

happened? Let's say the law went into effect. Would you have to get out of business or could you continue?

Mr. LOEFFLER. I think we would struggle along somehow, but I don't know how; but I think we would find some way. It would just have to be done in an entirely different manner and I think it would be done in a manner which would not enable us to provide the same protections to the investing public that we now do under the requirements of the 1933 act and the 1964 act amendments. We just couldn't do both. We couldn't maintain quality sales and a well-trained sales force and try and stay in business under that schedule.

Mr. WATKINS. Thank you very much. That is all right now, Mr. Chairman.

Mr. MOSS. Mr. Blanton.

Mr. BLANTON. I have no questions.

Mr. MOSS. Mr. Keith.

Mr. KEITH. Thank you, Mr. Chairman.

Do I understand you to say that the shareholders of mutual funds have the usual State common law protection or statutory law protection that a shareholder has in the ordinary corporation?

Mr. LOEFFLER. Yes, sir; the law is exactly the same.

Mr. KEITH. But is the scheme the same?

Mr. LOEFFLER. Yes, sir.

Mr. KEITH. I think that might be what this is all about.

Mr. LOEFFLER. Well, then, perhaps it would be helpful if I elaborated a bit, sir.

Mr. KEITH. I think it would be.

Mr. LOEFFLER. Let us say, for example, that X Corp., whatever it is, adopts a stock option plan. That would be approved by the directors of the corporation, and the approval would be by those directors who are not eligible to participate in the stock option plan. Probably some of the directors would be eligible, but the majority would not be.

Mr. KEITH. Let's keep the situation as closely parallel to——

Mr. LOEFFLER. To mutual funds?

Mr. KEITH. To the mutual fund industry. We are talking about——

Mr. LOEFFLER. A management contract?

Mr. KEITH. The management contract. We are talking about the directors of the fund having to buy services elsewhere, and a minority stockholder having the right to sue.

Mr. LOEFFLER. Yes, sir.

Mr. KEITH. And to prove in court that there was a conflict of interest involved, and that the principals should declare that conflict of interest and lean over backward to protect the shareholders.

Mr. LOEFFLER. I don't think we will have any quarrel on this at all, sir. Perhaps I can clarify that.

Mr. KEITH. You are speaking from an industry point of view, not just from IDS.

Mr. LOEFFLER. Yes, sir, from a legal point of view that would be applicable generally and particularly to the industry, as a lawyer. When the management contract is approved, and it must be approved annually, the approval must be given by those directors of the fund who are not in any way affiliated with the management company. Now let me be a little more specific.