

CERTIFIED FINANCIAL PLANNER  
BOARD OF STANDARDS, INC.

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April 12, 2004

Jonathan G. Katz  
Secretary  
Securities and Exchange Commission  
450 Fifth Street, NW  
Washington, DC 20549-0609

*Re: File No. S7-06-04, Confirmation Requirements and Point of Sale Disclosure Requirements for Transactions in Certain Mutual Funds and Other Securities, and Other Confirmation Requirement Amendments, and Amendments to the Registration Form for Mutual Funds*

Dear Mr. Katz:

I am writing to provide CFP Board's<sup>1</sup> comments to the Securities and Exchange Commission ("the Commission") concerning the proposed rule requiring additional disclosures in transaction confirmations and new ones at the point of sale. CFP Board supports the Commission's efforts to improve the information investors receive before and after their securities transactions.

CFP Board believes it is essential for consumers to receive relevant disclosures in the course of their financial planning transactions. Consumers need disclosures that address the true costs of the services and potential conflicts of interest. Additionally, they need this information at points in time which will assist them in making sound financial decisions. CFP Board believes that current disclosure requirements do not adequately address consumers' needs and that this proposal will better address them.

The Commission is requesting comment about whether persons other than brokers, dealers or municipal securities dealers also should be required to deliver confirmations to investors pursuant to proposed rule 15c2-2. CFP Board believes all financial professionals should provide consumers with appropriate and meaningful disclosures. CFP Board's Rules 401, 402, 403, and 404 from the *Code of Ethics and Professional Responsibility* ("the Code") all address disclosure. Our Code applies to CFP® certificants no matter under what regulatory scheme they fall. Therefore, certificants working in a bank are expected to follow the Rules concerning disclosure to the same degree as any other including those in brokerage firms, insurance companies, or investment advisory firms.

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<sup>1</sup> Founded in 1985, Certified Financial Planner Board of Standards, Inc. ("CFP Board") is a nonprofit professional regulatory organization that fosters professional standards in personal financial planning so that the public values, has access to and benefits from competent and ethical financial planning. CFP Board currently authorizes more than 44,000 individuals to use its marks. CFP Board also serves as an educational resource to federal and state lawmakers and regulators on personal financial planning issues.

The Commission is requesting comment on whether the proposed Schedule 15C is an appropriate template for disclosing information to customers. CFP Board believes providing the information contained in proposed Schedule 15C is very important and is a good format to do so. Our research<sup>2</sup> shows only 51% of Americans consumers consider themselves financially knowledgeable. It also indicates 37% use mutual funds as a financial product and that 6% of their total net worth is held in mutual funds. Therefore, while consumers may not generally feel very comfortable with their understanding of financial matters, they are indeed using mutual funds as an important part of the financial planning process. CFP Board believes that providing the proposed disclosures at the point of sale and at the confirmation will address consumers' lack of certainty about a financial product in which they are often engaged.

The Commission is requesting comment on whether these proposed general disclosure requirements would provide customers with adequate information about transactions in covered securities. CFP Board believes disclosure of potential conflicts of interest, compensation amounts, sources of compensation, and industry norms are all important for consumers. We base this requirement in both our belief in placing the client's interests first and upon what our consumer research reveals.

CFP Board believes distribution arrangements that create conflicts of interests, such as providing heightened visibility, may not be in the client's best interests and therefore demand disclosure. Appropriate disclosure will allow the client to determine what is in his or her best interest, such as conducting the transaction with someone they trust or at a lower cost. Our consumer research tells us that consumers are very interested in knowing the costs of and conflicts of interests in their financial transactions. The following is the percent of consumers which indicated knowing each item was either 'very important' or 'important':

- Total amount advisor charges for professional services – 90.1%
- Any significant changes to initial cost estimates made by advisor – 88.4%
- Total cost of each product in dollars – 87.4%
- Reasonable estimates of cost of products or services when dollar amounts/percentages are not yet known – 82.1%
- Portion advisor received from total fees/commission – 80.4%
- Total compensation advisor receives from employer and affiliated firms – 58.1%

Our research shows consumers are extremely interested to know the full costs of their transactions. CFP Board also believes consumers want information about their products beyond just their costs. Our research tells us 88.3% of consumers consider written disclosure of relevant information as an item that is either very important or important. Disclosures are limited in value and meaning if they are provided in a vacuum. It is more relevant if certain disclosures are made in context of the universe of that issue, such as service fee percentages. If consumers are told a percent of assets for service fees in absence of industry norms, it will be difficult to determine if that rate is reasonable. As prospectuses do not provide industry norms and those norms are not widely available elsewhere, CFP Board believes inclusion of this information in the proposed disclosure form is greatly needed. CFP Board also recommends that the 'Explanations and Definitions' section of each disclosure statement should provide resources for further education if investors feel the information provided is not satisfactory.

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<sup>2</sup> CFP Board National Consumer Survey, November 2003, Synovate for CFP Board, Denver, CO

The Commission is requesting comment on whether the proposed disclosure requirements would provide customers with an appropriate amount of information about the amount of distribution-related costs they or the issuer would incur in connection with their purchases. As described previously, CFP Board believes consumers ought to have and want information related to costs and that this proposal will address those needs.

The Commission is requesting comment on whether this requirement is adequate to inform customers about the incentives associated with sales fees. Our research suggests a relatively high interest in disclosure of incentives with 50.8% of consumers indicating knowing “non-financial rewards an advisor receives for selling product” as either very important or important. Therefore, CFP Board believes this requirement is necessary and provides the information consumers are seeking.

The Commission is requesting comment on whether this proposal strikes the right balance between alerting investors to the distribution-related issues associated with these securities and minimizing the firms’ cost of disclosure. Our research obviously demonstrates consumers are keenly interested in detailed disclosures and that their current understanding of financial matters is not great. CFP Board also believes this proposal will generally address these issues. However, CFP Board does realize that disclosures must not be overly burdensome to firms and financial professionals. If the costs or efficacy of disclosures greatly increase the costs of securities transactions, that would only serve to make financial planning less accessible, a state contrary to CFP Board’s mission. Therefore, we urge the Commission to carefully consider the reasonable comments concerning the costs associated with implementing this proposal.

The Commission is requesting comment on whether persons other than brokers, dealers or municipal securities dealers also should be required disclose information to investors prior to transactions in covered securities. As stated previously, CFP Board believes all financial professionals should provide consumers with appropriate and meaningful disclosures.

The Commission requests comment about the form and specificity of the information that should be disclosed at the point of sale, specifically whether information about costs and information about conflicts both are appropriate elements of point of sale disclosure. As stated previously, consumers are greatly interested in both types of information. The point of sale disclosure is a unique point in time to provide consumers with a variety of information to assist them in making sound financial decisions that suit their own interests. CFP Board believes strongly in disclosing both costs and potential conflicts of interest at the point of sale.

CFP Board also urges the Commission to consider the necessity of increased support and attention to investor education. As CFP Board’s and other groups’ research shows, the financial literacy among Americans is in need of improvement. The Commission should consider this proposal and others when determining on what areas to focus in its investor education efforts and also when coordinating with the Federal government’s Financial Literacy Commission. Also, CFP Board recommends coordinating efforts with nonprofit groups to help teach consumers about what information the rules intend to impart. For example, CFP Board currently has more than 13,000 consumers that have opted in to a quarterly e-

newsletter, seeking information on various financial topics. If the Commission were to adopt the proposal, CFP Board could include educational information about the new disclosure statements in this publication.

CFP Board hopes the comments it has provided are useful. If staff at the SEC should have any questions regarding CFP Board or the individuals it certifies, please contact me at 703-414-5814 or mherndon@CFP-Board.org.

Sincerely,

Michael C. Herndon  
Director, Public & Government Affairs