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OFFICE OF THE CHAIRMAN

John J. Brennan  
Chairman and Chief Executive Officer

April 7, 1998

Honorable Arthur Levitt, Jr.  
Chairman  
U.S. Securities & Exchange Commission  
450 5<sup>th</sup> Street, N.W.  
Washington, D.C. 20549

Dear Arthur:

Congratulations on the Senate's approval of your well deserved renomination. It is nice to know for certain that your able leadership of the Securities and Exchange Commission will continue for another term.

I also want to note that the Commission's recent adoption of new disclosure rules for mutual funds, including prospectuses and profiles, is a great accomplishment. The final rules are well designed to help the fund industry better meet the information needs of investors. The Commission has set high, but attainable, standards for fund communications and demonstrates an excellent understanding of what an investor needs to know, in plain English, about a mutual fund before investing.

During your tenure as Chairman, the Commission has been particularly concerned that investors receive clear information about fund fees and expenses. However, I've heard there is some resistance within the industry to the Commission's recent efforts on this front. In particular, there seems to be some complaining about the Commission's approach to disclosure of fee waivers and reimbursements by the adviser.

As you know, under the old rules, a fee table may show fees *after* waiver or reimbursement by the adviser, resulting in a lower total expense ratio for the fund. The highest permitted fee appears only in the fine print, making it difficult for investors to know that the fees can increase. This practice causes investors to believe that the net fee described in the table is what they should expect for the life of their investment in that fund. In reality, it is a "teaser" expense ratio designed to attract new investors to a fund. The sponsors of such funds realize that investors will use the fee (net of the waiver) to comparison shop when deciding on a fund. They are also aware that investors are unlikely to leave the fund when the waiver is discontinued.

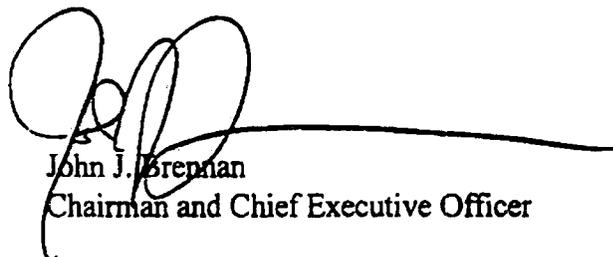
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It is certain that many mutual fund investors are confused by this practice. The Commission's new rules will clear up this confusion as they appropriately require the fee table to show the highest fee a fund may charge. Advisers are still permitted under the rules to disclose and explain any temporary fee waivers that may be in effect.

Although this new approach to fee waivers may spark some controversy, we are confident that the Commission has taken a bold – and brave – step on behalf of fund investors. Not surprisingly, it is entirely warranted by and supportive of your continual appeals to the fund industry to help investors understand the fees and expenses associated with fund investments.

Again, my sincere congratulations on your reappointment and on the adoption of the new rules. I look forward to seeing you at the technology conference next week.

Sincerely,



John J. Brennan  
Chairman and Chief Executive Officer

cc: Barry P. Barbash