

MEMO# 1276

July 21, 1989

RISK DISCLOSURE ON HIGH-YIELD BONDS

July 21, 1989 TO: SEC RULES COMMITTEE NO. 41-89 CLOSED-END FUND COMMITTEE NO. 27-89 UNIT INVESTMENT TRUST COMMITTEE NO. 36-89 ADVERTISING SUBCOMMITTEE RE: RISK DISCLOSURE ON HIGH-YIELD BONDS

_____ The recent release issued by the SEC on Management's Discussion and Analysis (the "Release") included a discussion of the Commission's position on risk disclosure by investment companies that invest in high-yield or non-investment grade debt. Excerpts from the Release were distributed to SEC Rules Members, Closed-End Fund Members and Unit Investment Trust Members under cover of a memorandum dated May 22, 1989. Several Institute members have expressed concern with some of the language in the Release. For example, the Release requires each investment company permitted to invest in high- yield bonds to include the risk disclosure in its prospectus, even if the fund does not currently hold any such securities in its portfolio. This conflicts with the Instructions to Form N-1A, permitting such disclosure to be made in the SAI. Additionally, the Release requires disclosure of "market price volatility based upon interest rate sensitivity", even though studies have indicated that high yield bonds are less rate sensitive than other debt securities. The Institute is considering submitting a written response to the SEC. If you have any comments on the Release, please contact the undersigned by August 7. I would especially appreciate hearing about comments given by the staff on registration statements after the Release was published. For your convenience, a copy of the May 22 memorandum is attached. Craig S. Tyle Assistant General Counsel
Attachment