

redemptions, there is a serious public interest question as to whether short term trading in individual issues should be encouraged at the expense of mutual funds, which would be the result of driving mutual fund salesmen out of the business.

2. Deterioration of Sales Training and Supervision

The ultimate result of a repeal of Section 22(d) would be to drive out of the mutual fund industry the trained professional full-time salesman. The prospective investor who has not heard of mutual funds or who is not motivated to make a long-term investment would thus, as a practical matter, be deprived of the opportunity to make such an investment. To the extent that there were still firms specializing in mutual fund shares, there would inevitably be a decreased emphasis on the training and supervision of salesmen.

In 1963 the Report of the Special Study of Securities Markets spoke of the need for general upgrading of the quality of training and supervision in the securities industry and the "further development of secondary supervisory controls by industry members." A year later, with industry support, the Securities Acts Amendments of 1964 was enacted. This legislation has resulted in improved self-regulatory controls. In many firms expensive automated techniques have been utilized to produce data for regulatory purposes, and firms have become increasingly selective in recruiting salesmen because of the increased costs of training, as well as the desire to avoid regulatory problems. No other retail business carries this kind of self-regulatory burden. This climate of self-regulation would be an early casualty of the repeal of Section 22(d). Price-cutting is obviously not conducive to budgeting for self-regulation.

In the face of the recognition given by the SEC and almost every witness at the hearings to the value of the mutual fund for small and large investors, it is surely not in the public interest to take an approach which would inevitably lead to a deprivation of this form of investment to those for whom it is most suited and which would lead to the deterioration of training and supervision of salesmen

3. Adverse Market Consequences

As noted above, one of the consequences of relegating the mutual fund share to the shelf of the over-the-counter market dealer would be a dramatic reduction in sales which would impair the industry's ability to meet redemptions. This factor could assume alarming implications in times of market stress. During the period which followed the May, 1962 market break it is generally known that the over-the-counter market became almost completely dormant as many dealers and salesmen left the securities business. On the other hand, although redemptions of mutual fund shares had a moderate increase and sales were somewhat affected by the market break, the existence of dealers and salesmen who specialized in mutual funds assured a healthy level of sales throughout this period. Such sales not only permitted mutual funds to act as stabilizing forces during the period of the break itself but undoubtedly contributed to the recovery of the market as new money came into the general equity markets through the medium of the mutual fund. In fact, as shown in the attached Table, mutual funds have generally acted as stabilizing forces in times of market decline.

Were it not for a strong distribution mechanism mutual funds would not have the ability to act as stabilizing forces in the markets. In the absence of Section 22(d) dealers making the secondary markets in mutual fund shares would, as a matter of economic self-interest, redeem their own inventories, adding to the pressures on the funds caused by redemptions of investors. These dealers would sharply restrict their market making functions, as they generally did for over-the-counter securities in the May 1962 market break. (See *Special Study of Securities Markets of the SEC*, Part 2, p. 789, Appendix VII-H). Thus, investors would have had no market for their shares except the mutual fund itself, and, in the absence of a strong network of distribution the funds themselves might well be forced into net liquidation. The liquidation of their own portfolio securities to meet redemption in a time of market stress would add to chaotic market conditions and increase downward pressures on the stock exchanges instead of exerting the beneficial stabilizing influence that actually occurred in May, 1962, and other times of market stress.

4. Price Discrimination

The repeal of Section 22(d) would create a problem of price discrimination among customers. The SEC has long embraced and endorsed the antidiscriminatory purposes of Section 22(d). In 1958 the SEC promulgated Rule 22d-1, which codified prior Commission interpretations as to what practices constituted dis-