

Special
Task Force 140

UNITED STATES OF AMERICA
before the
SECURITIES AND EXCHANGE COMMISSION

September 26, 1962

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In the Matter of	:	
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Investment Companies Registered	:	ORDER DIRECTING INVESTIGATION
under the Investment Company	:	AND STUDY AND DESIGNATING
Act of 1940	:	OFFICERS TO TAKE TESTIMONY
	:	
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I

The Commission in 1958 authorized the Securities Research Unit of the Wharton School of Finance and Commerce of the University of Pennsylvania to make a study pursuant to Section 14(b) of the Investment Company Act of 1940 (the "Act") and to submit a report to the Commission. Such report was transmitted to the Commission on August 9, 1962, and on August 27, 1962 such report was in turn submitted by the Commission to the Honorable Oren Harris, Chairman of the Committee on Interstate and Foreign Commerce, House of Representatives, and by Mr. Harris, on behalf of his Committee, to the House of Representatives.

The report, and other matters reported to the Commission, raise questions of policy concerning the adequacy of disclosure to investors and shareholders of investment companies and the ability of shareholders of investment companies effectively to protect their interests. Further, findings stated in the report, particularly those set forth in Chapters I and VIII thereof, relating to the relationships between funds and their investment advisers and principal underwriters, raise questions of policy relating to the practices prevalent in the industry with respect to and affecting the following:

1. Sales commissions, practices and incentives, and the relationship or lack of relationship thereof to growth, size and the performance of funds;
2. The relationship or lack of it between growth, size and performance of funds, on the one hand, and,

on the other hand, advisory fees and costs of operation of the funds and their advisers, including fees charged by advisers to other clients;

3. Whether the apparent historical emphasis upon constantly increasing fund assets by intensive sales efforts has always been in the interest of investors;

4. Whether fund directors have effectively performed their duties in connection with fund decisions such as the annual approval and continuance of the fund's investment advisory and underwriting contracts, the allocation of brokerage arising from fund portfolio transactions, and the management of fund assets; and whether the statutory concept of "unaffiliated" directors has adequately performed its function of protecting the interests of fund shareholders; and

5. Conflicts of interest which may exist in the investment company industry, such as those inherent in the position of an officer, director, or advisory board member of an investment company who is also affiliated with such fund's adviser, underwriter, broker, or distributor, or their affiliates.

All of the foregoing require further inquiry and investigation for the purpose of determining whether (a) new rules and regulations of the Commission should be issued with respect to, or the existing rules and regulations should be amended, modified, or rescinded insofar as they relate to, investment companies, their affiliates, promoters, or underwriters; and (b) recommendations for, and if so, in what particulars, further legislation relating to investment companies, their affiliates, promoters, or underwriters should be submitted to the Congress.

II

The Commission having considered the foregoing:

IT IS ORDERED that, pursuant to Sections 14(b), 31(b), 38(a) and 46(a) of the Act and Sections 19(d), 21(a) and 23 of the Securities Exchange Act of 1934, and each of them, an investigation and study be made of the matters set forth in Section I hereof.

IT IS FURTHER ORDERED that, pursuant to Section 42(b) of the Act and Section 21(b) of the Securities Exchange Act of 1934, and each of them, and for the purposes of such investigation and study, Julian Daly, Meyer Eisenberg, Gordon Henderson, Roger W. Kapp, Lewis J. Mendelson, George P. Michaely, Jr., Robert H. Mundheim and Harry K. Schwartz, and each of them, is hereby designated an officer of the Commission and empowered to administer oaths and affirmations, subpoena witnesses, compel their attendance, take evidence and require the production of any books, papers, correspondence, memoranda, or other records deemed relevant and material to the inquiry, and to perform all other duties in connection therewith as prescribed by law.

By the Commission:

Orval L. DuBois
Secretary