

The Association of Stock Exchange Firms is a 54 year old organization of member firms of the New York Stock Exchange. Our 510 member organizations offer a complete array of investment services to all classes and sizes of investors—individual and institutional. And they account, according to New York Stock Exchange research estimates, for at least 40% of all mutual fund sales to the investing public.

Many of our member firms are also members of the American, Midwest and other leading securities and commodity exchanges as well as active in over-the-counter markets and investment banking.

We wish to add to the record our thoughts on how the securities industry can best meet its commitment to the consumer-investor, the publicly-owned corporation and the general public. We will suggest specific criteria for a soundly functioning securities business and evaluate the proposals presently before Congress against these standards.

For financial institutions to function in the public interest, they must:

- (1) Provide facilities which are adequate to the growing needs and changing requirements of a constantly expanding economy.
- (2) Be able to withstand shock and be able to sustain losses.
- (3) Attract and retain efficient and competent management.
- (4) Contribute to economic growth free of inflation and economic instability.

Applying these principles to the securities and mutual funds industries, they require that such organizations have the resources and capital to:

(A) Provide highly-trained and qualified sales personnel who are properly motivated to serve the public by educating, advising and protecting the investor. Provide "plant and equipment"—offices, and the proper tools for handling a substantial volume of transactions—so that investors in smaller communities as well as big cities may have ready access to financial markets and receive a full range of investment service.

(B) Reinforce consumer-protection by having the sales force supervised by highly-trained compliance specialists as well as by the partners or management-level officers. The investor must be shielded from possible over-selling abuses from which no industry is immune.

(C) Provide quality investment vehicles and professional services aimed at an ever-broadening range of consumer needs. Consumers save in a variety of ways with varying means and objectives. Thus, to encourage maximum savings and investment flows, a diversification of investment media has to be developed—media which have to be constantly supervised, revised and supplemented by new ideas.

It is against the broad background of these consumer-interest criteria that ASEF moves into its evaluation of the proposal before this Committee.

SALES CHARGES

The recommendation for a 5% ceiling on mutual fund sales charges is a seemingly magic figure, requiring no economic justification as to what it will do to or for the investor in mutual funds or the securities industry. In our view, the SEC has offered no meaningful evidence that the consumer-investor has been harmed by present selling charges. On the contrary, the sales charges do not appear to be inconsistent with the incentive required by sales personnel to bring this savings medium and its benefits to potential investors.

The contention that lower price is the most important—and virtually exclusive—measure of the public interest, that something "cheaper" must be "better" is at best half truth and false economy. The investor, no less than any other thoughtful consumer-purchaser, must weigh carefully the relative merits of lower cost against his needs in terms of both product and service.

Looking ahead, the reduction of sales charges to 5% would place obstacles in the way of expanding the ownership of equity instruments to broader groups, and thus, limit rather than enlarge the savings services made available to the public. Fund sales personnel would be discouraged from catering to smaller investors who buy in lower dollar units and to investor outside urban centers. Our smaller regional firms tend to secure a relatively greater share of their revenues from mutual fund sales than larger firms, so the burden would fall particularly hard on them. Mutual fund investors are also being educated continually as to investment securities and the expanding availability of funds having differing investment objectives, and regularly supplied with market information from which they can make their own investment decisions.