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March 17, 2004

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

RE: Release No. IC-26375A; File No. S7-11-04

Dear Mr. Katz:

The Washington State Investment Board (WSIB) believes that any equitable action that encourages mutual fund participants to be long-term investors is good. However, we believe that trading restrictions and fair value pricing are better alternatives than assessing mandatory redemption fees.

While the aim of the proposed redemption penalty is to deter investors from making frequent trades to exploit "stale pricing" resulting from the time gaps between global markets, the provision will have a negative effect on individual investors who had nothing to do with the inappropriate actions of a few.

By imposing mandatory redemption fees, the Securities and Exchange Commission (SEC) hopes to eliminate the profit motive for short-term trading. According to a 2003 Hewitt study, assessing a redemption fee was the least effective solution in reducing short-term arbitrage trading. When the disparity in pricing exceeds redemption fees, short-term traders will still move to profit from the opportunity. Meanwhile, the proposed redemption fee would penalize individual investors for responding to a significant market event or simply reallocating their portfolios.

The 2003 Hewitt study outlines four responses to excessive trading by the participants:

1. Holding requirement--The "aging of monies" concept requires that money transferred into a fund must remain in it for a period of time. In the Hewitt study, which looked at four plans that each implemented one of the four strategies, this tactic led to the greatest decline in excessive trading--more than 98 percent.

2. Purchase limit--This route means if participants transfer money out of a fund they cannot transfer any additional money into the fund for a certain time. In the Hewitt study, the plan that used this response experienced an 88.3 percent drop in excessive trading.

3. Trading limit--With this method the number of trades in and out of a fund is limited over a specified period of time. Hewitt found that this move led to a 63.1 percent drop in problematic trades.

4. Fee penalty--This option is similar to what the SEC is proposing: imposing a fee on shares that have been in a fund for less than a specified time or when the participant exceeds a specified number of trades. Of the four strategies Hewitt studied, this one turned out to be the least effective, cutting just 29.1 percent of the trading in question.

The WSIB commends the SEC for looking at ways to curb abuses in the mutual fund industry but believes that the holding requirement and the purchase limit trading restrictions described above are better options to accomplish the goal of deterring investors from engaging in excessive and problematic trades.

Thank you for your consideration.

Sincerely,

Joseph A. Dear

Joseph A. Dear
Executive Director