USAA®
9800 Fredericksburg Road
San Antonio, Texas 78288

September 15, 2006

VIA FACSIMILE (703) 797-6700

Ernesto A. Lanza
Senior Associate General Counsel
Municipal Securities Rulemaking Board
1900 Duke Street, Suite 600
Alexandria, Virginia 22314

Dear Mr. Lanza:

USAA Investment Management Company (IMCO) appreciates the opportunity to comment on the Municipal Securities Rulemaking Board's (MSRB) request for comment on whether it should implement an electronic system of primary market disclosure for the municipal securities market. In particular, the MSRB has asked for comment on whether it should implement a variant of the Securities and Exchange Commission's "access equals delivery" model for delivery of official statements in municipal securities offerings.[1] The MSRB also has asked for comment on whether this model should include delivery of official statements for municipal fund securities, such as interests in college savings plans.

IMCO strongly supports the MSRB's efforts in this area.

- IMCO agrees that electronic delivery will provide more timely and efficient delivery of critical information to the market, intermediaries who recommend municipal transactions to investing clients, and ultimately to such investors.
- IMCO also agrees with the MSRB that electronic delivery of such statements are less costly than printing and mailing paper copies to all investors, and could promote reductions in the costs of municipal offerings, including offerings of college savings plans, that could be passed on to investors.

Our main comment, which is discussed in greater detail below, is that IMCO strongly supports including distribution of Plan Descriptions for college savings plans in any electronic delivery model adopted by the MSRB for other offerings of municipal securities. We believe the overwhelming Internet acceptance by potential investors in college savings plans actually makes adoption of the "access equals delivery" model particularly appropriate to college savings plan offering documents.

I. Background on IMCO

IMCO is an indirect, wholly-owned subsidiary of United Services Automobile Association (USAA), a member-owned association. USAA seeks to facilitate the financial security of its members and their families by providing a full range of highly competitive financial products

[1] The SEC first articulated the notion of an "access equals delivery" model for documents required to be delivered under the federal securities laws in 2000, under which delivery of a document will be presumed if investors have access to the document via the Internet or some other electronic database.

and services, including insurance, banking and investment products. USAA members are the American military community, and include present and former commissioned and noncommissioned officers, enlisted personnel, and their families. IMCO is a registered broker-dealer and registered with the MSRB as it will execute securities transactions, including transactions involving municipal securities, for its customers. IMCO also markets a college savings plan to USAA members entitled the USAA College Savings Plan (USAA CSP, or the Plan). USAA CSP interests are sponsored by the State of Nevada and purchased exclusively through IMCO in its capacity as a broker-dealer.

II. IMCO Supports All Efforts to Adopt Electronic Access to Required Securities Documents as Primary Delivery Model

A. Background on Document Delivery

As the MSRB is aware, the federal securities laws requires that, among other regulated entities, that broker/dealers deliver certain documents to their clients. Prior to 1995, the only approved delivery channel for these documents was mail delivery of a paper copy. Mail delivery results in delay to investors and intermediaries in accessing information, and is the most expensive delivery channel because it involves printing and postage costs.[2] Beginning in 1995, the U.S. Securities and Exchange Commission (SEC) has issued numerous releases regarding electronic delivery of these required documents. Under SEC interpretations, clients generally must have notice and consent to receive most required documents electronically, and they have the right to revoke such consent and receive future documents in paper.[3] Although the SEC's interpretations and action in this area have promoted the advancement of electronic technology for use for delivery of required documents, the current framework of notice and consent requires firms to track each client's consent electronically or in writing and still presupposes that every investor must receive every document.

In 2000, the SEC first introduced the concept of an "access equals delivery" model in which delivery would be presumed if the document is available electronically through the Internet or

---

[2] For example, there are approximately 20,000 account holders in the USAA College Savings Plan. IMCO mailed a revised Plan Description to existing account holders earlier this year, and it cost approximately $10,000 to produce and mail this document. There also are system costs associated with tracking changes to an investor's consent to receive electronic documents and resulting recordkeeping. These costs will increase as the number of accounts increases, which the industry anticipates in the wake of Congress' repeal of the sunset provisions for the federal tax benefits of these accounts. Also, IMCO is working with the State of Nevada to reduce the fees associated with the USAA CSP effective in October, and eliminating these types of costs will assist IMCO in avoiding future fee increases because of increased costs associated with anticipated increases in the number of accounts.

[3] In 1995, the SEC issued its first release entitled Use of Electronic Media for Delivery Purposes, Securities Act Release No. 7233 (Oct. 6, 1995) (1995 Release). This was followed in 1996 by a release entitled Use of Electronic Media by Broker-Dealers, Transfer Agents and Investment Advisers for Delivery of Information, Securities Act Rel. No. 7288 (May 9, 1996) (1996 Release).

another electronic source. In 2000, the SEC determined that the time for "an access equals delivery" model had not arrived yet", but noted that certain circumstances could warrant its adoption.[4] In particular, the SEC asked for comment about Internet access among U.S. households and information regarding how persons were using the Internet, and in particular, whether there was evidence that people were using the Internet as a source for information about different securities products.

In 2005, the SEC adopted the "access equals delivery" model solely for delivery of final prospectuses in public offerings.[5] The SEC based its decision on the fact that Internet usage had increased among U.S. households to approximately 75%, and based on the use of the final prospectus. In particular, the SEC noted that an investor's decision to purchase a specific security was generally made prior to receipt of the final prospectus, and therefore receipt of the final prospectus by each investor was not necessary. Rather, the SEC concluded that the information in the final prospectus was important for the market and intermediaries, and that purpose could be satisfied by filing of the document with the SEC rather than physical delivery to each investor.

B. IMCO Believes that Access Equals Delivery Should Be Adopted for Delivery of Plan Descriptions for College Savings Plans

IMCO believes that including the delivery of Plan Descriptions for 529 Plans in any "access equals delivery" model for municipal securities is consistent with investor protection because of the types of persons investing in these securities and the information they are using to make these decisions. In particular, IMCO notes that:

- Internet access and usage of persons investing in college savings plans is significantly higher than the percentage noted by the SEC when adopting the "access equals delivery" for final prospectuses.
- Evidence also suggests that these investors are relying on sources other than the Plan Description when making investment decisions in college savings plans.

---

[4] *See* Use of Electronic Media, Securities Act Rel. No. 7856 (Apr. 28, 2000) (2000 Release). The SEC based its decision on the fact that Internet access, although more prevalent than in 1995, was still not universal, and that many investors did not rely solely on the Internet for information about issuers and securities and declined electronic delivery because of the time to download and print large documents. The SEC also asked for comment whether there were circumstances under which "access equals delivery" would work consistent with investor protection. To that end, the SEC asked for information about Internet access among U.S. households, and whether there was data suggesting that investors will rely on the Internet as the sole means of obtaining information from issuers or intermediaries.

[5] *See* Securities Offering Reform, Securities Act Rel. No. 8591 (Dec. 1, 2005). The SEC's final rule does not apply to the distribution of mutual fund prospectuses, as the SEC stated that electronic delivery of final mutual fund prospectuses should be undertaken with a comprehensive examination of the current disclosure regime for those securities.

IMCO believes the single most important factor justifying adoption of electronic delivery as the primary delivery method is the substantial increase in Internet access by U.S. households, and in particular by the population segments investing in college savings plans. In 2005, the SEC noted that approximately 75% of Americans had Internet access. Other studies or surveys demonstrate that this number is higher or lower depending on age group, education and income level.[6] For example, Internet access and usage had increased dramatically since 1997 from a quarter of the population to 79%, with Internet access over 90% for persons with some college, college or postgraduate degrees or annual household incomes of $50,000.[7] Also, Internet access was 85% for all age groups 54 or under, with Internet access increasing among the age group 55 years and older from 8% in 1997 to 64% in 2005.[8] The ICI also found that Internet access among mutual fund shareholders in all these categories is higher than the U.S. population as a whole.[9] Finally, the ICI 2005 Report found that 59% of mutual fund shareholders were using the Internet to obtain investment information.[10]

A 2003 survey done by the Investment Company Institute to obtain profile information about households investing for college found certain characteristics associated with responding households using investments in college savings plans (prepaid tuition plans or Coverdell accounts) for college savings. The median age of persons responding to the survey who used education-targeted savings programs was 41 and they had higher household income (just under $100,000) and financial assets ($130,000) than those respondents using other vehicles for educational savings, and approximately 75% had college or postgraduate degrees.[11] These

---

[6] *See* Mutual Fund Shareholders' Use of the Internet, Investment Company Institute, Research Fundamentals, Vol. 15, No. 2 (Feb. 2006). (ICI 2005 Report). This report analyzed and summarized Internet access and usage among mutual fund shareholders in 2005.

[7] *Id.* at p. 2, Figure 1.

[8] *Id.* The ICI 2005 Report also found, however, that the largest increases in Internet access was among lower income and older Americans, which shows growing acceptance of the Internet as a communications medium. *Id.* at p. 3.

[9] For example, Internet access among all mutual fund investors was 88%, and was over 90% for all age groups under 65, for those with college or postgraduate degrees, and persons with annual income of at least $50,000. *See id.*, Figures 2 and 3 at pp. 2-3.

[10] A later research report reinforces this finding and notes that recent fund investors generally rely on three sources of information before making an investment decision. The most frequently cited sources were financial advisors (73%), fund company or other websites (46%), and friends and family (40%). Mutual fund prospectuses were the fourth most cited source at only 34%. Also, the Internet as a source of information was significantly higher among investors investing in directly sold funds (63%) rather than funds or products sold through financial advisors. *See* Understanding Investor Preferences for Mutual Fund Information, Figure 7 at p. 12, Investment Company Institute (August 2006).

[11] *See* Profile of Households Saving for College, Figure 8 at p. 10, Investment Company Institute (Fall 2003) (ICI College Profile Survey). The respondents saving for college that used accounts other than education-targeted savings programs had a median age of 42, lower household income ($75,000) and financial assets ($70,000), and a lower percentage (51%) had college and postgraduate degrees.

groups are the precise ones that are significantly more likely to have Internet access, and use the Internet, among other sources, for information about companies and products.

The 2003 ICI College Profile Survey also identified the important sources of information for persons making investment decisions to invest in college savings plans. The largest identified source of information about these plans by responding households (64%) was financial advisors.[12] Other important identified sources of information included articles and newspapers (56%), materials from the state offering the plan, including the state's website, advertisements and brochures (54%), the Plan's official statement (53%), brochures, advertisements and websites of financial services companies (46%), and the Internet (43%). Thus, because persons investing in college savings plans are relying on the Internet and other sources for information about college savings plans, IMCO believes that delivery of a paper copy of the Plan Description to each investor is not only unnecessary for investor protection but could actually hamper the efficient and timely delivery of information to the sources that investors are relying upon. IMCO believes that dissemination of this information could reach financial advisors, the Internet, journalists writing newspaper articles and other identified sources faster and more efficiently if the Plan Descriptions were filed and easily accessible through an electronic database.[13]

In conclusion, IMCO believes that the MSRB should adopt electronic access as the primary delivery method for Plan Descriptions for interests in college savings plans. We believe that the removal of the sunset provisions for the federal tax benefits of college savings plans will result in more assets being invested in such accounts. We commend the MSRB's for its consideration and promotion of electronic technology to improve the dissemination of information about municipal securities in the most cost effective manner to the market, intermediaries and investors. Because investors in college savings plans also should have the benefit of reduced distribution expenses and more timely and efficient information sharing about these plans, we believe that the MSRB should include the distribution of Plan Descriptions for college savings plans in any electronic delivery method implemented for offerings of other municipal securities. In fact, given the evidence that most potential investors in college savings plans have access and are comfortable using the Internet, we believe the "access equals delivery" model is most uniquely suited to college savings plan offerings.

---

[12] *Id.* Figure 40 at p. 45.

[13] We note that any electronic database, whether maintained by the MSRB or a third party, should be readily available and easy to search by investors, financial advisors and other market participants.

We appreciate the opportunity to provide comments on this important topic that could benefit firms, intermediaries and investors. If you have any questions regarding our comments, or would like additional information, please contact the undersigned at (210) 498-4103, or Mark S. Howard at (210) 498-8696.

Sincerely,

Eileen M. Smiley
Vice President and Assistant Secretary
USAA Investment Management Company