

August 5, 2005

Barbara Z. Sweeney  
Office of Corporate Secretary  
NASD  
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Washington DC 20006-1500

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Re: Request for Comment, NASD Notice to Members 05-40 "Sales Contests and Non-Cash Compensation"

Dear Ms. Sweeney:

T. Rowe Price Investment Services, Inc. ("**T. Rowe Price**") appreciates the opportunity to submit its comments on the above-referenced Notice to Members. T. Rowe Price is a registered broker-dealer under the Securities Exchange Act of 1934, NASD member firm, and acts as the principal underwriter of the T. Rowe Price family of mutual funds ("**Price Funds**"). As of June 30, 2005, the Price Funds held assets of approximately \$154 billion, with more than 9 million individual and institutional accounts. T. Rowe Price also provides brokerage services to Price Fund shareholders and other customers as an introducing broker through its Brokerage Division. In addition, T. Rowe Price offers two propriety no-load variable annuity products and serves as the distributor of interests in certain Section 529 College Investment Plans.

All of T. Rowe Price's registered representatives are salaried; they are not paid commissions on any product that the firm sells.

T. Rowe Price concurs with NASD's objective to expand the prohibitions of non-cash compensation to the sale and distribution of any security, rather than just direct participation programs, variable insurance contracts, investment company securities and public offerings of real estate investment trusts. However, we are concerned that as written, the proposed amendments ("**Proposed Amendments**") will have unintended consequences that will prohibit certain firms, due to the nature of their business, from sponsoring sales contests that are appropriately structured as additional incentives for registered representatives.

The training and licensing of our retail registered representatives are generally limited to specific products, as opposed to all of our products. For example, there is a limited set of registered representatives responsible for the servicing and discussion of T. Rowe Price variable insurance products. T. Rowe Price's telephone routing system directs calls about these products to this specific group of representatives. General registered representatives are not trained or licensed to handle these calls.

Similarly, calls regarding the purchase and sale of individual securities are routed directly to Brokerage representatives, who are trained and licensed to handle them and to otherwise service our Brokerage customers' accounts. General registered representatives are not trained or licensed to handle these accounts.

As the Proposed Amendments are currently written, the term "sales contest" would exclude "any contest among associated persons that is based upon the total production of the associated persons for *all types* of securities..." (emphasis added). However, as described above, most of T. Rowe Price's registered representatives are not licensed and trained to sell all of the securities that T. Rowe Price offers. Furthermore, our representatives do not receive sales-based or point-of-sale compensation in connection with the sale of any securities. If adopted, the Proposed Amendments limit the firm's ability to sponsor a contest for a specific group of registered representatives to raise their awareness of products that they are trained and licensed to sell because the contest could not be based upon their total production for *all types* of securities. Therefore, the Proposed Amendments should be revised to permit such contests without the restrictions imposed by proposed section (b), even though, because of the nature of a firm's business, not all of the firm's representatives participate in each contest and each contest cannot be based upon the total production of *all types* of securities.

To give an example of one type of incentive program, T. Rowe Price offers several state-specific Price Funds, comprised of municipal bonds issued by a particular state, the shares of which are marketed to residents of that state. From time to time contests have been held to offer incentives to representatives who handle Price Fund transactions to discuss these funds with appropriate potential customers. For example, a representative speaking to a Maryland resident who has indicated a need for tax-free income might highlight one of the Maryland Tax-Free funds as a possible investment choice. The representative would receive a cash prize or gift certificate based on the number of times he or she made Maryland residents aware of the fund – not the amount of fund shares sold or accounts ultimately opened. If the firm designs a contest to highlight appropriate fund choices for customers, the representative's conduct is in the best interest of the customer, not contrary to it.

We do not believe contests of this nature would fall within the definition of "sales contests" since they are not based on a specific target amount of sales. If NASD disagrees, and would include such contests within the scope of the definition, we believe the definition of "sales contests" should be revised so that member firms may offer appropriately structured sales contests for specific classes or types of securities where:

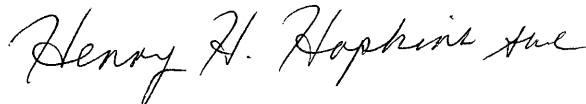
- (1) there is principal approval of the sales contest;
- (2) the same compensation is paid to the representatives (*i.e.*, no differential compensation) for the sale of all of the products or services highlighted in the contest; and
- (3) the recordkeeping requirements of the rule are met.

Without these modifications, we believe the Proposed Amendments would give an unfair advantage to load firms which register and train their representatives to sell all of their products – as opposed to more limited purpose broker-dealers, like T. Rowe Price which, ironically, do not pay sales-based compensation to their representatives.

We believe that any sales contest that does not include products or services that pay representatives differential compensation should be permitted under the rule if adopted. It is our opinion that a contest that does not involve products or services that pay differential compensation does not have “the potential to create an incentive to engage in sales conduct unrelated to the best interests of customers,” which is the situation the Proposed Amendments have been designed to address.

Please contact Darrell Braman at 410-345-2013 or Sarah McCafferty at 410-345-6638 if you have any questions about these comments.


Sincerely,



Henry H. Hopkins  
Vice President and Chief Legal Counsel



Darrell N. Braman  
Vice President and Associate Legal Counsel



Sarah McCafferty  
Vice President and Associate Legal Counsel

Cc: Mr. A. Beyard