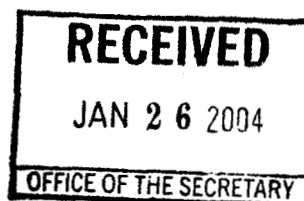


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January 21, 2004

Mr. Jonathan G. Katz
Secretary
Securities & Exchange Commission
450 Fifth Street, NW
Washington, DC 20549-0609

File No. S7-03-04

Dear Mr. Katz:

I am submitting these comments on the Commission's proposed amendments to rules under the Investment Company Act requiring investment companies to adopt certain governance practices.

These comments reflect my experience serving as an independent director on the fund boards of a major fund complex; as an officer of a management company, and as chief executive officer of a large financial conglomerate and chairman of the board of a smaller financial conglomerate, each having mutual funds as a product line.

The current structure of most mutual fund complexes creates a tension between fund boards and the management company that can be both constructive and destructive. The Commission's proposal to have an independent chairman, a super majority of independent directors and explicit authority to hire staff will increase that tension. Many boards will feel compelled with these proposals to demonstrate their independence by hiring their own staffs, by building paper trails and by placing greater burdens upon the management company to justify matters requiring board approval. Nominees for independent members of the board emanating from the management company or its affiliates will almost certainly be subject to greater scrutiny by the board.

In many ways, increased independence can benefit fund investors but these proposals are also likely to bureaucratize the oversight process and to increase costs for fund investors with benefits, as the release states, that are "not quantifiable". As some observers have pointed out, these proposals may not improve fund performance. They will, however, place increased pressure on management fees as boards become more active in negotiating these fees.

With diminished control over fund boards, management companies may over time seek to devise and market alternative structures for managing mutual funds or other vehicles without independent boards.

I have several specific comments on these proposals:

Independent chairman. To control the agenda and for other reasons discussed in the release, the chairman should be independent. A chairman from the management company is a powerful symbol of control and has a major influence on board culture.

Independent director staff. In my view, a fund board cannot function without independent counsel and the Commission should require such an appointment. Preferably, counsel should come from a law firm that does extensive investment company work. Finally, independent counsel can be as effective as a chief compliance officer in insuring compliance with securities laws and regulations.

Multiple boards. Directors must serve on multiple boards both for reasons of efficiency and effectiveness. Most issues for board discussion and resolution cut across all funds in a complex. The Commission should not mandate how boards deal with this issue but leave it to individual boards to determine an appropriate vehicle, e.g. using special committees of the board. As Chairman Donaldson has pointed out, this area is a good example of where industry "best practices" will be important in educating boards in how to deal with a common governance issue.


Nominations of independent directors. I am surprised that the Commission did not mention in its release the importance of its new disclosure requirements on the nominating process for fund boards. Obtaining qualified directors will be critical for making these proposals work. Unlike public operating companies, far less attention has been paid to the

quality of independent directors on mutual fund boards. In a financial conglomerate, the chief executive officer may not know who serves on fund boards. Funds are another product line managed by an executive down in the hierarchy and top management's primary interest is return on capital employed. Because these directorships lack the prestige and stature of a directorship of an operating company, recruiting qualified directors will not be easy. The legal complexity of the issues adds to the difficulty in attracting qualified directors.

In any event, I suggest the Commission in its final rule refer to the disclosure requirements in its recent release on the nominating process (Release IC-26262), particularly those provisions relating to the source of nominees as described on pages 8 through 9 of that release.

A final word. These proposals may lead mutual fund investors to think they will bring more in the way of protection than can be achieved in the real world. Moreover, they cannot insure improved investment performance by the fund management company. The Commission's final rule release may want to make these points.

Sincerely yours,

A handwritten signature in cursive script that reads "Ralph S. Saul". The signature is written in dark ink and is positioned above the typed name.

Ralph S. Saul