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OFFICE OF THE SECRETARY

September 15,2003

Jonathan G. Katz
Secretary
U.S. Securities and Exchange Commission
450 Fifth Street, N.W.
Washington, D.C. 20549

Re: Disclosure Regarding Nominating Committee Functions and Communications Between Security Holders and Boards of Directors; File No. S7-14-03

Dear Mr. Katz:

We are writing on behalf of T. Rowe Price Associates, Inc., T. Rowe Price International, Inc. (collectively **"T. Rowe Price")** and the T. Rowe Price family of investment companies **("Price Funds")** in response to a request for comment on the Securities Exchange Commission's recent proposal to enhance the disclosure regarding the operation of nominating committees and to require disclosure regarding the means, if any, by which shareholders may communicate with directors.

T. Rowe Price, as investment adviser to the Price Funds, is interested in the proposals from the standpoint of an investor in the equity securities of over 3,500 publicly-traded companies. The Price Funds, as issuers of voting securities, are interested from the standpoint of the disclosure requirements relating to the nominating committee and shareholder communications. Currently, the Price Funds consist of more than 100 open-end mutual funds (excluding 25 classes of shares of existing funds) with assets of $100.1 billion as of June 30, 2003, over half of which invest in equity securities. The Price Funds have a nominating committee comprised solely of independent directors who are not considered "interested persons" under Section 2(a)(19) of the Investment Company Act of 1940 (the **"1940 Act").** This committee is charged with nominating independent directors for the Price Funds. In addition, the Price Funds comply with the elective independent director requirements under various 1940 Act rules, such as Rule 17a-7 and Rule 12b-1. This self-nomination practice, along with the regulatory requirements governing board independence and director affiliations, distinguishes investment companies from most operating companies.

In general, we endorse the comments of the Investment Company Institute in their comment letter to you dated September 15, 2003. In addition, we have the several comments with respect to three aspects of the rule proposal.

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Identifying Source of Nominees in Proxy Statements.

The Commission has proposed that issuers and investment companies disclose in proxies for the election of the board of directors the specific source, such as the name of an executive officer or other individual, of each nominee approved by the nominating committee. We question whether this disclosure is relevant for investment companies that rely on 1940 Act rules requiring the independent directors to select and nominate other independent directors. This requirement, which most mutual funds adhere to under various 1940 Act exemptive rules and Rule 12b-1, helps to ensure the independence of the outside fund directors.

We submit that the need for disclosure of nominee sources is not as critical in the case of investment companies relying upon self-nominating committees. Further, it is not always clear as to the "source" of the nominee in cases where a fund uses a self-selecting and self-nominating practice for its independent directors, as the nominating committee may still seek assistance from fund management in identifying persons qualified to serve as independent directors and in evaluating candidates. In this case, the fact that the ultimate source of the nominee was fund management has little relevance and could be misinterpreted by fund shareholders if the candidate was nonetheless vetted, selected and nominated by the fund's nominating committee. In the event the Commission decides that disclosure of nominee sources is still necessary for investment companies, we would recommend that only the category of the source (i.e., fund management, executive search consultant, or independent directors) be required to be disclosed, as we believe the name of the individual is not meaningful or material to fund shareholders voting on the proposed nominees.

Nominations by 3% Shareholders.

The rule proposal would also require companies to identify and disclose the reasons for rejecting proposed board nominees from shareholders or groups of shareholders holding greater than 3% of the company's voting securities. The Price Funds currently consider recommendations for board nominations from securityholders and this fact has been disclosed in proxy statements in connection with past fund shareholder meetings. The proposal would specifically require disclosure where the Price Funds' independent directors have rejected a shareholder nominee. While we do not object to disclosure of the process for recommending nominees, we do not understand why it is material or necessary to disclose the reasons for rejecting a board nominee, particularly in light of the fact that only the independent directors can nominate and approve of such candidates under the 1940 Act. Further, we are concerned that disclosure of the reasons for rejection may be embarrassing or potentially cast the candidate in an unfavorable light. For example, if the candidate was connected to a market timer or arbitrage firm or was associated with a firm that was sanctioned by regulators, the independent directors of the Price Funds would have every right, and, in fact, would be expected to reject the candidate. Why is disclosure of this fact necessary for the protection of mutual fund shareholders? Additionally, stating the specific reasons for rejection could subject the directors to libel and slander claims. How can the Commission ensure that the directors would be protected against such claims if they comply with the requirements of the proposal? Furthermore, the requirement also applies to nominees from "groups" of securityholders with at least 3% of the outstanding voting securities. While the concept of a "group" is clearly defined under Rule 13d-5(b) under the Securities Exchange Act of 1934 (the **"1934 Act"),** this rule does not apply to open-end investment companies under the 1940 Act. ***See*** Rule 13d-1(i) under the 1934 Act. There are disclosure requirements and other substantive restrictions which potentially apply to shareholders with "group status" under the 1934 Act but would not apply to mutual fund shareholders. Therefore, we believe that the disclosure requirement for 3% shareholder nominees should not apply to "groups" of shareholders of open-end investment companies that do not issue equity securities subject to beneficial ownership reporting and the prohibitions on short-swing profits under the 1934 Act.

Description of Board Action Resulting From Shareholder Communications.

The proposed rules would also require companies to describe in their proxy statements any material action taken by the board during the preceding fiscal year as a result of communications with shareholders. While we recognize that the Commission is seeking to encourage shareholder communication and board activism through disclosure, we believe that such disclosure could indeed have the opposite effect. We are concerned that this disclosure requirement would actually discourage investors fi-om communicating with boards of companies, particularly in cases where the investor has beneficial ownership of more than 5% of the company's outstanding voting securities.

T. Rowe Price and the Price Funds, like most institutional investors, have a general policy of maintaining "passive investor" status under Section 13(d) of the Securities Exchange Act of 1934 and the regulations thereunder. Although there is some guidance in this area from the Commission as to what it means to "have a purpose or effect of changing or influencing control" of a company under Section 13(d), the bottom line is that this is ultimately a "facts and circumstances" determination that is subject to interpretation.

The preference to maintain "passive status" under Section 13(d), however, does not keep T. Rowe Price from communicating with a company's management or its board of directors on matters that we believe are important to our clients as investors in the company. There are situations where we have expressed to a company board member our dissatisfaction with a proposed transaction, a corporate governance matter, or the performance of a board or management team member. A company may choose to ignore our overtures, it may respond to them directly, or it may take action at a later date after significant passage of time. In such cases, the nexus between our communication and the company's action is not always clear and can be tenuous. Also, the company may have already planned or decided to take action when we communicated with the company or the company may have solicited T. Rowe Price for our opinions on a proposed course of action. In each case, the company will need to analyze whether disclosure is required based on whether the action taken was "material" and whether its cause was the result of shareholder contact.

As a result, we think that there will be unintended consequences if companies are required to disclose the results of the communication process between companies and their investors. Companies may avoid responding to shareholder communications altogether. Institutional investors, particularly in cases where they hold more than 5% of a company's outstanding voting securities, may choose not to communicate their views due to a risk of misinterpretation on the part of the company and second-guessing by regulators and plaintiffs lawyers as to their intentions for Section 13(d) purposes. Thus, we believe the proposal could actually produce a potential chilling effect on shareholder communications. We believe this risk outweighs the questionable materiality or need for disclosure of this information in company proxy statements, and we urge the Commission to re-consider this disclosure requirement.

We are also very concerned that the proposal, if adopted, could result in voluminous communications in the form of e-mails sent to the independent directors. Normally, independent directors respond to shareholder communications with the assistance of outside counsel. Fees for the independent directors' outside counsel are paid for by the fund. Thus, the proposal will undoubtedly lead to increased fund expenses.

If the Commission decides that this information is indeed material, we would support the ICI's proposal to limit the types of communications subject to disclosure to more formal ***written*** board communications such as petitions and letters to the entire board. Oral communications and emails are subject to a greater risk of misinterpretation and misunderstanding on the part of the parties to the communication. If oral communications and emails triggered a disclosure requirement, it would require companies to adopt burdensome procedures to monitor and record their oral and electronic communications with shareholders. Also, the Commission should clarify in the adopting release that there is no requirement for the company to identify the particular shareholder that communicated with the company in cases where the company disclosed that it took material action. We are concerned that company counsel or the

Commission's disclosure staff may view this information as necessary to fully disclose the circumstances of the action taken as required under the proposed rule.

We are pleased to have the opportunity to respond to this Commission rule proposal. Please feel free to call either of the undersigned if you have any questions or need additional information.

Sincerely,

Henry H. Hopkins
Chief Legal Counsel

Darrell N. Braman
Associate Legal Counsel

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