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®
Edward Jones

November 5, 2010

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 - File No. S7-15-10

Dear Secretary Murphy:

Edward Jones welcomes the opportunity to provide comments to the Securities and Exchange Commission ("SEC" or "Commission") on proposed rule changes regarding the distribution of mutual funds ("Proposal").¹ Edward Jones is one of the largest financial services firms in the United States, serving nearly seven million U.S. investors through personalized service and relationships maintained by more than 12,000 U.S. financial advisors. We focus on serving the needs of the serious, long-term, individual investor. As you may know, we have previously submitted comment letters to the Commission on this topic because of its significant impact on our clients, our financial advisors and our firm.

Introduction

We commend the Commission on its significant efforts to achieve reform of Rule 12b-1. Mutual funds serve investors well by providing professional investment management, diversification and liquidity. We offer mutual funds as a broker-dealer and through our advisory program, Edward Jones Advisory Solutions[®]. Our clients have over \$300 billion invested in mutual funds. As the Commission has noted, "[m]illions of Americans" rely upon mutual funds "for their retirement, their children's education, and their other basic financial needs."² We believe a successful mutual fund distribution system must rest upon several important principles, including: (1) transparency regarding fees and other important information; (2) a wide array of choices of financial services providers and delivery models; (3) access to professional financial guidance for those who want assistance; and (4) a stable, comprehensible distribution system. The comments below are based upon our support of these overriding principles.

Comments

Marketing and Service Fee

Edward Jones is supportive of proposed Rule 12b-2, which allows funds to charge a Marketing and Service Fee. Currently, Edward Jones receives the vast majority of Rule 12b-1 fees in connection with

¹ Securities Act Release No. 33-9128; Exchange Act Release No. 34-62544; Investment Company Act Release No. 29367 (Jul. 21, 2010); 75 Fed. Reg. 47064 (Aug. 4, 2010).

² *Enhanced Disclosure and New Prospectus Delivery Option for Registered Open-End Management Investment Companies*, 74 Fed. Reg. 4546-01, 4547 (Jan. 26, 2009) (rules codified at 17 C.F.R. pts. 230, 232, 239 and 274).

the sale of Class A shares. At Edward Jones, Class A shares comprise more than 90% of our brokerage mutual fund business, which is indicative of our focus on serving the long-term investor. Therefore, the 25 basis point portion of what is now commonly known as a Rule 12b-1 fee is a critical component of how Edward Jones and its financial advisors are compensated for providing ongoing services to mutual fund shareholders. In general, Rule 12b-2 will clarify the purpose of these fees and provide greater transparency, while continuing to allow investors to obtain the guidance or advice they seek both before and after their initial purchase.

We do believe, however, it is important for the Commission to recognize that there may be circumstances in which the 25 basis point limit³ may not be sufficient to compensate fund companies and intermediaries for important services provided in connection with certain methods of investing, including retirement plans.⁴ We urge the Commission to address this issue, possibly through an exception to Rule 12b-2 that would allow a higher cap in certain situations or clarification concerning which services constitute distribution and are subject to the cap.

The Ongoing Sales Charge

We are also supportive of proposed Investment Company Act Rule 6c-10(b), including the ongoing sales charge and the limits on the cumulative amount of such a sales charge. Based upon the same concerns underlying the cumulative cap contained in the ongoing sales charge provision, Edward Jones has recommended Class A Shares in most instances for many years and our firm limits the circumstances in which we recommend the purchase of Class B and C shares.

However, based upon an initial internal operational analysis and industry discussions, we are uncertain whether the Commission's conclusions concerning the operational ease and expense of implementing the automatic conversion process are correct and hope that the Commission gains a better understanding of these challenges as a result of the comment process. We believe these proposed changes will be complex and challenging for both intermediaries and fund companies to implement. Therefore, at a minimum, the Commission should lengthen the compliance and grandfathering periods to accommodate these challenges.

Enhanced Disclosure

We are very supportive of efforts to provide a transparent, coordinated system of disclosure that assists fund investors in making informed decisions. In addition, we believe the specific disclosures included in the Proposal are appropriate and, if properly placed, should improve investor understanding of the fees involved in purchasing and holding mutual funds.

We believe, however, that the Commission should consider whether the mutual fund trade confirmation, which already contains a significant amount of information and is designed to provide transaction related data, is the optimal location for these disclosures. Also, it is apparent from the Proposal that the Commission is considering additional disclosure obligations that would affect mutual funds, including a point of sale disclosure and additional information about revenue sharing payments.⁵ We recommend that

³ 75 Fed. Reg. at 47076; Rule 2830 of the Conduct Rules of the NASD (Rule 2830 is now part of the FINRA Manual).

⁴ Based upon ICI figures, as of year-end 2006, almost 30% of the 401(k) assets that were held in share classes with a 12b-1 fee had fees greater than 25 basis points. Letter from Mary S. Podesta, Acting General Counsel ICI, to Nancy M. Morris, Secretary, SEC (June 19, 2007) (File No. 4-538).

⁵ 75 Fed. Reg. at 47068, note 65 (revenue sharing) and 47082, note 222 (point of sale disclosure).

any additional disclosure obligations relating to ongoing asset fees should be included in a coordinated proposal that addresses all of the Commission's disclosure goals, rather than handled in a piecemeal fashion. Changes to trade confirmations will be very costly for intermediaries and it is important that such changes contribute to, rather than complicate, the disclosure regime. In addition, we urge the Commission to consider whether relying more heavily on web-based disclosure, similar to the approach adopted in connection with the summary prospectus, is a more appropriate means of communicating the disclosures in the Proposal.⁶

Account Level Sales Charge

Finally, we have concerns regarding proposed Investment Company Act Rule 6c-10(c), the account level sales charge provision. The current mutual fund distribution system has created a wide array of choices for investors and numerous ways for investors to purchase and pay for mutual funds. Investors can select a full service firm such as Edward Jones, discount brokers offering mutual fund supermarkets, independent broker-dealers, mutual fund companies, registered investment advisors, insurance companies and a number of business models that combine aspects of these types of providers.⁷ Investors can pay for these funds with front-end sales charges that are deducted from amounts invested, contingent deferred sales charges that are deducted from the redemption proceeds, asset-based sales charges paid by the fund pursuant to a Rule 12b-1 plan, asset-based fees charged through an advisory platform, or a combination of these methods.⁸ Also, the current system has not resulted in higher costs to investors. Instead, "[s]ince 1990, the average fees and expenses paid by mutual fund investors have fallen in half."⁹

While mutual funds are a critical component of our investment system, making good investment choices concerning these funds can be a daunting challenge for individual investors. As the Commission has recognized, "investors face a difficult task in choosing among the more than 8,000 available mutual funds" and many investors are "overwhelmed" by the process of selecting appropriate funds.¹⁰ The Commission has also recognized that the "number of mutual fund customers, the value of mutual fund investments, and the number of mutual funds all have increased exponentially" over the last twenty-five years.¹¹

⁶ 74 Fed. Reg. at 4548 (certain aspects of the summary prospectus delivery framework were designed so that "funds take full advantage of the Internet's search and retrieval capabilities in order to enhance the provision of information to mutual fund investors.").

⁷ See e.g., SIFMA White Paper, p. 2, dated June 13, 2007, *Responding to Mutual Fund Investor's Changing Needs; Mutual Fund Distribution and Shareholder Servicing Practices*, (describing diversity of fee arrangement and platforms that support mutual fund distribution) (submitted with Letter from Ira D. Hammerman, Senior Managing Director and General Counsel, SIFMA, to Nancy M. Morris, Secretary, SEC (July 19, 2007) (File No. 04-538)).

⁸ *Id.*

⁹ *Research Fundamentals, Trends in the Fees and Expenses of Mutual Funds*, 2009, p. 1, Investment Company Institute, April 2010, Vol. 19, No. 2, available at <http://www.ici.org>.

¹⁰ 74 Fed. Reg. at 4547, 4549.

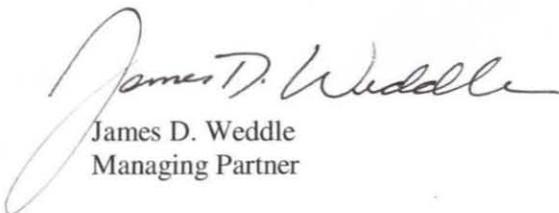
¹¹ *Confirmation Requirements and Point of Sale Disclosure Requirements for Transactions in Certain Mutual Funds and Other Securities, and Other Confirmation Requirement Amendments, and Amendments to the Registration Form for Mutual Funds*, 68 Fed. Reg. 6438, 6443 (Feb. 10, 2004) (proposed rules included at 17 C.F.R. Parts 239, 240 and 274).

The account level sales charge provision may pose a threat to the goal of having a stable, comprehensible mutual fund distribution system. It could introduce thousands of different pricing and fee models into a marketplace where investors already struggle to choose between the currently available options. Comparisons between pricing systems and delivery models would become extremely complex. In addition, the account level sales charge provision could severely limit the transferability of mutual funds shares between intermediaries, which is a positive attribute of the current system. Because of the likely inconsistencies among the pricing schemes at broker-dealers and other intermediaries, clients may be forced to redeem shares and incur negative tax consequences rather than simply transfer the shares from one firm to another, which is currently an almost seamless process. Furthermore, the transition to account level sales charges would involve significant costs and operational challenges before there is any clarity concerning whether funds would actually choose to issue a share class allowing for such a charge.

The Commission has indicated that it seeks to expand distribution models and encourage competition.¹² The currently configured distribution system, however, already meets the needs of investors by providing diverse choices, competition, flexibility, stability and reduced cost. The account level sales charge provision could introduce significant uncertainty, confusion and additional complexity into a distribution system that already achieves the Commission's goals. Edward Jones urges the Commission to forgo pursuing the account level sales charge provision or at least delay consideration of this provision until after the Commission fully resolves the issues related to its study of the appropriate standard of care for broker-dealers and investment advisors in the retail investor context.

Thank you for the opportunity to comment on the Proposal. Edward Jones stands ready to work with the Commission, the staff, other industry participants and the investing public as you continue to address these important issues.

Sincerely,



James D. Weddle
Managing Partner

¹² 75 Fed. Reg. at 47089.