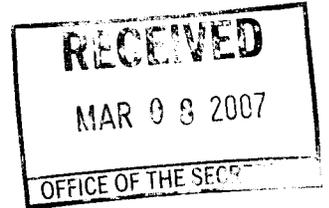


WALL STREET FINANCIAL GROUP

Member NASD, SIPC



March 1, 2007

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

RE: SR-NASD-2004-183

Dear Ms. Morris:

Thank you for the opportunity to comment on the NASD's proposed rule for Sales Practice and Supervisory requirements relating to deferred variable annuities.

In effort to clearly communicate the numerous features and limitations of variable annuities, our firm distributes a Variable Annuity Disclosure Form to every variable annuity customer. This form outlines the general information pertinent to investing in a variable annuity. We additionally offer training to our representatives so that they may learn the specific features and benefits of the various products offered. We also address the sale of variable annuities in our Representative and OSJ Branch manuals.

We would like to express some of our concerns with the proposed regulation:

SEC Request for Comment: We feel that the SEC should open up a formal comment period on this revised proposal so that the industry may have an opportunity to provide feedback to the latest revisions to this very important regulation.

Suitability Standard and Product Specific Suitability Criteria: The proposal includes specific informational requirements that the representative must obtain in order to make a suitability determination. The proposal as written requires a representative to determine the suitability of a transaction rather than to form a reasonable basis to the suitability. We also believe that this requirement potentially encroaches on the customer's right to privacy. We have found situations where the customer works with more than one financial representative and, as is their prerogative, does not share all information with all representatives. Should this occur it makes it impossible for a representative to determine the suitability if the client wishes not to divulge all of their personal financial information. Further, the requirements go beyond the boundaries of the general suitability rule 2310 in comparison to any other investment product offered.

- **Investment Experience:** It is not clear how this information is to be applied to the suitability determination and seems to be irrelevant. Whether or not the customer has previously invested in an annuity should not have bearing on whether the current sale is suitable.
- **Intended Use of the Deferred Variable Annuity:** We find this requirement to be vague and confusing. It is our interpretation that determining client's investment objective meets this requirement. If that is the case, then the requirement should be omitted from the proposal as it is redundant. If it is considered something different than investment objective, then the NASD must clarify its meaning by first defining 'intended use' and then by identifying suitable and unsuitable uses.

- Existing Assets: The term 'existing assets' is in our opinion too all encompassing and could be construed as to include property such as jewelry or artwork, which have no bearing on the suitability of a variable annuity purchase. We believe the term 'existing assets' should be revised to read 'investable assets'.
- Principal Review: As the rule is currently worded, principal suitability review takes on its own determination independent of the representative's findings. The difficulty with this is that we are holding the reviewing principal to the same standards of discovery as the representative, but the reviewing principal does not have the benefit of meeting with the customer. The reviewing principal should be required to have a reasonable basis to believe that the representative has gathered the requisite information, has reached an understanding with the customer and is satisfied with the suitability of the product for the customer, but should not be required to independently determine such suitability factors himself unless a specific question or issue warrants his contacting the customer.

Timing of principal review is also addressed. Though we do agree that timeliness is an important factor and understand the NASD's apparent desire to define timely review, we disagree with the verbiage in the proposal. As it is written, the Broker Dealer has two business days from the transmittal date to approve or disapprove the variable annuity. We believe that any time frame established should be measured by the receipt date versus the transmittal date, so as to avoid being out of compliance due to circumstances beyond the Broker Dealer's control, such as mail delays.

Additionally, the two day requirement seems to be both arbitrarily determined and too restrictive. We believe that principal review within a 'reasonable time period' would more adequately suit the purpose of the requirement – timely principal review of variable annuity business.

Supervisory Procedures – Variable Annuity Exchanges: The proposed rule calls for implementation of surveillance procedures to monitor and address excessive exchange activity by any representative. This requirement is concerning because it seems to make assumptions regarding the availability of information and raises several questions.

- Implementing Surveillance Procedures: This requirement is not clearly defined and implies that the Broker Dealer already has access to technology that will allow them to trace the exchange activity of a given representative or a customer's full transaction history. Implementing a new process of this magnitude could not only be costly in terms of purchasing, but also in man hours and could impede the timely flow of business.
- Exchange Rate: Should the NASD determine that review of a contract's history with regard to exchanges and review of a representative's history with regard to exchanges will remain a part of the proposal, then the NASD must clarify its requirements and intentions. For example, rate of exchange must be more clearly defined: Does this include the entire customer base or just the annuity base? What is the time period for measuring rate of exchange? What is an acceptable exchange rate? Additionally, guidelines should be set forth in determining approvals under the new rule. The rule implies that a high exchange rate may imply an unsuitable sale. Guidelines should be established for the scenario where a representative may have a high exchange rate, but where the sale is clearly in the customer's best interest.
- Suitability Considerations: Per the proposal, a reviewing principal should take into consideration the previous exchange (within the preceding 36 months) of a contract. This requires clarification. Inferring that previous exchanges should be considered a significant determining factor of the suitability review is too broad a perspective. Suitability of sale should be considered on a case by case basis. Though it is true that an exchange will often result in surrender charges on the existing contract and a new surrender period on the new contract, other factors of the contract need to be considered: available riders, available sub-accounts, death benefit, overall cost of the new contract versus overall cost of the existing contract and changes in the customer's financial or personal circumstances.

Additionally, information regarding previous exchanges is not always available to the representative or the reviewing principal. A customer may choose to not disclose a previous exchange or holding.

Training: We generally support the NASD's proposal's recommendation for increased education in these complex products. We agree with the necessity of both representative and customer understanding of both the basics and intricacies of the product. We feel that product knowledge and understanding are critically related to determining the suitability of the sale. However, requiring additional training as it pertains to this proposed rule seems to be only adding an additional burden to the Broker Dealer as it pertains to books and records obligations. Rule 1120 Continuing Education Requirements already addresses training and education requirements and gives the firm the opportunity to determine where their training needs lie. Instead of mandating training on specific products, NASD should rely on rule 1120 and permit the firm to review the various aspects their business and make a determination of what to include in their training program based on, amongst other criteria, product sales, complaints and arbitrations.

Obligation to Inform Customers of various features of VA Products: We strongly support increased disclosure by the annuity company regarding the contract features. In particular, disclosure should not only be comprehensive, but should be simply stated in terms understandable to the average investor. However, we disagree with the verbiage in the proposed rule. The rule prohibits a member from recommending the purchase of a variable annuity to a customer unless it has a reasonable basis to believe that the customer has been informed in general terms of the *various* features of VA's. We believe that 'various' is too ambiguous and that the rule would be more clearly stated with the use of the word 'material'.

Unintended Consequences: We applaud the NASD in their vigilance in identifying and addressing areas of concern as they have with this proposal. It is our concern however, that this proposal could ultimately result in harm to the investor. By making the sales process so difficult to transact in terms of paperwork and suitability review, the NASD is ultimately encouraging representatives to not sell or recommend variable annuities. Because many investors rely on the knowledge and capability of their investment professional to make recommendations (rather than investigating investment vehicles on their own and then approaching the representative when ready to purchase), this potentially harms the investing public by removing a valuable investment vehicle from their representative's scope.

Thank you again for this opportunity to comment on this extremely important issue.

Sincerely,



Victoria Bach-Fink
CCO, CFO
Wall Street Financial Group, Inc.