

T. ROWE PRICE ASSOCIATES, INC.

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Baltimore, Maryland 21202

Via Electronic Mail
Rule-comments@SEC.gov

June 27, 2003

Jonathan G. Katz
Secretary
Securities and Exchange Commission
450 Fifth Street, N.W.
Washington, D.C. 20549-0609

(File No. SR-MSRB-2003-04)

Re: Request for Comments on Proposed Rule Regarding Anti-Money Laundering Programs
for Municipal Securities Dealers

Dear Mr. Katz:

We are writing on behalf of T. Rowe Price Associates, Inc. ("Price Associates") in response to the request by the Municipal Securities Rulemaking Board ("MSRB"), through the Securities and Exchange Commission ("SEC") for comments on the proposed rule MSRB Rule G-41 ("Rule G-41").¹ We generally support the proposed rule to aid in combating money laundering and terrorist activity in the municipal securities industry through implementation of a "Customer Identification Program" ("CIP"). However, as Section 529 college savings plans (defined below) pose a low threat as a money laundering vehicle, we request that the mandatory compliance with the CIP rule be delayed for at least five months after promulgation of the final rule.

Price Associates, and certain of its affiliates, are registered investment advisers under the Investment Advisers Act of 1940, with assets under management of approximately \$ 139.9 billion as of March 31, 2003. Price Associates is currently the program manager² for four separate Section 529 college savings plans for two different state issuers (collectively "Price Managed 529 Plans"). T. Rowe Price Investment Services, Inc. acts as underwriter and primary distributor for the Price Managed 529 Plans. The Price Managed 529 Plans had \$1,037,400,000 in assets as of June 20, 2003. Therefore, Price Associates has a keen interest in the regulation of municipal broker/dealers in the context of regulation of these municipal fund securities.

¹ See 68 Fed. Reg. 34,452 (June 9, 2003) Release No. 34-47969 (the "Release").

² The services provided by a Program Manager to Section 529 plans generally include: (a) assistance in the development and implementation of the program; (b) administrative and recordkeeping services; (c) distribution and marketing services; (d) investment management of the plan's investment options; (e) accounting services; and (f) customer relations services.

Background of Section 529 Plans

Qualified tuition programs (“Section 529 Plans”) were created by federal legislation in 1996 and are established and maintained pursuant to Section 529 of the Internal Revenue Code (“Code”). These programs are designed to help families save for future college costs at eligible educational institutions. All 50 states have adopted some form of a Section 529 plan and by the end of 2002, 3.1 million accounts were open with more than \$20 billion in assets, up from \$3.1 billion in 556 million accounts two years earlier, according to Cerulli Associates.

There are two types of Section 529 Plans: *prepaid plans* and *college savings plans*. *Prepaid plans* generally enable account owners to make payments on behalf of a designated beneficiary for a specified number of academic periods or course units at current prices. The second type of plan -- the *college savings plan* -- permits an account holder to contribute to an account for the purpose of paying a beneficiary’s qualified higher education expenses (“College Savings Plans”). The value of the account can then be used toward qualified educational expenses at any eligible institution. Only States, their agencies or instrumentalities can establish and maintain tax-exempt College Savings Plans. The focus of this letter is on the latter plan described, the College Savings Plan.

The Price Managed 529 Plans basically provide that any natural person, corporation, partnership, association, trust, or estate may establish an account for the benefit of any individual by entering into a participation agreement with the state sponsoring entity. A program participant may be a resident of, or organized in, any state, territory, or district of the United States, or a resident alien if that person is subject to taxation under the Code. The program participant must designate a specific individual beneficiary as the person entitled to receive the benefit of distributions for higher education expenses from the account. (Agencies or instrumentalities of a state or local government or tax-exempt organization as described in the Code that open an account in order to fund scholarships are exempt from the requirement that a beneficiary be a particular individual.)

Implementation Period

We recognize the desire of the SEC and MSRB to implement the proposed rule change to Rule G-41 on a timely basis. However, we are concerned that, given the breadth of the rule change, it will be extremely burdensome for certain broker/dealers involved with the distribution of College Savings Plans to efficiently implement all of the operational and information technology related changes that the rule demands. We are in continuing conversations with all of our systems service providers, however, while some of our providers are familiar with the requirements and have been working with them for some time, other vendors have not yet had to address these issues and need sufficient time to make adjustments to their systems to comply with such requirements.

Taking our lead from the experience of the mutual fund and brokerage industry, we believe it will take at least five months to implement a CIP and to create the automated feeds necessary to satisfy the verification requirements. Any shorter implementation period would be a serious

disadvantage to broker/dealers that are not utilizing a recordkeeping system which has already begun compliance measures because it houses mutual fund, brokerage or trust records. It would be inequitable to require such broker/dealers to satisfy complex and complicated requirements such as those proposed here with a shorter time period than that afforded competitors in other industries. In addition, it cannot be assumed that all municipal broker/dealers are utilizing a computer system which has been working towards compliance for the October 2003 deadline in place for other financial institutions. Not all broker/dealers will have the benefit of building on an existing foundation for these changes.

In addition, the application forms used to establish accounts in the College Savings Plans will need to be revised to collect additional information and insert the required notice language. Past experience with changes to our application forms (often necessitated as here by new legal requirements) has taught us that, despite substantial efforts to circulate revised forms, investors retain application forms obtained previously and attempt to use them for more than a year after new forms are released.

Section 529 College Savings Plans Pose a Low Risk as an Money Laundering Vehicle

For the reasons detailed below, we believe that College Savings Plans run a low risk of being utilized as a money laundering vehicle and thus, it is our opinion that an effective date with a reasonable time period in place for implementation, such as five months, would not pose a threat to the government's anti-terrorism goals.

- **State Issued Investment.** Only States, their agencies or instrumentalities can establish and maintain tax-exempt college savings plans under Section 529 of the Code. These plans are a State run and a State issued investment vehicle. With the significant State involvement in the day-to-day operations and maintenance of these plans, it is unlikely that the investment would serve as a money laundering vehicle.
- **Limitation on Who May Receive a Distribution.** In almost all cases, a distribution check from a Section 529 college savings plan is only payable to either: (1) the account holder; (2) the beneficiary; or (3) jointly to the beneficiary and an eligible educational institution. Given this restriction, it is unlikely that an individual would choose this structure to launder assets.
- **Contribution Amounts are Limited.** Contributions to a Section 529 College Savings Plan are limited to the amount necessary for a student to attend college. Each State sponsoring a Price Managed 529 plan limits contributions to \$250,000 per beneficiary, regardless of the number of account holders. A contribution to an account will be returned to the account holder by T. Rowe Price to the extent that the contribution would cause the maximum contribution account balance to exceed \$250,000.³ This

³ The balance limitation was established by each State based on the projected maximum cost of attendance of a hypothetical beneficiary at eligible educational institutions in the United States for undergraduate and postgraduate education, including tuition costs and other qualified higher education expenses. The balance limitation can be adjusted by the State on a periodic basis as the estimated costs of attendance at such institutions change in the future.

limitation on the amount that may be contributed to a college savings plan would act as a disincentive for its use as a money laundering vehicle.

- **Limitation on Who Can Participate in the Plan.** A program participant must be a resident of, or organized in, any state, territory, or district of the United States, or a resident alien if that person is subject to taxation under the Code.
- **Distributions Not Used for Specified Purposes are Penalized.** Generally, any earnings on a distribution which is not utilized for qualified higher education expenses are subject to a 10% federal penalty (and in some cases a state tax penalty as well). Further, each distribution is subject to tax reporting to the Internal Revenue Service.

As evidenced, Section 529 College Savings Plans pose a low threat as a money laundering vehicle. To minimize the disruption of services to our account holders saving for college, we respectfully request that mandatory compliance with the CIP rule be delayed for at least five months after promulgation of the final rule. In the interim, municipal broker/dealers should be encouraged to make best efforts to comply.

We appreciate the opportunity to comment on the proposed rule. Should you have any questions about our comments, please call Regina Pizzonia at 410-345-2163.

Sincerely,

//s

Henry H. Hopkins
Chief Legal Counsel

//s

Regina M. Pizzonia
Associate Counsel

CC: Ernesto A. Lanza, Esquire
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