ARIEL CAPITAL MANAGEMENT, LLC
ARIEL MUTUAL FUNDS

200 East
Randolph Drive
Suite 2900
Chicago, Illinois
60601
312-726-0140
f 312-726-7473
www.arielmutualfunds.com

SHELDON R. STEIN
GENERAL COUNSEL

May 6, 2005

Jonathan G. Katz, Secretary
Securities and Exchange Commission
450 Fifth Street, NW
Washington, DC 20549-0609

Re: File No. S7-11-04 – Comment Letter on Final Rule: Mutual Fund Redemption Fees – Rule 22c-2

Dear Mr. Katz:

The following represents my own personal views and are not necessarily those of my company.

1. The rule requires the investment company or underwriter to obtain an agreement from intermediaries to provide certain underlying investor information to the investment company. This places the burden of time, expense, follow-up and related aggravations on the investment company or its principal underwriter. While there are a large number of intermediaries not subject to SEC and NASD regulation (such as trust companies or third-party administrators), there are perhaps thousands of entities subject to your regulation. With a "stroke of the pen" the Commission could make this undertaking mandatory for registered broker-dealers so funds and underwriters need not amend all of their intermediary agreements. The rule as written imposes unnecessary expense and burden, while also opening up an unnecessary avenue of inquiry and comment as to why, upon inspection, all possible agreements were not obtained.

2. This inquiry-reporting part of the rule has another unintended consequence. When Chairman Donaldson requested that the registrants obtain undertakings from intermediaries to have in place procedures and mechanisms to prevent late trading and

timing, the industry did its best to comply. Many intermediaries agreed and there were ongoing positive discussions in other cases. Now some intermediaries have taken a hard position. They say, in effect, that since the release of the rule, the SEC places the burden of monitoring market timing on the investment company and/or its principal underwriter. Thus, there is no requirement for the intermediary to monitor activity. The intermediary only has the responsibility to refrain from engaging in such prohibited activity itself and report it if it is discovered. If the investment company wants more information, it will be provided upon request. However, without procedures in place at the intermediary, how will there be any likelihood of discovery? Why is the responsibility not placed with those in the best position to monitor trades – the initiators of the trades – broker/dealers and other intermediaries? Understandably, the intermediary does not want to conform to 20 or 50 different fund timing restrictions. One solution is to change the rule to require the intermediary to adopt procedures reasonably designed to prevent timing and the funds accept them along with the requirement for the intermediary to report violations to the fund involved. I believe Fidelity has already taken steps along these lines.

3. It is difficult to understand the circumstances under which an investment company or underwriter would seek such information on underlying trades.
    a. How would the investment company know whether there is underlying timing or late trading in an omnibus account unless the intermediary master account holder informed the investment company?
    b. What methodology should funds employ in selecting who to ask? What will be considered reasonable for fund companies to request? What happens if information not requested for a particular time frame has issues later?

4. In addition to the above difficulties, how would a fund be sure of proper redemption fee collections? Is it intended that the funds be in the collection enforcement business?

5. There are already press reports that some broker/dealers will charge additional fees for each item of such information. In addition, transfer agents gathering information on behalf of their fund clients also will charge additional fees for such system and reporting enhancement. Again, broker/dealers and intermediaries are already paid to "service" and in a lot of cases "sub-account". What are fund companies paying for if not to ensure, through the selling entity's systems, that shareholders abide by the rules?

In my opinion, the rule, as it finally arrived, will have unintended negative results and be of costly and questionable value.

Very truly yours,

Sheldon R. Stein