ICI") and the Investment Counsel Association of America, Inc. **("ICAA")** concerning the Commission's Proposed Rules. We wish to reiterate that we share the concerns expressed by **the** ICI and the ICAA regarding these Proposed Rules. We believe that the ICI's and ICAA's **very** comprehensive comment letters represent the concerns and views of the investment company and investment advisory industries, respectively. Listed below, we have specifically identified certain provisions of the Proposed Rules which we are particularly concerned could have an adverse impact on investment advisers, investment companies and their clients.

Deficiencies in Procedures Do Not Equate to Fraud

We support the concept that, as **a** matter of prudent business practice, an investment adviser should (1) have certain written compliance policies and procedures; (2) designate personnel responsible for compliance; and **(3)** regularly review its compliance program. However, we believe it is inappropriate and over-bearing for the Commission to use an anti-fraud rule to mandate these practices. Potentially, this means that an investment adviser could be found to have committed fraud without having committed any other substantive violation of the Investment Advisers Act or the federal securities **law.** Without some other substantive wrongdoing, there is no basis or need to deem as "fraud" the failure to adopt a procedure, the failure to review a procedure or the failure to designate an individual responsible for administering a procedure.

If such deficiencies occur, the deficiencies should be recognized for what they are and the Commission empowered to seek regulatory sanctions appropriate for the deficiencies.

The Scope of Required Policies and Procedures is Potentially Infinite

The Proposed Rules will require an investment company's hoard to approve the investment **company's** written compliance policies **and** procedures as well as those of an investment company's adviser, principal underwriter and administrator relative to the services they provide to the investment company. **As** proposed, such policies and procedures must be designed to prevent violations of the "federal securities law", as defined. With respect to investment companies, the term "federal securities laws" is broadly defined to include:

- The Securities Act of 1933;
- The Securities Exchange Act of **1934;**
- The Sarbanes-Oxley Act of 2002;
- The Investment Company Act of 1940;
- The Investment Advisers Act of 1940;
- Title V of the Gramm-Leach-Bliley Act (i.e. Privacy Obligations of Financial Institutions);
- Any rules adopted by the Commission under the above statutes; and
- The Rank Secrecy Act as it applies to funds (i.e. Anti-money laundering obligations) and any rules adopted by the Commission or the Dept. of Treasury under the Bank Secrecy Act.

With respect to advisers, the term "federal securities law" refers to the Investment Advisers Act of 1940.

The scope is so encompassing that investment companies and advisers will be subject to **a** continuously increasing and potentially infinite list of areas for which procedures will be required. **An** investment company could arguably be required to have written procedures addressing virtually **every** regulatory requirement specified in these statutes. Many of these regulatory requirements go far beyond the functions that an investment company and its adviser perform on **a** day to **day** basis. Considering that these statutes and their corresponding regulations **encompass** thousands of pages of written text, it is impractical for the SEC to mandate that written procedures and policies be adopted for such a broad range of regulatory and legal obligations.

Obligations of the Investment Company Board

Although many complexes have adopted compliance protocols, the Proposed Rules would mandate the adoption of a vast library of documented procedures that today are, in most cases, combinations of formal and informal procedures which are disbursed throughout an investment company complex's organization. The sheer volume of these polices and procedures would be very burdensome for an investment company board to review and **approve** in any detail. The issue is therefore whether investment **company** boards should be saddled with the responsibility of reviewing and approving procedures, especially those involving the adviser's and transfer agent's operations that are outside of the purview of the Investment Company **Act** and investment company board's traditional

role. We believe investment company boards should, at most, be required to conduct a high-level, summary review of the adviser's major compliance processes affecting investment company management, and possibly receive a compliance process report (similar to how the boards review fund custody information), but not be required to approve all of the adviser's **policies** and procedures to the extent mandated under the Proposed Rules.

It is true that some policies and procedures are already reviewed by investment company boards either annually or at their adoption (i.e., pricing, custody, affiliated transactions, fund governance, privacy, money laundering) where mandated by the Investment Company Act or other laws. Nonetheless, the obligation **for** an investment company's board to approve such a broad and comprehensive spectrum **of** policies and procedures will necessitate more frequent and lengthy board meetings.

We are also **concerned** that the Proposed Rules arguably will require the investment company board to approve amendments to the policies and procedures. Unless ***the*** Commission clarifies the language of the Proposed Rules, it appears that boards will be required to approve any material amendments to the policies and procedures. The practical dilemma thereby arises whether an investment company and/or adviser will have to hold off implementing material amendments pending board approval. Since it can **be** expected that amendments will routinely need to be made, such a requirement could make it more difficult to effect such amendments since such approvals will often **require** the scheduling of the investment company board meetings. If investment company board approval of policies and procedures is mandated, we suggest that **the** Commission **clarify** that after the initial establishment of a compliance program **is** approved by the board, any subsequent material amendments to compliance policies and procedures could be implemented and subsequently approved at the next regularly scheduled board meeting. Rule 17j-1 of the Investment Company Act simply requires material amendments of the Code of Ethics to be approved within six months and we suggest that a similar retroactive approval process be allowed for any requisite investment company board approvals of compliance policies and procedures.

Designation of a Chief Compliance Officer

The Proposed Rules would require every adviser to designate a Chief Compliance Officer and also require investment company boards to **approve** the designation of a Chief Compliance Officer. We strongly support **the** Commission's interest that advisers and investment companies should **be** committed to hiring and retaining well qualified compliance professionals and that such compliance officers should be empowered with requisite authority to enforce the compliance program. Nonetheless, **we** suggest that firms should have flexibility to define their compliance structure and the designation of responsibility for compliance functions. We believe that the Commission should recognize and clarify that advisers and investment companies should have the flexibility to designate multiple compliance officers for different areas of business. For example, for some firms, it may be worthwhile to designate one compliance officer with responsibility for domestic compliance and a different compliance officer with responsibility for international compliance. Similarly, some firms may find **it** beneficial

to designate one compliance officer with responsibility for equity compliance and a different compliance officer with responsibility for fixed income compliance. Additionally, the Commission should clarify that a single individual may have compliance responsibilities for both a complex's investment companies as well **as** the advisers that manage such investment companies.

Request for Comment on Further Private Sector Involvement

The Commission is also requesting comments regarding private sector involvement to enhance compliance through third party compliance reviews, expanded audits by investment company accountants, fidelity bonding requirements for investment advisers and the establishment of **a** self regulatory organization. We believe it is premature to consider such approaches until further study is conducted relating to the impact and results from implementation of the Proposed Rules (after appropriate amendments for comments received).

The Commission is a very effective direct regulator of investment advisers and investment companies and we believe that changes to **this** regulatory framework should only be implemented after thorough review, analysis and cautionary skepticism. Moreover, identified below are some specific preliminary concerns that we have regarding these private sector concepts.

Periodic Third Party Compliance Review

The possible requirement that each investment company and adviser undergo **a** periodic compliance review by a third party is remarkably similar to the approach often utilized by the Commission in enforcement actions to discipline firms for specific wrongdoing. We question the benefit of expanding the use of **such** reviews to all investment companies and **advisers** given the costs of such reviews. Additionally, we are concerned that mandating such third party reviews and making the findings of such reviews available to the Commission's examination staff will cause the reviews to effectively become the initial stage of a regulatory examination. For a third party review to be beneficial, we believe it should be structured so that the third party reviewer can provide constructive criticism without the review becoming a component of the Commission's examination process.

Requiring Expanded Audits by Investment Company Accountants

The Commission's suggestion that the role of an investment company's independent public accountant be expanded to include an examination of the investment company's compliance controls could, unwittingly, cause accountants to become third party consultants. We have serious reservations that ironically, this would be counterproductive to the Commission's concerns about an auditor's independence.

Fidelity Bonding Requirement for Investment Advisers

Aside from the financial burden that could result for some advisers being required to obtain fidelity bonds as suggested by the Commission, we are concerned that there is extremely limited benefit from a bonding requirement for advisers who do not have custody of client assets. We suggest that any bonding requirements be limited to circumstances where the adviser has custody of client assets.

Establishment of a Self-Regulatory Organization

Initially, we must note that the Commission lacks rulemaking authority to create a self regulatory organization without Congressional action. The self regulatory organization created for the securities brokerage and accounting industries were specifically created by acts of Congress, not **by** SEC rulemaking. We do not believe that any provision of the Advisers Act or the Investment Company Act currently empowers the SEC to create **a** self regulatory organization through rule making.

We are further concerned that since the creation of a self regulatory organization would involve the formation of an entity from a blank slate as a start-up, the complexity and costs of such an endeavor will be very high. Moreover, the funding and staffing of such an organization would present numerous complex issues **of** potential conflicts of interest. **As** previously stated, we believe that the Commission is remarkably effective in direct regulation of the industry and that accordingly there is no need for the creation of a self-regulatory organization to further regulate the investment company and advisory industries.

Conclusion

We **support** the Commission's on-going attention to compliance programs for investment companies and investment advisers. We recognize the critical role that investment companies and investment advisers play in the financial success and lives of investors. We also recognize the impact that investment companies and investment advisers have on the capital markets. We thereby believe that good compliance equals good business. Nonetheless, we suggest that any rules designed to mandate compliance requirements be adopted with caution and only after careful analysis so that such rules permit investment advisers and investment companies the flexibility needed to operate efficiently and better serve clients. Should you have any questions about our comments, please do not hesitate to contact us at 410-345-6640.

Sincerely,

Henry H. Hopkins
Vice President &
Chief Legal Counsel

John R. Gilner
Vice President &
Associate Legal Counsel