nalistic agency to accomplish the same objective, if our corporate structure in its present capability can do the job, and what Mr. Watkins was trying to do was to find out whether or not the States couldn't do the job. You don't feel that they can.

Later on we are going to discuss whether or not the NASD could regulate this thing. Apparently you have——

Mr. COHEN. Mr. Keith——

Mr. KEITH. You can answer those comments later on. You have already to some extent.

Mr. COHEN. I haven't, sir.

Mr. KEITH. You have given us an awful lot to chew on. Let me give you a little bit.

Mr. COHEN. I will be glad to, but I am trying to be helpful, Mr. Keith. The only way I know how is by speaking to these points.

Mr. KEITH. Well, getting to the alternative method of internal management, if your proposal became law, these management companies, their profits as a result of that decision would immediately be subject to, I would suspect, a reduction to 10 percent instead of an average of 40 percent return on stockholders' equity. Internally managed funds wouldn't have to live with that law. You say they would. How would they do so? Would they go internal?

Mr. COHEN. There were a lot of questions there, Mr. Keith, and I hope you will bear with me. I will try to deal with them.

First of all, to correct a misimpression, we never proposed that the NASD be elected to undertake this job. That came about as a result of a question put to the NASD by the chairman of the Senate Banking and Currency Committee, in which they replied that they would be willing to undertake it under certain conditions specified in the letter they submitted to him.

It is my impression that the bulk of the mutual fund industry does not want the NASD in the picture. They don't want the NASD to fix sales charges. They don't want the SEC to be involved. They don't want the courts to be involved. They don't want the Congress to do anything about it. But they want the price-fixing arrangement.

Now coming back to your question about internalization and things of that sort, our recommendations are rather mild. In the area of management fees we are only asking that they be subject to a standard of reasonableness, and certainly a person who is asking other people to give him their money to manage should be subject to a test of reasonableness, not by the Commission but by the courts, and that we remove from the statute the protections put into the statute by the Congress, to the extent that they have really become a shield for the manager rather than a protection for the investor. That is what it is. Now there are many ways in which this could be achieved. Internalization——

Mr. KEITH. The shield for the manager existing until the Congress put that in the statute to provide a little bit more protection for the shareholder.

Mr. COHEN. That shield did not exist before, no, sir. If I understand what the law is, because of this requirement for unaffiliated director approval and shareholder approval of these contracts, instead of a test of reasonableness, the test is corporate waste; that is, it must be excessively excessive or unreasonably unreasonable. Normally, the