

In view of the paucity of information and economic justification behind the SEC's proposal, and the considerations noted above, it is our firm conviction that more comprehensive and detailed studies of the subject should precede any legislative action in this area. It is determined that the services of an industry-government study group would be an appropriate vehicle for this effort, the ASEF—as in the past—stands ready to participate.

MANAGEMENT FEES

As ASEF sees it, it is clearly in our customers' and our own best interests to do everything possible, as distributors of mutual funds, to assure the continued maintenance of high standards of service and performance on the part of fund managements. The reservoir of individuals with outstanding managerial talent is never excessive in a growing economy, and such executives must be compensated according to the values they create.

Here, again, there is incomplete documentation. What little analysis there is relates fees only to the cost of producing services—a rerun of the cheaper-must-be-better theme. There is no recognition of the fact that in most service businesses (and particularly in the business of money management), any true measure of fees charged must also consider the *value* of services rendered. In fact, determining the appropriateness of fees and commissions by relating them only to costs, could very quickly destroy the ability of the industry to deliver value to public investors.

The present approach, whereby directors of investment companies and their shareholders, using their best judgment, pass on the reasonableness of management fees, is far superior to the SEC's approach of regulatory and judicial determination. An increase in the ratio of independent directors from 40% to a majority, would be consistent with the public interest. To have these directors make a specific finding regarding any management fee contract may also be in order. Such steps, we feel, would tend to minimize any risk that the public and shareholders' interests may be jeopardized by excessive costs for management.

INDUSTRY RESPONSIBILITY TO ITS CUSTOMERS

The consumer-investor is better protected in the United States than anywhere else in the world. In buying securities, he is afforded three levels of protection: By those in the individual securities firms striving to earn and retain his confidence; by strong self-regulatory agencies; and by federal and state governmental agencies functioning under laws designed to protect the public interest.

The securities industry has been striving diligently to achieve higher standards of professionalism and service through more thorough training of salesmen and the introduction of modern data processing equipment and high-speed communications systems. In cooperation with the SEC, and acting under its self-regulatory authority, the industry also is committed to meticulous compliance with a mounting multiplicity of laws, rules and reporting requirements. These efforts, voluntarily instituted as often within the industry itself as in response to outside pressures, have unquestionably benefited the investing public. Of course, these measures have resulted in higher costs of doing business.

The New York Stock Exchange has taken a formal look ahead, to try to determine the size and scope of the needs of a growing investing public in an expanding American economy over the next decade. This review led to some startling conclusions. By 1975, shares listed on the NYSE alone can exceed 20 billion—double what they are today. The number of potential shareowners is expected to increase by at least 10 million, and shares traded will rise accordingly. The Exchange community alone will have to add 50,000 more persons to its payrolls, including 25,000 more qualified and trained sales representatives. This is eight more people for every ten employed today (and many more than that number will have to be recruited and trained to produce a net addition of 25,000). As many as 1,500 additional offices—four more for every ten now in operation—will have to be planned, located and staffed.

The Exchange research indicated our industry must attract an additional \$85 for every \$100 of capital now employed in the business. To attract an additional \$1 billion in needed capital funds, we will have to maintain a level of profitability sufficient to induce such new capital to flow to it.

The present proposals do not accord sufficient weight to the economic consequences of the recommendations on the ability of the securities industry to meet