

MEMO# 1176

May 22, 1989

SEC INTERPRETIVE RELEASE ON MANAGEMENT'S DISCUSSION AND ANALYSIS AND INVESTMENT COMPANY DISCLOSURE

May 22, 1989 TO: SEC RULES MEMBERS NO. 27-89 CLOSED-END FUND MEMBERS NO. 23-89
UNIT INVESTMENT TRUST MEMBERS NO. 28-89 RE: SEC INTERPRETIVE RELEASE ON
MANAGEMENT'S DISCUSSION AND ANALYSIS AND INVESTMENT COMPANY DISCLOSURE

The SEC has issued an interpretive release (the "Release"), which concerns, for the most part, disclosure under Item 303 of Regulation S-K, Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A"). In addition to providing a summary of the staff's recent review of MD&A disclosure and the Commission's views on what constitutes proper MD&A disclosure, the Release also sets forth the Commission's position on risk disclosure by investment companies that invest in high yield or non-investment grade debt. The Release states that an investment company that seeks high income by investing in non-investment grade debt (or that is permitted to do so, even if it does not hold any such securities) should disclose various risks involved in such investments. Risks specifically mentioned in the Release include credit-worthiness, solvency, price volatility due to interest rate sensitivity and creditworthiness and liquidity of the secondary market. The disclosure should also include the effect such risks may have on the fund's net asset value. The Release also states the board of directors of an investment company should carefully consider the secondary market for high yield bonds in determining whether or not any particular security is illiquid and whether market quotations will be "readily available" for valuation purposes. Excerpts from the Release are attached. Craig S. Tyle Assistant General Counsel