

is a desire to permit mutual fund salesmen to offer a rebate of all or a portion of the sales commission as an inducement to purchase mutual fund shares. Persons who think such practices are desirable differ from the 1940 Congress that enacted 22(d) to prohibit these well recognized evils.

One purpose of this anti-discrimination provision is to guarantee that the fund receives in cash the full net asset value on the date of the sale. If this did not result existing shareholders of the fund would be discriminated against.

E. Comparison to stock exchange firms

The bill is an attempt with reference to the sales charge to cast the distribution of Mutual Fund shares in the same mold as transactions in stock on the stock exchanges. It is true that a number of stock exchange brokers have established mutual fund departments and have salesmen specializing in the sale of mutual funds, but a very substantial portion of shares of mutual funds are sold by direct selling organizations wholly unrelated to stock exchange brokers. But the mutual funds that are sold by stock exchange firms are usually sold in an entirely different manner from the manner in which those firms conduct their stock exchange operations. Thus, the fact that some stock exchange brokerage houses sell mutual fund shares outside the stock exchange, in addition to their regular stock exchange business, is no justifiable reason to regulate the sale of mutual fund shares in a comparable manner to stock exchange transactions. These sales operations are two entirely separate businesses with completely different attributes and should be so considered by the Congress.

F. Distinctions from stock exchange operations

The usual sale of a mutual fund share is a more complex and time consuming operation than the sale of shares on the stock market by a stock broker. The structure, portfolio, investment objective and restrictions, sales load and other material features of each fund is complex and requires considerable explanation to each applicant. *Federal laws, in effect, require that the sale of a mutual fund share be a more expensive operation than the sale of a share on a stock exchange.*

The mutual fund business is entirely different from the sale of listed stock on exchanges. It is more similar to the sale of life insurance but a mutual fund sale by law requires more explanation than is required by law even for insurance material features of each fund is complex and requires considerable explanation quires much more explanation and understanding than the purchase of ordinary shares of stock. The duty of clearly explaining the investment is placed upon the salesman, most of whose sales in our company, which comprises about 15% of the industry, are made by direct contact, by direct sales in the home or office. *Why should the compensation of a mutual fund salesman who makes most of his sales by personal solicitation on the basis of a prospectus that must be fully explained in detail in the prospect's home or office, be restricted to the same compensation as is received by a stock broker who sits at his office telephone most of the day and takes orders for listed stocks.* To require similar compensation for these dissimilar services would not be fair or reasonable. One requires more work than the other. Also, most mutual fund purchases are long term investments while stock exchange securities are held for relatively shorter periods of time. The stock exchange broker has more turnover and he gets a commission both on the purchase and sale of a listed stock. *Our mutual fund salesmen receive no commission for, nor is any charge imposed on, the redemption or transfer of our fund shares to any of our other funds.* At the present rate all shares listed on the New York Stock Exchange turn over completely in 5.2 years on the basis of last year's sales when 10 billion shares were listed and 1,809,351,000 sold (see New York Stock Exchange Fact Book, 1966) and trading is up this year. The salesman of listed stocks on the stock exchange is the beneficiary of this heavy turn over.

G. So-called self-regulation

In the hearings there has been some mention of self-regulation with respect to the sales charge of fund companies as an alternative to the drastic reduction to 5% maximum as requested by the SEC. The term "self-regulation" is misleading in the context in which it has been used in the hearings. Some believe that it means industry regulation "without government interference." (See remarks at lines 13-15, p. 600, typewritten transcript, House Hearings, October 17, 1967.) Others use the term to mean industry regulation of the NASD type "with government interference." Actually "self-regulation" of the NASD type is similar to