

Now Professor Samuelson suggests that particularly the stock exchange commission rate structure, with the give-up practice, which I am sure you are familiar with, where up to 60 percent of the commissions on portfolio transactions of the primary brokers are again funneled back to the stock exchange firm, which sells the mutual fund, which adds to the 9 percent or the 8 percent, or 8½ percent another 4 percent, which really brings it to about 12½ percent on selling mutual funds is quite unhealthy. So that I would favor repeal of section 22(d), or if not, the adoption of the 5-percent figure, which I believe that the industry would be able to live with.

I would just like to add that in 1961 and 1962, when the question of abolishing floor trading came up on the New York Stock Exchange, we heard the argument that this would result in a lack of liquidity in the markets, and dire consequences were indicated, and then we have today 10-million-share days, so that one can't always envisage what the impact of a particular bit of regulation will have upon the industry.

This is a very dynamic industry, and I ventured in my testimony before the Senate to say that after 10 years, if this legislation were adopted, the probabilities would be as in other legislative efforts of the Congress in the securities industry, that the industry would look back on it as being beneficial legislation, whereas at the time they may feel that it would have dire consequences on them.

Professor Samuelson predicts the probabilities of a steady growth of mutual funds in the next decade, but it seems to me that there are great difficulties in the commission rate structure of the stock exchange, and the full commission as it relates to the sales commission on mutual fund shares that is unfavorable toward direct investment as against institutionalization. I think that the Congress itself has favored the institutionalization of investment by adopting section 22(d), and should realize that this is the impact of that legislation.

I will pass on with that to the problem of holding companies.

4. *Holding companies.*—I support section 7 of the bill which is designed to prevent the creation and operation of fund-holding companies and the further enlargement of existing structures of this type. The introduction of the holding company device into the mutual fund field is particularly unwarranted. It would permit those persons who control the holding company to use leverage in other funds so as to exercise an influence over the fund and its managers in ways that are detrimental to outside shareholders. Furthermore, use of the holding company device introduces an additional layer of management charges and administrative costs. Congress has recognized the dangers of the use of the holding company in the public utility field. The mutual fund structure itself provides an additional layer between investor and corporate enterprise. The fund mechanism is justifiable in that it enables investors to pool their investment advice as well as achieve diversification.

The mutual fund structure is presently sufficiently complex without adding the complexities of the holding company. Accordingly, I strongly recommend adoption of this provision of the bill.

In conclusion, I support the goal sought to be achieved by the Investment Company Amendments of 1967.

Thank you very much.