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

Via E-Mail

Re: File Number S7-15-10

Dear Ms. Murphy:

I am responding on behalf of Citibank, N.A. ("Citibank") and Citicorp North America, Inc. ("CNAI"), both of which are indirect wholly-owned subsidiaries of Citigroup, Inc., to the request for comments made by the Securities and Exchange Commission ("SEC") regarding its proposed repeal of Rule 12b-1 under the Investment Company Act 1940 (the "1940 Act") and proposed new rule and rule amendments regarding mutual fund distribution fees and confirmations (the "Proposals").[1]

Citibank would like to add its voice to that of the American Bar Association and others who have urged that the "grandfather" period of 5 years as described in the Proposals be changed in order to allow Class B Shares outstanding on the "compliance date" of the new rules to convert in accordance with their terms.

Citibank is a commercial bank that for over ten years has provided funding for the distribution of mutual fund shares distributed pursuant to plans adopted under Rule 12b-1 (typically referred to as "Class B Shares"). That funding has been provided by Citibank through purchases, consisting of an up-front cash payment to the fund distributor in exchange for the sale by that distributor of the receivables (the "Receivables") payable to that distributor in respect of each Class B Share issued during the time period covered by the funding arrangements. The Receivables consist of : (a) the asset based sales charge payable by the mutual fund, generally at the rate of 75 basis points per year for eight years (or such shorter period that such Class B Share is outstanding) under the 12b-1 plan (the "ABSC"), and (b) the contingent deferred sales charge (the "CDSC") payable by the shareholder in the case of certain early redemptions of such Class B Share (such purchase arrangements, "Receivables Programs"). Citibank also pools Receivables purchased from various distributors and securitizes them, selling interests in those pools to institutional investors (such arrangements, "Securitization Programs"). Citibank may in some instances maintain Receivables on its balance sheet. The distributor uses the up-front cash payment obtained from the financing provided by Citibank to pay commissions to financial intermediaries for the sale of Class B Shares.

CNAI is an administrator for Citibank's Receivables Programs and Securitization Programs. In these capacities, CNAI assists in structuring the Receivables Programs and Securitization Programs, monitors the portfolios of assets,

1 Investment Company Act Release No. 29367 (July 21, 2010)[75 FR 47064 (Aug. 4, 2010) (the "Proposing Release")]

manages the periodic review of the entities selling Receivables, and provides other administrative services.

I. Discussion

The SEC proposed to repeal Rule 12b-1. The SEC has proposed a compliance date of 18 months after the effective date of the new rules and rule amendments, if adopted.

After the compliance date, mutual funds would not be able to offer Class B Shares as they are currently offered. However, there would be a "grandfather" period of 5 years for shares of such classes that were issued prior to the compliance date. During the grandfather period, mutual funds could continue to pay ABSCs in respect of outstanding Class B Shares. After the expiration of the grandfather period, each share of a share class operating a Rule 12b-1 plan must be converted to a share of a class that does not bear an ABSC.

The mandatory 5 year conversion required by the Proposals will disrupt existing financing arrangements for Class B Shares and disadvantage those mutual fund distribution companies that have self-financed the Receivables.

The manner in which mutual funds have been using Rule 12b-1 to finance the distribution of Class B Shares is well known. Putting to one side the economic merits of the Class B Share programs and conceding the decision to terminate them prospectively, a brief summary of the economic and commercial structure of the third party distribution network for the distribution of Class B Shares is appropriate to put the proposed grandfather provisions in context. To simplify, the fund distributor of a Class B Share or the financing party serving the role that Citibank served would pay (either directly if the distributor self-financed or indirectly in the case of a third party financier like Citibank) to the independent broker a commission of roughly 5% of the sales price of that Class B Share, and would seek to recover that investment through the collection of the Receivables described above. This was an arms-length business agreement that was premised on the assumption that the rules governing the future revenue stream represented by the Receivables would not change until the related Class B Share converted to a Class A Share, generally eight years later. The distributor (or the financing party) generally took the risk that a holder of a Class B Share might redeem the Class B Share during that period and, in the case of Citibank, the assessment of that risk was part of the pricing determination. However, it was always assumed that if Rule 12b-1 were changed legislatively or by regulation, principles of fairness would result in those changes being put in place prospectively so as not to interfere with the contractual agreement between the parties.

For over a decade, Citibank has financed the distribution of Class B shares for numerous mutual fund complexes. During that time Citibank has gathered extensive data regarding shareholder redemption rates for Class B Shares. Based upon that data, even as late as 2007, distributors and financial institutions could reasonably expect that on average, significantly more than half of newly issued Class B Shares would remain outstanding 5 years after issuance, and that more than two-thirds of those shares that remain outstanding 5 years after issuance would remain outstanding until the typical auto-conversion to Class A Shares after 8 years, even though the redemption deterrent of a CDSC would have expired well before such time. This data was a key element underlying pricing models used by Citibank to price the purchase of Receivables and ensure that Citibank and its Securitization Program investors were appropriately compensated for shareholder redemption risk. It is fair to assume that other securitization sponsors used similar data and pricing formulas for other Securitization Programs for this asset class. Even allowing for increases in redemption rates due to market conditions occurring after 2007, distributors and purchasing financial institutions reasonably expected a significant number of Class B Shares to remain outstanding until their scheduled conversion dates. Forcing conversion of Class B Shares prior to their scheduled conversion dates will cause purchasing financial institutions and the investors in any Securitization Program sponsored by such purchasing financial institutions to receive less than the full value of the Receivables that they have purchased, or otherwise require the distributor or its affiliate to make up the difference.

The financing arrangements for Class B shares, whether financed by mutual fund complexes themselves or financed by financial institutions such as Citibank, were entered into with good faith based on the current Class B Rule 12b-1 regulatory structure and the belief that that regulatory structure would not be changed except in a prospective manner designed not to change the economics of arrangements entered into prior to the effectiveness of the change.

We therefore believe that a grandfather period that permits Class B Shares issued prior to the compliance date of the new rules to convert according to their original conversion schedule is necessary to avoid the unfair and adverse consequences to the parties to these financing arrangements.

Providing fairness to the distributors and financing parties in these arrangements involves no unfairness to the holders of the Class B Shares. Mutual funds made full disclosure to Class B Share holders of the sales charge schedule that applied to their purchase in their prospectuses. To accelerate the conversion of Class B Shares prior to their scheduled conversion produces a windfall for the holders of the affected Class B Shares and may inadvertently disfavor holders of other share classes whose sales charges will not be waived or reimbursed. In addition, most Class B Shares are designed so that the present value of the ABSCs and CDSCs is not materially dissimilar to the front-end sales load alternative if one factors out post-issuance changes in net asset value of the shares. It would not be inconsistent with the SEC's intent to adopt a front-end sales load equivalent ABSC to permit Class B shares to convert according to their original conversion schedule, rather than a period of 5 years or more. Allowing the Class B Shares to convert in accordance with their original schedule would likely be consistent with the mandatory conversion time period contemplated by the SEC and would not result in shareholders overpaying for distribution. This alternative would avoid the potential adverse consequences to both mutual fund distributors and third-party purchasers of these Receivables.

II. Conclusion

We therefore request that the SEC modify the grandfather period to allow Class B Shares to convert according to their original conversion schedule, rather than upon the expiration of an arbitrary 5 year period. We appreciate the SEC's consideration of our comments.

Sincerely,

Stephen J. Young
Authorized Signatory

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