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National Defined Contribution Council

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OFFICE OF THE SECRETARY

Mr. William H. Donaldson, Chairman
Securities and Exchange Commission
450 Fifth Street NW
Washington, DC 20549

Dear Chairman Donaldson:

The National Defined Contribution Council (NDCC) is concerned over the abuses and improprieties that allegedly have occurred in the mutual fund industry and within Defined Contribution Plans. We understand that the Securities and Exchange Commission (SEC) is expected to issue proposed rules shortly. While we believe every effort should be made to create regulations, processes and oversight that eliminate these abuses, we firmly believe that some of the proposed changes may negatively impact the primary retirement savings vehicle for millions of Americans. With nearly one-half of the assets in Defined Contribution plans invested in mutual funds, appropriate standards and regulations need to be created to ensure the fair and ethical execution of orders within these plans. Outlined below are the steps that the NDCC suggests should be promulgated to stem these abuses specifically for Defined Contribution savings plans related to mutual fund transaction processing.

In question are two mutual fund trading practices: ***late-order*** trading (which are mutual fund trades received from customers after 4:00 PM Eastern Time that are submitted to and accepted by fund companies for execution at that day's net asset value) and market timing (the rapid trading in-and-out of mutual funds within a few days).

Late Order Trading:

The imposition of a 'hard close' for order delivery to mutual fund organizations would negatively impact Defined Contribution participants by virtually eliminating the same day settlement of participant directed orders received prior to market close. To preserve the current settlement process the NDCC proposes that intermediaries continue to be allowed to send trades to fund companies after 4:00 PM Eastern Time for transactions received *prior* to 4:00 PM ET. The SEC should further mandate that trading systems provide a verifiable time stamp and audit trail for all orders. In addition, each intermediary that is allowed to transmit orders after the 4:00 PM close must submit to an annual independent audit, (the SAS 70 audit) of the processes, procedures and systems to ensure compliance.

9101 E. Kenyon Ave., Suite 3000 • Denver, Colorado 80237 • (303) 770-5353 • (303) 770-1812 Fax
info@ndcconline.org • www.ndcconiine.org

Market Timing:

We believe the SEC should create and adopt a common definition of excessive trading. Currently the definition is left up to each fund and, as a result, there are many different definitions of excessive trading. From a service provider's perspective, monitoring and enforcing the plethora of trading policies creates an expensive and error prone undertaking. From the participants' perspective, keeping track of all of the excessive trading policies is confusing and diminishes the perceived value of their retirement plan.

The NDCC does not object to the use of Redemption Fees to reduce market timing by individuals in Defined Contribution plans. However, the NDCC believes that certain exemptions are required so as not to disadvantage Defined Contribution participants, who by definition invest small amounts on a regular, periodic basis and may be unnecessarily subjected to a Redemption Fee penalty. These exemptions should include payroll deduction contributions, liquidations for the purpose of participant directed loans, hardship withdrawals, death or disability related distributions, and periodic portfolio rebalancing. In addition, the NDCC would favor the adoption of more standardized fee schedules and holding periods for the same reasons as articulated for the definition of excessive trading.

In closing, the NDCC supports reforms that will stem abuses related to market timing and late day trading but strongly urges the SEC and other interested parties to protect the interests of millions of Americans who save for retirement through Defined Contribution plans. Without the enactment of the exemptions outlined above it is likely that these savings vehicles will be greatly undermined.

We look forward to working with you to ensure that Defined Contribution plans continue to be the primary savings vehicles for the many and to assist in your efforts to impose remedies that will curtail abuses by the few.

Respectfully,

Albert E. Brust

Executive Vice President