
Wellington Management Company, LLP

75 State Street
Boston
Massachusetts 02109
USA
Telephone: (617) 951-5000

October 1, 2008

Via Electronic Filing
Ms. Florence E. Harmon
Acting Secretary
US Securities and Exchange Commission
100 F Street, N.E.
Washington, DC 20549-1090

**Re: File No. S7-22-08 (Comments on Guidance to Investment Company
Boards with respect to Portfolio Trading Practices)**

Dear Ms. Harmon:

Wellington Management Company, LLP ("Wellington Management") appreciates the opportunity to comment on the proposed guidance to investment company boards of directors with respect to investment adviser portfolio trading practices (collectively, the "Proposed Guidance") described in Investment Company Act Release No. 28345 dated July 30, 2008 (the "Proposing Release").¹

I. Introduction

Wellington Management is a privately owned, investment management firm registered under the Investment Advisers Act of 1940 (the "Advisers Act") that provides investment services to investment companies, employee benefit plans, endowments, foundations and other institutions. As of August 31, 2008, Wellington Management served as an investment adviser to approximately 1600 clients and had investment management authority with respect to approximately \$535 billion in assets. Wellington Management's investment services include portfolio management styles and approaches in equities, fixed income securities, currencies and commodities, and asset allocation across these asset categories.

We generally support the Proposed Release and endorse its underlying goal of providing relevant and useful guidance to fund directors in fulfilling their responsibility to oversee the fund adviser's trading practices. Indeed, as a sub-adviser to a number of investment companies, we appreciate directors' interest in these issues and currently provide much of the information laid out in the Proposed Guidance. In particular, we strongly approve of the Proposed Guidance's emphasis on raising issues and potential conflicts to consider in light of a fund's particular circumstances, rather than on attempting to impose a single, uniform approach or

¹ The Proposing Release is also designated as Securities Exchange Act Release No. 58264 and Investment Advisers Act Release No. 2763.

standard to an increasingly complex and changing area. As the Proposed Guidance affirms “[d]ifferent factors may be appropriate for different funds, depending on a fund’s investment objective, trading practices and personnel.”² We agree. Relevant and useful guidance must not only take into account the wide variety of funds and advisers, it must also encourage fund directors to adapt it to their own funds’ specific facts and circumstances. We encourage the Commission to reaffirm that position in its final guidance to fund directors.

As requested in the Proposing Release, we have set out below a number of specific comments and requests for clarification.

II. Best Execution

“Best Execution” Best Understood as a Process

We support the Proposed Guidance’s emphasis on the fund adviser’s trading process and the factors involved in the selection of execution venues and broker-dealers. In our view “best execution” is best understood as a process, not a specific price result. It is the process of executing portfolio transactions at prices and, if applicable, commissions that provide the most favorable total cost or proceeds reasonably obtainable under the circumstances and taking into account portfolio manager intention, market conditions and all other relevant factors. Best execution review should involve an evaluation of the trading process and the portfolio performance and execution results over extended periods of time.

Discussing how a fund adviser approaches best execution and organizes its trading operations to meet that duty will help fund directors to identify which elements of the Proposed Guidance are relevant to their particular fund. For example, rather than limiting the number of broker-dealers our traders may use, we seek to maintain a broad list and give our traders discretion to decide which of those broker-dealers to use in executing specific transactions. Given this discretion, we rely less on formal evaluations of the performance of each broker-dealer and instead focus more on monitoring our own traders’ performance.

We also agree with the Proposed Guidance that fund directors should not be “required or expected to monitor each trade.”³ Information on individual trades would be neither relevant nor useful to fund directors since each transaction is unique—subject to different market conditions, different portfolio manager intentions and different execution requirements. Put simply, execution outcomes for any given transaction will vary as a result of these differences. For example, a portfolio

² Proposing Release at 19.

³ Proposing Release at 5.

manager may request a trader to build a position in a security that she views as a "value" stock slowly over time, while also instructing another trader to purchase or sell a position in a "growth" stock as soon as possible. Another transaction may require a trader to pair a purchase of one security with the sale of another –which means the liquidity and market conditions applicable to both securities will impact the execution results of the purchase order.

Limitations of Comparative Fixed Income Trading Market Data

Understanding a fund adviser's trading and best execution process is especially important to the oversight of fixed income trading practices, given the lack of relevant, quantitative data on comparable market transactions. Although the FINRA Trade Reporting and Compliance Engine ("TRACE") provides information on corporate bond transactions, it has not yet succeeded in meaningfully increasing transparency. TRACE provides only historic prices, not active bids or offers. Since corporate bonds are often infrequently traded, this price data may be stale. For example, there are more than 600,000 individual fixed income securities registered in the US and in general less than 3% of those securities trade in any one week. In addition, given the fact that fixed income securities tend to be held unevenly by market participants, recent TRACE data may reflect previous trades by the same participants, not the broader market. For these reasons information available on TRACE may not provide meaningful data for comparison. Outside of TRACE, fixed income trading information is even more limited.

The best source of trading information for the corporate bond and other fixed income security markets is often the relevant market maker(s). However, dealers typically do not quote bid/ask prices (the "spread") for specific transactions during the trading process. Instead, dealers quote either a bid or an ask price depending upon the nature of the transaction. To the extent quoted bid/ask spreads are available, they generally have little relevance to any specific transaction. Bid and ask prices for a specific fixed income security can vary greatly based on timing, availability, and the size of the transaction.

Although we understand the Commission's desire to help fund directors quantify trading costs, advisors simply do not have access to, and thus cannot provide, meaningful information on bid/ask spreads for fixed income securities. In our view the final guidance should acknowledge that the fixed income markets have no true analogue to the commission costs associated with equity trading, which are explicit and easily identifiable. Lacking such reliable quantitative information on fixed income trading costs, fund directors must thus rely even more on their monitoring of the fund adviser's trading and best execution process.

Another consequence of the lack of transparency in the fixed income markets is that, unlike for equity transactions, there are few trading cost evaluation services. The absence of consolidated market price data against which to compare the execution price clearly limits the value of such services. In addition, many large fixed income security orders trade based on a spread over US Treasury bonds or some other reference instrument or index which can further complicate any analysis. The currently available fixed income trading cost evaluation services do not incorporate these reference prices into their analysis, which can result in misleading results.

For each of these reasons, but especially with respect to the challenges presented by the nature of fixed income trading, we encourage the Commission to adopt final guidance on best execution that focuses on the fund adviser's trading and best execution process. We also suggest that, with respect to fixed income trading, any final guidance acknowledge the limitations on the availability and usefulness of comparative fixed income trading market data.

III. Fund Brokerage Commissions

Weigh Amount of Commissions Paid Versus Value of Research Received

Although we agree with much of the Proposed Guidance on fund brokerage commissions, we believe that effective oversight must recognize the potential benefits, as well as the potential conflicts, of client commission arrangements. Our investment professionals can and do use eligible research provided by broker-dealers and independent or third party research firms in their decision-making process. We believe that this research provides a net benefit to our clients through its impact on investment performance.

In our view, how soft dollar products and services are allocated among other clients is less important than whether the amount of commissions paid by the fund is reasonable. We believe that the Proposed Guidance incorrectly stresses the former over the latter. Both Congress and the Commission have affirmed that a fund adviser may use client commissions to obtain eligible brokerage or research products and services if, in good faith, the fund adviser determines that the amount of commissions paid is reasonable in relation to the value of the research or brokerage product or service received, either in terms of the particular transaction or the fund adviser's overall responsibilities for its discretionary client accounts.⁴ That determination should be the focus of fund board oversight.

⁴ E.g., Commission Guidance Regarding Client Commission Practices Under Section 28(e) of the Securities Exchange Act of 1934, Release No. 34-54165, 48 (July 18, 2006).

The fact that soft dollar products and services may or may not be shared with other accounts does not dictate whether the amount of commissions paid by the fund is reasonable. An amount of commissions that is reasonable in light of the brokerage and research services provided does not become "unreasonable" if those services are allocated among an adviser's clients. Nor does an unreasonable amount of commissions become "reasonable" if the only beneficiary of any research services provided is the fund. Information on the allocation of soft dollar products and services among client accounts should be relevant to fund directors only to the extent it suggests that the fund adviser's determination was made in bad faith.

Sharing Research Benefits Our Clients

In addition, we strongly disagree with any suggestion that sharing eligible research services in any way disadvantages a fund. To the contrary, we believe that sharing eligible research services benefits our clients. At Wellington Management, research, including eligible research services received through client commission arrangements, is shared broadly among our investment personnel. As we explain to fund boards and our other clients, our goal is to create a marketplace of ideas and to foster a robust debate surrounding investment decisions. Together, our internal and external sources of research provide a wealth of raw material for our investment professionals to use in making judgments about the management of client portfolios.

Similarly, we do not believe that effective oversight of fund brokerage commissions requires tracking the benefits of such services to the commissions associated with a particular account. The structure of our portfolio management and trading platforms makes it difficult and often impossible to link the acquisition of specific research services with particular client transactions. All of our trading activity is directed by our Global Trading personnel, who have responsibility for selection of brokers, negotiation of commission rates and trade overall execution, while investment matters are handled by appropriate portfolio management and research teams. We negotiate commission rates with broker-dealers in advance based on the various types of trade execution that we require for client accounts. Given that separation of functions, tracking the benefits of eligible research services to the commissions associated with a particular fund would provide fund directors with little to no insight into why a particular broker-dealer was selected or how the fund adviser determined that the amount of commissions paid was reasonable.

For these reasons we encourage the Commission to focus on how the fund adviser determines that the amount of commissions paid is reasonable in relation to the value of the research or brokerage product or service received, rather than how it allocates such products or services among client accounts. Further, to the extent that the final guidance does discuss the sharing of soft dollar products and services, we request that it acknowledge a need to weigh potential conflicts against

potential benefits and to tailor oversight to the particular facts and circumstances presented by the fund adviser's soft dollar practices.

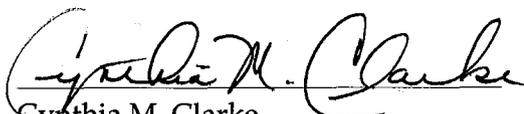
Clarify Use of Term "Client Commission Arrangements"

Finally, we request that the commission amend the Proposed Guidance to clarify whether its discussion of "client commission arrangements" applies to all client commission practices or to arrangements relating to third party research only. If the former, we also request that the Commission reconcile that application with the other items set out in the guidance relating to client commission practices.

IV. Conclusion

We appreciate your consideration of this letter and look forward to working with the Commission and its staff when final guidance is adopted.

Sincerely,



Cynthia M. Clarke

General Counsel

Wellington Management Company, LLP

cc: The Honorable Christopher Cox, Chairman
The Honorable Kathleen L. Casey
The Honorable Elisse B. Walter
The Honorable Luis A. Aguilar
The Honorable Troy A. Paredes

Mr. Andrew J. Donohue, Director, Division of Investment Management