

VIA ELECTRONIC MAIL

January 17, 2008

Nancy M. Morris
Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

RE: SEC Review of Rule 12b-1

Dear Ms. Morris:

MWA Financial Services, Inc. (MWAFS) is a broker/dealer registered with the Securities and Exchange Commission (SEC). We appreciate the opportunity to submit these comments in connection with the recent roundtable the SEC convened to examine issues presented by Rule 12b-1 (Rule) under the Investment Company Act of 1940 (Investment Company Act). The Rule allows fees to be deducted from mutual fund assets to pay distribution and shareholder service expenses. Rule 12b-1 was designed to enhance the value of fund ownership by attracting more investors into mutual funds. The Rule is of utmost importance to millions of investors, their financial advisors, and the broker-dealers that serve them.

The Rule's important role in supporting mutual fund distribution, along with significant changes in the U.S. securities markets since the Rule was adopted some 27 years ago, justifies its re-examination. The Commission is, therefore, to be commended for initiating this comprehensive review of Rule 12b-1 and hosting the excellent roundtable session on June 19. However, as the clear majority of the roundtable panelists indicated, the Rule's purpose has been ably served by the use of 12b-1 fees to facilitate mutual fund distribution and shareholder services. Therefore, MWAFS believes that any potential changes to the Rule should relate solely to improving their effective disclosure to clients and reinforcing the Rule's important achievements.

MWAFS is a full service independent broker-dealer serving our clients with a vast array of securities products, which includes mutual funds and proprietary variable products issues by our parent insurance company. MWAFS clears individual securities on a fully disclosed basis and primarily engages in the sale of packaged products, such as mutual funds and variable insurance products, by "check and application". MWAFS takes a comprehensive approach to our clients' financial goals and objectives. We are positioned to provide middle class Americans with the financial advice, products, and services necessary to achieve their financial goals and objectives.

Our financial advisors are independent contractors, rather than employees of the firm. They provide comprehensive and affordable financial services that help individuals, families, small businesses, associations, organizations, and retirement plans with financial

products designed to meet their needs. Our clients typically have a median income and need the benefits afforded them through our representatives. Our representatives are entrepreneurial business owners who typically have strong ties, visibility, and individual name recognition within their communities and client base. Most of their new clients come through referrals from existing clients or other centers of influence. Our representatives know their clients personally and provide them investment advice in face-to-face meetings – oftentimes over the client’s kitchen table. Due to their close ties to the communities in which they operate their small businesses, we believe our representatives have a strong incentive to make their clients’ investment objectives their primary goal.

The SEC’s re-examination of Rule 12b-1 is of particular interest to us. We can attest to the fact that 12b-1 fees provide a tax efficient means to support the continuing service that our clients need for successful investing. Our clients need the continuing service, guidance, and support that are provided by these independent financial advisors to achieve their investment goals. 12b-1 fees subsidize these efforts. As a result, we believe that the consequences of eliminating or drastically altering Rule 12b-1 would have disastrous effects on investors and representatives.

The following is copied from a letter written to you on August 3, 2007 by The Financial Services Institute; we believe the assessments outlined to be consistent with reality:

“Rule 12b-1 provides the following important benefits to investors:

1. Expansion of Investor Choice – Mutual fund companies have responded to the Rule by creating share classes with a variety of fee structures. In addition, the ability of small fund companies to assess 12b-1 fees has enabled them to remain competitive by allowing them to gain access to a wider array of distribution channels. The innovation and specialization offered by smaller fund families increases the choices available to mutual fund investors. The proliferation of fund families and share classes provides financial advisors with the tools necessary to tailor a portfolio to their client’s specific needs. More importantly, however, it provides investors with choices by providing them a greater variety of mutual fund options and a variety of choices in how they pay for distribution services and financial advisor support.
2. Supporting Financial Literacy - Mutual funds send their investors monthly statements, confirmations, prospectuses, annual reports, and other materials. Financial advisors serve the vital role of educators by helping investors to make sense of these essential materials. It is clear that investors value this support as 82% of investors who own funds outside defined contribution retirement plans reported that they invest in funds through a financial advisor.¹ 12b-1 fees are the compensation these financial advisors receive for their support services and offer the ongoing incentive to continue these efforts beyond the initial transaction.
3. Managing Client Expectations – Investors make several common mistakes; buying high and selling low, chasing past performance, failing to adequately diversify and harboring unrealistic expectations. These mistakes can lure unwary

investors into financial disasters from which it can be difficult to overcome. Investors need the help and support from experienced independent financial advisers to avoid falling into these common investor traps. 12b-1 fees provide financial advisors with the incentive to promote intelligent investment decisions and manage client expectations rather than encouraging trading activity. As a result, they play an important role in facilitating the achievement of investors' financial goals.

4. Insuring Small Accounts Receive Service – The sale of mutual fund shares should not be viewed as a one-time transaction event. Instead mutual fund sales through the IBD channel involve the creation and fostering an ongoing relationship of trust between the investor and his chosen financial advisor. These relationships involve the giving of support and service relating to changes in the client's personal circumstances, the performance of the recommended mutual fund, developments in the securities market, and other factors. 12b-1 fees provide the mechanism to insure small investors receive the support and service they need to achieve their financial goals. Alternatives, such as investment advisory services, are simply out of the reach of many small account holders. Financial advisors must have another means of being fairly compensated for servicing these accounts. 12b-1 fees are an appropriate and necessary method of subsidizing the personal services provided by independent financial advisors to middle-class Americans.

5. Subsidizing Additional Services – Independent financial advisors offer their mutual fund clients a variety of additional services including: consolidated account statements, periodic portfolio review meetings, quarterly newsletters, cost basis research, preparation of tax returns, consulting on other financial decisions. These essential services are made possible by the subsidy 12b-1 fees provide. Externalizing the fees for such services would do small investors significant harm by imposing the full cost of such services upon them rather than allowing larger accounts to subsidize these costs as occurs under the current system. In addition, externalization would impose invoicing and collection costs on financial advisors. These costs would be passed on to investors through higher fees. The result would be the reduction of services or a significant increase in their cost in the name of protecting investors. Rule 12b-1 simplifies the payment for essential support services.”

¹ See the *Profile of Mutual Fund Shareholders*, Investment Company Institute, 2004, p. 105 at http://www.ici.org/pdf/rpt_profile04.pdf.

We commend the SEC for reviewing the investor benefits of 12b-1 fees; however, it is obvious that the repeal of Rule 12b-1 has the potential to cause great harm to our clients who need the support and service of our trained financial advisors. It is our belief, that the repeal of the Rule would “force” all financial advisors to become registered as Investment Adviser Representatives (IARs), therefore, possibly creating a new problem. Acting in the capacity as an IAR, the advisers would charge flat fees for investor’s money under management in order to be able to compensate for the loss of income caused by the repeal of the Rule. If the client were a true long term investor and no exchanges or money movement was needed to achieve the stated goals, the adviser could be cited for putting the client in the wrong type of account and costing the client more in fees and expense than was necessary.

Therefore, MWAFS urges the SEC to allow Rule 12b-1 to continue to support our representatives’ efforts to provide the ongoing financial advice and service to our investors’ accounts while pursuing their financial goals. We agree that more effective disclosure of the fees and services associated with 12b-1 plans would be a positive development. However, any such effort should be coordinated with the SEC’s current point-of-sale rule proposal and prospectus simplification project with the emphasis on simplifying and clarifying the mutual fund disclosures

Again, thank you for the opportunity to comment on the SEC’s review of Rule 12b-1. Should you have any questions, please contact me at 309-558-3103.

Respectfully submitted,
Pamela S. Fritz, CSCP
CCO