

its commitments to its present and prospective customers and to a growing national economy. To pare down profit margins, while causing costs of investor services to rise may well change the investment industry in ways that will be adverse to the public interest.

CONCLUSION

On the basis of the criteria set forth in this statement, the key proposals in HR 5910 and 5911, if adopted, would, in our view, result in less rather than more protection and in poorer rather than better service to the investor. The evidence at hand is inadequate for the establishment of guidelines which may well prevail for the next generation and have a serious impact upon an industry as dynamic and important to the national welfare as the mutual fund industry.

We submit that the implementation of these proposals will:

Result in the deterioration of service to the investor. Some firms may discourage mutual fund business. Fewer new and specialized funds will be developed. Motives for innovation will be less compelling and services will be retrenched.

Result in less protection for investors, because it will curtail the industry's financial capacity for raising its standards and introducing new safeguards.

Discourage competent individuals from entering the securities business by reducing compensation and the availability of financial incentives.

Finally, the legislation before this Committee promises to set down legislative guidelines which could be controlling for many years. In our view, the case presented for changes of so fundamental a nature has not been sufficiently documented through essential basic research.

Mr. DAVANT. Thank you, sir.

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. They account, according to New York Stock Exchange research estimates, for at least 40 percent of all mutual fund sales to the investing public.

Many of our member firms are also members of the American, Midwest, and other leading security and commodity exchanges as well as active in over-the-counter markets and in 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 public 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 by attracting savings for investment.

Applying these principles to the securities and mutual fund 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