Eaton Vance
Investment Managers

Payson F. Swaffield, CFA
Chief Income Investment Officer

March 28, 2016

Mr. Brent Fields
Secretary
Securities and Exchange Commission
100 F Street
Washington, DC 20549-1090
rule-comments@sec.gov

Re: Proposed New Rule Relating to Use of Derivatives by Registered Investment Companies and Business Development Companies (File No. S7-24-15 ("Release"))[1]

Dear Mr. Fields:

On behalf of Eaton Vance Corp. and its affiliates (collectively, "Eaton Vance"),[2] I write to comment on the Release and the proposals therein to adopt Rule 18f-4 under the Investment Company Act of 1940, as amended (the "1940 Act") (the "Proposed Rule"). The Proposed Rule would permit mutual funds, exchange-traded funds, closed-end funds and companies that have elected to be treated as business development companies (collectively, "funds") to enter into derivatives transactions[3] and financial commitment transactions ("FCTs")[4] notwithstanding the prohibitions and restrictions on the issuance of senior securities under Section 18 of the 1940 Act, provided that the funds comply with the conditions set forth in the Proposed Rule.

Eaton Vance currently serves as the investment adviser to 174 registered investment companies ("Funds"). As disclosed in their prospectuses, certain Funds may enter into

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1 *See* Use of Derivatives by Registered Investment Companies and Business Development Companies, SEC Release No. IC-31933, 80 Fed. Reg. 80884 (Dec. 28, 2015), available at https://www.gpo.gov/fdsys/pkg/FR-2015-12-28/pdf/2015-31704.pdf. Unless otherwise noted, capitalized terms used in this letter have the same meaning as in the Release.

2 Eaton Vance is one of the oldest investment management firms in the United States, with a history dating back to 1924. Eaton Vance and its affiliates managed $302.6 billion in assets as of January 31, 2016, offering individuals and institutions a broad array of investment strategies and wealth management solutions. Eaton Vance provides investment advisory and administrative services to U.S. registered investment companies through its subsidiaries Eaton Vance Management and Boston Management and Research.

3 The Proposed Rule defines "derivatives transaction" to mean any swap, security-based swap, futures contract, forward contract, option, any combination of the foregoing or any similar instrument ("derivatives instrument") under which a fund is or may be required to make any payment or delivery of cash or other assets during the life of the instrument or at maturity or early termination.

4 The Proposed Rule defines a "financial commitment transaction" as any reverse repurchase agreement, short sale borrowing or any firm or standby commitment agreement or similar agreement.

derivatives transactions and FCTs seeking to enhance total return; to hedge against fluctuations in securities prices, interest rates or currency exchange rates; to change the effective duration of the Fund's portfolio; to manage certain investment risks; and/or as a substitute for the purchase or sale of securities, currencies or commodities. Funds that utilize derivatives transactions and FCTs pursue a broad range of investment objectives and invest across a variety of asset classes. The investment strategies of such Funds are categorized by Morningstar variously as multisector bond, nontraditional bond, short-term bond, commodities broad basket, emerging markets bond, multicurrency, multialternative, world allocation, long/short equity, large growth, world stock, large blend, muni single state and muni national.

The use of derivative transactions and FCTs is critically important to the effective implementation of many of our Funds' investment programs. Derivatives transactions and FCTs provide our Fund managers with the ability to obtain investment exposures and manage Fund risks in ways that cannot be replicated in the cash markets. Derivative transactions and FCTs also give our Fund managers greater flexibility in choosing how best to implement their investment ideas to minimize liquidity costs and maximize Fund operating efficiency. For many of our Fund managers, derivatives and FCTs are vital tools without which they could not do their jobs effectively.

Eaton Vance appreciates the opportunity to comment on the proposals set forth in the Release. We generally agree with the Commission's view that there is a need for a more comprehensive and consistent approach to the regulation of funds' use of derivatives transactions and FCTs. At the same time, however, we have significant concerns about various aspects of the Proposed Rule and the manner in which they are proposed to be implemented. Accordingly, we recommend that the Commission's proposal be modified as described below.

As a member firm of the Investment Company Institute ("ICI"), we fully support the ICI's comments on the Proposed Rule expressed in its comment letter dated March 28, 2016 ("ICI Comment Letter").

I. Asset Segregation Requirements for Derivatives Transactions

Under the Proposed Rule, a fund would be required to manage the risks associated with its derivatives transactions by maintaining "qualifying coverage assets" for each derivatives transaction in an amount equal to the sum of (i) the amount that would be payable by the fund if the fund were to exit the derivatives transaction at the time of determination (the "mark-to-market coverage amount"), and (ii) a reasonable estimate of the potential amount payable by the fund if the fund were to exit the derivatives transaction under stressed conditions (the "risk-based coverage amount"). As stated in the Release, the Proposed Rule's asset coverage requirements reflect that, although a fund will be able to determine its current mark-to-market obligation under its derivatives transactions on a daily basis, the fund's investment in derivatives transactions can involve future losses, and thus potential payments by the fund to counterparties that will depend on future changes related to the position's reference asset or metric. The Commission proposes to include as eligible "qualifying coverage assets" in respect of a fund's derivatives transactions: (i) the fund's holdings of cash and cash equivalents; and (ii) with respect to any derivatives transaction under which the fund may satisfy its obligations under the transaction by delivering a particular asset, that particular asset.

A. Expand Definition for Derivatives Qualifying Coverage Assets

We support the Commission's proposal for funds to be required to segregate assets for derivatives transactions based on the proposed mark-to-market coverage amounts and risk-based coverage amounts of such transactions. We also support allowing a fund to meet its segregation requirement for a derivatives transaction under which the fund may satisfy its settlement obligation by delivering a particular asset using the specified asset. However, we strongly object to limiting the assets available for segregation as proposed. To do so would disrupt existing investment strategies that have long benefitted investors and which raise little or no risk of a fund failing to meet its obligations.

We disagree with the Commission's conclusion that funds should not be permitted to segregate assets other than cash or cash equivalents because they "may be more likely to experience volatility in price or to decline in value in times of stress, even if subject to a haircut."[5] We believe that concerns about price volatility of non-cash assets could be effectively addressed by applying discounts to the coverage value of liquid, non-cash assets that are held by a fund. As such, we recommend that the definition of qualifying coverage assets be expanded to include any asset that does not meet the Commission's definition of an illiquid asset per its guidance or its definition of "standard asset" as defined in its proposed liquidity rule. We further propose that the value of any liquid assets used for segregation be discounted in accordance with the margin rules for uncleared swaps adopted by the Board of Governors of the Federal Reserve System, Office of the Comptroller of the Currency, Federal Deposit Insurance Corporation, Farm Credit Administration and the Federal Housing Finance Agency (the "Prudential Regulators") in November 2015 and similar requirements adopted by the Commodities Futures Trading Commission ("CFTC") in December 2015 and reflected in the Margin Values for Eligible Noncash Margin Collateral schedule[6] as shown on Appendix A, which also includes examples of discounts as applied to assets available for segregation.

In adopting this schedule, the Prudential Regulators and CFTC determined that the margin discount schedule is acceptable for uncleared swaps, seemingly recognizing that severely restricting the types of assets that can serve as margin is not necessary to protect the parties to the swap. The discounts for the various asset classes reflected in the schedule are based on the volatility of each asset class. We believe that a discount applied to specific asset balances

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5 *See* Release at pg. 80932.

6 *See* Margin and Capital Requirements for Covered Swap Entities, 80 FR 74839 (Nov. 30, 2015) ("Prudential Regulator Margin and Capital Adopting Release") and Margin Requirements for Uncleared Swaps for Swap Dealers and Major Swap Participants (December 16, 2015)(RIN 3038-AC97), pg. 74910. Note that using this schedule requires more assets to be segregated than if the schedule of asset class discounts adopted by the Prudential Regulators and CFTC for uncleared swaps were utilized (*see* Appendix B).

adequately addresses the Commission's concern relating to the price volatility of non-cash assets, and could preserve the investment strategies of risk-managed funds that may otherwise need to be substantially modified or abandoned if cash and cash equivalents become the only alternative to meet segregation requirements.

We question whether the Commission has adequately considered the impact of the proposed segregation requirements for derivatives transactions employed in long-standing fund investment strategies. As one example, equity option funds invest in a portfolio of equity securities and write call options on a corresponding equity index, such as the S&P 500. These so-called covered call funds normally do not hold significant cash or cash equivalents in their portfolios because doing so would be inconsistent with their stated investment objective and should not be necessary to meet the fund's payment obligations in the event of a rise in the reference index underlying the fund's options positions. Because the fund's equity portfolio positions would normally increase in value in concert with the reference index, such funds face little risk of uncovered obligations in connection with their derivative transactions. Yet such funds would become unworkable under the Proposed Rule.

B. Clarify Definition of Netting Agreements

The Proposed Rule would permit a fund to adjust required segregation amounts, at its discretion, if the fund has entered into certain netting agreements, or the fund has posted variation margin (for the mark-to-market coverage amount) or initial margin (for the risk-based coverage amount), or collateral for such amounts payable by the fund. We strongly support this approach. The Proposed Rule would permit a fund to net derivatives transactions for purposes of determining mark-to-market coverage only if the fund has a "netting agreement" that allows the fund to net its payment obligations with respect to such transactions. In regards to this, we recommend that the Proposed Rule be clarified to explicitly state that netting agreements for this purpose include (i) any contract with enforceable netting provisions that allow for a single net payment in satisfaction and settlement of all obligations between the counterparties, and (ii) arrangements whereby positions held by a fund with the same clearinghouse through the same futures commission merchant or broker are netted. If a counterparty or clearinghouse requires a fund to post net margin or collateral to meet its net obligation, then the fund should only be required to segregate assets sufficient to cover any net remaining obligation.

C. Margin Provided Under an Escrow Receipt

We ask the Commission to clarify that escrow receipts provided for the benefit of a fund's listed options broker will count as margin to reduce such fund's mark-to-market coverage amount and risk-based coverage amount. For listed options, funds may provide their margin through escrow receipts. In such a case, the fund pledges escrow receipts rather than posting cash and initial margin because of the operational efficiencies. Although the assets underlying an escrow receipt are not delivered to the options broker, an escrow receipt serves the same purpose as margin – assets are set aside to cover the fund's payment obligations and make the broker whole if the fund does not perform. Therefore, we believe that escrow receipts should be treated the same as margin under the rule.

D. Asset Segregation Requirements for FCTs

Under the Proposed Rule, a fund that engages in FCTs would be required to maintain qualifying coverage assets equal to the amount of cash or other assets that the fund is conditionally or unconditionally obligated to pay or deliver under each of its FCTs. A fund would be required to maintain qualifying coverage assets equal in value to the fund's full obligations (notional amount) under its FCTs. The qualifying coverage assets for FCTs include cash and cash equivalents plus any assets that either are convertible to cash or can be expected to generate cash in an amount equal to the fund's FCT obligation prior to the date on which the obligation is expected to become payable. We believe this proposed approach will provide a fund with sufficient flexibility to identify assets in its portfolio to use as qualifying coverage assets for its FCTs.

We believe it is important that the Proposed Rule (or the release accompanying any rule adoption) clarify that tender option bond ("TOB") transactions are FCTs. As noted in staff guidance issued in March 2012, TOBs involve a borrowing by the fund and implicate Section 18 of the 1940 Act.[7] Under the existing guidance, a TOB financing involves the issuance of a senior security by a fund unless the fund segregates unencumbered liquid assets (other than the bonds deposited into the TOB trust) with a value at least equal to the amount of the floating-rate notes issued by the TOB trust plus accrued interest, if any.[8] Many municipal income funds enter into TOB transactions in the ordinary course, and they are often an important component of fund investment programs. TOBs can be an efficient, low-cost form of financing for municipal income funds that benefit fund investors. Given their prevalence and importance, we believe that TOB transactions should be clearly identified as FCTs.

II. Portfolio Limitations for Derivatives Transactions and FCTs

A. Calculation of Exposure

The Proposed Rule would require a fund that engages in derivatives transactions and FCTs to comply with one of two alternative portfolio limitations, based on the fund's exposure to the sum of: (i) the aggregate notional amounts of the fund's derivatives transactions; (ii) the aggregate obligations of the fund under its FCTs; and (iii) the aggregate indebtedness with respect to any other senior securities transactions entered into by the fund. Under the first proposed portfolio limitation (the "exposure-based portfolio limit"), a fund generally would be required to limit its aggregate "exposure" to 150% of the fund's net assets. Under the second portfolio limitation (the "risk-based portfolio limit"), a fund generally would be required to limit its aggregate

7 *See* "Funds Using Tender Option Bonds," Investment Management Staff Areas of Interest (March 29, 2012).

8 In a TOB financing, the fund deposits a tax-exempt or other bond into a TOB trust. The TOB trust issues two types of securities: floating-rate notes ("floaters") and a residual security junior to the floaters.

"exposure" to 300% of the fund's net assets. A fund could avail itself of the risk-based portfolio limit only if its derivatives transactions, in aggregate, result in a fund portfolio that is subject to less market risk than if the fund did not use derivatives.

As noted by the Commission in the Release, the portfolio limits are designed to impose an overall limit on the amount of exposure, and thus the amount of potential leverage, that a fund may obtain through derivatives, FCTs and other senior securities transactions. We agree with the statements in the Release that a fund's leverage can be calculated in numerous ways and that the appropriateness of a particular leverage metric may depend on various considerations, such as a fund's strategy and types of investments, and the specific leverage-related risks that are present. In the Release, the Commission identifies the notional amount of a derivative contract as a potentially useful measure of a fund's economic exposure to the underlying reference asset or metric, but notes that "[a]n exposure-based test based on notional amounts . . . could be viewed as a *relatively blunt measurement* [emphasis added] in that different derivatives transactions having the same notional amount but different underlying reference assets . . . may expose a fund to very different potential investment risks and potential payment obligations."[9]

On an overall basis, we believe that the proposed portfolio limits on the notional amount of derivatives are unnecessary, because the proposed asset segregation framework combined with a rigorous derivatives risk management program should be sufficient to protect shareholder interests. If the Commission determines that it is appropriate to limit derivatives exposures based on notional amounts, we believe a substantially more refined approach is required.

Our experience indicates that the sum of the notional exposures of the derivatives positions in a fund's portfolio can be a highly misleading indicator of the leverage-related risks associated with the fund's use of derivatives. To illustrate, an investment in a foreign fixed income obligation exposes a fund to three primary risk factors: currency, duration and credit. There are two principal ways for a fund to obtain exposure to a foreign fixed income obligation. One way is for the fund to purchase a bond representing this exposure. The other way is for the fund to invest in the individual risk components represented by the bond by entering into a long forward currency contract, long interest rate swap agreement and selling protection on the issuer through a credit default swap. This second method would result in a total notional exposure from derivatives transactions of 300% of the associated fund's net assets, versus 0% notional exposure if the fund were to purchase the bond. Although the two methods result in substantially the same market exposure and risks, the fund's ability to achieve the exposures through derivative transactions could be considerably constrained by the proposed exposure limits included in the Proposed Rule, while the same exposure achieved by investing in a cash bond is not constrained. To the extent a fund seeks exposure to only one or two of the risks presented by the cash bond, it can only do so by using derivatives transactions. If the fund were to purchase the bond and enter into separate derivatives transactions to hedge each of the component risks, the transaction would produce 300% notional exposure, but no economic

[9] *See* Release at pg. 80903.

leverage in the fund. By reducing a fund's ability to isolate desired risks through derivative transactions, we believe the exposure limits as proposed inhibit portfolio management opportunities, to the potential detriment of fund investors. Consequently, we propose that the definition of "exposure" in the Proposed Rule be modified as described below.

1. Adjust Notional Exposure Amounts by Asset Class Risk

In the Release, the Commission notes that notional amounts of derivatives transactions are used in numerous regulatory regimes as a means of determining the scale of the derivatives activities of market participants. We agree with this, but note that many of those regulatory regimes also take into account a discount factor when assessing the different risks associated with particular types of derivatives transactions. For example, the margin and capital requirements for covered swap entities adopted by the Prudential Regulators in November 2015 and similar requirements adopted by the CFTC in December 2015 provide that minimum initial margin requirements for uncleared swaps are discounted for certain asset classes based on an assessment of the amount of risk of each such asset class.[10] To determine the appropriate discount to be applied, the Prudential Regulators and CFTC adopted a margin schedule for uncleared swap agreements that measures the relative risk of assets that a portfolio may post for margin requirements.[11]

We urge the Commission to revise the definition of "exposure" in the Proposed Rule to more accurately reflect the risks associated with different types of derivatives transactions based on the relative riskiness of the underlying reference assets. A one-size-fits-all measure of derivatives exposure is not sensible, because the inherent leverage-related risks of different derivatives with the same notional exposures can be materially different. We propose that the Commission look to the schedule of asset class discounts adopted by the Prudential Regulators and CFTC for uncleared swaps ("Discount Schedule") to allow for discounts in the notional amount of derivatives transactions that relate to the risk that such transactions may introduce into a fund's portfolio (*see* Appendix B). In considering the appropriateness of the Discount Schedule, we evaluated the historical volatility of the asset classes included therein as represented by the standard deviation of a corresponding index for the 10-year period ended January 31, 2016 (*see* Appendix C). We then compared the volatility of each index to that of the other indices to assess the reasonableness of the relative discounts included in the Discount Schedule. From this analysis, we conclude that the discounts reflected in the Discount Schedule are reasonable and appropriate.

Under the Discount Schedule, the notional exposure of each asset class is discounted based on a ratio of its margin requirement to the margin requirement of the riskiest asset classes (equities

10 *See* Prudential Regulator Margin and Capital Adopting Release for Margin Values for Eligible Noncash Margin Collateral, *supra* note 6.

11 *See* Prudential Regulator Margin and Capital Adopting Release, *supra* note 6, for Standardized Minimum Initial Margin Requirements for Non-cleared Swaps and Non-cleared Security-based Swaps at pg. 74909.

and commodities). The proposed discounts to be used in the notional calculation are shown on Appendix B. Applying discounts to the notional amounts of a fund's derivatives transactions will more accurately reflect the true leverage-related risk assumed by the use of derivatives. For example, a $10 million notional position in a 3-year interest rate swap does not carry the same risk as a $10 million notional position in a 10-year interest rate swap. As noted in the Discount Schedule, a 13.3% factor would apply to a 3-year interest rate swap and a 26.7% factor would apply to a 10-year interest rate swap. This would result in notional exposure-equivalents of $1.33 million for the 3-year interest rate swap and $2.67 million for the 10-year interest rate swap for purposes of determining exposure limits. For equity and commodity-based derivatives transactions, no discount to their notional values is included in the Discount Schedule because of the risks they present.

In the Release, the Commission notes that it concluded that use of notional amounts to determine exposure would be a more effective and administrable means of limiting potential leverage from derivatives than a limitation which relies on other leverage measures that may be more difficult to adapt to different types of fund strategies or different uses of derivatives. We believe that the approach set forth in the Discount Schedule retains the core benefits of using notional exposure – ease of administration and universal application that is not subject to various interpretations or "gaming" by fund managers – but overcomes the drawbacks of a raw, unadjusted notional exposure test. The approach set forth in the Discount Schedule would also be adaptable to other types of instruments that may be developed in the future.

2. Exclude FCTs from Notional Exposure Calculation

As proposed, a fund's notional exposures for purposes of the portfolio limits would include the fund's aggregate obligations under its FCTs. We do not believe including a fund's FCT obligations in the exposure calculation is appropriate, given that, under the Proposed Rule, a fund is required to segregate qualifying coverage assets in the full amount of its FCT obligations. Because the proposed segregation requirements would limit the ability to add leverage through FCTs, including FCTs in fund exposures for purposes of the portfolio limits is redundant and unnecessary.

3. Exclude Direct Hedging from Portfolio Limits

Eaton Vance concurs with the opinion expressed in the ICI Comment Letter that certain direct fund hedges should be excluded from the exposures subject to the proposed portfolio limits. In addition to the direct hedges that the ICI Comment Letter proposes to exempt, we strongly recommend that short put or call option positions that offset long put or call option positions on the same underlying reference asset and having the same expiration date be excluded from the exposures subject to the proposed limitations. Eaton Vance manages Funds that utilize call spreads and/or put spreads, in which the Fund writes call (or put) options on an underlying reference asset and buys call (or put) options on the same underlying reference asset that have the same expiration date, but a different strike price. For call spreads and put spreads, the delta-adjusted notional value of a fund's short option position vastly overstates the fund's potential risk exposure because it does not capture the loss-limiting effect of the associated long option position.

We also believe that equity index call options written on an index that is highly correlated to a fund's common stock portfolio should be excluded from the exposures subject to the portfolio limitations. Many closed-end equity option funds write index call options against underlying stock holdings consistent with their investment objectives. When there is a high degree of correlation between the returns of the index and the returns on the fund's underlying common stock portfolio, the delta-adjusted notional value of a fund's option position again vastly overstates the fund's potential risk exposure, due to the loss-limiting effect of the associated long stock positions. Accordingly, we believe it is reasonable to exclude such options from the fund's derivative exposures subject to the portfolio limitations.

B. The VaR Test

Under the proposed risk-based portfolio limit, a fund that elects to comply with the VaR test must ensure that its "full portfolio VaR" is less than the fund's "securities VaR" immediately after the fund enters into any derivatives transaction, FCT or other senior securities transaction, subject to an exposure limit of 300% of the fund's net assets. A fund's "full portfolio VaR" would be defined as the VaR of the fund's entire portfolio, including securities, derivatives transactions, FCTs and other senior securities transactions, and the fund's "securities VaR" would be defined as the VaR of the fund's portfolio of securities, FCTs and other senior securities transactions, but excluding any derivatives transactions. As stated in the Release, the risk-based portfolio limit reflects the Commission's belief that if a fund's use of derivatives, in the aggregate, can reasonably be expected to result in an investment portfolio that is subject to less market risk than if the fund did not use such derivatives (meaning the fund's derivatives reduce rather than magnify the potential for loss from market movements), then the fund's derivatives use is also less likely to implicate the undue speculation concern expressed in Section 1(b)(7) of the 1940 Act.

While we support using VaR to measure portfolio risk, we believe that the proposed risk-based portfolio limit is inconsistent with, and unnecessarily restrictive versus, the proposed exposure-based portfolio limit. Under the Proposed Rule, if a fund elects to comply with the risk-based portfolio limit, it is effectively prohibited from entering into derivatives transactions that add *any* aggregate portfolio risk. By contrast, under the proposed exposure-based portfolio limit, a fund could have exposure to derivatives transactions in a notional amount of up to 150% of its net assets – even if none of those transactions are risk-reducing.

1. Proposal to Revise VaR Test

If the Commission seeks to limit derivatives transactions in excess of the exposure-based limit to transactions that are risk-reducing, we recommend that the risk-based portfolio limit be revised to provide as such. In particular, we recommend that the risk-based portfolio limit require that a fund's full portfolio VaR (including securities, derivatives transactions, FCTs and other senior securities transactions) be less than or equal to the VaR of a "reference portfolio" that includes a fund's exposure to derivatives transactions of 150% of fund net assets plus its securities, FCTs and other senior securities transactions. Under this modified VaR test, a fund could hold derivatives in excess of 150% of its net assets, but only if such excess derivatives are risk reducing in the aggregate. In essence, a fund could hold derivatives with exposure of 150% of its net assets in the "reference portfolio," but the fund could only hold derivatives with notional exposure in excess of 150% of its net assets if these "excess" derivatives are risk reducing in the aggregate. The 300% notional exposure limit would remain in effect to limit total notional exposure of the fund under the risk-based portfolio limit.[12] Consistent with the recommendation of the ICI Comment Letter, we also recommend that the Commission require that the VaR test be calculated as a percentage of fund net assets, rather than as a dollar amount.

2. Daily VaR Test

We strongly recommend that the VaR test apply only on a daily basis, rather than intraday. The Release proposes that a full portfolio VaR test (which requires performance of two separate VaR tests) be performed after each derivatives trade. We have considered the feasibility of this requirement in light of derivatives trading by certain of our Funds for which we routinely conduct a VaR analysis. We estimate that the time taken to add a new derivative to the VaR inputs and re-run the VaR analysis for a single trade is approximately five minutes, assuming the use of sophisticated VaR modeling software by knowledgeable risk management professionals. Because a single derivatives transaction may be executed across multiple funds, it could take considerable time to compute the required fund VaRs following implementation of just that one investment idea. A requirement for transaction-by-transaction VaR testing strikes us as significantly inconsistent with the Commission's stated intent to establish limitations that can be reasonably administered. In lieu of imposing impracticable real-time operational burdens on funds, we recommend that the Commission permit funds to test for compliance with exposure limits and the VaR test once each business day to provide funds with sufficient time to monitor appropriately and review their senior securities transactions.

C. Increase Exposure Amounts for Portfolio Limits

If, contrary to our recommendation, the Commission moves forward with the proposed limits on the notional amount of derivatives and rejects the concept of applying asset-class appropriate discounts, we recommend the permissible exposure limits be increased. In the Release, the Commission states that the 150% exposure-based portfolio limit is designed to balance concerns about the inherent limitations of a calculation based on notional amounts with the ease of administering a test based on such amounts. The 150% exposure-based limit also is intended to limit the amount of leverage a fund may obtain through derivatives transactions while also providing flexibility for funds to use derivatives transactions for a variety of purposes. In our judgment, the proposed 150% limit is too restrictive, overly inhibiting a fund's ability to use

[12] As noted above, we propose that the exposure-based limit be increased to 200% and the risk-based limit increased to 350%.

derivatives for investment, hedging and risk management purposes. We propose that the exposure-based portfolio limit be increased from 150% to 200%, and also recommend that the risk-based portfolio limit be increased from 300% to 350%.

D. Operation of Portfolio Limitations

As described in the Release, funds relying on the Proposed Rule would be required to comply with the applicable portfolio limits after entering into any senior securities transaction, that is, any derivatives transaction, FCT or any other senior security transaction entered into by the fund pursuant to Section 18 of the 1940 Act. As proposed, a fund would not be required to terminate or otherwise unwind a senior securities transaction solely because the fund's exposure subsequently increased beyond the exposure limits included in either of the portfolio limitations. A fund, however, would not be permitted to enter into any additional senior securities transactions while relying on the exemption provided by the Proposed Rule unless the fund is in compliance with the applicable portfolio limitation immediately after entering into the transaction. While understanding the Commission's rationale for the foregoing, it is important to note that a fund may have derivatives transactions or FCTs in place with near-term maturities that in the ordinary course would be "rolled" by closing the current position and simultaneously entering into a replacement transaction with a new maturity to maintain the current exposure. Under the Proposed Rule, such rolls would not be permitted when a fund is out of compliance with the applicable portfolio limitation. Instead, the fund would be required to terminate the derivatives or FCT position and eliminate the associated fund exposure at a time that may be disadvantageous to fund shareholders. To address this, we propose that a fund which has passively exceeded its exposure limit be permitted to roll existing derivative transactions and FCTs, provided that each new position is on the same reference asset and has the same or lesser notional value as the maturing position. For a fund that relies on the risk-based portfolio limit, a failure to roll into a new derivative may cause it to fail the VaR test. It is critical that any limitations imposed on derivatives transactions or FCTs allow a fund to avoid forced terminations of exposures due to passive changes to the fund's portfolio. A forced termination could be significantly detrimental to the fund's investment strategy and harm fund shareholders.

We recommend that the Proposed Rule permit a fund that passively exceeds an exposure limit to have a period of up to 30 calendar days to reduce exposures, unless the derivatives risk manager determines that a longer time period would be appropriate.

III. No "Look Through" for Fund of Funds

The Release does not clearly indicate how the Proposed Rule would apply to a fund that invests in other affiliated and unaffiliated funds that would themselves be subject to the Proposed Rule.[13] We request that the Commission clarify that a fund that invests in other affiliated and unaffiliated funds that are subject to the Proposed Rule is not required to look through to the

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[13] For funds that utilize a master-feeder structure, we believe a feeder fund that invests all of its investable assets in an open-end management investment company, its master fund, would be required to look through to its master fund's holdings.

investments of its underlying funds for purposes of the Proposed Rule. To require otherwise would put an unworkable administrative burden on such funds.[14]

IV. Board Responsibilities

We support the concerns expressed in the ICI Comment Letter and the comment letter submitted by the Independent Directors Council[15] that certain Board responsibilities under the Proposed Rule go beyond the normal oversight role of a fund Board and would require the Board to make determinations more appropriately made by the investment adviser in connection with the fund's investment objective and derivative risk management program. We believe the investment adviser and its portfolio and risk management staff should be responsible for determining specific limits on derivatives transactions, as well as related models (including any VaR calculation models) and measurement tools, subject to the Board's oversight and general principles and parameters set forth in the fund's derivatives risk management program. A fund's Board should be required to determine that the derivatives management risk program as a whole is adequately designed to assess and manage risks, which could be a component of its approval of the fund's overall compliance program.

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Eaton Vance appreciates the opportunity to comment on the Proposed Rule and related issues. If you have any questions or wish to discuss the above comments further, please feel free to contact me at your convenience.

Sincerely,
/s/ Payson F. Swaffield
Payson F. Swaffield, CFA

14 *See* also the discussion of application of the VaR test above.

15 *See* Letter from Amy B.R. Lancellotta, Managing Director, Independent Directors Council, to Brent J. Fields, Secretary, Securities and Exchange Commission, dated March 28, 2016.

Appendix A

Segregation Asset Class Schedule

Asset class	Discount (%)
Eligible government and related (e.g., central bank, multilateral development bank, GSE securities identified in § __.6(a)(2)(iv) or (b)(5) debt: residual maturity less than one-year	0.5
Eligible government and related (e.g., central bank, multilateral development bank, GSE securities identified in §__.6(a)(2)(iv) or (b)(5) debt: residual maturity between one and five years	2.0
Eligible government and related (e.g., central bank, multilateral development bank, GSE securities identified in § __.6(a)(2)(iv) or (b)(5) debt: residual maturity greater than five years	4.0
Eligible GSE debt securities not identified in § __.6(a)(2)(iv) or (b)(5): residual maturity less than one-year	1.0
Eligible GSE debt securities not identified in § __.6(a)(2)(iv) or (b)(5): residual maturity between one and five years:.	4.0
Eligible GSE debt securities not identified in § __.6(a)(2)(iv) or (b)(5): residual maturity greater than five years	8.0
Other eligible publicly traded debt: residual maturity less than one-year	1.0
Other eligible publicly traded debt: residual maturity between one and five years	4.0
Other eligible publicly traded debt: residual maturity greater than five years	8.0
Equities included in S&P 500 or related index	15.0
Equities included in S&P 1500 Composite or related index but not S&P 500 or related index	25.0
Gold	15.0

Examples of Available Assets for Segregation			
Security Type	**Market Value Discount Factor**	**Market Value of Security (USD)**	**Adjusted Market Value Available for Segregation (USD)**
Government Debt Security - 3 yr	2.0%	10,000,000	9,800,000
Government Debt Security - 10 yr	4.0%	10,000,000	9,600,000
Non-Government Debt Security - 3 yr	4.0%	10,000,000	9,600,000
Non-Government Debt Security - 10 yr	8.0%	10,000,000	9,200,000
Commodity	15.0%	10,000,000	8,500,000
Non-S&P 500 Equity	25.0%	10,000,000	7,500,000
Total		**60,000,000**	**54,200,000**

Appendix B

Discount Schedule

Asset Class	CFTC Schedule Gross Initial Margin	Proposed Discount Schedule	Notional Test Conversion Factor Relative Risk	Discount from Notional (1-Conversion Factor)
Credit: 0–2 year duration	2%	= 2/15	13.3%	86.7%
Credit: 2–5 year duration	5%	= 5/15	33.3%	66.7%
Credit: 5+ year duration	10%	= 10/15	66.7%	33.3%
Commodity	15%	= 15/15	100.0%	0%
Equity	15%	= 15/15	100.0%	0%
Foreign Exchange/Currency	6%	= 6/15	40.0%	60.0%
Cross Currency Swaps: 0–2 year duration	1%	= 1/15	6.7%	93.3%
Cross-Currency Swaps: 2–5 year duration	2%	= 2/15	13.3%	86.7%
Cross-Currency Swaps: 5+ year duration	4%	= 4/15	26.7%	73.3%
Interest Rate: 0–2 year duration	1%	= 1/15	6.7%	93.3%
Interest Rate: 2–5 year duration	2%	= 2/15	13.3%	86.7%
Interest Rate: 5+ year duration	4%	= 4/15	26.7%	73.3%
Other	15%	= 15/15	100.0%	0%

Examples of Proposed Derivative Notional Exposure Calculation			
Derivative Type	**Notional Test Conversion Factor**	**Original Notional Amount (USD)**	**Risk Adjusted Notional Amount (USD)**
Interest Rate Swap - 3 yr	13.3%	10,000,000	1,330,000
Interest Rate Swap - 10 yr	26.7%	10,000,000	2,670,000
Credit Swap - 3 yr	33.3%	10,000,000	3,330,000
Credit Swap - 10yr	66.7%	10,000,000	6,670,000
Foreign Currency Forward	40.0%	10,000,000	4,000,000
Commodity Swap	100.0%	10,000,000	10,000,000
Equity Swap	100.0%	10,000,000	10,000,000
Total		**70,000,000**	**38,000,000**

Appendix C

Index	Volatility*	Ratio to MSCI EM NR USD
BofAML US Treasury Bill 3 Mon TR USD	0.57%	0.02
Barclays Municipal 1 Yr 1-2 TR USD	0.81%	0.03
BofAML US Treasuries 1-3 Yr TR USD	1.32%	0.06
Barclays Municipal 5 Yr 4-6 TR USD	2.96%	0.13
BofAML US Treasuries 3-5 Yr TR USD	3.15%	0.13
Barclays US Agg Bond TR USD	3.23%	0.14
BofAML US Trsy Infl Linked 1-5Y TR USD	3.44%	0.15
Barclays US Govt/Credit TR USD	3.89%	0.17
Barclays Municipal 10 Yr 8-12 TR USD	4.54%	0.19
BofAML US Treasuries 5-7 Yr TR USD	4.69%	0.20
Barclays Municipal 15 Yr 12-17 TR USD	5.36%	0.23
BofAML US Treasuries 7-10 Yr TR USD	6.41%	0.27
JPM ELMI+ TR USD	6.61%	0.28
BofAML US Treasuries 10-15 Yr TR USD	7.87%	0.34
S&P/LSTA Leveraged Loan TR	8.12%	0.35
JPM EMBI Global TR USD	8.82%	0.38
BofAML US HY Master II TR USD	10.52%	0.45
JPM GBI-EM Global Diversified TR USD	12.79%	0.55
BofAML US Treasuries 15+ Yr TR USD	12.83%	0.55
S&P 500 TR USD	15.16%	0.65
MSCI ACWI NR USD	16.93%	0.72
Bloomberg Commodity TR USD	18.15%	0.77
MSCI EAFE NR USD	18.55%	0.79
Russell 2000 TR USD	19.83%	0.85
MSCI EM NR USD	23.46%	1.00

*Based on standard deviation of monthly total returns over ten years ending January 31, 2016.