

May 9, 2005

**VIA EMAIL TRANSMISSION**

United States Securities and Exchange Commission  
450 Fifth Street, N.W.  
Washington, DC 20549-0609  
Attn: Jonathan G. Katz  
Secretary

Re: Mutual Fund Redemption Fees  
(File Number S7-11-04)

Dear Mr. Katz:

USAA Investment Management Company (IMCO) appreciates the opportunity to provide comments on the Securities and Exchange Commission's (hereafter, the Commission) final rule on mutual fund redemption fees. Although we are pleased that Rule 22c-2, as adopted, provides each fund board with the discretion to determine whether a redemption fee is necessary or appropriate for a particular fund, we are faced with the challenge of reacting to certain parts of the rule that we believe materially deviate from the proposed rule, and for which there was no opportunity to comment upon. Most troublesome is the section of the adopted rule that requires each fund or its principal underwriter to enter into a written agreement with each "financial intermediary", as that term is defined in the rule. That section poses a tremendous challenge for us. In our view, the prohibitive costs in entering into written agreements with all entities that meet the current definition of a financial intermediary far outweigh any benefits from either a regulatory or fund shareholder perspective. Accordingly, our comments focus primarily on this concern.

**Background and Analysis**

United Services Automobile Association (USAA) is a member-owned association that seeks to facilitate the financial security of its members and their families by providing a full range of highly competitive financial products and services, including insurance, banking and investment products. IMCO serves as the investment adviser and distributor of the funds in the USAA family of funds (hereafter, the USAA Funds).<sup>1</sup> USAA Funds are no-load mutual funds directly marketed to USAA's members, the American military community.

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<sup>1</sup> The USAA Funds include thirty-nine (39) no-load retail funds and five (5) no-load funds used as investment options for variable insurance products issued by an affiliated life insurance company.

Given its focus on marketing the USAA Funds directly to the military community, IMCO has opened significantly fewer accounts through financial intermediaries than other fund groups of similar size. Nevertheless, under the rule's current definition of "financial intermediary", the USAA Funds have thousands of "financial intermediaries" that hold fund shares in omnibus accounts for small groups of individuals such as small businesses, trusts, limited partnerships, and small retirement plans. Like most other funds, the USAA Funds do not have separate written agreements with these thousands of "financial intermediaries" as defined under the rule.

The Commission states under Part VI of the adopting release that it does not believe that requiring funds and intermediaries to enter into written agreements with such intermediaries will impose additional costs on funds because most funds in the ordinary course of their business retain these agreements with their intermediaries. This assumption is correct only with respect to distribution and servicing arrangements involving payment of fees or provision of other recordkeeping services, but not with respect to the universe of "financial intermediaries" as defined in the rule. We suspect that the Commission has not included the time and costs associated with identifying all of these small omnibus accounts, negotiating these agreements and meeting recordkeeping requirements. We believe the costs associated with such an endeavor would significantly outweigh any benefit to a fund.

We would strongly recommend that the Commission reconsider its current definition of financial intermediary and only require written contracts with those intermediaries that provide fee-based distribution or other services to a fund. Smaller omnibus account holders not subject to the contract requirement would still fall under a fund's individual account market timing and trading restrictions. If trading activity posed a problem in one of these accounts, a fund would have the discretion to either treat the account as an individual account and impose its transaction restrictions, or require the intermediary to enter into a written contract for the provision of shareholder identification and transaction information.

Finally, in addition to addressing this issue, we respectfully request that the Commission establish the same, or similar, compliance dates for all final and pending rules that affect both funds and intermediaries. The Commission has different final and pending rules that will materially affect the contractual relationship, and information flow, between funds and intermediaries, including rules regarding point of sale disclosure and confirmations, a hard 4:00 pm close for accepting mutual fund orders, redemption fees and required information flow between funds and intermediaries. In addition, the Commission and the NASD have acted to remedy the problems of the inability of broker/dealers to correctly assess and give investors breakpoints on their purchases. Each of these rules will require extensive systems redesign to implement.

IMCO urges that the Commission consider how all of these rules will impact the relationship between funds and intermediaries, and establish a reasonable compliance date for all of the rules to minimize the cost and time that both funds and intermediaries will have to spend in contract negotiations and implementing systems changes. It would

be preferable to create or amend existing agreements once rather than numerous times, and it would be more efficient for the industry as a whole to engage technology experts to consider all systems changes necessary to comply with each of these rules and proposals at the same time rather than piecemeal.

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We appreciate the opportunity to provide comments on this final rule. If you have any questions regarding our comments, or would like additional information, please contact me at (210) 498-8696 or Eileen Smiley at (210) 498-4103.

Sincerely,

/s/ Mark S. Howard

Mark S. Howard  
Senior Vice President, Secretary and Counsel  
USAA Investment Management Company