

MEMO# 1564

November 29, 1989

DRAFT PROPOSAL TO SEC

- 1 - November 29, 1989 TO: UNIT INVESTMENT TRUST COMMITTEE NO. 80-89 JOINT TASK FORCE ON UIT YIELD RE: DRAFT PROPOSAL TO SEC

_____. Attached is a draft of the Institute's proposal to the SEC on unit investment trust performance advertising. As you may recall, the staff is expecting a proposal by December 7. Therefore, please call me with your comments no later than 5:00 p.m. on December 5. The draft reflects the proposal as approved by the Institute's Executive Committee. In the course of drafting the proposal, however, certain issues that were not expressly addressed during the two meetings of the Joint Task Force came to light. Therefore, you should pay special attention to these items, which are listed below: (1) Expense Ratio. In computing the expense ratio, accrued interest on the bonds is excluded. Please consider if this is correct. In addition, since the expenses on a trust may vary in accordance with the payment option chosen, the proposal requires that the highest expense ratio be used in calculating ELTR. (2) Foreign Currency Obligations. It appeared, upon reflection, that there was no need to compute a yield in the local currency and then convert this into U.S. dollars because, unlike the case of a mutual fund, the yield is a snapshot and, therefore, the exchange rate should not affect yield. Is this correct? (3) Time of Calculation. The draft proposal adopts the same approach as the mutual fund rules, i.e., the performance data must be as of the most recent practicable date, considering the type of unit investment trust and the medium through which the data will be conveyed. (4) Disclosure of Maximum Sales Charge. The draft proposal requires that unit investment trust advertisements and - 2 - supplemental sales literature disclose the maximum sales charge on the trust. This is consistent with the mutual fund rules. (5) Bonds with Put Options. A separate section on computing the yield on bonds with put options was not included since it is our understanding that the yield on these bonds is simply computed to the "priced-to" date in the market. Since I will be out of town on Friday, please call me with comments on Monday, December 4 or Tuesday, December 5. Thank you for your attention to this project. Craig S. Tyle Associate General Counsel Attachment