

A description of the IDS distribution system is contained in the written statement, particularly on pages 6 to 10, but I shall not go into that at this moment.

Mr. KEITH. Did you start off this way or is this something that finally developed?

Mr. LOEFFLER. IDS has always distributed in this manner. IDS was formed in 1894, and was from then through 1940 a distributor of securities through its own direct sales force. In 1940 it founded its first mutual fund, and began the distribution of the shares of those mutual funds through its sales force in the same manner as it had theretofore operated.

I am not sure that throughout its entire history the IDS sales representatives were full time. That has been the practice of IDS for many years now.

The SEC has grounded its proposal for a statutory maximum of 5 percent on what it refers to, as I understand it, the theory of perverse competition. In substance it seems that the Commission's charge has been that the underwriters, the principal distributors of mutual funds, those who establish the offering price and then seek to market the shares of a particular fund, do not compete with each other for the customer dollar which, if they did, would have the tendency to bring the sales charge down. Rather, the Commission says it is a perverse competition, that these competitors compete with each other for dealer favor, for the favor of the dealers who in turn sell the funds' shares, and therefore the competition tends to push the sales load up, in order to enable the underwriter to pay more to the dealer.

I make that point because it is totally inapplicable to IDS. We do not compete for dealers. Dealers do not sell the funds' shares distributed by IDS. Only the IDS sales representatives sell the shares of the IDS-distributed and IDS-managed funds; so there is no competition for dealer favor.

Mr. STUCKEY. Do you, in a sense, do your own underwriting?

Mr. LOEFFLER. Yes, sir; the entire part.

Mr. STUCKEY. Do you mean to say that you no longer sell as broker-dealers individual shares of stock?

Mr. LOEFFLER. The IDS sales representatives sell mutual fund shares of the IDS-managed funds only, and those funds may be—

Mr. STUCKEY. But do they not sell—

Mr. LOEFFLER. Other securities?

Mr. STUCKEY. Yes.

Mr. LOEFFLER. They sell a face amount certificate, which is issued by an IDS subsidiary. They sell life insurance, which is issued by a wholly owned life insurance subsidiary of IDS. They sell no other securities.

Mr. STUCKEY. Only IDS?

Mr. LOEFFLER. Only IDS products; yes, sir, and these products may be purchased only from the IDS sales representatives.

Mr. KEITH. Is this life insurance business, that you have, the typical stock company?

Mr. LOEFFLER. Yes, sir.

Mr. KEITH. Or is it something geared in especially with your mutual fund business?