

estimated that over 25 percent of the nearly 4 million persons owning mutual funds at the end of 1966 owned contractual plans. These plans called for aggregate payments of \$8,556,500,000, of which \$4,022,500,000 had been paid. Our statistics indicate that since passage of the Investment Company Act in 1940, something in excess of 2 million contractual plans have been sold in this country and that 82 percent of those plans made profits for their investors while simultaneously accomplishing their primary objective as well; namely, putting aside savings amounting to billions of dollars which those investors would otherwise have spent as disposable income.

It is this business that the SEC has asked the Congress to destroy. I use that term advisedly; it is not merely an exaggeration of a complaint about some minor increase in restrictions. Furthermore, the SEC has asked that you do this without showing the existence of any serious complaints or dissatisfaction on the part of the investing public.

As you have been informed, the contractual plan is an arrangement for investment in the shares of a mutual fund by the periodic payment of small sums of money over a term of years. In accordance with the provisions of the Investment Company Act of 1940, up to 50 percent of the first 12 payments may be deducted for sales charges. This is the so-called front-end load. The balance of the sales charges is spread over the remainder of the term. In the aggregate, sales charges upon completion of a plan are not higher than the usual sales charges on the shares of the underlying fund. The SEC asks that you prohibit the future sale of plans with a front-end load by repealing the section of the Investment Company Act—section 27(a)(2)—upon which the contractual plan is based. That means a complete prohibition of the sale of contractual plans and the consequent destruction of our business.

You can understand, therefore, why we consider it most important that this committee be fully informed about our business and about this proposal and about its effect upon us and the securities business generally; and we are most grateful for this opportunity to furnish this information and to present our view.

We appreciate that your time is limited and we intend not unduly to tax your patience. We have nine prepared statements with exhibits, on various facets of the proposal before you, which I should now like to submit for the record of these proceedings.

Mr. Moss. Without objection the statements will be received for the committee files at the present time until they have been fully reviewed. (The statement and exhibits referred to may be found in the committee files.)

Mr. ROACH. Thank you, sir. In addition, Mr. Kostmayer and Mr. Day will deliver oral statements. You will find copies of these oral statements on top of the envelopes which have been supplied. With your permission, Mr. Chairman, I should now like to call upon Mr. Kostmayer.

STATEMENT OF JOHN H. KOSTMAYER

Mr. KOSTMAYER. Mr. Chairman and members of the subcommittee, my name is John H. Kostmayer. I am a vice president of First Investors Corp., a member of the Association of Mutual Fund Plan Sponsors, Inc., and one of the largest and oldest firms in the contractual