January 27, 2005

Via Email

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

Re: File No. S7-10-04 Regulation NMS

Dear Mr. Katz:

T. Rowe Price Associates, Inc. ("**TRPA**"), on behalf of itself and its affiliated advisers ("**T. Rowe Price**") welcomes the opportunity to comment on the Commission's proposed Regulation NMS regarding market structure issues. T. Rowe Price has a global client base and manages portfolios for proprietary and subadvised U.S. and non-U.S. mutual funds, separate account clients, and other investment portfolios. As of September 30, 2004, T. Rowe Price managed approximately $212 billion in total assets. Additionally, T. Rowe Price Investment Services, Inc., a registered broker-dealer subsidiary, offers discount brokerage services to retail investors. Therefore, we have always taken a keen interest in market structure issues and how such issues may impact our ability to provide the highest level of service to our clients. With this interest in mind, we commend the Commission's effort to invite debate on issues such as market fragmentation, price discovery and order execution.

Background.

The history of the National Market System ("**NMS**") has been well documented. With the adoption of the Securities Acts Amendments of 1975, Congress directed the Commission to facilitate the establishment of an NMS consistent with Congressional objectives. One such objective is the linking of all markets for qualified securities through communication and data processing facilities so as to improve efficiency and enhance competition.[1] Through the years, the Commission has guided the industry in the creation of the NMS. Although there have been many successes along the way, such as quote and last sale transparency, intermarket linkages, and order handling rules, there remains some work to do on the road toward the NMS envisioned by Congress. In fact, some of these very successes have lead to the fragmentation and other issues we face today. We are convinced that effective linkages are the key to any market structure solution.

[1] 15 U.S.C. 78k-1(a)(1)(D), 11A(a)(1)(D).

Discussion.

We have long believed that competition and the creation of new trading technologies act to benefit the markets. Although regulation has also been an important component of the evolution of our markets, we believe such regulation should be an evolutionary, as opposed to revolutionary process. In that regard, we believe that certain aspects of the Proposal are appropriate, while others, most notably the depth of book requirement, should not be implemented at this time. Incorporating this additional requirement should be postponed until the effects of a "top of the book" implementation have been evaluated, and markets given time to innovate in light of this and other Regulation NMS changes.

We believe the fundamental rule should be that firms be rewarded for competing on price to attract order flow. This will act to enhance true market transparency and price discovery. We believe that price and time priority should be an element of any Commission solution. It is also important, however, that this solution recognize the importance of trading in block size. T. Rowe Price, like many other buy-side firms, relies on the ability to purchase and sell large positions of securities. This ability is vital to our business and ultimately impacts the performance we deliver to our clients. Therefore, we believe that any structural change include methods by which broker-dealers are given incentives to commit the capital necessary to facilitate the continued movement of large orders. We believe that such incentives are necessary and appropriate to preserve flexibility to both the buy-side and sell-side to help ensure best execution for such orders. Consistent with these potentially competing elements, we believe that the SEC should implement a trade through rule for the "top of the book", while postponing any determination regarding a rule that would incorporate further depth of book protection.

Of course, the effectiveness of any trade through rule is the necessity that the best bid or offer be accessible and capable of automatic execution. This trade through and top of book protection should apply across all market centers. However, we do not believe that speed of access considerations should drive market structure issues if to do so would jeopardize legitimate market linkage initiatives. Connected markets provide the opportunity for information gathering, block trading, and improved price discovery, as well as the legitimacy of the "last sale" price. While speed of access and execution are crucial, there is a limit to how fast such linkages need to be in order to protect and enhance our markets. It is essential, however, that all those who publicly display a two-sided quote be able to access others, and be accessed themselves, in a very timely fashion.

Another aspect of price and time priority that must also be addressed in any final proposal is permissible price increments. In order to attract order flow, broker-dealers or market centers may find themselves improving the best bid or offer so as to "get to the head of the line." Although this should ultimately be viewed as a benefit to investors, we are concerned that the markets as a whole, including true price discovery, may suffer if the SEC were not to adopt the sub-penny quoting ban proposal. We believe such a ban is important for the protection of the markets and investors.

T. Rowe Price also is interested in the New York Stock Exchange's ("**NYSE**") hybrid market proposal. Generally, we believe it offers the potential to improve the market. We are concerned, however, that some elements of the proposal, specifically relating to the hidden broker reserve file, might negatively impact market transparency. We believe that a pilot program may be a useful tool to safely determine the impact of intended and unintended consequences associated with innovative proposals. We suggest the Commission explore whether a pilot program would be appropriate for the NYSE proposal.

Once again, we thank the Commission for the opportunity to comment on these very important market structure issues. We also look forward to participating in future discussions regarding the evolution of the NMS.

Sincerely,

Henry H. Hopkins
Vice President and Chief Legal Counsel

Andrew M. Brooks
Vice President and Head of Equity Trading