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May 24, 2005

VIA ELECTRONIC DELIVERY AND FIRST-CLASS MAIL

Mr. Jonathan G. Katz
Secretary
U.S. Securities & Exchange Commission
450 Fifth Street, N.W.
Washington, DC 20549

Re: Mutual Fund Redemption Fees
SEC Release No. IC-26782 (the **"Release"**); File No. S7-11-04

Dear Mr. Katz:

We are writing on behalf of the T. Rowe Price family of mutual funds (**"Price Funds"**) to offer our views on the recently adopted Rule 22c-2 under the Investment Company Act of 1940 (the **"Rule"**). As of December 31, 2004, the Price Funds held assets of approximately $145.5 billion, with more than eight million individual and institutional accounts. As such, the Rule is of great interest to us.

The Price Funds agree that redemption fees can be an effective tool in curtailing excessive trading and protecting funds and their long-term shareholders. We also agree that a fund's board of directors can and should determine whether a redemption fee is necessary or appropriate for the fund. In furtherance of that principle, to date the Price Funds' boards of directors have adopted redemption fees for 34 out of 151 of the Price Funds.

While we are in full agreement with the underlying basis for the Rule, we are very concerned over the unnecessary burdens the Rule will impose on many funds. We have outlined our concerns below.

- The requirement to enter into agreements (**"Agreement Requirement"**) with each Financial Intermediary as defined by the Rule (we have offered alternatives to this agreement requirement);

- The consequences established under the Rule if these agreements are not obtained; and

- The applicability of the Rule to variable annuity contracts.

We strongly urge the Commission to amend the Rule to address these issues and to consider the alternatives we offer in this letter. In addition, we wish to note our concurrence with the views expressed by the Investment Company Institute (**"ICI"**) in its comment letter on the Rule filed on May 9, 2005, with respect to:

- The same issues raised by the Price Funds in this letter;
- The need for the Commission to examine further the obligations of intermediaries with respect to monitoring for excessive trading and collection of redemption fees;
- The applicability of the Rule to intermediaries that do not hold shares directly with the fund (referred to by the ICI as the "chain of intermediaries problem"); and
- The concerns relating to the Commission's cost benefit analysis.

Our detailed comments on the issues identified on page 1, as well as our response to the Commission's request for additional comment regarding standardization of redemption fees, are set forth below.

Agreements with Financial Intermediaries. The Rule will require agreements in many thousands of situations where they are unnecessary to protect funds from the potential harm of excessive trading. It appears that the definition of Financial Intermediary could unintentionally encompass virtually any account of a fund not held directly by a natural person (e.g., corporations, partnerships, trusts, banks, small retirement plans, etc.). To put this in perspective, the Price Funds currently have over 1.3 million accounts (representing 319,698 Tax Identification Numbers) that are not registered as natural persons. Under the Rule's mandate, by October 16, 2006, each of these accounts will need to be examined to determine if the account is held by a Financial Intermediary and an agreement will need to be entered into (or amended) with each identified Financial Intermediary. Very few of these Financial Intermediary accounts have existing contracts with the Price Funds and the costs of obtaining agreements with each Financial Intermediary would be substantial. In addition, due to the sheer size of the numbers involved, it is unlikely that all of these agreements could be executed by the implementation date of the Rule. It is simply a physical impossibility. As mentioned above and discussed more fully below, there are many thousands of situations where the agreements contemplated by the Rule are simply not necessary to protect funds and their shareholders from excessive trading. We believe a practical alternative to the Rule exists that would allow the Commission to achieve its important purposes in a more direct and efficient manner.

For the reasons stated below, we believe the Rule should be modified to:

- Provide an exception from the Agreement Requirement when the fund imposes excessive trading restrictions at the omnibus account level;

- Provide an exception from the Agreement Requirement when the fund imposes excessive trading restrictions at the underlying shareholder account level (**"fully disclosed accounts"**);

- Limit the Agreement Requirement to omnibus accounts where the fund cannot apply trading restrictions; and

- Consider two alternatives to the Agreement Requirement. Either:

    - Require the fund's board of directors to determine when it is necessary for the fund to enter into an agreement with a financial intermediary to enforce the terms prescribed by the Rule; or

    - Require funds to disclose in their prospectuses that as a condition of purchasing fund shares, financial intermediaries purchasing and holding shares on behalf of their clients must, upon request of the fund, provide underlying shareholder data and restrict shareholders from trading if the fund detects excessive trading.

Accounts Where the Fund's Trading Restrictions are Imposed. There are many thousands of situations where Financial Intermediaries establish omnibus accounts with the Price Funds and trading in the accounts is monitored and restricted at the omnibus account level. For example, a doctor's office or other small business may establish a profit sharing plan account for the benefit of the plan's participants or a bank trust department may establish an account for assets it manages for its customers. These accounts are "omnibus" in that they represent the beneficial interest of underlying plan participants or bank customers. There are thousands of these omnibus accounts in the Price Funds and, in the overwhelming majority of cases, the Price Funds treat the plan or account nominee as the shareholder and impose their trading restrictions at the omnibus account level. There is no "look-through" to underlying trading activity and no reliance on an unaffiliated record keeper to monitor trading on behalf of the Price Funds. Thus, there is no need whatsoever to enter into an agreement with the Financial Intermediary. Full protection against excessive trading can be accomplished without any reliance on the agreements required by the Rule.

To illustrate how the Price Funds enforce their excessive trading policy on these types of accounts, we will examine a plan/nominee omnibus account. Such an account is limited to the same number of transactions as an account registered to a natural person. Under the Price Funds' excessive trading policy, a shareholder is permitted one purchase and one sale in a Price Fund every 90 days. If the shareholder exceeds this limit (after receiving a warning) the account is blocked from further purchases in the Price Fund for 90 days and if the account continues to violate the policy, it is blocked from further purchases in the Fund account for one year or permanently. In the case of the profit sharing plan, its account is permitted one purchase and one sale every 90 days and, like natural person shareholders, would be restricted from further purchases if it violated the policy, regardless of whether the trading was the result of transactions by one or several underlying participants. As set forth in the Release, the Agreement Requirement was designed to "enable funds to obtain the information that they need to monitor the frequency of short-term trading in omnibus accounts and enforce their market timing policy." However, when the fund applies its excessive trading restrictions to the omnibus account, the fund is fully protected and there is no need for the assistance that the Rule's Agreement Requirement was designed to provide. Therefore, we recommend that the Rule be modified to provide an exception from the Agreement Requirement when the fund imposes excessive trading restrictions at the omnibus account level.[1]

Fully Disclosed Accounts. We also ask the Commission to clarify the Rule so that accounts held by financial intermediaries where the underlying accounts are visible to the fund (e.g., NSCC Network Level 3 accounts established by broker-dealers) are exempt from the Agreement Requirement. While that appears to be the intent of the Commission, as reflected in note 46 to the Release, there are two points that require clarification. First, NSCC Network Level 3 accounts, despite their visibility to the fund, are still normally registered in nominee name. Therefore, these accounts are technically subject to all the requirements of the Rule. Second, for privacy and competitive business reasons, NSCC Network Level 3 accounts do not always disclose the name of the broker's customers. Rather, other identifying information may be disclosed, such as shareholder's account number or tax identification number. Note 46 in the Release states that an agreement is not required but only if the shares are held on a "fully disclosed basis (i.e., accounts in which the shareholder's name and other information are fully disclosed to the fund…)." As is the case with the accounts described above, the Price Funds monitor and restrict trading activity at the underlying shareholder account level for NSCC Network Level 3 accounts and the requirement to enter into an agreement so the fund can "look through" to underlying shareholders is unnecessary. We ask the Commission to clarify that, as

[1] Alternatively, to comply with the Rule, funds may require these omnibus accounts to be broken out so that the underlying shareholder/participant is visible to the fund. The sole purpose would be to avoid the agreement requirement (over time it may be less burdensome to break out the omnibus accounts than periodically request underlying data from these small plan/nominee accounts). However, it would be more expensive for the funds to service the underlying accounts than the omnibus account. We estimate that breaking out 10,500 small plan accounts at the participant level, would cost the Price Funds an additional $1.7 million a year to service these accounts (assuming an average of 5 underlying participants). This estimate does not include the cost to identify these underlying participant accounts and obtain the necessary information from the plan to establish them and is only for a portion of the total non-natural accounts that may need to be broken out.

long as the underlying accounts are visible to the fund, it is not necessary to enter into an agreement, regardless of whether the account technically may be registered in nominee name or the underlying shareholder's name or tax identification number is visible.

Omnibus Accounts where Restrictions cannot be Applied. As the Commission is aware, there are, of course, numerous instances where the fund's trading restrictions cannot be applied at the omnibus account level and the fund must rely on an intermediary to impose restrictions when excessive trading is detected by the fund. For example, a Financial Intermediary trading on behalf of a large retirement plan with hundreds or thousands of underlying participants will likely have daily trades in the fund account. If the fund's excessive trading restrictions were to be applied to this type of omnibus account, the account would be restricted from further purchases within days after its establishment. It is these types of large omnibus accounts where the fund is dependent on cooperation from financial intermediaries and that create the greatest challenge in monitoring excessive trading and collecting redemption fees. (These types of omnibus accounts are hereafter referred to as **"Intermediary Dependent Accounts**.")

Under the Price Funds policies and procedures adopted by their boards of directors, the funds (through their transfer agent) monitor cash flow in and out of Intermediary Dependent Accounts and review turnover rates in the accounts to determine if potential excessive trading exists. If potential excessive trading is detected, we contact the intermediary in an effort to determine if excessive trading has in fact occurred. If the intermediary confirms that the fund's policy has been violated, we ask the intermediary to restrict the underlying client from further purchases. Several points are important to note about this process. First, the great majority of the Intermediary Dependent Accounts do not have trading levels that indicate potential excessive trading.[2] For example, some financial intermediaries may submit trades infrequently (monthly, quarterly or annually). Other intermediary accounts may have daily trades but their cash flow may never rise to the level where the Price Funds, under their established policies and procedures, would require follow-up with the intermediary. Therefore, it is important that any rule designed to assist funds in policing problematic trading activity not place unnecessary burdens on the overwhelming majority of cases where the problem does not exist. Second, where suspicious trading activity occurs, our experience is that most intermediaries will take the action requested by the Price Funds, if it is reasonably possible to do so. For example, if we detect potential excessive trading activity, we contact the intermediary and the intermediary will normally either provide an explanation that the activity did not, in fact, involve excessive trading (for example, the purchase and sale were placed by two different investors) or the intermediary will restrict the account if the account did, in fact, engage in excessive trading. In other words, most intermediaries are cooperative thereby obviating the need for any agreement as mandated by the Rule.

[2] Our experience is consistent with the Release, which states that "[m]ost fund shareholders, however, are not active traders of their shares." Text at note 6.

However, there are situations where suspicious activity may be detected but the intermediary is unable or unwilling to act. For example, there are omnibus accounts where the Financial Intermediary does not have the systems capability to restrict the excessive trader. The most common of these situations probably involves the retirement plan where the record keeper does not have the systems capabilities to restrict trading activity by individual participants. For example, some retirement plan record keepers have indicated that they do not have the system capabilities to block participants from trading in a particular fund. The record keeper may only be able to block all purchases, which would prohibit the participant from contributing to his or her retirement plan (even in these situations, however, we are currently able to get information from the Financial Intermediary about the participant trading). In addition, there may be brokers that because of the lack of legal requirements have not developed effective procedures to restrict excessive traders.

Alternatives to the Mandatory Agreement Requirement. In light of the fact that funds only require the assistance of Financial Intermediaries to detect and deter excessive trading in a relatively small number of situations, we believe the Commission should develop an alternative to its across the board Agreement Requirement so as to not subject funds to the costs and administrative burden of entering into agreements unnecessarily with thousands of intermediaries. We offer two alternatives that we believe provide an efficient means of accomplishing the Commission's goals under the Rule.

> **Alternative #1. Require the Fund's Board of Directors to determine when it is necessary to enter into the agreement prescribed by the Rule.** The Rule could require the fund to adopt procedures, approved by the fund's board of directors, that set forth the criteria used by the fund to determine when entering into an agreement prescribed by the Rule would be necessary. Information on the general nature of these procedures would be required to be disclosed in the fund's prospectus under form N-1A, Item 6. In other words, the Commission should adopt the same approach for excessive trading as it has for redemption fees.
>
> Under this approach, some boards may require their funds to enter into an agreement with every Financial Intermediary. Other boards may use a risk-based approach to determine when an agreement is necessary, taking into consideration types of accounts and level of historic trading activity. For example, some boards may determine that no agreement is necessary when a Financial Intermediary offers funds in a wrap or asset allocation program that restricts shareholder's reallocations to once per quarter. The same board may determine that an agreement is necessary when a Financial Intermediary offers funds in a wrap or asset allocation program that does not restrict the underlying shareholder's right to reallocate. A board may also decide that an agreement is not necessary in situations where the Financial Intermediary imposes a uniform excessive trading policy for all funds it offers through its platform and the fund determines that the Financial

Intermediary's policy provides substantially equivalent protection to the fund as its own policy.

For existing relationships, funds would apply their stated policies to determine if an agreement is necessary and would enter into such agreements by the implementation date. On an ongoing basis, funds would monitor those Financial Intermediary accounts where a determination was initially made that an agreement was not necessary to determine if an agreement is warranted based on changes in the account's trading activity. For each new Financial Intermediary relationship established after the implementation date, funds would make a determination whether an agreement is necessary, or, for simplicity purposes, may determine to require each new Financial Intermediary to enter into an agreement.

Alternative #2. Require Prospectus Disclosure as an Alternative. As another alternative to the agreement requirement, we ask the Commission to consider amending the Rule to require affected funds to revise their prospectuses to include the following (or similar) terms:

"As a condition of effecting purchases or exchanges of fund shares for its clients, any Financial Intermediary holding shares so acquired must agree to:

> "1) Provide promptly upon the request of the fund, the Taxpayer Identification Number of all shareholders that purchased, redeemed, transferred or exchanged shares held through such Financial Intermediary, and the amount and dates of such shareholder purchases, redemptions, transfers and exchanges; and
>
> 2) Execute any instructions from the fund to restrict or prohibit further purchases or exchanges of fund shares by a shareholder who has been identified by the fund as having engaged in transactions of fund shares (directly or indirectly through the Financial Intermediary's account) that violate policies established by the fund for the purposes of eliminating or reducing dilution of the value of the outstanding securities issued by the fund."
>
> The disclosure would also include the definition of shareholder.

All shareholders, and Financial Intermediaries holding shares on behalf of underlying shareholders, are subject to the terms of the fund's prospectus and the prospectus may be amended from time to time. Under this alternative, funds would be required to revise their prospectuses to include these terms. All purchases and exchanges of fund shares after the effective date of the disclosure would be subject to the new terms.

Incorporating these terms into the prospectus would alleviate the burden and expense of entering into thousands of agreements but would still subject the Financial Intermediary to the same obligations. If this approach is found acceptable, it is a much simpler and more efficient means of accomplishing the goal of developing a more effective means of deterring excessive trading.

Consequence of non-compliance.

Under the Rule, "it is unlawful for any fund issuing redeemable securities, its principal underwriter, or any dealer in such securities to redeem a redeemable security issued by the fund within seven calendar days after the security was purchased unless it complies with the following requirements: [board determination and Agreement Requirement]."

A simple reading of the language in the Rule would appear to make it unlawful, for any fund that does not enter into the required agreement with each Financial Intermediary by October 16, 2006, to redeem its securities to any shareholder. We do not believe this provision was intended to impose such a catastrophic penalty on funds for failing to comply with the Rule. We respectfully ask the Commission to clarify this matter.

Application of the Rule to Variable Annuities.

With respect to the application of the Rule to variable annuity funds, we agree with the comments made by the ICI. The Rule ignores the practical difficulties variable insurance funds face in trying to enforce their excessive trading policies against unaffiliated contractholders subject to different policies or even no policies at all.

A variable annuity is a written contract between two parties: the insurance company and the contractowner. The contracts give owners rights with respect to pricing, purchases, redemptions and transfers between investment options in the contract. The contracts also specify, and limit, the charges that can be assessed. Most insurance contracts are silent with respect to the application and pass-through of fund redemption fees and restrictions on exchanges between the contract's investment options. In order to amend an existing contract to provide for a pass-through of a fund redemption fee or application of a fund's excessive trading policy, the insurance company would need either the contractholder's consent (which is impractical) or the approval of state insurance regulators. Insurance companies will not agree to enforce our variable insurance funds' excessive trading policies if doing so will cause them to violate the terms of the insurance contracts with their customers. This will expose insurers to litigation risk by contractholders (who technically are not fund shareholders) who will argue that the terms of their contract do not permit the insurance company to apply and enforce a fund's trading restrictions.

Our experience is that insurance companies will work with us to monitor and deter excessive trading in their insurance contracts, but that they are generally unwilling to impose our funds' excessive trading policies on their contractholders when their insurance contracts are silent with respect to restrictions on market timing or contain trading restrictions that are materially different from our funds. Also, insurance companies typically include funds from multiple fund companies in their contracts, which make it extremely difficult for them operationally to apply and enforce the various fund-level excessive trading policies. We recognize these practicalities, and accordingly, our policy is to enter into participation relationships with insurance companies whose insurance contracts contain limits on exchanges and other excessive trading restrictions that provide comparable protections to our own funds' excessive trading policy. We believe the Rule should be interpreted to permit a fund to make a determination as to whether the insurer's market timing policies are sufficient enough to warrant application of its policies to contractholders so that in effect the fund's policy would be to apply the insurer's market timing restrictions when appropriate. Otherwise, insurance companies will be unwilling to apply fund policies when their insurance contracts are silent with respect to excessive trading, and insurance funds will be unable to do what the Rule requires.

Standardization.

We agree with the SPARK Institute's comment letter proposing redemption fee standardization for retirement plan participants. Because the Price Funds' transfer agent, T. Rowe Price Retirement Plan Services, Inc., also serves as a recordkeeper to retirement plans, many of which offer outside unaffiliated mutual funds as investment options to their participants, we understand and are concerned over the difficulties retirement plan providers face when applying varying redemption fee methodologies. Under SPARK's proposed standards, participants only incur redemption fees on participant-directed exchanges, and not on any automatic purchase activity such as payroll contributions. (This is the methodology the Price Funds currently use when applying redemption fees for the Price Funds on retirement plan participants.) We believe applying redemption fees to other retirement plan transactions, such as distributions and withdrawals, is unnecessary since there is no possibility of market timing or excessive trading with these types of transactions. We agree with the SPARK Institute that these proposed standards are fair to plan participants, will result in less confusion and will avoid unnecessary costs (e.g., programming fees, participant education, etc.), which may be borne by retirement plans and their participants. Inclusion of these standards in the Rule would ensure that these methodologies are adopted by all funds.

We appreciate the opportunity to submit our comments on this Rule. If you have any questions or if you need additional information, please feel free to phone us at the following numbers: Laura Chasney at 410-345-4882, Forrest Foss at 410-345-6601, or Henry Hopkins at 410-345-6640.

Sincerely,

Forrest Foss	Henry H. Hopkins	Laura Chasney
Associate Legal Counsel	Chief Legal Counsel	Associate Legal Counsel

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