

MEMORANDUM

To: File No. S7-24-15

From: David P. Bartels
Counsel to Commissioner Kara Stein
U.S. Securities and Exchange Commission

Date: May 4, 2016

Re: Meeting with representatives from Eaton Vance

On May 4, 2016, Commissioner Stein, David Bartels and Jill Henderson met with Tom Faust, Payson Swaffield, Maureen Gemma and Michael O'Brien of Eaton Vance. Among other things, the parties discussed the Commission's proposal on the use of derivatives by registered management investment companies and business development companies. Information provided by Eaton Vance is set forth in Annex A.

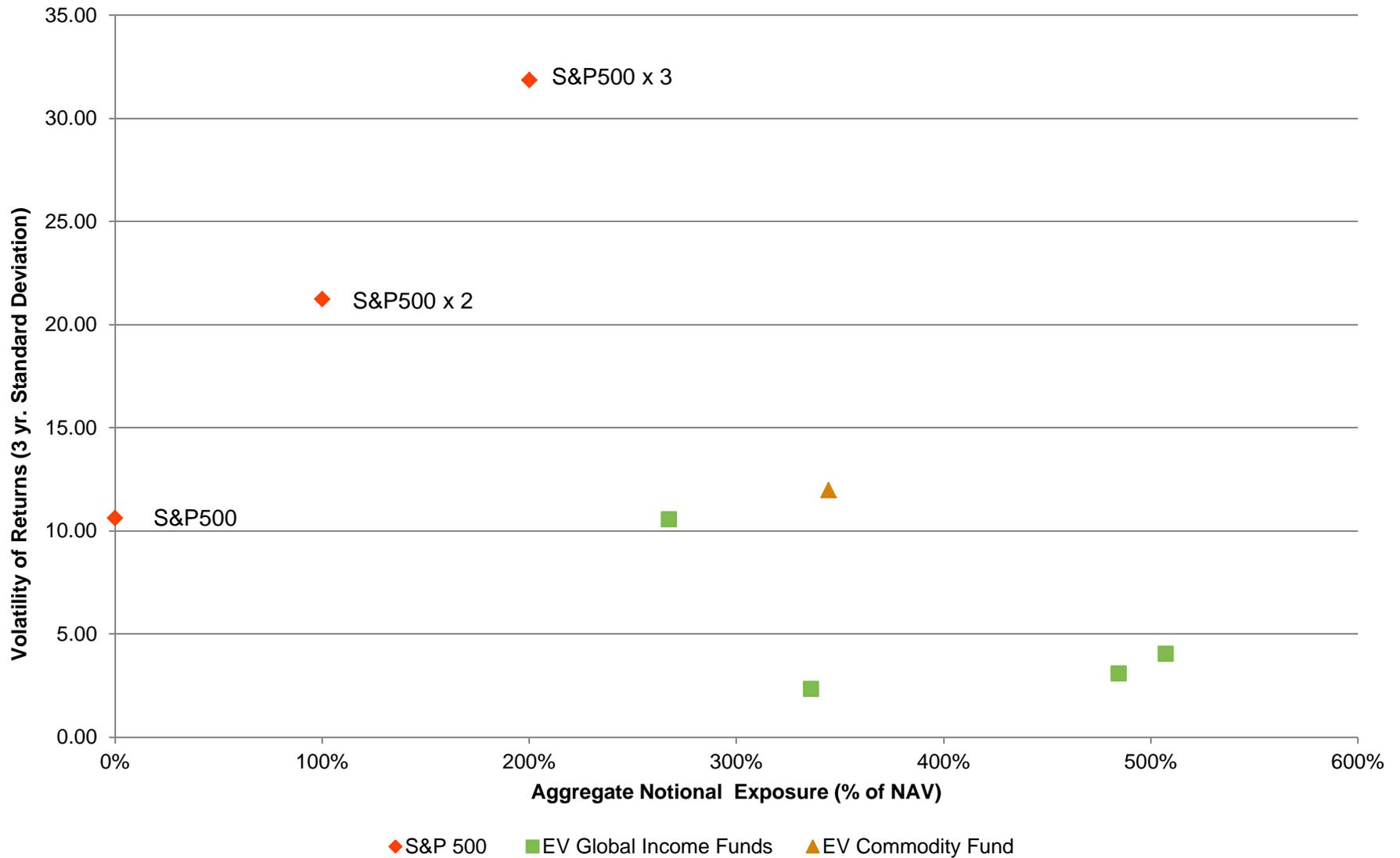
Annex A



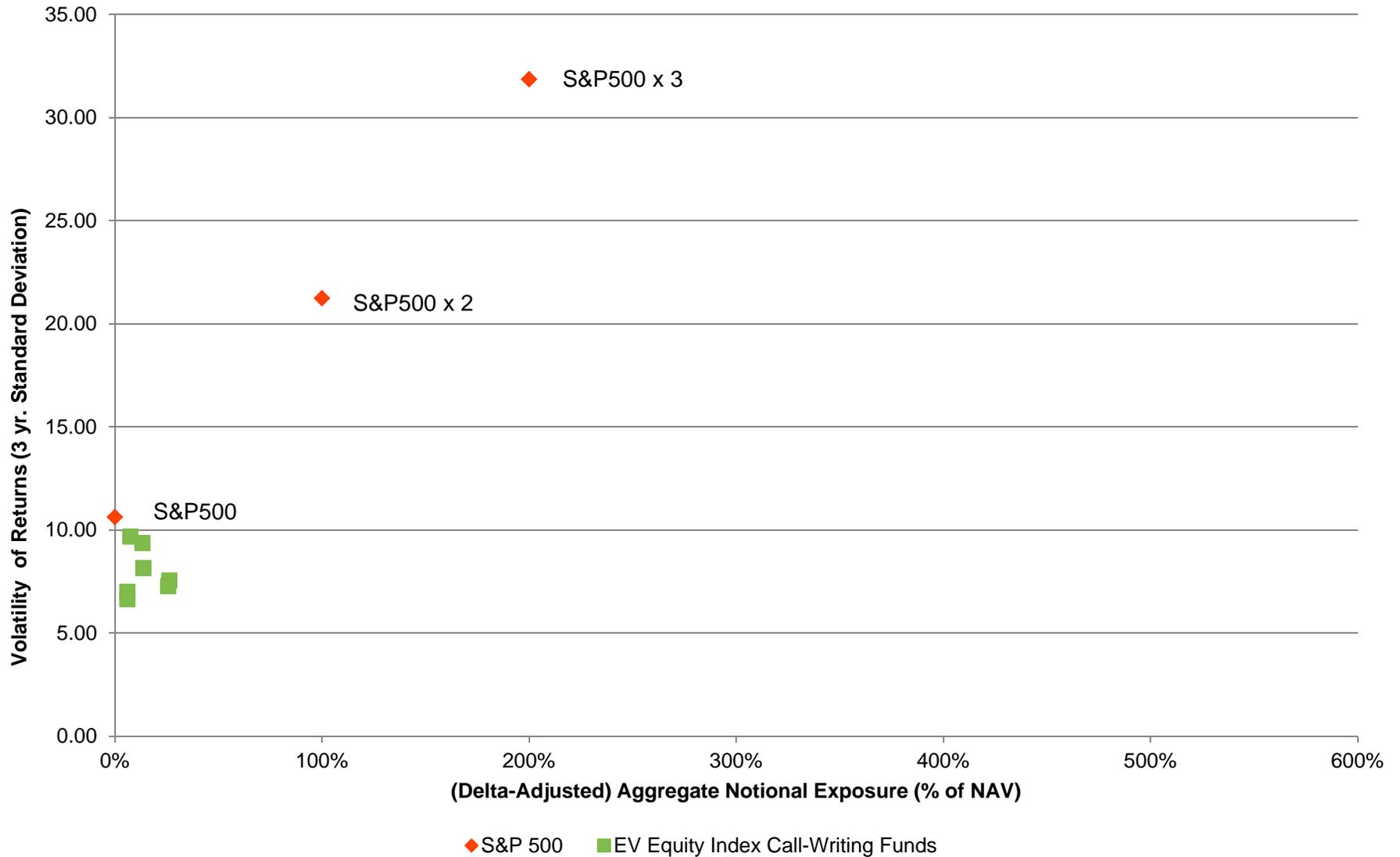
Proposed Rule 18f-4 Meeting with Securities and Exchange Commission

May 4, 2016

High Notional Exposure Does Not Equal High Risk



Index Call-Writing Strategies Fail Proposed Segregation Test



Cash Market Instruments vs. Derivatives Positions

Substantially similar fund investments may be implemented using either cash market instruments or derivatives positions . . .

<u>Cash Market Instrument</u>	<u>Aggregate Notional Exposure</u>	<u>VaR</u>
Italy 5-Yr Sovereign Bond	0	16.3%
Total	0	16.3%

<u>Derivatives Positions</u>	<u>Aggregate Notional Exposure</u>	<u>VaR</u>
Long EURO Currency Forward	100	12.7%
Receive Fixed 5-Yr EURO Swap	100	4.1%
Receive 5-Yr Italy CDS	100	4.6%
Total	300	~16.3%

By using derivatives positions, a fund may . . .

- tailor investment to include only desired exposures
- access deepest pockets of market liquidity
- manage investment implementation risks

Limitations on Use of Risk-Reducing Derivatives

	Cash Market Instruments + Derivatives	Aggregate Notional Exposure	<u>PERMITTED</u>	<u>NOT PERMITTED</u>
			Portfolio 1	Portfolio 2
Risk-Reducing Derivatives	400%	300%		Hedging Derivative 1 Hedging Derivative 2 Hedging Derivative 3 ⋮ Hedging Derivative N
Risk-Adding Derivatives	250%	150%	Long Derivative Equity 1 Long Derivative Equity 2 Long Derivative Equity 3 ⋮ Long Derivative Equity N	Long Derivative Equity 1 Long Derivative Equity 2 Long Derivative Equity 3 ⋮ Long Derivative Equity N
Cash Market Instruments	100%	0%	Cash Market Equity 1 Cash Market Equity 2 Cash Market Equity 3 ⋮ Cash Market Equity N	Cash Market Equity 1 Cash Market Equity 2 Cash Market Equity 3 ⋮ Cash Market Equity N

Unless the proposed rule, a fund is limited to an aggregate notional exposure of 150% of net assets unless the fund's derivatives positions are risk-reducing in total. A more rational test would permit a fund to use derivatives beyond the 150% limit if the excess derivatives positions are risk-reducing, as in the example above.

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