August 21, 2006

Ms. Nancy M. Morris
Secretary
U. S. Securities and Exchange Commission
100 F Street, N.E.
Washington, D.C. 20549-1090

Re: Investment Company Governance (File No. S-7-03-04)
("Governance Proposal")

Dear Ms. Morris:

We are writing on behalf of T. Rowe Price Associates, Inc. and T. Rowe Price International, Inc. (collectively, "T. Rowe Price"), investment advisers to the T. Rowe Price family of mutual funds ("Price Funds"), to offer our views on the above-referenced Governance Proposal. As of June 30, 2006, the Price Funds comprised over 100 funds with approximately $183.2 billion in assets. As a result of shareholder meetings held in April, 2006 for all of the Price Funds, the boards of the Price Funds currently are comprised of at least 75% independent directors. Previously, all Price Funds had just a majority of independent directors. This change was made in anticipation of the 75% independent requirement becoming mandatory this year. Since the first Price Fund went effective in 1950, the Price Funds have been led by an interested chairman and since 2002, have had an independent director serve as a lead director.

We believe the recent scandals in the fund industry were not the result of any inherent weakness or defects in mutual fund governance, but rather were a failure of fund company management. As explained further below, the Commission has already taken steps to address the root causes of these failures. As such, it is not necessary or desirable for the protection of mutual fund shareholders that 75% of the directors or the chair of a mutual fund board be independent. We support a super-majority independent director requirement and, in our view, a two-third's independent majority would serve shareholders just as well as a 75% one. Such a super-majority would also obviate the need for an independent chair. Our opposition to the 75% independent director and independent chair approaches is based on the lack of a demonstrated need for or benefit flowing from either of these requirements.

The 75% independent director and independent chair requirements (together the "**new governance standards**") were part of a larger set of Commission initiatives adopted, as stated by the Commission at the time, "in the wake of a troubling series of enforcement actions involving late trading of mutual fund shares, inappropriate market timing activities and misuse of nonpublic information about fund portfolios." In announcing the amendments, the Commission expressed "concern [over a] serious breakdown in management controls" and "broader concerns with the governance of mutual funds," in particular, the role of independent directors in managing conflicts of interest, approving advisory contracts and advisory fees, and selecting and nominating candidates for independent directors. The new governance standards were essentially designed to approach these issues by fostering "greater board independence."

A great deal has changed since 2004 when the new governance standards were adopted.

> **First,** the Commission has adopted a number of rules designed to address the "serious breakdown in management controls." Foremost among these is the requirement for funds to adopt compliance programs and appoint a chief compliance officer under Rule 38a-1. With its mandated chief compliance officer **("CCO")**, the direct chain of command between the CCO and the independent directors, the required compliance policies and procedures covering virtually every aspect of a fund's business and mandatory reporting to the independent directors of material compliance matters, the Commission should certainly take credit for improving compliance controls in the mutual fund industry and the compliance climate of the board room. By anyone's judgment, the rule represents a quantum leap in elevating and formalizing mutual fund compliance controls and provides the independent directors with effective and potent tools to insist on strict compliance. Finally, the presence of a fund CCO and the interaction with the independent directors required under the rule has heightened the board's sensitivity to conflicts of interest, which was one of the principal reasons for the independent chair proposal.
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> **Second,** the Commission has adopted a series of other rules specifically designed to address the abuses in the industry uncovered over the last several years. Examples include:
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> > (1) Disclosing fund policies regarding market timing and selective disclosure of fund holdings;
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> > (2) Requiring fund boards to assess the necessity for fund redemptions fees and giving funds access to underlying trading activity in omnibus accounts;
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> > (3) Prohibiting the use of directed brokerage for distribution; and
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> > (4) Tightening the requirements for investment adviser codes of ethics and harmonizing those requirements to the mutual fund code of ethics' rule.
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> **Third,** the Commission has brought numerous enforcement actions against miscreants in the industry. It goes without saying that enforcement actions have in the past and continue to have a unique ability to attract the attention of industry participants, including independent directors. Again, the Commission should take credit for sending a loud and clear reminder to the mutual fund industry of its fiduciary duties to fund shareholders, and the economic consequences that befall those who ignore or breach this trust.

All of these significant developments in the industry have transformed the compliance culture of today from what it had been just a few years ago. As a result, the radical structural change in the board room that the new governance standards would impose is no longer necessary or desirable.

The new governance standards were also designed to foster "greater board independence" and to address "broader [Commission] concerns with the governance of mutual funds." One of the most important governance responsibilities of a mutual fund's board is the review and approval of the investment management agreement between the fund and its investment adviser. A similar responsibility exists with respect to 12b-1 plans and material service agreements with affiliates. In all of these situations, continuation of the agreements requires approval by a majority of the fund's independent directors. Thus, to a significant degree, the interests of shareholders are protected whether the independent directors represent a simple majority, two-thirds or three-quarters of the full board. In our view, a super-majority of two-thirds independent directors is more than sufficient to ensure that mutual funds will have an appropriate level of independent corporate governance in these important areas that is devoid of any taint of self interest

As for the independent chair standard, we believe such a requirement is unnecessary, and possibly even counter-productive.

> **First**, under the current majority independent director requirement and certainly under our preferred two-thirds super-majority approach, the independent directors have the flexibility to appoint one of their own as independent chair if they so desire. There is nothing to prevent a fund board under current law from taking this action at any time.
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> **Second,** there is no empirical evidence that having an independent chair would produce any meaningful benefits, especially in light of the enhanced regulatory climate outlined above.
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> **Third,** the role of the independent directors is an oversight one, not a management one. The chair of the board must perform a substantial number of administrative and management responsibilities that are inconsistent with the primary role of independent directors.
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> **Fourth,** under the existing system, independent directors can review the agenda for every board meeting, add or delete items as they wish, specify the amount of time devoted to any item and request that a specific topic be addressed or that specific information be sent to them. They can thus "set the agenda" with respect to any matters they deem important.

Fifth, as a lesser step, the independent directors can appoint a "lead" independent director who has responsibility for interfacing with fund management and reviewing the agenda to ensure it addresses any and all director concerns. This is a very practical approach that the Price Fund independent directors adopted several years ago.

Recommendation. As an alternative to an independent chair rule, T. Rowe Price would support a requirement that the independent directors appoint a "lead director" who has the authority to set the board agenda, call and chair executive sessions of the independent directors, and serve as a liaison between fund management and the independent directors.

We appreciate the opportunity to comment on the Governance Proposal. Should you have any questions, please do not hesitate to contact us.

Sincerely,

Forrest R. Foss　　Darrell N. Braman　　Henry H. Hopkins