Memorandum

To: Nancy M. Morris, Secretary, Securities and Exchange Commission
From: C. Meyrick Payne, Partner, Management Practice Inc.
Date: July 13, 2006 Re: File Number S7-03-04

Management Practice Inc. (MPI), a professional consulting firm specializing in mutual fund governance and the publisher of 15 consecutive years of independent third party research into mutual fund director compensation, would like to highlighted several facts about the proposed Independent Chairman rule.

Cost of Independent Chairs

On average the annual additional cost of compensating an Independent Chair is approximately $30,000. There are about 500 fund complexes which would be required to appoint an Independent Chair. Therefore the incremental cost would be approximately $15 million, a miniscule percentage of both the $70 billion in total mutual fund fees and the $9.5 trillion in mutual fund assets.

While the Independent Chair may choose to increase the use of consultants, staff, and analytical resources, the incremental cost should not be attributed to the proposed rule, but rather to other new or pre-existing regulations or legislation, such as Sarbanes-Oxley.

Some critics of the proposed rule cite that the "economic costs" are too high – that innovation is impeded, creativity stymied, entrepreneurship stifled by the existence of an Independent Chair. In our experience we have not found this to be the case; indeed, the creativity and general reduction in fees that have occurred since the new regulations were proposed seem to belie this hypothesis.

Other critics believe that the management of funds will pass into the hands of "ill-informed" amateurs who do not understand the fund business. Virtually all of the Chairs who have been appointed are seasoned fund directors with decades of business experience who understand the difference between good governance and micro-management.

Benefits of Strong Fund Governance

The benefits of strong independent fund governance, as represented by an Independent Chair, are highlighted below.

- The aggregate average compensation of an independent fund board is about $16 per $1 million of assets. This is far less than the cost of electronically monitoring a $1 million home.

- The same $16 per $1 million compares to about $10,000 (a 1% expense ratio) in overall fees. In other words, $16 of cost for independent trustees provides oversight for $10,000 in total fund expenses. The leverage for shareholder protection is vast.

- In total there are about 2,680 mutual fund directors in the US today. On average each oversees about $3.2 billion in assets. Among the largest 25 fund families, which hold about 70% of all fund assets, there are 310 directors who oversee about $20 billion each. Compare this $20 billion in funds oversight responsibility with the economic impact of NYSE corporate directors, of which there are about 22,000 overseeing a market capitalization of about $22 trillion. In other words, the directors of the largest fund groups oversee 20 times the market impact of a NYSE director.

- There are about 400 mutual fund regulators at the SEC and other government institutions. These are supplemented by 2,680 fund directors to oversee the $9.5 trillion fund industry. Compare this tax-payer effectiveness measure with approximately 30,000 Federal, State and Local bank regulators.

- The overall expense ratio of US mutual funds, with our present system of relatively strong independent governance, is about 1%. In Europe and Asia the expense ratio, with comparatively weaker governance, is about 2%. The principal difference between the US and the European system is that US fund directors have the authority to renegotiate the management fees and, if necessary, to terminate the contract.

US fund governance is strong, but not unfettered. US regulations require that if the fund directors replace a fund manager, the decision has to be promptly ratified by the fund shareholders – a high hurdle which works to prevent "run-away" boards.

The greatest danger to the smooth functioning of a fund board is that it becomes unfocused and lackadaisical. Many of the other reforms which have already been adopted, such as the independent counsel rule, the requirement to annually evaluate the Board's effectiveness and the existence of a Chief Compliance Officer work better if there is an Independent Chair, who provides a sense of discipline and priority to the Board.

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The fund board, under the guidance of an Independent Chair, reassures investors that conflicts of interest, which inevitably arise when one party manages another's money, are resolved fairly. In sum, the benefits of the proposed Independent Chair rule outweigh the minimal costs.