



## INVESTMENT COMPANY INSTITUTE

MATTHEW P. FINK  
PRESIDENT

May 19, 2003

Mr. William H. Donaldson  
Chairman  
U.S. Securities and Exchange Commission  
450 Fifth Street, N.W.  
Washington, DC 20549

Dear Chairman Donaldson:

The Investment Company Institute<sup>1</sup> is writing to express our views on decimalization. In brief, we continue to strongly support decimalization and, in particular, a minimum increment of one penny in our equity markets.

Decimalization was implemented in order to simplify the pricing of securities for investors and to reduce spreads. Although decimalization was introduced fairly recently, it appears to have achieved these goals.

Critics of decimalization (and penny increments in particular), however, have claimed that its introduction has reduced transparency and increased volatility and transaction costs, which more than offsets the cost savings from reduced spreads. In effect, they contend that we must choose between narrower spreads and avoiding these deleterious effects.

We believe that this is a false dichotomy. Investors, including the millions of Americans who participate in our equity markets through mutual funds, do not have to be subject to artificially wide spreads in order to obtain the benefits of deep, liquid and transparent markets. Instead, rather than rolling back the clock, the Commission and the securities markets should seize upon the debate over decimalization as an opportunity to undertake long-overdue reforms to improve the quality of our markets. One such reform would be to permit market participants to execute automatically against large-sized limit orders that are publicly displayed on the New York Stock Exchange and other markets. This change alone would eliminate costs arising from unnecessary intermediation and would enhance depth, liquidity and transparency by encouraging the display of limit orders.

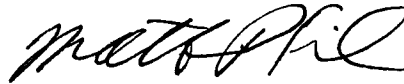
---

<sup>1</sup> The Investment Company Institute is the national association of the American investment company industry. Its membership includes 8,904 open-end investment companies ("mutual funds"), 552 closed-end investment companies and 6 sponsors of unit investment trusts. Its mutual fund members have assets of about \$6.254 trillion, accounting for approximately 95% of total industry assets, and 90.2 million individual shareholders.

Mr. William H. Donaldson  
May 19, 2003  
Page 2

We appreciate the opportunity to share our views with you on this important matter and would be pleased to meet with you, or other members of the Commission or its staff, to discuss this further. If you have any questions, please feel free to contact me or Craig Tyle at (202) 326-5815.

Sincerely,



Matthew P. Fink  
President

cc: The Honorable Paul S. Atkins  
The Honorable Roel C. Campos  
The Honorable Cynthia A. Glassman  
The Honorable Harvey J. Goldschmid

Annette L. Nazareth, Director  
Robert L.D. Colby, Deputy Director  
Division of Market Regulation

Paul F. Roye, Director  
Division of Investment Management