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Via Electronic Mail (rule-comments@sec.gov) and Regular Mail

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

Re: Releases No. 33-8358; 34-49148; IC-26341
File Number S7-06-04

Dear Mr. Katz:

We are writing to comment on the referenced releases regarding disclosure of certain compensation information (“Proposed Rules”). Thank you for the opportunity to voice our views. While we support the effort of the Securities and Exchange Commission (“Commission”) to impart additional information to customers and prospective customers, we are concerned that the Proposed Rules, particularly as they relate to mutual fund compensation, are unduly burdensome, are duplicative of current disclosure requirements and mandate disclosure of information the average investor is unlikely to comprehend.

By way of background, NFP Securities, Inc. (“NFPSI”) is an independent retail broker/dealer and registered investment adviser headquartered in Austin, Texas. The firm was founded in 1998 and provides insurance, financial planning and securities products and services through approximately 1000 registered representatives nationwide.

As the Commission is aware, the United States regulatory structure relies on the issuer’s prospectus as the primary medium through which to provide material information to investors in securities. The Proposed Rules stray from reliance on the prospectus as the foundation of disclosure and unfairly transfer the burden of disclosure from the issuer to the broker/dealer distributor. These are costs that will not be born by the issuer, but by broker/dealers. Of course, in the end these costs will be passed on to investors. The costs associated with providing the information will offset any potential benefit derived from receipt of the information.¹ Costs incurred at the broker/dealer level will not serve to lower costs at the fund level as anticipated by the Commission.

¹ We understand the Commission 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. We believe actual costs would vary widely among independent contractor broker/dealers depending upon the capabilities of their internal or external data processing systems and arrangements. We believe the costs to NFPSI would likely be greater than the Commission’s estimated average. Compliance with the Proposed Rules would require extensive changes to existing software systems, additional printing costs and ongoing training of associated persons, among other expenses.

Not only do the Proposed Rules transfer the burden of disclosure to broker/dealers, they do so in an unnecessarily burdensome fashion. The Proposed rules 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. Not only will customers receive a deluge of additional information, they will, as noted above, ultimately bear the cost of the additional disclosures.

We believe much of the information required by the Proposed Rules will not only be duplicative, but will be immaterial to the average investor. While disclosure of conflicts of interest is important to an investor's decision-making process, identifying such conflicts does not require the degree of detail prescribed by the Proposed Rules. A simple explanation provided by the mutual fund company that certain broker/dealers receive more compensation for the sale of the mutual funds, together with a list of such broker/dealers, identifies the potential conflict without imposing potentially dramatic increases in costs associated with providing an exhaustive description of the compensation arrangements. Similarly, a simple explanation by the broker/dealer that brokers are paid more to sell proprietary products and identification of such products achieves the goals of meaningful, understandable disclosure, without the attendant costs of providing a more detailed, yet potentially baffling, description of amounts received by broker/dealers and their associated persons.

In addition to issues raised by the substance and format of the disclosures required by the Proposed Rules, the rules leave open a number of other potentially problematic issues. For example:

- The Proposed Rules create an open-ended obligation to disclose anything important, but do not define "important."
- The Commission does not address how the prescribed quantitative and qualitative data required by the Proposed Rules can be fairly and reasonably presented orally to a retail customer. The Commission envisions a one or two page point of sale disclosure, including explanatory material, but does not explain how retail customers are likely to react to a 10 minute recitation of numerical and statistical data, together with related explanations.
- 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.
- 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.

We believe these issues should be addressed prior to adoption of the Proposed Rules or similar rules.

In summary, we share the Commission's view that investors have a right to be given meaningful, understandable disclosure of material information regarding mutual fund compensation. However, we believe the appropriate forum for such information, wherever possible, is the mutual fund prospectus. Where it is deemed that broker/dealers must disclose certain information to investors or potential investors, we urge the Commission to adopt rules requiring a single, concise disclosure without the burden and associated costs created by the Proposed Rules.

Thank you again for the opportunity to comment.

Respectfully,

/s/ R. Bredt Norwood

R. Bredt Norwood
General Counsel

Enclosures (2 additional copies)