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August 17, 2006

VIA E-MAIL TRANSMISSION

United States Securities and Exchange Commission
100 F Street, N.E.
Washington, D.C. 20549
Attn: Nancy M. Morris
Secretary

RE: Investment Company Governance
(File No. S7-03-04)

Dear Ms. Morris:

On behalf of USAA Investment Management Company (USAA), sponsor to the USAA Family of Funds (USAA Funds), I am pleased to respond to the Securities and Exchange Commission's request for additional comments on pending rule amendments relating to mutual fund corporate governance. Specifically, our comments will focus on the amendments to investment company rules mandating as conditions to certain fund operations that a mutual fund board be comprised of an independent chair and at least 75% independent directors. As requested, we will cover our experience with the anticipated costs of the pending amendments, as well as our views on whether the pending amendments will further protect mutual funds and their shareholders and will promote efficiency, competition, and capital formation.

Summary

We urge the Commission to rescind the two pending amendments. As when they were proposed, there is no evidence that an independent chair or a higher percentage of independent directors results in a more "compliant" board or one that more effectively acts on behalf of fund shareholders. In fact, evidence has been presented suggesting the opposite. To adopt these amendments with any degree of incremental costs to fund shareholders is simply not justified.

Should the Commission believe that, notwithstanding the lack of any empirical evidence supporting the need for these amendments, some change is necessary, we believe increasing the required percentage of independent directors on a mutual fund board to 66%, as opposed to 75%, is acceptable. Most mutual fund boards already surpass this percentage, including the USAA Funds, as a result of the Investment Company Institute's (ICI) recommendations for best governance practices. With respect to an independent chair, we believe a mutual fund board should have the right to select its own chair. For many, an independent chair will be deemed optimal; for others, a management trustee will be considered optimal. One size does not fit all.

Background and Analysis

As background, the USAA Funds consists of 39 no-load mutual funds. Those 39 funds are each a series of a single Delaware statutory trust, USAA Mutual Funds Trust (Trust). The Trust is currently governed by a board consisting of four independent trustees and one management trustee, resulting in 80% of the funds' board being presently comprised of independent trustees.

Given the USAA Funds have already implemented the substance of the pending amendments, we can provide some insights on expected costs. With respect to monetary costs, our experience is that costs have increased, but have been minimized, in large part, due to the voluntary steps taken by management to facilitate compliance without the need to add an additional independent trustee and its corresponding cost. Management and the independent trustees have worked together to keep the costs of these moves down, but still some incremental costs have occurred. For example, to address specifically the additional responsibilities of an independent chair, the Corporate Governance Committee recommended, and the board approved, a \$12,000 annual payment to the independent chair. While the independent trustees have not retained additional staff, we know independent trustees' counsel charges to the funds have increased, and can attest that the board has requested more information from our staff. We believe these increased costs are directly attributable to actions taken in anticipation of the pending amendments being finalized. While we believe these additional costs were certainly justified given the shifting responsibilities, we do not believe the funds or their shareholders have benefited incrementally from these changes.

In our case, a significant cost to the funds and their shareholders was not economic. In anticipation of the pending amendments becoming final, Robert G. Davis, the Chairman and Chief Executive Officer of the USAA Group of Companies, elected to step down from the USAA Funds' Board of Trustees to facilitate compliance with both of the pending amendments. We believe Mr. Davis' leadership was of high value to the overall direction of the board. To keep a second management trustee, however, such as Mr. Davis, under the pending amendments would require the addition of two more independent trustees with the additional costs to funds and their shareholders. For a fund group that did not participate in any of the wrongdoing that precipitated these amendments, this is an unfortunate, and wrong result.

With respect to the standards of promoting efficiency, competition and capital formation, we believe these amendments fail on all fronts. We believe any incremental costs resulting from these amendments exceed any benefits. Again, there is no evidence that these amendments reap any benefits. To the extent a fund's board believes it should be led by an independent chair, it already has the authority to do so. And we believe that increasing the percentage of independent trustees in no way increases a fund's chances of avoiding wrongdoing. It avoids the real issue, which we believe, is the culture of compliance at the fund sponsor's organization. Management's commitment to a strong compliance ethic is the most determinative factor in whether wrongdoing transpires at that particular organization. To the extent certain fund groups' management has failed in this regard in recent years, problems arose. The evidence indicates that a number of those fund groups were led by independent chairs. Adding more independent trustees and an independent chair does not solve the problem, but certainly adds costs accruing ultimately to fund shareholders.

We can not see how competition and capital formation is promoted through these amendments. If a well-intended entrepreneur wanted to offer investment management services, why would he or she establish a mutual fund where he or she could not chair the board, and that board has to be comprised of at least 75% individuals without a day-to-day investment into the success of the funds? Is it any surprise many successful investment managers have been moving to unregistered investment vehicles in large part to avoid this significant disincentive? These amendments will only further divide the investment management industry between regulated and unregulated entities, which we do not believe is a good result for the overall market.

Conclusion

We encourage the Commission to refrain from moving forward with these amendments. The lack of empirical evidence supporting the need for these amendments is apparent. Coupled with the fact that these amendments will most certainly increase costs to funds and their shareholders, finalizing these amendments is ill-advised. We do not believe these amendments in any way pass the tests of promoting efficiency, competition and capital formation.

We appreciate the opportunity to provide comments on these proposed rule amendments. If you have any questions regarding our comments, or would like additional information, please contact Mark S. Howard at (210) 498-8696.

Sincerely,

Christopher W. Claus
President and Chief Executive Officer
USAA Investment Management Company