

American Federation of Labor and Congress of Industrial Organizations



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April 17, 2003

Jonathan G. Katz, Secretary
Securities and Exchange Commission
450 Fifth Street, NW
Washington, DC 20549

Re: File No. S7-03-03

Dear Mr. Katz:

On behalf of the American Federation of Labor and Congress of Industrial Organizations (the "AFL-CIO"), I welcome this opportunity to offer our comments on the Securities and Exchange Commission (the "Commission") proposal, S7-03-03, on compliance programs of Investment Companies and Investment Advisers.

The AFL-CIO is the federation of America's labor unions, representing more than 66 national and international unions and their membership of more than 13 million working women and men. Union members participate in the capital markets as individual investors and through a variety of benefit plans. U.S. workers' benefit plans have over \$6 trillion in assets. Union-sponsored pension plans account for \$400 billion of that amount. Union members generally invest their 401(k) and other retirement savings in mutual funds. Effective internal compliance programs are an essential part of the effort to protect the many small and large investors in mutual funds.

Should Advisers and Funds be required to adopt Compliance Policies and Procedures?

The Commission's stated experience that funds with effective internal compliance programs are less likely to violate federal securities laws suggests that this effort to develop the strongest and most effective compliance regulations for this industry is a most important endeavor. Internal compliance programs not only act to control violations but help focus the Staff's efforts when examining the industry.

Should there be a subset of Funds excepted from the adoption of internal compliance program?

We believe that there is no need for exceptions. Exceptions would only be warranted if it could be demonstrated that the category of investors using the particular subset of funds or investment advisers cannot benefit from the protections of an effective internal compliance program.

We agree that the variety in the mutual fund industry requires more than a one size fits all approach. Therefore we support the general principles that you have outlined. We believe that these principles provide enough flexibility to accommodate the various sizes and structures to be found in the fund and adviser world. These principles make it possible for all funds and advisers to adopt an internal compliance program.

Should there be more or less frequent review of the compliance policies and procedures?

We agree that an annual review is a good baseline.

The Nature and Status of the Compliance Officer

As to the Compliance Officer responsible for administering the policies, we think that a single senior manager should be designated for this role. Multiple officers may dilute responsibility and confuse direction. Elevating responsibility to a single senior manager will emphasize the importance of the role and help ensure compliance. In addition to this requirement we believe that this officer should report directly to the Board of Directors. This reporting line would ensure that this very important function receives the attention and independence it warrants.

Self-Regulating Organizations

We commend the Commission for its strong leadership in regulating the fund industry. Given the large and growing numbers of funds and advisors, it is clear that more resources are needed for this significant effort. We do not believe that Self-Regulating Organizations (SROs) are a substitute for strong, thorough Commission regulation. In fact, SROs have inherent conflicts of interest. In our view they should not be used to lessen the burden of Commission investigation and enforcement.

Costs and Benefits

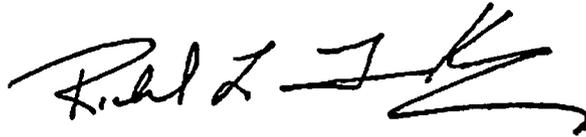
We understand the importance of weighing the costs and benefits of this and all proposals. We also believe that it is important to be very careful in evaluating the costs that are stated by the mutual fund industry for compliance. The recent discussion of the cost of proxy vote disclosure is a lesson as to the extent that some in the mutual fund industry will go to discourage even basic protections for investors. Because of this recent experience we would urge you to be extremely skeptical of industry claims of compliance related costs.

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Conclusion

We strongly recommend that the Commission move swiftly to implement the rule as proposed. We do not believe that a reliance on self-regulating organizations is an answer to this resource problem. Rather, we support increasing the resources of the Commission for regulation of these industries. Enactment of the proposed rule will be an important step in the Commission's efforts to restore investor confidence in our financial markets by promoting effective internal compliance programs in Investment Companies and Investment Advisors.

Sincerely,

A handwritten signature in black ink, appearing to read "Richard L. Trumka", with a stylized flourish at the end.

Richard L. Trumka
Secretary-Treasurer

RLT/meb