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VIA E-MAIL: rule-comments@sec.gov

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

Re: Mandatory Redemption Fees for Redeemable Fund Securities
SEC Release No. IC-26375 (the "Proposing Release"); File No. S7-11-04

Dear Mr. Katz:

UBS Global Asset Management ("UBS Global AM")¹ appreciates the opportunity to comment on the rule proposal described in the above referenced SEC release (the "Proposed Rule") that would require certain mutual funds to impose a mandatory two percent redemption fee on the redemption of fund shares held five days or less. The proposal is designed to curtail abusive market timing by requiring short-term traders to reimburse the funds for approximate redemption-related costs incurred by the funds as a result of their trades, thereby reducing the profitability of the trades.

As noted in the Proposing Release, the Proposed Rule is another measure by the Commission to address market-timing activity.² The Proposed Rule would apply to large traders as well as small traders (subject to certain de minimis exceptions), and to transactions involving fund shares that are held directly as well as those held through financial intermediaries.

¹ UBS Global Asset Management (US) Inc. and its affiliate UBS Global Asset Management (Americas) Inc. are both indirect, wholly owned subsidiaries of UBS AG and members of its UBS Global Asset Management division, which had approximately \$463 billion in assets under management worldwide as of December 31, 2003. UBS Global Asset Management (US) Inc. and UBS Global Asset Management (Americas) Inc. are registered investment advisers, and manage over 68 registered mutual funds, with more than \$58 billion in assets, as of December 31, 2003.

² SEC Release No. 33-8408, "Disclosure Regarding Market Timing and Selective Disclosure of Portfolio Holdings," (April 16, 2004) requires funds to disclose in their prospectuses the risks to shareholders of short-term trading and the fund's policies and procedures with regard to such trading.

SEC Release No. IA-2204, "Compliance Programs of Investment Companies and Investment Advisers," (December 17, 2003) requires funds to have written compliance programs which, among other things, must include procedures to address market timing..

The Proposing Release addresses certain exceptions when a redemption fee would not be imposed.³ We hereby provide comment on additional circumstances that we believe should also qualify for exception.

³ Proposed Rule section 22c-2(e).

Certain Other Excepted Transactions

The Proposed Rule includes four exceptions to the mandatory redemption fee, namely redemptions of: (1) \$2,500 or less; (2) money market fund shares; (3) shares of any fund that issues securities that are listed on a national securities exchange; and (4) shares of any fund that has adopted a fundamental policy to affirmatively permit short-term trading (with appropriate disclosures). In the case of an unanticipated financial emergency, the Proposed Rule also provides a mandatory waiver of the redemption fee if the amount of shares redeemed is less than \$10,000, and a discretionary waiver if the amount of the shares redeemed is more than \$10,000.

The Proposing Release solicited comment on whether funds should be permitted to waive the redemption fee in certain other circumstances, such as: (1) an account rollover from a 401(k) plan to an Individual Retirement Account; (2) transactions due to automatic investment or reinvestment programs; and (3) purchases and redemptions made in error within a five-day period.

We believe that the proposed exceptions, as well as the additional circumstances about which the Commission requested comment, are likely to trigger the mandatory redemption fee but are unlikely to result from the type of abusive trading the Commission seeks to deter. Therefore, we believe that the redemption fee should not be imposed in such cases.

For the same reason, we ask the Commission to consider a waiver of the mandatory redemption fee for short-term transactions that occur within certain types of programs in which the shareholder does not control the timing of transactions. In certain programs, for example, a client delegates management discretion to an investment manager. The manager may purchase and sell shares of mutual funds on behalf of the client, either as part of a mutual fund asset allocation program, or as part of a more diversified managed account that may include mutual funds and individual securities.

In other programs, the client may select mutual funds based upon a recommended allocation from a wrap sponsor, and the client may direct the wrap sponsor to automatically reallocate the client's fund holdings when changes in the overall allocation are made by the wrap sponsor.

In each of these cases, it would be inappropriate for a client to be subject to a redemption fee when the decision to reallocate the client's assets was beyond the control of the client.⁴ This is particularly the case when a change in an asset allocation model (and therefore the rebalancing of the client's portfolio) occurs within five days of a new client joining the program. Therefore, we respectfully submit that the following additional waivers be included in any final rule resulting from the proposal:

- investment decisions by an investment manager of mutual fund shares held in a discretionary separately managed account; and

⁴ Of course, the Commission may wish to make the proposed waiver only available in those cases where the investment manager does not use short-term trading as an investment technique.

- a change by the sponsor of a mutual fund wrap program in the allocation among mutual funds in a client account to conform to a revised investment model that is applied across all applicable accounts in the program.

If you have any questions concerning these comments or would like additional information, please contact the undersigned at 212-882 5570.

Sincerely yours,

/s/ Amy R. Doberman

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