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Feb. 18, 2004

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

Comments on Proposed Mutual Fund Disclosure Forms, SEC File No. S7-06-04.
These may be part of your public record.

GENERAL. Your proposed rules are generally good; I welcome them. I will comment on your rules first, and then make a suggestion for a more general and deeper approach to solving the problem of broker fees.

ATTACHMENT 1, CLASS A SHARES.
Part A. Replace "mutual fund" with "mutual fund, open-end type," or "closed-end type."
Part C. AAA Introducing may receive, ***every year,*** in connection ... .
Part D. Replace "affiliated" with "affiliated or favored." Close that loophole a crook could squeeze through.
Part F. Rewrite so as to especially point out charges which will be annual. This presumably applies to "revenue sharing" and "portfolio brokerage" and perhaps others.
Above may apply to attachments 2 and 3 as well.

ATTACHMENTS 4 AND 5. Add a third paragraph at the bottom:
OTHER TYPES OF BROKERAGE CONTRACTS. Some brokers, as an alternative to load fees for mutual funds, may agree to an annual fee for investment management, or may charge by the hour for services. You may wish to use one of these methods for paying for brokerage services because it is cheaper, because it biases the broker less, or because it manages investments in a more thorough fashion. Ask your broker if such alternatives are offered, and if they are, for financial details.

THE SEC SHOULD ACT TO DEVELOP INDUSTRY-WIDE ALTERNATIVES TO LOAD MUTUAL FUNDS. Mutual fund loads create conflicts of interest, they always will, and the SEC can only reduce but not eliminate this conflict of interest. The real solution to this problem requires a bold approach, namely fostering an industry-wide change to payments for managing investments rather than paying piecemeal for each investment activity. The big brokerage houses have recognized this problem and offer investment management contracts as an alternative to loads or for stocks, commissions. I recommend that the SEC develop policies which will encourage the shift. Require every large or intermediate broker to develop, in say three years, an alternative financing arrangement based upon investment under management, either in addition to or as an alternative to loads and commissions. If this is done, the inherent conflict of interest will fade away, and investors and their industry will be better off.

William H. Pierce William H. Pierce