Carillon Investments, Inc.

April 12, 2004

Jonathan G. Katz, Secretary
U.S. Securities and Exchange Commission
450 Fifth St. N.W.
Washington, D.C. 20549-0609

Via Electronic Mail

RE: Confirmation Requirements and Point of Sale Disclosure Requirements for Transactions in Certain Mutual Funds and Other Securities, File No. S7-06-04

Dear Mr. Katz:

Carillon Investments Inc. ("Carillon") is a fully disclosed retail broker/dealer registered to conduct business in all 50 states, with over 400 registered representatives offering securities services. As President of Carillon, I appreciate the opportunity to submit comments on the issues raised in the aforementioned Proposal by the Securities and Exchange Commission ("Commission").

We believe it is of the utmost importance that investors be provided clear, complete and concise information in order to be able to understand the securities they purchase. We are in full agreement with the Commission on the intent of the proposed rule. However, we believe the cost of implementing this rule as proposed will far outweigh any benefit to investors. In the long run, this rule will adversely impact both retail investors and the firms they place their trust in.

We have concerns with a number of the significant policy issues presented by the Proposed Rules:

1. **Disclosure of "Important" Not Defined** - The objective of the Proposed Rules appears to be focused on a retail customer who does not understand the complexities of the securities industry, yet demands disclosure of far more detailed information than such a customer could reasonably comprehend or use in his or her investment decision-making. The Proposed Rules create an open-ended obligation to disclose anything important, but the Commission has not adequately defined what is "important." The Commission uses "transparency" as a buzzword in its proposing release. Professional investment managers, who understand these complexities, presently have access to sufficient information upon which to make their investment decisions.
2. **Costs to Customer Already Disclosed** - Full disclosure about the out-of-pocket costs a customer will incur as a result of purchasing a Covered Security is essential in the relationship between a broker-dealer and its customer, but existing requirements under Rule 10b-10 and prospectus disclosure requirements address those concerns. All other distribution-related costs paid, directly or indirectly, by a mutual fund complex are reflected in each fund's bottom line performance. Fund performance is a straightforward and a well-publicized benchmark that is easily understood by a retail investor. While all the cost data is

P.O. Box 40409
1876 Waycross Road
Cincinnati, Ohio 45240-0409
513.595.2600
1.800.999.1840
Fax 513.595.2747
www.carilloninvest.com

academically interesting, the apparent target audience is ill equipped to use the data but, ultimately will have to pay for it through increased brokerage costs.

3. **Distribution Costs Should Be Disclosed by Funds** - Disclosure of distribution costs is fundamentally the obligation of the mutual fund complex since it controls all of these costs and the myriad of ways in which those costs are incurred. Prospectus disclosure can identify those costs and the fund's historical performance and cost data simply and accurately report the effects of those costs. The data gathering, administrative and disclosure burdens (and related liability for data errors) is being unfairly transferred to the brokerage industry. A predicate underlying the SEC's reasoning is that more detailed disclosure will force the industry to lower costs, and that lower costs will result in better investment performance. Of course, it is the mutual fund industry that controls those costs and there are many more variables affecting investment performance. The SEC is likely underestimating the dramatically increased cost of obtaining and delivering these disclosures, which will be largely borne by investors.

4. **Fund Companies Not Required to Provide Information to Broker-Dealers** – In order to comply with the disclosure requirements, broker-dealers would need additional information from mutual fund companies, which they are not mandated to provide by the Proposed Rules.

5. **Disclosure Requirements are Complex** - The required disclosures in the Proposed Rules are extremely complex and equally difficult for the average retail investor to comprehend. Forecasts of future hypothetical expenses may be confusing and could be potentially misleading. The quantity of information to be disclosed rises to the level of analyst information, rather than investor information. When given a one- or two-page disclosure document two times for every transaction, one wonders whether a retail customer would quickly become numb from the volume of data.

6. **Conflict Disclosures Unnecessarily Detailed for Retail Customers** - Disclosure of conflicts of interest are important to an investor's decision-making, but identifying conflict does not require the degree of detail prescribed by the Proposed Rules. The mandated level of detail is disproportionately expensive to obtain for firms, especially those with a parent controlling funds or variable products and multiple broker-dealers and investment advisers when judged by how the average retail investor could or would use the information. Specific dollar amounts over a short time frame have no context to reasonably enable the client's decision process relative to the potential for conflict. Also, it would be virtually impossible for firms to comply with the section of Proposed Rule 15c2-2 that requires disclosure of certain "anticipated" compensation. The disclosure requirements for conflicts of interest also cover sales contests, which may be short-lived and require nearly real-time updating in the disclosures.

7. **Disclosure Requirements are Repetitive** - The disclosure requirements are repetitive. They create many new disclosure requirements for broker-dealers to make not once but twice (and sometimes even three separate times in the case of certain oral point of sale disclosures). One-time disclosure should be sufficient if the disclosure is made in writing. Furthermore, disclosure must be made on a transaction-by-transaction basis, regardless of whether it is appropriate. Given the cost associated with implementing the Proposed Rules, there is little benefit in requiring disclosure of the same information three separate times, i.e., in the face-

to-face meeting, in the prospectus, and on the confirmation. Moreover, customers cannot avoid the deluge of paper and information even if they would choose to do so.

8. **Institutional Investors and Professional Managers Treated the Same** – The Proposed Rules draw no distinctions between retail sales and sales to institutional investors or professional investment managers. Sophisticated investors understand the distribution costs and related conflicts. Independent investment managers would be buried by the volume of repetitive disclosures and most would incur substantial record-keeping costs of their own to manage these new records.

9. **Implementation Costs over $780,000 on Average per Broker-Dealer** – This is an enormous expense for a broker/dealer our size. Compliance with the Proposed Rules would require extensive changes to existing software systems, among other expenses. The SEC estimates that the one-time and annual cost to implement both of the Proposed Rules would total about $781,000, on average, per broker-dealer with an annual cost thereafter of about $540,000, on average, per broker-dealer. Actual costs would vary widely among independent contractor broker-dealers depending upon the capabilities of their internal or external data processing systems and arrangements. The SEC has solicited comments about the accuracy of its estimates. Most, if not all, of these costs would ultimately be passed on to customers.

10. **Cost Estimates to Comply Not Realistic** - The SEC does not seem to have taken into account the full costs to broker-dealers that would be associated with implementing these Proposed Rules. The SEC's cost estimates focus on the requirements to report the prescribed data in point of sale and confirmation disclosures, but do not appear to recognize the substantial processes and cost of setting up systems and procedures to gather the data with the prescribed frequency (generally quarterly), especially with affiliated entities.

11. **Oral Disclosures Difficult to Present** - The SEC's analysis fails to address how the prescribed quantitative and qualitative data can be fairly and reasonably presented orally to a retail customer. The SEC envisions a one- or two-page point of sale disclosure, including explanatory material. How are retail customers likely to react to a 10+ minute recitation of numerical and statistical data, together with related explanations, over the telephone for each transaction?

12. **Timing of Some Disclosure Delivery is Problematic** – Under some circumstances envisioned by Proposed Rule 12c2-3, the "point of sale" delivery time would occur prior to the broker-dealer's having transaction-specific information used in calculating the prescribed disclosures.

13. **Rules Will Force Fewer Fund Options for Investors** - The complexity of the rules and disclosure requirements would prompt broker-dealers to reduce the number of mutual funds they offer for sale in order to minimize the number of funds about which the firm needs to maintain data. This will result in less choice for investors in the long run and will severely harm the mutual fund industry, particularly mid-sized and small mutual fund complexes.

14. **Prospectus Discounted as Disclosure Tool** - The Proposed Rules appear to discount the prospectus as a disclosure tool. Most of the required information is more appropriately placed in a prospectus. Mutual fund companies are in the best position to accurately describe the costs which they directly or indirectly control.

15. **Insurance Disclosures Not Coordinated With Insurance Regulators** - The Proposed Rules cover disclosure of information related to insurance business that is unrelated to variable insurance products. The Commission should coordinate with NAIC to address these issues.
16. **Customer's Right to Terminate Order Not Quantified** - The Proposed Rule 15c2-3 provision for a customer's right to terminate an order placed prior to disclosure does not indicate how long that termination right continues.
17. **Product-Specific Disclosures Must be Tailored** – The Proposed Rules also require tailored disclosures regarding conflicts and issues arising from product-specific features of Covered Securities such as mutual fund breakpoints, sales of B shares, and bonus annuities.
18. **Negative Disclosures Required Even When Nothing to Disclose** - The Proposed Rules not only require affirmative disclosures, but also require negative disclosures when the firm and/or representative has nothing to disclose.
19. **Boilerplate Language Discouraged While Forms Proposed** - The Commission has also proposed forms for disclosure of the required information, despite its statement that firms should avoid the use of boilerplate language in its disclosures.

In summary, Carillon opposes the Proposal in its current form becauset (i) it results in substantial costs, (ii) it underweights the value of the prospectus as a primary disclosure tool, (iii) it results in redundant disclosure, (iv) it assumes that all broker/dealers are structured as "wire houses" and ignores the fact that the majority of broker/dealers selling mutual funds clear their trades through a clearing firm and/or directly with the fund companies, and (v) the Proposal's right of rescission is flawed. The Proposal as currently drafted will have a severe negative impact on both the industry and individual investors who rely on mutual funds as their primary investment vehicle.

Thank you for providing us an opportunity to comment on this important issue.

Sincerely,

/s/ Elizabeth G. Monsell

Elizabeth G. Monsell
President