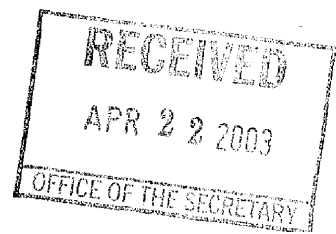


COUNCIL OF INSTITUTIONAL INVESTORS

Suite 512 • 1730 Rhode Island Avenue, N.W. • Washington, D.C. 20036 • (202) 822-0800 • Fax (202) 822-0801



S70303-23

April 10, 2003

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

Re: File No. S7-03-03

Dear Mr. Katz:

The Council of Institutional Investors, an association of more than 130 corporate, public and Taft-Hartley pension funds with more than \$3 trillion in pension assets, **supports** the Securities and Exchange Commission's proposal requiring mutual funds and investment advisers to adopt and implement written policies and procedures designed to prevent violation of federal securities laws, to annually review these policies and procedures and to appoint a chief compliance officer.

These changes should give the Division of Investment Management some basic tools needed to more efficiently and effectively review registered investment advisers and mutual funds.

To better assist the Division with its work, the Council recommends that a copy of the annual written report required of mutual funds be filed with the Division of Investment Management and that investment advisers be required to submit a similar report to the Division. Since these reports must include discussions of material compliance matters and material changes to policies and procedures, this information could be used by the Division to "red flag" potential problems.

The Council appreciates that the Division of Investment Management has been stretched and currently does not have enough staff to frequently review registered investment advisers and mutual funds. However, the Commission's budget is expected to increase significantly in the not-too-distant future, and the Council would expect that all Divisions, including the Division of Investment Management, will enjoy budget increases.

As a result, the Council believes that it is premature for the Commission to consider private sector alternatives for the oversight of the investment industry. Now more than ever, the investing public puts its faith in the SEC to protect investors. That is the Commission's job; it is not the job of the private sector. The Council is disappointed that in this environment the Commission would even consider outsourcing this critical function.

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Before considering private sector solutions, the Commission should (1) consider how it will allocate additional budget dollars between the Divisions, (2) monitor the effectiveness of the new compliance rules, and (3) as necessary, propose additional rules and regulations designed to help the SEC perform its vital oversight role more efficiently and effectively.

Regarding the various private sector ideas, the Council **strongly opposes** the establishment of any new self-regulatory organizations (SROs) for the investment industry or the ceding of any oversight responsibilities to existing SROs. The **SEC** is correct in noting that "SROs play an increasingly important role in the regulation of financial services in the United States." And this trend has been to the detriment of the investing public. The Council's experience has been that time and again, self-regulatory organizations, such as the ones that n place for the accounting industry and at the stock exchanges, have tended to benefit the regulated groups at the expense of investors.

The Council also **opposes** giving accounting firms or other third parties responsibility for reviewing compliance policies and procedures. In the Council's opinion, accounting firms are not qualified to handle this type of work. **And** the Council believes such work, which is not directly related to the financial audit of the firm, should not be provided by the outside auditor.

The Council appreciates this opportunity to comment. Please contact me or Ann Yerger with any questions.

Sincerely,



Sarah A.B. Teslik
Executive Director