



April 12, 2004

Mr. Jonathan G. Katz
Secretary
U.S. Securities and Exchange Commission
450 Fifth Street, NW
Washington, D.C. 20549

VIA ELECTRONIC MAIL

Subject: Confirmation Requirements and Point of Sale Disclosure Requirements for Transactions in Certain Mutual Funds and Other Securities/File No. S7-06-04

Dear Mr. Katz:

The Coalition of Mutual Fund Investors (“CMFI” or “Coalition”) is pleased to submit the following comments regarding regulatory proposals issued by the Securities and Exchange Commission (“SEC” or “Commission”) on January 29, 2004, requiring point of sale and confirmation disclosures to customers about both investment costs and conflicts of interest.

CMFI is an Internet-based shareholder advocacy organization representing the interests of individual mutual fund investors. The Coalition is based in Washington, D.C., with a Web site that can be accessed at www.investorscoalition.com.

CMFI strongly supports the Commission’s initiative to provide more disclosure of broker-dealer costs and conflicts to customers *prior* to a mutual fund transaction and also in a confirmation statement issued *after* a transaction is completed. The requirements outlined in this rulemaking are a giant step forward for investors in this area.

The Commission staff has done an excellent job of addressing all of the known cost and conflict topics which should be disclosed and evaluated by individual investors. However, CMFI would like to offer several suggestions regarding the manner and format of such disclosures.

A. The Commission Should Require That Point-of-Sale Disclosures Be In Writing or Via Electronic Mail.

Under the Commission’s proposed rule, point-of-sale disclosures for transactions which do not involve an in-person meeting with a broker-dealer would be permitted to be made orally. Presumably, the broker-dealer would read aloud over the telephone the

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information contained in the point-of-sale document developed by the Commission staff. Customers purchasing mutual funds at an in-person meeting would receive a document similar to what the Commission is proposing, with the appropriate disclosures being made in writing.

CMFI does not believe that oral disclosures by broker-dealers are going to be sufficient to inform investors in a uniform and complete manner about the costs and conflicts of a particular transaction. It is not in the economic interests of a broker-dealer to make a complete and understandable disclosure of these issues, and the Commission's proposal is not clear about how compliance with these requirements will be documented and enforced.

It is CMFI's view that a written disclosure in a meeting and an oral disclosure outside of a meeting will cause a lack of uniformity in the investor disclosure process. And the point-of-sale disclosures are the most important disclosures because they occur *before* an investment decision is made. Without a written disclosure in all circumstances, an investor is not in a position to fully evaluate a proposed transaction and ask the right questions about its implications.

In an era of fax machines and email communications, there is no reason why a written (or electronic) point-of-sale disclosure document cannot be shared with every customer who is contemplating a purchase of mutual fund shares. This suggested change to the Commission's proposal will ensure more uniformity in the disclosures that are to be made to all investors, whether they transact in shares at a meeting, over the telephone, or in some other manner. Written or electronic disclosure also will improve investor comprehension about the issues that need to be considered before an investment transaction is ordered.

If this recommendation is adopted, a broker-dealer would send a written point-of-sale document to an investor by fax, electronic mail, regular mail, or some other means, *prior* to the investment decision. This requirement enables each investor to make a much more informed decision at the point-of-sale, regardless of whether the decision is made in a meeting or over the telephone.

B. The Commission Should Require Only One "Explanations and Definitions" Document.

To reduce the paperwork burden and provide a more user-friendly disclosure process, CMFI recommends that the Commission require only one "Explanations and Definitions" document for both the point of sale and confirmation disclosures. This

“Explanations and Definitions” document should be no more than one page and it should address all of the topics included in both the point of sale and confirmation disclosure documents. Since these explanations and definitions are most useful for an investor to understand *before* an investment transaction is executed, CMFI recommends that this document be *attached to the point of sale disclosure document only*.

Consistent with CMFI’s recommendation above that the point of sale disclosure be either in writing or sent via electronic mail to each customer before an investment decision is made, the customer would not then need to receive the “Explanations and Definitions” document again as an attachment to the confirmation statement. CMFI believes that it is confusing for an investor to receive two documents during the course of one transaction, both marked “Explanations and Definitions.”

C. The Confirmation Statement Should Only Be One Page in Length.

If the recommendations outlined above are adopted, the confirmation statement can be reduced to one page in length, a desirable outcome. CMFI does not see the need to send an investor a multi-page confirmation statement after a mutual fund transaction is executed. At this point, the investor will have received the point-of-sale document mentioned above and a copy of a fund’s prospectus. There is no need for a lengthy (and possibly confusing) confirmation statement at this point in the transaction. It would save time and money if this disclosure document could be reduced to one page, which can occur if the Commission agrees to have one “Explanations and Definitions” document disclosed at the point-of-sale.

Once a mutual fund transaction has been executed, CMFI believes that an investor does not need anything more than a short, simple, and clear one-page confirmation statement. At this point in the investment process, it is of little value to an investor to receive a multi-page document confirming the transaction, after both the point-of-sale and prospectus disclosures have been made.

D. The Confirmation Statement Does Not Need to Include “Industry Norms”.

The Commission staff has done an excellent job of addressing all of the cost and conflict topics which need disclosure either at point-of-sale, confirmation, or both. One area, however, may be problematic for the Commission to include in the confirmation statement: the summary of comparisons to “industry norms” in sections B and C. CMFI believes it will be difficult for the SEC to achieve a consensus about how to calculate and represent this material in a fair manner for all different types of investors and investments. The process of developing and communicating these “industry norms” may take years and it will delay what is otherwise an excellent disclosure regiment for

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the individual investor. CMFI actually believes that this “industry norms” information may cause more confusion among investors. If the Commission seeks to provide comparison information, it may be better to include the expense ratio, portfolio turnover ratio, and other standardized measures already used by a fund in other disclosures.

E. Disclosure of Broker Costs and Conflicts Should be Broadly Defined.

The final comment that CMFI would like to share with the Commission involves ensuring that investment costs are defined as broadly as possible. In explaining and defining revenue-sharing, commissions, sales loads and other costs, it is important that these terms include *all sums* that broker-dealers receive from a fund or its advisor, distributor, or other agent that relate in *any way to an individual customer's account*, whether a commission, expense rebate, administrative or servicing fee, or any other charge or reimbursement. The draft language in the SEC's proposed rule appears to include many of these items, but the language for each term or concept needs to be as broad as possible to ensure that all direct and indirect costs are included.

Thank you for providing CMFI with the opportunity to present its views on these issues. If you or other members of the Commission staff have any questions or need additional information, please contact me at 202-783-5300.

Sincerely,

Niels Holch
Executive Director
Coalition of Mutual Fund Investors