May 10, 2004

Securities and Exchange Commission
450 Fifth Street, N.W.
Washington, D.C. 20549-0609
Attention: Jonathan G. Katz, Secretary

Prohibition on the Use of Brokerage Commissions to Finance Distribution (File No. S7-09-04)

Dear Mr. Katz:

I am writing on behalf of the Independent Trustees (the “Independent Trustees”) of the domestic open-end management investment companies (the “Fidelity Funds”) managed by Fidelity Management & Research Company (“FMR”).

The Independent Trustees appreciate the opportunity to comment on the proposed amendments that would prohibit funds from compensating broker-dealers for promoting or selling fund shares through the direction of fund brokerage transactions. We support the proposal put forward by the Securities and Exchange Commission (the “SEC” or “Commission”).

The Commission also requested comment on whether it should propose additional amendments to rule 12b-1 under the Investment Company Act to require funds to deduct distribution-related costs directly from shareholder accounts instead of from fund assets. We believe that such additional amendments should be proposed.

Sales charges for the services of broker-dealers or other intermediaries should be paid directly by investors who choose to utilize their services. A rule 12b-1 fee should not be used as a substitute for sales loads. If distributors, brokers or other sellers of fund shares want to provide investors with the option of paying sales charges over time, then they should collect those charges in installments from the investor, not from the fund.
There is no reason why such installments should be a fund expense; instead, they can and should be deducted directly from a shareholder’s account. Similarly, if a deferred sales charge is offered to an investor in lieu of a front end load, payment of the deferral should be collected by the broker or the by the fund complex either by imposing a direct charge on the investor or by deducting the charge from the shareholder’s account. These charges would need to be fully disclosed to and agreed to by the investor.

This account-based approach would result in greater transparency of distribution expenses, as the amount that an investor pays an intermediary for its selling efforts would be clear and obvious. This may also result in greater market pressure to reduce these fees. We acknowledge that full competition on sales charges would not occur until Section 22(d) of the Investment Company Act of 1940, which effectively prohibits price competition on sale of mutual fund shares at the retail level, is repealed. Repeal of Section 22(d) would be a worthy goal, but should not stand in the way of Rule 12b-1 reform.

This approach would also obviate the need for complex multi-class fund structures that have been developed to accommodate different distribution arrangements and charges.

We also believe that the SEC should consider prohibiting broker-dealers and other intermediaries from collecting any additional compensation (including brokerage commissions) from a fund, its investment adviser or the adviser’s affiliates for distribution efforts. Revenue sharing and other similar practices that involve cash payments to broker-dealers should be prohibited. Any such proposal may have to make accommodation for the provision of training and due diligence services by the fund underwriter to the broker-dealer sales force. Eliminating revenue-sharing payments and similar arrangements would reduce conflicts of interest. Addressing such conflicts simply by requiring more disclosure is not the solution, as the disclosure would become too complicated even for more sophisticated shareholders.

In considering further amendments to rule 12b-1, the Commission should continue to recognize that fund complexes themselves have marketing and other costs unique to the mutual fund industry, regardless of whether fund shares are sold directly or through intermediaries. Investment advisers should be permitted to collect a reasonable fee from fund assets to pay for the marketing, administrative, recordkeeping, shareholder servicing expenses and other costs that distinguish mutual funds from other types of investment services. A portion of these could be performed by others, including broker-dealers, who provide such services, and paid for by the adviser. This fee, however, should be separate and unbundled from the investment advisory fee and fully disclosed to investors. It should be approved by a fund’s independent trustees, subject to their fiduciary duty. Any such fee should not be allowed to be used to make cash payments to intermediaries. Such an approach would provide investors with a basis for differentiating
between the expenses borne by a fund for marketing, shareholder servicing and other costs, and those attributable to pure portfolio management. This may provide better disclosure for shareholders.

The Independent Trustees appreciate the opportunity to present our views on the Commission’s proposals, and would be pleased to provide any additional information that would assist the Commission in its consideration of the proposals. Please contact the undersigned at (859) 232-6300 with any questions.

Very truly yours,

Marvin L. Mann
Chairman, Independent Trustees