

MEMO# 34259

August 18, 2022

IM Staff Issues Guidance on SEC Yield for Funds Investing Significantly in TIPS

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TO: ICI Members SUBJECTS: Advertising

Disclosure RE: IM Staff Issues Guidance on SEC Yield for Funds Investing Significantly in TIPS

The staff of the SEC's Division of Investment Management recently issued guidance on computing standardized yield ("SEC Yield") for registered investment companies that invest significantly in Treasury Inflation-Protected Securities ("TIPS funds").[\[1\]](#)

The staff has observed differences in the way that TIPS funds calculate their SEC Yields and is concerned that such disclosures may lead to investor confusion when a TIPS fund reports exceptionally high SEC Yields during periods of rising inflation that vary significantly between months and that may not be repeated.

TIPS are US Treasury notes and bonds whose principal increases with inflation and decreases with deflation, as measured by the Consumer Price Index. TIPS pay interest at a fixed-rate but, because the interest is applied to the adjusted principal, the amount of interest varies over time and investors receive the greater of the adjusted principal or original principal.

The staff notes that, while the SEC sets forth methodologies to compute SEC Yields, the methodologies do not address TIPS inflation adjustments and vary.[\[2\]](#) Some TIPS funds appear to exclude the inflation adjustment to principal from the yield calculation. Others appear to include the adjustment as income for purposes of the yield calculation.

The guidance indicates that both approaches are consistent with the methodologies to compute SEC Yield, and that TIPS funds should evaluate which methodology is most appropriate for investors. It adds that TIPS funds that include the inflation adjustment as income may need to add disclosure during periods of rapidly changing inflation.[\[3\]](#) This is because the SEC Yield calculation looks back only 30 days and is annualized and, thus, may cause the SEC Yield to be exceptionally high and unlikely to be repeated. In these circumstances, the staff believes that TIPS funds should explain to investors that the 30-day inflation adjustment may cause these results and that such disclosure should be tailored to the circumstances and current market conditions.

Alternatively, the staff states that it would not object if, instead of including the inflation adjustment over the prior 30-day period and annualizing it, a TIPS fund uses an inflation adjustment over the prior 12-month period to reduce the volatility of the SEC Yield from month to month.^[4]

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endnotes

^[1] See Division of Investment Management's Disclosure Review and Accounting Office, ADI 2022-12 - SEC Yield for Funds that Invest Significantly in TIPS (Aug. 17, 2022), available at <https://www.sec.gov/investment/accounting-and-disclosure-information/performance/sec-yield-funds-invest-significantly>.

^[2] Funds do not need to disclose yields but, when they do, they must do so in a standardized format. See Rule 482(d)(1) under the Securities Act of 1933 and Item 26(b)(4) of Form N-1A. In addition, such funds must provide other disclosures, including their standardized total returns. See Rules 156 and 482 under the Securities Act. The SEC staff notes that funds may need to add disclosure when promoting the sale of fund shares based on the SEC Yield during certain market conditions when the disclosure is misleading without it.

^[3] The guidance notes that TIPS funds that exclude the inflation adjustment as income may be omitting a key feature of TIPS and a potentially significant contributor to yield.

^[4] The guidance adds that financial intermediaries that post the SEC Yield from TIPS funds should include any accompanying disclosures prepared by the funds.