the Sunday edition of the *New York Times* and widely distributed. We have observed no correlation between the extent of advertising by various load funds and the sales load charged. Those which advertise widely in general have no lower sales loads than those which do not. This affords some support for the conclusions we have expressed.

The second part of the question is whether more emphasis in mutual fund advertisements on sales charges and management costs would result in more effective competition in the areas emphasized. We assume that this question does not refer to the prospectus where these matters are already required to be given considerable emphasis. The present tombstone rule permits the sales charge to be stated and no-load funds usually emphasize in their tombstone advertisements that there is no sales charge. Management expenses are presently not permitted to be included in such advertisements. This could be changed, but as we have pointed out in prior testimony and in the answers to other questions, meaningful disclosure with respect to management compensation for externally managed mutual funds presents complex and difficult problems and we doubt if this could effectively be done within the confines of a radio, television, or newspaper ad.

While the Commission has authority to modify the requirements concerning the tombstone ads, in exercising this authority we feel obligated to bear in mind the fact that in enacting the Securities Act of 1933 Congress did not intend tombstone advertisements to serve the function of sales literature as distinct from identifying securities proposed to be offered. We believe it was contemplated that the prospectus and literature supplementing the prospectus, rather than tombstone ads, would be utilized as sales literature.

7. What should the role of the S.E.C. be in any self-regulatory pattern of sales charge limitation?

The Commission should have adequate and effective oversight powers over the actions of self-regulatory organizations. The NASD, is responding to Senator Sparkman's suggestion that self-regulatory organizations might assume a responsibility over sales load, stated in its letter of June 16, 1967, that it would prefer to substitute Commission oversight of this kind provided in Section 15A (k) (2) of the Securities Exchange Act for the more extensive direct Commission rule-making power in this area now provided for in Section 22(c) of the Investment Company Act. The NASD's suggestion was as follows:

Section 22(c) of the 1940 Act now provides for SEC authority as to sales loads, which authority, if exercised, would supersede any previously exercised Association authority. We believe that duplicate authority should be eliminated in this area and that Commission oversight can be accomplished, as in the case as to other Association rules, by an appropriate amendment to Section 15A (k) (2) of the 1934 Act.

We believe the Section 15A(k) (2) oversight as suggested by the NASD would be adequate for the protection of investors.

The Commission has had similar oversight powers since 1934 over stock exchange commission rates pursuant to Section 19(b) of the Securities Exchange Act. In his testimony before the Senate Committee, Mr. Keith Funston, then president of the New York Stock Exchange, suggested that a 19(b) type procedure might be utilized in connection with NASD supervision of maximum sales loads and suggested that this procedure "seems to be working in our area."

The subject of self-regulation and the nature and function of Commission oversight was considered in some detail in Chapter IV of the Report of the Special Study of Securities Markets, particularly pages 693 through 728. The essential conclusions are stated on page 723 as follows:

Although governmental oversight of self-regulation is essential, the workability of self-regulation depends also on restraint in the Commission's exercise of its reserve power. The relationship between the Commission and the self-regulatory organizations has at times been referred to as a "partnership" or "cooperative regulation." Under either expression the roles of the Commission and the self-regulatory agencies are essentially complementary, and the self-regulatory agencies must enjoy such autonomy as will enable them to act as responsible, dynamic partners in a cooperative enterprise.

It is in this spirit that we would endeavor to work with the NASD in the area of determining maximum sales loads for mutual funds. It has been our consistent policy in matters of this type not simply to substitute our judgment for that of the self-regulatory bodies but to attempt to resolve any differences of view in a mutually satisfactory result. In the administration of Section 19(b), dealing with stock exchange commission rates, the Commission has only once in past 33 years