

United States Senate

WASHINGTON, DC 20510

958

May 19, 2004

The Honorable William H. Donaldson
Securities and Exchange Commission
450 Fifth Street, N.W.
Washington, DC 20549

RECEIVED
ES/07247
2004 MAY 26 PM 12:03
OFFICE OF THE CHAIRMAN

57-19-03

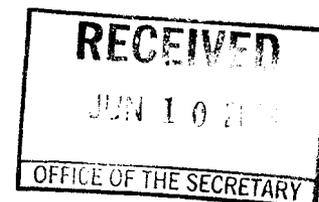
Dear Chairman Donaldson:

I am writing to express my deep concern about recent reports that the Securities and Exchange Commission (the "Commission"), in response to political and industry pressure, may weaken proposed rules and policies that are critical for the protection of investors.

The success and reputation of the Commission has been due in large part to its history of autonomy and independence in serving as an advocate for investors. In the past year, the Commission has taken several positive steps to protect the 90 million Americans and their hard earned savings invested in the U.S. capital markets. The modest proposals of the agency will give investors a voice in the boardrooms of those corporations who are underperforming and unresponsive, stop abuses in the mutual fund industry that have cost investors billions and give the SEC necessary tools to effectively monitor hedge funds. These proposals will permit effective and efficient regulation without requiring heavy-handed legislation.

First, I am concerned that the Commission may dilute proposed changes in the proxy voting rules, which were designed to enhance the ability of investors to participate in the nomination and election of directors. In my view, scandals like those at Enron, WorldCom and Tyco, highlight the importance of an independent and transparent system of corporate governance. Providing shareholders, large and small, with a more active voice in the board selection process is critical to this effort. The Commission's proposal, by democratizing the process of board selection, would help ensure that only the most highly qualified, most independent individuals make it onto election ballots. It also would provide those who ultimately become board members with a greater sense of accountability to shareholders.

Second, I believe the need to promote greater independence on corporate boards is especially important in the mutual fund industry.



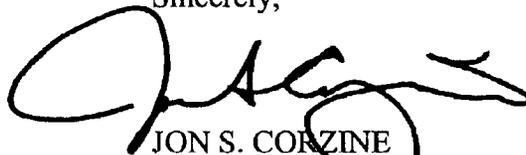
The recent series of mutual fund abuses reflects a breakdown in fund compliance and oversight attributable, at least in part, to the lack of truly independent fund board members and chairs dedicated to protecting the interests of those who own fund assets. It therefore is disturbing to hear that the Commission may be planning to weaken its proposed reforms to the rules on investment company governance. I believe this would be a mistake. In my view, enhancing the independence of mutual fund boards, chairmen or lead directors would not only improve the oversight of these funds, but help restore investor confidence in our capital markets more generally.

Finally, I hope you will resist pressures to back away from recommendations made to the Commission's board that seek to strengthen protections for those who invest, directly or indirectly, in hedge funds. As you know, these proposals flowed from an extensive study by the Commission staff based on information from 65 hedge fund advisers who managed more than 650 hedge funds with assets exceeding \$160 billion. The study recommended, among other things, that the agency consider the mandatory registration of hedge fund advisers, a relatively modest proposal that could go a long way toward the promotion of transparency in an industry now cloaked under a veil of secrecy.

This proposal would give the Commission authority to examine fund advisers, and their operations, for compliance with applicable securities laws. Moreover, providing greater transparency and oversight would prove beneficial in particular for the protection of lower net worth investors, which is especially important given the industry's increasing trend towards "retailization."

All of these issues are vital for investors. But, perhaps even more important, the suggestion that the Commission may be bowing to political and industry pressure threatens the credibility and effectiveness of the Commission itself. Your stewardship of the Commission to date has been a stellar example of what a truly independent S.E.C. can accomplish in fulfillment of its mission and the interest of investors. I urge you in the strongest possible terms to resist any pressure that could potentially compromise the Commission's integrity and independence.

Sincerely,



JON S. CORZINE
United States Senate