December 24, 2003

VIA FEDERAL EXPRESS

Jonathan G. Katz
Secretary
U.S. Securities and Exchange Commission
450 Fifth Street, N.W.
Washington, D.C. 20549

Re: Proposed Rule Regarding Security Holder Director Nominations
File No. S7-19-03

Dear Mr. Katz:

We are writing on behalf of T. Rowe Price Associates, Inc., T. Rowe Price International, Inc. (collectively “T. Rowe Price”) and the T. Rowe Price family of investment companies (“Price Funds”) in response to a request for comment on the Securities Exchange Commission’s recent proposal that would require companies to include in their proxy materials a security holder nominee for election as director. The proposal applies to all companies registered with the SEC and subject to its proxy rules, including investment companies.

T. Rowe Price, as investment adviser to the Price Funds, is interested in the proposals from the standpoint of an investor in the equity securities of over 3,500 publicly-traded companies. The Price Funds, as issuers of voting securities, are interested from the standpoint of the providing fund shareholders with direct access to the board. Currently, the Price Funds consist of more than 100 open-end mutual funds (excluding 25 classes of shares of existing funds) with assets of $104.7 billion as of September 30, 2003, over half of which invest in equity securities. The Price Funds have a committee comprised solely of independent directors who are not considered “interested persons” under Section 2(a)(19) of the Investment Company Act of 1940 (the “1940 Act”). This committee is charged with, among other things, nominating independent directors for the Price Funds. In addition, the Price Funds comply with the elective independent director requirements under various 1940 Act rules, such as Rule 17a-7 and Rule 12b-1.

In general, we support the SEC’s proposed rule and endorse the comments of the Investment Company Institute in their comment letter to you dated December 22, 2003. In addition, we have several comments and we would like to give you our general views with respect to the rule proposal.
On the whole, T. Rowe Price thinks the rule proposal strikes an appropriate balance between the enhancement of the right of shareholders to participate in the corporate governance process and the potential for disruption to the board when that process is used by shareholders to advance their own agendas or who otherwise do not have the best interests of shareholders in mind. We do not think the SEC has set the bar too high for shareholders to gain access to board seats as the consequences of such action are potentially far-reaching. This right should be limited to those cases in which a company has clearly been unresponsive to shareholder concerns, as demonstrated by the proxy process, over the composition and governance practices of its board of directors. It should not be used as a change instrument for shareholders who have their own agenda under the guise of “corporate governance reform” or who just disagree with the way management has guided a company.

Triggering Events.

Under the proposed rule, a company would be subject to the securityholder nomination procedure if in the election of directors at least one candidate receives “withhold” votes from more than 35% of the votes cast. We believe that a 35% threshold is too low and could easily be met by a minority of shareholders in a just “say no” campaign over any issue, including those unrelated to dissatisfaction with the company’s proxy process. As suggested by the ICI, the proposed rule should be revised to require at least half of the board to have received 35% of withheld votes, or in the alternative, the 35% threshold should be raised to more than 50% of the votes cast for at least one director. A triggering event of more than 50% would ensure that at least a majority of shareholders disapproved of at least one member of a company’s board, before giving shareholders the right to nominate their own candidate.

We would encourage the SEC to limit the triggering events to those included in the proposed rule, and not allow other criteria such as market performance, compliance with the law or accounting issues to be used to give shareholders the right to gain board access. While these issues are important to investors, they do not, in and of themselves, demonstrate the ineffectiveness of, or shareholder dissatisfaction with, the proxy process. Also, we do not believe that a third triggering event should be added for the failure of the board to implement a shareholder-approved proposal. Considering the volume and variety of issues presented in shareholder proposals today, we do not believe that the failure to implement a shareholder proposal has a sufficient nexus to shareholder dissatisfaction with the proxy process to justify board access. Also, it would be too difficult to categorize shareholder proposals for purposes of identifying those that involve only issues of “corporate governance.” Therefore, we think that the direct access shareholder proposal is sufficient for purposes of triggering the rights of shareholders to nominate directors.
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With respect to the direct access proposal, we are concerned though, that 50% of the votes cast in favor of the proposal is too immaterial for purposes of triggering the rule. We think that such proposals should receive at least 50% of the votes outstanding in order to trigger the rule, or as the ICI suggests, such a proposal should have received votes from at least two-thirds of shares outstanding. This way at least a majority of the company’s shareholders have weighed in on the merits of the proposal so that there is at least a significant consensus who have expressed their views. Using a “votes cast” standard could allow a minority group to gain access to the company’s proxy in cases where other shareholders are indifferent or abstain.

**Eligibility Standards for Nominating Shareholders.**

To be eligible to submit board nominees, the proposed rule would require a nominating shareholder or group of shareholders to hold at least 5% of the outstanding shares for at least two years and have passive investment intent by reporting beneficial ownership on Schedule 13G, rather than Schedule 13D under the Securities Exchange Act of 1934. We strongly encourage the SEC to keep the 5%/2-year ownership threshold for nominating shareholders and not lower it in the final rule. This ownership threshold demonstrates a significant and long-term financial stake in the company, which we believe is necessary for those who wish to participate in the company’s governance. We believe it does not unfairly discriminate against smaller shareholders, particularly since groups of shareholders are permitted to organize and join together for purposes of submitting nominations under the rule. We also believe that in group situations, all members of the group should be eligible for filing a Schedule 13G, required to certify their passive status and to have held their shares for the required two-year period.

With respect to open-end investment companies, we are concerned that since the beneficial ownership reporting rules of the Exchange Act do not apply, that groups could organize without public disclosure of the group’s purposes. We encourage the Commission to require mutual fund shareholders and groups of such shareholders to file a Schedule 13G in the event they cross the 5% beneficial ownership threshold and intend to nominate a director under the rule. Such disclosure would be consistent with the Commission’s stated intent to require more enhanced disclosure to shareholders of a portfolio manager’s ownership of fund shares.

**Solicitations by Nominating Shareholders/Affiliate Status.**

The Commission has proposed to clarify that a nominating shareholder (or a member of a group of nominating shareholders) will not be deemed to be an “affiliate” of the company for purposes of the federal securities laws solely as a result of nominating a director or
participating in the shareholder nomination procedure under the rule. In addition, the proposed rule provides limited exceptions under the proxy rules that would enable shareholders to communicate for purposes of forming nominating groups and to solicit on behalf of shareholder nominees for election to the board. We believe that the clarification regarding affiliate status is necessary in order for the rule to function effectively and to provide institutional investors with comfort that their activities under the rule would not cause them to be deemed an “affiliate” for other purposes.

T. Rowe Price and the Price Funds, like most institutional investors, have a general policy of maintaining “passive investor” status under Section 13(d) of the Securities Exchange Act of 1934 and the regulations thereunder. Although there is some guidance in this area from the Commission as to what it means to “have a purpose or effect of changing or influencing control” of a company under Section 13(d), the bottom line is that this is ultimately a “facts and circumstances” determination that is subject to interpretation. The preference to maintain “passive status” under Section 13(d), however, does not keep T. Rowe Price from communicating with a company’s management, its board of directors or other shareholders on matters that we believe are important to our clients as investors in the company. There are situations where we have expressed to a company’s board or other shareholders our dissatisfaction with a proposed transaction, a corporate governance matter, or the performance of a board or management team member. Therefore, we would also anticipate being approached by other shareholders who wish to solicit us for purposes of organizing a group to nominate a director, particularly in cases where T. Rowe Price holds more than 5% of a company’s shares. In order to interact with other shareholders in order to initiate or respond to solicitations under the proposed rule, it is necessary that such actions not be deemed to cause “affiliate” or “control” status if they are limited to participation in the director nomination process.

We are pleased to have the opportunity to respond to this Commission rule proposal. Please feel free to call either of the undersigned if you have any questions or need additional information.

Sincerely,

Henry H. Hopkins
Chief Legal Counsel

Darrell N. Braman
Associate Legal Counsel

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