

MEMO# 6201

September 6, 1994

SEC PROPOSAL TO REQUIRE DISCLOSURE OF SECURITY RATINGS

September 6, 1994 TO: CLOSED-END FUND COMMITTEE NO. 19-94 SEC RULES COMMITTEE NO. 101-94 UNIT INVESTMENT TRUST COMMITTEE NO. 59-94 RE: SEC PROPOSAL TO REQUIRE DISCLOSURE OF SECURITY RATINGS

The Securities and Exchange Commission has proposed to require disclosure with respect to security ratings in prospectuses under the Securities Act of 1933. The proposal would replace the current voluntary ratings disclosure policy with a system requiring disclosure in a final prospectus of a rating given by a nationally recognized statistical rating organization (NRSRO), whenever a rating with respect to the securities being offered is obtained by or on behalf of the issuer. A copy of the Commission's release is attached. The proposal as drafted would not apply to investment companies. The Commission noted in the release, however, that closed-end funds often issue senior securities that are rated by one or more NRSRO, and requested comment on whether the proposed disclosure requirement also should be applied to closed-end funds and other investment companies. [Pages 18-19 of the release.] In addition, the Commission stated that, "Mutual funds often represent that they invest only in securities that have a specified rating, such as investment grade, or disclose the percentage of their portfolios comprised of securities with specified ratings." Based on a concern that, because a rating may not convey a security's level of market risk, investors may not perceive the limitations of a rating or the investment characteristics it addresses, the Commission solicited comment on whether current mutual fund disclosure practices and requirements are adequate. [Pages 21-22 of the release.] Comments on the proposed disclosure requirements are due within 90 days from the date of publication in the Federal Register. If you have any comments on the proposal that you would like the Institute to consider including in a comment letter, please contact the undersigned by October 14, 1994. My direct number is 202/326-5824. Amy B.R. Lancellotta Associate Counsel

Attachment