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CHAIRMAN

April 2, 2004

S7-03-04

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

Dear Chairman Donaldson:

I am the lead independent director for the Ivy Funds and am writing on my own behalf. The Ivy Funds, with \$3.1 billion of assets, is, by industry standards, a small fund family. Like many fund families, we have many shareholders of moderate means, principally middle income Americans. The funds are managed by Waddell & Reed, a money management firm that is over 65 years old. The investment management staff is a veteran team that has consistently achieved highly competitive performance within its peer groups for many years and helped many Americans achieve financial independence through financial planning.

I write to comment on the Securities and Exchange Commission's Proposed Rule: Investment Company Governance (Release No. IC 26323). Specifically, I wish to address the Commission's proposal to require that the chairman of the fund board be an independent director. Regarding the Commission's proposal on the independent chairman mandate, I respectfully disagree. I believe that independent directors should have the freedom to select the person they deem to be the best qualified to serve as board chairman.

I strongly support the Commission's goal of amending rules under the Investment Company Act of 1940 to require that boards of directors for registered investment companies ("funds") adopt governance practices to enhance the independence and effectiveness of the board and to improve the ability of directors to protect the interests of the funds and the fund shareholders they serve.

In particular, I agree with the proposal that funds have a board of directors whose independent directors constitute at least seventy-five percent of the board as does ours. I believe most fund boards are already composed of a majority of independent directors, and this requirement merely increases that majority, which may provide additional

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safeguards for fund shareholders. A rule on this issue would codify this practice and would go further in protecting the rights of investors.

Although I agree with the proposal to require a super majority of independent directors, I strongly disagree with the Commission's proposal to require that all mutual funds select an independent director as chairman of the board of directors. I believe that independent directors should continue to have the choice to select the most appropriate chairman, and the role should not be subject to a mandate. My more significant reasons for this position are summarized as follows:

- The proposed independent chairman requirement could deny some funds and their boards from selecting some of the most highly qualified candidates for the position of chairman.
- Enshrining in the law an across-the-board requirement for funds to have an independent chairman might produce additional regulatory responsibilities on that individual, which raises concerns that such persons ultimately would be forced into fulfilling the day-to-day operations and management of a fund. This result would be inconsistent with the proper role of fund directors, which is one of oversight.
- It is currently difficult enough to find qualified directors due to the heightened publicity in the industry and increasing liability of the position. It will be very difficult to find independent directors willing to assume the incremental liability that comes with having a chairman who may not have a background in the industry.
- Most independent directors, as chair, will need to rely on outside counsel and hire staff, thereby increasing the costs to shareholders. This will be a much greater burden on small fund families than on large ones.
- It is not evident that selecting an independent director as chairman is a safeguard to provide additional protection for fund investors. It has been observed by the industry that several mutual funds involved in the recent examples of late trading and market timing already have independent chairman, which suggests that a requirement applicable to all funds would not guarantee fund shareholders against abuses.

The Commission's proposal expresses concern that an interested chairman may favor the interests of the investment advisor over that of fund shareholders. I believe that there exist factors more important to the proper functioning of a mutual fund board than requiring an independent chairman. Directors must have sufficient qualifications and relevant experience in order to be selected. Directors must also have experience that will allow them to exercise oversight of the fund advisor and to identify business issues that require their attention. Other board governance practices, such as having a super majority of independent directors, requiring that the chairman of the Audit, Governance and Nominating Committees be independent and requiring that independent directors meet separately, would provide sufficient measures to give independent directors a firm grasp on fund oversight.

In view of the above, I support the recommendation that governance safeguards be implemented; however, I oppose an absolute requirement that only an independent director may serve as chairman. These suggested safeguards would allow boards to continue to work in an efficient manner and provide additional protection for shareholders. I believe that the selection of an appropriate person to serve as chairman of the board rightfully is, and should continue to be, a decision made by the directors themselves.

If you have any questions on this matter, please do not hesitate to contact me.

Sincerely,

A handwritten signature in cursive script, appearing to read "Joseph Harvey".

Lead Independent Director,
Board of Directors of the Ivy Funds