

MEMO# 2004

July 2, 1990

INSTITUTE RESPONDS TO SEC STAFF COMMENTS ON PROPOSED YIELD FORMULA FOR UNIT INVESTMENT TRUSTS

July 2, 1990 TO: UNIT INVESTMENT TRUST COMMITTEE NO. 29-90 JOINT TASK FORCE ON UIT
YIELD RE: INSTITUTE RESPONDS TO SEC STAFF COMMENTS ON PROPOSED YIELD FORMULA
FOR UNIT INVESTMENT TRUSTS

As we previously informed you, in late April, the Institute received a memorandum from the Division of Investment Management analyzing and questioning various aspects of our December 7, 1989 submission proposing uniform performance advertising rules for unit investment trusts. (See Memorandum to Unit Investment Trust Committee No. 19-90, dated April 27, 1990.) On June 29, the Institute filed a response to the staff's memorandum. A copy of our response letter is attached. The Institute's response letter states that we continue to believe that our proposed estimated long-term return (or "ELTR") formula represents an appropriate standardized performance measure for unit investment trusts and, in particular, is preferable to internal rate of return ("IRR"). The letter states that ELTR adequately guards against "barbelled trusts", provides a comparable measure of performance to that used by mutual funds and would avoid the heavy costs and burdens involved in using IRR as a standard performance measure. The letter also explains that three elements of ELTR questioned by the staff -- treatment of the sales charge, compounding and time-weighting -- are treated the way they are to be consistent with the mutual fund yield formula, and discusses other issues raised by the staff's memorandum. We will keep you informed of developments. Frances M. Stadler Assistant General Counsel
Attachment