

You said, "This can be done by requiring the mutual funds to be internally managed."

But then you say, "The Commission rejected this approach as being too drastic."

However, on pages 27 and 29 of your statement, you point out that mutual fund advisory fees are excessive: "The unaffiliated director does not work to reduce fees," and that "Internally managed funds have lower costs of advice."

On the basis of the argument which you yourself made, I cannot see your statement that the abolition of the outside advisory service is too drastic. In other words, I think that your reasoning would lead to the conclusion that such a proposal would not be too drastic, as you set forth in your statement.

Mr. COHEN. It would be very difficult to argue against it. I will try to explain the situation.

Mr. MOSS. Is this not exactly what Congress did in 1935?

Mr. COHEN. Yes, sir.

Mr. MOSS. In connection with public utility holding companies?

Mr. COHEN. Yes, indeed.

Mr. MOSS. Why haven't you made that recommendation here, then?

If you would like to reflect upon that one very carefully, it is not intended to entrap you, you can prepare a written response and I will supply you with the question.

Mr. COHEN. I will be glad to do so; yes, sir.

Mr. MOSS. In fact, I have a number of questions which will be proposed to you in writing, and I will restate now the situation as we close this phase of the hearings.

The members of the committee have the right to propound questions to any of the witnesses in writing. The witnesses are to respond within 2 weeks. That means 2 weeks from today, the questions which are received should be answered and the answers back in the hands of the committee for inclusion in the record.

Mr. COHEN. We appreciate the opportunity very much.

(The following letter was received by the committee:)

SECURITIES AND EXCHANGE COMMISSION,
Washington, D.C., November 7, 1967.

Hon. JOHN E. MOSS,
Chairman, Subcommittee on Commerce and Finance,
House of Representatives, Washington, D.C.

DEAR MR. MOSS: I am pleased to enclose the Commission's replies to the 8 questions which you submitted to us under cover of your letter of October 24.

Please do not hesitate to call on me if you wish any further information in connection with this legislation.

Sincerely,

MANUEL F. COHEN, *Chairman.*

[Enclosures]

1. It is, of course, true that the simplest and the most effective way of dealing with a conflict of interest problem is to eliminate the conflict by removing its fundamental causes. For this reason, one might conclude that the external advisory system ought to be abolished and that investment companies should be precluded from contracting out the most essential parts of their work to separate entities controlled by the same people who are in practical control of the investment companies. It may be useful, therefore, to outline the countervailing considerations which led the Commission to conclude that it would be desirable to recommend the more conservative approach taken in H.R. 9510.