

MEMO# 2444

January 4, 1991

ARIZONA DISCLOSURE FOR HIGH YIELD BOND FUNDS

January 4, 1991 TO: STATE SECURITIES MEMBERS NO. 2-91 STATE LIAISON COMMITTEE NO. 2-91 RE: ARIZONA DISCLOSURE FOR HIGH YIELD BOND FUNDS

The Institute was informed recently that the Arizona Securities Division was requiring certain investment companies investing in high yield bonds to include a legend stating "THESE ARE SPECULATIVE SECURITIES" on the outside front cover of its prospectus pursuant to Rule 118B of the Division. The legend is required for any investment company that invests over thirty-five percent of its assets in high yield bonds. Investment companies investing less than thirty-five percent of its assets in high yield bonds will generally not be required to include the disclosure in its prospectus; however, the staff of the Division may require the statement to be included if after a review of the composition of the investment company's portfolio, it deems such to be necessary. The Institute wrote to the Division questioning the applicability of this disclosure since high yield debt securities are not included in the seven types of "speculative securities" listed in Rule 118B. In addition, the Institute noted that the Securities and Exchange Commission requires detailed and specific prospectus disclosure by high yield bond funds and that the Arizona disclosure was unnecessary for the protection of investors. Therefore, the letter stated, such disclosure should not be required to be included in a fund's prospectus. However, in a letter responding to the Institute, the Division stated that it will continue to require the statement "THESE ARE SPECULATIVE SECURITIES" to be included on the outside front cover of the prospectus of any investment company that invests over thirty-five percent of its assets in high yield bonds. Attached are copies of Rule 118B of the Arizona Securities Division, the Institute's letter to the Division dated December 18, 1990 and the Division's letter to the Institute dated December 31, 1990. * * * We will keep you advised of developments. Patricia Louie Assistant General Counsel Attachments