



NASAA

NORTH AMERICAN SECURITIES ADMINISTRATORS ASSOCIATION, INC.

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March 5, 2004

Jonathan Katz, Secretary
Securities and Exchange Commission
450 Fifth Street, N.W.
Washington, D.C. 20549-0609

Via e-mail to rule-comments@sec.gov

Re: File No. S7-029-04; Release Nos. 33-8349; 34-48952; IC 26313
Concept Release: Measures to Improve Disclosure of Mutual Fund
Transaction Costs

Dear Mr. Katz:

The North American Securities Administrators Association, Inc. (NASAA)¹ is pleased to submit comments regarding the above-referenced concept release. We appreciate the opportunity to provide input regarding another of the Commission's efforts to enhance disclosure to investors.

The Concept Release categorizes transaction costs as including commissions, spread costs, market impact costs, and opportunity costs. While these generally are not apparent to investors, they are disclosed to a mutual fund's Board. Transaction costs are taken into account in computing a fund's annual return, but are not included in the expense ratio. The Commission poses the following general questions:

Should mutual funds be required to quantify and disclose to investors the amount of transaction costs they incur?

Should mutual funds include transaction costs in their expense ratios and fee tables, provide additional quantitative or narrative disclosure about their transaction costs?

Should mutual funds be required to record some or all of their transaction costs as an expense in their financial statements?

¹ The oldest international organization devoted to investor protection, the North American Securities Administrators, Inc. was organized in 1919. Its membership consists of the securities administrators in the 50 states, the District of Columbia, Canada, Mexico and Puerto Rico. NASAA is the voice of securities agencies responsible for grass-roots investor protection and efficient capital formation.

NASAA supports the Commission's efforts to provide more information to investors and supports measures that create greater transparency of mutual fund fees and expenses. Providing main street investors with a common format that discloses fees in plain English will greatly improve uniformity of disclosure and will work toward restoring investor confidence in the mutual fund industry.

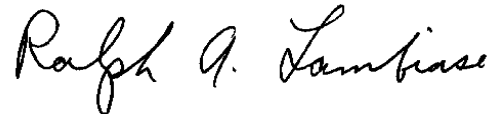
Though not all individuals study the prospectus, many mutual fund investors make an attempt to understand their investments and the associated performance and costs. As NASAA has opined in the past, a plain-English summary document provided at the time of sale, prominently displaying uniform industry information regarding expenses and sales loads would attract the attention of the investor and allow investors to make an informed decision. NASAA would prefer the document to be standardized, provide peer information on expenses identifying what an average similar fund in the same category would charge. Such information should be provided in both the prospectus and statement of additional information. Simple and quantifiable information which all funds display prominently in a comparable format will be valuable for investors in evaluating, comparing, and making investments.

Given that fund managers should act in the best interest of shareholders and not a parent or sister company, NASAA supports greater transparency to disclose inherent conflicts of interest that may exist. Funds should be required to quantify those costs associated with soft dollar arrangements and prominently disclose them for comparison. Though soft dollar arrangements can benefit clients through research or other services, the value and circumstances of these arrangements should be clearly disclosed in plain English to investors. NASAA believes it would also be helpful to compare and prominently disclose the commission expenses of affiliated and non-affiliated entities. If fund managers were required to identify the soft dollar expenses and soft dollar services, investors would have a clearer picture of potential conflicts.

NASAA acknowledges that attempting to quantify market impact costs from a fund's effect on prices, or opportunity costs attributable to missed trades, would be difficult to determine and may unnecessarily increase costs for funds and investors. It is difficult to identify how much of this information should be quantified and provided to investors. At a minimum, the Commission should require an evaluation of funds against their peers, a clear representation of fund expenses, and identification of potential conflicts of interests by itemizing expenses in relation to soft dollars, benefits received, and types of entities that receive such payments.

Thank you for the consideration of these views. For further information regarding these matters, please do not hesitate to contact Tanya Solov, Chair of NASAA's Broker-Dealer Section and Director of the Illinois Securities Department. Rex Staples, Chief of Examinations and Compliance for the Washington Department of Financial Institutions, and George Robison, Director of Licensing and Compliance for the Utah Division of Securities, also stand ready to provide any necessary assistance.

Sincerely,

A handwritten signature in black ink that reads "Ralph A. Lambiase". The signature is written in a cursive style with a large, prominent initial "R".

Ralph A. Lambiase
NASAA President and
Director, Connecticut Division of Securities