

MEMO# 13965

September 21, 2001

ICI COMMENT LETTER ON EXTENDED PILOT PROGRAM FOR BOND MUTUAL FUND VOLATILITY RATINGS

[13965] September 21, 2001 TO: ADVERTISING COMPLIANCE ADVISORY COMMITTEE No. 17-01 SEC RULES COMMITTEE No. 76-01 UNIT INVESTMENT TRUST COMMITTEE No. 21-01 RE: ICI COMMENT LETTER ON EXTENDED PILOT PROGRAM FOR BOND MUTUAL FUND VOLATILITY RATINGS The Institute recently filed the attached comment letter with the Securities and Exchange Commission in response to its request for comment on the extension of the pilot program permitting NASD members to use bond fund volatility ratings in supplemental sales literature until August 31, 2003. The letter is substantially similar to the draft letter circulated on September 7, 2001.¹ Based on the lack of participation by fund groups in the pilot program and our ongoing concerns with the use of bond fund volatility ratings, the Institute's comment letter opposes the extension of the pilot program. We recommend that NASDR prohibit the use of these ratings altogether. In the event that the pilot program is extended, the letter stresses the importance of rejecting any arguments to weaken the restrictions on the use of volatility ratings to avoid putting investors at risk. The letter further recommends strengthening the investor safeguards to prohibit the use of a single symbol, number, or letter to describe a volatility rating. Finally, the letter encourages NASDR to undertake a comprehensive review of the pilot program, publish the results, and solicit further comment before determining whether to allow volatility ratings in supplemental sales literature on a permanent basis. Doretha VanSlyke Zornada Assistant Counsel Attachment Attachment (in .pdf format) 1 See Memorandum to SEC Rules Committee No. 70-01, Advertising Compliance Advisory Committee No. 16-01, and Unit Investment Trust Committee No. 20-01, dated September 7, 2001.