

usually lacked jurisdiction over the service companies. Drastic action was imperative to protect consumers and to promote maximum utilization of the technical advances in the transmission of electricity.

Of course, nothing in the bill precludes the voluntary internalization of investment company management through the acquisition of the management companies by the investment companies they manage on a basis fair to all interests concerned. With respect to compulsory internalization, however, the Commission believes the view expressed at page 149 of Public Policy Implications of Investment Company Growth is still valid:

"The Commission believes that an alternative to the more drastic solution of compulsory internalization of managements should be given a fair trial. That alternative lies in applying to management compensation the standard of reasonableness that the Act applies to other transactions between investment companies and their affiliated persons. The Commission believes that this regulatory approach also can resolve the problems that exist in the area of investment company management compensation. If it does not, then more sweeping steps might deserve to be considered."

2. The Commission clearly has the power to require comparative disclosure of the relative management costs of different investment media. Under the Securities Act of 1933 the Commission can insist on the disclosure of all material facts. Alternative investment media and a comparison between their costs and those of the particular investment medium offered are plainly material. Thus the question is not one of power but of the wisdom of exercising it.

Although the Commission has on previous occasions considered the possibilities, it has concluded that the advantages of comparative disclosure in investment company prospectuses were not clear and, in any event, there were doubts that the benefits would offset the administrative difficulties this type of disclosure would entail.

To begin with, the advantages would be limited. Management costs are significant. But even to the most cost-conscious investors they are by no means the most significant cost of mutual fund investment. From the small investor's point of view the sales load is by far the principal cost of a mutual fund investment. Most mutual fund investors are small investors, and the 8.5 percent sales load that they normally pay is almost 19 times an advisory fee rate of one-half of 1 percent. Thus, comparative disclosure in the management cost area would have to be complemented by comparative disclosure in the sales charge area.

Disclosure of comparative cost would also require that disclosure of management and acquisition charges be supplemented at least by reference to relative benefits, for example, investment performance. The performance of a fund is undoubtedly as material to an informed investment decision as are operating costs and sales charges.

This would present additional difficulties. There would be a question whether the comparison should deal with all alternative investment media, or all mutual funds, or to funds of a particular type, or whether it should refer to some stock market average. There would also be the problem of assigning a particular fund to a particular category, since the dividing lines among the various categories of funds are not always clear.

It has been argued that there is a risk that adequate disclosure in this area would be self-defeating because it would require mutual fund prospectuses to become, in effect, treatises on investment in general. Encyclopedic prospectuses would of course be useful in certain situations but they might become totally unreadable to the average investor. Prior attempts by the Commission to add only a portion of such disclosure to proxy statements and prospectuses have been met with these and other arguments.

After 34 years of experience there are still many problems in trying to determine what is needed in order to give a fair portrayal of a particular security. To determine what constitutes a fair presentation in relation to the attributes of all other competing investment media would present infinitely greater and more difficult problems.

However, as noted at the hearings, we are not satisfied that the range and value of present disclosure is adequate. Our staff has been reviewing these requirements to determine whether and the extent to which improvements can be made which will assist investors without imposing unnecessary or impossible