

MEMO# 4661

April 2, 1993

SEC APPROVES NASD'S PROPOSED REPORTING SYSTEM FOR HIGH YIELD BONDS

April 2, 1993 TO: BOARD OF GOVERNORS NO. 27-93 SEC RULES MEMBERS NO. 34-93
ACCOUNTING/TREASURERS MEMBERS NO. 9-93 RE: SEC APPROVES NASD'S PROPOSED
REPORTING SYSTEM FOR HIGH YIELD BONDS

_____ We are pleased to report that at a recent open meeting, the Securities and Exchange Commission approved the proposal of the National Association of Securities Dealers to establish rules for quotation and transaction reporting in the high yield bond markets. The Institute had submitted a comment letter to the SEC strongly supporting the NASD's proposal. A copy of the SEC's release approving the proposal is attached. As indicated in the release, the rule proposal authorizes the NASD to establish and operate the Fixed Income Pricing System ("FIPS"), an electronic facility that will be used to collect, process and disseminate real-time, firm quotations for 30 to 50 of the most liquid high yield bonds in the top tier of high yield securities. Under the proposal, the NASD will adopt rules requiring NASD members to report to the NASD all transactions in high yield bonds traded over-the-counter (for regulatory purposes) and also requiring real-time trade reporting for securities to be included in FIPS. The proposal also authorizes the NASD to disseminate through FIPS, and make available to vendors, high/low trading ranges and accumulated volume in each bond quoted in the system on an hourly basis. According to the attached release, it is anticipated that the number of FIPS securities will begin at approximately 35 bonds and will grow to approximately 50 by the end of the first year of operation. The release indicates that the system is not designed to limit the number of bonds to 50, and that the number could increase if experience suggests there is adequate liquidity in the high yield markets to support the addition of more bonds. The Institute had recommended in its comment letter that consideration be given to expanding the number of bonds to be included in FIPS as soon as possible, in view of the significant benefits we expect the system to provide to investors in high yield bonds (such as investment companies). Matthew P. Fink President Attachment