Barbara Z. Sweeney
NASD
Office of the Corporate Secretary
1735 K Street, NW
Washington, D.C. 20006-1500

January 23, 2004

Re: NTM 03-77
Proposed Disclosure of Mutual Fund Expense Ratios in Performance Ads ("**Proposal**")

Dear Ms. Sweeney:

We are writing on behalf of T. Rowe Price Investment Services, Inc., ("**Services**"), a registered broker-dealer and member of the NASD, to offer our views on the above referenced Proposal. Services is the underwriter for the family of T. Rowe Price mutual funds which on September 30, 2003 comprised over 100 funds with over $100 billion in assets. Services makes extensive use of performance advertising in a wide variety of forms and venues including newspapers, magazines, television, direct mail and the internet. T. Rowe Price was one of the top five advertisers among directly-marketed mutual fund firms in 2003.[1] A significant portion of T. Rowe Price mutual funds are sold through the direct channels indicated above although we also have two classes with 0.25% and 0.50% 12b-1 fees that are sold through intermediaries. As such, the Proposal is of great interest to us. In general, we support the comments of the ICI in their letter of January 23, 2004. However, we also offer the specific comments set forth below.

T. Rowe Price unequivocally supports full transparency of mutual fund expenses. A more informed investing public benefits all participants in the mutual fund industry. One hundred percent of T. Rowe Price retail mutual funds had expense ratios below their Lipper category averages as of December 31, 2003. Presumably, T. Rowe Price would benefit from wider knowledge of expense ratios among the investing public. Nevertheless, the question is whether the Proposal, as drafted, would accomplish its goal of ensuring greater knowledge and understanding of mutual fund expense information among the majority of mutual fund investors and do so in an effective manner. For the reasons set forth below, we do not believe it would.

Impact of the Proposal. The Proposal's greatest impact would appear to be on directly-marketed mutual funds, i.e., those sold through newspapers, magazines, television, the

[1] Competitrack, for the 11 months ended November 30, 2003. Print and television advertising only. Competitrack makes every reasonable effort to ensure that ad spending estimates are as accurate as possible. However, because several factors included in the calculation are beyond Competitrack's control, accuracy and completeness of the estimates cannot be guaranteed.

internet and direct mail. While direct advertising of mutual funds may be the most visible and easy to regulate, the majority of mutual fund sales are made through broker assisted channels, i.e., personal contact with a broker or other intermediary. It is important that whatever rule is eventually adopted benefit all mutual fund investors, whether they purchase directly or through an intermediary. Ironically, without some changes in the Proposal, it is likely that its greatest impact will be on the fund groups with the lowest expense ratios. The top three mutual fund advertisers for 2003 were Fidelity, T. Rowe Price and Vanguard.[2] These same fund groups had average expense ratios for actively managed domestic equity funds well below the industry average.[3]

While written materials containing performance figures in a broker-assisted sale would be subject to the Proposal's requirement to include expense information, there is no requirement in the Proposal that expense information be provided if the performance figures are provided orally. Further, even where written materials are used, the true selling effort in a face-to-face sale is in the oral presentation.

In short, the Proposal's impact will be largely limited to a minority of fund sales, and those that tend to have lower than average expense ratios. It is also possible that the required disclosure will cause brokers to direct their customers to higher fee products that compete with mutual funds but which are not required to make this type of disclosure.

Alternative Approach. Apart from the issue of its potential impact, the Proposal could be revised to require that only those funds with expense ratios above their category average (as defined) would be required to disclose their expense ratios. This would have the beneficial effect of imposing a burden on funds whose expenses are high while rewarding funds with lower expenses. The investing public would eventually come to understand that funds with the required disclosure were the funds with the higher expenses. To avoid any confusion on category averages, the NASD could refer to category averages prepared by any independent third party that provided expense information on a regular basis for substantially all mutual funds.

In the Box. We object to the requirement that the expense information be included in a text box. First, we question the basis for the text box. Performance information for mutual funds can be shown in a variety of ways. Expense information should not be treated differently. Provided the equal prominence standard set forth in the Proposal is met, members should have flexibility in how the expense information is disclosed. The NASD will be reviewing advertisements containing the disclosure and is thus able to determine whether the expense information is being disclosed in a manner consistent with applicable NASD rules. Second, it is very possible that fund groups may decide to compete in their advertising on the basis of fund expense ratios. Such competition could lead to innovative disclosures that would benefit the investing public. The text box would greatly discourage, if not practically prohibit, this type of competition. Third, the text box will require more space than might otherwise be required to convey the same

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[2] Competitrack for 11 months through November, 2003. Print and television advertising only. Charles Schwab is excluded.
[3] Source: Lipper Inc.

information. This will decrease the space available to describe the fund's appropriate role in an investor's portfolio without a clear indication that an alternative would not be more effective. For example, we recommend that the NASD consider allowing graphical representations as an alternate to the text box (example attached). Such a graph could show both the absolute and relative position of the fund's expense ratio. This would assist investors in making a choice among many competing options.

Dollar Amount of Expenses. We strongly object to any rule that would require disclosure of the actual dollar amount of expenses incurred by a hypothetical shareholder in the fund (e.g., dollar amount of expenses per a $10,000 investment). In our view, such a requirement would be utterly confusing in the context of advertising. Would there be three such dollar amounts for advertisements with one-, five- and ten-year performance figures? What hypothetical investment return would be attributed to the hypothetical investment? Wouldn't any hypothetical return be contrary to NASD Rule 2210(d)(1)(D), which prohibits performance projections? However, without a projected investment return, the dollar expense figure would often be understated.

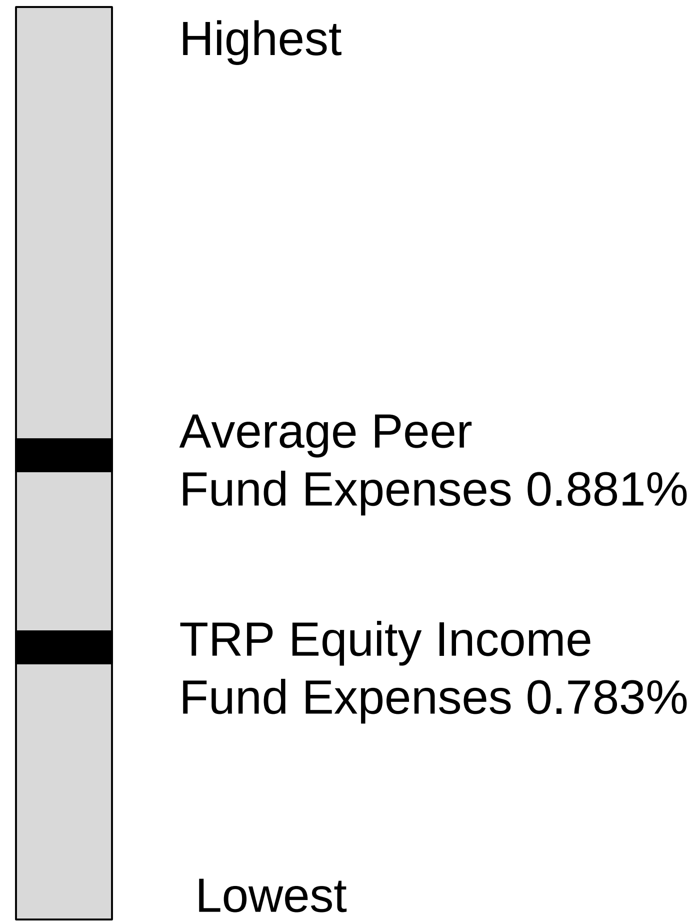
No-Load Fund Expense Disclosure. We strongly object to any rule that expense disclosure be required whenever the term "no-load" is used even if there is no performance advertising. Again, such a requirement would focus on the low-cost part of the industry. In 2003, the average expense ratio for no-load funds was 1.026% and the average expense ratio for load funds was 1.431%.[4] Further, no-load funds represent a minority of the mutual fund industry. In 2003, approximately 40% of all mutual fund assets were invested in no-load funds while 60% were invested in load funds.[5] We question the rationale for a rule that would seek to direct expense disclosure requirements toward the lower-cost minority of the industry but not the higher-cost majority of the industry. Without a requirement to ensure expense disclosure of load funds, such a proposal would not benefit the majority of mutual fund investors. Finally, the NASD has not presented evidence of the need for this proposal.

We appreciate the opportunity to comment on the Proposal. We are available to answer any questions you may have.

Sincerely,

Henry H. Hopkins　　　　　　　　Forrest R. Foss

[4] Source: Lipper Inc.
[5] Source: Lipper Inc.



This diagram is for representational purposes only. Not drawn to scale.