KBW KEEFE, BRUYETTE & WOODS

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Barbara Z. Sweeney
Office of the Corporate Secretary
NASD
1735 K Street, NW
Washington, D.C. 2006-1506

Re: Proposed IM-3060

Dear Ms. Sweeney:

I am the General Counsel of Keefe, Bruyette & Woods, Inc., an NASD member. I am submitting this comment in response to the recent Notice to Members requesting comments on Proposed Interpretive Material under NASD Rule 3060.

I believe that the NASD has proposed a useful approach in requiring that individual members adopt policies and procedures based on the members determination and definition of the forms of business entertainment that are appropriate and inappropriate. The vast difference in the business mix among member organizations would make the adoption of fixed limits by the NASD highly impractical.

Unfortunately, while entrusting to members to make these determinations, the proposed IM suggests that in most cases an "independent" periodic review is desired. I believe that the proposal should be altered to clarify that the term "independent" may be satisfied by an internal review by departments of members not directly involved in incurring business entertainment expenses, such as accounting, finance, internal audit or compliance. There seems to be an inconsistency in an interpretation that recognizes that members are in the best position to make these determinations and requiring an outside review by someone who does not necessarily have the same knowledge of the rationale behind the member's determinations.

My experience has been that many external consultants who perform these types of services do not necessarily have the time or resources to truly understand the business mix of the member and the ability to make a true assessment of compliance with such member developed policies and procedures. The danger exists that a requirement, or even a suggestion that it is a best practice, to use an outside consultant makes it likely that many members will incur extra expense hiring a consultant who will often do nothing more than use a non-customized and uninformed "check the box" format of review. I think the greater quality of compliance will come from entrusting such review to persons of authority within the member who are not involved in the incurrence of business entertainment expenses.

I would welcome contact from any NASD staff members wish to discuss my proposal.

Very truly yours,

Mitchell Kleinman
General Counsel