

MEMO# 1680

January 26, 1990

INSTITUTE LETTER ON ASSET COMPOSITION DISCLOSURE FOR HIGH YIELD BOND FUNDS

January 26, 1990 TO: SEC RULES MEMBERS NO. 6-90 CLOSED-END FUND MEMBERS NO. 4-90 UNIT INVESTMENT TRUST MEMBERS NO. 6-90 RE: INSTITUTE LETTER ON ASSET COMPOSITION DISCLOSURE FOR HIGH YIELD BOND FUNDS

_____ As we previously informed you, last fall the staff of the Division of Investment Management distributed a letter to investment company registrants setting forth requested disclosure for investment companies that invest in high yield bonds. (See Memorandum to SEC Rules Members No. 55-89, Closed-End Fund Members No. 49-89 and Unit Investment Trust Members No. 52-89, dated October 5, 1989). One of the requested disclosure items was a tabular or narrative presentation of the percentages of total assets represented by bonds in different rating categories, and by unrated bonds. In subsequent communications with the Institute, the staff has indicated that they are requesting this disclosure from all registrants that invest at least 5% of their average annual assets in bonds rated below investment grade, and that the calculation should be based on dollar-weighting, computed no less frequently than monthly. Attached is a letter from the Institute to the staff, setting forth its opposition to the requested asset composition disclosure. The letter was prepared by a special task force of Institute members. In the letter, the Institute argues that the disclosure (1) places too much emphasis on ratings, (2) will impose additional costs on funds, (3) will be inconsistent in its treatment of unrated securities, (4) may not be timely, (5) is not necessary to protect against "yield hunting" and (6), in any event, is properly the subject of rulemaking. We will keep you informed of developments. Craig S. Tyle Associate General Counsel Attachment