LETTER ACKNOWLEDGED

DATE 11/22/71 #1

STATE STREET BANK and TRUST COMPANY

BOSTON, MASSACHUSETTS 02101

RICHARD J. DELMAR
VICE PRESIDENT

AREA CODE 617
TELEPHONE 466-4843

SECURITIES AND EXCHANGE COMMISSION
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DIVISION OF CORPORATE REGULATION

November 3, 1971

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Mr. Alan Rosenblatt
Office of Chief Counsel
Securities and Exchange Commission
500 North Capitol Street, NW
Washington, DC 20549

Dear Mr. Rosenblatt:

Mr. Peter Sullivan of your office has suggested that I write to you concerning my letter to Mr. Solomon Freedman (copy attached) on the subject of loans of their portfolio securities by mutual funds.

In such an arrangement, the mutual fund would loan securities from its portfolio to a designated and approved borrower (bank, broker, another mutual fund, etc.) at the current market price. Proceeds of the loan would be invested in short term securities, the income from which would increase the yield of the fund portfolio and thereby benefit the shareholders.

To insure proper collateralization, a process known as "marking to market" may provide for the borrower to pay the differential when the securities increase at least five percent in value. Thus, for a loan of 1,000 shares at $20 per share, the initial payment by the borrower of $20,000 would be supplemented by a payment of $1,000 should the stock rise in price to $21 a share.

Similarly, should the price per share decline, the borrower has the option of requiring a return of part of the monies paid. In practice, the percent determining when to mark to market is negotiable. Loans may be terminated by the borrower on two business days notice and by the lender on six business days notice, the latter to allow for normal settlement time. Should the borrower fail to deliver after six business days, the lender may buy the loaned securities at the market, gain or loss thereon accruing to the borrower.

The mutual fund would, it is understood, remain as beneficial owner of the loaned securities receiving dividend and other distributions thereon. We understand voting rights go to the borrower.

As custodian for 65 mutual funds, State Street Bank plans to provide a stock loan service for its mutual fund customers. We are capable of providing this service which, we feel, can materially improve income for mutual fund shareholders.

May I discuss this plan with you during the week of November 8? I can be at your office any time convenient for you.

Very truly yours,

RJ Delman

RJD:lp

We have not interpreted the Investment Company Act of 1940 to prohibit a mutual fund from lending its portfolio securities provided that (1) the fund receives 100 percent cash collateral from the borrower; (2) the borrower adds to such collateral whenever the price of the securities rises (i.e., mark to market on a daily basis); (3) the fund may terminate the loan at any time; (4) the fund receives reasonable interest on such a loan, any dividends, interest or other distributions on the loaned securities, and any increase in the market value of such securities; (5) the Fund is not required to pay any service, placement or other fees in connection with such a loan; and (6) the fund retains voting rights on the loaned securities.

Based upon the description in your letter, it does not appear that the arrangement you contemplate would conform with guidelines (2), (3) and (5), and it is not clear whether it would conform in all respects to guideline (5). However, we would not raise any objection if the proposed arrangement is revised to comply with these guidelines and if you send us written confirmation that you have made such changes.

Alan Rosenblat

Alan Rosenblat, Chief Counsel
Division of Corporate Regulation
December 27, 1971 PS;rao

STATE STREET BANK and TRUST COMPANY

BOSTON, MASSACHUSETTS

July 20, 1971

Mr. Solomon Freedman
Director, Division of
Corporate Regulation
Securities and Exchange Commission
500 North Capitol Street, NW
Washington, DC 20549

Dear Mr. Freedman:

State Street Bank is custodian for 65 mutual funds with assets currently totaling $13.7 billions. We are exploring the advantages and disadvantages of providing a new service to our mutual fund customers which would provide an opportunity for them to loan securities in their respective portfolios and invest the loan proceeds (in short terms), thereby enhancing the fund's performance.

We believe this to be an especially appropriate time to explore this opportunity in view of the Securities and Exchange Commission recommendation that brokers not use securities of their customers for loan purposes. The loan of securities by mutual funds might provide a meaningful alternative to this action.

I would like the opportunity for me and my associates to discuss this matter with you at your early convenience.

Sincerely,