

**COMMITTEE OF INDEPENDENT DIRECTORS
T. ROWE PRICE MUTUAL FUNDS**

**100 EAST PRATT STREET
BALTIMORE, MD 21202**

August 18, 2006

Nancy M. Morris
Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549

Re: *Request for Additional Comment on Investment Company Governance, Release No. IC-27395; File No. S7-03-04*

Dear Ms. Morris:

This letter is submitted on behalf of the independent directors of the T. Rowe Price Mutual Funds. The T. Rowe Price Mutual Funds consists of more than 100 mutual funds of all types, with over \$180 billion of assets under management. We are pleased to respond to the Securities and Exchange Commission's request, contained in Release No. IC-27395, for comments on the Commission's previously proposed rules on Investment Company Governance.

Introduction

In the release, the Commission invited further comment on certain rule amendments that would impose two conditions on mutual funds relying on specified exemptive rules. The amendments, which were first proposed on January 15, 2004, were adopted on July 27, 2004, then were invalidated by a federal appeals court on April 7, 2006. They would have required that mutual fund boards be comprised of at least 75 percent independent directors, and that they be chaired by an independent director.

By letter dated February 25, 2004, we expressed our opposition to that part of the proposal which would require an independent chair. We did not express a view on the other rules which were proposed at that time. In its current request for additional comment, the Commission invites comment particularly on the cost of the two requirements that were invalidated by the court (75% independent board and independent chair), but it also invites comment on whether adoption of those requirements would further the protection of funds and fund shareholders, and would promote efficiency, competition and capital formation.

We are unable to supply any meaningful data or estimates relating to cost. We continue to believe, however, that a requirement for an independent chair is unnecessary and inappropriate. Our reasoning with respect to this matter was set forth in our 2004 letter, and is restated below.

Discussion

The T. Rowe Price Mutual Funds have a majority (in fact a 75% majority) of independent directors. Therefore, we could elect an independent director chair of one or more of our fund boards if in our judgment that would further the interests of the Funds and their shareholders. We have not done so, however, because in our experience independent directors on a fund's board are most effective when they are able to obtain the maximum amount of information that management can reasonably supply about its business, and in light of that information to oversee and evaluate management's performance, policies and procedures as well as various proposals that are presented. It seems to us therefore that the proposal to require the chair to be an independent director is not necessary, and could interfere with the proper balance between the role of fund management and the role of independent directors. This is because it would impose a functional organization on the boards of our (and all other) mutual funds that does not, and obviously cannot, take into account the particular characteristics of each mutual fund group and the unique dynamics of each board.

A proper balance between management and independent directors should not impose on such directors duties that they believe would be better performed by an official of the investment adviser. We believe that the independent directors of a mutual fund should be free to elect as chair the director that they believe can most effectively serve the interest of the fund in that position, whether that director is interested or independent.

In the 2004 proposing release, the Commission suggested that it was concerned about the type of boardroom culture that may be fostered by the presence of an interested person acting as chair. In particular, it appears that the Commission was concerned that, with an interested chair, the boardroom culture might favor the interests of the investment adviser over that of fund shareholders. For example, the release suggested that a fund board may be more effective in negotiating an advisory fee if the chair is not an interested director. We believe that these concerns are based upon an exaggerated notion of the role of the chair of a mutual fund board in establishing the culture of the boardroom, particularly given the fact that virtually all fund boards are currently majority independent.

We also believe that the Commission has underestimated the importance of one of the primary functions of the chair: that is, the chair's administrative role as an organizer and presenter of information about the operations and practices of the company that manages the mutual fund. Based on our experience as independent directors of the T. Rowe Price Mutual Funds, we believe that a senior executive of the adviser serving as board chair is most effective at organizing information, often highly complex and technical, to present to the rest of the board. This task is different from setting the agenda for the board meetings, which in our case is done jointly by the lead independent director and the chair. An executive of the adviser is necessarily more familiar than an independent director with the daily implementation of the mutual fund's strategies and policies, and any problems (whether chronic or immediate) that should be addressed by the board.

Further, more than merely presiding over a meeting, an interested chair is well-positioned to provide, either personally or by designating other appropriate personnel of the investment adviser, the detailed presentations necessary for a board to govern an investment company effectively. Complementary to the administrative role of the chair is the oversight role of the independent directors, who critically analyze the information presented to them as well as any additional information that they might decide to request from the adviser or outside sources, and as a group decide what action will be in the best interest of the fund.

It has been our experience that the senior executives of T. Rowe Price who have chaired our boards over the years have been persons of integrity and candor. This being so, it seems to us that appointing an independent director as chair would at best serve little useful purpose. At worst, it would result in an independent chair having to devote inordinate time and energy, possibly assisted by staff or consultants, to attempting to achieve some (but inevitably not as much) of the understanding of issues relevant to the Funds that a senior executive of the adviser has simply by virtue of his day-to-day activities.

We recognize that in some corporate settings a chair who was so disposed might, by setting the agenda, presiding over the board meetings, and selecting much of the information presented, be able to exercise an unwholesome influence over the deliberations of the board. In the case of a registered investment company, however, any such danger is obviated by various provisions of the 1940 Act and Commission rules thereunder that require in effect that the independent directors approve all transactions and contracts, and review practices, involving potential conflicts of interest. For example, independent directors must approve the advisory contract, the principal underwriting contract, and any Rule 12b-1 plan. They must also select the fund's independent accountant and oversee valuation of certain securities holdings of the fund. Second, independent directors control virtually all mutual funds not only because their boards have a majority of independent directors, but also because independent directors nominate any new independent directors, and when independent directors hire counsel (as the vast majority do), such counsel cannot have a significant relationship with the fund's management. Third, the rule requiring appointment of a chief compliance officer further reduces any risk of an interested chair exercising improper influence over the independent directors. With the chief compliance officer reporting to the board on compliance with policies and procedures of the fund and its service providers, any remaining potential monopoly of information is broken.

We recognize that many mutual fund boards of directors have elected independent chairs. None of the foregoing discussion is intended to suggest that an independent chair is not in the best interest of fund shareholders in cases where the independent directors have made that decision. Rather, it is intended to explain why we have reached a different conclusion with respect to the T. Rowe Price Funds. We respectfully submit that each fund board is in the best position to judge for itself whether it should elect an independent chair. In our case, our judgment that the T. Rowe Price Funds are best served by having a senior executive of the Funds' investment adviser serve as chair is made in the context

of a number of relevant circumstances: we have a lead independent director, our board has a supermajority of independent directors, we have independent counsel, and we regularly meet in executive session without anyone from management (including the chair) present. We always discuss advisory contract renewals in such executive sessions, and we use executive sessions to discuss various other topics as well. Further, we know from experience that the culture of our board leads to our deliberations being conducted in an atmosphere of independence, whether those deliberations are conducted in executive session or with representatives of management present.

In sum, it is our position that each mutual fund board of directors should continue to be permitted to weigh for itself the relative advantages and disadvantages of having an independent director serve as chair of the board. We appreciate this opportunity to comment again on the Commission's proposal for an independent chair, and would be pleased to discuss any questions the Commission or its staff might have with respect to this letter. Please direct any such questions to the undersigned through our independent counsel, Joel H. Goldberg, Esquire of Willkie Farr & Gallagher LLP, at 212-728-8289 or jgoldberg@willkie.com.

Very truly yours,

Anthony W. Deering.
Chairman of the Committee of Independent Directors,
T. Rowe Price Mutual Funds

cc: Hon. Christopher Cox, Chairman.
Hon. Paul S. Atkins, Commissioner
Hon. Roel C. Campos, Commissioner
Hon. Kathleen L. Casey, Commissioner
Hon. Annette L. Nazareth, Commissioner
Andrew J. Donohue, Director, Division of Investment Management