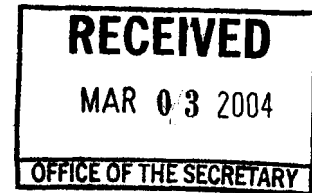




THE CHAIRMAN

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

November 17, 2003



Mary L Schapiro  
Vice Chairman and President  
Regulatory Policy and Oversight  
NASD  
1735 K Street, N.W.  
Washington, DC 20006

57-11-04

Dear Ms. Schapiro:

The Securities and Exchange Commission is scheduled to consider a package of rulemaking reforms designed to combat late trading and market timing abuses involving a number of mutual funds. This package of reforms represents the first step in the Commission's plan to address these issues. As we learn more from our investigation, we will consider other reforms that might be necessary. In this connection, I am writing to ask you to convene a high level working group to explore and recommend multi-faceted solutions to address issues that flow from mutual fund omnibus accounts.

As you are aware, mutual fund shares often are purchased and redeemed through omnibus accounts held at intermediaries such as broker-dealers. Accordingly, mutual funds do not have information on the underlying customers in an omnibus account. Thus funds cannot identify who is purchasing or redeeming a fund's shares when those purchases and redemptions are effected through omnibus accounts.

Our staff finds that these omnibus account arrangements may interfere with a fund's ability to fulfill certain obligations to its shareholders. In the breakpoints context, for example, funds and others could not track information about underlying shareholders that might have entitled a shareholder to breakpoint discounts. In the market timing context, funds may not be able to assess redemption fees, limit exchanges or even deny access to a shareholder who is market timing through an omnibus account because they do not know the identity of that shareholder. Indeed, many of the market timing abuses identified through our investigation indicate that shareholders were market timing through omnibus accounts.

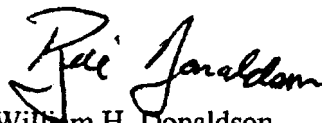
The issue is further complicated because brokers and other intermediaries often are reluctant to release the underlying shareholder information to funds, citing privacy and competitive concerns. For example, some brokers fear that by releasing the names of their customers who are purchasing fund shares to the funds themselves, the funds then can market directly to those customers, bypassing the brokers.

Ms. Mary L. Schapiro  
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In an effort to address these issues for the benefit of fund investors, I request that NASD convene a high level working group or "task force" comprised of the relevant [industry] participants – mutual funds and broker-dealers, as well as other intermediaries, such as pension plan administrators, banks and others. The task force should be charged with identifying issues associated with omnibus accounts and proposing a series of recommended solutions to these issues. The work of the Joint NASD/Industry Task Force on Breakpoints was extremely beneficial, and I believe that a similar NASD sponsored task force on omnibus account issues can provide productive input, analysis and recommendations.

I ask that you work to convene an omnibus accounts task force as soon as possible and keep me apprised of the group's progress. I greatly appreciate your efforts. If we can be of any assistance, please do not hesitate to let us know.

Sincerely,

A handwritten signature in black ink, appearing to read "Bill Donaldson". The signature is written in a cursive style with a large initial "W" and "D".

William H. Donaldson