THE FINANCIAL PLANNING ASSOCIATION

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May 10, 2004

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

RE: **Release No. IC-26375A; File No. S7-11-04; Mandatory Redemption Fees for Redeemable Fund Securities**

Dear Mr. Katz,

The Financial Planning Association ("FPA™")[1] is pleased to submit comments with respect to the SEC's proposal to adopt mandatory redemption fees for redeemable mutual fund securities purchased and sold within a five day period. In light of the evidence that abusive short-term trading provides profit to short-term investors at the expense of long-term investors, FPA strongly supports the SEC's efforts to address these issues.

The SEC's proposed rule would require the mutual fund to enforce a mandatory two percent fee, which will be retained by the mutual fund, on any redemption within five days of the purchase of the mutual fund subject to certain exceptions. The exceptions provided are the *de minimis* exception, emergency exception, and excepted funds.

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[1] The Financial Planning Association is the largest organization in the United States representing financial planners and affiliated firms, with approximately 28,000 individual members. Most are affiliated with registered investment adviser firms registered with the Securities and Exchange Commission ("SEC" or "Commission"), state securities administrators, or both. FPA maintains an advocacy office in Washington, D.C., and has its headquarters in Denver.

Excepted funds being money market funds, exchange traded funds, and mutual funds that encourage and disclose active trading.

How the Proposed Rule Affects Financial Planners

This proposed rule is of great importance to the financial planning profession because financial planners play a beneficial role in offering to clients a disciplined approach to mutual fund investing. Abusive short-term investing hurts long term investors by increasing administrative costs and, more importantly, eroding profits from the mutual fund. Generally, an abusive short-term trader does not have money invested in the mutual fund long enough to have earned the profits being withdrawn. This is because the money has not been with the mutual fund long enough to be fully invested in the portfolio of the mutual fund. As a result the short-term trader walks away with profits that belong to the long term investor. The SEC proposal will aid the mutual fund in managing the fund according to its obligations to its investors and in deterring abusive short-term trading.

In order to create investment portfolios that assist a client in reaching personal and financial goals, FPA members make recommendations to clients or assist clients in their own research concerning the selection of suitable investments from the more than 15,900 mutual funds currently available. Financial planners that are registered representatives may also be involved in executing the transaction. Since the proposed rule would require the cooperation of intermediaries in the enforcement of redemption fees they will have the obligation to provide aid to mutual funds. This allows a more uniform acceptance and implementation of the rule.

Exceptions and the Small Investor

We also applaud the SEC for accommodating the small investors' demands on their mutual fund investment. The *de minimis* exception for small withdrawals ($2500 or less) and emergency exception for withdrawals to deal with an unanticipated financial emergency will aid small investors in dealing with any need to withdraw a portion of their investment. In addition, the policy of addressing withdrawn funds with the first in first out (FIFO) accounting standard allows the small investor even more flexibility. However we would like to caution that an investor already holding a position with the mutual fund would have the latitude to abuse the system with new funds. For that reason, a last in first out (LIFO) accounting standard to calculate the redemption fee may be more effective.

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As fiduciaries of mutual fund investors, the mutual fund company must treat all investors fairly. The proposed rule is a reasonable means to ensure that fairness is adhered to and long-term investors are not disadvantaged. FPA will be pleased to provide any assistance in addressing these issues. Please do not hesitate to contact the undersigned at (202) 626-8558.

Sincerely,

Sujey Kallumadanda, Esq.
Counsel & Assistant Director of Government Relations