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Arthur Levitt
Chairman
Securities and Exchange Commission
450 Fifth Street, N.W.
Washington, D.C. 20549

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Dear Mr. Chairman:

I appreciate having had the opportunity to participate in the Commission's just-concluded Roundtable for Independent Directors of Investment Companies. The Staff put together a worthwhile program that helped to fill in the knowledge and experience gap that exists between those who operate in the corporate world and those who operate in the mutual fund world.

You asked for ideas about what the Commission could do in this area. Now that my only professional commitment is as an independent director, I feel free to give you a few thoughts beyond those mentioned at the Roundtable. In my view, the most valuable function of the independent directors of investment companies is to provide discipline, not direction, to the adviser's operation of the fund business. In order to provide effective discipline, the directors must have knowledge and leverage. The Commission is needed to help with both.

First, I do not think the Commission should simply exhort the fund industry to come up with improvements -- the fund industry has its own conflicts in developing the role of the independent director. Although the ICI has instituted in good faith a program for independent directors, the ICI necessarily approaches the subject from the point of view of the fund companies, which generally are quite happy with the status quo.

Second, I do not believe that the Commission can depend entirely on counsel and accountants to make sure that the independent directors know their job and do it. As you are aware, many of the smaller companies are not in a position to hire regular consultants (although one might ask whether they should be in the business of selling interests in liquid pools of securities to the public if they cannot afford to pay for expertise). Also, significantly, I think, counsel and the accountants have their own subtle conflicts even when they operate, as they do, in the best of good faith. It is the rare investment company counsel that does not make significant income representing fund companies as well as independent directors; and it is the increasingly rare public accounting firm that looks solely to the fees for auditing the funds, as opposed to from work for the fund companies and their affiliates.

Thus, I believe the Commission should take more than a jawboning role. I agree with Professor Scott, however, that the Commission's role should be positive and not merely punitive. Although an active enforcement program is necessary, I think many would agree that the success of our disclosure system owes much more to the efforts of the Division of Corporation Finance in helping people comply with the law than it does to the efforts of the Enforcement Division in suing some of those who don't. The same is true in the investment company area, if not more so. What the Commission may be able to provide in a positive way is knowledge, guidance and leverage for the independent directors, without unduly making life more difficult for the fund companies. For example, the Commission could consider:

1. establishing a mechanism for communication between the Commission and independent directors so that when the Commission wants to address the directors it can do so directly rather than through the fund companies or counsel or advisers. Presumably, even in this day of modern communication techniques, it is not realistic to have mailing lists of all of the independent directors. The Commission could, however, address statements, guidance and information to the independent directors through the ICI, either directly (the ICI has mailing lists for independent directors) or indirectly by asking the fund companies to forward the information to their independent directors. A sense that the SEC had a direct interest in the work of the directors would serve to keep the directors alert and informed, and also give them some leverage when asking questions;

2. including the independent directors in the loop of the examination process. In the banking area, directors are included in examination process and in assessing the results. They may meet with the bank examiners outside the presence of management. Wouldn't it make sense to have the directors of investment companies be informed directly of the results of SEC inspections of their funds or advisers? I recognize that investment companies are not regulated banks insured by the Federal government, but that does not mean that there may not be some analogies in regulatory technique;

3. providing more guidance directly to the directors on their obligations and Commission expectations. Again, the bank regulatory agencies have developed "director information guidelines" that, among other things, provide a description of types of compliance report that directors should look at, of what warning signs they should look for, and of the rationale behind the requirements. Analogous guidelines could be very useful for directors and for their counsel.

This is a complex area, with the overlaps between disclosure and regulation, directors and advisers, securities and banking. I am glad that you have a good staff to deal with it. If I can make any contribution, I would be pleased to try to do so.

Sincerely,


Jean Gleason (Stromberg)

cc: Paul Roye