



Principal Life  
Insurance Company

May 10, 2004

Jonathon G. Katz, Secretary  
Securities and Exchange Commission  
450 5<sup>th</sup> Street NW  
Washington, DC 20549

SUBMITTED ELECTRONICALLY: [rule-comments@sec.gov](mailto:rule-comments@sec.gov)

RE Mandatory Redemption Fees for Redeemable Fund Securities  
(Release No. IC-26375A; File No. S7-11-04)

Dear Mr. Katz

Principal Life Insurance Company provides recordkeeping services to approximately 49,000 employer-sponsored retirement plans and is offering comments to the proposed rules from its perspective as a retirement plan recordkeeper. We request that exceptions to the application of the redemption fee should be expanded to adequately address various retirement plan transactions. Exceptions should include redemption in retirement plans in connection with participant loans; hardship withdrawals; qualified domestic relations orders; distribution of excess contributions; redemptions of entire accounts (participant leaves for retirement or separation from service); and periodic withdrawals. We would also suggest exceptions for transactions initiated without participant discretion (e.g. transactions resulting from a plan termination) or that are the product of a periodic portfolio rebalancing process that occurs on a quarterly or less frequent basis, as specific exceptions to the application of the redemption fee. These types of transactions lack the inherent risk of abuse the proposed rule seeks to eradicate.

In addition to retirement plans, Principal Life Insurance Company administers 60,000 Variable Annuity Contracts and 45,000 Variable Life Policies. For this business we suggest excluding redemption fees from regularly scheduled transactions such as: dollar cost average, asset rebalancing and periodic withdrawals.

We also recommend the redemption fee be mandatory as to amount and duration. A 2% fee seems reasonable to discourage excessive trading in most instances, but we would recommend the fee be imposed for redemptions made within 30 calendar days of purchase. A 30-day holding period would more adequately dissuade arbitrage investing in fund shares by increasing the risk of the strategy to less acceptable levels. Funds should not be permitted to vary the fee; the complexity that would result from accommodating

Jonathon G. Katz  
May 10, 2004  
Page 2

variations in fee schedules would lead to high administrative fees that would ultimately be borne by fund shareholders.

We agree with the application of the redemption fee on a FIFO basis as described in the proposed rule. We believe this approach would minimize the potential application of the fee under circumstances in which the fee would be inappropriate. For example, most plan purchases of mutual fund shares are made on a periodic basis, typically monthly. Exchanges or redemptions that occur within 30 days after the periodic purchase would be subject to the redemption fee if a LIFO application of the fee is required. The application of the fee under these circumstances would not address the abuses of excessive trading sought to be discouraged by the proposed rule.

Finally, we recommend intermediaries be required to provide funds with transactional information upon request, rather than be required to provide periodic transaction reports. This would alleviate the concern of potential inconsistency between state and federal privacy laws and this proposed regulation. The combination of appropriate fair valuation policies and procedures with the application of a 2% redemption fee for redemptions occurring within 30-days of purchase should adequately address the potential abuses of excessive trading. Requiring periodic reporting of redemption transactions would impose an unnecessary administrative burden on funds and intermediaries; if a fund concludes that its fair valuation policies and procedures along with the 2% redemption fee inadequately protect the fund from excessive trading, the fund would be obligated to take additional curative steps, and could request transaction information from intermediaries to better identify potentially abusive trading within specific accounts. Requiring the delivery of this information by intermediaries to all funds would be unnecessary.

We also request a reasonable time period of up to one year to implement any changes.

Thank you for your attention to our views. Please contact us if you have any questions or want additional information.

Sincerely

James J. Lang  
Compliance Director  
Phone (515) 247-6200  
1-800-543-4015 ext.76200  
FAX (515) 246-5423

JL:ksw  
SEC Letter

Jonathon G. Katz  
May 10, 2004  
Page 2