P.O. Box 2600
Valley Forge, PA 19482-2600
www.vanguard.com

April 17, 2006

Nancy M. Morris, Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-9303

RE: Mutual Fund Redemption Fees; File No. S7-06-06

Dear Ms. Morris:

Vanguard[1] appreciates the opportunity to comment on the proposed amendments to Rule 22c-2 under the Investment Company Act of 1940.[2] Given the number and variety of intermediaries that invest in mutual funds, we have previously expressed concern that the benefits of the rule may be overshadowed by the costs and complexity of its implementation. We greatly appreciate and support the Commission's efforts to respond to this concern by proposing amendments that would clarify and simplify the rule and its implementation.

The current proposal is likely to be one of many steps in an ongoing process to evaluate the benefits of this rule to investors and fine tune its implementation. In this spirit, we encourage the Commission to ensure that the final rule and release afford funds a certain degree of flexibility in determining those circumstances and intermediaries that warrant the information sharing agreements contemplated by the rule.

I. Proposed Amendments to the Definition of Financial Intermediary

The proposal appropriately permits funds to exclude accounts from the definition of "financial intermediary" if the accounts are treated as individual investors for purposes of trading restrictions. This amendment will address one of the most significant problems we have encountered in attempting to implement the rule. The original definition

[1] The Vanguard Group, Inc. ("Vanguard"), headquartered in Valley Forge, Pennsylvania, serves over 21 million shareholder accounts, and manages approximately $980 billion in U.S. mutual fund assets. Vanguard offers a wide array of mutual funds and other financial products and services to individual and institutional investors. In addition to serving our clients directly, we have multiple relationships with broker-dealers, banks, third-party administrators, insurance companies, and other fund intermediaries. We also provide defined contribution recordkeeping services to plan sponsors and offer third-party mutual funds in these plans.

[2] *Mutual Fund Redemption Fees*, Investment Company Act Release No. 27255 (Feb. 28, 2006) [71 Fed. Reg. 11351 (March 7, 2006)] (the "Proposing Release").

of "financial intermediary" included many entities, such as pension and profit sharing plans for small professional practices that aggregate transactions for a handful of participants. Many fund companies treat these accounts as individual investors and therefore are able to apply appropriate trading restrictions without the considerable cost and effort associated with entering into information sharing agreements with all of these clients. The proposed amendments will greatly simplify compliance with the rule without sacrificing the ability to effectively monitor trading activity.

The proposal appropriately limits contractual requirements to "first-tier intermediaries." We agree that funds should only be required to enter into written agreements with "first-tier intermediaries," and that agreements with downstream intermediaries should not be mandated. We believe that the burden of negotiating thousands of additional agreements among additional layers of intermediaries outweighs the potential benefits to investors of these agreements. An agreement with a first-tier intermediary will require the intermediary to suspend purchases from lower tier intermediaries who refuse to provide shareholder level trade information in response to a fund's request. This is an adequate incentive to the lower tier intermediaries to cooperate with reasonable requests for shareholder transaction data.

The final rule and the accompanying release should afford funds additional flexibility regarding contractual arrangements to ensure that the rule achieves its intended objectives. We applaud the Commission's proposals to limit the types of intermediaries with whom funds must negotiate information sharing agreements. However, additional flexibility will be necessary to properly implement the rule and evaluate a fund's good faith compliance with these requirements. Funds do not always have a direct relationship with the intermediary that holds shares of the fund – an essential element of the definition of "financial intermediary" as proposed. There are numerous situations where fund shares are held in the name of one entity while another entity, that may or may not be a financial intermediary as defined in the rule, submits transactions in those shares to the fund. Depending upon the circumstances, the contract may be with the entity that submits trades to the fund, or it may be with the entity that holds the shares. In some cases an intermediary accountholder may be merely aggregating trades from other intermediaries who are themselves aggregating trades from individuals who direct investments but are not themselves shareholders.

To address these situations, we recommend that the Commission modify the definition of financial intermediary to allow funds to exercise limited discretion in deciding with whom to enter into shareholder information agreements. We suggest amending the definition of "financial intermediary" to include the person who holds shares *or* submits transactions to the fund, *or* such other person that, in the judgment of the fund, is best situated to provide the relevant shareholder data. Although funds are permitted to seek agreements with intermediaries that are not specifically covered by the rule, absent a regulatory mandate, it would be significantly more difficult to secure agreements with these entities who may be in the best position to provide shareholder level information.

II. Compliance Date

A short extension of the Compliance Date would improve funds' ability to obtain agreements that reflect the proposed amendments. Vanguard has been aggressive in negotiating shareholder information agreements with intermediaries, and we believe that the impending compliance deadline has helped facilitate the negotiation process. Nonetheless, a six month extension of the compliance date would allow fund companies and intermediaries an opportunity to ensure that agreements reflect a full understanding of the rule as modified and interpreted.

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Vanguard appreciates the Commission's efforts to amend Rule 22c-2 to respond to the business realities that have emerged as the industry has attempted to implement the rule. As many have noted, the rule affects a great number and variety of investor and business relationships. We encourage the Commission to continue its efforts, evident in the proposed amendments, to ensure that the rule is well designed to meet its intended objectives. Vanguard and its personnel are available to assist and inform the Commission's efforts in every possible way. If you would like to discuss these comments further, or if you have any questions, please do not hesitate to contact me or Sarah Buescher, Senior Counsel, in Vanguard's Legal Department at (610) 503-5854.

Sincerely,

/s/
Heidi Stam
General Counsel

cc: The Honorable Christopher Cox, Chairman
The Honorable Paul S. Atkins, Commissioner
The Honorable Roel C. Campos, Commissioner
The Honorable Cynthia A. Glassman, Commissioner
The Honorable Annette L. Nazareth, Commissioner

Andrew Donohue, Director
Robert E. Plaze, Associate Director
Division of Investment Management

John J. Brennan, Chairman and CEO