OHIO PUBLIC EMPLOYEES DEFERRED COMPENSATION PROGRAM

May 5, 2004

Via-Email
Mr. Jonathan G. Katz, Secretary
United States Securities and Exchange Commission
450 Fifth Street, NW
Washington, DC 20549-0609

RE: File No. S7-11-04
Mandatory Redemption Fees for Redeemable Fund Securities

Dear Mr. Katz:

We appreciate the opportunity to provide comments with respect to the proposal by the Securities and Exchange Commission to create Rule 22c-2 under the Investment Company Act of 1940.

Executive Summary

The Ohio Public Employees Deferred Compensation Program is a large self-administered supplemental retirement system. We developed the capability to perform all recordkeeping tasks in-house in order to provide our participants the ability to invest in retail name mutual funds from a variety of fund houses for the very least cost. We strongly believe that reform is needed to prevent abuses and restore our participant and all investor confidence in the mutual fund industry. However, the imposition of a mandatory two percent redemption fee on shares held for five business days or less would punish all of our participants for the abuses of a few. Our participants would suffer not only from the redemption fee but because the fee is retained by the fund, all participants would also be charged the full cost of updating our system to implement the new rule.

If this rule is adopted, we ask that language be added to the final rule to clearly permit the fund to pass some of the collected fees on to the intermediaries in order to cover the cost of implementing this rule.

However, we also suggest that a more appropriate and much less burdensome approach would be to require all funds and intermediaries to identify pattern abusers and implement policies and procedures that restrict the abusers ability to make rapid trades. This would be the most cost effective approach for our Program since we would have to make only minor changes to our current practices and, most importantly, it would not be viewed as restricting all participants due to the abuses of a few.

Finally, we would like to point out that implementing mandatory rules and then permitting case-by-case emergency exceptions can prove very costly to administer and time consuming to participants. By the time forms are filled out, documentation is sent in and reviewed and a decision is made the five days will have expired.

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Background

The Ohio Public Employees Deferred Compensation Program (OPEDC) is an eligible deferred compensation plan administered in accordance with section 457 of the Internal Revenue Code. An independent public board created by the Ohio Legislature oversees the Program. Fourteen hundred public employers participate in the Program with more than 700,000 public employees eligible to participate. The Program has 170,000 accounts with 113,000 participants currently deferring.

The Program is self administered by the Board's staff. A current staff of 19 performs all recordkeeping and administrative services for the OPEDC using a proprietary system. The operating budget is $2.9 million

The Program has approximately $4.9 billion in assets invested in a stable value fund and 26 mutual funds from 14 fund houses. All investments are professionally managed by external managers using unallocated (omnibus) accounts. The participant level recordkeeping is all on the OPEDC system.

The Board has contracted with Nationwide Retirement Solutions (NRS) to provide an automated voice response system (VRU) and web site which are integrated with the OPEDC's recordkeeping system.

So that you can better understand our particular process and the impact to our participants of the proposed rule changes, we are providing some additional information:

Benefit Payments – regular benefit payments are processed once a month. Payments are available to the participant on the 20th of each month. The withdrawal is processed three business days prior to the pay date using the fund pricing for that day.

Exchanges – Participants have the option to request that their funds be moved from one investment option to another on a daily basis. This request can be made either on our website, by using our automated voice response system, or by talking to a customer service representative

The Program implemented the following policy effective June 1, 2004:

> Participants requesting four separate exchanges in any 45-day period will have limited future exchange privileges. These participants will not be allowed to request exchanges through the Program's web site, automated telephone service, or toll-free Service Center line. Instead, exchanges will only be allowed by mailing an authorized exchange form to the Program for the following 12-month period. Additionally, these participants may only initiate one mail-in exchange request within any five-day period.

Implementing a mandatory redemption fee will definitely require significant changes to our procedures, policies, and systems. Because we are completely funded by our participants, they will incur the related costs.

Some of the more significant changes and the related costs (if applicable) are outlined below.

- Recordkeeping software – OPEDC uses an internally developed recordkeeping system that has been highly customized to fit our plan. Significant modifications will be needed to review the daily transactions to determine when a redemption fee is required and apply the resulting transaction. Additionally, a data extraction process will be necessary to collect and transmit information from the recordkeeping system to the appropriate mutual fund provider. Significant development efforts will also be required to accommodate the variations between fund providers that will be permitted by the proposed rule. We estimate that these changes will necessitate the use of a contract programmer for a minimum of nine months. Based on an estimate of 1,560 hours at a rate of $90.00 per hour, our participants will incur a cost of $140,000.

- Recordkeeping hardware – A significant amount of additional processing will be required as a result of the proposed rule. In addition, posting and tracking the redemption fees will generate additional data resulting in a need for increased data storage capacity. This will require a system upgrade so that the additional transactions could be processed without impact to the nightly deadlines. The cost of the system upgrade and the additional data storage will cost our participants a minimum of $110,000.
- Infrastructure, security, and telecommunications – The requirement to share participant level data with the electronic communications. This may require additional phone lines, security measures, and enhancements to network infrastructure. The resulting cost to the participants will be significant but difficult to estimate at this time as it will depend on the requirements of the mutual fund providers.

Other potential impacts:

- Web site modifications will be required to notify the participant when a specific request will result in a redemption fee. Additional information will be required on the web site to explain the fee and to satisfy legal compliance.
- The automated telephone system will require modifications to notify the participant of the redemption fee when necessary.
- Additional administrative costs will be incurred to handle fee waivers as discussed in the proposed rule.

We thank the Securities and Exchange Commission for its consideration of our views.

Sincerely,

R. Keith Overly
Executive Director

RKO/csw