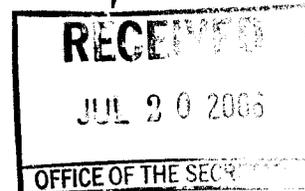


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**VERN O. CURTIS**

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July 13, 2006

Nancy M. Morris  
Secretary, Securities and Exchange Commission  
100 F Street, NE  
Washington, DC 20549

File Number S7-03-04

Dear Ms. Morris:

This is in response to a request for comments regarding pending amendments to the Investment Company Act of 1940 that fund boards would have to be chaired by an independent director and boards would have to be comprised of at least 75 percent independent directors.

Having served as an independent director of Pimco Funds since inception, I strongly endorse efforts to improve fund governance that will protect funds and shareholders but believe the two pending amendments are not the best way to achieve common objectives.

**Pending amendment that boards be chaired by an independent director:**

**Previous comments:** Attached are comments I sent to the commission dated February 10, 2004 that describe the need to sharply delineate the duties and responsibilities of management, which in most U.S. corporations includes the chairman of the board, and independent directors/trustees. If an independent director serves as chair it blurs the separation of duties and responsibilities of management, which is day to day operations, and the board, which is oversight. Having both management and directors be responsible for the same things confuses matters and makes it difficult to fix responsibility and make changes when necessary.

**Sarbanes Oxley regulations:** In my view this has significantly strengthened governance by holding both management and directors to higher standards of responsibility as to the accuracy of financial statements, disclosure related to such statements, conformity to laws and regulations and related matters. Additionally, legal counsel, auditors and other advisors now seem more determined to provide specific advice as to how funds and corporations are expected to operate. Some object and say these regulations are too onerous and expensive, but I believe most agree they are effective. I believe we should give them time to prove their worth rather than add additional layers of regulation.

**Creation of position of fund Chief Compliance Officer:** This position reporting to the Board which includes the independent directors fixes independent director responsibilities in a meaningful way by involving them in the control structure, pricing, effectiveness of third party service providers and similar matters on an ongoing basis. Importantly, it gives them the organizational structure and tools to perform their oversight responsibilities in a practical and powerful way. This seems a far better approach to fixing responsibility in a significant way than mandating an organizational change that may only be cosmetic. Of course the determination of management and

boards to operate appropriately is the most important element of all. Again, layering on regulations that may be superficial is the wrong approach.

**Improved disclosure:** The commission has been the catalyst for a number of improvements in standard disclosures to fund shareholders and potential investors. Examples of improvements include: fund performance is now discussed more thoroughly and clearly; the cost and impact of fees paid to advisors is now shown more clearly; information on the use of various derivatives is now much improved, the carrying value of them is now included in the schedules of investments, gains or losses and similar information are now included in the financial statements and notes thereto. Additionally, funds now disclose in some detail the annual process of renewing the advisory contract. The commission and industry should continue to make improvements in this area with consideration given to both completeness and clarity.

**Summary:** I believe the commission is most effective when it requires high standards of disclosure, the absolute expectation of honesty and trustworthiness from the fund and its advisor that an investor would expect of any organization to which it entrusts its hard earned savings and requiring that a fund follow the spirit and letter of all regulations.

I believe the commission is less effective when it mandates an organizational structure than may prove superficial if more important matters are not in place. Each fund or group of funds should be allowed the flexibility to organize in a way that works best for them.

**Pending amendment that boards have at least 75 percent independent directors:**

**Definition of supermajority:** Requiring that boards have a 75% "supermajority" seems very unusual. If such a requirement were to be mandated for commercial corporations it would logically be left up to the state of incorporation. However, it is understandable that a federal agency would best regulate such a requirement for funds operating under the 1940 Act. What seems unusual is that most supermajority rules governing U.S. political institutions require less than 75%. For example; suspending debate, cloture, in the Senate requires 60%, overriding a Presidential veto requires a 2/3 (66 2/3%) vote of each house, ratifying a treaty requires 2/3 vote of the Senate, proposing a Constitutional amendment requires a 2/3 vote of each house. Only ratification of a constitutional amendment requires approval of 75% of the states.

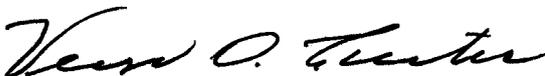
Thus an amendment requiring that 2/3rds of directors be independent of management is adequate. The difference between 75% and 66-2/3% is significant. For example, it is reasonable that an advisor would want to have two seats on a board for continuity, convenience and training. A supermajority of 75% would require six independent directors, whereas a supermajority of 66-2/3% would require four independent directors. Not only would the two additional independent directors be an unnecessary expense, it would likely be difficult for small fund groups to attract competent directors and larger boards generally operate much less efficiently and effectively.

**Existing regulation:** An existing provision of the Investment Company Act requires that when an advisor sells its advisory business, the subject fund must have 75% independent directors for three years. Such a requirement seems reasonable during this critical period.

**Summary:** If a supermajority of independent directors is necessary, I believe 66-2/3% is more than adequate.

Thank you for the opportunity to comment.

Sincerely,



Vern O. Curtis

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February 10, 2004

Jonathan A. Katz  
Secretary, Securities and Exchange Commission  
450 Fifth Street, NW  
Washington, DC 20549-0609

Reference: S7-03-04

Dear Mr. Katz:

I have served as an independent director of PIMCO Funds (PIMS Series) since 1987, though I resigned in 1992 for a three year period while I performed unpaid charitable service. I rejoined the funds board in 1995 and have served as Chair of the Audit Committee since shortly after that date. My background is finance and general management.

The purpose of this letter is to provide my views on proposed regulations under consideration for mutual funds. While I support the Commission's efforts to improve fund governance, there are however, some proposed regulations that I believe may create new problems rather than resolve existing difficulties.

I am concerned that the Commission may propose that an independent director be required to serve as chairman of the board of a fund group. In the U.S., board chairmen are typically full time employees who are considered part of management. A non-executive independent director who also serves as chairman may be considered part of management and this could lead to confusion as to whether he is serving as an independent chairman or in a management role. As you know, several of the funds that appear to have the most difficulty adhering to existing regulations already have an independent director serving as chair. Thus, in my view, fund governance will not be improved by requiring that the chair be an independent director.

More importantly, I feel this structure complicates the primary responsibility of a board, which is to provide meaningful oversight to management. If an independent director serves as chair, it blurs the separation of duties between management which is day to day operations, and the board, which is oversight. What is important is that each body fulfill its fiduciary responsibilities to investors/shareholders in a trustworthy manner, rather than by assigning titles in a way that is atypical, which could lead to confusion.

Management must be held accountable for operating practices and procedures and the attitudes that translate into day to day practices. With funds, this means compliance procedures must be effective, with proper penalties when they are disregarded; ethical behavior must be required, and appropriate actions taken when violated; controls must be sound and rigorously followed; personnel must be competent with training continuously provided; and third party service providers supervised, with appropriate controls and segregated duties. Very high standards of performance and conduct must be emphasized and expected at all times and in all matters. These are the responsibilities of full time

management. If directors are responsible for day to day operations it is difficult for them to exercise oversight responsibilities as they may end up supervising themselves. Directors must insist on the highest standards of operations and ethical conduct and focus their efforts on factors that will help insure that an organization operates accordingly. When lines of authority or duties between management and directors are not clear, it is difficult to fix responsibility and correct problems.

The Commission may want to propose regulations that will allow it to step in and make organizational changes that will improve the governance of a fund when there is a history of management not following correct procedures or a board is not providing effective oversight.

U.S. corporations, with some notable exceptions, have in most respects successfully delineated the responsibilities between management and boards. It seems to me that to mandate such an exception from what has generally been effective would be a mistake. Proposed regulations regarding board composition, lead directors, annual self assessment, separate sessions for independent directors, separate staff for independent directors, as necessary, and other proposals may be appropriate. In my experience, well managed and directed organizations have already instituted such practices. I've found that good directors step up and take the lead in areas where their experience makes them particularly able to provide leadership and direction when required. One lead director may facilitate this process; however, boards that operate well have a number of "lead" directors, depending on the circumstances. Good management encourages this process.

I have the same feelings as expressed above, regarding independent directors providing "certifications" to vast and complicated amounts of information. This is the duty of management and boards must insist that they fulfill this basic fiduciary responsibility. Boards; auditors, both independent and government agencies; and counsel must also fulfill their responsibilities of providing effective oversight and have the competence and tools to insist that standards be high and effective. Recognizing that each body has different responsibilities and duties enables checks and balances to be effective. Having both management and directors be responsible for the same things confuses matters and makes it difficult to fix responsibility and make changes when necessary.

A number of the proposals will assist in improving fund governance. It is important to distinguish between those that will help and those that may complicate.

Thank you for the opportunity to comment.

Sincerely,

Vern O. Curtis