Dreyfus

THE DREYFUS CORPORATION

Jonathan R. Baum
Chairman and CEO

November 5, 2010

VIA EMAIL TO RULE-COMMENTS@SEC.GOV

Ms. Elizabeth Murphy
Secretary
U.S. Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

RE: Mutual Fund Distribution Fees and Confirmations
File No. S7-15-10; Release No. IC-29367 (the "Release")

Dear Ms. Murphy:

The Dreyfus Corporation appreciates this opportunity to comment on the U.S. Securities and Exchange Commission's (the "Commission") proposed repeal of Rule 12b-1 under the Investment Company Act of 1940, as amended (the "1940 Act"), and the corresponding proposed new rule and rule amendments that would limit fund sales charges, require a conversion feature on certain shares, require enhanced disclosure about fund sales charges in fund prospectuses, shareholder reports, and investor transaction confirmations, seek to encourage retail price competition, and revise related fund director oversight responsibilities (collectively, the "Proposals").

The Dreyfus Corporation ("Dreyfus") is registered with the Commission as an investment adviser pursuant to the Investment Advisers Act of 1940. Dreyfus manages approximately $410 billion in assets, including approximately $290 billion invested in over 190 mutual fund portfolios, of which approximately $238 billion is invested in 51 money market mutual funds structured within the confines of Rule 2a-7. Dreyfus is a subsidiary of The Bank of New York Mellon Corporation ("BNY Mellon"), a global financial services provider with over $1.1 trillion in assets under management and over $24 trillion under administration and custody. Also one of the largest providers of shareholder recordkeeping services, BNY Mellon services over 79 million shareholder accounts.

We generally support the Commission's stated goals of (a) protecting individual investors from paying disproportionate amounts of sales charges in certain share classes; (b) enhancing transparency and fairness; (c) promoting investor understanding of fees; (d) eliminating outdated requirements; and (e) providing a more appropriate role for fund directors. We also acknowledge Chairman Schapiro's desire for "*more fundamental change than merely disclosure reforms and a name change.*" However, we have a number of critical objections to the Proposals, which we first summarize below.

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Comment Summary.

1. Overview. We respectfully submit that the Commission should defer further consideration and action on the Proposals for several reasons. Our paramount concerns are with the (a) timing of the Proposals; (b) the disruptive and transformative effects that the sales charge limitation and associated conversion feature would have on the total mutual fund distribution process; and (c) the potential impact of the Proposals on the distribution of money market funds, for which the Commission did not provide an analysis in the proposing release.

2. Timing of Proposals. We are concerned with the timing of the Proposals because the Commission currently is engaged in a study on the standard of care for broker-dealers, and is actively considering additional rulemaking on revenue sharing arrangements and point-of-sale disclosures. We believe it is critical that the study involving the broker-dealer standard of care and any subsequent related rulemaking be completed before any other mutual fund distribution reform is pursued. Optimally, we would support the Commission addressing the various pieces of mutual fund distribution contemporaneously because of their interdependence, for the benefit of fund shareholders.

3. Limitation on Sales Charges. Against the Commission's stated goal to *"protect individual investors from paying disproportionate amounts of sales charges in certain share classes,"* we do not support the Commission's intention to regulate any use of fund assets to finance distribution in excess of .25% as a "load" (and, correspondingly, affix a conversion feature to such shares). We believe that one of the key benefits of the mutual fund distribution model is the investor's ability to access products and services through various pricing mechanisms designed to reach a variety of investors. Thus, we support reforms that would be flexible and market-based, and fairly reflect costs of distribution activity that are directly beneficial to fund shareholders over the course of their investment.

4. The Potential Impact of the Conversion Feature. We believe the Proposals would alter mutual fund sales and compensation arrangements across multiple distribution channels, while requiring significant operational and financial commitment to implement. In this regard, we respectfully suggest that the Commission has underestimated the burden associated with implementing the conversion feature, because it poses significantly more operational and technological challenges than merely applying existing B-share capabilities. We also think the conversion feature could have unintended consequences and force certain funds to close Class C shares and certain money market fund share classes,[1] which we hope was not the Commission's intention.[2] Thus, we think the Proposals, if implemented, most likely would reduce investor choice, to the detriment of investors.

5. Accounting for the Distinguishing Aspects of Money Market Fund Distribution. We strongly oppose the proposed new framework as it would apply to money market funds. We would urge the Commission to consider and provide a specific analysis of the potential impact of the Proposals on money market fund share classes.

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[1] We also recognize the potentially detrimental impact of the Proposals on the distribution of "Class R" shares (as described in the Release). However, Dreyfus does not offer a "Class R" share class priced as contemplated in the Release (instead, we offer a pure no-load, Class I share class in this market), we are not commenting on the potential impact to the Proposals to "Class R" share structures.

[2] In this regard, we note the Commission's assertions that the Proposals are *"designed to.....minimize disruption of current arrangements"* and *"would largely preserve existing distribution arrangements."*

However, if the Commission is resolute in its pursuit of a conversion feature as proposed, we believe the Commission should exempt money market funds from such regulation. As proposed, the burden and disruptiveness of establishing a conversion feature outweighs the very remote likelihood of a money market fund investor paying an "excessive sales charge."

6. With respect to certain other specific aspects of the Proposals:

   a. We support use of the term "Distribution Fee" instead of "Marketing and Service Fee" because it is more closely tied to the broader purpose of the fee – to support distribution activity – and is broad enough to account for more distribution-related activities than merely "marketing" and "service." We also do not support capping such fee at .25%

   b. If a conversion feature were imposed, it should provide for reasonable flexibility with respect to the calculation of dividend reinvestment shares.

   c. We support the proposed Rule 10b-10 amendments requiring additional disclosure about sales charges actually incurred in a mutual fund transaction, but we do not support those proposed amendments that seek additional disclosure of the "associated costs," or otherwise are not directly related to "making a record," of such transaction.

   d. We generally support the proposed Form N-1A disclosure proposals except that we believe the proposed discussion of the "nature and extent" of the services provided in connection with payment of a distribution fee should be more general than specific, due to the varying nature of intermediary relationships.

   e. We believe that certain aspects of the proposed guidance for directors do not give directors the critical certainty they would benefit from in discharging their oversight duties under these Proposals. We believe ample clarification should be provided with any final rule, to the extent appropriate to support fund directors' in exercising their reasonable business judgment.

   These comments are discussed more fully below.

The Timing and Potential Repercussions of the Proposals Strongly Suggest That They be Deferred for Future Consideration.

The Prospect of a Fiduciary Standard for Broker-Dealers. Pursuant to Section 913 of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, the Commission is required to conduct a study of the effectiveness of the existing legal/regulatory standards of care for broker-dealers (et. al.) who provide personalized investment advice to retail clients. The Commission is required to submit a report responding to this directive in January 2011. Based on the results, a fiduciary standard could be forthcoming for broker-dealers.

We are concerned that this study overlaps with the issuance of the Proposals. We believe there would be a significant change in the way broker-dealers make mutual fund investments available if broker-dealers become fiduciaries when they provide advice. As compared with the current suitability standard, a fiduciary standard of care would require additional considerations, such as accounting for whether fees and charges are reasonable, whether investments are adequately diversified, whether there are conflicts of interest, etc. In some cases, we would expect suitability and fiduciary standards to result in different recommendations and related product offerings to implement those recommendations. A fiduciary standard also would require affirmative conflicts of interest disclosures, which would change the current disclosure scheme surrounding fund offerings.

These likely changes to how broker-dealers would offer, sell, and disclose mutual funds could portend the elimination of certain product offerings or pricing options, as well as enhancements in point-of-sale or confirmation disclosures. Notably, these changes also could resolve some of the concerns the Commission is seeking to address with the Proposals. It is principally for this reason that we urge the Commission to defer these Proposals until the matter of a fiduciary standard for broker-dealers is resolved and, if applicable, established under law, a reasonable time after which it would then be appropriate for the Commission to re-survey the mutual fund distribution landscape to determine whether specific regulatory reforms or enhancements are required to further the Commission's stated goals.

The Proposed Conversion Feature Weighed Against the Potential Fiduciary Standard for Broker-Dealers. It is commonly understood that C-shares may be "suitable" for investors with a shorter time horizon (i.e., three years or less), even up to investment amounts of $250,000, or for investors with smaller investment amounts (typically, $50,000 or less) for periods up to six years. Thus, the majority of C-share investors should be short-term and, under the Proposals, would not reach the proposed conversion period. For these investors, there should be no concern that they might be paying an "excessive sales load."

We acknowledge the concern for the smaller universe of Class C investors who either received an unsuitable recommendation or who affirmatively chose Class C shares for the flexibility afforded by a share class that does not levy a front- or back-end load (because their investment time horizon may not have been fixed at the time of initial investment) and who may not have a complete understanding of the cost implications of a longer-term investment. However, we believe that the immediacy of the Proposals must be weighed against the near-term prospect of a fiduciary standard for broker-dealers. In other words, we believe imposition of a fiduciary standard on broker-dealers may well end the sale of C-shares to investors for whom such shares are not suitable. Thus, we question whether the substantial burden of retrofitting a conversion feature is necessary at this time.

The Preference for Pursuing Distribution Reforms Contemporaneously. The elements of mutual fund distribution and compensation arrangements are complex and interdependent. Different kinds of mutual funds are distributed in different ways and the compensation arrangements and associated disclosures tied to these arrangements are embedded and complex. For example, 12b-1 fee levels can depend on whether or not the relevant share class also imposes a sales charge. The terms of revenue sharing arrangements may depend on the level of 12b-1 and other compensatory fees payable to intermediaries. Client disclosures depend on the context of the presentation, any potential conflicts of interest, and other disclosures already available to investors. Suitability and sales practice standards can be driven by fees and charges associated with the arrangements in place to sell the relevant products, while also requiring associated disclosures.

Under these circumstances, we believe that effective regulation of mutual fund distribution is best addressed comprehensively – in recognition of this interdependence. However, these Proposals only address part of the distribution process (and at the same time the Commission is studying the standard of care for broker-dealers and is "actively considering" revenue sharing and point-of-sale disclosure rulemaking initiatives).[3] We suggest that addressing mutual fund distribution-related reforms contemporaneously is preferable to a piecemeal approach that is inefficient and poses the risk of unnecessary costs, burdens, and inconsistencies for the industry.

[3] We also note that on October 27, 2010, FINRA issued Regulatory Notice 10-54, which requests comment on a "Concept Proposal to Require a Disclosure Statement for Retail Investors at or Before Commencing a Business Relationship." This action further enhances our concern for the potential detrimental implications of piecemeal regulation of an interdependent process.

We note the Commission's assertions that the Proposals are *"designed to.....minimize disruption of current arrangements"* and *"would largely preserve existing distribution arrangements."* We do not necessarily oppose change, as we recognize in principal that Rule 12b-1 has evolved to provide for compensation arrangements not contemplated when the rule was first adopted. However, as our comments suggest, we cannot reconcile the transformational nature of these Proposals with the conclusion that the Proposals would largely preserve existing distribution arrangements.

Market-Based and Operational Objections to the Proposed Sales Charge Limitation and Conversion Feature.

A Cap on Distribution Fees Should Reasonably Reflect Current Market Costs. We do not support capping the Marketing and Service Fee at .25%, because it does not accurately reflect current market costs and the economic realities of fund distribution. For this reason, we respectfully urge the Commission to undertake a more thorough review of the market costs of distributing fluctuating net asset value funds and money market funds, and reconsider the appropriateness of capping the Marketing and Service Fee at .25%, particularly given the severe limitations imposed by a conversion feature that would be associated with any "excess" distribution payments.

The Commission requested comment on the reasonableness of tying the proposed Marketing and Service Fee limitation to the .25% limitation on a fund's payment of "service fees" imposed by FINRA pursuant to NASD Rule 2830. In our review of the proposing release, we were unclear on the relationship that caused the Commission to link the proposed Marketing and Service Fee limitation to Rule 2830. As our prior comments suggest, we believe a market-based approach is preferable to tying the proposed limitation to an existing, unrelated limitation.

Moreover, we hope the Commission recognizes that the market costs of fund distribution that would exceed the proposed cap would be shifted for payment under ancillary revenue sharing arrangements, an area where the Commission has expressed transparency and conflict of interest concerns. This brings us back to our concern over the timing of the Proposals and the desirability for addressing distribution reforms contemporaneously.

The Challenges Associated with Implementing a Conversion Feature for Fluctuating Net Asset Value Fund Share Classes. We could support generally the concept of re-naming certain asset-based distribution fees (e.g., the .75% charge on Class C shares) if such fees equate with a form of a deferred sales load, but, as noted above we do not support the proposed conversion feature. In part, our objection is based on the operational challenges associated with the proposed "grandfathering" provisions (which would include difficulties encountered with tracking lots when transferring accounts between dealers, dividend reinvestment requirements (discussed in a later section of this letter, etc). Thus, we believe that to be able to continue to offer a "level load" share class would require registration of a new "level load" share class, which is a burden that many fund companies may not choose to pursue. This is one reason why we believe Class C shares could be eliminated.

Further, we believe the potential burden associated with this proposal is far more involved than simply apply existing B-share conversion technologies to facilitate C-share conversions. As illustrated below, we believe the Commission underestimated this burden, which materially impacted its associated cost-benefit analysis. First, in addition to the longer-term viability of C-shares, the proposed conversion feature will require enhancements to current technologies to provide holders of C-shares with an opportunity to exchange into a "safe harbor" money market fund that tolls the conversion period. Second, the Proposals are likely to result in shareholders having two accounts in each fund. This can raise issues for shareholders who seek to identify tax lots when effecting share redemptions. Third, an increased number of shareholder accounts would contribute to higher fund operating expenses. The total amount of transfer agency per-account fees would increase for a fund because the number of accounts would increase over the same total asset base. Fourth, shareholders

also may find having to hold two accounts in one fund inconvenient or otherwise undesirable and would pursue a different investment to consolidate the accounts, potentially increasing fund net redemptions. Finally, the technology required to track grandfathered shares for five years would add complexity, because two different processes would have to be supported; one that tracks the grandfathered shares and another to track the shares that would be required to comply with the new rules. While none of these obstacles is insurmountable, they are numerous, and importantly illustrate the point that the purported ease of application of B-share conversion technologies does not fully describe the complexities that would result from the Proposals.

The Proposals do not Account for the Manifest Differences in Money Market Fund Distribution.

We were concerned that the Commission did not present an analysis of the potential effect the Proposals may have on the distribution of money market funds. We view consideration of the distinguishing features and attributes associated with money market fund distribution arrangements as fundamental to fully assessing the potential impact and burdens associated with the Proposals, particularly given our view that the Proposals could extinguish certain money market fund share classes.

Money market funds, particularly institutional money market funds, offer multiple share classes, many of which bear Rule 12b-1 fees, and some of which bear Rule 12b-1 fees in excess of .25% annually. Generally, the fee compensates the fund intermediary for sales and marketing efforts and for providing a range of transactional and administrative services associated with the platforms on which the funds are made available. These types of arrangements are most often found at financial institutions offering various types of automated cash sweep services, where money market funds provide a liquid investment vehicle for uninvested cash balances, and where the 12b-1 fees paid correlate with the overall total mix of sales and servicing associated with ownership of the fund under the sweep arrangement.

As noted by some Roundtable Panelists that were cited in the Release, 12b-1 fees paid by money market funds pay for ***"services that matter to investors."*** The Release also cites Roundtable Panelists who viewed the use of these fees as supportive of "service infrastructures" and who equated them generally with "platform" fees. We think these are accurate characterizations that clearly distinguish these fees from a "commission"; or, stated differently, from the type of deferred sales load charged by Class C shares of fluctuating net asset value funds. We think this is a critical distinction.

Thus, our concern that the Proposals seek to eliminate every distribution fee in excess of .25%, in pursuit of the Commission's stated goal of protecting investors from "paying disproportionate amounts of sales charges," is highest with respect to money market funds. As illustrated above, we believe there is a reasonable distinction to be made between certain kinds of distribution fees that can provide direct benefit to a fund investor and other kinds of distribution fees which are only an alternate form of a deferred sales load. Money market fund 12b-1 fees are not alternative forms of a "sales load" and while some may have a clear "sales" component to them, the level of the 12b-1 fee often equates with the total mix of distribution, servicing, and administrative activity associated with the money market fund investment.

Our concern that certain money market fund share classes could be eliminated by these Proposals is driven by the prominence of money market funds as cash sweep investment vehicles (where higher 12b-1 fee share classes are most prominently offered). We firmly believe that a conversion feature of the type proposed could not be supported under such sweep arrangements. A conversion feature (even one that theoretically could be in the 20-year range and be consistent with these Proposals) would introduce new complexity to cash sweep arrangements (e.g., maintaining on a

cash sweep platform "grandfathered" shares as well as the ability to implement a conversion feature between two share classes of a sweep investment. These complexities may ultimately result in those arrangements, which are already tied to providing complex transactional capabilities to cash sweep investors, being discontinued. This would leave money market fund investors with fewer options for investment and perhaps for securing services related to ownership of fund shares.

The Release included contrary views of other Roundtable Panelists on the use of distribution fees by money market funds, but we emphasize that these Panelists voiced disclosure-related concerns only. Despite the Chairman's wish for *"more than disclosure reforms and a name change,"* we believe, in this context, disclosure may offer the most meaningful reform opportunity. Accordingly, while we do not necessarily agree that sweep fund investors are unaware that fund 12b-1 fees support the range of platform/transactional services provided, we could support proposals targeting *"better disclosure and more effective communication of 12b-1 fees and the manner in which they are used"* in connection with money market fund distribution fees, as recommended by those objecting Roundtable Panelists.

The Term "Marketing and Service Fee" Does Not Adequately Describe the Fee Payment.

While we oppose a .25% cap on the Marketing and Service Fee, we agree that the name "Rule 12b-1 fee" may not be adequately descriptive of the types of distribution-related fees a fund may pay. However, for the following reasons, we do not support use of the proposed term "Marketing and Service Fee." First, the term does not provide the clearest description of the fee's primary purpose - to promote the sale of shares. Also, given the range of activities that can be covered by the fee, such a fee might not in every case have a "marketing" or a "service" component, in which case the moniker could be misleading (or at least would not be appropriately descriptive). Further, although the Commission has noted that "shareholder services fees" may or may not have a "distribution component" to them, the term implies that the payment of service-related fees must be pursuant to proposed new Rule 12b-2 only. Thus, the proposed terminology could be confusing when presented with other terms that describe fund servicing expenses that are not distribution-related, particularly if presented in a Fee Table for a fund with multiple compensation arrangements. For this reason, and given the Commission's preference for a single term to be used consistently, we support use of the term "Distribution Fee" because it is directly tied to the broader purpose of the fee -- to support *distribution activity* -- and is broad enough to account for all types of distribution activities (i.e., not merely "marketing" and "service").

The Proposed Treatment of Dividend Reinvestment of Shares Should be More Flexible.

We understand that existing industry methodologies could not be readily adapted to meet the proposed requirements for treatment of dividend reinvestment shares in the automatic conversion option by which a fund could satisfy the maximum sales charge limitation. Flexibility in the approach to the conversion of dividend reinvestment shares would allow funds to better leverage the operational capacity of existing systems, as the Release indicates the Commission intended.

If adopted as proposed, Rule 6c-10(b)(1)(ii) would appear to require reinvested dividends to be converted to a share class without an ongoing sales charge at the same time as the underlying shares on which the dividend was declared would convert. Depending on an investor's account activity, this may require a single dividend reinvestment transaction to be split into multiple lots, each of which would have to be tracked so that it is converted in a timely manner. This methodology has the potential for creating thousands of dividend reinvestment lots in a single account - for example, when an investor utilizes a dollar cost averaging investment strategy to purchase shares in a bond fund that pays dividends on a monthly basis. Significant systems technology development would be required to track dividend investment lots under this approach.

The Commission indicates its anticipation that the automatic conversions would be able to utilize existing operational systems capabilities that issue, track the aging of, and convert Class B shares. We understand that widely used industry practice for Class B conversions is to convert dividend reinvestment shares in the same ratio as the ratio of underlying shares being converted to the total number of underlying shares in the account. We believe that a similar approach to conversion of reinvested dividends in the context of complying with maximum sales charge limitations would achieve the desired result without the complex recordkeeping consequences described in the paragraph above, and effectively leverage existing operational systems capabilities. In addition, this methodology would be more easily understood by investors since it is familiar in the context of class B share conversions.

Thus, if the Commission pursues these Proposals, investors may be best served if the Commission provides for flexibility with respect to the calculation of dividend reinvestment shares to be converted in connection with the proposed automatic conversion feature by which a fund could satisfy the maximum sales charge limitation. By providing such flexibility, the Commission would facilitate its stated goal of enabling the industry to leverage existing transfer agency recordkeeping systems currently utilized to administer funds using Class B shares.

Several of the Proposed Rule 10b-10 Amendments are Unnecessary in Order to Establish a Record of a Mutual Fund Transaction.

We generally support the Commission's goal to make the confirmation *"a more complete record"* of the fund transaction, consistent with the original intent of Rule 10b-10, but we believe that those portions of the Proposals designed to *"promote investor understanding of fees"* are beyond the scope of Rule 10b-10[4] and should be reconsidered. Moreover, our concerns over the timing of these Proposals is not limited to proposed new Rule 12b-2 and amended Rule 6c-10, as these proposed amendments to Rule 10b-10 potentially overlap not only with current prospectus disclosure requirements but also potentially with point-of-sale disclosure reforms. As previously indicated, in this regard we support contemporaneous rulemaking so that the industry could respond to the Commission's point-of-sale disclosure concerns and confirmation disclosure concerns, and potentially implement related reforms, more efficiently.

Importantly, we do not support the Commission's goal for additional confirmation disclosure of the "associated costs" of a mutual fund investment, which we view as separate from "making a record" of the mutual fund transaction. Generally, we support the Proposals that seek to provide investors with better information about their mutual fund transaction, in furtherance of the goals of providing the investor the opportunity to verify the terms, and assess the costs, of the transaction, as well as alert investors to potential conflicts of interest associated with the transaction and safeguarding the investor from fraud. To this end, we can support the Proposals that require disclosures related to fund sales charges. Conversely, we do not support the proposed disclosures related to the "associated costs of the transaction" because they are not germane to "making a record of the transaction." We view these Proposals as seeking to comprehensively cover all of the costs of the "investment" rather than merely targeting the terms of the "transaction," as Rule 10b-10 is designed to address.

Specifically, we support the proposal to disclose sales charges (front-end and deferred) actually incurred in connection with the transaction. We agree this is useful information for the

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[4] We understand that the confirmation disclosure requirements of Rule 10b-10 serve basic investor protection functions by *"conveying information allowing investors to verify the terms of their transaction, alerting investors to potential conflicts of interest with their broker-dealers, acting as a safeguard against fraud, and providing investors the means to evaluate the costs of their transactions and the quality of their broker-dealer's execution."* [See, e.g., SEC Release No. 34-34962.] The proposals that seek to disclose the "associated costs of the investment" are broader than the established scope of Rule 10b-10.

investor and is directly relevant to making a more complete record of the transaction. However, we do not support the additional disclosure about deferred sales charges that an investor "may" pay if the shares purchased are later redeemed, but will not in fact pay in many cases. We also do not support the proposed narrative statements about deferred sales charge rates that may apply, as well as those related to applicable marketing and service fee percentages and the fund's management fee and other operating expenses. We cannot reasonably conclude that a narrative summary related to these Prospectus Fee Table components is appropriate to *"help make the confirmation a more complete record of the transaction"* or to otherwise serve the goal of the Rule 10b-10 confirmation process. We believe that the confirmation is the wrong place in which to pursue the broad goal of promoting investor understanding of "associated costs" of a fund investment. For this purpose, mutual fund investors have the benefit of a current prospectus, which itself has been subject to continuous reform (in recent history, spanning from prospectus simplification in 1998 to prospectus disclosures enhancement in 2009). Disclosure regarding associated costs properly resides in the prospectus (or, perhaps, at the point-of-sale), not in the confirmation.

Further, responding to the Commission's request for comment, we do not support requiring disclosure of the actual dollar amounts of Rule 12b-1 fees on an account-level basis. The Commission historically has required dollar-related expense disclosures as part of a "hypothetical example" in deference to the immense difficulty in accurately identifying actual dollar costs that are attributable to a single account that are shared on a portfolio level. In fact, it may even be misleading to present such amounts because they could confuse the investor into believing that they are in fact account-level charges when they are actually fund-level charges.

Proposed Amendments to Form N-1A.

Item 12(b) is proposed to require a description of the "nature and extent" of services provided for under a Marketing and Service Fee. The Commission should understand that while a plan may be broadly written, the compensation may actually be earmarked for different things from dealer-to-dealer. Thus, our only concern would be with how specific this disclosure requirement would be, and our request is to limit it to the substance of the fee only because it would be unreasonable to describe it on a dealer-by-dealer basis. Similarly, we would ask the Commission to consider the extent to which the proposed Item 19(g) disclosure requirements might overlap the Item 12(b) disclosure requirements, and to clarify any potential confusion in that regard.

Proposed Fund Board Guidance.

The Proposal would establish a "fair and reasonable" standard for director deliberations regarding underwriting contracts, and provide that in assessing "fairness and reasonableness" directors would consider *"whether the fund's distribution networks and overall structure are effective in promoting and selling fund shares given current economic and industry trends...."*. We have two comments on this aspect of the Proposals.

First, to the extent the Commission is successful in repealing Rule 12b-1 and eliminating the requirement for re-approving written distribution plans annually, we recommend that the Commission articulate a clear, specific standard of review, accompanied by related guidance that protects the importance of the directors' deliberations and the exercise of their reasonable business judgment. Because the proposed "fair and reasonable" standard is new, and different from the standard of review currently applicable to advisory contracts, the standard could open the directors' business judgment to new avenues of attack. We believe that the more vague the standard and related guidance, the more likely directors' deliberations will be unfairly scrutinized. Thus, specific, comprehensive, and consistent standards and guidance should offer directors' additional comfort and protection in discharging whatever new duties such reforms might require. The proposed guidance is not specific enough to overcome our concern for the risk to fund directors.

Secondly, we have concerns with the portion of the guidance that focuses directors on considering the *"effectiveness"* of a fund's distribution networks and structure, in light of *"current economic and industry trends."* We believe this aspect of the guidance also requires significantly more detail, or else directors are left with material open issues such as (a) what constitutes an "effective" sales network and structure; (b) how to assess a fund's structure against "prevailing market conditions"; and (c) whether there would be associated, affirmative obligations to re-structure funds from time to time for such prevailing environments – and how that obligation might be balanced against the interest of then-current shareholders. These may be responsibilities that are inconsistent with a director's general oversight responsibilities.

Account-Level Sales Charges.

While we believe such to be the case, we request that if the Commission pursues these Proposals that it expressly state (for purposes of clarity) whether or not an existing "load" share class could be sold by some dealers pursuant to the proposed "elective feature" and by other dealers pursuant to existing "load" schedule.

To summarize, our fundamental concern is with the timing of the Proposals and their potential to materially reshape mutual fund distribution. We think the prospect for a fiduciary standard for broker-dealers as well as regulatory action on other distribution-related regulatory matters, coupled with the need to perform an analysis of the potential impact of the Proposals on money market fund distribution, each argue for the Commission deferring these Proposals. We also believe the Commission should re-assess the potential burdens of the proposed conversion feature and should in any event exempt money market funds from any conversion feature. We also believe the Commission should reconsider capping distribution fees at levels that more accurately reflect market realities, should pursue reform of confirmation disclosures to the extent consistent with the stated purpose of Rule 10b-10, and should provide guidance to fund directors that is consistent with and protects the exercise of their reasonable business judgment. .

Once again, we thank the Commission for the opportunity to present our views on these important issues. If you have any questions or require additional information from me, please do not hesitate to contact me at (212) 922-8109. Also, you may wish to contact John B. Hammalian, Managing Counsel, at (212) 922-6794 or at hammalian.j@dreyfus.com.

Sincerely,

Jonathan R. Baum

Jonathan R. Baum
Chairman and Chief Executive Officer
The Dreyfus Corporation