

August 9, 2004

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

*Re: NTM 04-45
Proposed Rule Governing the Purchase, Sale or Exchange of
Deferred Variable Annuities (“**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 as of June 30, 2004 comprised over 100 funds with over \$128 billion in assets, including portfolios used in variable insurance products. Services also acts as the exclusive distributor for two directly marketed variable insurance products – the T. Rowe Price No-Load Deferred Variable Annuity and the T. Rowe Price No-Load Immediate Variable Annuity. Both proprietary annuity products are issued by Security Benefit Life Insurance Company (in New York, by First Security Benefit Life Insurance and Annuity Company of New York) and offered exclusively by Services to the public through newspapers, magazines, television, the internet and direct mail. We do not collect a sales charge or load, or pay commissioned sales agents for distribution of the annuity contracts. Finally, the investment management, mortality and expense charges for these products are well below the industry averages. Since the Proposal would impact how we market the products, it is of great interest to us.

We are generally supportive of the Proposal, and believe, on the whole, it will provide additional protections to the investing public. Variable annuity contracts are indeed complex products and not suitable for the average investor. In our investment literature, on our website, and during our interactions with customers interested in our annuity products, we make every effort to explain the product features, including the disadvantages of annuities generally and other factors investors should consider. While Services’ policy is not to make recommendations regarding the T. Rowe Price annuity contracts, there are certain other aspects of the Proposal which would apply to its variable insurance distribution activities. Accordingly, our comments below address specific aspects of the Proposal as it relates to directly marketed annuity products.

Disclosure and Prospectus Delivery.

The Proposal would require members and associated persons of members to provide the customer a current prospectus and a separate, brief and “plain English” risk disclosure document that highlights the main features of annuity transaction, including liquidity

issues; sales and insurance charges; federal tax treatment; premium taxes; and market risk. We believe that a brief, easy-to-read disclosure document would be useful to annuity investors and support this aspect of the Proposal. In fact, we already make these same types of disclosures on our website and in our variable annuity sales literature.

With respect to the Proposal's specific disclosure requirements; however, we believe the disclosures should be more generic in nature. We suggest that the tax discussion be limited to any tax deferral features of the deferred annuity product and the penalties payable for early withdrawals, with a reference to more detailed tax information available in the annuity prospectus. As to market risk, we request that the NASD clarify that the disclosure should address the market risk of investing in the annuity generally, as opposed to the specific investment risks of the individual investment options available in the annuity. We also recommend that because premium taxes and free look periods vary state-by-state, the risk disclosure document should only warn investors of the potential for premium taxes and advise them that they may be entitled to a right to a refund of the annuity purchase payment under state insurance law. Otherwise, members would be required to present information on all 50 states. Finally, the proposal would require the member to disclose that all applications to purchase or exchange a deferred annuity are subject to review and approval by a designated registered principal of the member. We question whether this disclosure has any relevance to investors. Would the typical investor understand or appreciate the role of the registered principal? We think that the requirement for principal review of the transaction provides sufficient protection for investors, and that disclosure of this regulatory requirement is superfluous information for investors. Lastly, the NASD should clarify whether the disclosure document needs to be filed with the NASD as advertising or sales literature under NASD Rule 2210-2.

Principal Review.

The Proposal would require a registered principal of the member firm to review and approve the annuity transaction within one business day following the date the application is executed, regardless of whether the transaction was recommended. In addition, the Proposal lists a number of factors that the registered principal must take into consideration when reviewing the annuity transaction. We do not object to the concept of principal review; however, we have two comments which make the applicability of such review to direct marketed annuity products problematic.

First, some of the information listed by the NASD for review by the principal is not required to be collected in an annuity transaction that is not recommended by the member firm. For example, while our literature makes clear that annuities are long-term investments and our registered representatives are trained to warn investors about the liquidity and long-term features of the product, we do not collect investment objective information in the annuity application. Further, we do not inquire of a customer's net worth, although we will make investors aware that they should have adequate liquid reserves set aside before investing in annuities. Accordingly, we think the Proposal should be revised so that the registered principal would not have to consider all the factors listed; but only those factors, among others relevant to the member's annuity

business. If a member firm offers a single type of deferred annuity product without cafeteria-style features, the principal should not be required to review each of the criteria listed in the Proposal, but only those applicable to the product and the member's annuity business.

With respect to the requirement to review the transaction within a one-business day time frame, we recommend that the NASD revise the standard to require a principal review within two business days of the acceptance of the contract by the insurance company. First, settlement of the annuity transaction does not take place within a 24-hour period. Rule 22c-1(c) under the Investment Company Act of 1940 gives the insurance company at least two business days and as many as five business days to process the initial purchase payment and price the order for a variable annuity contract. The annuity application and purchase money must be received, reviewed and accepted by the insurance company before a contract is ultimately issued. In T. Rowe Price's case, because the application is usually mailed directly by the investor to the insurance company, a principal would not be able to review it within 24 hours of execution. Further, the customer has a "free look" period under most state insurance laws which gives the customer the right to a refund (without a surrender charge) of the customer's purchase payment within the first few days after the contract is issued. Therefore, it is unnecessary for the principal review to occur within a compressed 24-hour period in light of the customer's right to a "free look" at the annuity contract. We think the NASD should lengthen the time frame to take into consideration the extended settlement period and "free look" safeguard inherent in these transactions.

Summary of Contract Differences in Exchanges or Replacements.

The Proposal would require the registered principal to review and approve a separate exchange or replacement disclosure document, which summarizes the material differences between the exchanged contracts, no later than one business day following the date of execution of the application. The document would be required to be provided to customers regardless of whether the replacement transaction was recommended or not by the member. We strongly disagree with this approach for a direct marketed contract where the incentives for the registered representative are not driven by a commission or sales charge on the exchange. In our case, we offer one deferred variable annuity product to our customers, many of whom seek our product because of its lower costs and expenses. It would be extremely burdensome for us to collect the information from the customer on their existing contract in a replacement situation in order to prepare the disclosure document. In any event, we could not do so in a 24-hour period as required by the Proposal. We suggest that summary document only be required in situations where the replacement or exchange transaction is being recommended by the member firm. In the alternative, for non-recommended exchanges, the NASD could require delivery of a generic "replacement risk" disclosure document which would highlight the general risks of exchanges and replacement transactions, and advise the customer to compare the charges, expenses and features of the contracts in order to consider whether the exchange transaction is in their best interests before proceeding.

We appreciate the opportunity to comment on the Proposal. Please feel free to call Darrell N. Braman at (410) 345-2013 if you have any questions on our comment letter.

Sincerely,

/s/ HENRY H. HOPKINS

Henry H. Hopkins

/s/ DARRELL N. BRAMAN

Darrell N. Braman