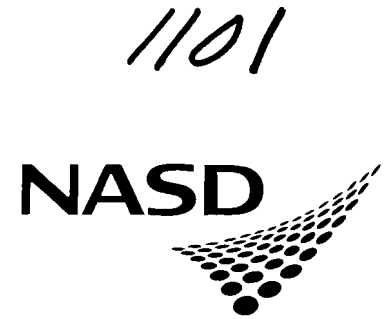
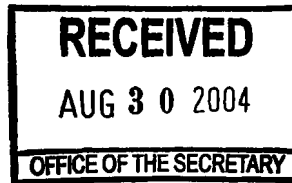


Mary L. Schapiro
Vice Chairman, NASD
President, Regulatory Policy and Oversight

August 20, 2004

Jonathan G. Katz
Secretary
Securities and Exchange Commission
450 Fifth Street, N.W., Stop 6-9
Washington, D.C. 20549



Re: Disclosure for Transactions in Certain Mutual Funds and Other Securities; File No. S7-06-04 ("Disclosure Proposal")

Dear Mr. Katz:

This letter supplements the NASD staff's May 4, 2004 comment letter on the Disclosure Proposal. In that letter, we expressed support for the Commission's proposals for point-of-sale and confirmation disclosure. In addition, we suggested that the Commission consider a prototype for enhanced point-of-sale disclosure of *all* fund expenses, not only distribution-related costs and conflicts, as well as forms of compensation. We recommended that the disclosure document be posted on the broker/dealer's website, to allow an investor easily to compare a recommended fund against all funds offered by the firm.

The prototype disclosure document that we enclosed in our May 4th letter was designed for the sale of a mutual fund. In light of the fact that the Disclosure Proposal also would require disclosure with respect to the sale of variable annuities and 529 plans, we have enclosed two other prototypes concerning those products.

The first, concerning variable annuities, would provide disclosure concerning fees, compensation arrangements and associated conflicts with respect to a specific variable annuity contract. The prototype also would disclose annual contract expenses, including mortality and expense fees and maximum riders and guarantee fees. Because of the wide variety of investment choices in a variable annuity, the prototype would disclose a range of fees associated with the underlying funds. The prototype also would require disclosure concerning state premium taxes.

We note that in their Joint Report on Examination Findings Regarding Broker/Dealer Sales of Variable Insurance Products, the SEC and NASD noted, as sound compliance practices, full and balanced disclosure of such information as the fees and charges of a recommended variable product and comparison of the fees and charges of old and new products in an exchange transaction. The enclosed prototype would advance the goal of ensuring that investors receive this type of disclosure.

The second prototype, concerning 529 plans, would provide disclosure concerning fees, compensation arrangements and associated conflicts with respect to a specific portfolio in a state's 529 plan. It would disclose annual account expenses, including the 529 plan account maintenance fee and program management fee. It also would disclose that investment in an in-state 529 plan may provide favorable state tax treatment, reduced plan expenses, and other benefits. It would encourage investors to review the in-state plan's disclosure document for information.

Mr. Jonathan G. Katz
August 20, 2004

The prototype concerning 529 plans would implement many of the recommendations offered by House Financial Services Chairman Oxley in his July 15th letter to Chairman Donaldson. Chairman Oxley expressed concern about “the lack of consistent transparency of fees” relating to 529 plans. As Chairman Oxley said,

I strongly believe that if investors are able to discern and compare the fees associated with these plans, market forces will work to reduce those fees – so long as states do not discriminate against investors who would like to select out-of-state plans. Without adequate transparency and uniform treatment the benefits of robust competition will not be realized.

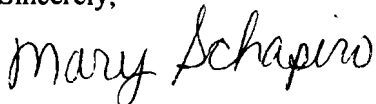
Chairman Oxley therefore urged the development of “a standardized format for describing fees,” disclosure of fee amounts in dollar terms as well as percentages, and disclosure concerning the allocation of fees.

We believe that the enclosed prototype disclosure document would accomplish all of these recommendations. We have similarly recommended that the MSRB mandate the prototype, in response to their request for comment in Notice 2004-16 concerning advertisement and point-of-sale disclosure about 529 plans.

* * *

NASD looks forward to working with the Commission in its efforts to improve the information that investors receive about costs and the conflicts that may be associated with a recommendation to invest in a particular variable annuity or 529 plan. Questions or comments concerning the issues raised in this submission may be addressed to Elisse Walter at 202/728-8230 or Thomas Selman at 202/728-6977.

Sincerely,



Mary L. Schapiro
Vice Chairman, NASD
President, Regulatory Policy and Oversight

Enclosures

cc: The Honorable William H. Donaldson
The Honorable Paul S. Atkins
The Honorable Roel C. Campos
The Honorable Cynthia A. Glassman
The Honorable Harvey J. Goldschmid
Annette L. Nazareth
Paul F. Roye
Elisse Walter
Thomas Selman

State of X 529 Plan – Growth Portfolio

What You Pay

This Table shows the total fees and expenses that you would pay as a unit holder in the **Growth Portfolio**, including the fees imposed on the underlying mutual funds in the Portfolio. Certain charges decline over time. Please see the disclosure document furnished by the State of X 529 Plan for more information.

Account Holder Transaction Fees—Paid Directly By You

Maximum Charges (per \$10,000 contribution)

529 Plan Application Fee	\$XX
Purchase Charges	XX
Withdrawal Charges	XX

Annual Account Expenses—Deducted from Account Assets

(per \$10,000 contribution over 12 months)

529 Plan Account Maintenance Fee	\$XX
529 Plan Program Management Fee	XX

Underlying Fund Fees

Management Fees	XX
12b-1 Fees	XX
Other Fees	XX

What We Receive

This Table shows the compensation that we receive when you invest in the **Growth Portfolio** through XYZ Broker.

Out of the Total Fees and Expenses that You Pay, We Receive:

- XX% of all Maximum Charges
- XX% of Program Management Fee
- \$XX in Revenue Sharing Payments (per \$10,000 investment over 12 months)
- \$XX in Rule 12b-1 Fees from the Underlying Funds (per \$10,000 investment over 12 months)

Our compensation varies depending upon which Portfolio you choose.

Please note the following:

- Revenue sharing payments are cash payments from the distributor of the State of X 529 Plan to us, in order to assist us in covering operating expenses and encourage us to bring the Plan to your attention.
- Your registered representative receives higher compensation for the sale of the State X 529 Plan than for the sale of similar 529 plans.
- Investment in an in-state 529 plan may provide favorable state tax treatment, reduced plan expenses, and other benefits. Please review the in-state plan's disclosure document for information.

Information current as of plan disclosure document dated XXX.
See XYZBroker.com for comparable information about other Portfolios in the 529 Plan.

XXX Variable Annuity

What You Pay

This table shows fees and expenses you would pay as a contract owner in the **XXX Variable Annuity**. Certain charges decline over time. Please see the Annuity's prospectus for more information.



Contract Owner Fees—Paid By You

Maximum Charges (per \$10,000)

For Purchases	\$XX
For Withdrawals	XX
For Transfers	XX

Annual Contract Expenses (per \$10,000 investment over 12 months)

Annual Contract Fees	\$XX
Mortality & Expense Fees	\$XX
Administrative Fees	\$XX
Maximum Riders & Guarantees Fees	\$XX

Underlying Fund Fee Ranges

Management Fees	XX% - XX%
12b-1 Fees	XX% - XX%
Other Fees	XX% - XX%

What We Receive

This table shows the compensation that we receive when you invest in the **XXX Variable Annuity** through XYZ Broker.



Out of the Total Purchase Payments that You Make, We Receive: (per \$10,000 investment)

- \$XX in Sales Commissions at the Time of the Purchase
- \$XX of Trail Commissions (over 12 months)
- \$XX in Revenue Sharing Payments from the Contract's Issuer
- \$XX - \$XX in Rule 12b-1 Fees from the Underlying Funds (over 12 months)

Our compensation varies depending upon the underlying funds you choose.

Please note the following:

- Revenue sharing payments are cash payments from the contract's issuer to us, in order to assist us in covering operating expenses and encourage us to bring the variable annuity contract to your attention.
- Your registered representative receives higher compensation for the sale of the XXX Variable Annuity than for the sale of similar variable annuity contracts.
- You may also pay a state premium tax at the time a payment is made, which will vary by state.

Information current as of the contract prospectus dated XXX.
See XYZbroker.com for comparable information about other variable contracts.