

FROM : JOE CALIFANO
TO : THE PRESIDENT
CITE : CAP661091

C O N F I D E N T I A L

8:00 P.M., MONDAY
NOVEMBER 28, 1966

FOR THE PRESIDENT

FROM JOE CALIFANO

MANNY COHEN ADVISED ME TODAY THAT THE SEC WILL RELEASE A REPORT TO CONGRESS THIS FRIDAY RECOMMENDING TIGHTER REGULATION OF MUTUAL FUNDS.

BECAUSE OF ITS CONTROVERSIAL NATURE, THE REPORT WILL BE RELEASED AFTER THE MARKET CLOSES.

THE REPORT WILL RESULT IN HEAT FROM THE FINANCIAL COMMUNITY BECAUSE IT WILL RECOMMEND CHANGES

- IN SALES COMMISSIONS PRACTICES
- IN MANAGEMENT FEES
- IN CERTAIN STOCK EXCHANGE COMMISSION RATE STRUCTURES.

COHEN'S PURPOSE IN RELEASING THE REPORT IS TO GET A BETTER FIX ON WHAT COMPROMISES THE FUNDS WILL ACCEPT WHEN THE SEC DRAFTS LEGISLATION EARLY NEXT YEAR. COHEN HAS CALLED FOR THE COMMENTS OF ALL INTERESTED PARTIES. HE WILL TAKE THEM IN TO ACCOUNT IN PREPARING THE LEGISLATION.

THE SEC STUDY WAS FOUR YEARS IN THE MAKING. COHEN HAS CAST THE REPORT SO THAT PUBLIC CONFIDENCE WILL NOT BE ERODED IN THE MUTUAL FUNDS.

THE REPORT'S THRUST IS THAT MUTUAL FUNDS ARE A VITAL PART OF OUR ECONOMY -- BUT THAT THE BASIC LAW REGULATING THE FUNDS WAS PASSED IN 1940. AT THAT TIME, THE FUNDS WERE SMALL AND LIMITED. THE TREMENDOUS GROWTH OF THE FUNDS SINCE THEN HAS

LEFT GAPS IN THE LAW WHICH MUST BE CLOSED TO PROTECT THE MILLIONS OF INVESTORS -- MANY OF MODEST MEANS -- WHO HAVE PUT THEIR SAVINGS INTO THE FUNDS.

WE ARE PLANNING TO INCORPORATE AN SEC MUTUAL FUND PROPOSAL IN NEXT YEAR'S LEGISLATIVE PROGRAM WE WILL RECOMMEND TO YOU. THE RELEASE OF THE SEC REPORT AND THE REACTION TO IT SHOULD HELP SHAPE A PROPOSAL THAT WILL STAND A GOOD CHANCE OF PASSAGE AND PROTECT THE INVESTING PUBLIC.

DTG: 290304Z NOV 66