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May 26, 2004

Jonathan G. Katz
Secretary
Securities and Exchange Commission
450 Fifth Street, N.W.
Washington, D.C. 20549-0609

Re: Mandatory Redemption Fees for Redeemable Fund Securities, File No. S7-11-04, 69 Federal Register 11762 (March 11, 2004).

Dear Mr. Katz:

The American Bankers Association[1] ("ABA") wishes to supplement its comment letter recently filed with the Securities and Exchange Commission ("Commission") regarding the Commission's proposal to require mutual funds (with certain limited exceptions) to impose a two percent fee on the redemption of shares purchased within the previous five days. Our earlier comment letter discussed, among other things, the need for the Commission to except employee benefit transactions that are not initiated by the participant-investor and where the participant has no control over the timing of the transaction. Our letter further went on to discuss that any such exception should cover periodic retirement plan contributions, routine re-balancing of investments held in the plan, automatic distributions, rollover transactions, transactions associated with plan participant loans, and employer directed changes in investment options.

The ABA wishes to highlight the need for such an exception by explaining one additional situation recently brought to our attention by ABA's Trust Counsel Committee. Specifically, the situation involves a plan participant's decision to redeem all shares in a particular fund and to make no further purchases in that fund. If the redemption order is communicated to the mutual fund within five business days of a purchase through a payroll contribution, then the plan participant would, under the proposed rule, be assessed a two percent redemption fee. While plan participants can generally control when their investment decision

[1] The American Bankers Association brings together all elements of the American banking community to best represent the interests of this rapidly changing industry. Its membership—which includes community, regional and money center banks and holding companies, as well as savings institutions, trust companies and savings banks—makes ABA the largest banking trade association in the United States. The views in this letter are also endorsed by the ABA Securities Association ("ABASA"). ABASA is a separately chartered trade association and non-profit affiliate of the ABA whose mission is to represent before the Congress, the federal government and the courts the interests of banking organizations engaged in underwriting and dealing in securities, proprietary mutual funds and derivatives.

to redeem shares is communicated to the particular mutual fund, they do not control when the plan sponsor/employer delivers payroll contributions to the funds to purchase plan participant shares.

We recognize that the proposed $2,500 de minimis exception combined with the requirement that any redemption fee be calculated on a first-in, first out or FIFO basis could solve some of these situations. It will not, however, solve the situation where an employee's total contributions for the year are deposited in one lump or several lump sums. This situation occurs quite frequently when employees are awarded yearly bonuses at the beginning of a calendar year. Consequently, it would not be uncommon for a large amount of a particular fund's securities to be purchased five or fewer business days before an order to redeem all shares in that same fund is made. We would suggest that this type of situation, where the employee does not control both the purchase and redemption legs of the transaction, be excepted from the proposed rule's coverage.

Again, the ABA appreciates the opportunity to offer our comments on this important proposal. If you have any questions or wish to discuss this matter further, please do not hesitate to contact the undersigned.

Sincerely yours,

Sarah A. Miller

cc: C. Hunter Jones
Shaswat K. Das