THE FINANCIAL SERVICES ROUNDTABLE

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

Re: Mandatory Redemption Fee, File No. S7-11-04

Dear Mr. Katz:

The Financial Services Roundtable[1] appreciates the opportunity to provide comments on the above-captioned proposal offered by the Securities and Exchange Commission (the "Commission" or the "SEC").

Background

The Commission's original proposal would have imposed a mandatory redemption fee of two percent of the amount redeemed on shares held for five business days or less. The final rule issued requires that each fund authorizes fund directors to impose a redemption fee of up to two percent of the amount redeemed when they determine that a fee is in their fund's best interest. The redemption fee is intended to allow funds to recoup costs incurred as a result of short-term trading by investors.

The Commission is also adopting a requirement that each fund enter into written agreements with its financial intermediaries providing the fund with access to information about transactions by fund shareholders. These agreements must contain a provision requiring the intermediary to execute the fund's instructions to restrict or prohibit further purchases or exchanges by any shareholder identified by the fund as having engaged in trading that violates the fund's market timing policies.

[1] The Financial Services Roundtable unifies the leadership of large integrated financial services companies. Its membership includes nearly 100 firms from the banking, securities, investment and insurance sectors. In addition to communicating the benefits of integrated financial services to the American public, the Roundtable is a forum in which financial services industry leaders address critical public policy issues.

Finally, the Commission is requesting additional comment on whether it should establish uniform standards for redemption fees charged under the rule.

Roundtable Comments

The Roundtable supports the Commission's efforts to reduce market timing and deter short-term trading practices. Over the last year, the Commission has proposed several rules that require funds to make additional disclosures of the risks of short-term trading and to have written programs and procedures on preventing market timing. We believe these actions will benefit the marketplace and protect investors.

In general, the Roundtable supports the Commission's final rule on redemption fees. Proposed Rule 22c-2 states that it is unlawful for any fund issuing redeemable securities, its principal underwriter, or any dealer in such securities, to redeem a redeemable security issued by the fund within seven business days after the security was purchased, unless it complies with three requirements. These requirements include; (1) allowing a fund's board of directors to approve a redemption fee of up to two percent of the shares redeemed, (2) the fund or its principal underwriter must enter into a written agreement in which each financial intermediary stipulates to provide specific information about shareholders and that the intermediary will abide by the fund's market timing policies, and (3) the fund must maintain an accessible copy of the written agreement that is in effect or that was in effect over the past six years.

Redemption Fees

The Commission's final rule offers some significant changes from the original proposal. In particular, the Commission is no longer proposing a mandatory two percent redemption fee. Instead, the Commission's final rule allows fund directors to determine the amount of the redemption fee, up to the maximum of two percent. The final rule also allows a fund's board to exercise judgment in determining the fee rather than basing them on a strict assessment of administrative fees or processing costs. The Roundtable agrees with the Commission's assessment that boards of directors are in a better position to determine whether a redemption fee is required and the appropriate amount of such a fee. We believe this approach is consistent with fund directors' fiduciary responsibilities. Since all funds are not similar, a one size fits all approach is not appropriate. Providing flexibility will assist funds that have a need for redemption fees, such as international funds and aggressive funds, while not penalizing shareholders that invest in lower volatility funds, such as government bond or balanced funds where the redemption costs are not as significant. The final rule will allow a fund's board to take the steps necessary to protect investors based on the individual circumstances of the fund.

The Roundtable also supports the Commission's decision to change the final rule to reflect that a board may impose a redemption fee on shares redeemed within seven calendar days rather than the five business day period originally proposed. We support the Commission's decision to give boards the flexibility to impose redemption fees on shares redeemed in a period longer than seven calendar days if the board believes it is in the best interests of its shareholders.

While some Roundtable members support a two percent cap on redemption fees, other Roundtable member companies believe a fee greater than two percent is appropriate in some circumstances and would support allowing a fund's board of directors to establish higher redemption fees. In these circumstances, higher redemption fees would help curb abusive short-term trading and recover costs associated with excessive trades. A redemption fee above two percent would be acceptable as long as the fund properly disclosed these fees to shareholders.

The Role of Financial Intermediaries

The Roundtable supports the Commission's decision to change the original proposal that would have required financial intermediaries to deliver identification and transaction information to funds each week. Having intermediaries provide information at the fund's request is a more efficient and cost effective solution. In addition, the requirements in the final rule that written agreements provide for intermediaries to execute the fund's instructions provide needed clarity and will help enforce a fund's market timing policies. However, some Roundtable members believe that further guidance may be required with respect to the definition of intermediary for purposes of such agreements.

We also believe the Commission should protect the privacy of the data provided to the funds by making it clear that the limited purpose of this information is to protect against market timing.

Uniformity

The Roundtable recommends uniformity in certain areas under the final rule. While we agree with the Commission that boards of directors should determine the amount of redemption fees and the length of the holding period, we believe there should be uniformity in the data reported by intermediaries to the funds. We request standardization in the format and frequency that this information is provided. We believe uniform standards will enable intermediaries and mutual funds to apply redemption fees in a fair, cost-effective manner.

Share Accounting

The Commission is requesting comment on whether Rule 22c-2 should require that redemption fees be determined using the first in, first out ("FIFO") methodology or some other accounting method. Under FIFO, redemptions that occur shortly after involuntary purchases (*i.e.*, pre-arranged plans, reinvested dividends, *etc*.) would not be subject to a redemption fee (assuming the customer has made previous purchases of sufficient size). In contrast, a redemption fee situation may arise if a customer redeems shares within days of making a pre-arranged purchase under a LIFO or other accounting method.

The Roundtable believes the FIFO method is the fairest approach. Under this approach, shares held the longest time would be treated as being redeemed first, and shares held the shortest time would be treated as being redeemed last. This method would not impose a redemption fee on innocent redemptions by long-term investors, especially those participating in retirement or college savings plans.

Exceptions

The Roundtable generally believes the exceptions contemplated in the final rule are unnecessary if the Commission requires all funds to use the FIFO accounting methodology for the reasons stated above. We believe exceptions could be costly and burdensome to administer and are concerned that market timers and other short-term traders would seek out ways to take advantage of the ambiguities and make inappropriate claims to evade redemption fees.

The Roundtable would like to comment specifically on two exceptions contemplated by the Commission. The first is the de minimis exception which would exempt transactions from the redemption fee if the amount of shares redeemed is $2,500 or less. We appreciate the Commission's desire to protect small investors who redeem trades in a manner unrelated to market timing activity, but we believe that market timers may trade in smaller amounts in order to take advantage of this exception and avoid the redemption fee. For these reasons, many of our members opposed this exception, while some members advocated for increasing the exception to shares redeemed totaling $10,000 or below. Second, some Roundtable member companies oppose an exception for unanticipated financial emergencies and some believe that it would be subsumed in a general de minimis exception of $10,000. We believe that it is difficult to define these types of events and it would be difficult to distinguish legitimate claims. These exceptions, if authorized by the Commission in their current form, would undermine the Commission's goals and increase the processing costs passed on to investors.

While the Roundtable generally believes that exemptions are unnecessary, we do not believe that they should be prohibited if a fund's directors determines that an exemption can be clearly defined and disclosed and is in the best interest of all shareholders of the fund including long-term shareholders that will bear the costs on those transactions where fees are not collected because of the exemption. For example, some Roundtable member companies have recommended that the Commission permit funds, at least on a voluntary basis, to exclude non-investor initiated transactions in retirement plans and variable life annuities from redemption fees.

Variable Insurance Contracts

The Commission is requesting comment on whether other provisions are needed to address the special circumstances of insurance company special accounts. The Commission has already stated that they "envision that the rule would not permit the assessment of redemption fees on the redemption, pursuant to partial or full contract withdrawals, of shares issued by an insurance company separate account..." The Roundtable believes that Rule 22c-2 should not contain any provision that would interfere with or impact the "free look" provision found in variable contracts.

Conclusion

The Roundtable appreciates the Commission's efforts on this proposal. The Roundtable supports the Commission's goal to reduce short-term and excessive trading. We believe rules governing redemption fees are part of the solution. We also believe that fair vale pricing and other policies and procedures are necessary to curb market timing.

The Roundtable applauds the Commission for several of the changes made in the final rule, including providing flexibility to a fund's board of directors to determine the appropriateness of a redemption fee.

We welcome the opportunity to discuss this proposal with the Commissioners and staff. If you have any questions or comments, please do not hesitate to contact me or John Beccia at (202) 289-4322.

Sincerely,

Richard M. Whiting

Richard M. Whiting
Executive Director and General Counsel