

***Aquila Investment Management LLC
and
Aquila Distributors, Inc.
380 Madison Avenue
Suite 2300
New York, NY 10017***

Elizabeth M. Murphy
Secretary
Securities and Exchange Commission
100 F Street, N.E.
Washington, DC 20549-1090

Re: File No. S7-15-10

Dear Ms. Murphy,

We appreciate the opportunity to comment on the Securities and Exchange Commission's proposed new rule and rule amendments (File No. S7-15-10) which would replace Rule 12b-1 under the Investment Company Act of 1940. Aquila Distributors, Inc. is the principal underwriter and distributor of the Aquila Group of Funds. The Aquila Group of Funds is comprised of twelve registered open-end investment companies, which, as of October 31, 2010, had combined assets under management approximately \$4.7 billion.

We are generally aware of, and concur with, the Investment Company Institute comment letter regarding the proposed new rule and rule amendments. We also would like to provide the following additional comments and concerns based on the text of the proposal.

Comments

- **Marketing and Service Fee:** We appreciate the Commission's acknowledgement that some portion of the services paid for by distribution fees may actually constitute non-distribution activities that could reasonably be accounted for as operating expenses of a fund. In order to properly identify fees associated with distribution activities versus non-distribution activities, we look to the Commission to provide clear guidance in regard to the appropriate distinctions.
- **Class C shares:** We recommend that the Commission exclude from the sunset provision any Class C shares that already provide for conversion to Class A within a specified period.

Concerns

- **Renegotiation of Dealer Agreements:** The sweeping changes to distribution payments described in the proposal could result in a determination that renegotiation of dealer agreements with fund providers would become necessary, thereby disrupting current arrangements. Given the number of funds distributed by intermediaries, the magnitude of the operational and systems changes required by the proposal, the very significant costs associated with those changes, and the 18 month period proposed for compliance, it is possible that dealers will prioritize the renegotiation of agreements based on assets under management with individual fund providers. This would disadvantage many smaller fund groups, such as ours, even though such fund groups may have long-standing dealer agreements currently in place, and thereby impair rather than enhance competition.
- **Revenue Sharing:** The Commission states, in note 65, page 19, that revenue sharing practices will not be addressed in connection with these proposals, but later asks whether mutual fund purchase confirmations should be required to include quantified information about the source and amount of remuneration a broker-dealer receives in connection with a mutual fund, including "revenue sharing"

(page 75). Investor savings identified on page 195 are described as revenue lost by intermediaries, and on page 202, the Commission suggests that perhaps revenue lost by intermediaries could be offset by other sources (identified as revenue sharing paid by fund providers in note 505). We object to this suggestion, as it implies that fund providers would have this revenue available to readily “share” in order to make up for revenues lost by intermediaries. If intermediaries were to pursue what appears to be the staff suggestion, it could ultimately result in small and medium sized fund providers being forced out of the intermediary-sold distribution channel, which is of no benefit to investors, given the fact that investors more frequently invest through intermediaries (based on data of both the Investment Company Institute and Strategic Insight, an Asset International Company). Furthermore, it could result in only the highest-cost funds (those with the highest profit margins) continuing to be available through the intermediary channel. Revenue sharing is already a significant cost borne by fund distributors and sponsors in association with the sale of mutual funds through intermediaries. Since the Commission was unable to formulate this proposal without reference to revenue sharing, we strongly recommend that revenue sharing be addressed in conjunction with the proposals regarding mutual fund distribution fees, and the proposed account-level sales charges under the 22(d) exemption.

- **Cost Benefit Analysis:** We believe it is highly unlikely that the statement under Cost Benefit Analysis, which indicates that funds will incur minor or no expenses in complying with the proposal, is accurate, particularly given the very extensive operational and systems modifications potentially required in order to attribute detailed expenses to individual transactions within a confirm, should that portion of the proposal be enacted. The actual costs of complying with the proposal, as described, are likely to be very significant, and particularly onerous for small fund groups. Moreover, there are likely to be unforeseen legal actions or unintended consequences associated with the proposal that have not been considered in this analysis.

We appreciate the opportunity to comment on this proposal. If there are questions, or additional information is needed, please contact us at 212-697-6666.

Sincerely,

Diana P. Herrmann
President and Chief Executive Officer
Aquila Investment Management LLC

Marie Aro
Co-President
Aquila Distributors, Inc.

Paul O'Brien
Co-President
Aquila Distributors, Inc