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Jonathon G. Katz, Secretary
Securities and Exchange commission
450 5th Street, N.W.
Washington, D.C. 20549

SUBMITTED ELECTRONICALLY: **rule-comments@sec.gov**

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

Dear Mr. Katz:

National City Corporation ("National City") is an $111 billion financial holding company headquartered in Cleveland, Ohio, and operates six national banks and two state banks with trust powers in the states of Ohio, Pennsylvania, Michigan, Illinois, Indiana, Kentucky, Rhode Island, and Missouri. National City appreciates the opportunity to comment on the proposed rule regarding mandatory redemption fees for mutual fund securities and commends the Commission for its efforts to curb short-term trading practices that are abusive and harmful to mutual fund investments. The prevalence of mutual fund holdings amongst ordinary Americans makes this an issue with potentially widespread impact.

It is that prevalence of mutual funds held in the general investment and retirement portfolios of working Americans, however, that may lead to higher expenses and lower returns if expensive solutions are required to be implemented by intermediaries. Intermediaries such as National City provide convenient and efficient access to these securities for millions of ordinary investors, 401(K) participants, charities, and other beneficiaries who have their assets managed by bank trust departments. We would prefer that alternate methods to curb market timing be utilized rather than expensive system-changing solutions.

National City uses mutual funds extensively for smaller accounts as an investment vehicle for several lines of business, including personal grantor trust accounts, irrevocable trusts for surviving spouses and children, charitable trusts, and retirement accounts. The bank provides services in a traditional trust operations environment for these lines of business. In addition, mutual fund transaction execution and settlement are also performed for a third party record keeper that services plans where National City is the trustee.

The commission staff estimates that there are about 3,100 active registered open-end investment companies. Please be aware that under operational systems, each class of shares (each CUSIP) is treated as a separate fund. National City currently acts as an intermediary for 2150 different CUSIPs representing hundreds of thousands of account holder positions.

National City has made a significant investment in order to process mutual funds efficiently, timely, and extremely accurately. The bank's mutual fund positions are highly concentrated into omnibus accounts at the funds. We make extensive use of Fund/SERV and Networking to automate the large majority of transaction and reconciliation activities, helping to keep costs down for both funds and our clients.

As a financial intermediary National City recognizes the necessity of providing a fair and equitable environment for all investors. Whatever rule changes are enacted will require changes to our automated systems and procedures. To accomplish the changes in a timely and more cost efficient manner, the requirements should be as simple and straight forward as possible. It is inevitable that the proposed changes will increase fees and charges to shareholders, but too many options will create even higher costs for modifying systems, leading to even greater increases in fees for clients as well as increases in errors in applying numerous redemption penalties.

Comments – Two Percent Redemption Fee

Standardization will be important for financial intermediaries that work with a large number of funds and fund families.

- If funds have an option to determine different levels of fees, there will be more maintenance of system tables by intermediaries and a greater risk of coding a particular fund incorrectly leading to an incorrect calculation of redemption fees.
- National City is generally not involved in funds that already carry CDSC fees, and exceptions to the 2% rule for these funds would not be a significant burden. For other funds the fees should be calculated using a standard rate.
- National City would be willing to enter into agreements with the funds to calculate and remit fees to the funds. We prefer this option over the other two proposals because it allows us to remain in compliance with privacy policies and our trustee's duty of loyalty.
- To the extent that funds are not willing to enter into standard agreements with financial intermediaries, we will seriously consider re-registration of omnibus accounts into individually registered accounts at the funds. Certainly this will increase expenses at the funds for all shareholders, but we do not have a

systematic way to avoid this at present. **National City has already begun the process of opening individual accounts in certain selected funds that have already introduced redemption fees.**

- There are frequent situations where there are multiple financial intermediaries between the investor and the fund. National City delivers transactions to the fund for many retirement accounts where there is a record keeper delivering the transaction instruction to National City from plan participants. It will be a challenge to insure that fees are calculated and levied as appropriate. National City would not be in a position to verify that outside record keepers are meeting their responsibilities in this regard.
- A LIFO method of determining fees would appear to be more effective to eliminate market timing. The FIFO method would permit investors to establish a base of shares and market time with shares above that base. If the objective is to stop deliberate, abusive market timing, FIFO seems to offer a way to circumvent the rule.
- If there is a *de minimis* provision in the rule it should be mandatory. If optional, it would create additional operational risk for intermediaries forced to apply different rules.
- A hardship prevision will require the expense of judgment and evaluation on the part of personnel at funds or intermediaries to determine if a shareholder's claims of hardship are with merit. National City is opposed to hardship exceptions.

Comments – Five-Day Holding Period

National City would prefer standardization of the holding period.

- Flexibility in the length of the holding period will make it more difficult for financial intermediaries to determine fees. National City would expect to automate this process and the risk would primarily come from errors in table set-up and maintenance. System expenses will be higher and ultimately passed on to investors.
- Allowing exceptions to the redemption fees should be kept to a minimum. Exceptions would require us to manually review the original purchase transaction to determine if it meets the requirements of an exception.
- The holding period should not be applicable in cases where a purchase was made due to an intermediary's error, or for reinvested dividends and capital gains. Fees waived due to purchase errors made by a financial intermediary could require a certification by the intermediary as to the circumstances of the error.

Comments-Other

- Many trust accounts are assigned their own Tax Identification Number (TIN). This TIN would not be very useful to funds trying to match transactions across multiple accounts with the same beneficial owner. Also, a trust often has multiple beneficiaries who may each have their own separate brokerage accounts or fund-direct positions. The trust's TIN would be irrelevant to matching these accounts.

Conclusion

National City thanks the Commission for this opportunity to comment. While the proposed rules are well intentioned, the Commission must realize that the expense of compliance will be ultimately borne by fund shareholders at perhaps an even greater amount of burden than costs associated with damage from market timers. Particularly for omnibus accounts that execute only net trades, the effect of market timers on funds is somewhat minimal. If intermediaries begin opening individual accounts at funds on a widespread basis in order to gain individual account recordkeeping to comply with a mandatory redemption rule, the cost to fund shareholders will be significant, because millions of new individual accounts would result from such an approach without a single dollar if increased asset size. The overall result could be greater costs for shareholders than the effect of relatively few marker timers who could be dealt with in other ways.

Sincerely,

Robert A. Arnold
Senior Vice-President
Division Manager
Trust Operations