

MEMO# 3756

May 7, 1992

WASHINGTON ISSUES HIGH YIELD BOND FUND DISCLOSURE

May 7, 1992 TO: STATE SECURITIES MEMBERS NO. 20-92 SEC RULES COMMITTEE NO. 28-92
RE: WASHINGTON ISSUES HIGH YIELD BOND FUND DISCLOSURE

As we previously advised you, the Washington Securities Division has been requiring additional cover page risk disclosure for high yield bond funds. Most recently, the disclosure was based upon the percentage of assets invested in high yield bonds. (See Memorandum to State Securities Members No. 14-92, dated March 24, 1992.) Inasmuch as application of the requisite disclosure was inconsistent and varied according to the staff person reviewing the application for registration or renewal, the Institute contacted the staff of the Securities Division to express its concerns with respect to the disclosure. Based upon the Institute's efforts, the Securities Division has issued Securities Policy Statement-15, dated May 5, 1992, which sets forth the legend requirements for mutual funds investing in "junk bonds". According to the Administrator, full and fair disclosure requires an appropriate cover page legend for funds investing 35% or more of their assets in high yield bonds. The policy statement sets forth two sample legends that will be considered "presumptively reasonable" by the Administrator as follows: (a) This fund invests [significantly] [primarily] in lower rated bonds, commonly known as "junk bonds." Investments of this type are subject to a greater risk of loss of principal and interest. Purchasers should carefully assess the risks associated with an investment in this fund; or (b) The XYZ fund invests [significantly] [predominantly] in lower rated bonds, commonly referred to as "junk bonds." Bonds of this type are considered to be speculative with regard to the payment of interest and return of principal. Purchasers should carefully assess the risks associated with an investment in this fund. The foregoing legend must be made by sticker or otherwise on the cover page of the prospectus and be in bold face type. The use of the terms "significantly," "primarily," or "predominantly" is based on the percentage of assets invested in high yield bonds. A copy of Policy Statement-15 is attached. The Institute will be contacting the securities administrators in Arizona and Texas to determine whether the Washington high yield bond fund disclosure would be accepted in those jurisdictions. We will keep you advised of developments. Patricia Louie Assistant General Counsel Attachment