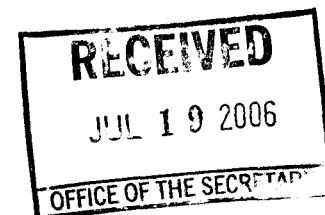




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July 18, 2006

Nancy M. Morris, Secretary
Securities and Exchange Commission
100 F. Street N.E.
Washington, D.C. 205409-9303

Re: Proposed NASD Rule 2821 – Suitability and Supervision in Variable Annuity Distribution, Release No. 34-54023, File No. SR-NASD-2004-183

Introduction

InterSecurities, Inc. is submitting this letter in response to the request for comments by the U.S. Securities and Exchange Commission regarding Amendment Number 2 to Proposed NASD Rule 2821 (the “Proposed Rule”). The Proposed Rule would create recommendation requirements (including a distinct suitability obligation), extensive principal review and approval requirements, and supervisory and training requirements that would apply solely to the purchase and exchange of deferred variable annuities. While the NASD has made some changes in response to previous comment letters, InterSecurities, Inc. believes that further changes are needed, particularly with respect to principal review and approval under Proposed Rule 2821(c)(1). These changes will ensure a continued competitive market for deferred variable annuities and maintain a high level of investor protection in light of the proposed rule’s other requirements.

As a starting point, InterSecurities, Inc. would like to emphasize the need for the regulators to work closely with the industry to ensure both strong competitive markets and investor protection. Furthermore, we strongly believe that the existing NASD Conduct Rules adequately address the concerns reflected in large portions of the Proposed Rule. In lieu of this new proposal, InterSecurities, Inc. would rather see the NASD work closely with the industry to develop uniform disclosure procedures and forms rather than having the NASD establish specific additional requirements that fail to fully appreciate the structural and operational dynamics of a broker-dealer firm; dynamics which, consequently, have been developed around the NASD Conduct Rules’ uniform application to most types of securities.

Having stated our general position, we make the following recommendations in the spirit of mutual cooperation.

Principal Review and Approval

Prompt Review – Two Day

Mailing Address: P.O. Box 9053, Clearwater, FL 33758
570 Carillon Parkway, St. Petersburg, FL 33716-1202
(727) 299-1800 (800) 322-7161

Member National Association of Securities Dealers, Inc., SIPC and Registered Investment Advisor

Proposed Rule 2821(c)(1) requires that, no later than two business days following the date when a broker-dealer transmits a client's variable annuity application to the issuer for processing, and irrespective of whether the transaction has been recommended, a registered principal shall review the application and determine whether he or she approves of the purchase or exchange of the deferred variable annuity.

A suitability review process for the purchase of a deferred variable annuity is a complex undertaking, requiring a review of the contract as a whole, the allocation of client funds into the underlying sub-accounts, and the selection of optional riders. Such a comprehensive review process may require a principal to seek additional information or confirmation of certain facts from either the registered representative or the client who purchased the variable annuity, which would be a critical component of the suitability review process. However, the proposed rule's timing requirement might discourage these efforts to gather additional information. The principal seeking information may be hesitant to call a client or representative because of a concern that such calls may not be returned within the two-day required time frame. Even where a client does return the call within the two-day required time, the client may need more time to gather the relevant information or documentation to help assure proper principal review, for example, where a replacement is involved and information about the existing product is required.

InterSecurities, Inc. believes the proposed rule should be revised to require that principal review be subject to a "prompt standard." This standard would encourage the principal reviewing the file to take any additional steps that he or she feels would help to ensure suitability of the variable annuity, thereby encouraging a vigorous review process under Proposed Rule 2821.

Review of Non-recommended Transactions

Another concern regarding Proposed Rule 2821(c)(1) is that principal review and approval is to be applied to deferred variable annuities "irrespective of whether the transaction has been recommended." Investors may, if they so desire, purchase a variable annuity directly from the issuing insurance company, without any assistance from a registered representative. As such, a disparity in suitability standards would be created between a purchase made directly from an issuer and one made through a broker-dealer and its registered representative. In order to avoid this unintended consequence, InterSecurities, Inc. recommends that Proposed Rule 2821(c)(1) be applicable only to purchases of deferred variable annuities pursuant to a recommendation.

We understand that the NASD drafted this provision out of concern that representatives may flag transactions as "non-recommended" to avoid scrutiny of the representative's recommendations or oversight of the suitability of those transactions. These concerns are more appropriately addressed through firm supervisory procedures designed to identify inappropriate sales activity by representatives. Firms should not be required to treat all "non-recommended" transactions as inherently suspect.

Proposed Rule 2821(c)(1) also requires that the principal consider and document for recommended and “non-recommended” transactions, numerous aspects of the client’s decision to invest, including (1) the extent to which the customer would benefit from the unique features of a deferred variable annuity; (2) the client’s age and liquidity needs, and whether those needs make the investment inappropriate; (3) any undue concentration of a client’s funds in a deferred variable annuity; and (4), where an exchange occurs, the extent to which the client would incur a surrender charge, be subject to a new surrender period, lose existing benefits or be subject to greater fees and charges, or benefit from potential product enhancements and improvements from the newly-purchased variable annuity. Moreover, the principal would be required to determine if the customer’s account showed any previous exchange within the preceding 36 months.

Such detailed requirements on how the customer would benefit from the purchase of a deferred variable annuity that was not recommended by a representative might necessitate that the principal call each client to gather the detailed information, or, alternatively, develop a form to be filled out by the registered representative. Contacting every client would not only be a logistic nightmare, but many of these clients, being intelligent investors who are capable of making their own decisions re: investment needs, might very well be insulted by being second-guessed by a principal. Registered principal review and approval should be limited to a thorough review of the client’s application and any supporting documentation to be forwarded to the issuer. As previously discussed, a “prompt standard” in place of the two-day requirement would allow a broker-dealer to vigorously investigate any concerns that arise upon review of the application and supporting documents.

Reviewing Representative History Re: Exchanges

Finally, Rule 2821(c)(1)(D)(iii) requires that, where an exchange occurs, the principal must consider “the extent to which...the customer’s account has had another deferred variable annuity exchange within the preceding 36 months.” Furthermore, Proposed Rule 2821(d) requires that broker-dealers establish and maintain specific written supervisory procedures in order to, among other things, “require a registered principal to consider...whether the associated person effecting the transaction has a particularly high rate of effecting deferred variable annuity exchanges.” [Broker-Dealer] believes that the requirements to review the registered representative’s historical rate of deferred annuity exchanges are unworkable and offer little, if any, additional customer protection for the specific transaction.

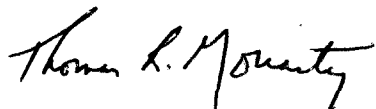
Broker-dealers are required to establish supervisory procedures to identify those representatives, whose overall business includes excessive replacements of deferred variable annuities, churning of client accounts, switching or other inappropriate sales practices. In practice, this information is obtained through exception reports that provide a broad, historical overview of the representative’s business. These reports are generally generated quarterly. NASD rules and SEC regulations have consistently provided that the suitability of a specific recommended transaction should be determined based upon a review of the information gathered at the point of sale concerning the customer’s unique

financial objectives, needs, risk tolerance, etc. and the features of the product recommended today. Historical trend analysis of all business is not relevant to a registered principal's determination of whether a specific recommended transaction is suitable. Under this standard, a registered principal could presumably use a lesser standard of review for transactions recommended by representatives who did not have a history of deferred variable annuity exchanges (but who may have a history of moving monies from mutual funds to variable annuities). Suitability should be determined based upon a review of the information gathered in connection with the specific, recommended transaction.

Conclusion

InterSecurities, Inc. is pleased to have the opportunity to comment on the second amendment to Proposed NASD Rule 2821. The changes made to the previous versions have been a step in the right direction. Nonetheless, InterSecurities, Inc. believes that further changes would remove unnecessary impediments to competition in the deferred variable annuity markets without diminishing the protection afforded investors. If the staff has any questions, or would like to schedule a meeting to further discuss the proposed rule, InterSecurities, Inc.'s representatives are readily available. Thank you.

Sincerely,

A handwritten signature in cursive script that reads "Thomas R. Moriarty".

Thomas R. Moriarty
Co-President