

SATTERLEE & STEPHENS

277 PARK AVENUE

NEW YORK, N.Y. 10017

JAMES F. DWYER
PAUL EDGAR SWARTZ
ROBERT H. SCHNELL
DONALD W. SMITH
FRANCIS D. KALOSKY
GEORGE C. SHIVELY
DAVID M. TAPPEN
ROBERT C. HUBBARD
HENRY J. FORMON, JR.
ROGER EVAN SHER
BRYAN WEBB
JAMES D. DANA
ROBERT M. CALLAGY
JOHN B. HORTON
DENIS R. PINKERNELL
MARY M. LURIA
PAUL J. POWERS, JR.

TELEPHONE (212) 826-6200
TELEX NO. 223437
CABLE ADDRESS "SATERFIELD" NEW YORK

COUNSEL
WILLIAM C. SCOTT
BARBARA L. ZINSSER
PAUL J. POWERS

WASHINGTON OFFICE
1701 PENNSYLVANIA AVENUE, N.W.
(SUITE 1100)
WASHINGTON, D.C. 20006
TELEPHONE (202) 298-6358

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REC'D - S.D.C.
MAR 6 - 1975

Securities and Exchange
Commission
500 North Capitol Street
Washington, D.C. 20549

Attention: Alan Rosenblat, Esq., Chief Counsel
Division of Investment Management Regulation

Re: Lionel D. Edie Capital Fund, Inc.
Request for Interpretive Ruling
'40 Act, Sections 13 and 36

Gentlemen:

We are counsel to Lionel D. Edie Capital Fund, Inc. ("Capital"), an open-end diversified management investment company registered under the Investment Company Act of 1940 (the "Act").

Our inquiry concerns Guidelines Nos. 1 and 5 prescribed by the Staff of the Securities and Exchange Commission (the "Commission") in its correspondence with counsel to State Street Bank & Trust Company, December 27, 1971, and May 22, 1972, as such guidelines have been subsequently clarified by the Staff's correspondence with counsel to Standard Shares, Inc., July 29, 1974, and with counsel to The Adams Express Company, September 9, 1974. Guideline 1 presently provides that an investment company may accept United States Treasury Bills in lieu of a negotiated percentage of between 10% and 15% of the 100% cash collateral which is otherwise required of a borrower before an investment company may loan its portfolio securities. Guideline 5 provided that no service, placement

will be equal to at least 102% of the market value of the loaned securities. The government securities will be valued at the time of the making of the loan and at the time of each marking to market of the loaned securities, which will be done on a daily basis, at the price for such securities in the over the counter market on such day. All loans of securities by Capital will be made to borrowers not affiliated with Capital or any affiliate of Capital. Capital does not intend to utilize the services of placing brokers to locate borrowers for Capital's portfolio securities.

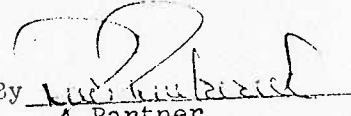
We understand that the other guidelines set forth in the State Street Bank & Trust Company correspondence with the Staff are met in the arrangements contemplated by Capital. Lending of portfolio securities also is permitted by the fundamental investment policies of Capital.

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. Capital also is of the view that the acceptance of United States government securities as collateral rather than 100% cash collateral coupled with the fact that the borrower has the opportunity to negotiate the rate which it will pay to borrow securities from Capital rather than receive a return over which it will have little, if any, effective control will afford an appropriate economic incentive to borrowers to deal with Capital. The net effect of the arrangement contemplated will be to reduce the effective cost to the borrower of borrowing portfolio securities while assuring Capital a reasonable return on the loaned securities.

Based upon the foregoing description of the circumstances under which Capital proposes to enter into transactions providing for the loan of its portfolio securities, and in view of the aforementioned recent clarification of the Commission Staff's guidelines relating to the lending of portfolio securities, we would appreciate your advice as to whether the Staff would recommend that the Commission take any action if Capital accepts United States government securities in lieu of cash as the sole collateral to secure loans of its portfolio securities.

Very truly yours,

SATTERLEE & STEPHENS

By 
A Partner

RESPONSE OF THE OFFICE OF CHIEF COUNSEL
DIVISION OF INVESTMENT MANAGEMENT REGULATION

Ref. No. 75-325
Lionel D. Edie
Capital Fund, Inc.
File No. 811-2405-3

We would not object to the use of securities issued or guaranteed by the United States Government as collateral for loans of Edie's portfolio securities provided that the other guidelines con-

or other fee may be paid in connection with a loan of an investment fund's portfolio securities, but subsequent interpretations have permitted a borrower to share in the income generated by the investment company's use of the collateral.

We have been advised that Capital proposes from time to time to make loans of its portfolio securities and receive a fee from the borrower, thereby increasing the total yield on its portfolio. In connection with such loans of portfolio securities, Capital proposes to permit the borrower to furnish as security for the loan collateral consisting of United States government securities in lieu of cash. The value of the collateral deposited will be equal to not less than 102% of the market value of the loaned securities.

In connection with entering into a proposed securities loan agreement, Capital and the borrower will negotiate a rate for the loan premium covering such transaction, and Capital will look solely to such fee as its return for lending securities rather than to income which might be earned on the collateral deposited with Capital. The fee for such loans of Capital's portfolio securities will be based on the average daily market value of the loaned securities during the period of the loan (e.g., one-half of the prime rate in effect during the period of the loan). Prior to entering into any such loan transaction, the Board of Directors of Capital will make a determination that the overall compensation payable to Capital in consideration of lending its portfolio securities is reasonable and desirable in view of the risks involved in lending portfolio securities as well as interest rates then prevailing.

The borrower will retain all rights in and to the collateral, except for a security interest in favor of Capital granted pursuant to the loan agreement with Capital, and will have the right to substitute new government securities for maturing securities. In the event the market value of the collateral drops to 100% of the market value of the loaned securities, the borrower will be required to deliver to Capital an additional amount of cash or United States government securities, the market value of which, together with the then market value of all previously delivered

cerning collateral set forth in my previous interpretations in this area are satisfied. We would also have no objection if the compensation to Edie took the form of a loan premium so long as the intent of Guideline 4 is satisfied. To satisfy the guideline the loan premium should give proper weight to prevailing interest rates, dividends, interest or other distributions on the loaned securities and any increase in the market value of such securities.



Alan Rosenblat, Chief Counsel
Division of Investment Management Regulation

RG/ds

APR 15 1975