July 23, 2008

Michael L. Kosoff, Attorney
Office of Disclosure and Insurance Products Regulation
Division of Investment Management
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-5720

Subject: File Number S7-14-08
17 CFR Parts 230 and 240
RIN 3235-AK16
Indexed Annuities and Certain Other Insurance Contracts

Dear Mr. Kosoff:

My name is Phillip H. Palmer and I am President and CEO of First Independent Financial Services, a FINRA member. I have reviewed the above referenced rule proposal, and I have a specific question about existing indexed annuity contracts that does not appear to have been addressed in the text.

Contracts issued before the effective date of the proposed rule will not be considered securities. This seems reasonable and thoughtful given the number of contracts sold under the assumption they were not to be registered. It is a particular characteristic of many of these contracts that causes me some concern.

Many (virtually all) of the existing equity indexed annuity contracts have renewal provisions. At the end of the stated accumulation period of the contract, the owner or annuitant will have a window of perhaps 45 days in which to make a decision.

1) The owner or annuitant may simply take the proceeds of the contract.

2) The contract value can be transferred under Section 1035 to another annuity within the insurer's product line, called an internal replacement.

3) The contract value can be transferred under Section 1035 to a contract with another insurer.

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4) The contract value can remain in the existing contract for another stated accumulation period like the original period.

From a supervisory standpoint, the handling of the first three options by a firm is not problematical. Taking the proceeds means no additional sale is involved. An internal replacement or 1035 exchange to another company constitutes a new sale and must be treated accordingly. It is the 4th option that troubles me.

Typically, when an annuitant or owner renews the existing equity indexed annuity contract for an additional accumulation period, the following things happen.

1) A new surrender penalty schedule starts equal to the old one.

2) Any free withdrawal privileges associated with the contract must be qualified for again.

3) A new commission, often equal to the commission paid at the original sale, is paid to the agent.

In other words, though it is a "renewal" of an existing contract with the same contract number, the effect on the owner or annuitant is that they have made a new purchase.

Since the original contract was not considered a security prior to the effective date of the rule, this presents several problems for member firms and supervisors. In no particular order:

- The original contract's existence may not be known to the firm.
- The firm may have to rely on the registered representative/agent to disclose the existence of the contract.
- The firm may not receive notice of the renewal from the insurer, even though it established a selling agreement with that insurer after the effective date of the rule.
- Without knowledge of the contract or the pending renewal, the firm may not be able to take adequate steps to know the customer.
- Renewing the contract for another accumulation period may not be suitable for or in the best interests of the customer.
- The commission may be paid directly to the registered representative under their old agent agreement and not to the firm.
- If a suitability question were to arise, the firm may be held liable even though it had no knowledge of the existence of the original contract.

In a nutshell, the question seems to be: "When a contract deemed not to be a security because it was issued prior to the effective date of the rule is renewed resulting in a new surrender penalty schedule, accumulation period and commission after the effective date of the rule, is the renewal of that contract considered the sale of a security under the rule or the sale of an unregistered equity indexed annuity under the previous situation?"

In my opinion this renewal should be treated as a new sale under the rule because the results to the owner or annuitant are the same. There is a new surrender penalty schedule, new free withdrawal provisions, and a new commission. The logical remedy seems to be to require the insurers to allow such renewals and commission payments only after approval by a member firm.

This is a complicated discussion, I realize. I hope I have stated my concerns clearly and welcome any opportunity to clarify any questions you might have. You can reach me at 918-492-9484.

Thank you for your help in this matter.

Sincerely,

Phillip H. Palmer, ChFC
President & CEO

cc. Keith E. Carpenter, Senior Special Counsel
Keith E. Hinrichs, District Director, District 5
Cheryl Young, Securities Compliance Advisors, LLC