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Rule 17f-2
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May 1, 1974

Alan Rosenblat, Esq.
Chief Counsel
Division of Management Regulation
Securities and Exchange Commission
500 North Capitol Street, N.W.
Washington, D.C. 20549

Dear Sir:

We are counsel to Standard Shares, Inc. ("Standard"), a closed-end, non-diversified management investment company registered under the Investment Company Act of 1940 ("the "Act").

Standard has, from time to time, made loans of portfolio securities in accordance with the principles set forth in Rule 17f-2 under Section 17(f) of the Act. Rule 17f-2 assumes that loans of securities will be made by investment companies and imposes only the requirement that such loans be "collateralized to the extent of their full market value. . ." Accordingly, all loans have been made only on receipt of 100% cash collateral.

In addition to obtaining such collateral, Standard has followed the guidelines prescribed by the Staff under Rule 17f-2 in its correspondence with State Street Bank and Trust Company ("Guidelines"). Thus, all loans have been terminable on demand; Standard has received a reasonable return on each loan, has received all dividends or other distributions on the securities loaned, and has retained the market risk of gain or loss with respect to the value of the securities. As to Guideline (6), voting rights have passed with the loan of the securities, a consequence which is in accord with the Staff's May 23, 1972, clarification. Standard's right to terminate the loan has assured it of retention, for all practical purposes, of the basic

voting rights on the loaned securities in the event that any issue requiring a vote should arise. All loan transactions and all transactions relating to marking to market are carried out on behalf of Standard by its custodian, Manufacturers Hanover Trust Company.

Guideline (5) provides that no service, placement or other fee may be paid in connection with such loans. In compliance with our interpretation of that Guideline, Standard has not attempted to utilize the services of third parties in finding borrowers for securities it wishes to lend. Recently, however, a body of "placing brokers" has developed, offering assistance to borrowers in locating securities available for loan at no charge to the borrower. Compensation to the broker takes the form of negotiated fees, which, we are advised, have been at an average rate of approximately 1% per annum on the value of the loan. Although fees may in particular cases be stated as percentages of the value of the loans, they are, in economic reality, merely reductions in the rate of return available to the lender on the collateral deposited by the borrower as security for the loans. Prospective borrowers, relieved of the burden of canvassing the market to locate available securities and free of any commission burden, have tended increasingly to deal with such "placing brokers." As a result, Standard has been encountering increasing difficulty in placing securities loans.

In the course of our efforts over the past several months to clarify our understanding of the intentions of the Staff with respect to Guideline (5), we have become aware of the Staff's correspondence with counsel for two such "placing brokers." (Norman F. Swanton Associates, September 17, 1973, and Bernard S. Kanton, September 12, 1973) In each case, the Staff took the position that it would not object to the receipt of a fee by the broker for arranging loans of securities for mutual funds provided that (1) the broker discloses in writing to the fund's directors that it is possible to arrange for the securities to be borrowed without paying any fee, (2) neither the broker nor any of its affiliated persons is an affiliated person of the fund, its investment adviser or its principal underwriter, and (3) the fund represents to the broker in writing that its directors have determined that the fee is reasonable and based solely on the services rendered.

As outlined above, Standard is, of course, aware that it may arrange loans of securities without utilizing the services of placing brokers; and although it has experienced increasing difficulty in doing so, Standard would continue to arrange loans directly when the opportunity arises. All loans of securities have been and will continue to be made only to brokers who are not affiliates of Standard or of any affiliate of Standard, and no broker having any such affiliation would be employed by Standard as a placing broker. In addition, Standard would be prepared, if required, to furnish to a placing broker a written representation that its directors have determined that its proposed fee is reasonable and based solely on the services rendered. In this connection, however, we suggest that, from the standpoint of Standard's shareholders, the operative act is the determination by the directors; and that the shareholders gain little more by a written representation from Standard directed to its agent. If a representation must be made, it would seem more appropriate to require it of the placing broker, in order to aid Standard's directors in making a determination that the fee is based solely on the services rendered as placing broker.

As a possible alternative to utilizing the services of a placing broker, Standard is considering making it more attractive to borrowers to borrow directly from Standard by suggesting to prospective borrowers an arrangement involving a securities loan agreement which would permit the borrowing broker to deliver United States Treasury bills in lieu of between 10% and 15% of the 100% cash collateral which would otherwise be required at the time of borrowing.* The precise percentage of the total collateral for

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* Where a security loan of small value is involved, the borrower would receive collateral credit for Treasury bills deposited only to the extent of the proposed 10% to 15% even though the smallest available Treasury bill of $10,000 face amount may have a value in excess of 15% of the loan. In such a situation, the borrowing broker would deposit at least 85% in cash collateral. In view of the marginal value to Standard of such small loans, it would accept the possibility that the broker may borrow such securities elsewhere.

which Treasury bills would be acceptable collateral on new loans, would fluctuate and be determined periodically by reference to the then current yield on such bills. Standard intends to vary the percentages as may be necessary to enable the borrower to earn the equivalent of about 1% per annum on the market value of the aggregate of cash and Treasury bill collateral deposits. The borrowing broker would retain the power to substitute new bills for maturing Treasury bills, thus enabling it to roll the bills over at maturity if the loan were then outstanding. All marking to market would be done by adjusting the cash collateral, but not the amount of Treasury bills. The bills would be valued at the time of the making of the loan and at the time of each marking to market at the price for such bills in the over the counter market on such day.

If such securities loan arrangements were currently in effect, a loan by Standard of securities having a market value of $90,000 might, for example, be collateralized by the delivery to Standard's custodian of the following:

90-day United States Treasury bill (discount value)	$ 9,800
Cash	80,200
	$90,000

If it is assumed that Standard were also to invest in Treasury bills and that the Treasury bill rate were approximately 7.5% per annum (which is a rate approximately reflecting the $9,800 bill value), the aggregate annual yield of about $6,750 would be divided $735 to the borrowing broker and $6,015 to Standard. As a consequence, the borrowing broker would have earned for the year 0.8% of the total collateral or slightly less than the 1% now being paid placing brokers. Whether the borrowing broker would realize more or less than 1% of the market value of the loan would be affected by the ratio of the minimum $10,000 size of the available Treasury bill units to the value of the borrowed securities. Thus, if the securities declined in value to $70,000, the same $9,800 value Treasury bill would represent about 14% of the then collateral and the broker would be receiving a return of 1.05%. As indicated above, the marking to market of the collatera on such a change in the value of the borrowed securities would be

accomplished entirely by reducing the cash collateral. No change would be made in the Treasury bill collateral during the life of the loan (except for possible substitution by the broker of new bills for matured bills).

Standard is of the view that the proposed acceptance of Treasury bills for a part of the collateral will provide an appropriate economic incentive to the borrowing broker to make the effort to borrow the securities from Standard rather than to proceed automatically through a placing broker. The net effect of such arrangements would be a reduction in the borrowing costs of the borrowing broker by an amount approximately equal to the commission which securities lenders are now paying to placing broke

The proposed loan arrangements comply in form and substance with the requirement of Rule 17f-2(c) that the loans be collateralized to the extent of their full market value. Standard is also of the view that the arrangements will comply with the basic purposes of the Guidelines, even though the proposed acceptance of Treasury bills as part of the collateral does not accord precisely with the terms of Guidelines (1) and (4). Although Standard will not receive 100% cash collateral, it will receive cash and cash equivalents equal in the aggregate to 100% of the value of the securities. Standard will, therefore, be secured to the same extent as if it had received 100% cash collateral and will be in compliance with Guideline (1). In addition, Standard will receive such reasonable return as is economically feasible in view of the competition now existing in placing securities loans. Standard will be receiving approximately the same return as it would if it loaned securities through placing brokers and reduced its return by the amount of the fee paid to such brokers. The negotiation of such loans can be carried on by Standard's existing staff at no extra cost. The execution of the loans and the receipt and retention of the collateral would result in nominal charges by Standard's custodian, which charges would not vary significantly if Treasury bills constitute part of the collateral.

Based upon the foregoing outline of the manner in which Standard proposes to modify its present practices with respect to the lending of portfolio securities, and in light of the recent Swanton and Kanton correspondence, we would

appreciate your advice as to whether the Staff would recommend to the Commission that any action be taken if Standard utilizes the services of placing brokers or alternatively accepts Treasury bills in lieu of a negotiated percentage of between 10% and 15% of the cash collateral in connection with the placement of loans of portfolio securities. We would also appreciate your advice as to whether board supervision of the reasonableness and purpose of a placement fee, without written representation thereof to the placing broker, would satisfy the requirement outlined in paragraph (3) of the Swanton and Kanton correspondence.

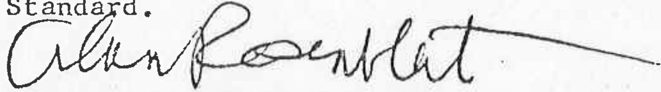
Very truly yours,

HELLERSTEIN, ROSIER & MINKIN

By [signature]

Rule 17 f-2 sets forth various provisions which a registered management investment company must follow if it acts as its own custodian for its securities and similar investments under Section 17(f)(2) of the Act. Since Standard Shares, Inc. ("Standard") has a bank custodian, it is apparently operating under the provisions of Section 17(f)(1) of the Act. However, we have no objection to Standard using the standards in Rule 17 f-2 as guidelines. Based on the facts presented in the foregoing and in your letter of July 16, 1974, we would not recommend that the Commission take any action if Standard utilizes the services of placing brokers since Standard's N-8B-1 includes among the company's fundamental policies the right to make loans to any person, firm or corporation, without any prohibition against the lending of portfolio securities, provided that the safeguards set forth in our correspondence with Norman A. Swanton Associates and State Street Bank and Trust Company are met, including the requirement that the investment company must represent to the placing broker in writing that its directors have determined that the fee is reasonable and based solely on the services rendered. The directors of an investment company have a fiduciary duty to act in the best interests of the company's shareholders. Accordingly, the reason for requiring the fund to make such a written statement as to the reasonableness and purpose of the fee is to provide assurance to a company's shareholders that their directors have made a comparative analysis of the fees charged by various brokers for similar placing services and, as a result, believe they are acting in their shareholders' best interests by engaging the broker who charges a reasonable fee. Accordingly, we cannot agree with your suggestion that a written representation as to the reasonableness of the fee would benefit Standard's

shareholders more if it were required of the placing broker rather than of the investment company. However, we would raise no objection if, instead of engaging a placing broker, Standard accepts Treasury bills in lieu of a negotiated percentage of between 10% and 15% of the cash collateral in connection with the placement of loans of portfolio securities and, further, permits the borrowers to earn the equivalent of about 1% per annum on the market value of the aggregate of cash and Treasury bill collateral deposits, providing such earnings are not used to compensate any affiliated person or investment adviser of Standard, or an affiliated person of such person or adviser, in connection with the lending of portfolio securities or any other activities of Standard.



Alan Rosenblat, Chief Counsel
Division of Investment Management Regulation

EAB:ad JUL 29 1974

In future correspondence please refer to our Reference No. 74-442.

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July 16, 1974

Alan Rosenblat, Esq.
Chief Counsel, Division of Investment
Management Regulation
Securities and Exchange Commission
500 North Capitol Street, N. W.
Washington, D. C. 20549

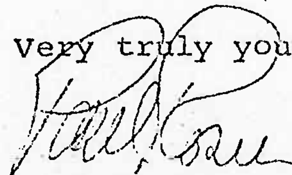
Attention: Ms. Elizabeth Barnes

Re: Standard Shares, Inc.
Reference No. 74-442

Dear Ms. Barnes:

Pursuant to our telephone conversation today, I am attaching to this letter a copy of item 4(g) of Standard's Registration Statement on form N-8B-1, concerning the making of loans to other persons.

Very truly yours,



Paul Rosier

PR/ed
Enclosure

(g) The Making of Loans to Other Persons.

Registrant has no present intention to engage in the making of loans as a principal activity. However, registrant reserves freedom of action to make loans to any person, firm or corporation, provided that the aggregate of all such loans shall not exceed at any one time 10% of the value of the total assets of registrant at the time of the making of any such loan or loans. For the purposes of this paragraph, loans shall not be deemed to include the purchase or other acquisition by registrant of bonds, debentures or other securities evidencing indebtedness, as to which registrant reserves full freedom of action.