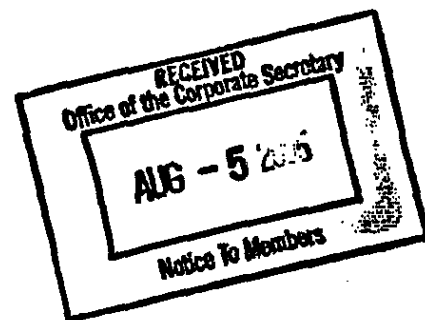


# COASTAL SECURITIES

---



July 28, 2005

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

RE: Comment on Proposed New Rule 2311

Ms. Sweeney:

I am writing to comment on proposed new Rule 2311 that would prohibit all sales contests that reward representatives on a basis other than total production. While I commend the efforts of the NASD to rein in the less savory activities of certain members, I would like to make several observations about the proposed rule that make the rule, in my opinion, less than the optimum solution to the problem.

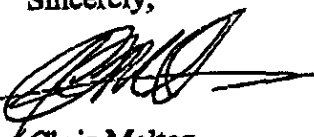
There is little doubt that certain industry participants have utilized sales contests in a manner that has resulted in the interests of clients being abused in favor of those industry participants. These abuses have been well documented in instances involving proprietary product in the variable annuity and the mutual fund arena, and the rules have been amended to prohibit contests that reward sales of proprietary product. However, I have noted little or no documentation related to abuse in sales contests where the awards are based on generic taxable fixed income, tax-free fixed income or equity sales performance. Product line sales incentives would appear to be a reasonable means of improving and diversifying a representative's performance.

It is understood that any sales contest that favors one type of security has the potential to create an incentive to engage in sales conduct unrelated to the best interests of customers. Compensating representatives on a commission basis has the same potential. It is unlikely that the NASD intends to require salary only compensation for registered persons. I believe that members would prefer to see regulatory restrictions crafted in a manner that addresses the specific abuses that are occurring, as opposed to rules that treat all related activity, regardless of merit, in a similar fashion. Since you cannot prohibit all activity that creates the potential for conflict of interest, it is unreasonable to prohibit a specific activity on that basis when there has been no documented evidence of abuse. The existing regulatory scheme should not be expanded absent a showing of need. The new rule, if not withdrawn, should be amended to prohibit only sales contests in product lines that have historically been the subject of abuse.

The new rule carves out only one exception to the "sales contest" definition, that being for contests that involve total production. There is no exception for contests that reward new account activity. I believe it is unlikely that the NASD is of the opinion that rewarding representatives for opening new accounts creates more potential for conflicts of interest than rewarding them for total production. Consequently, I believe that the NASD did not intend to prohibit new account sales contests. Unfortunately, absent amending language, that is precisely what new Rule 2311 does.

In summary, for the reasons stated above, I believe that new Rule 2311 is flawed in that it unreasonably restricts member activities by prohibiting sales contests that reward representatives for sales by security type and by prohibiting sales contests that reward the opening of new accounts. Thank you for giving me the opportunity to comment on the proposed rule.

Sincerely,



Chris Melton  
Director of Compliance