July 12, 2006

Nancy M. Morris
Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090

RE: File Number SR-NASD-2004-183, Amendment Number 2

Dear Ms. Morris,

MWA Financial Services Inc. (MWAFS) welcomes the opportunity to comment on the above referred to proposed rule.

MWAFS is concerned that the Product Specific Suitability Criteria as proposed by the NASD goes far beyond the suitability criteria contained in its general suitability rule (Rule 2310) and is establishing a product specific suitability rule directed only at variable annuities (VAs), which we believe is unwarranted. If Rule 2310 provides satisfactory suitability standards for all other products except the volatile, high-risk products such as options, currency warrants, index warrants and securities futures (Rules 2860 and 2865), Rule 2310 should be appropriate for determining the suitability of VAs. The proposed suitability standards for VAs are far more arduous than the suitability criteria for securities futures described in Rule 2865. If the NASD believes that additional product-specific suitability criteria should be applied to VAs, it should develop those criteria through discussions with manufacturers and distributors of these products. It should ensure that the criteria are clear and can be applied uniformly, and either add the product specific criteria by amending Rule 2310 or add the criteria by Interpretative Memoranda ("IMs").

In addition to these general matters, MWAFS has a number of concerns about the specific suitability criteria outlined in the Proposed Rule:

- Reasonable efforts to obtain certain product specific suitability information about the customer – Rule 2310(a) specifically covers this issue. While we support the NASD's listing of the specific suitability criteria necessary to support a recommendation in paragraph (b)(2) of the Proposed Rule, we are concerned that certain product specific criteria listed are either unclear or irrelevant to a suitability determination. We have the following specific concerns about the suitability criteria delineated by the rule:
    - Investment Experience – NASD's inclusion of "investment experience" as a criterion for determining suitability should be clarified. Does this apply to the VA itself, the sub-accounts or both? Without some guidance, the industry is exposed to future interpretation without precedent or notice. Further, is it the NASD's perspective that no prior investment experience renders a purchase recommendation unsuitable?

- Intended Use of the Deferred Variable Annuity – MWAFS believes this is no different from the customer's investment objective. Is either estate planning or tax deferral a legitimate "intended use" or would the NASD require a more detailed analysis? We would ask that the NASD remove it completely from the rule.
- Existing Investment and Life Insurance Holdings – Similarly, we are concerned about the Proposed Rule's requirement that members make reasonable efforts to obtain information about the customers "existing investment and life insurance holdings." Specifically, to what extent does the NASD expect "existing investment and life insurance holdings" to bear on the suitability determination? If the customer owns a life insurance policy, fixed annuity, equity index annuity or similar product, will the NASD determine that a VA is unsuitable? If so, on what basis? We believe that a VA is an investment and retirement vehicle. There may be a death benefit but that is not the crux of the contract, therefore existing insurance holdings should not be a suitability issue.

- Obligation to Inform Customers of the Material Features of the VA – MWAFS has concerns about the Proposed Rule's requirement that members inform customers of the material features of VA products. We believe evidence of the distribution of the specific product's prospectus should be sufficient to achieve compliance with this provision. Anything else could be construed by the NASD as altering, highlighting or summarizing the prospectus' contents. If not, what other specific disclosures would be required and what would be considered an acceptable form of delivery? MWAFS strongly urges the SEC to require enhanced, meaningful disclosure in VA product prospectuses rather than have more forms to fill out or have separate disclosure statements, which could confuse the customer.

- Principal Review and Approval – The Proposed Rule requires a registered principal to review each VA purchase or exchange within two business days of the date the member transmits the customer's application to the issuing insurance company. This limited review period is problematic for members and seems to have been arbitrarily adopted. While MWAFS understands that the NASD believes that requiring completion of the principal review within this time frame is necessary for the protection of investors, we fail to understand how investors would be harmed if another appropriate time frame were adopted. Unfortunately, the incidents of day-to-day life may make the NASD's two business day period unworkable. Failures to properly complete required paperwork, slow mail delivery, the vacations and business travel of the customer, financial advisor, and other routine occurrences could easily result in the failure to meet the Proposed Rule's time frame for review. As a result, MWAFS would propose that the Proposed Rule be revised to require the completion of principal review within a reasonable time-period following the date the member transmits the VA purchase or exchange to the issuing insurance company. In the case of a slow review, the customer is still protected by the free-look provision that VA contracts offer. In addition to the foregoing, MWAFS has the following concerns about the review and approval process:

- Undue Concentration – The inclusion of undue concentration as a requirement for supervisory review is also in need of clarification. The very nature of this product - the variety of features, sub-accounts, the combination of insurance and investment features - easily apply to significant proportions of an investor's assets. Once again due to the absence of regulatory direction, case law, regulatory case law, and industry forum discussion there is far too much risk being placed upon the industry and far too much discretion in the hands of the regulators.
- Deferred Variable Annuity Exchange – The Proposed Rule requires a registered principal to consider the extent to which "the customer's account has had another deferred variable annuity exchange within the preceding 36 months." MWAFS objects to this requirement because the information may be unavailable to our members, due to a client's reluctance to share such information or privacy policy concerns of the prior broker-dealer or insurance company. As a result, the NASD should clarify this point by stating that it is the registered principal's obligation to consider prior VA exchange information if it is available to him at the time of his review.

- Training – MWAFS is concerned with the Proposed Rules requirement that member firms develop training policies and programs reasonably designed to "ensure" that financial advisors and registered principals involved in the sale and supervision of VA products comply with the requirements of the Proposed Rule and understand the material features of VAs. Unfortunately, even the best training policies and materials will not "ensure" such understanding. Instead the obligation to understand the material features of the product a financial advisor sells to his client is inextricably bound up in NASD Conduct Rule 2310's requirement that a member make suitable recommendations to his client. Therefore, there is no apparent need for this additional training requirement that will merely serve to create new books and records obligations for member firms. In addition, MWAFS notes that several recent NASD rule proposals (e.g., the gifts and business entertainment proposal contained in NtM 06-06) have sought to impose separate and unique training requirements. MWAFS believes that the NASD should refrain from educational mandates and instead rely upon the firm element continuing education provisions of NASD Conduct Rule 1120. This approach would allow NASD member firms to evaluate and prioritize their financial advisors' training needs and design a program that is appropriate to the task. The NASD would then have the opportunity to review the firm's training program for compliance with the minimum standards outlined in Rule 1120. In this way, we can more effectively allocate our training resources to address the unique needs of our firm.

MWAFS recognizes that there have been some serious abuses involving the sale and exchanges of VAs. We reiterate they are sales abuses, which involve member conduct. The problem does not lie with the product but with the representative. Further, we do not believe the sales abuses have occurred because the NASD's rules and enforcement mechanisms were not strong enough to prevent them. Therefore, MWAFS urges the

NASD to place additional emphasis on the enforcement of the existing Conduct Rules. MWAFS also believes that member firms that sell VA products can improve training and education of financial advisors and their supervisors without regulatory mandates. In addition, MWAFS believes that more meaningful disclosures to customers via prospectuses that deliver information on the material features of VA products in a uniform fashion will ultimately eliminate most sales practice abuses. MWAFS is concerned that Proposed Rule 2821, applied in its present form, will have substantial unanticipated consequences. Most importantly, MWAFS fears that the Proposed Rule will ultimately harm customers by raising the barriers to their sale such that VAs become less available to those who could benefit from them as legitimate tax-deferred savings, estate and retirement planning tools.

Sincerely,

Pamela S. Fritz
Chief Compliance Officer

Thaddeus R. Crass
Chief Operations Officer

Robert M. Roth
President