

Fund Democracy
Consumer Federation of America

November 30, 2007

BY EMAIL AND US MAIL

Nancy M. Morris
Secretary
Securities and Exchange Commission
100 F Street, N. E.
Washington, D.C. 20549-1090

RE: File No. S7-23-07

Dear Secretary Morris:

We write on behalf of Fund Democracy and the Consumer Federation of America to comment on the Commission's interim exemption ("Interim Rule") from principal trading restrictions under the Investment Advisers Act ("Act"). We recognize that this rule was put forward to ease the transition in the wake of the court decision overturning the fee-based brokerage account rule. We believe, however, that changes in the market justify a broader look at reforming the rule. While we agree that the Act's principal trading restrictions may be relaxed consistent with the protection of investors, and we appreciate the efforts the commission has undertaken to create a strong disclosure and consent regime, we are concerned that the Interim Rule reflects an over-reliance on disclosure and fails to incorporate adequate measures to prevent principal trading abuses.

The Rule relies primarily on four types of disclosure: prospective, written blanket disclosure and consent; pre-execution, oral, transaction-by-transaction disclosure and consent; confirmation disclosure; and annual disclosure. It also substantively limits principal trades by: (1) prohibiting almost all trades in securities of which the adviser or an affiliate is the issuer or an underwriter, (2) prohibiting trades in discretionary accounts, and (3) requiring broker-dealer registration. None of these provisions adequately addresses the ultimate goal of regulating principal transactions, which is to prevent trades that are disadvantageous to clients.

For this reason, we believe that it is imperative that the Rule expressly require firms to develop policies and procedures that are specifically designed to detect, deter and prevent disadvantageous principal transactions. In keeping with that approach, the Commission should provide guidance regarding specific situations in which it may be prohibitively

