

The effect on the expense ratios of the IDS managed funds is as follows:

Expense ratio:		Percent
1962	-----	0.53
1963	-----	0.50
1964	-----	0.44
1965	-----	0.40
1966	-----	0.34
8 mos. 1967 (annualized)	-----	0.30

The resultant actual cost to a typical customer with a \$5,000 account in an IDS managed fund is as follows:

Management fee:		
1962	-----	\$26.50
1963	-----	25.00
1964	-----	22.00
1965	-----	20.00
1966	-----	17.00
8 mos. 1967 (annualized)	-----	15.00

The effect has been to reduce the cost per dollar of investment for an IDS customer from 1962 to date by over 43%. These reductions, in total, produced management fees in 1966 which were \$9,300,000 less than they would have been on the basis of IDS' 1962 contracts.

A typical IDS customer with a \$5,000 account, paying an annual management fee of \$15, could not obtain the services provided by IDS—including diversification of risk and professional investment management—outside the mutual fund industry at comparable costs.

Most investment advisers and banks do not accept advisory accounts of less than \$100,000. Those that do set minimum fees which would be prohibitive to the typical mutual fund customer. In Philadelphia, for example, the major bank with the lowest fees would charge at least \$460 per year to handle a \$100,000 account. At IDS the management cost to a fund shareholder with a \$100,000 account is \$300. More to the point, however, is that an IDS customer need not have \$100,000 or \$10,000 or even \$1,000 to invest.

Bank common trust funds are the only investment medium generally offered which are comparable to a mutual fund; however, the management charges imposed for participation in common trust funds are all substantially higher than those charged by IDS. Furthermore, the banks almost without exception impose a minimum annual charge regardless of the amount of money invested. In Philadelphia this ranges from \$75 to \$200, and in Minneapolis from \$125 to \$175. If IDS were to impose a minimum charge of \$75 on each fund account, the cost to our fund shareholders would be prohibitive.

Section 8 of the Bills Relating to Management Fees

Notwithstanding the effectiveness of the present system, Section 8 of the Bills would amend Section 15 of the Investment Company Act to provide that there be a statutory requirement that management fees be "reasonable," and that the courts, in a suit either at the instigation of the SEC or any fund shareholder, be empowered to determine the reasonableness of a fee, in effect to set the fee.

At first blush this proposal may appear innocuous enough. Moreover, it places one who opposes it in the uncomfortable position of appearing to oppose reasonable fees. This proposal is, however, by no means innocuous.

I know of no responsible or competent business man—and the SEC has acknowledged that "on the whole investment companies are managed by competent persons"—who believes his prices for goods or services should be or are unreasonable. This proposal raises a serious question: Who is to have the power to set prices for the products or services, the business man himself or someone else not engaged in the day-to-day running of a business, who does not have the responsibility, who need not answer for the results and consequences of his actions?

This particular proposal constitutes a dramatic innovation in our economic system. I do not suggest that this alone determine in any way the question of whether the proposal is wise or unwise; but I do believe that awareness of that fact is important.

During the history of our jurisprudence courts have always been reluctant to substitute their judgment on business matters for the business judgment of