

officers, as it appears that this would be the only way under this section to determine whether the fee is reasonable.

Third, the SEC approach of "ad hoc ratemaking by litigation" may well be regarded as a lawyer's delight. It could work to the detriment of mutual fund shareholders, however, by stimulating burdensome and costly litigation, and making it increasingly difficult for the industry to find men of stature and independence to serve as directors.

Fourth, there appears to be little basis for the implication that fund directors and shareholders are not fully competent to determine what fees and salaries are reasonable for investment advice and that this decision must be made for them by the courts.

It seems evident, therefore, that the present statutory approach is far superior to the SEC proposal. Reliance in present law is placed in the judgment of directors of investment companies and their shareholders. This requires that the board of directors of the fund perform functions akin to those in any other business entity and to be held to the same standards of conduct. If changes are to be made in this area, the exchange would suggest that the role of the nonaffiliated director be strengthened.

We think this approach minimizes any risk there may be to the public interest in this area and ought to be seriously considered in lieu of the proposal made in section 8.

CONTRACTUAL PLANS

In another proposal, the Commission urges the abolition of contractual or front-end load mutual funds.

While the Commission asserts that the front-end load imposes an undue burden on investors, we would question whether it is necessary to abolish this investment media. The exchange takes the position that, rather than abolish contractual plans, any areas of real or potential abuse should be regulated and, possibly, a rebate policy should be instituted for certain early terminations involving hardship.

MUTUAL FUND HOLDING COMPANIES

Proposed section 7 of the bill would repeal present sections of the 1940 act which permit, within certain limits, the purchase of shares of an investment company by a registered investment company. It also would prohibit brokers or dealers in securities, registered investment companies or their principal underwriters, from knowingly selling shares of a registered investment company to any investment company.

It is the exchange's position that it is an unfair and possibly an impossible burden to require brokers and dealers to be the instrument of enforcement with respect to the sale of registered investment company shares to an investment company outside the jurisdiction of the SEC.

In the agreements which have been reached between the SEC and the Investment Company Institute, as outlined in the exhibit filed by the Chairman of the SEC on October 10, there is, to be sure, some easing of the restrictions that would be imposed by section 7. Paragraph (1)(B) still seems to create a problem since the language makes