



December 8, 2005

U.S. Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-9303
Attention: Jonathan G. Katz, Secretary

**Re: Commission Guidance Regarding Client Commission Practices under
Section 28(e) of the Securities Exchange Act of 1934 (File No. S7-09-05)**

To the Commission:

Vanguard¹ submits this letter in response to the proposed guidance provided by the Commission regarding client commission practices under the safe harbor of section 28(e) of the Securities Exchange Act of 1934.² The proposed guidance is a prudent response to abuses in client commission practices as well as a measured, but significant step towards increased transparency and efficiency in investment advisers' execution of trades.

Vanguard supports the Commission's efforts to clarify the scope of the section 28(e) safe harbor. Under the proposed guidance, advisers and brokers will have a better tool for assessing the types of research products and brokerage arrangements that qualify for the safe harbor. This added clarity should reduce abusive client commission practices and provide greater transparency in commission costs.

Although the Commission had provided soft dollar guidance on several occasions in the past, there nevertheless has been ambiguity about what products and services fall within the safe harbor. These ambiguities stemmed in part from the fact that prior guidance tended to be general, leaving uncertainty as to how firms should apply those general guidelines in specific circumstances, and in part from technological and market developments not anticipated by the prior guidance. The Release goes a long way toward reducing the ambiguities. We commend the Commission for providing needed clarity, which will help to eliminate abusive client commission practices and will contribute to a level playing field by ensuring that all participants are applying the standards uniformly. Reducing the types of expenses encompassed by "client

¹ The Vanguard Group, Inc. ("Vanguard") offers more than 130 U.S. mutual funds with assets of approximately \$900 million. We serve approximately 18 million shareholder accounts.

² Commission Guidance Regarding Client Commission Practices Under Section 28(e) of the Securities Exchange Act of 1934, Exchange Act Release No. 52645 (Oct. 19, 2005) ("Release").

commissions” would make financial reporting to shareholders that much more precise and meaningful. We also commend the Commission for tying the new guidance to the statutory standards, thereby narrowing the scope of the safe harbor and linking it more closely to the original intent of Congress in enacting Section 28(e).

Vanguard appreciates the Commission’s effort to solicit and consider the views of industry participants, including the NASD Mutual Fund Task Force, on how best to address abuses in the use of soft dollar arrangements. It is evident that the Commission’s considered evaluation of information about soft dollar arrangements provided by knowledgeable experts from multiple disciplines has resulted in actionable and effective guidance. We hope the Commission will continue to consider industry views as regulation moves towards further unbundling of brokerage services and, hopefully, greater transparency of brokerage expenses.

We note that the guidance set forth in the Release is likely to require both advisers and brokers to change long standing practices. In this regard, broker-dealers are in a position to provide advisers with valuable data to inform the allocation of commission dollars to bundled products and services. We urge the Commission to insure that the burden of allocation is fairly apportioned between broker-dealers and advisers. In addition, we second the views expressed in the Investment Company Institute’s November 25, 2005, letter that the Commission should designate an effective date that will give advisers sufficient time to bring existing client commission arrangements into compliance with the new guidance.

Thank you for the opportunity to comment on the Commission’s proposed guidance regarding client commission practices. If you have any questions or would like additional information, please feel free to contact me.

Sincerely,

/s/ Heidi Stam

Heidi Stam
General Counsel

cc: Hon. Christopher Cox, Chairman
Hon. Cynthia Glassman, Commissioner
Hon. Paul Atkins, Commissioner
Hon. Roel Campos, Commissioner
Hon. Annette Nazareth, Commissioner
Meyer Eisenberg, Acting Director, Division of Investment Management
Robert Colby, Acting Director, Division of Market Regulation
John J. Brennan, Chairman and CEO, The Vanguard Group, Inc.