

UNITED STATES OF AMERICA
Before the
SECURITIES AND EXCHANGE COMMISSION

Admin. Proc. File No. 3-11780

In the Matter of

Edward D. Jones & Co., L.P.,

Respondent.

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EDWARD JONES' PROPOSED FAIR FUND DISTRIBUTION PLAN

Now comes Respondent Edward D. Jones & Co., L.P. d/b/a Edward Jones (“Edward Jones”) and pursuant to 17 CFR 201.1100, *et seq.*, herewith submits to the Securities and Exchange Commission (“Commission”) and its Independent Consultant (“IC”), Edward Jones’ FAIR Fund Distribution Plan.

OVERVIEW

This matter concerns the distribution of \$75 million paid by Edward Jones pursuant to a December 22, 2004 order entered against it by the Commission, by consent and without admitting or denying the facts alleged in the order, concerning Edward Jones’ practices related to the receipt and disclosure of revenue sharing payments received in connection with sales of mutual fund shares and 529 college savings plans by certain mutual fund families designated by Edward Jones as preferred. Edward Jones has submitted a plan to distribute the \$75 million, which is set forth below (“Distribution Plan”). The Distribution Plan is subject to the notice and comment procedure set forth in paragraph 16, and review and approval by the Commission and

an Independent Consultant (“IC”) appointed pursuant to the Commission’s December 22, 2004 order.

FACTUAL AND PROCEDURAL BACKGROUND

1. Edward Jones is a Missouri limited partnership that has been registered with the Commission as a broker-dealer pursuant to Section 15 of the Exchange Act since 1941. It is also a member of the National Association of Securities Dealers (“NASD”) and the New York Stock Exchange (“NYSE”). Edward Jones’ principal offices are located in St. Louis, Missouri. Edward Jones has more than 8,000 branch offices staffed primarily by one or two registered investment representatives (“IRs”) that provide retail brokerage services throughout the United States.

2. On December 22, 2004, Edward Jones consented to the entry of an Order Instituting Administrative and Cease-and-Desist Proceedings, Making Findings, and Imposing Remedial Sanctions (“the Order”), without admitting or denying the findings therein. A true and correct copy of the Order is attached as Exhibit A.¹

3. The Order requires, among other things, the appointment of an IC to investigate and report on, among other things, Edward Jones compliance with the Order; and the payment by Edward Jones of \$75 million into a FAIR Fund established pursuant to § 308a of the Sarbanes-Oxley Act. The FAIR Fund is to be distributed for the benefit of Edward Jones’ customers who purchased shares in Preferred Fund Families from January 1, 1999 through

¹ In addition to the Commission, Edward Jones was being investigated regarding its mutual fund practices by the NASD, the NYSE, and the United States Attorney for the Eastern District of Missouri (“USAO”). Edward Jones also entered into settlement agreements or consent orders with those authorities at about the same time as its settlement with the Commission. True and correct copies of these agreements and orders are attached as Exhibit B, C and D respectively. This Distribution Plan is for the sole purpose of effectuating the settlement agreement embodied in the SEC Order and, as such, is subject to the conditions set forth in the Order. The Distribution Plan does not purport to make findings of fact or conclusions of law.

December 22, 2004. This FAIR Fund will be administered by the IC as described more fully below.

4. Edward Jones proposed, and the Commission accepted, Mr. James R. Doty, Esq. of Baker Botts L.L.P. as the IC pursuant to the Order. Mr. Doty's work is ongoing and it is anticipated that he will make additional recommendations regarding the remedial measures described above. The Order provides that Mr. Doty shall administer the FAIR Fund.

5. Edward Jones paid to the Commission the \$75 million called for under the Order and the Commission currently has custody of the \$75 million Fair Fund. The Fair Fund is currently deposited at the U.S. Treasury Bureau of Public Debt ("Treasury") for investment in government obligations.

DISTRIBUTION PLAN AND PROCEDURES

6. There are a number of features and considerations to this FAIR Fund that influenced the development of the Distribution Plan, including the following:

(a) there is an overriding goal of distributing as much of the FAIR Fund as possible to customers on a basis that all customers can participate on an equal basis subject only to the factors set forth in this Distribution Plan. With that in mind, the Distribution Plan does not impose upon customers the need and burden to go through a claim process. Rather, due diligence has shown that Edward Jones reasonably believes that it can identify customers qualifying for a payment.

(b) because revenue sharing was paid to Edward Jones in most instances through a formula, Edward Jones is able to calculate the amount of revenue sharing that Edward Jones received by customer purchases of Preferred Fund Family shares. Again

this factor mitigated against establishing a claim procedure since the relevant information was within Edward Jones' control.

(c) the majority of the customers who are entitled to a distribution from the FAIR Fund are current and active customers of Edward Jones. This creates the unique opportunity to make the distribution through the already existing electronic system for crediting active customer accounts which in turn greatly reduces the transactional issues of relying upon mail service to make the distribution. The distributed funds will be deposited into current customers' brokerage accounts at Edward Jones. Edward Jones will not receive any fees for managing these funds prior to customer direction as to the investment use of such funds at Edward Jones. For former or inactive customers, Edward Jones will utilize the mail and returned mail procedures that are set forth in paragraph 11.

(d) the distribution methodology treats the "benefit" at issue in the Order, as the benefit Edward Jones received from its customers purchasing Preferred Fund Family shares from January 1, 1999 through December 31, 2004 ("the Relevant Period").²

7. With the foregoing principals understood, the following terms are defined as follows:

(a) An "Eligible Customer" is one who purchased Preferred Family mutual fund shares during the Relevant Period. A purchase means an acquisition of shares outside of a dividend investment program. For the purchase to qualify, it must also have occurred at Edward Jones, and therefore Preferred Fund Family shares acquired elsewhere and transferred into Edward Jones do not qualify as "purchased."

² Because of record keeping issues and the need to rely upon regularly maintained records, the year end date was selected to end the period of eligibility rather than the December 22, 2004 date of the Order.

A person shall not be an Eligible Customer if such person is: (i) a participant in the Edward Jones profit sharing and 401(k) plans; (ii) a current employee (which includes limited partners and general partners) of Edward Jones as defined below, and an immediate family member of the general partners in Edward Jones (spouse and children); or (iii) has been identified by the Commission as having submitted fabricated claims in other Commission matters on a list to be submitted by the Commission to Edward Jones upon approval of this Distribution Plan. For purposes of defining who is an employee (including those that are limited partners and general partners), Edward Jones includes Edward D. Jones & Co., L.P., EDJ Holding Co., Inc. and The Jones Financial Companies, L.L.L.P.

(b) “Preferred Fund Family” means mutual funds within the American Funds, Federated Investors, Putnam Investments, Lord Abbett Funds, Van Kampen Investments, Hartford Mutual Funds and Goldman Sachs Group family of funds that were available for sale by Edward Jones representatives during the Relevant Period.

(c) “Order” means the Order entered on December 22, 2004 and attached hereto as Exhibit A.

(d) “FAIR Fund” means the \$75 million paid by Edward Jones pursuant to the Order.

(e) “Active” customer account means a current customer of Edward Jones who has assets currently in the account or who has current activity in the account. An “inactive” customer account is an account that does not currently have assets in the account and the account has been inactive for the prior twelve (12) months and a customer who holds his/her shares at the Preferred Fund Family and not at Edward Jones.

8. Method of Calculation for Each Eligible Customer's Share of the FAIR Fund.

(a) The calculations described herein will be based on Edward Jones' records and calculated by Edward Jones in accordance with the procedures outlined in this Distribution Plan. Navigant Consulting will perform certain agreed upon procedures, as described in Section 14(d) herein, to confirm that the calculations have been made in compliance with the procedures outlined in this Distribution Plan. The first step in the calculation is to determine the amount of revenue sharing received by Edward Jones attributable to each Preferred Fund Family during the Relevant Period. The methods of calculation of each Eligible Customer's share of the FAIR Fund are intended by the Commission to result in a payment to each Eligible Customer that restores the impaired value of the Eligible Customer's investment in a Preferred Fund Family mutual fund. Some of this impaired value is subject to calculation, while some of this impaired value is not. The methods of calculation are intended to estimate the impaired value that each Eligible Customer has suffered and make a payment to such customer in that amount.

(b) The second step is to determine the percentage relationship between the revenue sharing payments made by each Preferred Fund Family and the total amount of revenue sharing received by Edward Jones from all Preferred Fund Families during the Relevant Period. For example, if the total amount of all Preferred Family Fund attributed revenue sharing was \$400,000,000 during the Relevant Period and Preferred Fund Family A's total attributed revenue sharing during that same time period is \$120,000,000, then the ratio of Preferred Fund Family A to total Preferred Fund Family revenue sharing is 30%.

(c) The third step is to then allocate the FAIR Fund amongst the Preferred Fund Families by the ratios developed in step two. For example, if Preferred Fund Family A represents 30% of the total Preferred Fund Family revenue sharing during the Relevant Period then 30% of the FAIR Fund would be allocated to Eligible Customers who purchased Preferred Fund Family A. Thus, continuing this example, a total of \$22,500,000 of the FAIR Fund (30% of \$75 million) would be allocated as the amount of revenue sharing benefit earned by Edward Jones to be distributed from the FAIR Fund to Eligible Customers who purchased Preferred Fund Family A shares during the Relevant Period.

(d) The fourth step is to reduce the amount of revenue sharing identified in step three, to a rate of revenue sharing per \$1000 of mutual fund shares of each Preferred Fund Family purchased by eligible customers. This is necessary because revenue sharing attributed to each Preferred Fund Family was paid at a different rate. Therefore, for each Preferred Fund Family, Edward Jones will accumulate the total amount of purchases during the Relevant Period. The purchases will be identified by the total purchase price. Once the total purchases per Preferred Fund Family is derived, the amount of revenue sharing reflected in the FAIR Fund (these sums derived through step three) will be divided by the total purchase amounts of each Preferred Fund Family. In the case of Preferred Fund Family A, for example, if Edward Jones customers purchased \$70 billion of Preferred Fund Family A, then the \$22,500,000 of the FAIR Fund attributable to Preferred Fund Family A will be divided by \$70 billion. This results in a FAIR Fund Distribution of .32 per \$1000 of Preferred Fund Family A mutual fund shares purchased.

(e) The fifth step is then to apply the FAIR Fund payment per \$1000 by each Preferred Fund Family to the Eligible Customers. Edward Jones will assemble a database of all purchases and purchasers of shares in the Preferred Fund Families during the Relevant Period. An Eligible Customer will have their FAIR Fund payment calculated with per \$1000 values identified in step four times their Preferred Fund Family purchases. Accordingly, if a customer purchased \$100,000 of Preferred Fund Family A in 1999, that customer would receive \$32.00 ($\$100,000 \div 1000 \times .32$).

EXAMPLE

Preferred Fund Family A 1999-2004 revenue sharing	\$120,000,000
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Total Preferred Fund Family 1999-2004 revenue sharing	\$400,000,000
=	
Ratio of Preferred Fund Family A to total revenue sharing	30%
x	
FAIR Fund	\$22,500,000
÷	
Preferred Fund Family A 1999-2004 purchases	\$70,000,000,000
=	
Ratio of Preferred Fund Family A revenue sharing to purchases per \$1000	.32
x	
Customer Y who purchased \$100,000 in Preferred Fund Family A in 1999	\$100,000.00
=	
Customer Y's share of the FAIR Fund	\$32.00

9. The Method of Distribution To Each Eligible Customer of Their Share of the FAIR Fund.

(a) If an Eligible Customer has a current and active account with Edward Jones, that Eligible Customer shall generally, via electronic transfer, receive a credit to their account. For any Eligible Customer who does not receive an electronic credit, then Edward Jones shall send payment to such customer. The credit shall appear on the next regular customer statement with a notation that states: "SEC FAIR Fund Distribution." In addition, such customer statement mailing shall include a disclosure of the payment ("disclosure statement") setting forth certain information about the distribution as approved by the Commission.

(b) If an Eligible Customer no longer has an account with Edward Jones or the account is inactive, then Edward Jones shall send the payment and a disclosure statement to the Eligible Customer's last known address as determined using the procedures described in paragraph 11, *infra*.

10. *De Minimus* Amounts.

Except as described below, Edward Jones will not distribute monies from the Fair Fund to any Eligible Customer who stands to receive less than \$10. To determine the \$10 de minimus threshold, two calculations will be performed. The first calculation will be performed as described in paragraph 8 above. A second calculation will be performed for those customers who stand to receive less than \$10.00 in the original calculation. The total amount of monies for customers receiving less than \$10.00 determines the reallocation pool. The reallocation pool will be divided into sub-pools representing the monies originally assigned to each of the 7 Preferred Fund Families. Beginning with customers with an initial calculated distribution amount of \$9.99 and proceeding sequentially to customers with lower distribution amounts, the monies in each reallocation sub-pool will be redistributed to customers within that sub-pool until their

distribution amount equals \$10.00. The reallocation pool will be by fund family pro-rata based upon the original distribution percentages derived through the calculation in paragraphs 8(b)-(c).

11. Mail and Returned Mail Procedures.

(a) The overall goal for the distribution process is to minimize the amount of funds that are not distributed to customers eligible for a distribution. Priority will be given to electronic distribution of monies to an existing, active Edward Jones account with the same tax identification number of the underlying account eligible to receive the credit. Next, for those customers holding their shares at the Preferred Fund Family, and not at Edward Jones, such customers shall receive a physical check based on the Edward Jones name and address system. For the remaining population, a physical check will be mailed to the last known address of the customer after that address has been compared to an address validation system. All physical checks shall bear a stale date of ninety (90) days from the date of issue. Checks that are not negotiated within the stale date shall be void.

(b) If any physical checks are returned as “undeliverable,” a database search will be conducted for those customers through Information Resource Service Company or a comparable service such as Lexis/Nexis within fourteen (14) business days after receipt of each returned check and new physical checks shall be re-mailed to the additional addresses obtained. If any new physical check is not cashed by the stale date, that check shall be void and the issuing financial institution shall be instructed to delete the checks from the register.

(c) If after ninety (90) days after the initial date funds from the Fair Fund are first distributed (“date of distribution”), any funds remain in the Fair Fund, Edward Jones

and/or the IC shall make reasonable efforts to contact any Eligible Customers who have failed to cash any checks over \$50 (other than physical checks returned as “undelivered”) and take appropriate action to reissue any such checks as needed. If, after 180 days after the date of distribution, any checks remain uncashed (other than physical checks returned as “undelivered”), the IC shall distribute the remaining funds as set forth in paragraph 13.

12. Dispute Procedure

The dispute procedure under 17 CFR 201.1101(b)(4) shall generally follow Edward Jones’ current customer complaint process. Accordingly, all disputes, in order to be acted upon, must be submitted in writing, with all supporting documentation for the dispute, to Jeremy Michelman, Principal – Compliance, at 1245 J.J. Kelley Memorial Drive, St. Louis, Missouri 63131. Mr. Michelman or his staff, will investigate any dispute and issue a preliminary recommendation as to the resolution of the dispute. The preliminary recommendation and supporting documentation will be forwarded to the IC for review and final disposition. A record shall be maintained of all such disputes and the resolution thereof. The determination by the IC shall be final as to the dispute. This procedure will be set forth in the disclosure statement accompanying the distributions. All disputes shall be submitted within thirty (30) days of the payment to Eligible Customers provided for in paragraph 9 of this Distribution Plan. A preliminary recommendation for resolving the dispute shall be made within thirty (30) days of receipt of the dispute. Final resolution of the dispute shall be made within thirty (30) days thereafter.

13. Fund Expiration.

The Tax Administrator identified in paragraph 14 is seeking a ruling from the Internal Revenue Service on behalf of the FAIR Fund regarding the information reporting obligations of

the FAIR Fund for any payments made to eligible customers. The calculation of Eligible Customers' shares of the FAIR Fund and the subsequent distribution will take place after a ruling is issued by the Internal Revenue Service. In the event a ruling is not issued, the IC and the Tax Administrator shall consult with one another regarding the information reporting obligations of the FAIR Fund and any related procedures necessary to protect the FAIR Fund and provide guidance to recipients and vendors. Regardless, all distributions to Eligible Customers shall be made before September 30, 2006. The FAIR Fund shall terminate effective October 1, 2006 or ninety (90) days after the final distribution to Eligible Customers and the resolution of uncashed or unclaimed checks as addressed in paragraph 11 and any disputes as addressed in paragraph 12, whichever is later. Prior to termination of the FAIR Fund, the IC shall cooperate with the Tax Administrator to make adequate reserves for tax liability and for costs of tax compliance. Upon termination, as defined herein, all undistributed assets remaining in the FAIR Fund minus any reserves for tax liability and tax compliance costs, shall be remitted by the Commission to the Treasury or to such other person or entity as the Commission may direct.

14. Fund Administration.

(a) The Fund Administrator will be James R. Doty of the law firm of Baker Botts L.L.P. Mr. Doty requests that the Commission waive the bond requirement for good cause shown as provided under 17 CFR 201.1105(c). Mr. Doty maintains, and will continue to maintain until termination of the FAIR Fund, professional liability insurance in the amount of \$150 million, through Attorney's Liability Assurance Company. Mr. Doty will not have discretion with respect to the payment of the FAIR Fund because payment amounts will be determined and paid in accordance with the process set forth above. Similarly, he will never have possession of the FAIR Fund. At the appropriate

time, the Fair Fund will be transferred from the Treasury directly to an account at a bank which carries liability insurance in excess of the amount of the Fair Fund, as more fully described in paragraph 15.

(b) Edward Jones will indemnify and hold harmless Mr. Doty, Baker Botts and its partners and personnel against all losses, claims, damages, liabilities, and expenses (including attorney's fees and expenses) suffered by or asserted against any of such indemnified persons in connection with, arising out of, or in any way based upon or relating to the role of the IC, the Fund Administrator or the design or implementation of the Distribution Plan; provided, Edward Jones's indemnification obligation shall not extend to any loss, damage, liability, action, or claim to the extent the same is determined, in a final judgment by a court having jurisdiction, to have resulted from the professional malpractice of Mr. Doty, Baker Botts or any of its partners or personnel.

(c) Edward Jones shall facilitate the distribution as set forth above subject to audit by the Fund Administrator.

(d) The Fund Administrator has engaged Navigant Consulting to perform agreed upon procedures to assure compliance with this Distribution Plan.

(e) The Commission has appointed Damasco & Associates as the Tax Administrator of the FAIR Fund ("Tax Administrator"). The IC shall cooperate with the Tax Administrator in providing information necessary to accomplish the income tax compliance, ruling and advice work assigned to the Tax Administrator by the Commission.

(f) All fees and expenses of the Fund Administrator, Navigant Consulting, the Tax Administrator and the implementation of the Distribution Plan shall be borne by Edward Jones.

(g) Prior to the initial distribution under the Distribution Plan, the Fund Administrator will submit a validated list to the Commission setting forth the names of, and the amounts to be distributed to, the persons receiving payments under the Distribution Plan. The Fund Administrator will validate the list of payees and amounts based on the reports of Navigant Consulting. The validation will state that the list was compiled in accordance with this Distribution Plan and provides all of the information necessary to make distributions to each payee. Interim accounting and reports of the implementation of the Distribution Plan will be prepared by the Fund Administrator with the assistance of Navigant Consulting and shall be due thirty (30) days after the end of each calendar quarter during the life of the Distribution Plan. A final accounting and report of the implementation of the Distribution Plan will be prepared by the Fund Administrator with the assistance of Navigant Consulting and shall be submitted to the Commission for approval within thirty (30) days after the termination of the Distribution Plan and prior to the discharge of the Fund Administrator.

15. FAIR Fund Depository.

The Commission has custody of the FAIR Fund and shall retain control of the assets of the FAIR Fund. The FAIR Fund constitutes a Qualified Settlement Fund (“QSF”) under Section 468B(g) of the Internal Revenue Code, 28 U.S.C. § 468B(g), and related regulations, 26 C.F.R. §§ 1.468B-1 through 1.486-5. No sooner than 10 days prior to the distribution of the funds to Eligible Customers, the IC shall request the Commission to cause the funds to be transferred

from the Treasury to an account established by the IC at the Northern Trust Bank in Chicago, Illinois in the name of and bearing the Taxpayer Identification Number of the Edward D. Jones & Co., L.P. Qualified Settlement Fund (“Northern Trust QSF account”). All electronic distributions from the Northern Trust QSF account to Eligible Customers shall be made no more than five (5) business days after the funds are transferred into the Northern Trust QSF account. All mail distributions from the Northern Trust QSF account to Eligible Customers shall be made no more than ten (10) business days after the funds are transferred into the Northern Trust QSF account. The IC shall be the signer on the Northern Trust QSF account, subject to the continuing jurisdiction and control of the Commission. Northern Trust carries a Two Hundred Million Dollar Fidelity Bond Coverage through the Chubb Insurance Companies. The Northern Trust QSF account shall be utilized solely and exclusively for the distribution of the FAIR Fund pursuant to the Distribution Plan. At no time shall any portion of the assets of the FAIR Fund be in the custody or control of Edward Jones except to pass through a general clearing account to disburse to Eligible Customers. The IC shall authorize the Northern Trust Bank to provide account information to the Tax Administrator. The IC shall use the assets and earnings of the FAIR Fund to provide payments to Eligible Customers and to provide the Tax Administrator with assets to pay tax liability and tax compliance costs. Duplicate statements for the Northern Trust QSF account shall be provided directly to the IC and to the Tax Administrator. The Northern Trust QSF account shall be invested in United States Treasury Securities, or other like investments approved by the Commission, of a type and term necessary to meet the cash requirements of the payments to Eligible Customers and tax obligations of the FAIR Fund as determined by the IC. The distribution calculations and amounts set forth in paragraphs 8, 9 and 10, above, shall be based on the FAIR Fund principal and accrued interest as of a day certain


selected for the commencement of the calculations for the distributions not to exceed one hundred and twenty (120) days preceding the date of distribution. Any interest earned after the date certain shall be remitted as set forth in the last sentence of paragraph 13. All Northern Trust QSF account expenses, if any, shall be borne exclusively by Edward Jones and not deducted or charged to the FAIR Fund. The Commission has appointed Damasco and Associates to file tax returns as appropriate on behalf of the FAIR Fund as provided under 17 CFR 1101(b)(6).

16. Notice of Proposed FAIR Fund Distribution Plan.

In accordance with 17 CFR 201.1101(b)(3), notice of this Plan shall be published in the *SEC Docket*, on the Commission website, the Edward Jones website and in such other publications as the Commission may require. Any person or entity wishing to comment on the Plan must do so in writing by submitting their comments via first class mail to the Commission within thirty (30) days of the publication date of this Plan.

Date: April 7, 2006

EDWARD D. JONES & COMPANY, L.P.

By 

Steven Novik
Treasurer
EDJ Holding Company, Inc.
Sole General Partner for
Edward D. Jones & Company, L.P.