

STATEMENT OF ROBERT M. LOEFFLER, DIRECTOR AND VICE PRESIDENT—LAW, INVESTORS DIVERSIFIED SERVICES, INC., ACCOMPANIED BY JOSEPH F. GRINNELL, GENERAL COUNSEL

Mr. LOEFFLER. Thank you, sir.
(Mr. Loeffler's prepared statement follows:)

STATEMENT OF ROBERT M. LOEFFLER, DIRECTOR AND VICE PRESIDENT—LAW, INVESTORS DIVERSIFIED SERVICES, INC.

Mr. Chairman and members of the committee, my name is Robert M. Loeffler. I am Vice-President—Law and a director of Investors Diversified Services, Inc. ("IDS") of Minneapolis, Minnesota. I appreciate the opportunity to appear before you today to present the views of IDS with respect to certain of the provisions of H.R. 9510 and H.R. 9511.

IDS created four mutual funds for which it acts as investment manager and exclusive distributor. Collectively the assets of these funds amount to approximately \$6 billion. This aggregation of assets is the largest in the field and constitutes approximately 15% of the total assets of the mutual fund industry.

The shares of these funds are sold exclusively by the IDS sales force of approximately 4,000 men and women working full time as sales representatives of IDS. Our sales currently average approximately 15% of the total sales of mutual fund shares. IDS today has approximately one million mutual fund customer accounts and distributes fund shares in all 50 states.

THE MUTUAL FUND AS AN INVESTMENT SERVICE

The creation of funds by management companies is the tradition of the industry, a fact which should be borne in mind. Funds are created by investment management organizations as a means of making their services more widely available and with the expectation of making a profit. Were it otherwise, the mutual fund industry as we know it today would not exist. Rarely, if ever, do mutual funds just spring into being and then go searching for an investment manager and distributor.

Essentially a mutual fund is a means by which an investment management organization offers to the public an investment service—a managed, diversified account with many other services included. This service is specifically designed to reach and accommodate a market composed of customers who have relatively small amounts of money to invest.

Without the small customer, this industry would be dead. Without this industry, the small customer would have no place to participate in the equity market without substantially greater risk and cost.

Currently, the median amount that a new IDS customer invests is \$1,280. These investments are then pooled, and each customer shares pro rata the dividends, the gains and the losses and pays his pro rata share of the cost of the service. Mutual funds are designed to permit new customers to enter without affecting the value of the investment of existing customers. Existing customers may withdraw their full pro rata share without affecting the investment of others—the redemption feature unique to the open-end fund.

A mutual fund typically is a corporation separate in legal existence from its sponsor. There is nothing in the law that requires this. The origin of the separately incorporated fund predates the Investment Company Act of 1940. The purpose was to insulate the assets of the customers from any legal liabilities of the sponsor.

When the Investment Company Act was enacted, it provided in effect that: if a fund was not separately incorporated it must, nevertheless, have a committee or some other equivalent of a board of directors;

at least 40% of the directors or committee members (other than for a no-load fund) must be unaffiliated with the fund manager; and

there must be a written contract between the fund and the manager which must be approved at least annually by either the participants in the fund or by a majority of the unaffiliated directors; any change must be approved by the participants.

Today, with rare exception, a majority or more of the directors are unaffiliated with the fund sponsor. Their function is to oversee the operations of the manager and to make certain that it is fulfilling its obligations and commitments to its