

**MEMO# 1663**

January 18, 1990

## **STAFF ISSUES GENERIC COMMENT LETTER; CLARIFIES INTERIM YIELD GUIDELINES**

January 18, 1990 TO: UNIT INVESTMENT TRUST MEMBERS NO. 3-90 RE: STAFF ISSUES  
GENERIC COMMENT LETTER; CLARIFIES INTERIM YIELD GUIDELINES

The staff of the Division of Investment Management has sent to investment company registrants a letter that sets forth staff comments on registration statements and post-effective amendments. A copy of the letter is attached. The letter sets forth in detail the staff's position on permissible performance measurements for unit trusts. The staff states that, when used alone, estimated current return ("ECR") is misleading and, therefore, the staff will not accelerate a UIT filing containing only estimated current return. Instead, the following standards apply: -- If the higher of ECR and "Wesolowski-Hicks Formula" (or "WHF") is no more than 25 basis points (40 in the case of trusts with dollar weighted average maturities of over 15 years) above internal rate of return ("IRR"), the prospectus may include both ECR and WHF. -- If either ECR or WHF is more than 25 basis points (or 40, as the case may be) above IRR, but ECR is no more than 25 basis points (or 40) above WHF, the prospectus may include both ECR and WHF provided a cash flow table for the life of the trust is also included. -- If ECR is over 25 basis points (or 40) above WHF, ECR cannot be used. IRR may be used alone, or WHF can be used together with a cash flow table or IRR. -- If ECR is lower than WHF, WHF should be presented and use of ECR is optional. -- In each case, the prospectus must describe any numbers used, including how they were calculated, and must explain any differences where two numbers are used. -- A cash flow statement must be prepared in all cases, and registrants should be prepared to submit it supplementally, along with a list of the yields to maturity for each portfolio instrument and the calculation of WHF. -- It is not acceptable for a prospectus to contain no percentage numbers and to contain "dollar amounts that sales personnel could readily use to calculate estimated current return." The letter also sets forth the staff's views on other matters of interest to unit trusts, such as risk disclosure for high yield bonds, updating requirements under Rule 485 and computation of fees under Rule 24f-2. Please refer to the letter for a more complete discussion of the staff's views on these and other matters. Craig S. Tyle Associate General Counsel Attachment - 2 -

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