

concerned with trends, not basic values. And I, for one, find it difficult to distinguish this from speculation.

Many of you have been aware of the facts and the problems that I have just related. I am sure, therefore, that your question is what, if anything, has the S.E.C. been doing on this front?

The answer falls into two categories. First, to protect those who invest in mutual funds that engage in short-term trading, the Commission staff has reviewed fund prospectuses. The purpose of this review has been to assure ourselves that those who invest their savings in such funds will have adequate information toward the end that they will not unwittingly risk their money in speculative endeavors.

Secondly, toward the end of helping maintain the general investing public's confidence in the securities markets, we have initiated a fact-gathering program. We must know in greater detail than we now do of the nature, extent and impact of short-term trading activities by institutions.

We have sought and received the cooperation of the Investment Company Institute in obtaining on a monthly basis information showing a breakdown of most of their members' assets by type and the total value of portfolio securities purchased and sold by each member fund. We have proposed the adoption of a new reporting Form N-1Q for registered management investment companies which would make available on a calendar quarter basis information on the gross transactions of such companies in individual portfolio securities and on their securities holdings at the end of each quarter.

Among other matters, we are studying the frequency, nature and impact of mutual funds' trading reversals, i.e., buying and selling or selling and then buying, in individual securities within 20 days. We also are studying the activities of the hedge funds to learn of the type and volatility of securities they trade and the relative short interest of hedge funds in those securities.

The studies made thus far demonstrate the complexity of questions presented by the growing role of institutions in the markets and by the increased emphasis some of them are placing on short-term trading. Our studies emphasize the need for still more detailed information in these and other areas if we are to obtain reliable answers to questions of market impact. There is a need for data which will provide, on a regular basis, a current and continuing picture of the participation of institutions in the markets.

This type of information is indispensable if we are to evaluate the adequacy of exchange markets and other markets for such trading, and if we are to be informed of the effects of such institutional market activity on noninstitutional shareholders and on portfolio company managements. Without such knowledge, it will be difficult for us to know whether changes are necessary in exchange rules and in institutional disclosure requirements or whether legislation in this area is needed.

In addition to information from the exchanges, the Investment Company Institute and the Association of Closed-End Investment Companies, the Commission has been receiving some help in data gathering by institutions over which we do not have regulatory jurisdiction. Among these are the managers of 70 per cent of the total assets of non-insured pension funds, of 82 per cent of the total assets of life insurance companies, and of 60 per cent of the total assets of property and casualty insurance companies.

Analysis of the impact on the markets of institutional trading generally, and in particular short-term institutional trading, will require continuing and additional information from securities industry associations and institutional managers. I believe that these institutions will respond to Chairman William McChesney Martin's call for enlightened self-interest. I am hopeful that they will use their resources to supplement those of the Commission, and other governmental bodies that have an interest in these problems, in the compilation, analysis and evaluation of the information necessary to a better understanding of the impact of the changing nature of institutional trading activity in the securities markets.

Mr. Moss. Now would you respond to Mr. Keith?

Mr. COHEN. I understand that my letter to you, Mr. Chairman, and the letter to Chairman Staggers, in which you raised these issues some time back, are in the record, and I won't try to repeat all of that.