

MEMO# 7147

July 31, 1995

INSTITUTE LETTER ON SEC'S RISK DISCLOSURE CONCEPT RELEASE

1 See Memorandum to SEC Rules Committee No. 50-95 and Risk Disclosure Task Force, dated March 31, 1995; Closed-End Fund Committee No. 14-95, dated April 3, 1995. July 31, 1995 TO: CLOSED-END FUND COMMITTEE No. 38-95 SEC RULES COMMITTEE No. 87-95 RISK DISCLOSURE TASK FORCE RE: INSTITUTE LETTER ON SEC'S RISK DISCLOSURE CONCEPT RELEASE _____ As

you know, last spring the Securities and Exchange Commission issued a concept release requesting comment on ways to improve risk disclosure for mutual funds and other investment companies.¹ The Institute recently submitted a letter recommending steps that the Commission should take to enhance investor understanding of risk and commenting on the various approaches discussed in the release. A copy of the Institutes letter, which is briefly summarized below, is attached. In its letter, the Institute urges that the Commission take the following actions: (1) improve narrative risk disclosure to shift the focus from the risks of the particular investments the fund may make to the overall risks of the fund; (2) require that fund prospectuses include a bar graph reflecting the funds total return over each of the past ten years (or since its inception), which would be accompanied by the funds 1, 5 and 10-year average annual returns; and (3) require funds that hold themselves out as having a stated maturity policy to have a commensurate duration policy. The Institute expressed strong opposition to a requirement that funds report a single, standardized, numerical measurement of risk. The letter states, "This approach is fundamentally flawed; it rests upon the erroneous assumption that there is a single, optimal yardstick of investment risk; it ignores the fact that risk is a multifaceted concept, necessarily having different meanings for different investors; and it poses the significant danger that investors -- neither understanding the limitations of such measure nor accurately assessing its relevance and appropriateness to their particular circumstances and investment objectives -- nonetheless will rely upon some all-purpose, government-sanctioned measure of risk to their detriment." The letter also opposes additional approaches that were raised in the concept release, including self-assessment of risk and disclosure of the risk management procedures used by funds. Amy B.R. Lancellotta
Associate Counsel Attachment