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Rule Comments
Proposed Rule on Mutual Fund Disclosure Forms
SEC File No. S7-06-04

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The proposed Mutual Fund Disclosure Forms provides meaningful information to prospective investors on a fund specific transaction. These disclosures, however, fail the objective to allow an investor to assess with full knowledge whether the investment is better for you or for your broker.

1. While sales commissions contribute significantly to the incentive to a broker, other fees and charges also factor into an investment decision. Account based fees, such as annual maintenance; minimum trade requirement; minimum balance; etc, can significantly impact the decision to purchase a particular investment.

The upfront disclosure should incorporate account based fees even if these fees are not be specifically governed by the SEC.

2. Potentially misleading information is presentation for first-year asset-based fees and charges sections of the Up-Front disclosure (box 4 under Sales Load and what we will be paid up front) and Confirmation examples (section B). Limiting disclosure to only sales charge related expenses significantly understate the true cost of ownership of a mutual fund.

While it is important to know incentive is paid to the broker, meaningful disclosure would incorporate the overall fund expense, expressed as both a percentage and dollar based, with a comparison to industry of funds of this type, along with the portion returned to the broker.

An example:

Estimate of First Year Fees and Expenses:			Industry	
	$	%	Norms	Median
Annual Fund expense	$80.00	1.00%	x.xx – x.xx	0.80%
Asset-based distribution	$19.20	0.25%	x.xx – x.xx	0.25%
Total	**$99.20**	**1.25%**		**1.05%**
Amount included above paid to broker $19.20				

3. Direct or indirect compensation is sometimes incorporated into the overall expense ratio of a particular fund or class outside of the 12b-1 fees. Recent reporting on the mutual fund industry discloses instances where funds enter arrangements to receive goods and or services in return for conducting transactions at above market rates. These arrangements have the potential to impair objectivity of a broker or brokerage in recommending a particular mutual fund or family.

The Up-front disclosure should incorporate a yes/no question whether the broker/brokerage currently provides any goods or services to the fund family or affiliated organization.