RiverSource Funds

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Chairman

August 21, 2006

By e-mail: rule-comments@sec.gov

Nancy M. Morris, Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549

Subject: File Number S7-03-04

Dear Ms. Morris:

We appreciate the opportunity to provide comments in response to the Commission's "Request for additional comment" on the amendments to the Investment Company Act of 1940 that were originally proposed on January 15, 2004. We would like to comment first on our experience with having a majority of independent directors and an independent chair of the board.

The Boards of the RiverSource Funds that serve our shareholders have had at least 75% of their members independent of the management company and have been led by an independent chair for nearly 50 years. This governance structure was established in the early 1960s when the independent directors became concerned about possible misuse of funds' assets by the controlling shareholders of the management company. The consensus of independent directors then, and as it has been reaffirmed since, has been that for a board of a mutual fund to adequately perform its oversight duties on behalf of fund shareholders, it is essential that the board manage its agenda independently from the management company. To so manage, it is essential that the board have a substantial majority of independent directors and that the board be chaired by a director who is independent of the management company.

The members of the Boards of the RiverSource Funds believe strongly in the value of the work we are required to do under the provisions of the Federal securities laws and state business statutes. We believe that the past clearly demonstrates that value, and the necessity of professionalism, a variety of skill sets, and high levels of integrity and independence in the directors of the funds in executing their mission on behalf of fund shareholders.

Let us cite one concrete recent example of the importance of both an independent chair and a substantial majority of independent directors. The management company and other service providers to RiverSource Funds were recently spun off from its former parent, American Express Company. In the course of that spin off, the independent directors of

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the Funds insisted on an appropriate level of capitalization of the new company and adequate retention arrangements with key personnel who serve the Funds and their shareholders. We refused to consider extending the relevant service agreements with the new management company unless and until we were satisfied on a series of key points. In so doing we insisted that we have independent legal counsel and financial advice, and that such advice be paid for by the management company; only then could we properly exercise diligence on behalf of the shareholders. This was particularly important in that the company that was to be spun off was not permitted by the management of the parent to have independent legal or financial advice in determining the terms of the spin off. If the Boards of the Funds had been chaired by a member of the management company who set the agenda for meetings, and if they had not had a substantial independent majority (in our case only one interested director on a board of nine), is it likely that such efforts would have been exercised on behalf of the shareholders of the Funds? We think not.

In addition to this particular example of the importance of independence, our Boards have sought to strengthen the oversight process set by Congress in 1971 under Section 15(c) of the Investment Company Act. We did this in part because of the lessons of the scandals of recent years. The 1971 language requires management companies to respond to all specific requests from directors that the latter may use in evaluating the service providers, and in reporting potential conflicts of interest. The contract on which we have insisted requires that, <u>whether or not specifically requested by the directors</u>,

1. Service Providers undertake to assure that the Boards receive all information that may reasonably be necessary to enable the Boards to evaluate the management of the Funds, the safekeeping of the Funds' assets, the maintenance of the Funds' records, the administration of shareholders' accounts, and the distribution of the Funds' shares.

2. Service Providers make all reasonable efforts (a) to identify potential conflicts of interest or other issues that arise in connection with the provision of services to the Funds, (b) to communicate with the Boards or their representatives concerning such issues, and (c) to work collaboratively with the Boards to develop policies and procedures designed to mitigate the risks associated with such conflicts or issues.

3. Senior management personnel of the Service Providers certify annually to the independent directors of the Funds that (a) the Service Providers have implemented procedures that are reasonably designed to address conflicts of interest between the Service Providers and the shareholders of the Funds and (b) the Service Providers have provided to the independent directors all material information about the business practices of the Service Providers that may conflict with the best interests of the shareholders of the Funds.

Could or would a board led by an affiliated director have sought these contractual terms? Again, we think not.

The specific request of the Commission's release requesting additional comment is related to the cost of having 75% of the directors be independent and having an independent director.

The adoption of the Commission's 75% rule need not increase the size of boards; independent directors can simply be substituted for interested directors. If the directors must do the work, they must be compensated. If they are independent, the cost is charged directly to the funds. If they are interested, the cost is borne by the service providers as part of the management fees. However, even if there were added direct costs charged to the Funds by the addition of the compensation for new independent directors, and for an independent chairman, we believe these are small relative to the gains that can come from having a more independent Board.

For a complex the size of the RiverSource Funds (including Variable Portfolio Funds), compensation for an independent director would be in the range of $125,000 to $150,000, based on industry surveys. If an independent chairman was compensated at twice the rate of a regular director, if one had to add one independent director plus another to be chair in order to meet the SEC's proposed rules, the cost would be $375,000-$450,000.

However, the argument by opponents to the Commission's proposed rule (adding independent directors and chairs would add only to costs) ignores the likely benefits that would come from more independent boards. Data on the fund industry over the past couple of years may give some guidance on the question of the impact of the 75% rule and the independent chair rule. Information in the media covering the mutual fund industry indicates that many boards have moved to the 75% majority and an independent chair. Such information also reports at the same time that average fees and expenses are falling. If the worries about costs were as dire as some critics allege, surely these trends would have been unlikely to have been observed.

In fact, in the RiverSource Funds complex there have been two recent examples of action by the independent directors, under the leadership of the independent chair, that have led to savings to shareholders amounting to ten or twenty times the possible costs cited above. In one instance, the independent directors insisted on adoption of a pricing philosophy for all funds that related RiverSource fees and expenses to those of peer funds. If the published fees and expenses exceed the stated relationship, the RiverSource Funds' fees and expenses are capped, and some fees are waived by the management company. Due to this pricing discipline, RiverSource Funds as a group this year will pay at least $5 or $6 million less in fees and expenses than had we not insisted on establishing clear relationships with peer funds in the industry. In a second case, the management company proposed an adjustment for some costs and revenues. The independent chairman and directors insisted on a different method of calculating the adjustment, and

the latter method added several million dollars to the adjustment that had been proposed by the management company. We do not believe that either of these actions would have been taken if the board had been chaired by, and the agenda had been set by, an interested chairman from the management company, and if the independent directors had not constituted more than a 75% majority of directors.

We are as opposed to over regulation as anyone. We do not see eye-to-eye with the Commissioners or the Commission staff on all their actions. However, on this matter, which we believe is a straight forward, cost effective, no downside governance proposal, we view the opposition by some management companies as a commentary on why the Commission's position should be upheld.

Sincerely yours,

Arne H. Carlson
Chairman of the Boards
RiverSource Funds