

MEMO# 19602

January 17, 2006

SEC APPROVES NASD BOND FUND VOLATILITY RATINGS PROPOSAL

©2006 Investment Company Institute. All rights reserved. Information may be abridged and therefore incomplete. Communications from the Institute do not constitute, and should not be considered a substitute for, legal advice. [19602] January 17, 2006 TO: SEC RULES MEMBERS No. 7-06 FIXED-INCOME ADVISORY COMMITTEE No. 1-06 ADVERTISING COMPLIANCE ADVISORY COMMITTEE No. 1-06 UNIT INVESTMENT TRUST MEMBERS No. 5-06 RE: SEC APPROVES NASD BOND FUND VOLATILITY RATINGS PROPOSAL The Securities and Exchange Commission has issued an order approving a proposed NASD rule change concerning bond mutual fund volatility ratings.¹ The proposed rule change makes permanent rules permitting NASD members and their associated persons to include bond fund volatility ratings in supplemental sales literature if certain conditions exist. The rules also set forth filing requirements and review procedures applicable to sales literature containing bond mutual fund volatility ratings. The Release notes the concerns expressed by the Institute in its comment letter on the proposal,² including concerns about the use of a single symbol, number or letter to describe a volatility rating. The Release states that the NASD filed a response to the Institute's comment letter, noting that during the time the pilot program relating to bond mutual fund volatility rules have been in effect, it found no evidence that the use of volatility ratings in fund sales literature has harmed investors. The NASD also expressed doubt that use of a single symbol, number or letter to describe volatility ratings harms investors. In approving the proposal, the SEC stated that making the NASD rules effective on a permanent basis would permit NASD members to provide investors with useful information in a manner designed to prevent dissemination of inappropriate or misleading information. Ari Burstein Associate Counsel 1 Securities Exchange Act Release No. 53027 (December 27, 2005), 71 FR 375 (January 4, 2006) ("Release"). The approval order can be found on the SEC's website at <http://www.sec.gov/rules/sro/nasd/34-53027.pdf>. ² See Memorandum to Advertising Compliance Advisory Committee No. 8-05, Fixed-Income Advisory Committee No. 20-05, SEC Rules Members No. 122-05 and Unit Investment Trust Members No. 25-05 [19421], dated December 1, 2005.