

MEMO# 3705

April 15, 1992

SEC STAFF PROPOSES MODIFIED ELTR FORMULA

April 15, 1992 TO: UNIT INVESTMENT TRUST COMMITTEE NO. 22-92 RE: SEC STAFF PROPOSES MODIFIED ELTR FORMULA

The Institute has received a letter from the staff of the Division of Investment Management proposing modifications to the estimated long-term return ("ELTR") formula proposed in the Institute's December 7, 1989 submission to the SEC concerning uniform performance advertising rules for unit investment trusts. (See Memorandum to Unit Investment Trust Members No. 67-89, dated December 11, 1989.) A copy of the staff's letter is attached. The attached letter notes that the staff has indicated its preference for the use of internal rate of return ("IRR") as a measure of UIT performance because, in the staff's view, ELTR does not fully reflect the effect of a sales load on an investor's return. Specifically, according to the staff, ELTR does not reflect the fact that when an investor receives his principal back at the end of a trust's life, he does not get back the sales load. As you may recall, the Institute has previously argued that ELTR is preferable to IRR for several reasons, including among others the significant costs and burdens that a requirement to quote IRR would impose on UIT sponsors. (See Memorandum to Unit Investment Trust Committee No. 29-90, dated July 2, 1990.) The attached letter appears to be sympathetic to this concern. The staff's letter proposes a modified version of ELTR that is intended "to produce a more accurate yield figure in a way that avoids the demands on computer resources that generation of IRR may entail." The letter requests comments on (1) whether the proposed modified formula raises the same concerns regarding computer time and resources that led the Institute and industry members to oppose the use of IRR in the past and (2) whether the modified formula would approximate IRR more closely than the original ELTR formula did. The UIT Yield Subcommittee will be meeting soon to discuss the staff's proposal and the Institute's response. If you have any comments on the proposed revised formula, please call me at (202) 955-3514 by Monday, April 27. Frances M. Stadler Assistant General Counsel

Attachment