

May 2, 2005

Mr. Jonathon G. Katz
Secretary, Securities and Exchange Commission
450 5th Street, N.W.
Washington, D.C. 20549-0609

Re: Mutual Fund Redemption Fees (Release No. IC-26782; File No. S7-11-04)

Dear Mr. Katz:

Pearce Industries, Inc., sponsors an employee retirement plan that invests in mutual funds. We commend the Commission for being responsive to retirement plan industry concerns by finalizing a voluntary redemption fee rule instead of making such fees mandatory. We are writing in response to the Commission's request for additional comments on certain issues regarding the redemption fee rules.

We urge the Commission to (1) encourage fund companies to identify alternative methods for controlling market timing and excessive trading that may be more effective and less confusing than redemption fees, and (2) adopt rules that establish uniform standards with respect to redemption fees assessed against employee retirement plan investments that would apply whenever a fund company decides for itself to impose such fees. We are concerned that fund companies will impose redemption fees on retirement plan transactions where there is no possibility of market timing abuse involved in the transactions. We are also concerned that without uniformity and standardization, the voluntary imposition of redemption fees by mutual funds and the information requirements contained in the new rule, will increase the complexity of our plan and confuse our plan participants. As a result, plan participants who are not engaged in market timing or excessive trading may be charged redemption fees because of the complexity of the redemption fee rules and other controls (e.g., round trip limits and lock outs) that vary among fund companies and individual funds. Participants may also suffer by not making otherwise permissible changes to their account investment allocations because of confusion about the rules that apply to them and the possibility of triggering a fee or lock out.

Additionally, the lack of uniformity may result in increased costs associated with our retirement plan. Such higher costs could arise through higher plan administration costs (e.g., participant education and communication costs, and increased service provider costs), or higher mutual fund expenses. These higher costs will ultimately be borne by our plan participants. We are also concerned that without uniformity, plan service providers may limit the availability of certain funds because of the costs associated with accommodating a potentially limitless array of approaches created by fund companies. As a result, our choices among investment options may be limited.

Therefore, we request that the Commission address these fairness and cost issues by including uniform rules that take into account the realities and complexities associated with participant-directed retirement plans. In particular, we support the following uniform standards.

Redemption fees should apply only to “participant-directed exchanges” among plan investment options because participant-directed exchange transactions are the only transactions that could involve potential abusive market timing or excessive trading. More specifically, the only transactions that should be subject to redemption fees are participant directed exchanges of shares acquired by the participant through a participant directed exchange. Routine plan transactions that do not create an opportunity for abuse and that are governed by detailed plan rules and other governmental agency regulations should be exempt.

Specifically, the following types of retirement plan transactions should be exempt:

- Distributions and withdrawals
- Loan initiation
- “Rebalancing” transactions performed in accordance with standing instructions submitted by the participant (i.e., on a monthly or quarterly basis, the participant’s account is adjusted to conform to a standing asset allocation instruction)
- “Fund of funds” or “lifestyle” funds that often invest in other mutual funds and the fund manager may sell shares in one of the funds within this investment alternative for liquidity needs or to rebalance the fund. These types of transactions in retirement plans do not create an opportunity for market timing because the participant does not control the timing of such transactions
- Plan fiduciary-directed transactions (e.g., replacement of investment options, and transactions relating to the migration from one plan service provider to another)
- Contributions and loan repayments (these purchase transactions should not be subject to redemption fees upon redemption because they are generally de minimis amounts and are governed by plan rules and regulations.)

In summary, if redemption fees were to apply to all retirement plan transactions, redemption fees would be imposed in connection with plan transactions that do not provide participants any opportunity for market timing or excessive trading. This would plainly be unfair and needlessly burdensome to plan participants.

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We applaud the Commission's efforts to stop market timing and excessive trading abuses in order to protect mutual fund investors. We appreciate the opportunity to express our views to the Commission and urge it to adopt uniform standards that meet the needs of the mutual funds without imposing unfair and undue burdens on retirement plan participants.

Respectfully,

Richard Parlman, Director
Human Resource & Employee Relations