April 12, 2006

Nancy M. Morris, Esq.
Secretary
U.S. Securities and Exchange Commission
100 F Street, N.E.
Washington, D.C. 20549-9303

Re: Mutual Fund Redemption Fees (Release No. IC-27255; File No. S7-06-06)

Dear Ms. Morris:

MFS Investment Management ("MFS") appreciates the opportunity to express its views on the Securities and Exchange Commission's recently proposed amendments to Rule 22c-2 under the Investment Company Act of 1940, as amended ("1940 Act"). Rule 22c-2 currently effectively requires, among other things, that most mutual funds ("funds") enter into written agreements with each of their "financial intermediaries" – a category that encompasses any entity that holds fund shares in nominee name for other investors – pursuant to which the intermediaries must agree to provide, at the fund's request, information about an investor's identity (i.e., taxpayer identification number) and transaction history, and to carry out instructions from the fund to restrict or prohibit further purchases or exchanges by any investor that the fund has identified as engaged in trading that violates the fund's market timing policies. The Commission's proposed amendments would, if adopted, narrow the definition of "financial intermediary", which, in turn, would reduce the number of intermediaries with which funds must negotiate investor information-sharing agreements.[1]

By way of background, MFS is an investment adviser registered with the Commission under the Investment Advisers Act of 1940, as amended. MFS serves as an investment adviser to each of the funds included within the MFS Family of Funds, to various other open-end and closed-end registered investment companies, to various offshore funds and to substantial private institutional accounts. The MFS organization has been engaged continuously in the investment management business since it began operations in 1924 with the creation of the first mutual fund, Massachusetts Investors Trust. MFS now manages approximately $160 billion on behalf of over six million investors worldwide.

MFS strongly supports the Commission's efforts to facilitate funds' ability to deter and to obtain reimbursement for the costs of short-term trading in fund shares. We also applaud the Commission's efforts to reduce the implementation costs of Rule 22c-2 to the very funds and shareholders who are the intended beneficiaries of Rule 22c-2. In this regard, we support the

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[1] Investment Company Act Release No. 27255 (Feb. 28, 2006); 71 Fed. Reg. 11351 (Mar. 6, 2006) ("*Proposing Release*"). Rule 22c-2 was adopted in Investment Company Act Release No. 26782 (Mar. 11, 2005), 70 Fed. Reg. 13328 (Mar. 18, 2005) ("*Adopting Release*").

observations and recommendations regarding the proposed amendments to Rule 22c-2 set forth in the comment letter, dated April 10, 2006, filed by the Investment Company Institute with the Commission. In addition, we write separately to further urge the Commission to defer the compliance date of any amended rule to a date not earlier than the later of six months following: (i) the current October 16, 2006 compliance date; or (ii) following final adoption of the amended rule.[2]

In our view, the Commission's selection of the current October 16, 2006 compliance date appears to be predicated, at least in part, upon a belief that industry participants have agreed upon standard contractual provisions which will be accepted by funds and financial intermediaries, with little if any further negotiation,[3] and that:

> [b]ased on conversations with fund representatives, we anticipate that in most cases complying with the amended rule will require a very limited number of new agreements between funds and intermediaries (in many cases virtually no new agreements would be required).[4]

This view does not reflect either our prior experience or our expectations with respect to the agreement requirement of Rule 22c-2. We note that our experience has been that financial intermediaries: (i) typically attempt to negotiate changes even to standardized contractual provisions drafted by industry task forces; and (ii) do so in the context of both new agreements and amendments to existing agreements. In addition, the content of the Rule 22c-2 standard contractual provisions will need to be further amended, depending upon the final form of the proposed amendments, which is likely to lead to further negotiations. Furthermore, different industry task forces have developed substantively different proposed contractual provisions. In light of the fact that different industry groups are pursuing alternative "standard" contractual provisions, it is likely that the parties will need sufficient time to negotiate the terms of thousands of agreements and amendments to existing agreements.

Moreover, at least one industry task force (The SPARK Institute, Inc. ("SPARK")) has developed alternative contractual provisions pursuant to which SPARK members would be permitted to monitor for market timing on behalf of funds under their own monitoring policies, rather than funds' own monitoring policies, in exchange for less information sharing with funds. SPARK's model contractual language is therefore inconsistent with the allocation of responsibilities currently contemplated by Rule 22c-2. The Commission has not endorsed SPARK's approach, and there is no indication that the Commission will endorse its approach. If the Commission fails to endorse SPARK's approach, it is likely that funds will need to begin anew the process of negotiating with SPARK members. By contrast, if the Commission

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2 If the Commission has not adopted the revisions proposed in the *Proposing Release* sufficiently in advance of October 16, 2006 to allow funds, their principal underwriters or their transfer agents to determine whether they will be subject to Rule 22c-2 in the form promulgated in the *Adopting Release* or as amended by the proposed amendments, we respectfully recommend that the Commission: (i) defer the compliance date of Rule 22c-2 to a date not earlier than six months after October 16, 2006; and (ii) publicly announce whether it intends to adopt the revisions proposed in the *Proposing Release*.

3 *Proposing Release*, *supra* note 1, 71 Fed. Reg. at 11360–61.

4 *Proposing Release*, *supra* note 1, 71 Fed. Reg. at 11358.

endorses SPARK's approach, other financial intermediaries may wish to renegotiate the terms of their agreements or amendments in order to implement SPARK's approach.

For these reasons, we urge the Commission to defer the compliance date of Rule 22c-2.

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We appreciate the Commission's consideration of our comments. If you have any questions or need additional information, please contact me at (617) 954-5747, Suzanne Michaud at (617) 954-6204 or Ethan D. Corey at (617) 954-6748.

Sincerely,

Mark N. Polebaum
General Counsel