October 29, 2003

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

Dear Chairman Donaldson:

The Profit Sharing/401(k) Council of America (PSCA) is a non-profit national association of employers who sponsor defined contribution retirement plans for their workers. For over fifty-five years, PSCA has identified and shared best practices with its members, represented their interests in Washington, and provided analysis and reportage on the latest regulatory changes. PSCA members range in size from very small independent businesses to firms with hundreds of thousands of employees. Our members believe that profit sharing, 401(k), and related savings and incentive programs strengthen the free-enterprise system, empower and motivate the workforce, improve domestic and international competitiveness, and provide a vital source of retirement income.

PSCA is extremely concerned about the recent allegations and settlements in which market timing in violation of fund rules and illegal late trading occurred. We applaud the Commission’s recently announced initiatives to swiftly bring any abuses to an end. Transparency and trust are important cornerstones of the defined contribution system on which tens of millions of American workers rely for their retirement security. Short-term market timing strategies are anathema to any long-term retirement savings strategy. Further, the returns of plan participants, who overwhelmingly invest for the long term, pay the price of lower returns and increased administrative costs when there is late trading or inappropriate market timing.

Plan sponsors work closely with plan service providers and fund managers to cooperatively address those rare situations in which market timing by defined contribution plan participants occurs. Currently, market timers are identified only after the practice has occurred. In the cases of which we are aware, improper market timing was promptly ended once it was discovered. PSCA is presently engaged in an effort to identify and promote solutions for preventing this practice; not just stopping it after the fact.

As the Commission considers measures to address late trading, PSCA recommends that the special needs of the employer-based retirement system be considered. Employer plans frequently use an open architecture in which different parties provide services such as recordkeeping, trust services, and investment funds. Investment funds frequently are offered from more than one financial institution. The open architecture approach allows the plan sponsor flexibility to select the most appropriate investment options and plan services at a competitive price.
Defined contribution recordkeepers impose a 4:00 PM (ET) or earlier cutoff for trades that will be valued at that day's closing NAV. There are no exceptions to this legal requirement. However, in today's defined contribution environment, extensive processing and calculations are required in order to complete daily processing by the recordkeeper and the eventual execution of the trade. In addition to calculating the value of a single holding, additional processes are required to ensure compliance with plan rules and regulatory requirements. All these processes require there be a sale of one fund and the purchase of another. This means that closing NAV values must be determined before specific calculations can be made. Frequently the recordkeeper will then pass the information on to an intermediary who aggregates thousands of transactions before the order is placed with the fund company.

PSCA is unaware of any late trading within the employer plan system. It is extremely unlikely that the alleged financial schemes involving late trading could be duplicated in the defined contribution plan setting. However, this system, because it involves many different parties, is the most likely to be heavily impacted by any rule requiring that trades be received by the fund by closing time. Any additional costs associated with any new rules on trading may have the unintended consequence of actually lowering retirement savings.

I hope that I have provided some insight on the perspective of the employer based retirement system that will help the Commission in this very important endeavor. Please feel free to contact me if you have any questions or if I can be of any assistance.

Sincerely,

[Signature]

David L. Wray
President