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United States Government Accountability Office
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October 16, 2006

The Honorable Richard C. Shelby
Chairman

The Honorable Paul S. Sarbanes
Ranking Minority Member
Committee on Banking, Housing, and Urban Affairs
United States Senate

The Honorable Michael G. Oxley
Chairman

The Honorable Barney Frank
Ranking Minority Member
Committee on Financial Services
House of Representatives

Subject: *Securities and Exchange Commission: Mutual Fund Redemption Fees*

Pursuant to section 801(a)(2)(A) of title 5, United States Code, this is our report on a major rule promulgated by the Securities and Exchange Commission (SEC), entitled “Mutual Fund Redemption Fees” (RIN: 3235-AJ51). We received the rule on September 28, 2006. It was published in the Federal Register as a final rule on October 3, 2006. 71 Fed. Reg. 58257.

The final rule amends Rule 22c-2, which permits registered open-end investment companies (funds) to impose a redemption fee of up to 2 percent on the redemption of fund shares. The rule is intended to allow funds to recoup some of the direct and indirect costs of frequent trading and to reduce the dilution of fund shares. The rule also requires that the fund, regardless of whether it imposes a redemption fee, enter into a written agreement with each of its intermediaries (such as broker-dealers or retirement plan administrators) under which the intermediaries must provide the fund, upon request, information about the identity of shareholders and information about their transactions in fund shares. These amendments to the prior rule are designed to address certain technical issues that arose after the rule was adopted and reduce the cost of compliance to both funds and financial intermediaries.

Enclosed is our assessment of the SEC’s compliance with the procedural steps required by section 801(a)(1)(B)(i) through (iv) of title 5 with respect to the rule. Our review indicates that SEC complied with the applicable requirements.

If you have any questions about this report, please contact James W. Vickers, Assistant General Counsel, at (202) 512-8210. The official responsible for GAO evaluation work relating to the subject matter of the rule is Richard Hillman, Managing Director, Financial Markets and Community Investment. Mr. Hillman can be reached at (202) 512-8678.

signed

Kathleen E. Wannisky
Managing Associate General Counsel

Enclosure

cc: J. Lynn Taylor
Assistant Secretary
Securities and Exchange Commission

ANALYSIS UNDER 5 U.S.C. § 801(a)(1)(B)(i)-(iv) OF A MAJOR RULE
ISSUED BY THE
SECURITIES AND EXCHANGE COMMISSION
ENTITLED
"MUTUAL FUND REDEMPTION FEES"
(RIN: 3235-AJ51)

(i) Cost-benefit analysis

The SEC performed a cost-benefit analysis concerning the final rule and found that the aggregate cost savings for funds and intermediaries in capital costs to be approximately \$667,875,000 and a savings of \$175,401,800 in ongoing annual costs resulting from the amendments made to the prior rule.

(ii) Agency actions relevant to the Regulatory Flexibility Act, 5 U.S.C. §§ 603-605, 607, and 609

The SEC prepared a Final Regulatory Flexibility Analysis in connection with the final rule that complies with the requirements of the Act and discusses why the SEC does not believe the establishment of special compliance requirements or timetables for small entities is feasible or necessary.

(iii) Agency actions relevant to sections 202-205 of the Unfunded Mandates Reform Act of 1995, 2 U.S.C. §§ 1532-1535

As an independent regulatory agency, the SEC is not subject to title II of the Unfunded Mandates Reform Act of 1995.

(iv) Other relevant information or requirements under acts and executive orders

Administrative Procedure Act, 5 U.S.C. §§ 551 et seq.

The final rule was issued using the notice and comment procedures found at 5 U.S.C. 553. On March 7, 2006, the SEC published a Notice of Proposed Rulemaking in the Federal Register. 71 Fed. Reg. 11351. The SEC received 32 comments in response to the proposal and are discussed in the preamble to the final rule.

Paperwork Reduction Act, 44 U.S.C. §§ 3501-3520

The final rule contains information collections that are subject to review by the Office of Management and Budget (OMB) under the Paperwork Reduction Act and

were previously approved by OMB. In response to the changes made in the final rule, the SEC is submitting revised annual burden estimates to OMB.

Statutory authorization for the rule

The final rule is promulgated under the authority found in sections 6(c), 22(c) and 38(a) of the Investment Company Act (15 U.S.C. 80a-6(c), 80a-22(c), and 80a-37(a)).

Executive Order No. 12866

As the rule is promulgated by an independent regulatory agency, it is not subject to the review requirements of the order.