

MEMORANDUM

February 20, 1942

TO: The Commission

FROM: John H. Hollands

RE: Program for Periodic Statistics and Data Regarding Management Investment Companies

A proposed form for quarterly reports by registered management investment companies (Form N-30B-1) is now being considered by the trade and will be submitted to the Commission for adoption within the next ten days. Prior to the preparation of this form, which will complete the reporting requirements for management companies under the Investment Company Act of 1940, the adoption of a statistical program was impracticable. Several attempts were made to devise a simple form for monthly statistical reports on a voluntary basis, but these efforts were abandoned when it became apparent that any system of voluntary reporting would have to be built around, and make due allowance for, the burdens of such annual and quarterly reports as the Commission might make compulsory upon the companies.

The program outlined below can be based entirely upon annual and quarterly reports to the Commission. Items (1) and (4) will be in the nature of long-range statistics, valuable primarily for historical and analytic purposes. Items (5) to (10) will be useful in day-to-day administration and can also, if it is desired, be used as a basis for limited statistical studies. The voluntary monthly reports from 23 companies, which the Research and Statistics Subdivision has been getting since the days of the Investment Trust Study, can be discontinued, with the understanding that at some future time it may be necessary to request voluntary reports on certain subjects on a similar sampling basis.

(1) Company Financial Data. In effect this will be a composite balance sheet and income statement of all management companies, broken down into the maximum number of categories. Particular attention will be paid to such items as ratio of income to investment, relationship of various types of income to each other, ratio of expenses and various categories of expenses to assets and income, amount of brokerage paid, etc. What factors should be emphasized and given further study, and what data should be published, can be determined after the material has been assembled on statistical cards. An experimental run of statistical cards,

using data from the answers to Form N-8B-1, is now being made as part of the Survey of American Listed Corporations, a WPA project which is under Commission direction.*

Administration: By Research and Statistics Subdivision which, however, should consult with Investment Company Division on matters of emphasis and publication.

Currency of Figures: Can be done annually. Should normally be completed 60 days after the bulk of the material is filed with the Commission. Annual reports (Form N-30A-1) filed for the fiscal year 1941 are not required to be filed until April 30, 1942 because of the proximity of this report to the original registration statement (Form N-8B-1). It is expected that for subsequent years, however, annual reports will be required to be filed 60 days after the close of the fiscal year, with an additional 30 days allowed for those few companies which have non-investment company subsidiaries. For each year after 1941, therefore, the statistical conclusions for any calendar year should be available by May 1st of the following year.

(2) Portfolio Composition. This will consist of an analysis of securities held, broken down into individual issues, which can be made the basis for analysis by industries, by debt as against equity securities, or on any other basis desired. This project is essentially a continuation of certain statistics in Part Two of the Report of the Investment Trust Study.

Administration: By Research and Statistics Subdivision which, however, should consult with Investment Company Division on matters of emphasis and publication.

Currency of Figures: Same as Item (1).

(3) Performance and Investors' Experience. This will be a continuation of the study made in connection with the Investment Trust Study.

Administration: By Research and Statistics Subdivision.

Currency of Figures: Substantially the same as under Item (1). The immediate problem is to cover the years since those covered in the Investment Trust Study. Once this work is brought up to date very little difficulty should be encountered in keeping it current.

(4) Distribution of Security Holders. At present the only data available is the number of security holders of record, which is furnished annually. Mr. Goldsmith feels it desirable that a study of the size of individual holdings and perhaps also of the geographical distribution of security holders, similar to that made for the Investment Trust Study, be made at least every five years. This data is very difficult to get without imposing a heavy burden on the companies and even when obtained it is not easy to organize significantly. It is recommended that this subject be deferred for approximately one year and then be reconsidered.

* Funds for this project will probably not be available after this year, but Mr. Goldsmith tells me that, with the system once set up, no more than two additional statistical clerks should be needed to make it possible for the Research and Statistics Subdivision to carry on the work after 1942 with its own personnel.

Administration: By Research and Statistics Subdivision.

Currency of Figures: Number of stockholders is available annually and can be compiled as rapidly as desired.

(5) Distribution of Companies' Own Securities and Repurchases or Redemptions Thereof. This data will be available quarterly with month-by-month figures. Presumably closed-end and open-end companies will be separately treated and within these categories certain breakdowns may eventually be made, as between diversified and non-diversified companies, for example, or between specialized and non-specialized companies. This information will be valuable in day-to-day administration because of the light that it will shed on such matters as the competitive situation in the sale of open-end shares.

Administration: By the Investment Company Division, which will pass on its conclusions to the Research and Statistics Subdivision for any use which the latter may wish to make of them in connection with its long-range statistics.

Currency of Figures: Quarterly reports on Form N-30B-1 are to be filed 30 days after the end of each quarter. It should not take more than two weeks after receipt to compile this data.

(6) Market Discounts on Closed-End Securities. Asset coverage and asset value will be reported every quarter with month-by-month figures. Since market values will have to be obtained from independent sources, it may prove advisable to limit this study to listed securities, but its application to over-the-counter securities as well will be tried experimentally.

Administration: By the Investment Company Division, which will pass on its conclusions to the Research and Statistics Subdivision for any use which the latter may wish to make of them in connection with its long-range statistics.

Currency of Figures: Same as Item (5), if study is limited to listed securities.

(7) Portfolio Turnover. Over-all dollar figures on a month-to-month basis are obtained quarterly. A detailed schedule showing all purchases and sales by issues is obtained annually.

Administration: Quarterly data, by Investment Company Division. Annual data, by Research and Statistics Subdivision, principally for use in connection with Item (2).

Currency of Figures: Same as Item (5) as to quarterly data. Same as Item (1) as to annual data.

(8) Principal Stockholders. Information regarding purchases and sales of securities of investment companies by officers, directors and principal stockholders is derived from the ownership reports filed under Section 30(f) of the Investment Company Act and is included in the summaries of such transactions now being put out by the Ownership Reports Section of the Registration Division.

Administration: Registration Division.

Currency of Figures: Summary is published twice a month covering transactions approximately one month old.

(9) Company Personnel. No publication of the composition of boards of directors, etc. is contemplated; but a card index system has been set up (though not yet completed) which will give the affiliation of every individual who is associated with a registered investment company, whether as officer, director, trustee, investment adviser or underwriter, or as officer or director of an investment adviser or underwriter. Any data desired can be rapidly assembled from these cards.

Administration: Investment Company Division.

Currency of Data: Such changes in personnel come to our attention in many ways, but the only sure way of getting complete coverage is the quarterly report. When the card index has been completed, any changes reported will be promptly reflected in it.

(10) Dilution in the Sale of Open-end Shares. A form for reporting to the NASD data from which the efficacy of NASD Rule 26 in cutting down dilution can be calculated has been worked out with the Investment Trust Underwriters Committee of that Association. The original report will cover the period June 1 to December 31, 1941 and subsequent reports will keep this information up to date. The report is being made in duplicate, one set going to the NASD and the other to the Commission. These reports are due March 31 and analysis should have been completed by about May 15.

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The above program is largely the result of conferences held on February 11 and 12 and attended by the following:

From the Investment Company Division: Messrs. Lynch, Cooper and Hollands and Mrs. Shwartz.

From the Research and Statistics Subdivision: Messrs. Goldsmith and Krapp.

From the National Association of Investment Companies: Mr. Bartholet.