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OFFICE OF THE SECRETARY

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

Re: File No. S7-03-04

Dear Mr. Katz:

I am writing in response to the Commission's request for comments on its recently proposed rule regarding corporate governance of investment companies, as set forth in Investment Company Act Release No. 26323.

I am particularly concerned about the portion of the proposal that would require the chairman of the board of directors of every registered investment company to be an independent director. Based on my experience as a Professor of Finance at Stanford Business School for more than 35 years, and my participation on the boards of directors of a variety of business organizations (including several open-end investment companies that are part of the American Funds Group), I strongly believe this proposal is not in the public interest and should not be adopted by the Commission.

A mandatory "one-size-fits-all" approach to board governance is a mistake in the mutual fund industry, just as it would be in the case of non-fund boards (which are free to choose their own chairmen). The industry is too complex for the Commission to impose a single method of governance. Rather, the independent directors of an investment company should be free to determine whether or not an independent chair is in the company's best interest, based on the exercise of their good business judgment under all of the circumstances affecting the company.

For example, I previously served on a non-fund board that selected an able independent director as chairman for three years, and then selected the company's chief executive officer as chairman. Both served the company very well, at different times and under different circumstances.

I encourage the Commission to look at the composition of the boards of directors of companies included in the Standard & Poor's 500 Stock Index with the highest total returns to shareholders over the past decade. One characteristic that they do NOT share in common in an independent board chairman. The market is trying to tell us something, and we should all listen. Flexibility in the exercise of good business judgment by directors is a virtue to be encouraged, not limited. The boards of all business organizations, including investment companies, should be free to deliberate and choose any director who is the most able and suitable chairman.

Thank you for the opportunity to comment on this matter.

Very truly yours,

J McDonald

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