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Congress of the United States

House of Representatives
Washington, D.C. 20515-1806

SUBCOMMITTEE ON
FINANCIAL INSTITUTIONS
AND CONSUMER CREDIT

SUBCOMMITTEE ON
HOUSING AND
COMMUNITY OPPORTUNITY

January 14, 2004

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The Honorable William H. Donaldson
Chairman
Securities And Exchange Commission
450 Fifth Street, N.W.
Washington, DC 20549

S7-03-04

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Dear Chairman Donaldson:

I am pleased to learn that the Commission will consider rule proposals to implement some of the reforms included in my legislation, the Mutual Funds Integrity and Fee Transparency Act (H.R. 2420), which passed the House on November 19, 2003. Mutual fund investors' confidence has been shaken by the shocking revelations of fraud. The Commission's rulemaking proposals are an important first step toward restoring investor faith in mutual funds, yet I believe these proposals can go further and more work can be done to provide investors with strengthened corporate governance and greater clarity about fees and costs associated with mutual funds.

H.R. 2420, as introduced, included a provision that would have required all mutual fund boards to have an independent chairman. I am encouraged that the Commission is considering a rule that will effectively require a mutual fund board chairman to be independent from a fund's management company. I have long felt that mutual fund investors deserve a board chairman who exclusively represents shareholder interests. While I am pleased that the Commission is considering this provision through a rulemaking, I believe legislative enactment is necessary to ensure that future regulatory actions do not weaken or eliminate this important reform proposal.

I am also pleased that the Commission will consider proposals that would require investment advisers to adopt codes of ethics establishing standards of conduct for advisory personnel, safeguard material nonpublic information about client transactions, and address conflicts that arise from personal trading by advisory personnel. However, a code of ethics is meaningless if its provisions can be waived or violated with impunity. Therefore, in accordance with H.R. 2420, the Commission's proposal should go further and also require more accessible public disclosure of codes of ethics, in addition to disclosure of waivers or material violations of the codes.

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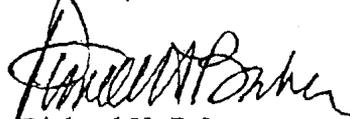
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In addition to these aforementioned proposals, I understand the Commission will consider a rule to require broker-dealers to provide investors with specific information about conflicts and distribution-related costs prior to purchase of mutual funds and as part of transaction confirmations. This proposal is similar to the amendment I successfully offered at a Financial Services Committee markup of H.R. 2420 on July 23, 2003. It is unconscionable that information relevant to an investor's decision to purchase a mutual fund, such as whether a broker received differential compensation to sell a particular fund, is hidden from investors. These undisclosed financial incentives are unacceptable and need to be fully transparent.

Although I am pleased with these initial steps to help restore the confidence of mutual fund investors, there remain many provisions in H.R. 2420 that the Commission has not yet acted upon, has only acted upon in part, or does not have the authority to implement without legislative action. I know that you share my goal to better serve investors through stronger corporate governance and meaningful, accessible information about the fees and costs associated with mutual funds. Legislation is critically needed to fully address those goals, and I look forward to your continued support for the expeditious enactment of H.R. 2420.

Sincerely,



Richard H. Baker
Chairman
Subcommittee on Capital Markets,
Insurance and Government Sponsored
Enterprises

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