THE Vanguard GROUP.

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John J. Brennan
Chairman and Chief Executive Officer

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Mr. Robert H. Herz
Chairman
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Dear Bob:

I hope you and the whole FASB/FAF gang are well. I continue to follow your good works with great interest.

I'm writing today about an issue of importance to the defined contribution savings plan market that potentially affects millions of plan participants and thousands of employers. The issue relates to the valuation of investment contracts held by stable value funds.

By way of background, like many providers of defined contribution services, Vanguard currently offers stable value funds to its institutional clients through either separate portfolios for larger plans, or through a non-registered collective trust: the Vanguard Retirement Savings Master Trust (VRST). As of December 31, stable value assets managed by Vanguard totaled $ 19.1 billion, including $10.0 billion in the VRST, representing over 1,000 plans.

These funds are very important to the savings plans of average employees. Collective stable value funds provide a cost-effective means for employees of smaller companies to invest in a diversified stable value fund that otherwise would not be available to them. In addition, collective funds provide investors within smaller plans the same access to stable value funds that is available to investors within larger plans.

The issue at hand, which we strongly support, is the reaffirmation of Contract Value Accounting for non-registered collective stable value funds, consistent with the guidance provided for defined-contribution plans in AICPA's Statement of Position 94-4 based on the following:

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Consistency in investment valuation

Under Department of Labor regulations (29 CFR 2510.3-101(h)), each plan investing in a bank collective trust fund is considered to own not only an interest in the trust itself, but also an undivided proportionate interest in each of the assets of the trust. The trust is considered a pass-through vehicle, unlike a registered investment fund, in which the investment company owns the underlying investments. Based on the "look-through", we believe that the valuation of the investment should be consistent, whether held by the plan directly, or through a collective trust.

Most useful information to users of financial statements

Investment contracts (traditional and synthetic investment contracts) held in stable value funds stipulate that plan participants or their beneficiaries will receive contract value for plan-permitted withdrawals. Stable value funds, organized as collective trust fund consisting of a diversified portfolio of these benefit responsive contracts, have consistently provided this benefit to participants over time – in our case with the Vanguard Retirement Savings Trust since 1989.

Under the Employee Benefit Plan Audit Guide (as amended by SOP 94-4) the primary objective of a defined contribution plan's financial statement is to provide information that is useful in assessing the plan's present and future ability to pay benefits. Paragraph 3.17 states "Plan assets of defined-contribution pension plans should be measured and reported at values that are meaningful to financial statement users, including plan participants". In the case of defined contribution plans, meaningful information is the amount that a plan participant would receive upon liquidating his or her position in a stable value fund.

We feel having FASB reaffirm this position will ensure valuation consistency across stable value funds established for defined-contribution plans, whether structured as a separate portfolio for a single plan, or as a collective fund. Without this reaffirmation, we feel there is a great risk that participants in smaller plans will no longer have access to an investment that has been a meaningful part of their defined contribution plan savings for over 15 years.

I, or any of my coworkers here, would be happy to speak with you or members of the Board or staff. In fact, several industry members, including Sue Graef from Vanguard, had a very productive meeting with some staff members last month. If another conversation would be helpful, just let us know.

Thanks for your attention. Again, all the best to everyone in Norwalk for 2005.

Sincerely,

John J. Brennan
Chairman and CEO