

tion in sales charges recommended by the SEC. He stated: “* * * the amount of cash inflow to the funds solely from reinvestment of dividends almost equals the amount paid out each year by way of redemptions, almost equals it, so that you have got a built-in push in there.” (House hearings, p. 125.) This testimony that reinvestment of dividends almost equals redemptions is in error. The following chart shows total mutual fund redemptions of Investment Company Institute members for the years 1955–1967 and the cash flow from reinvestment of dividends by shareholders. This chart shows that for these years less than 25% of redemptions were met by reinvestment of dividends. Thus, a decline in sales can have the effect of putting mutual funds in a liquidating status.

REINVESTMENT OF INVESTMENT INCOME DIVIDENDS—1955-67 (6 months)

[Dollar Amounts in Millions]

Year	Redemptions	Reinvested dividend income	Reinvested dividend income as a percent of redemptions
1955	\$442.6	\$61.8	14.0
1956	432.8	85.5	19.8
1957	405.7	106.8	26.3
1958	511.3	119.5	23.4
1959	785.6	159.9	20.4
1960	841.8	196.1	23.3
1961	1,160.4	213.8	18.4
1962	1,122.7	255.3	22.7
1963	1,505.3	285.3	18.9
1964	1,874.1	363.8	19.4
1965	1,962.4	432.2	22.0
1966	2,005.1	488.9	24.4
1967 (6 months)	1,283.9	257.8	20.1

Question No. 7. To what extent do state “Blue Sky Laws” or the state securities administrators regulate sales loads? Would the proposed legislation supersede any of these regulations?

Answer. The Commission’s suggested maximum sales load of 5% would supersede state law on the subject. Most states have Blue Sky Law and security commissions which regulate the distribution of securities in the state. With respect to sales loads, at least twenty-three states have established maximum sales loads, some of which apply to all securities and some of which apply specifically to mutual fund shares. They range from 8½% to a maximum of 20%.

	Percent		Percent
Alabama	² 15	New Hampshire	¹ 9
Arizona	² 15	North Carolina	¹ 10
California	10- ² 15	North Dakota	15
Georgia	² 15	Ohio	¹ 9-15
Illinois	¹ 10	Oklahoma	15
Indiana	15	Puerto Rico	¹ 8½
Iowa	³ 20	South Carolina	³ 20
Kansas	10	Tennessee	³ 15
Kentucky	³ 15	Texas	³ 20
Michigan	¹ 9	Wisconsin	¹ 8½- ² 15
Minnesota	¹ 2 10- ² 15	Wyoming	² 20
Missouri	10-12½		

¹ This maximum applies specifically to investment company shares.

² Maximum is for “selling expense” which includes commissions, salaries, advertising and other expense incurred in selling, but does not include legal fees or cost of prospectuses.

³ Maximum “selling expense” also includes legal fees and cost of prospectuses.

All these limits would be superseded by the Commission’s bill. Chairman Cohen was originally under a misapprehension of how the state securities administrators felt about federal securities legislation which would impinge on their duties. He stated in the House Hearings (p. 851, 852) that the North American Securities Administration Association had passed a resolution endorsing all of the SEC’s recommendations.