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United States Senate

COMMITTEE ON FINANCE

WASHINGTON, DC 20510–6200

March 29, 2004

The Honorable William H. Donaldson
Chairman, Securities and Exchange Commission
450 Fifth Street, NW, Room 6000
Washington, DC 20549

Dear Chairman Donaldson:

We are writing to commend the Commission for its efforts to address abuses that have occurred at a number of mutual fund companies – including the practice of "late trading" in mutual funds, which violates current law and unfairly advantages some mutual fund investors over others. We believe that a strong response from the Commission to the shameful events that have occurred at some fund companies is a critical step to restoring investors' confidence in the integrity of our financial system. We encourage you to continue your efforts to expose and punish those who have abused their positions of trust and authority to do wrong.

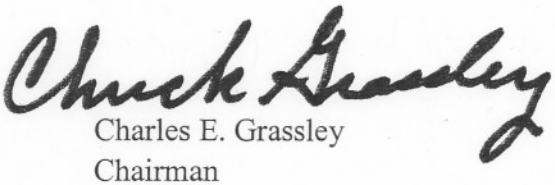
While we commend the Commission's actions with respect to the mutual fund abuses, we are concerned that retirement plan participants could be inadvertently harmed by one aspect of the Commission's proposed rules issued in response to late trading. Under the proposed "hard 4 p.m. deadline" rule, investors who trade directly with mutual funds or the funds' primary transfer agents will have a distinct advantage over retirement plan participants, whose trades are typically processed by plan administrators or other third-party intermediaries. At a minimum, retirement plan investors will face earlier trading deadlines in order that plan administrators may perform the various administrative and required compliance functions prior to submission of the orders to the fund by 4 p.m. These deadlines will be set even earlier in the day for retirement plan investors in more Western regions of the United States given the time zone differential with the east coast-based stock markets. The effect will be the end of same-day execution of trades for many retirement plan investors, and more complex trading orders may stretch over several days.

American investors have already been harmed by improper trading practices at mutual fund companies. Most Americans hold a large portion of their financial investments

through their retirement plans, and we believe it is important to ensure that ordinary Americans are not harmed again through the issuance of rules designed to protect them.

Thank you for your consideration of these important issues for retirement plan investors. We look forward to working with the Commission on these and other mutual fund reform issues in the months ahead. If you have any questions, please contact John O'Neill of the Finance Committee majority staff at (202) 224-4515 or Judy Miller of the Finance Committee minority staff at (202) 224-5491.

Sincerely,



Charles E. Grassley
Chairman

Max Baucus
Ranking Member

cc: Commissioner Paul S. Atkins
Commissioner Roel C. Campos
Commissioner Cynthia A. Glassman
Commissioner Harvey J. Goldschmid
Ann Combs, Assistant Secretary of Labor, Employee Benefits Security Administration