



March 12, 2004

TRANSMITTED VIA EMAIL
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Barbara Z. Sweeney
NASD
Office of the Corporate Secretary
1735 K Street, N.W.
Washington, D.C. 20006-1500

Re: Notice to Members 04-07 - Request for Public Comment on Proposed
Amendments to Rules 2710 and 2810

Dear Ms. Sweeney:

VSR Financial Services, Inc., appreciates this opportunity to comment on one of the proposed changes discussed in Notice to Members 04-07. Specifically, our comments address the proposed rescission of the NASD's long-standing policy (the "Policy") of permitting payment of on-going trail commissions with respect to commodity DPPs after total underwriting compensation has reached ten percent of the gross offering proceeds.

For the reasons presented below, we believe rescission of the Policy will have an immediate, adverse affect on customers who invest in commodity DPPs. Instead of rescinding the Policy, we urge the NASD to adopt the Policy by incorporating it into Rule 2810.

VSR is a full-service broker-dealer whose customers have been investing in managed futures accounts for many years. We have seen first-hand the potential risks and benefits of these programs. Clearly, an investment in these types of programs is not suitable for every investor. However, our experience has confirmed that these programs offer significant potential benefits to accredited investors who are looking for investments which are not closely correlated with the traditional equity, debt, or real estate markets. By investing through a professionally managed commodity DPP program, investors are able diversify their portfolio and mitigate some of the risks which they would face through direct futures investments.

One of the essential features of these programs is that they are often substantially more complex than many other types of investments. For example, one of the managed futures programs we have sold uses three different CTAs for investment management. Following is a *partial* list of the investments which the CTAs indicate they may trade for the program's accounts: precious and industrial metals, grains, petroleum products, soft commodities, domestic and foreign interest rate futures, domestic and foreign stock indices, currencies and their crossrates, and foreign interest rate futures.

In order to understand the managed futures programs sufficiently well to explain the potential risks and benefits to their customers, our Representatives must have significant professional training and experience which exceeds that which is needed to understand other types of direct investments. For this reason, VSR would support a change in the membership rules which would require an expanded Series 31 examination as a prerequisite to all sales of a managed futures programs. The subject matter is sufficiently advanced that this training should be seen as a minimum requirement before a Representative is permitted to sell to public customers.

We believe that the requirement of greater expertise and training should, in and of itself, justify a higher level of compensation for the Representatives who recommend these investments. However, there is another factor which weighs even more heavily in favor of greater compensation.



The vast majority of public and private DPPs are almost entirely illiquid (at least with respect to the investor's capital) from the moment the investor's subscription is accepted until the program liquidates. Although many Representatives choose to stay informed about these programs once the offering closes, there is often not a compelling reason for the Representative to stay fully informed about the program's performance because the investor cannot liquidate his investment.

By contrast, many of the managed futures programs provide pre-determined times when an investor can request to have his investment redeemed. Every managed futures program that our firm has sold in recent years has had provided the possibility for investor liquidity. Because there is a continuing possibility that it might become appropriate for the Representative's customers to withdraw from the program, the Representative must remain fully informed with respect to the program's performance for as long as his customers are invested.

In order to remain fully informed requires significant on-going research by the Representative, who must have a greater than superficial understanding of the various commodities and futures portfolios held by the program. These are subjects which are substantially beyond the understanding of almost every retail investor. In deciding whether to liquidate or not, the investors rely on the advice of their well-trained Representative to an extent not often seen for other types of investments.

We respectfully submit that in order to justify the time and costs of this continuing professional commitment by the Representative, the Representative must receive on-going compensation beyond that justified in the context of other DPPs. We believe that on-going trail commissions of two percent would be justified in many instances. We do not believe continuing trail commissions of four percent can be justified, as referenced in the Notice to Members.

If the NASD rescinds the Policy, there is a significant possibility that once the compensation ends, Representatives will no longer be able to devote the necessary time and effort to keeping informed with respect to the programs that previously sold, leaving many investors without the critical advice they need when deciding whether to retain their investment.

Investors need their Representative's help in evaluating these programs on an on-going basis. However, the Representative must receive continuing compensation to pay for this highly advanced level of service. For more than 20 years, the Policy has worked to help Representatives to bear the costs of serving the needs of their customers. We respectfully request the Policy be retained, and formally incorporated into Rule 2810.

Thank you for your consideration. We would be pleased to provide any further information requested with respect to this matter.

Sincerely,

J. Michael Stanfield

J. Michael Stanfield
President/CEO