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July 28, 2009

Elizabeth M. Murphy
Secretary
Securities and Exchange Commission
100 F Street, N.E.
Washington, D.C. 20549-1090

Re: Release No. IA-2876; File No. S7-09-09;
Proposed Amendments to Rule 206(4)-2 (the "**Custody Rule**")

Dear Ms. Murphy:

T. Rowe Price Associates, Inc. and its affiliated registered investment advisers (collectively, "**T. Rowe Price**")[1] appreciate the opportunity to provide comments to the Securities and Exchange Commission (the "**Commission**") regarding the above referenced proposed amendments (the "**Proposal**") under the Investment Advisers Act of 1940 (the "**Act**").

T. Rowe Price fully supports the Commission's efforts to increase protection afforded to clients regarding assets entrusted to registered investment advisers. Safekeeping of client assets is at the cornerstone of advisers' fiduciary obligations and the foundation for investors' confidence in services provided. We appreciate the Commission's most recent examination of the Custody Rule in response to the Madoff fraud and other similar enforcement actions. While we do not believe that such criminal behavior is prevalent in our industry, all reasonably beneficial safeguards should be in place to protect against further abuse of clients' trust.

We support the recommendations of the Investment Advisers Association to the Commission regarding the Proposal. Our additional comments and concerns regarding certain provisions of the Proposal are summarized below for the Commission's consideration.

Annual Surprise Examination. The Commission has proposed that *all* registered investment advisers with custody of client assets engage an independent public accountant to conduct an

[1] T. Rowe Price is comprised of five federally registered investment advisers with approximately $315.6 Billion in assets under management as of 6/30/09. It provides investment advice to institutional clients, registered investment companies, other collective investment funds, and a limited number of retail clients.

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annual surprise examination of client assets. We are supportive of this proposal in situations where the adviser has physical custody of client assets. However, in cases where an independent custodian holds client assets, we do not believe a third-party surprise audit is necessary or would increase protection afforded clients in any material way, even in instances where the adviser has the authority to withdraw fees from a client's account, as more fully discussed below.

Direct Billing Practices. In our experience, it is generally the clients who request direct billing. In any case, clients can review the fee calculations included in the adviser's invoices and confirm by a review of the custodian's quarterly account statements that fees were not inappropriately billed to the custodian by an adviser. In addition, the surprise audit relates to verifying assets held for the benefit of clients and would not cover the review of fee calculations.

We strongly urge the Commission to consider alternative procedures to increase checks and balances regarding direct billing practices in lieu of imposing on advisers additional costs and other burdens associated with an annual surprise examination. The Commission should consider alternative requirements such as the following:

- Clients must authorize direct billing practices in writing to the adviser;
- Clients must confirm to the adviser in writing that the custodian has been instructed to send quarterly statements to the client;
- Advisers must send a copy of its invoices to the client at the same time the invoice is forwarded to the custodian;
- The invoice must indicate the precise manner in which the fee is calculated and must include a legend urging the client to review the invoice carefully and to contact the custodian and the adviser promptly should the client have any questions; and
- Custodians are instructed to delay remitting fees to the adviser until the expiration of five business days following the custodian's receipt of the invoice in order to allow the client time to review and question the invoice.

As noted above, we think it is important for clients to receive account statements from their independent custodians as currently required under the Custody Rule. We believe advisers should also encourage clients to reconcile these statements to the account statements received from their adviser to confirm that there have not been any erroneous or unauthorized transactions. The Commission has inquired if advisers should be required to receive copies of custodian's statements or to obtain certifications from custodians regarding delivery of the quarterly statements to clients. We do not believe that the receipt of copies of client statements (in addition to the adviser's customary reconciliation procedures) would provide any additional benefit, nor do we believe that requesting certifications from client-appointed independent custodians regarding the delivery of quarterly statements to clients is appropriate. Rather, we urge the Commission to allow advisers to rely upon written assurances from clients regarding receipt of custodians' quarterly account statements.

Custody By Affiliates. We agree with the Commission's position that if an affiliate of the adviser serves as the client's custodian in connection with the advisory services, then the risk of misuse of client assets is increased. As a result, we support the Commission's position that in such situations the adviser should require from the affiliated custodian an annual internal control report which includes an opinion regarding applicable controls from an independent public accountant registered with the Public Company Accounting Oversight Board. However, the Proposal would also require an annual surprise examination of the adviser in connection with such accounts maintained by the affiliated custodian. We believe appropriate regulatory oversight of the qualified custodian (e.g., a FINRA registered broker-dealer) and the adviser coupled with the Proposal's internal control report requirement is sufficient to protect client assets from potential fraudulent activities. In our view, the protection afforded by the addition of the annual surprise audit does not justify the additional cost or organizational burden imposed on an adviser. The applicable regulatory authorities, including the Commission, should consider affiliated relationships such as these when determining appropriate examination protocol for each entity.

However, in certain situations where there is sufficient separation between affiliates, we believe that the analysis in the Crocker Investment Management Corp. No-Action Letter ("**Crocker Letter**") should continue to allow advisers to rebut a presumption of custody. We believe the principles behind the Crocker Letter should be codified into the new Custody Rule and in circumstances where adequate checks and balances exist, neither an annual surprise audit nor an internal control report requirement should be imposed. The Crocker Letter acknowledges the reality that many large firms have completely separate business lines and as a result, the affiliated custodian should be treated like an independent custodian. However, should the Commission conclude that the affiliated relationship between an adviser and a custodian presents such a heightened level of risk as to require additional oversight, we suggest that the requirement for an internal control report regarding the custodian's practices should suffice.

Disclosure to Clients/Notifications and Certifications to the Commission. T. Rowe Price supports enhanced disclosure in the Form ADV as well as a statement urging clients to monitor and reconcile account statements received from the adviser and the custodian, as noted above. We are also supportive of the proposed notification requirement to the Commission when an investment adviser's auditor is terminated or resigns. Such notification should include an explanation of any problems associated with the investment adviser, the auditor, or audit process that may have contributed to such termination or resignation. However, we believe that standard check-the-box provisions should be available in the event resignation or termination was merely the result of general business considerations.

The Commission has inquired if Chief Compliance Officers should be required to submit periodic certifications to the Commission regarding safekeeping of assets. We do not believe that a Chief Compliance Officer should be subject to such a requirement. A Chief Compliance Officer would not be in the best position to verify and certify the client assets, particularly when assets are held by an independent custodian. In cases where the custodian is affiliated with the adviser, and if the Crocker Letter is withdrawn, then the internal control report required by the Commission in the Proposal should serve to verify that the custodian has adequate processes and procedures in place with regard to custody of client assets. In addition, well-rounded compliance programs administered by Chief Compliance Officers pursuant to Rule 206(4)-7 should take into consideration custody matters. Therefore, we believe that a Chief Compliance Officer certification would not materially impact safekeeping of client assets and would impose an unnecessary administrative burden on advisers. Moreover, the audit scope needed to support such a certification would significantly drain internal advisory resources dedicated to other important areas.

Pooled Investment Funds. The proposal would require pooled investment vehicles such as limited partnerships for which the adviser serves as general partner and adviser to undertake an annual surprise examination. The proposal would retain the obligation for the limited partnership to undergo an annual independent third-party audit as an alternative to requiring the custodian to send quarterly account statements to all limited partners. We believe that requiring the annual surprise examination in addition to an annual audit is excessive and provides little additional protection regarding assets held by an independent third-party custodian.

Requirements for the Annual Surprise Audit. The Proposal states that the annual surprise audit must be completed, and that the auditor must file Form ADV-E, within 120 days of the commencement of each annual audit. We do not believe that verification of client assets and reconciliation with the records of the adviser, the custodian (whether affiliated or third-party), and each client can necessarily be completed within such a time frame. Experience has shown us that confirmation of assets with clients can significantly extend the auditor's process. In the event completion of the audit were delayed beyond 120 days, the adviser's compliance with the Custody Rule would be at issue. We believe the Commission should consider a longer time period for completion of the audit and allow for a sampling of client accounts rather than an audit of all assets in all client accounts.

The Commission has estimated that the annual cost of a surprise examination would be approximately $8,100. We believe that this estimate (from 2002) is unrealistic and that reconciliation of clients' assets could dramatically exceed this estimate for many firms (even in 2002). The true cost of such an examination will be determined by the number of accounts to be reconciled, the complexity of the holdings in the accounts, and the demand for, and availability of, appropriate auditors in the post-Sarbanes-Oxley environment. We would encourage the Commission to assume a much higher annual cost for the annual surprise examination in connection with any such requirements.

Effective Date. We believe that the Commission should allow advisers an adequate time period to implement any new requirements resulting from the Proposal due to the costs associated with such requirements and the necessity to review and retain qualified auditors to provide timely and ongoing services regarding the internal control report and the annual surprise audit, if required.

We are confident the proposed rules, with appropriate modifications as discussed, will enhance the protection afforded to clients regarding assets under management and increase client confidence in the fiduciary relationship between a client and a registered investment adviser.

Please do not hesitate to contact us regarding the above comments or if we can be of any other assistance regarding the Proposal.

Sincerely,

David Oestreicher
Chief Legal Counsel

Christine M. Morgan
Managing Counsel

Christopher P. Hayes
Senior Legal Counsel

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