

THE PRESIDENT HAS SEEN. A

THE WHITE HOUSE
WASHINGTON

May 6, 1969

MEMORANDUM FOR

THE PRESIDENT

Subject: The President's meeting with Securities and Exchange
Commission Members, May 7, 3:15 PM

1. Chairman and Three Commissioners

Next to RN ←

<u>Name</u>	<u>City</u>	<u>Tenure</u>	
Hamer H. Budge, Chairman	Boise, Idaho	6/5/69	(to be reappointed)
Hugh F. Owens <i>across from RN</i>	Oklahoma City	6/5/70	
Francis M. Wheat <i>on Owens RT</i>	Los Angeles	6/5/71	
Richard B. Smith <i>in chain</i>	Bronxville, N. Y.	6/5/72	

2. Chairman Hamer Budge will discuss issues presently
before the SEC.

3. Issues:

(1) Mutual Fund Legislation

SEC View: Last year, the Senate passed a mutual fund
bill which was a compromise evolved by the Senate Committee
on Banking and Currency between the Commission's proposals

and the objections of the investment company industry. The House did not act on this legislation.

This session Senator Sparkman introduced S. 34, which is identical with the bill which passed the Senate. At Senator Sparkman's suggestion, the Commission has been discussing this legislation with representatives of the Investment Company Institute in an effort to arrive at a mutually acceptable solution. The only significant area which is now in controversy is the treatment of management fees for investment companies. The Commission believes that there should be a forum in which the reasonableness of such fees may be tested, while the industry has been reluctant to accept this. There is a substantial possibility that the Commission and the Investment Company Institute will be able to arrive at a solution in the near future.

President's View: No position while efforts are being made toward a solution.

(2) Activity in the Securities Markets

SEC View: There are now some 26 million investors compared with 17 million in calendar 1962. Trading on the

New York Stock Exchange on April 30 exceeded 28,250,000 shares.

President's View: This increase in "Capitalism of the People" is a fine thing; but it increases the responsibility of the SEC to both protect the investor and to keep the industry healthy and free of unnecessary interference.

(3) Institutional Shareholding and Trading

SEC View: There has been a great increase in institutional activity in the stock market. Institutions now hold almost \$260 billion worth of stock, or nearly 34 percent of the total outstanding, compared to \$65 billion, or 23 percent ten years ago. This growth is primarily attributable to two things: First, various types of institutions, such as pension funds, college endowments and life insurance companies, have appreciably increased the proportion of their assets invested in stocks as compared to bonds, and secondly, mutual funds, which invest almost wholly in stocks, have been growing very rapidly. The patterns of institutional trading have also changed. Institutions are far more active. Turnover rates for mutual funds have

risen from 21 percent in 1965 to 47 percent in 1968. There has been a steady, although not so dramatic, increase in the turnover rates of certain other institutions, such as pension funds and insurance companies. This increase in turnover rates is apparently due to increased competition between institutions to achieve performance, i. e., profits from securities investment not only for the long term but short term as well. The combined impact of greater institutional holdings and greater institutional activity has caused the institutional share in the volume of trading on the New York Stock Exchange to increase significantly. It rose from 24 percent in 1960 to 33 percent in 1966, and by now may well amount to approximately 50 percent. Last year, Congress authorized the Commission, in consultation with the securities industry and other interested parties, to make a study of institutional investments. This study, which is expected to be a far-reaching economic analysis as well as an analysis of institutional impact on the securities markets, is now under way.

President's View: Interested in the outcome.

(4) Activity at the Commission and Resulting Problems

SEC View: Tremendous growth and change in the securities markets and the resulting increase in workload of the Commission has not been accompanied by an increase in the Commission's staff, which is presently about the same as it was in fiscal 1966. This presents a serious problem to the Commission.

President's View: This problem can be given sympathetic consideration when the fiscal restraints of the current year are behind us.

A handwritten signature in black ink, appearing to read "Peter M. Flanigan". The signature is fluid and cursive, with a long horizontal stroke at the end.

Peter M. Flanigan
Assistant to the President