



Robert G. Davis
Chairman and
Chief Executive Officer

S 7-03-04

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January 12, 2004

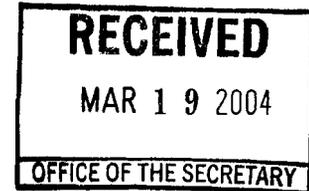
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VIA FACSIMILE AND HAND DELIVERY

Chairman William H. Donaldson
Commissioner Cynthia A. Glassman, Ph.D
Commissioner Harvey J. Goldschmid
Commissioner Paul S. Atkins
Commissioner Roel C. Campos
United States Securities and Exchange Commission
450 5th Street, N.W.
Washington, DC 20549

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SECRETARY

S 7-03-04



Re: Open Meeting Scheduled January 14, 2004 to Consider Enhanced Corporate Governance Provisions

Dear Chairman and Commissioners:

I am the Chairman and Chief Executive Officer of United Services Automobile Association (USAA). I also serve as the Chairman of the Boards of the USAA Family of Funds, a group of thirty-eight no-load mutual funds. I understand that the Commission will meet on January 14, 2004 to consider, among other items, rule proposals to enhance mutual fund governance, including possibly requiring mutual fund boards to have an independent chair. Because a rule requiring every fund board to have an independent chair would affect the oversight of the USAA Funds, I wanted to write to express my views.

In my opinion, a rule mandating an independent chair is neither necessary, nor appropriate, and will likely result in unintended consequences. While an independent chair may make sense for some fund complexes, it will not in others. I believe making an independent chair mandatory could have consequences that you should consider before moving forward with rulemaking.

I ask you to consider the following points: (1) the Chairman and CEO of an integrated financial services company will often be the best person to communicate the larger vision of that company and the role of the mutual funds within the framework of that organization; (2) no causal relationship has been demonstrated between an independent chair and the avoidance of regulatory problems; the prosecution of those who violate the trust of shareholders is preferable to the imposition of a mandatory rule; (3) an independent chair will almost certainly increase the costs of operating a fund complex; and (4) increasing the percentage of independent directors is preferable to mandating an independent chair. Each of those points is spelled out in more detail below.

- USAA is a member-owned association that seeks to facilitate the financial security of its members and their families by providing of a full range of highly

competitive financial products and services. USAA members include officers and enlisted personnel of the United States military and their families. We operate as one association, not a conglomerate of individual entities. Our communications are intended to speak with one voice. In my role as Chairman and CEO, I am the voice our members primarily hear from, and expect to hear from. That includes significant matters involving the USAA Funds. Let me just share with you one example.

- o In 2001 it was becoming clear that unless adjustments were made to the USAA Funds' pricing structure, USAA would not be able to continue offering mutual funds to our members over the long term. I explained the situation to the USAA Funds' boards. I emphasized that I was making changes in the management of the investment management company, which in turn would result in changes in staffing levels and other dramatic initiatives, but which would also require adjustments to the funds' pricing structure. I proposed to the USAA Funds' boards a new structure that, among other things, would tie the advisory fee to performance, so fund shareholders' interests and USAA's interests were one and the same. With the boards' approval, I, as Chairman, communicated to the USAA Funds' shareholders these proposals and the USAA Funds received approval from well over 90% of their shareholders. The result has been improved performance for USAA Fund shareholders, as well as an effective pricing structure that enables us to offer these funds to the USAA membership. This is just one example where my roles as Chairman and CEO of USAA and Chairman of the USAA Funds' boards have served as an effective bridge in meeting our members needs.
- Because independent directors, in most cases, already have the power to elect an independent chair, I believe an absolute regulatory requirement mandating one would be justified only if there was a causal connection between an interested chair and regulatory problems. That connection does not appear to exist. To date, there has been no correlation established between an interested chair and regulatory problems, or any evidence that an independent chair will prevent them. For example, some of the fund complexes with alleged regulatory problems had independent chairs, and one had a completely independent board. Thus, based on prior industry history, a regulatory requirement mandating an independent chairman will not ensure greater regulatory compliance. In fact, I believe those interested chairs, like me, who also serve as the Chairman and CEO of their integrated financial services companies (rather than just the advisory firm) can more effectively promote a culture of compliance at fund companies because of their direct management authority over advisory personnel, and because of their greater interest in preserving the reputation of the integrated company as a whole.
- A mandatory independent chair requirement almost certainly will increase the costs of operating a fund complex, which in turn will be passed on to fund

shareholders. Given the sensitivity to mutual fund fees and expenses of late, this should be strongly considered before proposing a mandatory independent chair requirement.

- I understand that the Commission is also considering increasing the percentage of mutual fund directors that must be independent. If the Commission believes that the corporate governance requirements applicable to mutual fund boards should be strengthened, this would be the preferred alternative.

In summary, USAA strongly opposes any rule that would require every mutual fund board to have an independent chair. A one-size fits all approach will fail to give a board any flexibility in selecting the most qualified person that best fits the needs of the particular complex and the efficient operation of its board. I believe that the board members, including the independent directors who already control most fund boards, are in the best position to determine the most effective chair based on the needs and expectations of the fund shareholders whose interests they serve. Boards are entirely familiar with their obligation to ensure that the CEO is both capable and trustworthy. There is no reason to believe that they lack that fundamental judgment capacity in the selection of a chair. In the absence of a compelling reason to mandate requiring an independent chair, I believe that the Commission should leave this determination to the discretion of the board.

I appreciate your timely consideration of my views, particularly in light of your scheduled meeting on Wednesday, January 14. If you want to discuss this matter further, or if I or could otherwise be of assistance to you, please do not hesitate to contact me at (210) 498-2616.

Sincerely,



cc: Mr. Paul Roye
Director
Division of Investment Management
U.S. Securities and Exchange Commission