

Mr. Haack, is there any significance to the difference in phrasing in the statement which was originally filed, and the statement which you have just given, as it relates to the recommendations contained under the subheading "Management Fees," beginning on page 4 of the statement you have just read, and also I believe on page 5 of the statement you have just read and 4 of the statement which you have previously submitted?

The statement that you have previously submitted contains this phrasing:

We understand that the Investment Company Institute has indicated to the SEC its willingness to go beyond the present concept. As we understand that proposal, it contained three important points. First, the number of independent directors would be increased from 40 percent to a majority. Second, the independent directors of the fund would be required to make a specific finding in the exercise of business judgment, that a proposed management fee contract is reasonable. Third and final, a fund shareholder could commence an action in a federal court to recover on behalf of the mutual fund any portion of a management fee which the court found was unreasonable. In such an action, the court could upset a management fee contract upon the finding that the approval by the directors was an abuse of business judgment.

We think that this proposal minimizes any risk there may be to the public interest in this area and ought to be adopted.

The language on page 5 which you have just read would appear to modify that substantively. Is that the intent?

Mr. HAACK. No.

Mr. MOSS. It is not?

Mr. HAACK. It is not. This is in our judgment a cut-down version, an abbreviated version.

Mr. MOSS. I just wanted to be quite clear.

Mr. HAACK. Yes.

Mr. MOSS. In the record.

Mr. HAACK. Yes.

Mr. MOSS. Now, one of the matters which the SEC has criticized is that of the use of exchange brokerage or give-ups to the compensation of dealers handling mutual fund shares. What is the position of the exchange on this issue?

Mr. HAACK. This is a matter which is presently being discussed by our Cost and Revenue Committee, and the exchange has not come out with any official pronouncement on it.

If I can give a personal opinion, it would seem to me that the sharing of commissions violates no good, sound business concept, that it results in no extra cost to the buying fund, and as a matter of fact you can make some very excellent reasons for justifying the concept of the lead broker in that it involves giving an order to only one fund instead of four or five or eight or 10 funds, eight or 10 brokers.

As far as the bestowing of reciprocal business on brokers, it seems to me that this is not a reprehensible practice in this country. Reciprocity has been defined as doing business with those who do business with you. It seems to me there is no trouble in this area except in the possibility of abuse, where an incentive might be unduly large, so as to influence the judgment or the recommendation of the salesman.

I think that this is subject to types and degrees of surveillance by the SEC and by the NASD which has the authority to regulate sales compensation.