

**MEMO# 7040**

June 20, 1995

## **DRAFT 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; Memorandum to Closed-End Fund Committee No. 14-95, dated April 3, 1995. June 20, 1995 TO: CLOSED-END FUND COMMITTEE No. 29-95 SEC RULES COMMITTEE No. 74-95 RISK DISCLOSURE TASK FORCE RE: DRAFT INSTITUTE LETTER ON SEC'S RISK DISCLOSURE CONCEPT RELEASE

---

As we previously informed you, the SEC has issued a concept release seeking comments and suggestions on ways to improve the description of risks provided by mutual funds and other management investment companies.<sup>1</sup> Attached is a draft of the Institute's letter on the concept release. The draft letter reflects the views of members expressed at various meetings on this matter. The Institute's letter recommends three approaches for improving investor understanding of fund risks. These recommendations are: (1) improve current narrative risk disclosure to focus on the overall risks of the fund rather than on the risks of individual portfolio securities; (2) require that fund prospectuses include a bar graph reflecting the fund's total return over the past ten years (or since its inception); and (3) require funds that hold themselves out as having a stated maturity policy to have a commensurate average portfolio duration. The Institute's letter expresses opposition to the development of a standardized, numerical measurement of fund risk because, among other things, there is no single measure that reflects all of the risks of a fund and the different concerns investors have about risk, and there is a serious danger that investors will place undue reliance on a numerical measure and not understand its limitations. Comments are due to the SEC on the concept release by July 7, 1995. Please provide me with your comments on the Institute's draft letter by June 29, 1995. My direct number is 202/326- 5824 and the fax number is 202/326-5827. Amy B.R. Lancellotta Associate Counsel Attachment