percentage of the public offering price.15 Although the ELTR formula currently being used reflects that a portion of the offering price representing sales load will not be invested (and thus will not earn interest for the unitholder), it does not amortize sales load to reflect the effect on investor return of not receiving the sales load at the termination of the trust or redemption of the units. This limitation has the greatest effect for yield calculations involving short-term trusts and trusts that are likely to terminate in the near term due to bonds in the portfolio being called.16 In attempting to deal with this limitation, the proposed Estimated Yield Formula would require Fixed Income UITs to amortize sales load to reflect more accurately the effect of sales load on investor return.

Under the proposed formula, a Fixed Income UIT would amortize sales load over a time period ("amortization period") determined by averaging the 'expected lives' of the bonds in the trust weighted by market value.17 The expected life of most bonds in the portfolio would be determined by each bond's maturity date. 18 To account for the possibility of an early redemption of the bonds, however, the proposed Estimated Yield Formula would require trusts to calculate the expected life of a bond with call features by comparing the bond's yield to maturity to the bond's yield to "worst" call (the call feature to which the bond is priced that would result in the bond's lowest yield).19 A bond's worst call date would be used if the bond's yield to maturity

exceeds its yield to worst call by more than 40 basis points.²⁰

The Commission considered requiring, as an alternative method of determining the amortization period, the use of the weighted average of each bond's worst call date as the expected life of the trust. In its submission, the ICI explained that this alternative may underestimate the life of a bond (and thus, the expected life of the trust), particularly when transaction costs would make many refundings economically infeasible.²¹ Because the likelihood of a bond being called depends in large part on whether the refunding will provide sufficient savings to the issuer, the ICI stated that the "spread" between a bond's yield to maturity and its yield to call would provide an appropriate measure for determining a bond's expected life—the greater the savings for the issuer, the more likely the bond will be called.

The Commission also considered an alternative that would require the amortization period to be determined by the expected life of the trust. The Commission is not proposing this method because such a method would permit a trust sponsor to lengthen the amortization period by including one long-term bond in a trust consisting of bonds that have much shorter maturities.²² Moreover, such a method would appear not to reflect accurately the effect on investor return of an early partial or complete liquidation of the trust and, thus, would result in an amortization period that is too long. In the same way sales load affects yield on an investment in a short-term trust more than an investment in a long-term trust, a unitholder's yield from an investment in a long-term trust will be affected if a portion of the investment is returned before maturity. To account for these effects, under the proposed formula, sales load would be amortized over the time each dollar of a unitholder's investment can be expected to remain invested, assuming the unitholder does not sell or redeem trust units before termination of the trust.

The proposed Estimated Yield Formula would amortize the sales load over the amortization period using a method designed to reduce annual yield by an amount equal to a stream of future

annual payments that equate to the amount of the front-end sales load. Comment is requested on the proposed Estimated Yield Formula's method of amortization of sale load and, specifically, on alternative methods that might reflect more accurately the effect of sales load on investor return. Comment is requested on an alternative method that would require sales load to be amortized by treating the load as an additional premium in a bond's yield to maturity calculation. This alternative would require a trust to calculate each bond's yield to maturity by adding to the price of the security an amount equal to the security's pro rata portion of the sales load weighted by the security's market value.23 In addition, comment is requested on a straight-line amortization method (i.e., dividing the sales load by the amortization period) and whether this alternative would provide a simpler method for amortizing sales load.

b. Deferred Sales Loads. The Commission has issued several exemptive orders permitting UITs to impose sales charges on units on a deferred basis.²⁴ Under the terms of the exemptions, a UIT sponsor determines the maximum sales charge per unit at the time portfolio securities are deposited in a trust, and the sales charge is paid by the unitholder in installments over a period following the purchase of the units.²⁵ The proposed Estimated Yield Formula would require Fixed Income UITs to use the maximum sales load, determined by the sponsor at the time of deposit, for calculating Estimated Yield of trusts whose unitholders pay a deferred or installment load.26

¹⁵ Some UITs, pursuant to a Commission exemptive order, have implemented deferred or installment loads. *See* discussion *infra* section II.A.1.b.

¹⁶ For example, assuming the trust in *supra* note 7 charged a 4.8% sales load and matured in five years, the ELTR of the trust would be 8.09%, although the investor's actual return would be 6.34%.

¹⁷Instruction 8 to the proposed Estimated Yield Formula. For purposes of simplification, proposed amendments to rule 482, (requiring disclosure in trust advertisements and sales literature), would refer to the expected life of each bond in the trust as the "expected life of the trust." Proposed rule 482(f) under the 1933 Act [17 CFR 230.482(f)].

¹⁸The maturity date is the date upon which the principal of a debt security becomes due and payable to the securityholder. *See Glossary of Municipal Securities Terms*, Municipal Securities Rulemaking Board, (Adapted from the State of Florida's Glossary of Municipal Bond Terms) (1985)

¹⁹ Rules adopted by the Municipal Securities Rulemaking Board ("MSRB") require that, when confirming customer orders, yield be calculated to the lowest yield to call, yield to par option, or yield to maturity ("yield to worst"). This assures that an investor will realize, at a minimum, the stated yield, even in the event that a call provision is exercised. MSRB Rule G–15(a)(i)(I), MSRB Manual (CCH) ¶3571.

²⁰Maturity date would be used to determine the expected life of any bond priced at par or at a discount and for any bond priced at a premium if the bond's yield to maturity does not exceed the bond's yield to worst call by more than 40 basis points (4%).

²¹ See letter from Craig S. Tyle, Vice President and Senior Counsel, Investment Company Institute, supra note 12.

²² Id.

²³ Under this alternative, the portfolio's weighted average yield to maturity would not be reduced by multiplying the yield by a percentage representing the net amount of the trust's offering price that is invested.

²⁴ See Merrill Lynch, Pierce, Fenner & Smith, Inc., Investment Company Act Rel. Nos. 13801 (Feb. 29, 1984) [49 FR 8512 (Mar. 7, 1984)]; 13848 (Mar. 27, 1984) [30 SEC Docket 192]; 15120 (May 29, 1986) [51 FR 20389 (June 4, 1986)]; and 15167 (June 24, 1986) [35 SEC Docket 1735]. PaineWebber, Inc., Investment Company Act Rel. Nos. 20755 (Dec. 6, 1994) [59 FR 64003 (Dec. 12, 1994)]; and 20819 (Jan. 4, 1995) [58 SEC Docket 1586].

²⁵ *Id.* The installments are paid from the distributions of the trust until the maximum sales charge is collected. If distribution income is insufficient to pay a deferred sales charge installment, the trustee, under the terms of the trust indenture, will sell portfolio securities in an amount necessary to provide the requisite payments. If a unitholder redeems or sells to the sponsor his or her units before the total sales charge has been collected from installment payments, the balance of the sales charge may be collected at the time of the redemption or sale.

²⁶ Instruction 7 to the proposed Estimated Yield Formula.