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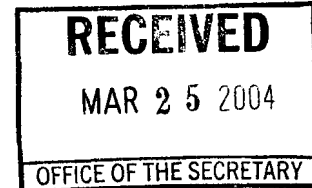
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Morgan Stanley

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Via Facsimile  
March 15, 2004

The Honorable William H. Donaldson  
Chairman  
U.S. Securities & Exchange Commission  
450 Fifth Street, N. W.  
Washington, D.C. 20549



Dear Chairman Donaldson:

We are writing to you to offer our views on several topics we believe to be of great importance to the industry. As you know, mutual funds are an important investment option for millions of American households. Over the past twenty years, these funds have helped bring the benefits of equity and fixed income ownership to over 95 million investors. As a result of their low cost and flexibility for use in IRAs, annuities, retirement plans and brokerage accounts, mutual funds today comprise over 20% of U.S. household assets.

Recent events require all of us in the mutual fund industry to take meaningful steps to maintain public confidence in these products. At Morgan Stanley Investment Management, we are taking action to ensure the continued pre-eminence of the mutual fund as an investment of choice for individual investors. We support your efforts to pursue a comprehensive and accelerated regulatory agenda and hope others in the industry will do the same. Specifically, we believe that the following areas should be specifically addressed by mutual fund management companies:

- **Late Trading and Market Timing**
- **Soft Dollars and Directed Brokerage**
- **Fund Governance**
- **Mutual Fund Employee Trading**
- **Fees and Expenses**
- **Disclosure**

Late Trading and Market Timing

To further deter late trading and market timing abuses, we support the following:

- Fair valuation should continue to be utilized, and enhanced where appropriate, to enable Fund complexes to better combat the use of stale price arbitrage by market timers.
- We support the current regulatory proposal to require the implementation of redemption fees that are reasonably designed to prevent market timing.
- We support the current regulatory agenda to ensure that late trading does not occur in mutual funds, either through a requirement that all trades be received by the mutual fund prior to the time at which net asset value is calculated (generally 4:00 pm), or by instituting changes to the structure of the industry's processing of mutual fund trades through financial intermediaries to provide enhanced oversight so as to prevent late trading.

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## Soft Dollars and Directed Brokerage

We support the elimination of third party soft dollar payments in connection with mutual funds. To this end, we believe the following steps should be taken:

- Under no circumstances will brokerage transactions be directed to broker-dealers in connection with distribution of any mutual fund. Morgan Stanley Investment Management has never directed brokerage transactions in connection with distribution of any of its affiliated mutual funds.
- Brokerage transactions should not be directed to an executing broker/dealer for third party research. Discontinuing this practice should allow mutual funds, consistent with best execution and liquidity requirements, to increase trade with discount brokers and electronic exchanges and thereby reduce shareholder trading costs. Morgan Stanley Investment Management continues to believe in the importance of value-added independent research and will pay for that research, but will no longer direct brokerage transactions for third party research.
- We also support industry and regulatory efforts to provide greater transparency on the components of securities trading by mutual funds, and thereby allow more meaningful disclosure on trading expenses to Fund shareholders.

## Fund Governance

We understand that the foundation of investor confidence in our industry resides in appropriate oversight and governance, and we value the essential oversight role of the Boards in serving shareholder interests. To this end, we believe additional checks and balances should be instituted to augment the processes in place today. We recommend the following regarding fund governance:

- We support the ability of Fund Boards to utilize additional resources and staff, as well as to have direct and confidential reports at Board meetings from compliance officers.
- Management companies should devote significant resources to support the Board's efforts in fulfilling its fiduciary obligations to shareholders. To this end, Morgan Stanley Investment Management has established an Office of the Funds consisting of senior personnel of the management company charged with the responsibility to enhance transparency, provide additional resources to assist the Board and facilitate communication between the Board and management.

## Mutual Fund Employee Trading

Recent abuses make it critical that disclosure be enhanced to assure shareholders that these matters are taken extremely seriously by the management company. We support the adoption of strict policies to prevent potential abuses in this area and are committed to taking remedial action if any of these policies are abused.

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- Minimum holding periods for mutual funds affiliated with the management company (except for money market funds) should be set for employees of the management company, with even stricter restrictions for investment personnel. In this regard, employees of Morgan Stanley Investment Management are currently required to hold shares of our affiliated mutual funds other than money market funds for a minimum of sixty days.
- The management company's Code of Ethics should reflect these enhanced rules and these rules should be tracked and monitored by the Compliance function.

### Fees and Expenses

Investor understanding of how mutual funds charge fees should be a priority for the industry. We believe that shareholders should be provided with a plain English easy-to-understand overview of mutual fund fees and expenses.

- We support regulatory changes requiring enhanced fee disclosure in every fund prospectus, including a more detailed explanation of those fees and fund expenses not currently detailed (e.g., administrative, transfer agency and custody fees). We propose that these be done in an easy-to-understand format, inclusive of disclosure of commission costs if applicable.
- We support current regulatory efforts to achieve greater transparency in distribution and related fees borne by mutual fund shareholders. In this regard, we encourage the further study of account-based distribution fees as an alternative to the current 12b-1 structure.

### Disclosure

We believe that disclosure should be enhanced to provide shareholders a better understanding of the relationship of the persons managing the investors' money to the mutual fund and the management company. In this regard, we recommend the following:

- Disclosure of full fund portfolio holdings should be made at least quarterly, and top ten fund holdings monthly, in a consistent and publicly accessible manner.
- Disclosure should be made in the Fund prospectus of whether the named portfolio managers hold shares of the mutual funds they manage.
- Disclosure should be made in the Fund prospectus of portfolio manager compensation structure and methodology, as well as the number of other mutual funds and portfolios managed by the portfolio management team of the fund.
- Disclosure should be made by the management company to its affiliated mutual fund Boards, as part of the review and approval of management fees, of the total dollar amount of compensation received by the mutual fund portfolio managers.

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In Closing...

Mutual funds have provided benefits to millions of shareholders. Change and reform are not only warranted but necessary as our industry continues to evolve. Our goal is to be a vital part of those changes.

In light of the focus on so many issues relating to the mutual fund industry, we wanted to take the opportunity to express to you our views at Morgan Stanley Investment Management. We support the efforts of the SEC and NASD to revise rules governing the management, governance, public disclosure and sales of mutual funds. Much effort is currently underway, and we are committed to a healthy mutual fund industry that has earned the full confidence of its investors.

Sincerely,

