sifma
Invested in America

November 5, 2010

Via email to: rule-comments@sec.gov

U.S. Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090
Attn: Elizabeth M. Murphy, Secretary

Re: Mutual Fund Distribution Fees; Confirmations - Release Nos. 33-9128; 34-62544; IC-29367; File No. S7-15-10

Dear Secretary Murphy:

The Securities Industry and Financial Markets Association ("SIFMA")[1] welcomes the opportunity to provide comments to the Securities and Exchange Commission ("SEC" or "Commission") on recently proposed rule changes regarding mutual fund distribution fees and confirmations ("Proposal").[2]

I. SUMMARY OF COMMENTS[3]

SIFMA supports the Commission's efforts to improve clarity and transparency with respect to the fees investors pay when they purchase shares in a mutual fund.[4] We also support the idea of robust competition among intermediaries in the mutual fund market, and choice for clients with regard to payment options for mutual funds. While the Proposal does have

[1] SIFMA brings together the shared interests of hundreds of securities firms, banks and asset managers. SIFMA's mission is to support a strong financial industry, investor opportunity, capital formation, job creation and economic growth, while building trust and confidence in the financial markets. SIFMA, with offices in New York and Washington, D.C., is the U.S. regional member of the Global Financial Markets Association. For more information, visit www.sifma.org.

[2] Mutual Fund Distribution Fees; Confirmations, Securities Act Release No. 33-9128; Exchange Act Release No. 34-62544; Investment Company Act Release No. 29367 (Jul. 21, 2010); 75 FR 47064 (Aug. 4, 2010).

[3] This comment letter is not intended to and does not address all aspects of the Proposal. Given SIFMA's broad-based membership, we have elected to focus our comments on those issues that are most significant to our members.

[4] As you know, SIFMA has actively participated in the ongoing dialogue regarding Rule 12b-1 for a number of years. *See* SIFMA White Paper, dated Jun. 13, 2007, "Responding to Mutual Fund Investors' Changing Needs; Mutual Fund Distribution and Shareholder Servicing Practices" ("2007 White Paper"); and Letter, dated July 19, 2007, to Nancy M. Morris, Secretary, SEC, from Ira D. Hammerman, Senior Managing Director and General Counsel, SIFMA, Re: SEC Rule 12b-1 Roundtable (File No. 4-538).

favorable attributes, we believe certain aspects of the Proposal may undermine the desired outcome or, at best, have limited tangible benefits to the majority of mutual fund investors. The following summarizes SIFMA's views:

- The vast majority of SIFMA members do not believe proposed Investment Company Act Rule 6c-10(c) is likely to generate increased competition among broker-dealers in their sale of mutual funds (though a few members are receptive in principle to the concept). Furthermore, we believe the proposed rule might decrease investor choice in the selection of funds available to them, as well as their options for payment of fees. SIFMA believes that the currently available load structures offer substantial pricing flexibility. While the Proposal seeks to lower investor costs through competitively set account-level load structures, it fails to recognize that a lower cost structure may also lead to a decline in the level of services offered to clients, particularly smaller clients. Investors who seek a less expensive, self-directed model already have access to numerous fund offerings through no-load funds, fund supermarkets and exchange-traded funds. For those clients that seek a full-service relationship with their broker, the current fee structure for mutual funds should not be disrupted. Finally, SIFMA believes that the Proposal is premature in light of the impending broker fiduciary standard which may further alter the point of sale suitability and ongoing fiduciary obligations of financial advisors;

- Imposing a limit on the duration of ongoing sales charges under proposed Investment Company Act Rule 6c-10(b) may protect against paying higher overall fees than with a front-end load structure - but *only* for those investors who hold their positions for extended periods, which most do not. The Commission's own information suggests that very few Class C share investors hold their positions long enough to actually benefit from the proposed share class conversion.[5] Despite the very small number of potential beneficiaries, the cost of implementing the processes needed for tracking share lots and converting shares at the end of the holding period will be significant, particularly for small and mid-sized brokers. We contend that the cost of building-out the tracking and converting mechanism far outweighs the benefits for such a small number of investors. In any event, we also believe that the Proposal should include a standardized reference load, possibly fund category specific, so that investors will not have an additional variable to consider when comparing fund costs;

[5] Proposal at 47120, and specifically, footnote 504, wherein the Commission asserts that "the typical fund shareholder only holds fund shares for approximately 3-4 years." This assertion undermines the entire cost/benefit analysis for the build-out needed to implement the share class conversion.

- SIFMA believes that decoupling distribution and servicing fees from ongoing asset-based sales charges under proposed Investment Company Act Rule 12b-2 will clarify the purpose of these fees and provide more transparency to investors with respect to costs associated with mutual fund share purchases and the different ways in which sales charges can be assessed. Additional guidance is needed, however, in clarifying those activities that could be considered distribution and servicing versus those that can be assessed against fund assets outside of proposed Rule 12b-2. Finally, further consideration should be given to whether the 25 basis point ("bps") limit should be increased or whether special consideration needs to be given to higher allowable distribution and service fees for retirement shares and money market funds offered as sweep options;

- SIFMA believes that the purpose of transaction confirmations is to provide clear, useful information to investors. Any additional information proposed to be included should further that goal. Excessive information on the confirmation statement may confuse investors, particularly when the prospectus and/or summary prospectus contains, in many instances, duplicative and detailed information on fund fees and charges. To the extent additional information is required on the confirmation statement, guidance is needed to clarify the form and placement thereof. In addition, changes to Exchange Act Rule 10b-10 confirmation disclosures should be considered in conjunction with any other disclosures being contemplated by the Commission at this time (*e.g.*, point-of-sale); and

- Finally, we believe that, overall, the implementation schedule for new fund shares under the Proposal is overly aggressive. SIFMA urges the Commission to extend the 18-month compliance period to 24 months given the anticipated complexities associated with the systems and operational changes required to implement the Proposal. SIFMA also believes that the cost of building a conversion feature for existing fund shares far outweighs the benefit to those few shareholders who may actually hold Class C shares until the time the Proposal suggests for conversion of grandfathered shares.[6]

[6] *Id.*

II. COMMENTS

A. 6c-10(c) - Account-Level Sales Charge

Introducing account-level sales charges and attempting to drive costs down through anticipated competition among intermediaries selling fund shares may not benefit investors. Moreover, the fees generated may not be sufficient to allow intermediaries to continue to provide substantial services, particularly for smaller investors. Less expensive platforms exist today with no-load funds, fund supermarkets and exchange-traded funds. With the Commission considering implementing a new fiduciary standard applicable to brokers, the Proposal is premature and, if enacted, may create conflicting obligations with respect to client suitability and the potential availability of a lower cost, lower service model of fund distribution.

The Commission is proposing to allow funds to elect to offer shares at net asset value ("NAV") to dealers who could then impose their own account-level sales charges based on proprietary pricing schedules and individual customer negotiations. This Proposal, according to the Commission, is intended to "provide flexibility to fund underwriters and dealers, encourage price competition among dealers offering mutual funds and, ultimately, benefit fund investors."[7] The Commission believes that the current model, whereby all dealers in a fund's shares must sell those shares at the same uniform price as established by the fund, effectively eliminates competition among dealers in mutual fund shares. According to the Commission, the proposed account-level sales charge would provide dealers flexibility in setting commissions or other charges to cover distribution costs.

Despite the Commission's concerns, SIFMA notes that a healthy and competitive market currently exists between fund intermediaries, including those that offer full-service brokerage accounts, fee-based advisory accounts, and self-directed fund supermarkets. In addition to offering fund investments, albeit at uniform prices, dealers and intermediaries also provide additional services to their investor customers.[8] These value-added services provide

[7] Proposal at 47088. We note, however, that while other aspects of the Proposal have been thoroughly reviewed and discussed for several years, the Commission's expectations regarding competition and other positive effects flowing from proposed rule 6c-10(c) have not been tested or subject to industry scrutiny. This rule, if adopted, would introduce a fundamental change to the long established and effective mutual fund pricing structure. The resulting uncertainty and disruption could adversely impact investors. Consequently, we urge the Commission to table this aspect of the Proposal for further study.

[8] *See* 2007 White Paper, at 2, wherein we noted:

- Broker-dealers and fund complexes have developed new approaches to meeting investors' needs. Investors now have a multitude of choices as to the funds that they wish to buy, how they wish to pay for those funds and the services that support those investments.

choices to investors, flexibility to dealers and the resulting competition the Commission seeks to create. If dealers begin setting account-level sales charges, SIFMA believes competition among dealers actually may wane and to the extent that the fee structure that develops drives prices too low, services to investors and share class choices may decline as well. Further, because not all funds will offer a share class that allows for account-level charges, investor choices on account-level sales charge platforms may be more limited than a typical brokerage account platform.

If some fund families begin to offer share classes that allow for account-level charges, intermediaries will have to decide: (i) whether to offer an account that charges account-level fees, instead of traditional load fund shares; (ii) what criteria will be used to determine which clients will be allowed to establish the accounts; and (iii) whether to limit portability of shares purchased under proprietary pricing structures.[9] Intermediaries may simply decide to cease offering traditional Class A, B or C shares to avoid the potential conflict of interest with choosing which clients are allowed to purchase mutual funds with the account-level fee structure. To the extent competition drives account-level sales charges significantly below current sales charges, the level of services may suffer. Moreover investors, particularly small investors, may be forced to select investment advisory account alternatives where the account level asset-based fees provide desired services but typically at significantly higher cost.[10]

- Investors who so choose may buy low cost no-load funds from distributors.
- But investors may also choose:
  - Professional advice - some investors prefer to buy funds with the assistance of a broker-dealer, who will help them select the fund and consider the fund in the context of a suitable investment strategy and asset allocation plan.
  - Diversity of Fee Arrangements - investors may choose to pay front load, spread load, contingent deferred sales charge, or some combination of these fee arrangements.
  - Variety of Platforms - some investors may choose to buy funds from a broker-dealer that the registered representative recommends. Others may select their own funds or use a financial planner and purchase through a fund supermarket.

[9] An intermediary may seek to limit portability of such shares as a result of negative tax consequences and unnecessary sales charges related to exit or reentry fees applicable when moving from one intermediary to another. For investor clients, portability poses additional issues, particularly where the intermediaries in question offer different services making an "apples-to-apples" comparison difficult.

[10] *See* SIFMA Study - Standard of Care Harmonization, Assessment for SEC (Nov. 1, 2010), available at http://sifma.org/issues/item/aspx?id=21999.

For clients who want to purchase mutual funds at the lowest possible cost, there currently are many existing platforms that charge a simplified less expensive fee structure. Through this Proposal, the Commission aims to create something that already exists, while disrupting the current structure and undermining the market for other share classes. In sum, competition and investor choice in the mutual fund market are strong. Creating an account-level sales charge is a counterproductive and expensive solution in search of a problem.

The cost to intermediaries to implement changes related to proposed rule 6c-10(c) will be significant.[11] Intermediaries will need to build an entire system overlay to allow for sales charges, account-level fees and/or deferred sales charges to be assessed, in addition to developing the financial models to determine what is the appropriate charge structure (*e.g.*, does the intermediary develop a price structure modeled after current share classes, a composite of all current share classes, or an ETF-style commission per trade?).[12] It is also far from clear whether that development should begin now, without knowing whether funds will adopt share classes that allow for account-level fees.

In the Proposal, the Commission does not address or take into account the implications of a prospective fiduciary standard applicable to broker-dealers in sales of mutual fund shares.[13] The results of the Commission's Fiduciary Study will be critical in making changes to rules and regulations that impact intermediaries and their dealings with investor clients. The proposed account-level sales charge should not be finally considered until the Commission has reviewed the Fiduciary Study and has decided how to proceed in light of that study. Only then will the Commission be able to ascertain how point-of-sale suitability and ongoing fiduciary obligations will coexist with current fee structures.

The adoption of this proposed rule may not benefit customers or the market as the Commission predicts and in fact, may undermine several of the other proposed changes set forth in the Proposal while also taking away fee transparency and comparability.[14] In addition,

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[11] The Proposal removes the fund families from the economics of fund distribution and servicing and places the burden solely on intermediaries. The intermediaries' systems will have to be built or modified to make purchases at NAV and then charge the commission and/or account-level sales charge thereon. Because intermediaries will have legacy positions that were sold with the traditional share class structure, they will need to maintain a dual process or possibly two systems.

[12] Clarification also is needed with regard to the nature and limitations of the fee schedule(s) a broker-dealer may adopt with respect to the proposed rule.

[13] Section 913 of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 requires the Commission to conduct a study regarding the obligations of broker-dealers and investment advisers, including the prospective development of a uniform standard of care ("Fiduciary Study").

[14] While the Proposal seems intent on clarifying and leveling the total aggregate fees charged by Class A, B and C shares, it also appears to undercut that desired outcome with the account-level sales charge

proposed Rule 6c-10(c), coupled with the yet-to-be-determined fiduciary standard, may lead to an over-emphasis on the benefits of the lowest cost option over providing the highest quality and breadth of service.[15] The Proposal may lead to intermediaries choosing between offering traditional load fund share classes or the broker/account-level class because to do otherwise would create investor conflicts.[16] SIFMA recommends that the Commission focus efforts on the clarification and implementation of the other provisions set forth in the Proposal and place this proposed amendment on hold pending thorough consideration of the issues raised above and the results of the Fiduciary Study.[17]

B. 6c-10(b) - Ongoing Sales Charge

Protecting shareholders from excessive fees caused by long-term holdings in Class C shares is an admirable goal. The proposed automatic conversion of shares to a class without a sales charge is an approach that has already been used with Class B share conversions. However, the cost of implementing the proposed share class conversion functionality for new purchases, and addressing conversion for grandfathered share lots far outweighs the benefits to those few investors who may hold their Class C shares until the conversion date. Further, allowing a fund-specific, as opposed to rule-established, reference load will lead to further investor confusion.

The Commission is proposing to permit funds to deduct asset-based distribution and servicing fees that exceed the 25 bps allowed under proposed Rule 12b-2 (see part C., below), as an "ongoing sales charge" subject to a durational cap with an automatic conversion to a

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proposal which allows every intermediary to charge their own fees, potentially at or above the levels proposed in Rule 6c-10(b), while creating less fee transparency for investors.

[15] Similarly, if approved, Commission guidance would be needed to address the possible conflict of allowing some clients to purchase traditionally priced shares while others buy NAV shares with a commission overlay or some other fee structure. Presumably intermediaries would need rules to address this issue and to ensure that clients were treated fairly. In addition, intermediaries would need guidance on, for example, how to set and disclose their sales charges, and manage account transfers between brokers with different service offerings and account-level charges, including possible deferred sales charges.

[16] *See*, NtM NASD Disciplinary Actions (Aug. 2003) wherein NASD notes an increase in actions against broker-dealers for violations of suitability rules for recommending B shares instead of A shares, where an investment in A shares would have been more economically beneficial to the customers.

[17] In addition, the Commission should consider the proposed rule recently issued by the Department of Labor addressing the definition of "fiduciary" in terms of beneficiaries of pension plans and individual retirement accounts. *See* Department of Labor, Proposed Rule Regarding the Definition of the Term "Fiduciary", 75 FR 65263 (October 22, 2010).

share class without a sales charge once that time frame is reached. The Commission is proposing to cap the sales charges by using a reference load of the highest front-end load that the investor would have paid if the investor had invested in a front end sales charge class of the same fund.[18]

In general, SIFMA supports the Commission's goal to limit ongoing sales charges that investors pay on fund investments. Such a limit, for example, would ensure that Class C shareholders do not pay the higher fee indefinitely, and establishes a simplistic approach to setting the duration of the fee. SIFMA questions, however, whether the cost of implementing the proposed share class conversion (which ultimately will be borne by shareholders) is warranted in light of the Commission's assertion that very few clients hold Class C shares beyond four years and thus may benefit from a share class conversion feature.[19]

Alternatively, if the Commission believes a share class conversion is required to protect this small minority of Class C shareholders, SIFMA believes the Commission should propose a standard process for arriving at the cap that results in the subsequent conversion (and perhaps even an industry standard technology solution). Specifically, the "reference load" should be fixed by the Commission so that it is consistent for all fund families and not subject to manipulation by fund families. The reference load should also take into account the current load structures of different categories of funds (*e.g.*, equity, fixed income, money market).

Without a consistent application for setting the ongoing sales charges, investors would have difficulty making cost comparisons between fund shares offered by different fund families. Fund shares in the same class offered by different fund families likely would be subject to different reference loads and thus different ongoing sales charge caps. The resulting complications would include, for example, confusion for investors trying to determine when a particular fund's shares will convert.

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[18] The proposed reference load and the durational limit before conversion does not take into account the fact that the client may have been entitled to breakpoints or rights of accumulation with a Class A share purchase which would decrease the sales load that they would have paid. For these larger clients, the Rule 6c-10(b) durational limits will extend beyond the point when the investor would have paid excess fees by being in a Class C share.

[19] *See* footnote 5, supra. Also, we note that intermediaries have already taken steps to prevent investors from purchasing inappropriate share classes and paying excessive sales charges. For example, firms have adopted share class purchase limits and blocks, order entry share class calculators and/or compliance surveillance monitoring systems for this purpose. Moreover, financial advisors making purchase recommendations to clients have a suitability obligation at the time of sale to ensure that the appropriate share class is recommended based on the available facts including the estimated holding period (*e.g.*, Class C shares for shorter term investors).

Once the sales charge cap is met, the Commission proposes that the shares automatically convert to a different class without an ongoing sales charge. We appreciate the purpose of the automatic conversion component. However, while share class aging functionality already exists at many larger intermediaries with respect to B share conversions, many mid-sized and smaller brokers do not have systems (or ready access) in place to track, age and convert shares. Regardless, the conversion being proposed here is "amount-based" as opposed to age-based and hence will require significant operational consideration in any event. From an operations/systems and administrative perspective, this will be yet another costly and time consuming endeavor for many.[20]

C. 12b-2 - Marketing and Service Fees

Decoupling distribution and servicing fees from ongoing asset-based sales charges will help to clarify the purpose of these fees and provide more transparency to investors with respect to costs associated with mutual fund share purchases and the different ways in which sales charges can be assessed. Additional guidance is needed, however, in understanding those activities considered to be distribution and service-related. Additionally, the Commission should consider further whether the 25 bps limit should be increased or whether special consideration needs to be given to higher allowable distribution and service fees for retirement shares and money market funds offered as sweep options.

The Commission is proposing Rule 12b-2 to more clearly identify to investors those fees used by funds to cover distribution and servicing costs. Specifically, the new rule, among other things, would allow funds to deduct a fee from fund assets of up to 25 bps to pay for distribution and servicing-related activities, as permitted under NASD Rule 2830.[21] The Commission believes that the current "12b-1 fees" are confusing to investors because investors do not perceive that a portion of the 12b-1 fee is an asset-based sales load. SIFMA agrees with the Commission's goal and supports the adoption of new Rule 12b-2, with some minor modifications.

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[20] From a cost/benefit perspective, the cost to intermediaries to implement the changes associated with the Proposal far exceeds the costs incurred by the few Class C share investors that hold their shares beyond the point where share class conversion would occur under the Proposal. Members estimate costs ranging from $1.5 million to $7 million to develop and implement the conversion mechanism. These estimates do not include ongoing costs to intermediaries to operate and maintain the system (*e.g.*, update, modify, etc.).

[21] NASD Rule 2830(d)(4) states that a member may not describe an investment company "as 'no load' or as having 'no sales charge' if the investment company has a front-end or deferred sales charge or whose total charges against net assets to provide for sales related expenses and/or service fees exceed .25 of 1% of average net assets per annum." Guidance is needed to understand how the proposed rule and Rule 2830 will intersect, if at all.

The Commission proposes to define "distribution activity" as

> any activity that is primarily intended to result in the sale of shares issued by the fund, including, but not necessarily limited to, advertising, compensation of underwriters, dealers and sales personnel, the printing and mailing of prospectuses to other than current shareholders and the printing and mailing of sales literature.[22]

Clarification is needed to identify those specific activities that would fall within this definition and thus be paid out of the 12b-2 fee, and those activities that would not be distribution and servicing-related and thus could be paid outside of the 12b-2 fee. At the same time, guidance should be flexible in anticipation of changes in the industry, technological and otherwise. In addition, recognizing that not all service fees are in fact distribution-related, the Proposal should give a fund's board the ability to determine the status of those service fees that are not distribution-related and hence not required to be paid out of the 12b-2 25 bps.

Guidance also is needed to understand whether a broker-dealer may receive *more* than the 25 bps servicing fee, given that many platforms charge 40 bps or more with up to 25 bps paid out of 12b-1 fees and the remainder being paid as revenue sharing out of the adviser's reasonable profits. While SIFMA agrees with the Commission's comment in the Proposal that many share classes do not charge 12b-1 fees in amounts exceeding 25 bps, SIFMA also believes that, in light of the collective modifications set forth in the Proposal and the resulting implementation burden on intermediaries, the Commission should consider whether the proposed 25 bps limitation is adequate to cover fund marketing and servicing fees going forward. In addition, certain fund share classes used primarily or exclusively with qualified plans ("retirement shares") currently have ongoing servicing fees of 50 to 75 bps or more. These fees are used primarily to support the recordkeeping function and plan participant support, not compensation. It is unclear whether under the proposed 12b-2 fee limit, retirement shares would be able to restructure their current fees to provide amounts to be paid to the recordkeeping entities to support the servicing and cost of qualified plan administration.

Similarly, the servicing costs associated with money market funds and sweep accounts tend to be more significant compared to the amount of share holdings because the broker-dealer has to support a greater number of transactions per dollar held in the fund, perform accounting for the accrual of interest, and handle increased movement of funds. These costs likely would need to be reclassified as a result of the Rule 12b-2 limit and a lack of guidance regarding the definition of distribution activity.

Finally, we believe the limit on the 12b-2 fee should be specified in the rule and that the authority to set or otherwise modify the fee should not be delegated to FINRA.

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[22] Proposal at 47076.

D. 10b-10 - Additional Disclosures in Confirms

Providing additional information in a transaction confirmation may be useful to investors in understanding the fees they are paying when making an investment. The information should be effective, as opposed to excessive, to avoid overwhelming and confusing investors. Finally, any modifications to confirmation disclosures should be considered in conjunction with other disclosures being considered by the Commission so as to avoid excessive expense, duplication of efforts and, again, investor confusion.

The Commission is proposing the disclosure of additional fee information on confirmations for mutual fund transactions. Specifically, the Commission is proposing that intermediaries provide the price at which the transaction was effected, remuneration paid by the customer to the broker-dealer (acting in an agency capacity), and in certain instances, remuneration received by the broker-dealer from third parties such as mutual funds or affiliates.

Generally, as noted above, SIFMA is supportive of transparency to investors with regard to fees being paid in mutual fund transactions. We caution, however, that information being provided should be useful to investors and not merely comprehensive, excessive or duplicative of information already included in prospectuses. Relevant and useful information presented more clearly should be the goal, as opposed to more extensive information that could be overwhelming to parse through. We believe the Commission should consider whether the additional information will be meaningful to investors, particularly if received post-transaction.[23]

SIFMA members believe the overall cost to make the additional disclosures on confirms will exceed the Commission's estimates as set forth in the Proposal.[24] We urge the Commission to consider whether some of the information could be provided in an alternative manner, rather than requiring changes to confirmation statements, which, as noted above, are costly to make. In addition, we ask that the Commission consider this disclosure amendment in light of impending point-of-sale and other similar disclosure proposals.[25] By considering

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[23] *See* The GAO Report to Congressional Requestors, *Mutual Funds, Greater Transparency Needed in Disclosures to Investors*, at 3 (June 2003), wherein the Report indicates, among other things, that, "SEC staff and industry participants" have indicated "that data on the extent to which additional fee information would benefit investors is generally lacking."

[24] *See* Proposal at 47126.

[25] In particular, *see* recently issued FINRA Regulatory Notice 10-54, which requests comment on a concept proposal to require brokerage firms, at or prior to the start of a business relationship with a retail customer, to provide a written statement setting out the types of accounts and services the firm provides to retail customers, as well as conflicts associated therewith. In addition, it would require, among other

changes to disclosure requirements on a wholesale basis as opposed to in isolation, the Commission will facilitate efficiencies in the implementation of the disclosures and prevent disconnect between disclosure requirements.

III. IMPLEMENTATION

SIFMA believes that the proposed 18-month implementation period for new fund shares is too short in light of the significant systems, operations and other changes that must be made to support the Proposal. We urge the Commission to extend compliance implementation to 24 months.

SIFMA believes that the Commission should eliminate the grandfathering provision that would apply to existing Class C share positions. The systems development work to implement the other aspects of proposed Rule 6c-10(b) are daunting, and to require additional development work to allow for conversion of existing fund positions is unnecessary. As discussed above, the vast majority of clients that own Class C shares do not hold the positions beyond four years. To the extent the proposed grandfathering provision would become effective five years after the date on which the proposed new Rule 6c-10(b) cost structure is in effect for new share purchases, the grandfathering provision would not apply for at least 6.5 years from the effective date of the rule. Building a separate process at a considerable expense for a conversion of what will likely be an extremely limited population of clients is simply not a good use of limited resources particularly in light of the other priorities in the Proposal that firms must address.

IV. CONCLUSION

In sum, the Proposal effectively frames a number of issues relevant to intermediaries in the mutual fund market. However, as set forth above, SIFMA believes that while the Commission aims to make certain changes in the industry, the Proposal undermines those very efforts in a number of ways. In addition, we believe further consideration should be given to the impact of the proposed rules on broker-dealers, their investor clients and the mutual fund industry as a whole. This impact includes the significant operational, administrative and other costs associated with the implementation of the various components of the Proposal. Similarly, the Commission should temper its consideration of the Proposal in light of the Fiduciary Study and other areas under review such as point-of-sale disclosure and suitability. This will help ensure an appropriately cohesive, comprehensive and coordinated approach towards the regulation of intermediaries in the mutual fund market.

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things, disclosure of "all fees associated with each brokerage account and service offered to retail customers, a specific description of the service provided for each fee and whether fees are presented in a manner to allow customers to make comparisons between broker-dealers."

We appreciate the opportunity to provide our views. If you have questions, please contact the undersigned at (202) 962-7382.

Sincerely,

Kevin M. Carroll
Managing Director and
Associate General Counsel
SIFMA

cc: The Honorable Mary L. Schapiro
Chairman
U.S. Securities and Exchange Commission

The Honorable Luis A. Aguilar
Commissioner

The Honorable Kathleen L. Casey
Commissioner

The Honorable Troy A. Paredes
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