

vestment company. Therefore, our primary suggestion is that, if section 15 is amended in anything like the fashion proposed, there should be an express exemption for section 10(d) companies, at least from the proposed new subsection (c).

2. The list of criteria of reasonableness set forth in proposed paragraph (2) of subsection (d) of section 15 of the Act seems to us to be very one-sided and unbalanced. For example, although the Commission had suggested in its Report on Public Policy Implications (at page 145) that reasonableness should not be measured merely by "the cost of comparable services to individual investors" or "the fees charged to other externally managed investment companies," it failed to list either of these two important factors in proposed paragraph (2). We believe that if anything like the proposed section 15(d) is adopted and made applicable to section 10(d) companies, paragraph (2) should be omitted entirely.

3. The new requirement in proposed subsection (a) of section 15 that compensation for investment advisory services and for all other services be stated "separately" would also present particular difficulties for section 10(d) companies, in light of the circumstances that (i) the counseling firms that render advisory services to them are primarily in the business of rendering counseling services to other clients, so that unusual allocation problems are presented, and (ii), by reason of restrictions contained in section 10(d) itself, the management fees paid by the no-load funds must absorb some kinds of expenses that the rest of the industry can take care of as a fund expense or through the load. Since the Commission's Technical Statement indicates (at pages 4-5) that this new treatment in subsection (a) is essentially in aid of provisions of paragraph (2) of subsection (d) that we suggest be deleted in any event, we believe that the proposed requirement to state compensation "separately," if adopted for other investment companies, should not apply to section 10(d) companies.

4. While the subject is not directly involved in the proposed legislation, we believe that a further measure to accommodate and encourage no-load funds would be to liberalize somewhat the present "tombstone ad" requirements. It is not apparent to us why further relaxation could not be accomplished within the existing statutes, but if the Commission feels that its present rule 134 goes as far as possible without statutory amendment, either a broadening of present section 2(10)(b) of the Securities Act of 1933 or a special provision in the Investment Company Act as to advertisements of investment companies might be needed.

Respectfully yours,

RONALD T. LYMAN, Jr.

(For the group of Investment Counsel Sponsored No-Load Funds).

Mr. MURPHY. The committee will be adjourned until 10 a.m. tomorrow in room 2123.

(Whereupon, at 12:30 p.m., the subcommittee adjourned, to reconvene Wednesday, October 18, 1967, at 10 a.m.)