**MEMO# 2270**

October 18, 1990

# SEC STAFF ISSUES LETTER ON HIGH YIELD BOND FUND YIELDS

October 18, 1990 TO: SEC RULES MEMBERS NO. 71-90 SUBCOMMITTEE ON ADVERTISING HIGH YIELD BOND TASK FORCE RE: SEC STAFF ISSUES LETTER ON HIGH YIELD BOND FUND YIELDS ____________________________________________________________ Gene Gohlke, the Acting Director of the Division of Investment Management, has sent a letter to investment company registrants stating that it is the Division's position that, in light of the substantial decline in prices of high yield bonds in recent weeks, it "would be misleading for a fund whose yield reflects a substantial risk premium to promote the sale of the fund without providing a thorough explanation of the reason for the high yield". (Emphasis in original). The letter notes that the higher yields resulting from these price declines do not reflect the income stream investors can expect but rather the risk of principal loss. The letter states that high yield bond funds that quote yields over a telephone answering system should consider routing calls from shareholders requesting yield information to operators trained to explain the limitations of the yield figure and risks involved and that funds sold through brokers should convey to them the importance of explaining these limitations and risks. In addition, the letter states that funds that use advertisements should consider excluding yield quotations or including a prominent explanation of these limitations and risks. A copy of the staff's letter is attached. Craig S. Tyle Associate General Counsel Attachment