

July 6, 2006

Nancy M. Morris, Secretary
US Securities & Exchange Commission
100 F Street, NE
Washington, DC 20549

Re: SR – NASD-2004-183

Dear Ms. Morris,

During the course of the last few years, Variable Annuities have become increasingly popular and a growing concern and topic for compliance staff across the nation for small and large firms alike. Although regulators, both state and federal, have been monitoring these products more closely than ever, Variable Annuities still have their purpose and provide benefits like no other.

There has been much debate regarding the sales practices and ethical conduct with Variable Annuities. Due to their complexity and overwhelming features, it is not only difficult for registered representatives to understand each and every feature well enough to present and for principals to supervise; but imagine how confused the client must be.

I agree there should be more clarification as to a member's responsibility and obligation and require firms to take a more proactive approach in preventing unscrupulous behavior. Variable Annuities are easily subjected to misrepresentations and omissions of material facts. Unfortunately, it may require additional resources, added efforts, amendments to the firm's written supervisory procedures, etc.

Comment(s) and/or question(s) regarding the above are posted below.

- 1) Although NASD IM-2310 and SEC Rule 10b5 apply to virtually any and all securities transactions – with this aside, how will unsolicited Variable Annuity sales be treated? If they will be treated no different, direct purchases from the issuer by the investor should not be an exception.
- 2) The two-day principal review provision appears inconsistent compared to other review procedures. “Within a timely manner” as it appears currently seems ambiguous and two days should be enough time for a principal approval. For smaller broker dealers, it is more difficult to acquiesce to the requirement. With fewer designated principals, it would be arduous for principals and officers to travel.
- 3) Surrender charges are usually lengthy and costly. Unless, there is an unusual circumstance; such as death proceeds, inheritance, sale of real estate, etc. or other source of funds that are not vital in the near-future; Variable Annuity purchases should not exceed twenty-percent of a client's liquid net worth. Conversely, if a client wishes to purchase beyond the twenty-percent, they may, but only upon signing a LOI, LOA, release, indemnification, or acknowledgement letter.

- 4) Lastly, require the issuers/insurance companies to standardize all products features. There are many features available, many are the same or similar. However, the obscurity and vague wording in how it is written and presented, confuses the public and the person selling the product. In the absence of a better analogy, how is purchasing a Variable Annuity any different that buying a car. You first purchase the base model, add the trim package, select exterior/interior color combinations, choose engine, followed by option packages, destination charge, and so forth. If our base were a \$40,000 car, we probably will have actualized more than \$60,000 in charges.

It is greatly appreciated that you have taken the time to review this letter and value the input of the entire community within the securities industry.

Respectfully,

Charles B. Milligan III
Chief Compliance Officer
Vice President of Operations

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