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April 10, 2006

VIA EMAIL TRANSMISSION

United States Securities and Exchange Commission
100 F Street, N.E.
Washington, DC 20549-0609
Attn: Nancy M. Morris
Secretary

**Re: Mutual Fund Redemption Fees
(File Number S7-06-06)**

Dear Ms. Morris:

USAA Investment Management Company (IMCO) appreciates the opportunity to provide comments on the Securities and Exchange Commission's (hereafter, the Commission) proposed rule amendments to the previously adopted redemption fee rule.

IMCO fully supports the Commission's proposed amendments to give fund companies flexibility to reduce the number of intermediaries with which they must contract depending on whether a fund company applies its excessive short-term trading policies to an omnibus account as a whole or the underlying accountholders. These proposed amendments ensure that fund companies retain the discretion to contract with those intermediaries that they believe warrant the additional cost associated with monitoring individual account activity to deter short term trading activity.

Our comment letter focuses on the need for an extension of the compliance date based, in large part, on our belief that additional time remains necessary for many intermediaries holding omnibus accounts with mutual funds to complete the building and testing of systems necessary to compile and transmit the required information to fund companies. Those intermediaries need those steps completed before they can contractually obligate themselves to provide the required information.

Background

United Services Automobile Association (USAA) is a member-owned association serving the military community that seeks to facilitate the financial security of its members and their families by providing a full range of highly competitive financial products and services, including insurance, banking and investment products. IMCO serves as the investment adviser and distributor of the funds in the USAA family of funds

(hereafter, the USAA Funds).¹ Additionally, IMCO is a registered broker-dealer and a member of the National Association of Securities Dealers, Inc. (NASD) that offers as a service to its members a mutual fund supermarket through which brokerage accountholders can purchase shares of USAA Funds and many non-proprietary mutual funds. As such, IMCO is confronted with the issues surrounding implementing this rule from both sides of the equation – as the investment adviser to a mutual fund family and as a financial intermediary.

The Industry Needs More Time to Design and Test Systems Necessary to Transmit Required Information Before Contracts Can Be Executed

As the Commission is aware, the information required to be transmitted between intermediaries and funds is dependent on systems development. Required systems development revolves around three general areas: (1) possible modifications to existing brokerage software to ensure it captures all required information; (2) extraction of required information from such systems; and (3) secure transmission of this information between intermediaries and fund companies.² The industry has made significant progress in this area. The Investment Company Institute (ICI) and the Securities Industry Association (SIA) have worked together to develop model contract clauses that each fund company and financial intermediary can use as a starting point when developing the necessary agreements. The financial services industry also has worked to identify the systems needs for all financial intermediaries, including those who are not NSCC participants or who must transmit information to non-NSCC participant fund families, like the USAA Funds. Currently, no system has been defined that can accommodate the transmission of data between non-NSCC participants.³

Full systems development and testing was dependent initially on final agreement on the information required to be transmitted, and file layouts for the required information. The NSCC and the ICI task force have only recently finalized the standard file layouts for this required information.⁴ The NSCC and ICI task force assigned to the non-NSCC participant solution are still in the development stage and have not finalized the transmission method, standard file layout and processing requirements. Most firms and systems providers were waiting on these approved file layouts before finalizing systems requirements.⁵ In some circumstances, existing software systems do not capture all of

¹ The USAA Funds include thirty-nine (39) no-load retail funds and five (5) no-load funds used as investment options for variable insurance products issued by an affiliated life insurance company.

² Taxpayer identification numbers, particularly social security numbers for individuals, is highly sensitive information that could be used for identity theft. Because of the sensitive nature of this information combined with transaction amounts, the transmission of this information must be done securely.

³ For example, most banks and retirement plans are not NSCC participants.

⁴ Agreement on file layout was critical to ensure that different fund companies did not insist upon different layout requirements that could result in many system changes to extract and transmit in different layouts.

⁵ Many financial intermediaries and fund companies are reliant upon systems providers to develop or assist the software modifications for their existing brokerage software to capture the required information and then export it to fund families via the NSCC, PC Web Direct or some other system. IMCO is evaluating service providers' proposals to determine how to implement necessary systems changes or enhancements. Many of the service providers that we are considering have not finalized their solution to these requirements.

the data fields required by the new NSCC file layouts. In these cases, the firms or their retained service providers will not only be developing the data extraction and transmission functionality necessary to fully comply with the rule, but also developing the required data fields in their current recordkeeping systems. Once they have completed development, firms or their service providers will have to test and implement changes to each client's existing system. Firms or systems providers will need sufficient time to install and verify specific systems enhancements to ensure accuracy of the transmitted information. For many firms or their service providers, this will be quite a large and costly task.

Contracts between fund families and their intermediaries can only be completed and executed once the required systems exist to extract the required data from a firm's existing systems and securely transmit the information to fund families to ensure that intermediaries can satisfy any express contractual requirement. Because full systems capability does not exist today to transmit the required information, to meet the current October 2006 compliance date for entering contracts, any contract executed by IMCO would have to be contingent upon the systems development to ensure that it would not be in breach of contract upon execution of the agreement or violate its duties under NASD rules.⁶ Only after systems capabilities have been established, can fund companies and intermediaries agree upon specific terms that accurately reflect their individual systems functionality and finalize contracts.

Substantial work has been accomplished by the industry to date, including the NSCC, ICI, SIA and financial firms to create industry standards for the rule. We request that the Commission take into consideration the efforts to date by the industry and the magnitude of the systems development work and contracting effort, and extend the compliance date for the required systems to be fully tested and implemented before intermediaries must contractually obligate themselves to transmitting this information. At a minimum, we agree with what we understand is the ICI's position -- that the compliance date should be extended a minimum of six months beyond the current compliance date in October 2006.

Finally, the financial press is again reporting that the Commission is considering possible proposed solutions in the point of sale/confirmation area, and the proposed hard 4:00 p.m. close or other alternatives to prevent late trading of mutual fund shares. If such action is forthcoming, IMCO again urges the Commission to consider establishing compliance dates as close as practicable for all these initiatives that will impact the relationship or information flowing between funds and intermediaries. The cost implications of multiple contract amendments and systems changes would be significant, which would likely force many intermediaries to reassess the nature and scope of their mutual fund offerings

⁶ In November 2005, the NASD published a reminder to its members that a member firm's failure to comply with provisions of a dealer agreement could violate NASD Rule 2210 "particularly if the violation results in financial harm to investors (e.g., a failure to comply with the agreements' required procedures with respect to late trading or market timing)." See *NASD Reminds Members of Their Responsibilities Regarding Sales of Mutual Fund Shares and Dealer Agreements* (Nov. 22, 2005). Because Rule 22c-2 is intended to assist mutual fund companies in monitoring for market timing activity, we do not know if the NASD would view violations of those contractual provisions as a violation of Rule 2210.

going forward. Consistent compliance dates for all of these initiatives would minimize the cost and time that both funds and intermediaries will have to spend in contract negotiations and implementing systems changes. It would be preferable to create or amend existing agreements once rather than numerous times, and it would be more efficient for the industry as a whole to engage technology experts to consider all systems changes necessary to comply with each of these rules and proposals at the same time rather than piecemeal.

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We appreciate the opportunity to provide comments on this final rule. If you have any questions regarding our comments, or would like additional information, please contact me at (210) 498-8696 or Eileen Smiley at (210) 498-4103.

Sincerely,

/s/ Mark S. Howard

Mark S. Howard
Senior Vice President, Secretary and Counsel
USAA Investment Management Company

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