

Mr. WATKINS. I will accept your ruling under protest.

Mr. MOSS. You must accept my ruling.

Mr. WATKINS. I don't have to accept it. I accept it under protest.

Mr. MOSS. The gentleman will suspend any further interruptions.

Mr. WATKINS. I will be happy to retire.

Mr. MOSS. That is a matter for the gentleman's choice.

Mr. WATKINS. If you desire I will be happy to retire.

Mr. MOSS. I do not desire the gentleman to make a further spectacle of himself.

Mr. Cohen, you will address yourself to the question propounded on section 22(d).

Mr. COHEN. Yes, Mr. Chairman, if I may I would like to assure Mr. Watkins that I would be glad to supply any additional information now, later, at any time, because I do want him to be satisfied that the problems he has are met. But I want to go back to the point I was making.

I did call the industry in. We did discuss this problem. They felt that the lifting of section 22(d) would be disastrous for the funds and those who sell them. They said that the dealers who wanted to sell mutual funds would stop buying them from principal underwriters and purchase them at cut prices in the market, and that mutual fund sales charges would thereby be driven down to a point where most dealers would stop selling them at all. In other words, they said the force of competition would reduce the charge.

They said that as a consequence the existing system of distribution would break down, the underwriters would be unable to make enough sales to offset redemptions, and the funds would be thrown into a net redemption status, and ultimately wither away.

Now we believed then and we still believe that many of these fears are very much exaggerated. In fact, there are funds from time to time, and there are funds right now, that are in a net redemption status, and it hasn't been a disastrous situation for the industry. Nevertheless, in reviewing the situation, the Commission was persuaded that the industry was seriously concerned.

On the other hand, there is another school of thought that believes that the repeal of section 22(d) would not really accomplish the full-scale competition that its proponents suggest, because they say that even if they were free, mutual fund dealers would not cut prices. The absence of competition has gotten to be a way of life in the mutual fund industry. And I am talking about competition in the sale of the shares of particular funds.

Of course, insofar as you are dealing with the integrated organizations—and a representative of one of them proudly stated, and I am not quarreling with that, that his group accounts for 15 percent of the industry—they sell only through their own representatives, and obviously there is no competition there. And it was urged that repeal of section 22(d) might also favor those fund managers who deal through the so-called integrated or captive sales organizations rather than through dealers.

Section 22(d) does not really have much effect on these organizations, because as I have indicated, there cannot be any real retail competition where there is only one retailer. There was apprehension that if