Congress of the United States
House of Representatives
Washington, DC 20515

March 11, 2004

The Honorable William H. Donaldson
Chairman
Securities and Exchange Commission
450 Fifth Street, N.W.
Washington, DC 20549

Re: Proposed Rule: Investment Company Governance (IC-26323)
(File No. S7-03-04)

Dear Chairman Donaldson:

We are writing to comment on the Securities and Exchange Commission's Proposed Rule: Investment Company Governance (IC-26323). The troubling trading activities and other abuses perpetrated against mutual fund investors appear to have resulted from a systemic failure of internal controls and, ultimately, inadequate oversight by fund directors. We thus believe that the Commission's proposal to require that mutual fund chairmen be independent from fund management companies is one of the most significant of the Commission's mutual fund-related rulemaking activities to date.

As the Commission explained in its release proposing the rule, "A boardroom culture conducive to decisions favoring the long-term interest of fund shareholders may be more likely to prevail when the board chairman does not have the conflicts of interest inherent in his role as executive of the fund adviser." As Mr. John C. Bogle has observed, mutual fund investors are simply not best served when "de facto control of a fund's board is held by the firm that earns its profits from being the principal provider of the services required for the fund's existence."

We agree with these observations. We believe that an independent chairman would set the proper "tone at the top" among those charged with overseeing the fund's internal controls and compliance by making it clear that the interests of fund shareholders, rather than that of management, are paramount. An independent chairman can foster the type of meaningful dialogue between fund management and independent directors that is critical for healthy fund governance.

Furthermore, mutual fund investors stand to benefit from a stronger negotiator on their behalf when it comes to keeping fees low. We are strongly opposed to the government at any level setting the fees imposed by private companies such as mutual funds. However, we are concerned about the continued

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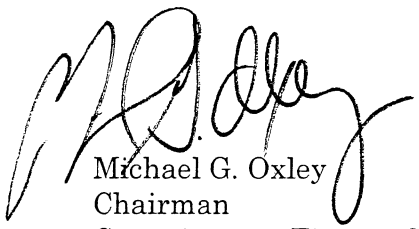
rise in mutual fund fees, which come directly out of shareholders' pockets. Stronger negotiations by the representatives of fund shareholders, that is, the independent directors of the fund, should reduce the fees that investors pay. In this regard, we again agree with the Commission's statement in the proposing release that "a fund board may be more effective when negotiating with the fund adviser over matters such as the advisory fee if it were not at the same time led by an executive of the adviser with whom it is negotiating." Warren Buffett said it well: "Negotiating with oneself seldom produces a barroom brawl."

It is vitally important for the Commission to help restore the confidence of mutual fund investors. Nothing sends a stronger message to the investing public than corporate governance reform that places the interests of mutual fund investors first.

We urge the Commission to adopt, without amendment, the proposed rule. Thank you for your consideration of this important matter.

Sincerely,



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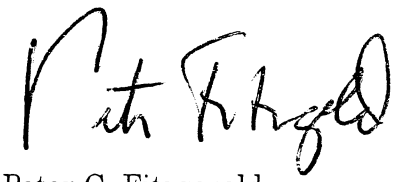
Chairman
Committee on Financial Services

Richard H. Baker
Chairman
Subcommitteee on Capital Markets, Insurance and Government Sponsored Enterprises



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Ranking Member
Senate Governmental Affairs
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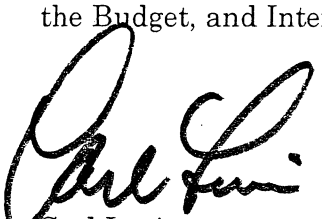

Carl Levin
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Permanent Subcommittee on Investigations

Cc: Barney Frank, Ranking Member, Committee on Financial Services

Paul E. Kanjorski, Ranking Member, Subcommittee on Capital Markets, Insurance and Government Sponsored Enterprises

Richard Shelby, Chairman, Committee on Banking, Housing, and Urban Affairs

Paul S. Sarbanes, Ranking Member, Committee on Banking, Housing, and Urban Affairs

Michael B. Enzi, Chairman, Subcommittee on Securities and Investment

Christopher J. Dodd, Ranking Member, Subcommittee on Securities and Investment