

**MEMO# 3701**

April 15, 1992

# **SEC STAFF LETTER EXPRESSES CONCERNS ABOUT QUOTATION OF ESTIMATED CURRENT RETURN ALONE IN CONNECTION WITH SECONDARY MARKET SALES OF UNIT INVESTMENT TRUSTS**

April 15, 1992 TO: UNIT INVESTMENT TRUST MEMBERS NO. 25-92 RE: SEC STAFF LETTER EXPRESSES CONCERNS ABOUT QUOTATION OF ESTIMATED CURRENT RETURN ALONE IN CONNECTION WITH SECONDARY MARKET SALES OF UNIT INVESTMENT TRUSTS

In the attached letter, the Directors of the SEC's Divisions of Market Regulation and Investment Management express their concerns about the promotion of unit investment trusts in the secondary market on the basis of estimated current return ("ECR") alone. The letter indicates that in some cases there are significant differences between a trust's ECR and the long-term return to a secondary market investor. The reason for such differences, according to the letter, is that some trusts created in the early 1980s with higher coupon rates are trading at a premium to their principal amount due to declining interest rates. The price a secondary market investor pays reflects this premium, but the investor does not fully recover that amount when the bonds in the trust mature or are called. ECR does not take into account the amortization of premium. To ensure that prospective investors are not misled about the potential returns of UITs with relatively high ECRs, the letter states, if a trust's ECR "varies materially" from its long-term return, any quotation of ECR (whether in a prospectus, sales literature, advertisement for units offered in the secondary market or through oral communication) should be accompanied by a quotation of long-term yield or internal rate of return (subject to special requirements in the case of junk bond UITs). The letter further cautions that secondary market prospectuses containing only ECR may have to be stickered. We understand that most UIT sponsors have voluntarily quoted long-term returns on secondary trusts for over a year. The SEC staff has indicated that the attached letter is aimed not at trust sponsors but rather at secondary market dealers. We will keep you informed of developments. Frances M. Stadler Assistant General Counsel Attachment