The Commonwealth of Massachusetts
Secretary of the Commonwealth
State House, Boston, Massachusetts 02133

William Francis Galvin
Secretary of the Commonwealth

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May 10, 2004

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

RE: Release Nos. IC- 26375A; File No. S7-11-04
Proposed Rule: Mandatory Redemption Fees for Redeemable Fund Securities

Dear Secretary Katz:

The Massachusetts Securities Division welcomes this opportunity to comment on the Commission's proposed rules to impose a two percent fee on short term redemptions of shares of open-end mutual funds. We support the Commission's proposal.

The Two Percent Redemption Fee. Under the proposal, funds would be required to impose a two percent redemption fee on shares held five business days or less. The Commission has indicated that funds that now impose a redemption fee estimate their redemption-related costs to be at least two percent of the amounts redeemed.

In funds that do not impose a redemption fee, all fund shareholders share the costs of redemptions, including redemptions related to rapid fund trading. This cost sharing results in buy-and-hold investors subsidizing the costs of investors who actively trade their accounts.

Market-Timing and Stale Fund Prices. Active fund traders seek short-term profits using market-timing strategies. Some of these strategies are based on speculation that fund prices will move in predictable ways after a fund's NAV is set. Other timing strategies seek to exploit stale pricing of fund shares. The profits gained from these trading strategies come at the expense of the fund and its investors.

We urge the Commission to continue its efforts to remedy stale fund pricing, and we strongly support the Commission's view that the Investment Company Act of 1940 requires funds to calculate their net asset values based on the fair values of their portfolios. Fair value pricing by funds should remove many of the pricing inaccuracies that attract speculators.

The Impact of the Redemption Fee on Small Investors. We also note that the Commission has included provisions that would limit the impact of the two percent redemption fee on small investors:

- The redemption fee would be computed by treating the shares held for the longest time as being redeemed first (the "FIFO" method);

- The redemption fee would be subject to a *de minimis* transaction amount of $2,500, so an investor could redeem shares without a fee if the redemption fee would be $50 or less; and

- The rule would provide for a waiver of redemption fees in the case of an unexpected financial emergency, upon the written request of the shareholder, with a waiver required for a redemption of $10,000 or less.

We are hopeful that these features will ameliorate the impact of the redemption fee on smaller and less sophisticated investors. Nonetheless, we expect that the redemption fee will operate to the disadvantage of small investors in some cases. We urge the Commission to monitor the fee on an ongoing basis to determine if it is actually reducing active fund trading and to determine whether it can be modified to effect as little as possible investors who do not engage in rapid trading.

Sincerely,

William Francis Galvin
Secretary of the Commonwealth
Commonwealth of Massachusetts