

In conclusion, the mutual fund industry in America seems to be serving its clients well. It provides a sensible way for most Americans to invest in stocks. The investment is for the long-term. The commission is received only once. Yet the service must continue. This must be taken into account when evaluating the cost of purchase. The investment must be sold and therefore the salesman must receive enough compensation to keep them in the business. The competition is great among funds and therefore the competition should control what the managers receive rather than the government.

We at Financial Service Corporation agree with the paragraph on the December 6, 1966 *Wall Street Journal* editorial entitled "A Little Too Active."

"The danger here is that if Congress does everything the S.E.C. wants, it may not merely be producing more equitable fees and practices. It may succeed in making the industry unprofitable or so marginally profitable as to be unattractive. In that event, the whole industry, the investor and the whole economy will suffer."

STATEMENT OF INVESTORS MUTUAL, INC., INVESTORS STOCK FUND, INC., INVESTORS SELECTIVE FUND, INC., AND INVESTORS VARIABLE PAYMENT FUND, INC., MINNEAPOLIS, MINN.

Gentlemen, the following views with respect to subject bills are submitted to the Committee by Investors Mutual, Inc. (Mutual), Investors Stock Fund, Inc. (Stock), Investors Variable Payment Fund, Inc. (Variable), and Investors Selective Fund, Inc. (Selective) (collectively "Funds") of Minneapolis, Minnesota. These funds collectively have assets totaling in excess of \$6 billion, about 1 million shareholder accounts and represent approximately 15% of the mutual fund industry.

I. GENERAL PROVISIONS

A. *Independence of fund directors*

Section 10 of the Investment Company Act of 1940 presently requires that registered investment companies using a principal underwriter for distribution of its securities must have a *majority* of its board of directors composed of persons who are not "affiliated persons" of such principal underwriter. A lesser ratio is required with respect to the investment adviser. At the present time, and for some years prior hereto, the boards of directors of subject Funds have been substantially more independent than these statutory minimums. This independence has been legitimate in fact and in practice, and has resulted in two negotiated reductions in the advisory fee in addition to the first reduction in 1963. The present 12 man boards of the Funds are each composed of 10 directors who are independent of IDS and 2 directors who are affiliated with IDS, its principal underwriter and investment adviser.

We consider that most fund activities which the SEC considers to be abuses would be alleviated if they would support measures to increase and insure the *independence* of the Fund Directors. We were greatly surprised when the SEC Report did not recommend strengthening the independent directors. To this end we suggest amending the Investment Company Act as follows:

(1) Require that the *chief executive officer* of the Fund be unaffiliated with the adviser or underwriter.

(2) At least 80% of all Fund directors to be unaffiliated with the adviser or underwriter.

(3) The insertion of a provision to insure truly independent directors along the following lines:

"No person affiliated with, in control of, or affiliated with any person in control of any adviser or underwriter for any registered investment company, shall directly or indirectly, suggest, direct, counsel, cause, command, induce, procure, recommend or in any way attempt of influence the selection of any unaffiliated director of any investment company with which such adviser or underwriter is affiliated and all directors affiliated with such adviser, underwriter or person in control thereof shall be ineligible to vote upon the election of any director who is required to be unaffiliated."

B. *Compensation to directors, officers and employees*

The amendment to Section 15(d)(1) proposes, *inter alia*, that (1) *advisory fees* of mutual funds and (2) all compensation of fund "*officers and directors*", etc. should be judged by a legislative standard as to whether they were "*reason-*