Calvert
INVESTMENTS THAT MAKE A DIFFERENCE®

April 7, 2006

Ms. Nancy Morris
Secretary
U.S. Securities and Exchange Commission
450 Fifth Street, N.W.
Washington, DC 20549-0609

Re: Mutual Fund Redemption Fees; File Number S7-06-06

Dear Ms. Morris:

The Calvert Group of Funds ("Calvert")[1] is writing to respond to certain questions that the Securities and Exchange Commission (the "Commission") presented for comment in Release No. IC-27255, which proposed several amendments to Rule 22c-2 (the "Rule") under the Investment Company Act of 1940.

Calvert is opposed to the Rule's "shareholder information agreement" requirement and believes that it is based on fundamentally flawed assumptions and analyses. The costs of negotiating, entering into, monitoring and enforcing "shareholder information agreements" will, in all likelihood, far outweigh any trivial benefits that may be realized from such agreements, and Calvert therefore urges the Commission to abandon this approach for addressing the market timing problem. Calvert, however, endorses the underlying purpose that would be achieved by "shareholder information agreements" insofar as that purpose is to impose clear and certain duties on financial intermediaries that make mutual fund shares available to investors. These financial intermediaries should be subject to greater regulation so that they understand better their obligations in combating market timing abuses. Instead of regulating these intermediaries indirectly via mutual funds by forcing mutual funds to enter into "shareholder information agreements," the SEC should directly regulate financial intermediaries within its jurisdiction in order to ensure that the information they provide to funds is materially accurate and based on proven and tested procedures used by them to implement the market timing policies of the funds that they offer to investors. To the extent that the SEC does not have jurisdiction over certain financial intermediaries, such as retirement platforms that offer mutual fund shares, Calvert urges the Commission to work with Congress, the Department of Labor and other appropriate regulators to develop a comprehensive solution that will result in the direct application of a uniform market timing rule to all financial intermediaries that make mutual fund shares available to investors.

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I. Shareholder Information Agreements Are Not Necessary to Achieve the Commission's Market Timing Objectives

Calvert believes that requiring funds to enter into written "shareholder information agreements" is unnecessary and based on flawed assumptions. By requiring "shareholder information

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[1] Calvert Group, Ltd. is a financial services firm specializing in tax-free and socially responsible investing, offering 32 mutual fund portfolios, with approximately $12 billion in assets under management. Calvert's philosophy is that shareholders can make sound investments without compromising their values. Accordingly, certain of Calvert's funds, in addition to assessing the economic viability of potential investments, evaluate companies according to specific social and environmental criteria designed for each fund.

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agreements" the Commission appears to be intent on facilitating the flow of information from financial intermediaries to funds for the purpose of detecting market timing activity and imposing redemption fees when appropriate. However, we know of no empirical evidence to support the conclusion that funds lack the information they require or, more importantly, that such lack of information is the root cause of inappropriate market timing.

Long before the market timing scandal surfaced in 2003, funds concerned with the adverse consequences of market timing activity adopted policies and initiated surveillance of inflows and outflows for the purpose of curbing such activity. Then, in the aftermath of the scandal, the Commission adopted rules to increase transparency of market timing issues. Under those rules, a fund must disclose its policies on market timing and its failure to adhere to those disclosed policies may constitute a violation of the antifraud provisions of the Federal securities laws. In addition, under Rule 38a-1 "a fund must have procedures reasonably designed to ensure compliance with its disclosed policies regarding market timing" and those "procedures should provide for monitoring of shareholder trades or flows of money in and out of the funds in order to detect market timing activity and for consistent enforcement of the fund's policies regarding market timing."[2] It therefore stands to reason that funds must currently have access to the information that they believe is material for purposes of monitoring shareholder transactions and money flows, for without such information the mutual fund industry as a whole would be unable to comply with the requirements of Rule 38a-1.

The requirement that funds enter into "shareholder information agreements" also appears to be based in part on the assumption that the Commission's intervention is necessary to correct a failure of market-based competitive forces. Clearly, in an industry as competitive as the mutual fund industry, nothing could be further from the truth. The fact is that a fund that has determined that market timing is harmful has tremendous incentive to see to it that its policy is rigorously enforced because market timing raises fund costs, harms long-term investors and, all things being equal, makes it appear that a fund is underperforming its peers.[3] Accordingly, it is very much in the self-interest of such a fund to ensure that it has access to the information necessary to identify violations of its market timing policy.

Similarly, most financial intermediaries want to provide investors with a broad selection of mutual funds from which to choose in order to retain current investors, attract new business and generally provide a "one-stop shopping" platform. Financial intermediaries know that if they do not provide information to enable funds to monitor market timing activity or fail to implement fund instructions to curb market timing activity, funds may stop doing business with that financial intermediary which may adversely affect the financial intermediary's competitiveness. Indeed, because it is impossible for funds to comply with the Commission's interpretation of Rule 38a-1 without information from financial intermediaries, funds are likely to take quick action with respect to those financial intermediaries which fail to provide the necessary information. By simply allowing these market forces to operate without the Commission's intervention, it should be possible to achieve

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[2] "Compliance Programs of Investment Companies and Investment Advisers", Release Nos. IA-2204 and IC-26299 (the "Compliance Rules Adopting Release").

[3] It is true that the mutual fund market timing scandal revealed that several funds with market timing policies voluntarily waived or ignored those policies for select investors, but those instances were principally situations in which the fund's investment adviser made those decisions on behalf of the fund, in many cases for its own benefit, without informing the fund's board of directors. The rules adopted by the Commission in the aftermath of the market timing scandal, in particular the requirement that each fund and adviser designate one individual as the Chief Compliance Officer, are intended to address situations such as the breach of an investment adviser's fiduciary duty to a fund.

the Commission's objectives without imposing the additional burdens and costs involved in adopting "shareholder information agreements." [4]

Calvert's experience with its market timing and redemption fee policies is consistent with its view that "shareholder information agreements" are little more than a solution in search of a problem. Currently, Calvert (i) imposes a 2 percent redemption fee on redemptions or exchanges of non-money market fund shares within 30 days of purchase (or 5 days in the case of its CTFR Limited-Term Portfolio and the California Limited-Term Municipal Fund),[5] (ii) does not accommodate frequent purchases and redemptions of fund shares by shareholders and (iii) may reject any purchase or exchange request it believes to be market timing. In addition, Calvert has adopted detailed escalation procedures to identify and police market timing activity, including, without limitation, the review of no fewer than five different market timing reports and different handling procedures for trades by known market timers, suspected market timers and large trades in omnibus accounts. With respect to omnibus accounts, if a Calvert Fund or its transfer agent or shareholder servicing agent suspects there is market timing activity in the account, Calvert will seek full cooperation from the financial intermediary maintaining the account to identify the underlying participant and it has generally received such cooperation. Calvert expects the financial intermediary to take immediate action to stop any further market timing activity in the fund by such participant(s) or plan, or else the fund will be withdrawn as an investment option for that account. These measures are implemented by personnel dedicated to the surveillance of market timing activity. Calvert believes that the efforts it makes to enforce its market timing policies are not uncommon in the industry and, accordingly, that "shareholder information agreements" will add very little to the existing practices of funds and financial intermediaries.

II. The SEC Staff's Cost-Benefit Analysis is Fundamentally Flawed Because the SEC Staff Assumes That Funds And Financial Intermediaries Do Not Currently Share Information

At the core of the SEC Staff's cost-benefit analysis, is its belief that "shareholder information agreements" will "**enable** [emphasis added] funds to obtain the information they need to monitor short-term trading in omnibus accounts and enforce their market timing policies."[6] The SEC Staff also believes that its proposed approach of targeting first-tier intermediaries "would **allow** [emphasis added] a fund to collect and analyze the most relevant information from intermediaries and **enable** [emphasis added] it to efficiently and effectively enforce its short-term trading policies."[7] And in connection with its cost-benefit analysis of the Rule, the SEC Staff asserts that the Rule is "designed to foster greater cooperation between funds and their intermediaries, and **may** [emphasis added] result

4 The Commission has indicated that funds may not use any information obtained pursuant to a "shareholder information agreement" for purposes of marketing. It should be noted, that the "shareholder information agreements" are not necessary to impose this restriction on funds, since the Commission could simply adopt a rule that prohibits funds from using information obtained in the course of conducting market timing surveillance for marketing purposes.

5 Retirement platforms that offer shares of Calvert mutual funds are required to impose these redemption fees to the extent that they have mechanisms and procedures to do so. To the extent a retirement platform is not able to impose the redemption fee it is required to monitor transactions for market timing activity.

6 "Mutual Fund Redemption Fees," Investment Company Act Release No. IC-27255. The release also states that "[t]hese proposed rule amendments are designed to **enable** [emphasis added] funds to request the information they need to enforce their market timing and redemption fee policies, while reducing the costs of complying with the rule."

7 "Mutual Fund Redemption Fees," Investment Company Act Release No. IC-27255.

in improved communication and transparency of information between them."[8] The only reasonable conclusion that can be drawn from these various statements is that the SEC Staff has somehow determined that meaningful information sharing does not currently exist between funds and financial intermediaries and that such information sharing will only occur if the Commission mandates it. Unfortunately, in the absence of any empirical evidence to support that determination, the reader is left to puzzle over exactly how that determination was made since it stands in such stark contrast to the level of information sharing that goes on every day between funds and financial intermediaries.[9]

The truth of the matter, of course, is that funds and financial intermediaries are motivated by their own self-interest and, in the case of the funds, existing Commission rules to engage in a meaningful level of information sharing and cooperation for purposes of market timing surveillance. There simply is no need for a rule to "enable" or "allow" funds to collect this information or to require financial intermediaries to respond appropriately to fund instructions regarding market timing activity. The SEC Staff seems to be at least somewhat aware of this ongoing activity, since it asked for comment on the steps that funds and intermediaries are already taking to share information and, as noted above, it implicitly acknowledged that the Rule may, in fact, not "result in improved communication and transparency of information." Nevertheless, for purposes of calculating the benefit provided by the Rule, the SEC Staff credits the Rule for creating all of the information flow that currently exists between funds and financial intermediaries instead of just the marginal amount of additional information flow that might be generated by "shareholder information agreements." The SEC Staff therefore arrives at the conclusion that "shareholder information agreements" provide meaningful benefit, while Calvert believes, based upon the realities that exist in the current marketplace environment, that these agreements will merely reduce to writing the informal information sharing arrangements that are already in place between funds and financial intermediaries. Notwithstanding the views of the SEC Staff, there appears to be an extremely high probability that the costs and burdens of negotiating, entering into, monitoring and enforcing "shareholder information agreements" will outweigh any trivial benefits that might derive therefrom.[10]

III. The Absence of Any Standards in the Rule Exacerbate the Costs and Burdens of Complying With the Rule

By failing to include any standard or guidelines in the Rule with respect to the appropriate content and manner of enforcement of market timing policies, the Commission has increased the costs of compliance and set up the ultimate battle of the forms between funds and financial intermediaries. Fund complexes naturally want their funds to be governed by market timing policies that the Board of

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8 "Mutual Fund Redemption Fees," Investment Company Act Release No. IC-27255.

9 Calvert acknowledges that the period following the adoption of the Rule has coincided with an improved level of information sharing between funds and financial intermediaries. However, Calvert believes that this improved level of information sharing is principally the result of (i) funds' efforts to comply with Rule 38a-1, which took effect in October 2004, and (ii) the extensive amount of dialogue between and among funds and financial intermediaries as they have attempted to sort through the confusion created by the Rule. Irrespective of the reason, the very fact that information sharing between funds and financial intermediaries has seen such an improvement proves that "shareholder information agreements" are not necessary to achieve that objective.

10 Calvert also believes that the SEC Staff's estimated costs to implement the requirements of the Rule regarding "shareholder information agreements" are significantly understated. Calvert, with approximately $12 billion under management, has approximately 2,000 selling and other agreements which will need to be amended if the requirement to enter into "shareholder information agreements" is retained.

Directors of the applicable funds have determined to be in the best interest of the fund, but financial intermediaries maintaining platforms with funds from many different complexes have concerns that they will have to share information and implement instructions in accordance with widely divergent market timing policies. Financial intermediaries appear to be alarmed at that prospect, both because of the difficulty of monitoring compliance with all of these policies and the related costs.

In an attempt to address these concerns, some large financial intermediaries have proposed to apply their own market timing policy to each of the funds distributed through that platform, which effectively removes the market timing policy decision from the Board of Directors of the applicable funds. Still other financial intermediaries are seeking to impose restrictions in "shareholder information agreements" in order to limit their obligations and to avoid potential conflicts with other laws, which restrictions will ultimately reduce the effectiveness of the funds' market timing policies.[11] The irony, of course, is that a Rule "designed to foster greater cooperation between funds and their intermediaries…and…improved communication and transparency of information between them"[12] will, in all likelihood, result in "shareholder information agreements" that are very narrowly drafted to achieve a carefully circumscribed purpose and will ultimately lead to a reduced level of information sharing and cooperation compared to the level that currently exists. This outcome, however, could easily be avoided by abandoning "shareholder information agreements" and relying instead on the informal information sharing arrangements that are currently in place, fund compliance with Rule 38a-1 and additional regulation of financial intermediaries as further described below.

IV. Regulations Should be Adopted to Promote Integrity in the Intermediary Channels

Calvert believes that a better, more direct and less costly and burdensome approach for realizing the Commission's objectives would be to directly regulate financial intermediaries involved in the distribution of mutual fund shares. As the SEC Staff has explained, it believes "[t]he proposed amendments [to the Rule will] provide the benefit of certainty regarding the duties of funds and financial intermediaries under the [R]ule, and clarity concerning the intent of the Commission…." With respect to funds, however, the duty to implement and enforce a market timing policy is already patently clear by virtue of the Commission's interpretation of Rule 38a-1 in the Compliance Rules Adopting Release. Funds know, or should know, what is required of them with respect to market timing without entering into "shareholder information agreements." On the other hand, the duties and responsibilities of financial intermediaries do lack some certainty and clarity, although, as discussed above, Calvert is not aware of any widespread complaints that financial intermediaries are failing to provide funds with the necessary information to permit compliance with Rule 38a-1. In view of the different regulatory posture of funds and financial intermediaries with respect to market timing issues, it therefore seems that requiring funds to enter into "shareholder information agreements" with financial intermediaries is really an indirect attempt to impose duties on financial intermediaries that offer mutual fund shares.

Calvert believes that the Commission's attempt to use the Rule to indirectly impose duties on financial intermediaries is misguided and extremely inefficient, but it supports the underlying objective to impose duties on financial intermediaries to combat market timing. The activities of some financial intermediaries have sullied the reputation of the entire industry, so it is proper to ensure that these organizations clearly understand their obligations to curb market timing abuses. The first step in this process must be to ensure the integrity of the intermediary channels. It is critical to assure all fund investors that they will be treated fairly when buying and selling fund shares and that financial intermediaries will not favor certain institutional investors over other investors.

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[11] Compare, for example, the "Rule 22c-2 Sample Contract Language for Retirement Plan Service Providers" from the Spark Institute, Inc. with the "Model Contractual Clauses for Rule 22c-2" from the Investment Company Institute.

[12] "Mutual Fund Redemption Fees," Investment Company Act Release No. IC-27255.

In Calvert's view the Commission should abandon the efforts to date to force funds and financial intermediaries to enter into "shareholder information agreements" because these agreements will do very little to address the real problem, which is that financial intermediaries may not be subject to adequate regulation with respect to market timing issues. A better model for the reforms that are needed is the landmark Sarbanes-Oxley Act of 2002 (the "Sarbanes-Oxley Act"), which focuses, in part, on personal accountability by management. Adopted in response to Enron and other corporate scandals, the Sarbanes-Oxley Act is designed to promote integrity in the financial statements of public companies by requiring that every internal process that feeds into a company's financial statements is vetted. In furtherance of this goal, the Sarbanes-Oxley Act requires that Chief Executive Officers and Chief Financial Officers of publicly traded companies must personally certify to the accuracy of the company's financial statements in public filings. To ensure that these executives "get the message," Section 302 of the Sarbanes-Oxley Act exposes them to personal liability for monetary fines if these financial statements are not accurate, and Section 906 exposes them to criminal liability for inaccurate reports. Personal accountability by management, through publicity and public disclosure, stands at the heart of the Sarbanes-Oxley Act. As the House Report on this legislation observed, "[i]t is reasonable to expect that corporate officers stand behind the company's public disclosure and be subject to sanction should they violate their certification." The Senate Report noted that "management should be held responsible for the financial representations of their companies."

Calvert believes the same approach is needed in the intermediary channels. Financial intermediaries should stand behind their procedures, and senior executives should have a personal stake in ensuring that all investors buy and sell fund shares under the same set of rules, including, without limitation, the market timing policies of the funds that they distribute. Making financial intermediaries accountable will assist fund complexes in selecting distribution partners that take their responsibilities seriously. It also will allow investors to determine whether their fund complex uses financial intermediaries that adhere to high standards of conduct.

Calvert urges the following steps. First, regulatory bodies with jurisdiction over financial intermediaries should adopt regulations designed to promote integrity in the intermediary channels. The Commission, the Department of Labor,[13] banking regulators, the National Association of Securities Dealers, Inc. and other appropriate regulators should take coordinated action designed to provide maximum coverage of these new regulations for the various intermediary channels. These regulations should (i) require financial intermediaries to adopt procedures reasonably designed to ensure that transactions are processed properly and in accordance with applicable regulatory requirements and the policies of the applicable fund, (ii) place ultimate compliance responsibility squarely on the management of financial intermediaries by requiring executives to certify compliance with the new regulations, (iii) impose meaningful personal liability on executives if they fail to carry out this responsibility and (iv) be publicly available to investors and fund complexes, either in Commission filings or in a central repository (such as the Investment Advisers Registration Depository). Armed with this information, investors and the Board of Directors of a fund will be able to make meaningful and informed decisions regarding the integrity of, and risks presented by, various financial intermediaries.

Calvert is proud to be a member of the mutual fund industry and believes that the mutual fund industry should never again be let down by a few of its financial intermediaries and a handful of fund complex employees. The Commission has responded with respect to funds by requiring new governance structures to reduce conflicts of interest and promote integrity within fund management.

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[13] The provisions of the Employee Retirement Income Security Act of 1972 governing fiduciaries clearly raise questions as to whether a plan trustee or fiduciary could engage the services of a plan "platform" that does not have adequate procedures in place to prevent illegal market timing. The plan trustee or fiduciary, after all, is acting on behalf of plan participants who are some of the mutual fund shareholders harmed by the platform's failure to monitor and halt market timing activity.

Calvert believes that it is now necessary to restore the confidence of the investing public in the various intermediary channels involved in the distribution of mutual fund shares and it supports the efforts of the SEC Staff and Commission to achieve that objective.

V. If the Commission Insists on Requiring "Shareholder Information Agreements" the Compliance Deadline Should be Extended

As noted above, Calvert believes that "shareholder information agreements" are unnecessary and that the costs of negotiating, entering into, monitoring and enforcing these agreements will almost certainly outweigh any trivial benefits that may be realized. However, if the Commission insists on requiring funds to enter into "shareholder information agreements" with financial intermediaries the Commission should extend the compliance date. The history of the Rule is replete with miscues and missteps that have left funds and financial intermediaries alike in a state of confusion and uncertainty as to what the final rule will actually require. Once a final rule is determined, the compliance clock should be reset to provide the industry a meaningful time in which to comply. Calvert hopes that it will not be necessary to establish a new compliance date, but, if one is necessary, Calvert believes that it should be pushed out to at least the first quarter of 2008.

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In summary, Calvert is opposed to the Rule's current requirement that funds enter into "shareholder information agreements" with financial intermediaries. This requirement will be costly and burdensome to comply with and will produce very little, if any, benefit given that funds and financial intermediaries currently share information for purposes of market timing surveillance. In fact, funds currently obtain and use this information for purposes of complying with their obligations under Rule 38a-1. For these reasons, Calvert urges the Commission to abandon the Rule's "shareholder information agreement" requirement and to rethink its approach for addressing the market timing problem.

The nation's mutual fund shareholders are ultimately the ones who bear the costs of market timing activity. They are also the ones who will ultimately bear a significant portion of the costs of the SEC's regulatory "solution" to the market timing problem. Calvert believes that that nation's mutual fund shareholders are entitled to more than a costly, ill-conceived rule that will produce very little, if any, benefit. In Calvert's view, mutual fund shareholders deserve nothing less than a comprehensive and meaningful regulatory solution that will ensure the integrity of all mutual fund distribution channels by, among other things, requiring financial intermediaries to establish appropriate mechanisms and procedures for implementing mutual fund market timing policies and by imposing personal responsibility on the senior management of those financial intermediaries for ensuring the integrity of those mechanisms and procedures.

If you have any questions about Calvert's views or would like additional information, please contact me at 301-951-4852.

Sincerely,

/s/ William Tartikoff
General Counsel

/s/ Andrew Niebler
Assistant General Counsel