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To: rule-comments@sec.gov
Subject: File No. S7-06-04

Jonathan G. Katz, Secretary
U.S. Securities and Exchange Commission
450 Fifth St. N.W.
Washington, D.C. 20549-0609

Re: 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:

I want enhanced disclosure for mutual fund investors like myself. However, I believe that the imposition of a multi-billion dollar cost to produce this disclosure may ultimately be passed on to small retail investors like myself.

My Financial Advisor has provided me with the SEC's own estimates of the costs. You estimate that combined recurring costs for these rules (not including the initial implementation costs) will be nearly \$7.4 billion per year.¹ Additionally, you estimate, the year-one costs of these rules, including both the implementation cost and the first year of annual recurring costs, would be nearly \$9 billion.

It appears as though new rules 15c2-2 and 15c2-3 alone would have an annual cost nearly four times the SEC's entire annual budget. According to your own FOCUS reports, the entire US brokerage industry's total annual revenue from mutual funds was \$16 billion in 2002, and assuming the brokerage industry's average profit margin of 7.5% (again, the figure is derived from the SEC's own FOCUS reports),² the entire US brokerage industry earned \$1.2 billion in annual profits on mutual funds. In other words, the initial implementation cost of these Proposed Rules (under your own underestimates) is greater than the entire industry's 2002 annual profits from mutual funds. And the annual

¹ Id. at Costs and Benefits of the Proposed Rule and Rule Amendments (sum of \$935 million in internal costs and \$1.05 billion in external costs for Rule 15c2-2, \$935 million in internal costs and \$40 million in external costs for Rule 15c2-3, and \$2.12 billion in internal costs and \$2.26 billion in external costs for Rule 10b-10 as amended.)

² The SEC's FOCUS reports do not have a separate "mutual funds expenses" line to compare to the "mutual funds revenue" line. My calculation of the overall brokerage industry profit margin is a comparison of overall revenues and overall expenses reported in the FOCUS reports. I am not aware of any evidence suggesting that the brokerage industry's profit margin is different on mutual funds than it is on other types of investments (although clearly mutual fund advisers have higher profit margins). Assuming a 10% profit margin on mutual fund business instead of a 7.5% profit margin would not materially change any of my conclusions.

recurring costs these rules would impose are substantially larger than the entire industry's annual profits from mutual funds.

To comply with these rules, the industry will spend more than \$55 per year for each of the 54 million households that invest in mutual funds – or more than 5% of the annual savings of a typical middle-class household that is able to invest one thousand dollars per year in a mutual fund. The year-one costs, including both implementation and the first full year of ongoing costs, equate to almost \$80 per household that owns mutual funds – or 8% of the savings of a middle-class household which is able to invest one thousand dollars per year in a mutual fund.

This is of significant concern to me since I am one of those typical households. While the cost may initially fall on my brokerage firm, eventually they will have to pass that cost on to their clients, including me.

Why isn't the SEC conducting an initiative to educate consumers about the potential costs of new regulation that will cure some of the ills of the industry? I am not willing to pay \$55 per year for the type of disclosure mandated by the proposed rules. I suspect very few investors are.

What is more troubling is that your Proposal does not even attempt to quantify the expected benefit of the proposed rules. The Proposing Release states that the benefits “while qualitatively important, are necessarily difficult to quantify.”³ I believe that before the SEC imposes what is, even by its own calculation, a multi-billion dollar tax on American investors, it should be able to offer the investing public concrete benefits and dollar savings.

As an investor, I welcome the Commission's goal of improving my ability to make informed decisions when choosing to invest in mutual funds. However, I believe that there may be other more effective, more comparable, more efficient and faster means to achieve this important goal. Please consider the costs I will ultimately bear and amend your proposal accordingly.

Sincerely,

Pat McConnell
Concerned Investor

³ Proposing Release at Costs and Benefits of the Proposed Rule and Rule Amendments.