

Markets Study." Table 1, Appendix D, and Exhibit IV (page 13) of that study were employed by the SEC to produce Tables 1 and 2 attached. Table 1 shows the share that firms of different size have in various sources of gross income, including from retailing mutual fund shares. Table 2 shows the projected loss of gross income for the same firms under the Mutual Fund Report Recommendations. Relevant to the present discussion is only the projected loss of income from mutual fund sales resulting from a cut in the sales charge from 9.3 percent to 5 percent, a reduction of 46 percent. Table 2 also shows the projected loss from elimination of give-ups with which my testimony has not been concerned.

Table 2 shows that the heaviest loss of income would occur in the two lowest size groups, firms with less than \$20,000 gross income, and with \$20-35,000 gross income. The "less than \$20,000 group" would lose 25 percent of its income, the \$20-35,000 group would lose 21.4 percent of its income. There are 707 firms in the lower and 232 firms in the higher income group, out of a total of 2,483 firms. For firms above these two size categories, the projected loss ranges from a maximum of 15.9 to a minimum of 0.9 percent of average gross income. Losses of this magnitude are not essentially different from income losses that occur in the course of business fluctuations. In a time when activity in the securities markets has stepped up considerably, the projected loss would for most firms probably represent no more than a slowing in the rate of growth of their income.

The losses in the two lowest categories, of 21.4 and 25.0 percent respectfully, are of a higher order. They nevertheless present a distorted and misleading picture of the true facts. The 707 firms in the "less than \$20,000 group" have an average gross income of \$8,000. Obviously these are securities firms only in a nominal sense. Very probably they are in good part part-time operations of single individuals. It is hard to see how, on \$8,000 gross income, an office could be rented or an office staff kept.

The 232 firms in the \$20-35,000 group have an average income of \$28,000. These too are operations of minimal size. Together, these two groups representing one-third of the total number of firms have 0.5 percent of total gross income. Their share in the total income from retailing of mutual fund shares amounts to 5.8 percent.

It is by no means to be assumed that even a loss of 25 percent of gross income would drive many of these securities firms out of business at a time when other parts of the securities business are expanding rapidly. But in any event, to continue a 9.3 percent sales charge in lieu of a 5 percent charge, means to charge the buyers of mutual funds an added 4.3 percent. This 4.3 percent charge yields an added income of about \$47 million to the 2,483 firms, of which the 939 firms in the two lowest size classes get approximately \$2.8 million. The total income of these 939 firms is only \$12.2 million. In other words, in order to keep firms with a gross income of \$12.2 million in business, which quite possibly might continue in business in any event, fund buyers would pay an additional charge of \$47 million of which these firms get \$2.8 million. The larger part of this charge, approximately \$44 million, accrues to the bigger firms which, as pointed out above, would not feel its loss very heavily. Mutual fund buyers could pension the 939 small firms off at one-quarter of the cost.

The conclusions which in my judgment follow the data are these. 1) There is no evidence that even the smallest firms cannot survive a cut in the sales load from 9.3 to 5 percent, particularly at a time of expanding securities markets, even though some of these firms may have difficulties. 2) The cost of mutual fund buyers of keeping these firms in business, on the unlikely assumption that otherwise they would mostly go out of business, exceeds the total income of these firms by a multiple of about four. It exceeds the loss that these firms would suffer from the drop in the sales charge by a multiple of almost 17. I can see no justification, either social or economic, for such a policy.

I appreciate the opportunity to submit this additional material.

Sincerely yours,

HENRY C. WALLICH.