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Nancy M. Morris, Secretary
U.S. Securities & Exchange Commission
100 F Street, N.E.
Washington, D.C. 20549

via Electronic Mail

**Re: Request for Additional Comment: Investment Company Governance;
File No. S7-03-04**

Dear Ms. Morris:

I am writing on behalf of the independent directors of the Vanguard funds to respond to the Commission's request for additional comment on the two outstanding conditions of the mutual fund governance rules. The first requires at least 75 percent of fund board members to be independent directors, and the second requires chairmen of fund boards to be independent of the management company.

We have always supported strong, independent, mutual fund boards, and noted at some length in our original comment on these rules the governance practices that we have followed for many years.¹ Collectively, we have decades of experience overseeing the Vanguard funds and Vanguard, and understand well the challenges and priorities of board service on behalf of millions of mutual fund investors. Our governance practices, many of which have now been required by the Commission through this rulemaking, have served the shareholders in the Vanguard funds exceptionally well.

We strongly support, as we have in the past, those initiatives that enhance the independence of fund boards and the power of independent directors to serve fund shareholders.

¹ Letter dated March 10, 2004 re: Proposed Rule: Investment Company Governance; File No. S7-03-04 (governance practices include supermajority of independent directors; all members of board's audit, compensation and nominating committees are independent; independent directors may retain their own experts and advisers with costs to be borne by Vanguard; the board regularly assesses its operating effectiveness; and independent directors have regular executive sessions).

Therefore, we support the Commission's proposal to require a 75 percent majority of independent directors. A supermajority requirement places control firmly in the hands of the independent directors and affords them the ability to take those actions they deem appropriate in their best judgment to oversee the activities of the fund and its investment adviser.

In contrast, we continue to seriously question the benefit of forcing independent directors to name an independent chairman. The Commission has asked for comment on any issue related to the underlying purpose of the proposals which the Commission has stated is the protection of funds and fund shareholders. We do not believe the independent chairman requirement will enhance a board's ability to protect funds and their shareholders, nor do we believe it is a necessary measure to accomplish the Commission's goals. This is particularly so in light of the Commission's recent successful efforts to enhance the power of independent boards.

In our view, the Commission's rule already effectively supports a strong and independent board by requiring a mutual fund to have a majority of independent directors and by having those directors meet in an executive session at least quarterly. When a majority of independent directors is assured an opportunity to meet regularly outside the presence of management, the substance of independence is achieved. There is no need to take the additional and potentially very disruptive step of dictating the appointment of an independent chairman.

Fund shareholders are best served when independent directors are empowered to make decisions by applying their experience, expertise and judgment to the situation at hand – on all subjects – including board leadership. There is no need to force by regulation a single approach to board leadership when specific circumstances, tempered by the judgment of the independent directors, may warrant a different approach. Independent directors should be allowed to select as chairman the person they believe best qualified, whether or not that person is affiliated with the funds' management company. In our view, the "right" approach for any fund will depend on many factors, including the board's experience with the personnel and operations of the fund's management company, the level of meaningful dialogue and exchange of information between the independent directors and the management company, and the composition, backgrounds and dynamics of the board itself. For example, the use of a lead independent director has worked extremely well for Vanguard funds, although other approaches might work well for other funds, depending on their particular facts and circumstances.

The proposed regulatory mandate on the directors' choice of a chairman presumes that affiliated chairmen are necessarily affected by conflicts of interest that neither they nor a largely independent board can effectively manage. Yet the industry is replete with examples of well run funds with affiliated chairmen. The independent directors are in the best position to decide in each instance how to combine the need for independence and the need for management's insight on the board. We have not seen any evidence to support the conclusion that a regulatory mandate for one solution over others will create a greater benefit for shareholders.

Our view, as codified in Vanguard's corporate governance principals, has always been that the chief executive officer and the chairman should be the same person except in unusual circumstances. We have adopted this approach for the conduct of our own board and it is also the approach we favor when considering governance issues posed by the companies in which the Vanguard funds invest. Based on our collective experience in business, management and overseeing mutual funds and their management company, we believe that separating the role of chairman and CEO could undermine day-to-day leadership, confuse accountability, and create operational inefficiencies. Requiring separation of these roles ignores the fact that the chairman has responsibilities other than governance, such as shareholder communications, that may not be well suited to execution by an independent chairman.

For these reasons, the Vanguard fund board appoints a lead independent director to coordinate the activities of the independent directors, chair all meetings of the independent directors and oversee the board's agenda. Our lead independent director also serves as chairman of each of the board's committees, which at Vanguard are composed solely of independent directors. Based on more than 30 years of direct experience, we strongly believe that our governance structure is highly effective in protecting the funds and serving their shareholders and we recommend it to the Commission as an excellent template for ensuring strong and effective independent oversight of mutual funds.

The Commission has taken numerous steps since the governance rules were first proposed to enhance the protection of funds and their shareholders. Collectively, these new rules empower independent directors and improve the flow of information to them. These improvements have been very successful and should inform the Commission's reevaluation of the independent chairman requirement. For example, a number of the new governance requirements, all of which we supported, have already gone into effect. They include annual self-evaluations of board performance, the authority of independent directors to hire their own experts and advisers, and regular executive sessions outside the presence of management representatives. The Commission's new compliance rule for mutual funds has mandated for all boards direct access to the fund's chief compliance officer and enhanced compliance reporting to the board. When considered in light of these and other actions the Commission has taken to strengthen fund boards, it seems especially unnecessary to take away the power of the independent directors to elect the chairman of their choice.

Although there are undoubtedly some hard costs associated with identifying, training and supporting an independent chair, it is not the direct financial cost of implementing the rule that concerns us most. Rather, we are most concerned about the intangible costs that will inevitably result if independent directors no longer have the ability to select and employ the services of the person (whether affiliated or independent) they believe best suited to serve as chairman for the

fund. In our view, a mandatory independent chairman rule raises serious concerns that outweigh any incremental protection it might potentially offer funds and their shareholders. This is especially so given the recently enhanced regulatory requirements for mutual fund boards. We therefore strongly urge the Commission to allow directors to exercise their judgment to determine what governance structure best serves the interests of their fund shareholders.

Thank you for the opportunity to express these views. We hope the Commission will not hesitate to call upon us directly if we may provide additional information or assistance in considering governance issues for mutual funds.

Respectfully submitted,

/s/

Alfred M. Rankin, Jr.
Chairman, President and Chief Executive Officer
NAACO Industries, Inc.

Lead Independent Director
on behalf of the Independent Directors of the Vanguard Funds

Charles D. Ellis, Senior Adviser, Greenwich Associates
Rajiv L. Gupta, Chairman and CEO, Rohm and Haas Co.
Amy Gutmann, President, University of Pennsylvania
JoAnn Heffernan Heisen, Corporate Vice President, Chief Global Diversity
Officer and Member of Executive Committee, Johnson & Johnson
André Perold, Professor of Finance and Banking, Harvard Business School
J. Lawrence Wilson, Retired Chairman and CEO, Rohm and Haas Co.

cc: Chairman Christopher Cox
Commissioner Paul S. Atkins
Commissioner Roel C. Campos
Commissioner Kathleen L. Casey
Commissioner Annette L. Nazareth
Andrew J. Donohue, Director, Division of Investment Management