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

February 20, 2007

Dear Ms. Morris,

Fund Board Independence, Expenses and Performance – File S7-03-04

This letter responds to the SEC's request for additional comments about the proposed independence rules for mutual fund boards. In particular this letter addresses the differential in expense ratios between roughly equivalent funds in the United States and other countries where the degree of independence in the governance structure varies from the US model.

Comparative Independence and Global Expense Ratios

Expenses make a difference to long term performance – especially with index and closet index funds, where many Americans keep their retirement savings. It is also true that independent mutual fund directors in America have more authority than their counterparts in other parts of the world.

Let's compare the expense ratio and governance authority for American equity funds with their international counterparts. When we compare the expense ratios for equity funds in various jurisdictions we found that the US has substantially lower expenses. The differential from the US asset weighted expense ratios and those of other countries is shown in Exhibit 1.

Of course, it is true that American mutual funds tend to be much larger and longer established than their global counterparts and that the underlying markets for equities are generally more liquid. Those differences are offset by the inclusion of 12b-1 distribution fees for some US funds. It is hard to believe that global expense ratios would fall to US levels if these structural differences were eliminated.

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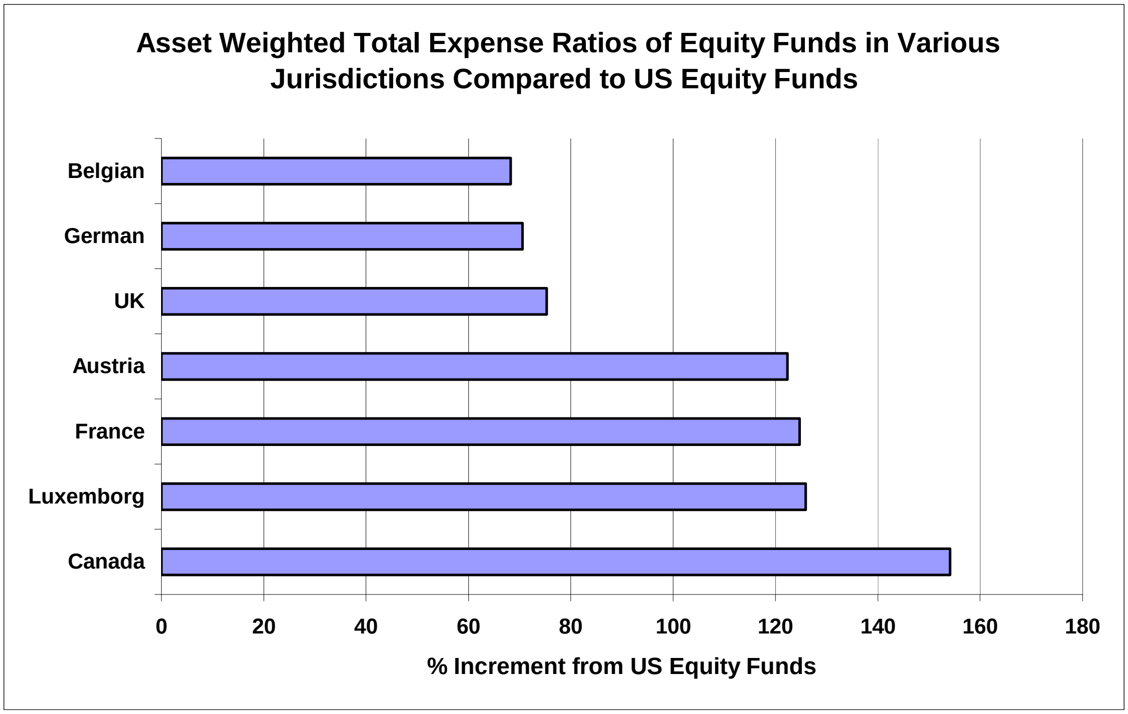
Exhibit 1



Source: Standard and Poor's Fund Information and MPI

We believe that the differences in expense ratio are more likely to be caused by the greater degree of independence and authority given to American fund directors. The various expense ratios and the comparative influence of the independent directors is shown in Exhibit 2.

Exhibit 2

Comparative Global Equity Asset Weighted Expense Ratios and Governance Authority

Fund Jurisdiction	Expense Ratio	Director/Oversight Authority
America	0.85%	Fund directors can terminate or change management contract
Canada	2.16%	No changes to management contract; essentially compliance oversight only
United Kingdom	1.49%	Predominant trust structure with considerable compliance but little negotiation authority
Luxemborg	1.92%	Responsibility for governance predominantly with directors of management company
German	1.45%	No effective independent fund directors
France	1.91%	No effective independent fund directors

Source: S&P Fund Information, OECD Governance Systems for Collective Investment Schemes in OECD Countries and MPI

The proposal to increase the level of independence on the fund board to 75% and to appoint an independent chair represents a relatively small increase in authority. After all contract negotiations, audit supervision and new director nominations already come from the independent directors.

The difference comes in the form of emphasis, essentially tighter control of the Board's agenda --- the "Let's Move On/Let's Talk About It" phenomenon. But it seems from our analysis of global expense ratios and comparative governance practices that greater independence on the part of the Board does make a difference in the expense ratio. And few would disagree that expenses make a substantial difference to the longer term investor.

Thank you for the opportunity to comment on this proposed rule.

Yours sincerely,

C. Meyrick Payne and Jay Keeshan

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