

MEMO# 3517

February 12, 1992

PROPOSAL TO REQUIRE SEC YIELD TO ACCOMPANY DISTRIBUTION RATE

February 12, 1992 TO: YIELD ENHANCEMENT TASK FORCE NO. 2-92 RE: PROPOSAL TO
REQUIRE SEC YIELD TO ACCOMPANY DISTRIBUTION RATE

As you recall, at the most recent meeting of the Task Force held on January 23, the group decided that, rather than pursuing additional disclosure in fund prospectuses or sales communications of the nature of various enhancement techniques, consideration should be given to a requirement that sales communications (including oral communications by brokers) include a distribution rate only if the SEC yield for the fund is also provided. The group felt that such a "two number" approach would avoid the need for a complex and possibly confusing explanation of accounting issues and would be more likely to tell investors what they would be most interested in, i.e., the effect on return. In addition, this approach would avoid the difficult task of distinguishing enhancement techniques from other portfolio management practices. At the same time, the group felt that it would be premature to recommend the two number approach before the details of the proposal were worked out and further consideration was given to its practical and marketing implications. The work of the Task Force was discussed at the January meeting of the Institute's Board of Governors, which directed the Institute to proceed with a submission to the NASD recommending that a fund's SEC yield accompany any quotation of its distribution rate in oral sales communications. Accordingly, attached is a draft letter to the NASD recommending that they issue a Notice to Members implementing this proposal. We would appreciate comments on the draft; please direct them to Craig Tyle at 202/955-3522 by Friday, February 21. Lawrence A. Rogers General Counsel Attachment

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