

**MEMO# 3173**

October 7, 1991

## **WASHINGTON DISCLOSURE FOR HIGH YIELD BOND FUNDS**

October 7, 1991 TO: STATE SECURITIES MEMBERS NO. 45-91 RE: WASHINGTON DISCLOSURE FOR HIGH YIELD BOND FUNDS

The Institute was recently advised that the Washington Securities Division is requiring certain investment companies investing in high yield bonds to include a legend stating "THIS FUND IS CONSIDERED TO BE HIGHLY SPECULATIVE" on the outside front cover of its prospectus pursuant to the discretionary authority of the administrator of the Division. The legend is required for any investment company that invests over 35% of its assets in securities rated BBB or lower by Standard & Poor's or Baa or lower by Moody's Investor Services. The staff of the Division also advised the Institute that it would accept the legend currently required by the Arizona Securities Division, "THESE ARE SPECULATIVE SECURITIES" in lieu of the Washington legend. Investment companies that have the ability to invest more than 35% of its assets in such debt securities but currently invest less than 35%, must include additional disclosure in a supplement to the prospectus. However, in lieu of the additional disclosure, an investment company may submit an undertaking to the Division that it will provide shareholders with 30 days advance notice in the event the fund invests 35% or more of its total assets in lower rated debt securities and that prior to such investment, the fund will attach the requisite legend to the front cover of its prospectus. The Institute wrote to the Division to request that the Division reconsider requiring such disclosure for high yield bonds funds, particularly since the Securities and Exchange Commission already requires high yield bond funds to include detailed and specific disclosure in their prospectus. Therefore, in light of the current federal disclosure requirements, it is questionable whether the Washington disclosure provides any additional investor protection. \* \* \* Attached is a copy of the Washington Securities Division's letter outlining its disclosure requirements as well as the Institute's response. We will keep you advised of further developments. Patricia Louie Assistant General Counsel Attachments

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