



THE CHAIRMAN

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

April 29, 2004

The Honorable Rob Portman
U.S. House of Representatives
238 Cannon House Office Building
Washington, DC 20515

Dear Congressman Portman:

Thank you for your March 22nd letter regarding the Commission's proposal to amend rule 22c-1 under the Investment Company Act of 1940 to impose a "hard 4:00" cut-off for receipt of mutual fund purchase and redemption orders. As your letter notes, this proposed rule revision is designed to address and eliminate the late trading of mutual fund shares, a practice that can adversely impact the interests of ordinary mutual fund investors.

The Commission's proposal, as currently written, would require that a fund or a certified clearing agency—rather than an intermediary such as a broker-dealer or a retirement plan administrator or other unregulated party—receive a purchase or redemption order prior to the time the fund prices its shares (typically 4:00 p.m., East Coast time) for an investor to receive that day's price. The comment period for the proposed amendments to rule 22c-1 closed on February 6th, and our staff is in the process of analyzing the comments.

Many commenters focused on the problems that a hard 4:00 rule might create for retirement plan investors. Our staff is closely reviewing the issues raised by these comment letters and also is reviewing the technological capabilities of retirement plan administrators and other service providers so that we can obtain a more complete understanding of various systems issues and alternatives to a hard 4:00 rule. In addition, the staff is examining the approach of imposing procedures on the acceptance and cancellation of fund trades, combined with an independent annual audit of the procedures, as described in section 205(b) of H.R. 2420 and section 306 of S. 1971. We will keep your views in mind as we continue evaluating this issue, and we also will include a copy of your letter in the public comment file on the proposed amendments to rule 22c-1.

Given your concern about the mutual fund industry, I have taken the liberty of enclosing a copy of my most recent testimony before Congress. In addition to the 4:00 close, it provides a comprehensive review of the Commission's efforts to reform the mutual fund industry.

Please feel free to contact me with any questions or comments.

Again, thank you for your views.

Sincerely,

A handwritten signature in black ink, appearing to read "Bill Donaldson".

William H. Donaldson

Similar letter sent to all signatories
of the March 22nd letter

Enclosure