

Comments From the Securities and Exchange CommissionDIVISION OF
INVESTMENT MANAGEMENTUNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

April 27, 2001

Richard J. Hillman
Director, Financial Markets
and Community Investment
U.S. General Accounting Office
Washington, D.C. 20548

Re: U.S. General Accounting Office ("GAO") Review of U.S. Securities and Exchange Commission ("SEC") Staff Report on Mutual Fund Fees

Dear Mr. Hillman:

Thank you for the opportunity to comment on the GAO letter reviewing the Report on Mutual Fund Fees and Expenses by the Commission's Division of Investment Management (December 2000) ("SEC Staff Report"). Similar to the report prepared by the General Accounting Office ("GAO"), Mutual Fund Fees: Additional Disclosure Could Encourage Price Competition (June 7, 2000) ("GAO Report"), the SEC Staff Report focused on recent trends in mutual fund fees and expenses and recommended possible regulatory initiatives.

As noted in your letter, both the SEC Staff Report and the GAO Report concluded that mutual fund investors could benefit from additional information regarding mutual fund fees so as to heighten their awareness and understanding of these fees and their effects. The GAO recommended that the SEC require mutual funds' quarterly account statements to include the dollar amount of each investor's share of operating expenses. The GAO Report acknowledged, however, that there are advantages and disadvantages to this recommendation and suggested other alternatives for enhancing investor awareness and understanding of mutual fund fees, in view of the additional costs and administrative burdens of such an approach. Recognizing that the compliance cost associated with a new personalized expense disclosure requirement would ultimately be borne by fund shareholders, and may be considerable, we embraced one of your alternative suggestions, namely, disclosure of the dollar amount of fees paid for standardized investment amounts. As discussed more fully in the SEC Staff Report, we believe that this alternative is likely to achieve the most favorable balance between costs and benefits.

Richard J. Hillman
Page 2 of 3

The approach we suggested is to require fund shareholder reports to include a table that shows the cost in dollars associated with an investment of a standardized amount (*e.g.*, \$10,000) that earned the fund's actual return for the period and incurred the fund's actual expenses for the period. The Commission could require, in addition, that the table include the cost in dollars, based on the fund's actual expenses, of a standardized investment amount (*e.g.*, \$10,000) that earned a standardized return (*e.g.*, 5%). This approach would provide additional information about fund fees, provide it in terms of dollar amounts, and provide it in a standardized manner that would facilitate comparison among funds. We disagree with the assertion in your letter that the "proposed [SEC staff] disclosures will not provide investors with information showing, either precisely or *approximately*, the dollar amount of the fees they paid on their own fund shares." (GAO Letter, p. 8, *emphasis added*). As your letter earlier acknowledges, disclosure of the dollar amount of expenses paid on a standardized investment amount "could be used by investors to estimate the amount of fees deducted from their own mutual fund shares." (GAO Letter, p. 4).

We recommended that the information regarding the dollar amount of fees and expenses be presented in a fund's shareholder reports, which are provided twice a year. While we recognize that fund quarterly account statements are an important source of information, and are provided more frequently than shareholder reports, we nonetheless believe that placement of additional fee information would be more appropriate in shareholder reports, alongside other key information about the fund's operating results, including management's discussion of fund performance. This would allow shareholders to evaluate the costs they pay against the services they receive and encourage investors to consider information about the dollar amount of fund fees in their decision-making process.

Both the SEC Staff Report and the GAO Report recognize that there are a number of formulations and potential vehicles for delivery of additional fee information to mutual fund investors and that these alternatives would impose varying degrees of administrative difficulties and additional costs on the industry and ultimately investors. The GAO Report and your letter acknowledge that the GAO has not gathered comprehensive data on the costs of fully implementing its recommendation for personalized expense disclosure. We also have not had the opportunity to gather specific cost data on the GAO Report's recommendation with regard to initial and ongoing costs. However, we do note that if the estimate in the GAO Report (p. 97) of "a few dollars or less per investor" is accurate, with some 240 million mutual fund accounts, this could entail an additional expense of \$480 million (based on \$2 per account) or more for mutual fund investors and the industry. Clearly, as we consider alternative ways of improving disclosures of mutual fund fees and expenses, we will have to take into account the costs and burdens of these various alternatives.

Enclosure

Enclosure

Richard J. Hillman
Page 3 of 3

We recognize that investors could benefit from additional information regarding mutual fund fees and expenses. We will carefully consider the recommendations in the GAO Report and the additional suggestions in your letter as we formulate recommendations to the Commission on how best to provide additional fee disclosure to mutual fund investors. Again, thank you for the opportunity to comment on your letter.

Sincerely,



Paul F. Roye

PFR:vag

(250026)