

MEMO# 3633

March 24, 1992

DISCLOSURE FOR HIGH YIELD BOND FUNDS IN WASHINGTON

March 24, 1992 TO: STATE SECURITIES MEMBERS NO. 14-92 RE: DISCLOSURE FOR HIGH YIELD BOND FUNDS IN WASHINGTON

As we previously advised you, the Washington Securities Division has required additional risk disclosure for high yield bond funds (See Memoranda to State Securities Members No. 45-91, dated October 7, 1991 and No. 50-91, dated November 5, 1991). The Institute has been advised that the staff of the Washington Securities Division has taken the position that the requisite disclosure will be based upon the percentage of assets invested in high yield bonds. Investment companies that invest more than 35% but less than 50% of its assets in high yield bonds must state "This fund invests primarily in high-yield, high risk securities and therefore may not be suitable for all investors." Investment companies that invest from 50% to 75% of its assets in high yield bonds must disclose that "These securities are considered to be speculative." Investment companies that invest over 75% of its assets in high yield bonds must disclose that "These securities are considered to be highly speculative." Notwithstanding the foregoing, it is our understanding that the Washington Securities Division will accept the legend currently required by the Arizona Securities Division in lieu of the Washington disclosure. Moreover, it may be possible to negotiate with the staff on a case-by-case basis for less severe language. The Institute has contacted the staff of the Washington Securities Division to express its concerns with respect to this disclosure and will be arranging a meeting with the staff in order to resolve this issue. We will keep you advised of developments. Patricia Louie Assistant General Counsel

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