



THE JEFFREY MATTHEWS
FINANCIAL GROUP, LLC

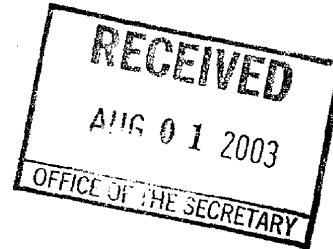
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Affiliated Companies:

The Jeffrey Matthews Insurance Group, LLC
The Jeffrey Matthews Investment Advisory Group, LLC

SR-NASD-2002-162

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July 31, 2003

Jonathan G. Katz
Secretary
Securities and Exchange Commission
450 Fifth Street, N.W.
Washington, DC 20549

Re: Proposed Rule Change Pursuant to 17 CFR 240.19'0-4

Dear Mr. Katz,

The Jeffrey Matthews Financial Group, LLC (JEFM) is a fully disclosed retail broker-dealer specializing in fixed income. We have twenty-six Registered Representatives who average over ten years experience. I am CCO/CFO and have founded two NASD B/Ds. I appreciate the opportunity to submit comments on the issues raised in the above captioned proposed rule change by the National Association of Securities Dealers, Inc. JEFM is concerned that the rule changes proposed by the NASD will substantially increase the costs of a significant percentage of member firms without providing any meaningful improvement in investor protection.

With regard to the substance of the proposal, we have the following specific concerns:

Attempting to separate supervision and auditing reduces the effectiveness of both functions and results in a waste of compliance resources.

JEFM is particularly concerned over the requirement that the office audit function be independent of the supervisory function. As do the majority of NASD Member Firms, we employ a hierarchical system of supervision. The Managers (managing partners) are responsible for the annual inspection of the Firm. In addition, the Firm is supervised and inspected by myself. The three of us are the Firm's management.

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We believe that our Managers, who are most familiar with the Representatives and activities associated with our **location**, are the **most** qualified to perform any periodic inspection. By appointing an outside party (such as unrelated contractors as many small firms will be required to do) **to again audit** the Firm will serve only to increase our already burdensome regulatory costs.

However, even stretching **out** the audit **cycle** to three **years** represents a significant added expense for our Compliance Department and a waste of **the** resources allocated to supervisory and compliance functions. Our **NASD** audits used to take less than a week. We will **be** lucky **if** this year's audit is completed within three months. Our business has not changed; regulation has.

The proposed requirement regarding supervisory controls is flawed.

At our **firm**, similar to many of our peers, in my **capacity** of Chief Compliance Officer (CCO) I am a member of senior management. Restricting the CCO from performing and/or overseeing such a review would compromise the quality and thoroughness of each review. In a small Firm the alternative would be to hire someone from outside. We already have an outside auditor; this is a redundant cost. Further, someone else would know little about our business and be hired on a basis of the lowest bid. That is not investor protection.

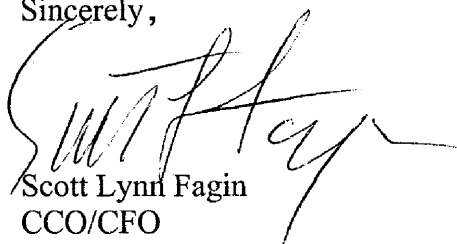
Finally, given the relatively small number **of** serious cases, as compared to the universe of firms **and** Representatives, it appears that the majority of firms clearly strive to conduct business in a manner that is compliant with industry rules and regulations. If the public loses faith with the investment community, then we all lose. The most serious transgressions have not occurred at firms such as ours, but at large integrated investment banks. We should not have to pay for their misdeeds. To a multi billion-dollar bank this requirement would be eyewash; **to** us it is an extremely expensive cost.

We are confident that the current regulatory environment already provides the necessary tools and resources for firms to properly oversee their Representatives. We strongly believe that the proposed changes will actually have a negative impact on the effectiveness of overall supervision as well as place another financial burden on NASD members.

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Again, we thank the Commission for the opportunity to comment on these critical issues.

Sincerely,



Scott Lynn Fagin
CCO/CFO