

MEMO# 931

January 18, 1989

YIELD QUOTATIONS ON MARKET DISCOUNT MUNICIPAL BONDS

@ 1 @ January 18, 1989 TO: UNIT INVESTMENT TRUST MEMBERS NO. 7-89 SEC RULES COMMITTEE NO. 4-89 AD HOC SUBCOMMITTEE ON YIELD RE: YIELD QUOTATIONS ON MARKET DISCOUNT MUNICIPAL BONDS

Attached is a letter from the Institute addressed to the Divisions of Investment Management and Market Regulation that requests the Divisions to recommend to the SEC standardization of the yield formulae for mutual funds investing in market discount municipal bonds and for market discount municipal bonds sold directly through dealers. Specifically, the letter requests amendments to Rule 482 and Form N-1A to allow mutual funds that invest in such securities to advertise a yield that reflects the value of the market discount of such instruments by applying the standard yield-to-maturity formula used for most other debt instruments pursuant to Form N-1A. The current formula under Form N-1A excludes market discount on such instruments, since the resulting principal appreciation is not exempt from federal income tax. The proposed amendments would require the proposed optional yield quotation to be accompanied by disclosure that a portion of the yield may be subject to federal income tax. The letter also requests corresponding changes in the advertising rules of the Municipal Securities Rulemaking Board ("MSRB"), which regulates direct sales of municipal bonds. Currently, MSRB guidelines require all yield quotations to be accompanied by yield-to-maturity. The Institute requests that the guidelines be modified so as to require that all yield quotations be accompanied by a pure tax-exempt yield that excludes market discount. In addition, the letter requests that the formula for computing tax-equivalent yield for mutual funds under Form N-1A be modified to include the effect of principal appreciation on market discount municipal securities. We will keep you informed of developments. @ 2 @ Craig S. Tyle Assistant General Counsel Attachment