

## **Rhodes Securities, Inc.**

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August 9, 2004

NASD Regulation, Inc.  
Attn: Barbara Z. Sweeney - Senior Vice  
President and Corporate Secretary  
1735 K Street, NW  
Washington, DC 20006-1500

**Re: Request for Comment - NTM 04-45  
Relating to Deferred Variable Annuity Sales Practices**

Dear Ms. Sweeney;

As the chief compliance officer and vice president of a small broker dealer, I appreciate the opportunity to comment on the above-referenced Notice to Members ("Notice") which seeks input regarding proposed new rules governing deferred variable annuity sales practices ("Rule Proposal"). In our case, my Firm has five employees and twenty-five independent contractor registered representatives/insurance agents. We are a fully disclosed, introducing broker dealer who clears through a large East Coast clearing firm who also facilitates direct paper applications to approximately seventy-five mutual fund and insurance companies for our customers. Quite a large number of our customers have a number of accounts at various vendors, including the clearing firm.

It has been my experience that every new piece of legislation considered has the potential of greatly impacting the standard operating procedures and budgets on small firms like mine in a negative way. Additionally, these same regulatory proposals have the potential of also confusing, annoying, and/or alienating the very consumers that they are trying to protect. I feel that this is, in part anyway, true with some of the facets of the Rule Proposal requirements. Let me explain.

Among the most troubling aspects of the Rule Proposal is the requirement that members create and deliver to their clients, together with the prospectus, separate risk disclosure documents describing the main features of that particular variable annuity transaction. This document, which is supposed to be "brief" and in "plain English", must include a myriad of information about the various facets of the product in question, of which the list is long and varied. The sheer volume and complexity of the information required to be included in this supposedly "brief" document will make the drafting of a document

that fits all these requirements an impossible task to perform. This will surely lead to confusion on the part of the investor when trying to understand a product by reading a disclosure document written by someone at the firm who might or might not understand all the aspects of each product as clearly as they should.

Moreover, as a very small firm with a very small staff, the drafting of a disclosure document for each product that my Reps sell is, in itself, no small task either. The prospectus clearly is the more appropriate vehicle for disclosing all the aspects of each product, written by the company that is offering the product and who probably understand it better than anyone. I do not want the responsibility of summarizing each aspect of every product that we can offer in writing without the blessing of the NASD Advertising Department..... and I do not want to have to submit and pay for a disclosure review for each product that we offer. I feel that is over-burdensome and unfair to small firms trying to offer a myriad of products to their customers to best suit their situation and risk tolerance.

Additionally, I feel another disclosure document requirement for these products is duplicative and redundant. The prospectus is already required to be delivered with every purchase that a customer makes and to require each broker dealer to write up another document that says the same thing in "plain English" is just wasted effort on our part. Instead of spending all our resources on more disclosure documents that clients don't read anyway, the customer would be better served having those same resources spent in the Rep spending that time and energy making sure that the customer understands the product fully by verbal communication, answering all his questions, etc. at the point of sale, instead of in some disclosure document that the customer will never read. I don't know about any other firms, but our customers are getting "disclosed to death"..... and many clients are complaining about all the added paperwork they have been subjected to in the last few years..... and all in the name of "disclosure" and "customer protection".

In reading through the proposed changes, if the NASD feels that disclosure of this type is absolutely necessary separately from what is already required in the prospectus, I support a shortened, standardized format, maybe printed in the front of the prospectus in a prominent place that would be more productive. Standardization would make it easier for the customer to tell at a glance the particulars of the product they are thinking of purchasing. This streamlining of the format could facilitate the customer actually understanding what they are trying to read in the first place. With the infinite versions of the notice required as it seems to be in the Rule Proposal, it would be extremely difficult and tedious to even ascertain what any one firm is trying to say about any one product. A standardized format would eliminate a lot of that confusion. Customers might actually learn how to read a prospectus - what a concept!

While I understand the reasons the NASD feels that more disclosure to customers is necessary in light of recent abuses in the variable annuity arena, burying customers in more disclosure documents is not the answer, in my opinion. Providing clear, standardized information that compares "apples to apples" would go a long way in providing the disclosure due a customer about his purchase, without flooding him with

the unnecessary duplicative information that is currently so confusing and annoying and that seems to be what the Rule Proposal would be requiring.

I look forward to seeing what direction this legislation takes after the comment period is over and once again, I appreciate the ability to comment on this issue. I respectfully request your consideration of my remarks and invite you to contact me to discuss if warranted.

Thank you;

Sandra T. Masek  
EVP/Compliance Officer