

MEMO# 3792

May 19, 1992

UPDATE ON HIGH YIELD BOND FUND DISCLOSURE IN ARIZONA AND TEXAS

May 19, 1992 TO: STATE SECURITIES MEMBERS NO. 25-92 RE: UPDATE ON HIGH YIELD
BOND FUND DISCLOSURE IN ARIZONA AND TEXAS

As you know, certain states are requiring additional cover page disclosure for high yield bond funds. The following is an update of the current disclosure requirements for Arizona and Texas. Arizona In 1990, the Arizona Securities Division began requiring investment companies investing over thirty-five percent of its assets in high yield bonds to include a legend stating "THESE ARE SPECULATIVE SECURITIES" on the outside front cover of the prospectus pursuant to Rule 118B of the Arizona Securities Division. (See Memorandum to State Securities Members No. 2-91, dated January 4, 1991.) As a substitute for the foregoing language, the staff of the Arizona Securities Division will accept the following language "This Fund invests primarily in high-yield, high-risk securities and therefore may not be suitable for all investors." The Institute has also been advised by the staff of the Arizona Securities Division that the Washington Securities Division disclosure for high yield bond funds may be used to satisfy the requirements of Rule 118B. (See Memorandum to State Securities Members No. 20-92, dated May 7, 1992 for Washington disclosure.) Texas According to the staff of the Texas Securities Board, additional cover page disclosure is not required for high yield bond funds. However, the staff is requiring funds investing in high yield securities to state in their prospectuses that these securities are commonly called "junk bonds." Therefore, high yield bond funds should be sure that the term "high yield securities" is immediately preceded or followed by the term "junk bonds." We will keep you advised of developments. Patricia Louie Assistant General Counsel