

found it necessary to hold a formal proceeding and to require the Exchange to modify one of its requirements.

8. *A specific objection to the front-end load is that people have been forced to redeem in the early years of their plan at a loss to pay unavoidable hardship expenses arising from illness, unemployment, or death. What percentage of planholders have been forced to liquidate for hardship reasons? How many of these have liquidated at a loss? What is the aggregate loss sustained by such persons in a typical twelve month period?*

It might be observed at the outset that the Commission has not basically objected to the front-end load on the grounds stated in the "specific objections." Our chief objection is that at the time an investor purchases a front-end load plan certificate, he cannot know what his financial future will be nor whether through the next ten years he will be willing to invest in the same mutual fund.

Changes in financial condition result—

- (i) not only from death, but also from the birth of additional children;
- (ii) not only from unemployment, but also from the failure of an employed or self-employed person's income to keep pace with increases in the cost of living;
- (iii) not only from illness, but also from an unexpected need for a healthy investor to support aging relatives who are healthy yet unable to provide for themselves;
- (iv) not only because of hardship expenses, but also because of unforeseeable expenses in providing for the well-being of his family; and
- (v) not only because he has unavoidable expenses, but because he believes it would be morally undesirable to avoid them.

Similarly, when the investor begins his contractual plan he cannot know whether the fund's performance in future years will be such that he will wish to continue to purchase its shares, or that his investment objectives will remain the same as the fund's. Other mutual fund investors can and do decide to invest new money in different mutual funds. The ICI Shareholder Survey indicates that over half of mutual fund lump sum purchases own shares of two or more mutual funds. But the front-end load penalizes the contractual plan investor to a uniquely heavy extent if he decides to make his future investments in another fund. The disclosures and the 30- or 60-day refund privilege, which for many years have been offered him at the time of his purchase, have no bearing on these future contingencies.

It might also be observed that the front-end load does not merely penalize those who redeem at a loss in the early years of the plan. It penalizes all who fail to complete their payments, including the many who lapse but do not redeem their certificates.

Our answers to the specific questions asked follow:

(a) *What percentage of planholders have been forced to liquidate for hardship reasons?*

We have two sources of information. One is the survey conducted for the Special Study by the Securities Research Unit of the Wharton School of Finance and Commerce of the University of Pennsylvania. Part of that survey was concerned with those who redeemed contractual plans. Eighty-six percent stated that they redeemed their certificate to use the profits for a specific purpose. The specific purposes stated by such persons were as follows: payment of medical or hospital bills (9%); payment of other types of debt (34%); purchase of durable consumer goods such as automobiles, furniture, etc. (9%); vacation (2%); education expenses (7%); other household or personal expenditures (19%); purchase of home (9%); investment in a business (5%); purchase of shares in another mutual fund (5%); purchase of common stock other than fund shares (3%); purchase of other types of securities (8%); open or increase savings accounts (7%); and, some other purpose (3%).¹

The above responses indicate that those who redeemed did so for a great variety of reasons. Among those who did so to pay debts, medical or hospital bills accounted for 9%, but payment of other types of debt accounted for a far larger percentage.

The other known source of information is a survey conducted on behalf of the Association of Mutual Fund Plan Sponsors which was referred to in the testi-

¹ Report of Special Study of Securities Markets, House Doc. No. 95, Pt. 4, 88th Cong., 1st Sess., p. 372. The figures add up to more than 100% because some respondents offered more than one specific reason.