

## COMMENT LETTER

January 18, 2008

# ICI Comment Letter On FINRA Proposal To Modify Principal Approval Requirement For Certain Sales Material (pdf)

January 18, 2008 Ms. Nancy M. Morris Secretary U.S. Securities and Exchange Commission  
100 F Street, NE Washington, D.C. 20549-1090 Re: Proposed Rule Change to Create  
Exception to Principal Approval Requirements for Certain Filed Sales Material (File No. SR-  
FINRA- 2007-020) Dear Ms. Morris: The Investment Company Institute<sup>1</sup> supports the  
proposed change to NASD Rule 2210 to modify the requirement for approval of investment  
company sales material by principals at intermediary firms.<sup>2</sup> We commend FINRA for taking  
the initiative to examine the costs and benefits of Rule 2210's principal approval  
requirement and determining to modify it in a way that should alleviate burdens on some  
intermediary firms without compromising investor protection.<sup>3</sup> The Institute has  
consistently urged regulators to ensure that regulatory costs are proportionate to their  
benefits by, among other things, examining existing requirements and thinking creatively  
to achieve appropriate protections in the least burdensome manner possible.<sup>4</sup> 1 The  
Investment Company Institute is the national association of U.S. investment companies,  
including mutual funds, closed-end funds, exchange-traded funds (ETFs), and unit  
investment trusts (UITs). ICI seeks to encourage adherence to high ethical standards,  
promote public understanding, and otherwise advance the interests of funds, their  
shareholders, directors, and advisers. Members of ICI manage total assets of \$12.70 trillion  
and serve almost 90 million shareholders. 2 See Notice of Filing of Proposed Rule Change  
To Create Exception to Principal Approval Requirements for Certain Filed Sales Material,  
SEC Release No. 34-57010 (December 20, 2007), 72 FR 73928 (December 28, 2007)  
("Release"). 3 According to the Release, FINRA (then known as NASD) established a Small  
Firms Rules Impact Task Force in September 2006 to examine how existing NASD rules  
impact smaller firms. This proposal is based on a recommendation by that task force. 4 See,  
e.g., Letter from Paul Schott Stevens, President, Investment Company Institute, to the  
Honorable Henry M. Paulson, Jr., Secretary U.S. Department of the Treasury, December 7,  
2007, available on the Institute's website at  
[http://www.ici.org/statements/cmltr/07\\_treas\\_reg\\_structure\\_com.html#TopOfPage](http://www.ici.org/statements/cmltr/07_treas_reg_structure_com.html#TopOfPage); and  
Speech by Paul Schott Stevens, President, Investment Company Institute "Finding the Right  
Balance for Mutual Fund Regulation," 2006 Securities Law Developments Conference,  
December 4, 2006, available on the Institute's website at  
[http://www.ici.org/statements/remarks/06\\_seclaw\\_stevens\\_spch.html#TopofPage](http://www.ici.org/statements/remarks/06_seclaw_stevens_spch.html#TopofPage). Nancy M.  
Morris January 18, 2008 Page 2 Under the proposal, a principal at an intermediary firm

would no longer be required to approve investment company sales material if another member has filed the sales material with FINRA's Advertising Regulation Department ("Department") and the Department has issued a review letter finding that the material appears to be consistent with applicable standards. In addition, any intermediary firm relying on the exception could not materially alter, or use, the sales material in a manner that is inconsistent with any conditions stated in the Department's review letter. If the proposal is adopted, intermediary firms will be able to use investment company sales material absent the delay and costs associated with a secondary layer of principal review. Investment company sales material will continue to be subject to plenary oversight given that it would remain subject to review and approval by a registered principal at an investment company's underwriter and review by the Department.<sup>5</sup> Therefore, while investment companies themselves will not experience cost savings as a result of the proposal, we support the proposed exception from principal review because it is a less burdensome alternative for intermediary firms, and importantly, one that should not compromise investor protection. If you have any questions about our comments or need additional information, please contact me at (202) 218-3563. Sincerely, /s/ Dorothy Donohue Dorothy M. Donohue Senior Associate Counsel cc: Thomas M. Selman, Executive Vice President Investment Companies/Corporate Financing Regulation Thomas Pappas, Vice President and Director Advertising Regulation Joseph P. Savage, Vice President Investment Companies Regulation Financial Industry Regulatory Authority, Inc. <sup>5</sup> See NASD Rules 2210(b)(1) (principal approval) and 2210 (c) (filing with, and review by, Department).