

**MEMO# 8629**

February 10, 1997

## **DRAFT INSTITUTE SUBMISSION ON NASDR RELEASE ON RISK RATINGS**

\* See Memorandum to Advertising Subcommittee No. 37-96 and SEC Rules Committee No. 140-96, dated December 31, 1996 and Memorandum to Unit Investment Trust Committee No. 6-97, dated February 7, 1997. February 10, 1997 TO: ADVERTISING SUBCOMMITTEE No. 7-97 SEC RULES COMMITTEE No. 17-97 UNIT INVESTMENT TRUST COMMITTEE No. 8-97 RE: DRAFT INSTITUTE SUBMISSION ON NASDR RELEASE ON RISK RATINGS

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The Institutes outside counsel has prepared the attached draft submission in response to the release issued by NASD Regulation, Inc. soliciting comment on the use of bond fund risk ratings in supplemental sales literature.\* The draft submission strongly opposes any modification of NASDRs long-standing prohibition on the use of fund risk ratings in supplemental sales literature on the grounds that they are: (1) predictive in nature; (2) a harmful shortcut that is likely to undermine investors evaluation of fund risks; (3) misleading because risk is not a unitary concept; (4) based on a myriad of subjective elements and lack uniformity; and (5) prepared by commercial enterprises that are not accountable for their ratings or subject to governmental regulation. The draft submission states that there are more appropriate means for providing risk information to bond fund risk investors. Comments are due to NASDR on this matter by February 24, 1997. Please provide me with your comments on the draft submission by Tuesday, February 18. My direct number is 202/326-5825, the fax number is 202/326-5827 and my e-mail address is amy@ici.com. In light of the importance of this issue, we encourage members to submit their own letters to NASDR. We would appreciate receiving copies of your letters. Amy B.R. Lancellotta Associate Counsel  
Attachment (in .pdf format)

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