

Straus Corporate Communications

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February 16, 2004

The Honorable William H. Donaldson, Chairman
Securities and Exchange Commission
450 15th Street N.W.
Washington, D.C. 20549

S7-03-04

RE: Proposed Amendments To Rules Under
Investment Company Act Release No. 26323

Dear Chairman Donaldson:

I wish to comment on increasing independent directors to 75% of the board, as follows:
Increasing the quota is only a partial solution. In the case of mutual funds, the complexities of mutual fund operations and the regulatory oversight clearly mandates that independent directors have some knowledge of mutual fund operations. Simply to add "friends" or public figures will not do much to protect shareholder interests, with or without outside advisory assistance.

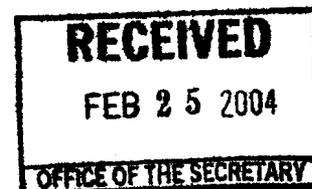
Quantity of independent directors, without "quality" considerations, will do little to enhance protection of shareholder interests. A quick glance at ICI's report on Mutual Fund Director Duties" confirms that fund directors face all the basic issues common to most corporate boards, plus a whole host of additional, sophisticated operational topics of a type not faced by other boards.

I urge that the new rules include some sort of "certification" as to the qualifications of each independent director.

Respectfully,



Irving Lehman Straus, Chairman



Encl.

CC:

Mr. Matthew P. Fink, President
Investment Company Institute
1401 "H" Street N.W.
Washington, D.C. 20005

The Honorable Michael G. Oxley,
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U.S. House of Representatives
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Washington, D.C. 20515

Senator Richard C. Shelby, Chairman
Committee on Banking, Housing and
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Senator Michael B. Enzi, Chairman
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Letters to the Editor

The Independent Director Derby

In a watershed news week for the mutual fund industry (see lead story on SEC proposals, page one), still relatively little attention is being focused on what may turn out to be one of the more challenging hurdles fund executives will need to face. That issue is the almost certain mandate that 75% of a fund's board be independent directors or trustees.

Perhaps more than any other sector in the corporate world, mutual fund boards will be scrutinized by regulatory authorities in respect to their structure and operations. Mutual fund boards will be under the gun to perform according to the letter of the stringent rules and regulations about to be enacted. It would seem self evident, therefore, that independent directors first and foremost have first-hand knowledge of mutual fund operations.

Boards so constituted will find that this scrutiny is likely to morph into board makeup and performance as key criteria for institutional and individual investors in their investment decision-making, plus, for the first time, the potential for funds to use board makeup and performance as marketing weapons. For example, a winning campaign might trumpet, "Our directors know this business."

No More Glitz or Glamour

For most in the corporate world, the knee-jerk reaction in board selections is for window-dressing in the person of names whose credentials may or may not be relevant to the business at hand. For the fund industry, however, it's no longer going to be sufficient that a candidate's primary credential is that of

being a friend or local professional or businessperson-or someone in the sports, entertainment or political worlds, as has so often been the case in both the corporate and fund worlds.

Rather, in the new fund regulatory environment, it seems clear that an understanding of mutual fund operations is a requisite. Management will find it prudent to draw up rigid criteria against which independent director candidates will be evaluated and selections made. For funds large and small, the process clearly will require reaching out nationwide to tap what

clearly is a finite pool of potential candidates.

So what are those criteria? What about a Mutual Fund Board Member Qualifications Grid comprised of the following points (see inset)?

Having set stringent parameters for independent board membership, the race

for qualified candidates becomes, indeed, an independent director derby in which the winners in the search will be those funds landing the best qualified candidates.

With some 600 mutual fund management companies overseeing more than 6,000 funds, and assuming an average of 10 directors per fund, the director universe can be seen in the 60,000 range. Delving further, one can assume that, at this time, 50% or fewer are independents. This being the case, to move to the 75% mandate, the industry will need to recruit something like 15,000 new independent directors. MME

— Irving L. Straus
Chairman, Straus Corporate Communications
Founder, No-Load Mutual Fund Association

The Mutual Fund Board Member Qualifications Grid

1. Mutual fund industry experience.
2. Other business and/or professional credentials.
3. Personal history, underscoring the wisdom of age, the sensitivities borne of community and social involvements, in addition to family, academic, military and other credentials.
4. An addition to the business, professional and cultural diversity of board makeup.

MME Readers Split on Spitzer

Executives in the fund industry are split as to whether New York Attorney General **Eliot Spitzer** is a friend or foe, according to a preliminary tally of your peers' votes in the *Money Management Executive* fund scandal survey. Have your voice heard, too. It's not too late to weigh in on Spitzer.

MME Scandal Survey*

Is the Investment Company Institute (ICI) truly representing the best interests of the fund industry?

35 (41%) Yes

50 (59%) No

Total Votes: 85

What is the industry's...

Is Eliot Spitzer a friend or foe of the mutual fund industry?

42 (49%) Friend

44 (51%) Foe