Neal S. Wolin
Executive Vice President
and General Counsel

May 10, 2004

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

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

Dear Mr. Katz:

HL Investment Advisors, LLC ("HL Advisors"), a wholly owned indirect subsidiary of The Hartford Financial Services Group, Inc., is pleased to have this opportunity to comment in support of the Securities and Exchange Commission's proposed Rule 22c-2 under the Investment Company Act of 1940 (the "Proposal") to impose mandatory redemption fees and related information-sharing processes for securities issued by open-end investment companies. The proposed mandatory redemption fee would also apply to transfers within five business days among subaccounts within variable annuity contracts. HL Advisors is an investment adviser for a family of mutual funds that offer and sell their shares to insurance companies that issue variable life and annuity contracts. An affiliate of HL Advisors acts as the investment adviser to a number of retail mutual funds. HL Advisors had over $53.1 billion in assets under management as of December 31, 2003. Our comments are limited to the operation of the Proposal on sponsors of these variable insurance products.

Hartford Life Insurance Company and Hartford Life and Annuity Company are wholly owned indirect subsidiaries of The Hartford Financial Services Group, Inc. These companies issue variable annuity and variable life insurance contracts. Under these contracts, premium payments may be allocated by the purchasers to "sub-accounts" that are subdivisions of each life insurance company's separate account, an account that keeps the variable contract

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assets separate from other company assets. The sub-accounts purchase shares of mutual funds advised by HL Advisors. The Proposal highlights the difficulties that funds have had in identifying frequent traders that seek short-term profits by buying and selling shares in anticipation of changes in market price ("market timers") that trade through omnibus accounts. As the Commission noted, the concerns highlighted with respect to omnibus accounts, and the impediments to monitoring the activities of market timers, apply equally to funds that offer and sell their shares to insurance companies that sponsor variable life and variable annuity contracts. The difficulties identified by the Commission are at times exacerbated by variable annuity contract language that pre-dates the heightened understanding of potential harm to fund investors that frequent trading may cause.

Often these older generation contracts between insurance companies and contract holders do not contain provisions that allow the insurance provider to control the trading of the contract holder. Insurance companies have tried with very limited success to limit contract holders' trading activities, often being sued by their contract holders for breach of contract and fraud.[1] In many instances, courts have been unsympathetic to insurance companies' efforts to curb abusive trading by their contractholders.[2] A strong statement by the Commission that funds offered through a variable insurance product must impose redemption fees would provide a means to slow, if not stop, this activity.

The Proposal contains several provisions that HL Advisors believes will assist funds in which variable insurance products invest to be more successful in combating abusive trading activities. The Proposal would make it unlawful for an open-end fund to redeem a security issued by the fund within five days of the investor's purchase of the security, unless the fund charged a redemption fee of two percent of the amount redeemed. HL Advisors strongly supports this aspect of the Proposal because it believes that the Proposal would remove any ambiguity that may exist concerning the ability to impose a redemption fee on frequent trades in the fund by contract holders of variable products. HL Advisors strongly urges the Commission to make express the obligation of funds offered to variable insurance company contract holders to impose the proposed mandatory redemption fee, even if the insurance contract does not contain trading limitations. This position would be consistent with that taken by the court in

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1 *See, e.g.*, *Paul M. Prusky v. Prudential Insurance Company of America*, No. 00-CV-2783 (D.C. Eastern Dist. PA) filed Nov. 29, 2000; *First Lincoln Holdings Inc. v. The Equitable Life Assurance Society of the United States*, 164 F. Supp. 2d 383 (S.D.N.Y. 2001); *Windsor Securities, Inc. v. Hartford Life Ins. Co.,* No. 90-CV-3687 (E.D. Pa.), filed May 31, 1990, *aff'd in part, rev'd in part*, 986 F.2d 655 (3d Cir. 1993) ("Windsor I"); *Abramson v. Hartford Life Ins. Co.,* Civil Action No. 94-0442 (Ct. Common Pleas, Montgomery Cty., Pa), filed March 1994 ("Windsor II"); *Prusky v. Hartford Life Ins. Co.,* No. 97-CV-00815 (E.D. Pa.), filed Feb. 1997 ("Windsor III").

2 Hartford has attempted on several occasions to curb the ability of older generation contract holders to trade frequently in shares of Hartford funds, with no support from the judicial system. *See Windsor I, Windsor II* and *Windsor III, supra.* More recently, Allmerica found the judicial system unsympathetic to its efforts to deter market timing activities in its funds. *American National Bank and Trust Company of Chicago* and *Emerald Investments United Partnership v. Allmerica Financial Life Insurance and Annuity Company,* No. 02 C5251 (D.C. Ill. 2003).

Miller v. Nationwide Life Insurance Company, which dismissed a breach of contract claim brought by a market timer, because the underlying fund imposed a new redemption fee, rather than the insurance company.[3]

HL Advisors shares the Commission's concerns about the effect of the Proposal on small contract holders, but believes that exceptions from imposing the fee contained in the Proposal will achieve the Commission's goal in protecting those contract holders. We also support as a means of furthering this goal the Commission's suggestion that redemption fees should not be imposed on transactions (either purchases or sales) made within a five business day period that are part of automatic investment, reinvestment, or repurchase programs. Sponsors of variable annuity contracts offer a number of automatic trading programs such as dollar cost averaging and automatic asset rebalancing, which are beneficial to their contract holders. Because of their automatic nature, these types of programs offer little opportunity for abusive trading, and should be excluded from the application of the redemption fee. Although the Proposal suggested that funds should have the discretion to waive the fee for these types of transactions, HL Advisors urges the Commission to adopt a final rule that would exclude automatic transactions from the application of the redemption fee in all cases, due to the importance of consistency in processes and procedures for those administering the application of numerous fund families' redemption fee requirements.

HL Advisors strongly urges the Commission to require that the administration of redemption fees imposed by funds be done at the insurance company level. Insurance companies often offer their contract holders the opportunity to invest in a number of funds offered by various fund families; if the fund families had the ability to dictate the method used to administer the imposition of the redemption fee as is currently proposed, the costs associated with the Proposal, which ultimately would be borne by contract holders, could be significant. As the Commission has previously acknowledged in other contexts, a lack of consistency in approach by fund families can result in administrative burdens on financial intermediaries and inadvertent errors that ultimately may result in unintended losses to investors.[4] For these reasons, HL Advisors supports efforts to make the redemption fee mandatory, consistent in amount and holding period, and in administration.

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Thank you for your consideration of these comments. We commend the Commission and its staff for its efforts to curb abusive trading practices, and believe that the Proposal, if adopted with the clarifications suggested in this letter, would go far to further the

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[3] 2003 WL 22466236 (E.D. La.) (Oct. 29, 2003).

[4] *See Proposed Rule: Disclosure of Breakpoint Discounts by Mutual Funds*, Investment Company Act Release No. 26298 (Dec. 17, 2003) (reflecting the findings of the Joint NASD/Industry Task Force on Breakpoints that broker-dealers had difficulties "in accessing and understanding the terms upon which mutual funds allow investors to aggregate both their holdings and those of related parties to reach breakpoints").

Commission's work in this regard and would add a potentially effective tool for funds offered and sold through variable insurance products in combating abusive trading practices by certain contract holders. If you would like to discuss our comments, or if you have any questions, please contact me at (860) 547-3100 or Walter C. Welsh, Senior Vice President, at (860) 843-6453.

Sincerely,

The Hartford Financial
Services Group, Inc.

By:_____

Neal S. Wolin
Executive Vice President and
General Counsel

cc: Hon. William H. Donaldson
Chairman of the Securities and Exchange Commission

Hon. Paul Atkins
Commissioner

Hon. Roel Campos
Commissioner

Hon. Cynthia A. Glassman
Commissioner

Hon. Harvey Goldschmid
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Division of Investment Management
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