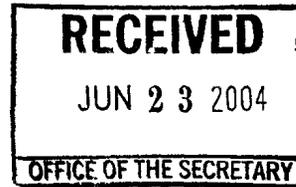


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June 21, 2004



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

57-03-04

Dear Mr. Chairman:

Regrettably our paths have not crossed often enough since we had our respective stints at the head of the New York Stock Exchange and Chicago Mercantile Exchange. Fortunately we've not lacked for excitement since then!

Since leaving government at the end of the first Bush Administration, I've been practicing international trade law at Hogan & Hartson. But I've managed my schedule such that I've also been able to hold down several corporate directorships. That has given me the opportunity to participate actively in the corporate governance debates of the last several years. (As a Caterpillar board member, I drafted much of that firm's governance guidelines several years ago, long before the Enron debacle.)

I've also had the privilege of serving on the board of OppenheimerFunds for the past 12 years, and I became the independent chairman of that board 18 months ago. So I am now immersed in mutual fund governance issues, as are you. As you may know, Bill Armstrong, a longtime friend, chairs the Denver board in this complex, whereas I chair the New York board, so we've been working together on these issues. One of my first actions as board chairman was to help draft a set of governance guidelines for OppenheimerFunds and establish a formal Nominating/Governance Committee.

The above is just to indicate that I've given considerable thought to these matters over the past decade or so. Therefore, if I can ever be helpful to you, or the Commission as a whole, as you wrestle with these issues, please let me know. I'd be most pleased to exchange views on an informal basis at any time.

My main purpose in writing today is to provide my personal support for your proposed rule requiring independent board chairmen in the mutual funds industry. As you well know, funds with non-independent directors as board chairmen are among the industry's biggest success stories. And there is certainly no guarantee that funds with independent directors as board chairmen will be equally successful. But that isn't the point! The salient issue is that non-independent chairmen have an inherent conflict of interest in carrying out their responsibilities. The most obvious example, of course, is

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that they inevitably negotiate with themselves when it is time to renew the adviser contract.

I find it inexplicable that leaders of the industry would wish to defend this conflict of interest, now or in the future. And if I were at the SEC, I would certainly not wish to foster, encourage, or defend it. The industry has enough regulatory challenges without adding this one to the list. If non-independent chairmen were indispensable, one might come to a different conclusion. But none of us is indispensable, and there are plenty of talented independent board members who can move into these chairmanships.

Some argue that this should be a board decision, particularly if a super-majority of board members are independent, and the board also has a lead director. In my view, that will not resolve the issue. A chairman is always "first among equals," and often more influential than the rest of the board combined. Having a super-majority of independent directors is a sound idea; in fact, I believe the industry should be moving toward the corporate model where the only non-independent director is the CEO. A lead director may also be helpful some of the time, though I am far less enamored of that concept than are most corporate reform advocates. Nevertheless, even if these changes are made the conflict of interest remains. Many of the folks who invest in mutual funds will simply not be persuaded that the inherent conflict has been removed or even neutralized. At a time when we are seeking to rebuild investor confidence in the industry, retention of non-independent board chairmen is, in my judgment, an incongruity.

For me the only rational exception to your proposed rule may lie with start-up funds that simply cannot afford to pay an independent chairman. I am not in a position to judge the merits of that potential concern, but you and your staff certainly are. If it is a legitimate concern, one might consider living with the inherent conflict so long as assets in the fund are below a specified threshold. Aside from this, I hope you'll hold to your present position.

My apologies for being slow in getting this to you. I've just returned from several days in Japan, and I was occupied by the events honoring President Reagan the preceding week.

Sincerely,



Clayton Yeutter