

January 23, 2004

Ms. Barbara Z. Sweeney
NASD
Office of the Corporate Secretary
1735 K Street, NW
Washington, DC 20006-1500

Re: Notice to Members 03-77—Disclosure of Mutual Fund Expense Ratios in
Performance Advertising

Dear Ms. Sweeney:

Northwestern Mutual Investment Services, LLC (“NMIS”) appreciates the opportunity to comment on proposed amendments to NASD Rules 2210 and 2211, relating to the disclosure of mutual fund expense ratios in performance advertising. NMIS was organized in 1968 and is wholly owned by The Northwestern Mutual Life Insurance Company. Among other things, NMIS is the principal underwriter for Mason Street Funds, Inc., a family of retail mutual funds, and distributes Northwestern Mutual’s variable life insurance policies and variable annuity contracts.

Our comments concern the application of the rule proposal to variable insurance products. According to Notice 03-77, the rationale for the proposal is to address concerns over the need for improved disclosure of fund expenses. We acknowledge that this is an important concern and that disclosure of a fund’s expense ratio may lead to a more fair and balanced presentation of a fund’s performance. But while rule proposal apparently was drafted with retail mutual fund advertising in mind, by its terms it appears to apply to all investment companies. Nevertheless, neither the Notice to Members nor the text of the rule proposal itself address the important differences between retail mutual funds and variable insurance products in the way the products are structured, how sales charges and expenses are imposed, and how investment performance is typically presented.

Most registered insurance company separate accounts are structured as unit investment trusts that invest in underlying mutual funds. Variable annuities are registered on Form N-4, which specifies how performance advertising is to be computed and disclosed. Variable life insurance policies are registered on Form N-6, which contains general disclosure requirements, but no specific computational directions, concerning performance advertising.¹ The mutual funds underlying Northwestern Mutual’s variable contracts are registered on Form N-1A, which also specifies how performance advertising is to be computed and disclosed.

¹ In its release adopting Form N-6, the SEC made clear that historical performance could be presented in various ways but expressly declined to require a specific method.

Northwestern Mutual does not independently advertise the investment performance of the mutual funds underlying its variable insurance products. This kind of presentation could be misleading, as both NASD and the SEC have signaled. So for variable insurance products, the directives in subparagraphs (d)(3)(ii) and (iii) of the rule proposal to disclose the maximum sales charge or maximum contingent sales charge computed under Item 3 of Form N-1A seem misguided. For most variable insurance products, including Northwestern Mutual's, these charges are not imposed at the underlying mutual fund level. The application of the current rule proposal to variable insurance products would be a step in the wrong direction. It would make disclosures about sales charges and expenses more confusing by emphasizing the wrong information.

In the case of variable annuities, this technical issue might be addressed by a separate subparagraph specifically tailored to these products and referencing the appropriate registration form (Form N-4). Likewise, for variable life insurance a separate subparagraph could be tailored to these products could reference the appropriate registration form (Form N-6). But as applied to variable insurance products there are more flaws in this rule proposal than can be corrected with these simple measures.

As effective as a standard text box disclosure might be for credit card solicitations, such a format is simply not an appropriate model for products as complex, diverse and personalized as variable annuities and variable life insurance. Variable insurance products deliver more than investment performance. Charges might be imposed at the contract level, at the separate account level and at the underlying fund level. These charges do not lend themselves to meaningful disclosure in a text box limited to only three data elements.

We also write to comment on the application of the rule proposal to all public communications. The application of the new requirements to sales literature, as opposed to advertising, is particularly problematic. One obvious problem is the presentation of historical performance information in annual and semi-annual reports, which are commonly used as sales literature and which are required to present performance information in a particular way. The inclusion of additional text boxes in these reports pursuant to the proposed rule would be unnecessary and confusing.

The rule proposal also presents challenges for other forms of sales literature. Sales literature for variable insurance products commonly presents historical performance information for numerous separate account divisions in a tabular format. Consider, for example, one of our variable life historical performance brochures (attached). We have presented variable life historical performance in this tabular format for a long time. It has proven to be useful and effective in that it allows an investor to find relevant performance information for each separate account division at a glance. The text box format prescribed by the proposed rule seems incompatible with this common, effective and useful manner of presenting historical performance information for variable insurance products.

Although it might seem simple enough to comply with the rule proposal by presenting underlying fund expense information within the table itself, this approach presents problems, too. Unless information about separate account expenses is broken out separately, the rule proposal would seem to give undue prominence to underlying fund expense information. While intending to promote fund expense disclosure, compliance with the rule proposal might divert the consumer's attention from the need to examine all variable insurance product charges and expenses. Also, repeatedly listing the same separate account expenses and sales charges in tabular form would impair the usability of the table by cluttering it with redundant information.

Absent the refinements suggested above, we ask NASD to consider limiting the proposed rule to performance information about investment companies registered or required to be registered on Form N-1A. We further ask NASD to consider limiting the proposed rule to advertising, rather than applying it to all public communications.

Although we are not commenting separately on the application of this rule proposal to retail mutual funds, we concur with the Investment Company Institute's letter dated January 23, 2004, in this regard.

Thank you for the opportunity to comment. If you have any questions, please call me at (414) 665-5034.

Very truly yours,

/s/ Mark A. Kaprelian
Secretary

Northwestern Mutual Investment Services, LLC
611 East Wisconsin Avenue, Suite 300
Milwaukee, Wisconsin 53202

Attachment

Northwestern Mutual - Variable CompLife
A Variable Whole Life Insurance Policy with Additional Protection
Historical Performance

All net returns below are expressed as a percent and reflect the change in net asset values after the deduction of fund expenses and a mortality and expense risk charge of 0.60%. Historical Performance is in no way an indication or guarantee of future performance. The policy value will fluctuate with market conditions and may be more or less than the original premium invested.

Variable CompLife Introduced 10/11/1995		Total Net Return ⁽¹⁾ As of 12/31/2003			Compound Net Annual Return ⁽¹⁾ For the quarter ending 12/31/2003				Net Annual Return ⁽¹⁾ For The Year Ending 12/31				
Division	Fund Inception Date	Year To Date	Last 3 Months	Last 12 Months	1 yr	5 yr	10 yr	Since Incep	2003	2002	2001	2000	1999
Small Cap Growth Stock ⁽⁶⁾	4/30/99	32.27	10.84	32.27	32.27	-	-	16.21	32.27	-18.91	-4.34	6.08	-
T. Rowe Price Small Cap Value	7/31/01	34.35	12.52	34.35	34.35	-	-	10.74	34.35	-6.14	-	-	-
Aggressive Growth Stock ⁽²⁾	11/30/90	23.95	8.85	23.95	23.95	3.14	9.14	12.59	23.95	-21.62	-20.36	5.55	42.93
International Growth	7/31/01	38.16	15.16	38.16	38.16	-	-	3.55	38.16	-12.86	-	-	-
Franklin Templeton Intl. Equity ⁽³⁾	4/30/93	39.63	16.23	39.63	39.63	3.38	6.45	8.20	39.63	-17.90	-14.52	-1.38	22.17
Fidelity VIP Mid Cap Portfolio ⁽⁶⁾⁽⁸⁾	12/28/98	37.43	15.96	37.43	37.43	18.26	-	18.95	37.43	-2.67	-4.09	32.55	48.06
AllianceBernstein Mid Cap Value	5/01/03	-	16.63	-	-	-	-	32.63	-	-	-	-	-
Index 400	4/30/99	34.21	12.86	34.21	34.21	-	-	8.66	34.21	-15.05	-1.25	16.51	-
Janus Capital Appreciation ⁽²⁾⁽⁹⁾	5/01/03	-	10.14	-	-	-	-	19.42	-	-	-	-	-
Growth Stock	5/03/94	18.24	9.24	18.24	18.24	-1.31	-	9.51	18.24	-21.30	-14.73	-3.07	21.76
Large Cap Core Stock	5/03/94	23.31	11.57	23.31	23.31	-4.43	-	7.21	23.31	-28.63	-8.33	-7.52	6.84
Capital Guardian Domestic Equity	7/31/01	33.61	14.03	33.61	33.61	-	-	0.84	33.61	-21.71	-	-	-
T. Rowe Price Equity Income	5/01/03	-	12.74	-	-	-	-	23.14	-	-	-	-	-
Index 500	6/26/84	27.67	11.97	27.67	27.67	-1.14	10.36	10.99	27.67	-22.54	-12.41	-9.30	20.19
Asset Allocation	7/31/01	19.91	7.76	19.91	19.91	-	-	1.82	19.91	-10.79	-	-	-
Balanced	6/26/84	17.29	6.40	17.29	17.29	2.63	8.65	10.06	17.29	-8.09	-3.73	-0.76	10.54
High Yield Bond ⁽⁶⁾	5/03/94	28.29	6.46	28.29	28.29	3.94	-	7.06	28.29	-3.47	4.40	-5.16	-1.05
Select Bond	6/26/84	4.86	-0.31	4.86	4.86	6.68	6.57	8.93	4.86	11.42	9.71	9.55	-1.61
Money Market ^{(7)*}	6/26/84	0.63	0.13	0.63	0.63	3.00	3.79	5.27	0.63	1.05	3.29	5.66	4.48
Russell Agrsv Equity ⁽²⁾	1/02/97	44.73	14.47	44.73	44.73	3.31	-	6.82	44.73	-19.54	-2.95	-1.25	5.45
Russell Non-U.S. ⁽²⁾	1/02/97	37.96	16.11	37.96	37.96	0.33	-	1.87	37.96	-15.65	-22.50	-14.94	32.56
Russell Multi-Style Equity	1/02/97	28.09	11.72	28.09	28.09	-3.26	-	4.77	28.09	-23.65	-14.72	-12.78	16.74
Russell Real ⁽⁴⁾ Estate Securities	4/30/99	36.39	9.60	36.39	36.39	-	-	12.90	36.39	3.18	7.19	26.48	-
Core Bond ⁽⁵⁾	1/02/97	5.51	0.19	5.51	5.51	5.66	-	6.30	5.51	8.19	6.76	9.35	-1.20

*For the seven-day period ended December 31, 2003, the Money Market Portfolio's yield was 0.52%, annualized. The yield quotation more closely reflects the current earnings of the Money Market Portfolio than the total return quotation.

Northwestern Mutual – Variable CompLife Historical Performance

Notes

Effective April 30, 1993, the Stock fund became the Index 500 fund and changed to passive management. Effective January 31, 2003, the Large Cap Core Stock Portfolio (formerly known as the J.P. Morgan Select Growth and Income Stock Portfolio) is managed by Mason Street Advisors, LLC.

We will provide you with a personalized illustration upon your request. The illustrations show how the death benefit and cash value for a Policy would vary based on hypothetical investment results. The illustrations will be based on the information you give us about the insured person and will reflect such factors as the Minimum Guaranteed Death Benefit and the amount of Additional Protection as you select.

The above notes apply to all of the following footnotes.

- (1) Total Net Return, Compound Net Annual Return and Net Annual Return reflect the deduction of fund expenses and a mortality and expense risk charge of 0.60%. Fund expenses currently range from 0.21% to 1.15% (1.43% without any fee waivers and reimbursements) depending on the division(s) selected. Effective December 2, 2002, the management fee of 0.30% for the Money Market Portfolio has been voluntarily waived. The returns shown for this portfolio would have been lower without the fee waiver. The fee waiver for this portfolio may be terminated without notice at the sole discretion of the fund.
Returns do not reflect premium deductions such as sales charges, premium taxes, minimum guaranteed face charge, or the policy fee. Surrender charges or cost of insurance charges are also not reflected. These deductions would significantly impact the returns if they were included.
- (2) This fund may invest in small company stocks. Investing in small company stocks involves a greater degree of risk than investing in medium or large company stocks.
- (3) Foreign investments can pose more risks than domestic investments due to fluctuations in foreign stock markets, currency values, interest rates, government regulations and political conditions.
- (4) Equity REITs may be affected by changes in the value of the underlying property owned by the trust, while mortgage REITs may be affected by the quality of any credit extended. This fund is subject to some of the risks associated with direct ownership of real estate, including market value declines, risks related to general and local economic conditions and increases in interest rates. This fund, however, does not own real estate directly.
- (5) This fund invests in U.S. government, corporate and mortgage-backed securities, but foreign bonds and non-investment grade debt may also be held within the fund. There are greater credit risks when investing in non-investment grade bonds. Foreign investments can pose more risks than domestic investments due to fluctuations in foreign stock markets, currency values, interest rates, government regulations and political conditions.
- (6) There are greater credit risks inherent in a fund that primarily invests in high yield bonds.
- (7) An investment in the Money Market Fund is not insured or guaranteed by the Federal Deposit Insurance Corp. or any other government agency. Although the Money Market Fund seeks to preserve the value of your investment at \$1.00 per share, it is possible to lose money by investing in the fund.
- (8) Service Class 2 shares include an asset-based distribution fee (12b-1 fee). Initial offering of Service Class 2 took place on January 12, 2000, at which time a 0.25% 12b-1 fee was imposed. Returns prior to that date do not include the effect of the Service Class 2 0.25% 12b-1 fee, and returns listed would have been lower for each portfolio if the fee structure had been in place and reflected in the performance.
- (9) Part of the Northwestern Mutual Series Fund, Inc. The investment advisor for the fund is Mason Street Advisors, LLC.

This brochure is authorized for distribution to prospective policyowners only when preceded or accompanied by a current prospectus. The prospectus should be read carefully before investing or sending money.

Issuer: The Northwestern Mutual Life Insurance Company, 720 E. Wisconsin Avenue, Milwaukee, WI 53202-4797

To be used with form number: QQ VCL.

Frank Russell Company is a subsidiary of Northwestern Mutual.

Principal Underwriter:

Northwestern Mutual Investment Services, LLC
a wholly-owned company of Northwestern Mutual

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