



Member NASD/SIPC

July 19, 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:

CUSO Financial Services, L.P. ("CFS") is a full-service financial broker-dealer and registered investment advisor, owned by, and operated exclusively for, credit unions. CFS understands that the National Association of Securities Dealers ("NASD") is proposing to adopt Rule 2821-Member's Responsibilities Regarding Deferred Variable Annuities (Proposed Rule").

We are writing to provide general comments on the Proposed Rule as follows:

1. Product Specific Suitability Criteria

CFS believes that establishing a new suitability rule for VAs is unwarranted. NASD Rule 2310 currently provides satisfactory suitability standards for all other products except a few high-risk products. Therefore, 2310 should be appropriate for determining the suitability of VAs. 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. Accordingly, the NASD could 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.

Similarly, CFS is concerned about the Proposed Rule's requirement that firms 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

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annuity, equity index annuity or similar product, will the NASD determine that a VA is unsuitable? If so, on what basis?

2. Obligation to Inform Customers of the Material Features of the VA

CFS has concerns about the Proposed Rule's requirement that firms inform customers of the material features of VA products. Subsection (b)(1)(A) of the Proposed Rule prohibits a member from recommending the purchase or exchange of a VA to a customer unless, among other things, it has a reasonable basis to believe that the customer has been informed of specific delineated material features of VA products. Would evidence of the distribution of the specific product's prospectus be sufficient to achieve compliance with this provision? If not, what other disclosures would be required?

3. 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 firm transmits the customer's application to the issuing insurance company. CFS does not believe that two days is a reasonable timeframe due to various factors, including clients, financial advisors, and/or principals not being available for questions and or reviews because of illness, vacation or other obligations. While we believe principal reviews should be conducted in a timely manner, another appropriate time frame should be adopted (not to exceed the expiration of the free look period) and investors can still be protected.

CFS has the following additional concerns regarding the proposed Principal Review and Approval requirements. First, the inclusion of undue concentration as a requirement for supervisory review should be clarified. Secondly, 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." CFS objects to this requirement because the information may be unavailable due to a client's reluctance to share such information or privacy policy concerns of the prior broker-dealer or insurance company. Third, the requirement that review considerations shall be documented should be further defined. Would the signing by a principal of a financial advisor's recommendation determination document, thus evidencing the principal's review and approval, satisfy this requirement?

4. Training

CFS is concerned with the Proposed Rule's requirement that firms develop training policies and programs reasonably designed to "ensure" that representatives 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. The obligation to understand the material features of the product that a Representative sells to his client is already covered in NASD Conduct Rule 2310's requirement that a member make suitable recommendations to his client. Therefore, the additional training requirement is redundant and will merely serve to create new books and records obligations.

5. Unintended Consequences

CFS understands the need to protect the public and prevent abuses involving the sale and exchanges of VAs. However, we do not believe that sales abuses have occurred because the NASD's rules and enforcement mechanisms were not strong enough to prevent them. Therefore, CFS urges the NASD to place additional emphasis on the enforcement of the existing Conduct Rules. In addition, CFS strongly supports the need for enhanced, meaningful disclosure in VA product prospectuses. We believe 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. Most importantly, CFS fears that the Proposed Rule as drafted 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 and retirement planning tools.

We appreciate the opportunity to comment on this proposal. We value the time and effort the NASD has devoted to supervising Broker/Dealers and urge the NASD to re-examine the Proposed Rule.

Regards,

A handwritten signature in black ink, appearing to read "Peter K. Vonk". The signature is fluid and cursive, with a large initial "P" and "V".

Peter K. Vonk
SVP/CCO