

contracts to the Funds has a loophole in it, in that if an adviser and a Fund wrote a contract *solely* for investment advice (and not for any housekeeping services) the Fund would only be able to compel information from the adviser with respect to investment advice. Our Funds have no difficulty heretofore in obtaining such information from IDS, but if the bill passed in its present form, IDS would not be required by law to furnish data with respect to services (other than investment advisory services) furnished under a separate contract. Since the advisory services are the smaller part of such contracts, this could constitute a serious barrier to getting *all* the information needed to negotiate for all services. We suggest that this section of the bill be corrected so that advisers and underwriters would be required to furnish statistics with respect to all services, investment advisory and housekeeping, if requested.

I. Short term trading

If it is considered that short term trading by highly speculative funds is a hazard the SEC has authority to compel special disclosure in the prospectus pointing out the turnover of portfolio securities, and the hazards involved, if hazards they be. If this is a problem it should be dealt with directly and not used as a bogeyman in an attempt to support other legislation that is unrelated to short term trading. (cf. Senate Hearings, p. 65-66.)

II. MANAGEMENT FEES

A. Basis for determining reasonableness of management fees

The bill proposes to amend Section 15 to provide that the fees of the investment companies be *reasonable according to a legislative formula* that may have other factors added thereto. See proposed amendment to Section 15(d)(2). We are for reasonable fees but the proposed standard allegedly designed to accomplish this we considered to be one sided and not practical. In our statement to the Senate Committee we set forth the nature of our objections to the manner in which the SEC proposed to define the word "reasonable" in H.R. 9510-9511. (See Senate Hearings p. 1183-1185). In his statement to the House Committee Chairman Cohen of the SEC said with reference to this matter.

" * * somehow the bill and our accompanying language at least worried some people as to its scope. So the suggestion was to eliminate the specification of those particular factors, and make it perfectly clear that the court would consider any factor which was relevant in reaching any determination of reasonableness. Now, if this would serve to alleviate some concern in this area, while I have not taken this up with the Commission as such, we had some discussions about it. I am convinced that this is an area in which the Commission would be most sympathetic."*

It is concluded from the statement of Chairman Cohen that it is in order to strike proposed Section 15(d)(2) as same appears on pages 20 and 21 of H.R. 9510-9511 and renumber the remaining subsections (3), (4), (5) and (6) as subsections (2), (3), (4) and (5).

We also oppose the proposal to authorize the SEC to initiate fee litigation against mutual fund companies. If it could be worked out we would not oppose a provision authorizing Funds to have such matters determined by the courts in a proceeding in the nature of a declaratory judgment.

B. Separate statement of management fees

H.R. 9510 proposes that the consideration for investment advice be separately stated from the consideration received for all other services covered by the advisory contract. (H.R. 9510, Section 15(a), page 17, lines 19-21). We fail to see any benefit to the Fund shareholders in this proposal. The SEC proposal for separate statistics will do away with twenty-seven years of experience and the whole industry will be launched on a statistical program that will require many years to furnish a base of experience for future decisions.

It is our opinion that the *expense ratio* of the Fund is the more important factor and that the fees would be better evaluated when considered in relation to *total services furnished*, hence, we oppose a requirement that a statement of the consideration for investment advice be separately made. We suggest, accordingly, Section 15(a)(1) of the Act be not changed.