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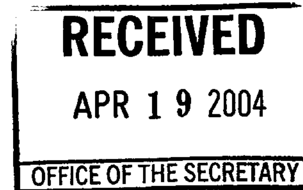
April 12, 2004

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



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

Dear Mr. Katz,

Securities America, Inc. is a broker-dealer located in Omaha, NE with over 1600 independent registered representatives throughout the United States. Mutual funds, unit investment trusts, municipal fund securities, and variable insurance contracts (collectively "funds") represent a large portion of the firm's business and we appreciate the opportunity to comment on the Commission's proposed rule amendments regarding fund confirmation and point of sale disclosure requirements ("the Proposed Rules").

We commend the Commission on its comprehensive work in preparing Release nos. 33-8358; 34-49148; IC26341 (collectively "the Proposing Release"), which detail the Proposed Rules. We believe that the Commission's efforts to promote better disclosure are well intended and provide a good opportunity for dialogue among the investment community, the investing public, and the Commission. Furthermore, we believe that better disclosure of fund compensation practices can be helpful to the investing public and should be required.

However, after a careful study of the Proposed Rules, we have a number of concerns about technical and logistical problems likely to be encountered if the Proposed Rules are adopted and implemented as they now stand. We believe there are more economically viable alternatives that would achieve the Commission's intended goals and minimize the added burden that will be borne by the investment community and ultimately by the investing public.

We will share our thoughts on these matters and other issues where the Commission specifically requested comments. However, before doing so, we would like to take the opportunity to address some of the issues raised in the public investors' comments to the

Commission, which are displayed on the Commission's website. This letter will be divided into two parts as follows:

- Part 1—A Response to Comment Letters Filed with the Commission by the Investing Public, and
- Part 2—Specific Comments to the Commission about the Proposed Rules.

While we believe both parts of this letter will be useful to the Commission in considering changes to the Proposed Rules, the intent of the first part of this letter is to provide a "big picture view" of the issues at hand. In the second part of the letter, we will offer more specific comments and recommendations.

Part 1—Response to Comment Letters Filed with the Commission by the Investing Public

Background

We are concerned that many comment letters from the public demand an end to 12b-1 fees and revenue sharing arrangements. Furthermore, we are very concerned with the efforts by certain industry members to distort the nature of fund expense trends by suggesting that such expenses are "on the rise." In fact, just the opposite holds true today.

Due to several widely publicized scandals involving late day trading and market timing abuses in funds, insider trading, etc. there is undoubtedly concern that funds have abandoned the interests of their clients.[1] As a result, substantial testimony by Representative Richard Baker and others has been devoted to these very problems. However, late day trading, market timing, and insider trading abuses are completely unrelated to investor understanding of fund fees and expenses. And it would be a mistake to use these scandals as a rationale to completely overhaul the fundamental structure and economics of the fund industry, as some comment letters from the public have suggested.

Economic Factors and Trends in the Industry

[1] Although certain regulators have asserted that the public's confidence has been shaken by the self-serving actions of fund executives and managers, a study by Strategic Insight Mutual Fund Research Center shows that fund redemption patterns have changed very little from 1986 through the end of 2003. Notwithstanding the inception of Index Funds, and more recently Exchange Traded Funds, as investment alternatives, the fact that almost 90% of all fund investors have chosen actively-managed funds is additional support that the public's confidence may not be as shaken as has been represented by many reform proponents, Strategic Management Overview, "Mutual Fund Fees: Facts Trends, Economies of Scale, and Market Forces, p. 12-14 (Jan. 2004).

The fund industry has evolved as a result of competitive forces and, on the whole, this evolution has been beneficial to the investing public. To support this premise, several studies conducted by the Investment Company Institute, the Strategic Insight Mutual Fund Research Center, the SEC, the GAO and others have shown that the overall cost of buying and owning funds has declined over time.[2] In reality, what has changed is the way costs are incurred. Notably, in 1980, when the SEC adopted rule 12b-1 authorizing funds to use their assets to pay for distribution costs, a change began that allowed investors more choices in how to pay for the services provided by financial professionals. Prior to adopting 12b-1, it is estimated that the total annual shareholder cost associated with owning equity funds was 2.26%. By the end of 2002, this cost has decreased to 1.25%.[3]

Interestingly, a report by the GAO also shows that fund expenses are on the decline. In its report, the GAO states that expense ratios among large equity mutual funds have decreased over the past 12 years.[4] Although the GAO is quick to emphasize a modest increase in expense ratios during the period of time between 1999 and 2001, the GAO also notes that much of this increase is probably explained by the bear market in which fund assets were declining but actual expenses stayed the same or even increased.

As of 2001, more than 70% of all fund investors who primarily buy shares outside a 401(k) or other employer-sponsored pension plan used a financial advisor as their main source for purchasing fund shares.[5] Financial advisors provide valuable services in helping clients select suitable investments, given the unique goals and objectives of each client. Advisors also provide ongoing service such as monitoring clients' investments, periodically updating account objectives, rebalancing accounts, providing account statements and tax forms, etc.[6]

Financial advisors are primarily compensated for these services through sales loads and/or annual 12b-1 fees. Over the years, market forces have resulted in a change in the overall mix of these forms of advisor compensation. As we will show in this letter, front-end loads have substantially declined over the years. While operating expenses have

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[2] See Investment Company Institute, "Total Shareholder Cost of Funds: An Update," Fundamentals, Vol 11, No. 4, September 2002; Strategic Management Overview, supra note 1, p. 3-6; Division of Investment Management, U.S. Securities and Exchange Commission, "Report on Fund Fees and Expenses" (December 2000); U.S. General Accounting Office, "Funds: Information on Trends in Fees and Their Related Disclosure" (March 2003).

[3] ICI Economists Reports that Total Shareholder Costs of Investing in Stock Mutual Funds Have Declined 45% Since 1980, p. 1 (Feb. 18, 2003).

[4] General Accounting Office, supra note 2, p. 1.

[5] Investment Company Institute, "The Cost of Buying and Owning Funds," Fundamentals, Vol 11, No. 4, September 2002.

[6] See, Securities Industry Association comment letter to NASD Conduct Rule 2830 by Stuart Strachan letter to Barbara Sweeney, p.3 (Oct. 17, 2003).

increased, this increase has been more than offset by the decrease in front-end loads. Therefore, the net result is an overall decline in the cost of mutual fund ownership.

It is noteworthy that fund investors have demonstrated a greater preference to pay for the services of financial advisors through annual fees rather than front-end sales loads;[7] and this has led to a decline in front-end sales loads, an increase in distribution fees, and the creation of "B-share" and "C-share" funds. It is important to remember that while the fee structures of funds have evolved considerably, the end result to the investing public has been a decline in the overall cost of buying and owning funds.[8]

Revenue Sharing Payments Pay for Legitimate Business Expenses

Revenue sharing is another issue that the public and many rule makers seem to misunderstand. Revenue sharing payments reimburse broker-dealers for a number of expenses associated with maintaining investor accounts including: mailing disclosure documents and tax reporting documents to investors, maintaining information websites, implementing changes initiated by funds (including revising systems and procedures and communicating changes to financial advisors), and overseeing and coordinating fund wholesaler activities at the firm.[9]

Revenue sharing payments also fund other activities such as training and education of representatives and their clients. These activities educate financial advisors and their clients about the funds, and these expenses would occur regardless of whether they were paid by the fund complex or the selling broker-dealer. Furthermore, in the mid 1990s, the NASD mandated that broker-dealers develop detailed training and education programs for their representatives. Broker-dealers, such as Securities America, have taken this mandate seriously. The content of this training is very relevant to fund sales, and the training advocates public interests. However, with this increased training comes an expense. And revenue sharing helps to cover this expense.

Some commenters have implied that revenue sharing represents an unfair "tax" imposed on investors by broker-dealers who do nothing to earn these dollars. However revenue sharing is simply a result of more marketing and administrative duties being shifted from fund companies to broker-dealers and more comprehensive investment services being offered by broker-dealers to investors. These changes have resulted in significant benefits such as the consolidation of investment account information and easier access to investment services that are tailored to individual investor preferences.

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[7] Investment Company Institute, supra note 5.

[8]Investment Company Institute, supra note 2; Strategic Management Overview, supra note 2; General Accounting Office, supra note 2, p. 1.
9 Strachan, supra note 6.

Many comment letters from the investing public imply that they would benefit from the elimination of 12b-1 fees and revenue sharing arrangements. However, these fees are used to compensate firms and their employees for legitimate business expenses that would otherwise be funded by higher front-end sales charges or other fees that investors would ultimately pay. In the absence of these fees, fund investing would likely be shut-off to a substantial number of individual investors with account balances under $10,000.[10] Furthermore, the variety of investment choices through different types of fund classes would likely be eliminated in the event that such fees and arrangements were eliminated.[11] In view of these circumstances, it can hardly be said that the elimination of these fees is in the best interests of the public.

Conflict Awareness is the Central Issue

In all businesses, some conflicts of interest are inevitable and cannot be avoided.[12] Nowhere is this premise more obvious than the de facto dual-agency that appears to exist among clients, broker/dealers, and fund companies. Notwithstanding the fiduciary duties that exist between the client and representative, it is the fund companies that ultimately establish the commission that the broker will earn.[13] Although it is believed that broker/dealers provide some guidance, it is the fund company, which gives the final approval on commission rates. Short of a compensation system where clients and broker/dealers exclusively set both the fee and the terms of the professional engagement, conflicts of interest will never be eliminated in this area.

Unfortunately, Senator Fitzgerald and other opponents of revenue sharing fail to grasp the wide range of conflicts that unavoidably surround the fund industry.[14] The opponents of these fees have pushed the idea that a wholesale elimination of 12b-1 and revenue sharing will solve the conflicts problem. Although we should take affirmative steps to heighten investors' awareness of the various financial incentives that arise from revenue sharing, certain inherent conflicts will never completely go away.

Interestingly, reliable financial statistics suggest that the public's confidence is not as shaken as Senator Fitzgerald and John Bogle suggest. Shareholder redemptions have remained constant from 1986 through the end of 2003.[15] Notwithstanding the presence of index funds, which are said to offer low turnover, less management, and lower expenses, nearly ninety percent of mutual fund investors still choose to keep their money in the

[10] Strategic Management Overview, supra note 1.
[11] Id. at p. 7-8.
[12] Barron's, Hard Facts on Soft Dollars: In Investment Research, You Get What You Pay For, D. Bruce Johnsen, March 15, 2004.
[13] Registered Rep., "The Next Headache: Mutual Fund Marketing Reform," David Geracioti (July 1, 2003).
[14] Johnsen, supra.
[15] Strategic Investment Oversight, supra note 1, at p. 12-14.

traditional managed funds.[16] The implication from this is that these investors want help from experienced financial managers and are willing to accept the inescapable fact that such professional advice does not come free of charge.[17]

In the absence of 12b-1 and revenue sharing, much of the advertising and distribution costs and burdens could again be placed upon the shoulders of the fund companies. To compensate for these burdens, these companies would likely increase sales loads or their own internal marketing expenses. Thus, there could be a potential for a return back to the days when sales loads were 7 to 8 percent, which would increase the investor's ownership costs. Coincidently, the various share options now available to investors would be eliminated by such a measure.

Furthermore, it has been suggested by one expert that such a measure would motivate funds to establish higher minimum investments, which could leave out millions of investors with accounts under $10,000.[18] At the end of the day, the conflict of interest would still be there, and the investing public would be in even worse shape than before.

As such, it appears that the key issues are that investors need to have a full picture of the costs of investing in funds, and they need to be fully aware of all potential conflicts of interest on the part of the financial advisor recommending a fund. In the next part of this letter, we will discuss ways to meet these goals in a way that is much more economical than the Proposed Rules as they now stand.

<u>Part 2—Specific Comments to the Commission about the Proposed Rules</u>

Now that we have responded to the general issues raised by several comment letters from individual investors, we will address in more detail the following topics:

1) "Brokerage Business" and "Application Way Business" Logistics,
2) Alternatives that Would Save Investors Over a Billion Dollars Annually,
3) Redundant Disclosure of Costs is Unnecessary,
4) Emphasize Disclosure of Conflicts of Interest, Not Redundant Disclosure of Fees,
5) Fund Fees and Expenses Should Continue to be Disclosed by Funds,
6) The Proposed Rules Could Reduce Competition, which is Detrimental to the Public, and
7) Summary

<u>"Brokerage Business" and "Application Way Business" Logistics</u>

[16] Id.
[17] Id.
[18] Id.

Securities America and many other broker-dealers conduct fund business using two distinct models: through brokerage accounts held at a clearing firm and introduced by Securities America on a fully disclosed basis ("brokerage business"), and through business conducted directly with various fund companies ("application way business"). Each model has advantages in different situations, and each model would be impacted by the Commission's proposals. Significantly, broker-dealers would need to rely on their clearing firm and the individual fund companies to provide the necessary confirmation disclosures. This would be a monumental challenge, as the clearing firm and the funds provide confirmations for clients of hundreds or thousands of broker-dealers, and each broker-dealer may have different information to disclose on the confirmations under the proposed rules.

Alternatives That Would Save Investors Over a Billion Dollars Annually

The Proposing Release raises a host of issues ranging from major policy considerations to technical and logistical problems likely to be encountered if the Proposed Rules are adopted and implemented without significant modifications. We would like to emphasize two general comments about the Proposed Rules that were made by Chet Helck, President of Raymond James Financial, Inc., in his testimony before the U.S. Senate Committee on Banking, Housing, and Urban Affairs on March 31, 2004:

1) It is time for the SEC to move away from paper disclosure – the proposal itself indicates the annual printing costs will add more than a billion dollars a year to the cost of mutual fund sales, ultimately to be borne by the investors. Let us enter the 21st century and put as much as possible of the important disclosures on our websites, where investors can access them readily – and have our confirmations refer the investors to our websites. For those clients who don't have computer access, our confirmation forms can give them the phone number to request a copy of the information on the website.

2) Don't require transaction-by-transaction breakdown of revenue sharing payments – it would require extraordinary programming costs that again would be borne by investors. Instead, let us use hypothetical examples of the costs that would be borne by investors at different purchase levels: say $10,000, $50,000 and $100,000. That should be enough to give every purchaser a sense of the impact on his investment of these costs.[19]

These comments make a lot of economic sense when analyzing the Proposed Rules. They appear to fulfill the Commission's desire to promote better disclosure of potential

[19] Statement of Chet Helck, President, Raymond James Financial, Inc., before the U.S. Senate Committee on Banking, Housing, and Urban Affairs review of current investigations and regulatory actions regarding the mutual fund industry: fund costs and distribution practices March 31, 2004. Available at http://www.sia.com/testimony/html/chelck3-31-04.html

conflicts of interest while using technology to significantly reduce the actual costs incurred by the industry, which are ultimately passed on to investors through sales loads and fees. Let's leverage this modern technology—technology that is widely available to all investors—to help save investors over a billion dollars a year.

As you already know, a very practical and user-friendly illustration of a disclosure that addresses the revenue sharing issue is set forth on the Morgan-Stanley website. Using this tool as a best practice guide will go far to assist industry members in creating meaningful disclosures that help investors to better understand the revenue sharing system.

Redundant Disclosure of Costs is Unnecessary

Full disclosure about the costs an investor will occur as a result of purchasing a fund is essential in the principal-agency relationship between a broker-dealer and its customer; but existing requirements under Rule 10b-10 and prospectus disclosure requirements already address those concerns.

As was explained by Mercer Bullard, President of the Fund Democracy, Inc. to the Congressional Subcommittee on November 3, 2003, the purpose of prospectus disclosure is to inform investors of the costs of investing in a fund. In contrast, the purpose of the trade confirmation and point of sale disclosure are to alert the investor about the economic motives of the person recommending the fund.[20] In an effort to keep the flow of information organized and comprehensible to the investor, we would respectfully urge the Commission to be mindful of these distinct purposes and to take a course of action that will prevent unnecessary duplication, overlap, and confusion.[21]

In particular, we direct the Commission's attention to certain statements of Paul Schott Stevens on behalf of the Investment Company Institute in his recent testimony before a U.S. Senate Subcommittee:

> "The disclosures that mutual funds are required to provide to investors are unmatched by those of any other financial product. Each investor receives a prospectus at or before the time of buying fund shares. The prospectus provides detailed information about a fund's investment objectives and policies, risks, returns, fees and expenses, the fund manager, and how to purchase and redeem shares."

[20] Testimony of Mercer E. Bullard before the Subcommittee on Financial Management, the Budget, and International Security (November 3, 2004).

[21] Testimony of Melody Hill, H.R. 2420 Subcommittee (June 18, 2003)(Hill has received thousands of inquires from investors that are overwhelmed by the amount of fund disclosures already in place at this time).

"Reflecting their importance as part of the information that investors and their professional advisors should consider when deciding whether to invest in a fund, fund fees and expenses are disclosed in a straight forward, standardized fee table at the front of each prospectus. The fee table presents fund fees in two broad categories: shareholder fees (such as sales charges paid to compensate financial professionals who provide investment advice and other services) and annual fund operating expenses."

"The fee table shows annual fund operating expenses broken down into three categories that are identified by specific, required captions. The first category of expense is the "management fee" that the fund pays its investment advisor for managing and administering the fund's portfolio. The second category is the "distribution (12b-1) fee," if any, that the fund pays to cover costs such as compensating broker-dealers, financial planners and other financial professionals for investment advice and other services they provide directly to investors. The third category is "other expenses," which includes expenses that the fund incurs for items such as shareholder services and record keeping, custody of the fund's assets, outside audits, legal counsel, and directors. Each type of annual operating expense is expressed as a percentage of the fund's average net assets. The fee table also shows total annual fund operating expenses as a percentage of average net assets (sometimes referred to as a fund's "expense ratio")."

"In addition to listing a fund's fees and expenses, the prospectus fee table includes an example that illustrates the effect of fund expenses on a hypothetical investment over time. The example is designed to enable investors to readily compare the costs of two or more funds because the invested amount and time periods are standardized. The total is an "all-in" figure, expressed as a single dollar amount, that takes into account both sales charges and annual operating expenses."

"The required disclosures of mutual fund fees are reinforced by SEC rules governing mutual fund performance advertising. Under SEC rules, funds that advertise performance information must provide standardized total return data for prescribed periods. Importantly, all standardized performance numbers must be presented net of fees. Thus, when investors review and compare fund performance data, the effect of all fees has already been taken into account. Moreover, the SEC recently amended its mutual fund advertising rules to require narrative disclosure that advises investors to consider fund charges and expenses before investing and explains that the prospectus contains this and other information."

> "Taken together, the foregoing disclosure requirements provide investors and their professional advisors with the information needed to make informed decisions about investing in a particular fund." [22]

It is clear that there is a long list of information currently being disclosed to fund investors and that investors have sufficient information readily available to assess how fees impact their fund investments. One of the most useful tools available to investors is fund performance, which is reported in a standardized manner reflecting the impact of all loads, fees, and expenses. In addition, the prospectus clearly and uniformly presents all fund fees as either shareholder fees or annual fund operating expenses. These two broad categories are broken down further in a way that can be easily compared on an "apples to apples" basis among all funds. To address possible conflicts of interest in distribution, these categories could possibly be broken down further. While that cost data may be academically interesting there are other, more economically viable ways to disclose possible distribution conflicts as further discussed herein.

Emphasize Disclosure of Conflicts of Interest, not Redundant Disclosure of Fees

We encourage the Commission to focus on the issue of disclosing actual and potential conflicts of interest that are present in the distribution of funds rather than requiring additional disclosure of fees that are already prominently disclosed to investors.

We acknowledge that there is a potential for and/or a perceived conflict of interest with respect to revenue sharing and other arrangements where fund advisers and/or distributors make payments to broker-dealers based on factors such as sales levels and asset retention. However, and as previously stated, revenue sharing and other such arrangements are used to compensate broker-dealers for legitimate business expenses that would otherwise be funded through higher front-end sales charges or other fees that investors would ultimately pay. At Securities America we already disclose the existence and general nature of such arrangements. We believe all affected broker-dealers should do the same.

If the Commission determines that extra disclosures (beyond those already required) are necessary to explain conflicts of interest, then we believe that the Commission should specifically permit such disclosures to be made on broker-dealers' websites. Language on both account documents and confirmation statements could direct investors to the appropriate web page to get more specific information. Investors without access to the Internet could be provided with a toll-free phone number to get a printout of the

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[22] Statement of Paul Schott Stevens on behalf of the Investment Company Institute before the Subcommittee on Financial Management, the Budget, and International Security Committee on Governmental Affairs United States Senate "Oversight Hearing on Mutual Funds: Hidden Fees, Misgovernance, and Other Practices That Harm Investors" January 27, 2004. http://www.ici.org/statements/tmny/04_sen_stevens_tmny.html

information on the web page. The GAO proposal regarding legend disclosures on accounts could also provide helpful guidance in this area.

Unfortunately, proposed Rules 15c2-2 and 15c2-3 go beyond the disclosure of possible conflicts of interest to require broker-dealers to further disclose fund fees and expenses that are already disclosed by the funds. With this being said, it does not appear that the economic value of the disclosures to be required by the Proposed Rules would outweigh the costs that would result. While we have addressed this issue already, we want to reiterate our belief that these fees and expenses are already reasonably and uniformly disclosed across the industry. We encourage the Commission to look at other ways that broker-dealers can disclose potential conflicts of interest in the distribution of funds and avoid costly, redundant disclosure of fees. However, we would like to further note that if the Commission determines that further disclosure of fund fees and expenses is warranted, this can be best accomplished by the funds themselves rather than by broker-dealers.

Fund Fees and Expenses Should Continue to be Disclosed by Funds

Disclosure of distribution costs, as with all shareholder fees and annual fund operating expenses, is fundamentally the obligation of the fund complex since it controls all of these costs and the myriad of ways in which those costs are incurred. The Proposed Rules, however, contemplate new requirements for broker-dealers to disclose these fees. But broker-dealers would have to gather most of the relevant cost information from the funds, create systems to store this information, and develop new reporting capabilities that are not currently in place. Furthermore, the Proposed Rules do not specifically require funds to provide all of the necessary information to the broker-dealers who will be responsible for the disclosures. This creates new challenges and expenses for broker-dealers that are not necessary.[23]

To comply with the Proposed Rules, broker-dealers would be required to make costly and extensive changes to existing operational systems, which would require programming costs, software costs, data entry costs, and hardware costs. 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.

[23] See, Statement of Paul Haaga, Jr., before the Senate Subcommittee on Financial Management, the Budget, and International Security Committee on Governmental Affairs, H.R. 2420 (June 18, 2003)("to develop individualized expense statements would require hundreds of other fund groups , thousands of broker dealers, and dozens of 401(k) record keepers to would each have to develop new systems to apply fund expenses to the holdings of each individual mutual fund investor.").; Mellody Hill, supra note 22.

Because the fund complexes are in the best position to disclose distribution cost information, we believe that the primary responsibility for these disclosures should stay where it is—with the funds.

The Proposed Rules Could Reduce Competition, which is Detrimental to the Public.

Warnings of the detrimental effect that the additional fee disclosure measures would have upon small fund companies were given by Ariel Mutual Funds President Melody Hill in her testimony before the House Subcommittee on H.R. 2420:

> "We should remember, however, that new regulations invariably lead to significant costs. The SEC deserves credit for several efforts that reduced fund regulatory costs. But those initiatives are dwarfed by regulations that have added far larger costs and burdens. Reviewing the SEC's own cost estimates for these rules is striking. The net impact of SEC rulemakings since 1998 appears to have increased the fund industry's regulatory costs by at least several hundred million dollars annually"
>
> "I am worried that the impact of all this on small mutual fund companies could ultimately contribute to making the fund industry less hospitable to innovative start-ups and perhaps less competitive."[24]

Fund investors are smarter than reform proponents give them credit. Currently 83% of all equity funds bought by investors had expense ratios below that of the 1.71% average fund ratio (unweighted).[25] Furthermore, the largest funds that control over 60% of all fund assets (funds with assets over $3 billion) had expense ratios of .57%, a figure which is about a third of the average ratio charged by the smallest small funds (funds with $50 million or less in assets).[26] As investors tend to place their assets with companies who are perceived by investors as efficient in their operations, the increased regulatory costs of individualized disclosure will make it more difficult, if not impossible, for small funds to compete with larger funds for sales.

Summary

We have addressed comments by members of the investing public who are demanding an end to 12b-1 fees and revenue sharing arrangements. In short, we believe these demands are not well thought out. Such fees and arrangements are not an unfair "tax" imposed on investors by broker-dealers but rather used to compensate broker-dealers for legitimate business expenses that would otherwise be funded through higher front-end sales charges

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[24] Mellody Hill, supra note 22.
[25] Id.
[26] Strategic Management Overview, supra note 1, p. 4.

or other fees. It is noteworthy that the overall cost of buying and owning funds has declined over time. Simply put, while certain types of fees have increased, these increases have been more than offset by declines in other types of fees.

Regardless of where the current levels of fees and expenses are today, these fees and expenses are already prominently disclosed to investors and widely available in a format that is easy to read and understand. Furthermore, funds report standardized performance, which allows investors to see the bottom line results net of all applicable fees and expenses. Investors can already easily compare all funds on an "apples to apples" basis.

We would encourage the Commission to focus on the issue of disclosing actual and potential conflicts of interest that are present in the distribution of funds rather than requiring additional disclosure of fees that are already prominently disclosed to investors. At Securities America we already disclose the existence and general nature of such arrangements. And we believe all affected broker-dealers should do the same.

If the Commission determines that extra disclosures (beyond those already required) are necessary to explain conflicts of interest, then we believe that the Commission should specifically permit such disclosures to be made on broker-dealers' websites. Language on account documents and confirmation statements could direct investors to the appropriate web page to get more specific information. Investors without access to the internet could be provided with a toll-free phone number to request a printout of the information on the web page.

Finally, because the fund complexes are in the best position to disclose distribution cost information, we believe that the primary responsibility for these disclosures should stay where it is—with the funds.

Thank you for the opportunity to submit these comments. If you would like to discuss any of these issues further you are welcome to contact me in writing at the following address:

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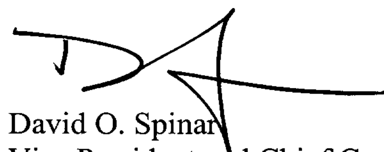
Omaha, NE 68106

Respectfully submitted,

Securities America, Inc.



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