

III. SALES LOAD

A. The 5% proposal

What about the proposal to amend Section 22(c)(1) to reduce the sales load about 50%? Is this proposal good or bad for the Fund shareholders? The present sales load of Fund shares varies greatly. There are about 34 "no load" funds. Sales charges of some other funds go up to 8¼%.

The proposed cut to 5% for the sales charge is an extreme proposal. The philosophy behind it is also extreme. The proposal is that the fee should be fixed by law and by the rules and regulations of the SEC. Why? No substantial profits by the underwriter or their salesmen are being made out of this distribution. The fees are not the subject of illegal agreements. Nobody is profiteering from the present scale of fees. The fact that Fund shares can be bought for "no load" or as high as 8¼% indicates complete freedom in the field. Why then should Congress fix a fee? Congress might well be justified, as other legislative bodies have been, in prohibiting grossly *exorbitant* commissions but we see no justification for Congress fixing the day to day commission for all Funds and then empowering the SEC to fix it even lower. We do not see that any case has been made for fixing the day to day commission for all funds and then empowering the SEC to fix it even lower. In a few states people can buy life insurance from a savings bank at a low sales charge, or buy it from a life insurance company and pay a more substantial sales cost even in excess of that charged by most mutual funds. Should all life insurance companies be compelled to change to the lower sales charge imposed by savings banks sellers of life insurance? What is there then in the mutual fund situation that calls for fixing a sales charge for mutual funds below that which is now producing a loss or a slight profit at best?

B. Inconsistency of SEC proposal to cut sales commission

Through the 34 years that the SEC has administered the Securities Act it has constantly encouraged the training and upgrading of the sales forces of investment companies and securities brokers and dealers and in the Securities Act Amendments of 1964 Congress passed extensive legislation to further this policy. Partially as a result of such policies and to a considerable extent on its own independent initiative, IDS at very considerable expense has created a sales force for the sale of Fund shares that is composed entirely of full time salesmen and all are fully trained in the sale of Fund shares. We consider the proposal of a 50% cut in commissions to be contrary to the best long term interests of the Fund shareholders because their ability to meet normal redemptions would be hazarded.

Such far reaching changes should be based on adequate information which the Commission did not present. This is apparent from the December 2, 1966 Report of the Securities and Exchange Commission on the Public Policy Implications of Investment Growth to the Committee on Interstate and Foreign Commerce (House Report No. 2337):

"Such a reappraisal (of the practices and procedures in the securities markets¹) requires fuller data concerning the securities holdings and trading patterns of institutional investors than is now available. While this information can be obtained by the Commission with respect to investment companies, there is a lack of reliable and comprehensive data concerning the securities holdings and trading activities of most other types of institutional investors, including pension funds. Closing this informational gap is an indispensable step to adequate analysis of the problems raised by the institutionalization of the stock markets." (page 26)

The stated purpose of this bill is to arrest the growth of mutual funds because of some conversations "with people in the securities industry, with executives of listed corporations and with students of the markets", (Senate transcript p. 66) and others.

It is asserted that " * * * there is a mounting public disquiet about some of the market implications of the greatly accelerated Mutual Fund growth * * * " (Senate transcript p. 66)

It is submitted that the foregoing does not set forth a legitimate legislative purpose and is not a proper substitute for "closing the informal gap" on the basis of adequate facts.

Also, there is no showing that the growth of mutual funds is as large as that of "pension funds, equity investments by insurance companies, * * * assets

¹ Matter in parenthesis supplied.