

I am writing in opposition to parts of the proposed rule that would reform SEC Rule 12b-1 and the fees that are authorized under that rule. The proposed rule would maintain (but rename as new rule 12b-2) the 25 basis points fee that is currently used to compensate registered reps for providing important ongoing services to their clients. The proposal would also attempt to improve the “transparency” of distribution and marketing fees that are disclosed to consumers by, among other things, abandoning the use of the term “12b-1 fees” and replacing it with the terms “marketing and service fees” and “ongoing sales charge”. I support these parts of the proposal.

However, I have significant concerns about a part of the proposed rule that the SEC claims would “encourage retail price competition.” This would be accomplished by allowing mutual funds to establish new share classes that would be issued at net asset value, without fund managers setting any sales commissions or sales charges. Instead, individual broker-dealers would be able to set their own commission and sales charge amounts that would be based on the level of services they provide, and these fees would be charged directly to the investor.

The SEC has indicated that allowing b/ds to compete based on sales charges and the services they provide will create a level playing field and lead to reduced costs. However I am concerned that allowing broker-dealers to compete based on the commissions they charge and the services they provide will lead to a “race to the bottom” causing middle market investors to be overly focused on price and ending up without access to valuable advice and ongoing account services. As b/ds slash their fees in an effort to gain market share, it will no longer be financially feasible for registered reps to continue to provide the level of individualized advice and services currently offered. Investors who can afford assets-under-management arrangements or higher cost/higher service classes of shares will continue to receive personalized investment advice, while middle market investors will be deprived of the guidance they need and deserve.

Please reconsider the latter part of the rule and the adverse impact it would have on the middle market investor.

Thank you for your reconsideration.

Linda Robinson Rutz
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