

plain thrust of the Securities and Exchange Commission's proposal to Congress is to reduce profits by giving them authority to reduce charges.

Recent developments in the securities markets have convinced us that this proposed legislation cannot be evaluated properly until these major questions have been carefully considered:

1. What are the capital needs of our economy over the next 20 years?
2. Where will this money come from?
3. To what extent would these Securities and Exchange Commission proposals be harmful to the capital-raising structure of our country? We don't know.
4. Do the present methods and techniques of buying and selling by mutual funds cause erratic price swings in issues in which they have a substantial interest, or will they in the future?
5. Will the continuation of large block buying by all institutions change the whole concept of future financing and marketing of securities?
6. Will the funds, if they sustain their present rate of growth, dry up liquidity in the various marketplaces?

The Securities and Exchange Commission raises the institution's impact on liquidity in their mutual fund study¹ and I quote:

The growing importance of institutional investors in the stock markets has a significant impact on the securities markets. To the extent that irregular and relatively infrequent transactions in sizable blocks of securities by large institutional investors become more significant and orders from small investors become less significant, the markets for individual securities become more susceptible to wide and erratic price fluctuations.

Strangely, this Commission-sponsored legislative proposal makes no attempt to deal with the recognized problems resulting from increased institutionalization.

Liquidity in an auction market is provided by a continuous daily flow of 100 to 500-share orders in sufficient quantities to satisfy all normal pressures of supply and demand without leading to erratic price fluctuations. We would have to oppose, therefore, any pricing structure that would contain a volume discount that would make it attractive, in and of itself, for investors to bunch their orders through some institutional vehicle. This would have two undesirable effects:

1. Many smaller- and medium-size orders would be removed from the marketplace, thus reducing existing liquidity.
2. By routing orders through an institutional vehicle, they would become larger and exert extraordinary pressures on the market as clearly delineated by Chairman Cohen.

Most importantly, any spectrum of pricing that provides a discount for larger orders, by its very definition, either directly or indirectly, places a more than proportionate burden of cost on the small individual investor.

H.R. 9511 is a result of studies by the Securities and Exchange Commission, its staff and consultants, conducted pursuant to section 14(b) of the Investment Company Act of 1940. In that subsection, Congress authorizes the Commission to make a study and investigation when and if it finds—

¹ House Rept. Number 2337 on public policy implications of investment company growth, p. 26.