INVESTMENT COMPANY INSTITUTE

MEMO# 11736

March 16, 2000

DRAFT COMMENT LETTER ON PILOT PROGRAM PERMITTING BOND MUTUAL FUND VOLATILITY RATINGS

1 See Memorandum to Advertising Compliance Advisory Committee No. 9-00, SEC Rules Committee No. 39-00, and Unit Investment Trust Committee No. 9-00, dated March 10, 2000 (transmitting SEC Release No. 34-42476 (Feb. 29, 2000), 65 Fed. Reg. 12305 (March 8, 2000). [11736] March 16, 2000 TO: ADVERTISING COMPLIANCE ADVISORY COMMITTEE No. 10-00 SEC RULES COMMITTEE No. 41-00 UNIT INVESTMENT TRUST COMMITTEE No. 10-00 RE: DRAFT COMMENT LETTER ON PILOT PROGRAM PERMITTING BOND MUTUAL FUND VOLATILITY RATINGS

____ As we previously informed you, the Securities and Exchange Commission recently approved changes to National Association of Securities Dealers, Inc. Rule 2210 to permit the use of bond mutual fund volatility ratings in supplemental sales literature for an 18-month trial period, which is effective immediately.1 In a departure from the proposed pilot program, the pilot program approved by the SEC will permit the use of "a single symbol, number or letter" to describe volatility ratings. Attached for your review is a draft letter opposing this change. Comments are due to the SEC by March 29, 2000. Please provide your comments on the attached draft letter to Dore Zornada (phone: 202/326-5819, fax: 202/326-5839, or email: dvanslyke@ici.org) no later than Thursday, March 23. The letter explains that the Institute has continually expressed serious reservations about the use of volatility ratings in mutual fund sales material, but nonetheless generally supported NASDR's proposal to permit these ratings for a trial period, based on the conditions on their use. The letter further explains that the safeguards proposed by NASDR, including the requirement that volatility ratings must be solely in narrative form, addressed many of the rating's potential hazards. The letter then reiterates the Institute's concern that permitting ratings to be designated by single symbol, number or letter will increase the likelihood that an individual investor will not evaluate the risk of a bond fund based on his or her investment objectives and risk tolerance, and instead will look to the symbol to make this crucial decision. The letter disagrees with the SEC's rationale for removing the single symbol prohibition, which is "to provide rating agencies with more flexibility in how the ratings are presented," and states that any resulting loss in flexibility is an insignificant inconvenience when weighed against the preservation of such a crucial investor protection. Doretha VanSlyke Zornada Assistant Counsel Attachment