Good morning.

Since the prospectus disclosure regimen was first established over 73 years ago, much has changed. This new environment strongly justifies some rethinking—not of the basic investor protections of the ’33 and ’40 Acts—but of ways those laws apply to mutual fund prospectuses. When these Acts were adopted, communications were crude compared to today’s digital fiber optic, microwave and satellite global networks. The age of personal computers and the birth of the Internet have revolutionized the transmission of and access to information. The financial news media now covers the mutual fund industry to such an extent that little happens without the public knowing. The beneficiaries have been the investing public, who can now easily access a wide-spectrum of quality information. As a result, the prospectus of old has become a roadblock for investors on today’s information highway.

Before proceeding with T. Rowe Price’s recommendations, I would like to review a number of the findings of the ICI’s 2006 study on the information needs of fund investors.

First, shareholders prefer receiving a concise summary of fund information before buying.

Second, a large majority of shareholders do not consult fund prospectuses before purchasing. They view prospectuses as being difficult to understand and too long.

Third, fund investors use the Internet regularly, most particularly to gather investment information.

The question for discussion today is how can we improve the disclosure regimen? Studies have shown that when it comes to providing most investors with fund information, less is best. Out of that realization was born the current “profile,” a document designed to give investors just the right amount of information.

The development of the Profile was not something that just came out of the blue. It represents the culmination of decades of work and many failed attempts to build a better disclosure mousetrap.
The Profile is an excellent, well organized disclosure document, whose content requirements were substantiated by SEC-sponsored focus groups and an industry pilot program.

As good a disclosure document as it is, the use of the Profile has been disappointing at best. The cause is self-evident: the Profile did not replace the full statutory prospectus and incorporation by reference was not permitted thereby creating liability concerns.

In our view, wholesale changes to the Profile rule are not necessary to significantly improve the mutual fund disclosure scheme:

**First**, permit a fund’s Profile to be used as its primary selling document, provided investors have the option of either accessing the full prospectus via the Internet or requesting a hard copy.

**Second**, make the Profile a statutory prospectus by “incorporating by reference” the full prospectus, just as the prospectus currently is permitted to incorporate the SAI by reference.

**Third**, retain the ability of funds to use different versions of the Profile to reflect the availability of different services for different investors.

**Fourth**, amend the Profile rule to require the disclosure of a fund’s top ten, quarter-end holdings.

Skeptics argue that investors should be provided a full statutory prospectus just as when they purchase the security of an operating company. My rebuttal is two-fold.

**First**, under recent amendments to SEC rules, underwriters and operating companies in public offerings no longer need to physically deliver a final prospectus. Rather, under recent ’33 Act reforms, they can rely on the availability of the prospectus on the issuer’s Web site.

**Second**, prospectuses for operating companies are never required to be delivered to purchasers of shares in the secondary market -- which is where most investors purchase their shares. Under the integrated disclosure system and the efficient market theory, the price of an operating company’s shares is deemed to reflect all material information about the company so there is no need to deliver a disclosure document. This same principle is all the more true for mutual funds-----whose prices are completely transparent since the business of a mutual fund is solely that of acquiring the securities of operating companies that meet its investment objective.

**In conclusion**, we believe that our recommendations should transform the Profile into the much-needed mutual fund disclosure document of the 21st Century.
Supplement to Oral Testimony--TRP Use Profile

(In response to the request that I outline our use of the Profile, I have attached to my oral remarks the following summary.)

Where We Use Profiles-Retail: We currently limit the use of profiles to our retail funds. We currently are producing on an ongoing basis 53 Profiles for these funds, some of which are multiple-fund profiles.

Profiles are inserted in all of the mutual fund fulfillment kits that are sent to customers who request information about one or more of our mutual funds in response to our direct mail campaigns that include an application to invest in a mutual fund. Profiles are also included in most of our other retail sales kits (e.g., the IRA kits). Prospectuses are mailed to shareholders with the confirmation when the fund is first purchased and annually when the prospectus is updated (as well as any sticker).

Where We Do Not Use the Profile: We do not produce Profiles for our retirement plan business, our intermediary channel, institutional funds, variable insurance funds or the share classes of retail funds available to retirement plans and other intermediaries.

Under SEC interpretation, any Rule 482 advertising that is accompanied by a mutual fund application must also be accompanied by a Profile or a prospectus. Exceptions to this rule include mutual fund and variable annuity sales literature which, under current rules cannot be used with profiles. Other exceptions include shareholder reports and statements of additional information (SAIs). A prospectus must still accompany or precede these items like other mutual fund sales literature.

How We Handle Our Retirement Plan Business: With respect to our retirement plan business, we no longer include the Profiles in participant enrollment kits; instead, we include Morningstar “Investment Profiles” for the Price and non-Price mutual funds designated as plan investment options. These Investment Profiles are produced and updated quarterly by Morningstar.

On the issue of prospectus delivery to retirement plan participants, we send a prospectus to each participant after his/her first contribution in any fund. Annual prospectus updates and stickers are sent to the plan sponsor because the plan is considered the “shareholder” of record.

Intermediary Channel: With respect to the intermediary channel, we do not use Profiles. We send prospectuses to the third party banks, broker/dealers, and insurance companies, etc., who sell our funds and they, in turn, distribute the prospectuses to the fund shareholders. This includes the annual prospectus updates and any prospectus stickers that are created intra-cycle.