

UNITED STATES & FOREIGN SECURITIES CORPORATION
A MARYLAND CORPORATION
767 FIFTH AVENUE
NEW YORK, N. Y. 10022

ALLAN COMRIE
PRESIDENT

December 11, 1981

Mr. Gerald Osheroff, Associate Director
Division of Investment Management
Securities and Exchange Commission
500 North Capitol Street, N.W.
Washington, D.C. 20549

Act	ICA-40
Section	
Rule	17f-2
Public	
Availability	11/26/81

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DEC 14 1981
MAIL PROCESSING SECTION S.E.C.

Dear Mr. Osheroff:

United States & Foreign Securities Corporation ("US&F") is a closed-end investment company registered under the Investment Company Act of 1940 ("the 1940 Act").

US&F's Registration Statement under the 1940 Act provides that it can "make loans of securities collateralized with (a) cash or (b) securities issued or guaranteed by the United States Government".

Manufacturers Hanover Trust Company ("MHT") acts as Custodian of US&F's portfolio securities pursuant to Rule 17f-2. One of the resolutions adopted by US&F's Board of Directors in 1970 in regard to the Custodian relationship and constituting part of the Custodian Agreement provides in part as follows:

"RESOLVED, that Manufacturers Hanover Trust Company be, and it hereby is, authorized and directed, from time to time, on behalf of this Corporation to deliver any securities held by it in custody for this Corporation as follows:

* * * * *

"(h) In the case of deliveries of securities as loans, in accordance with the written order of this Corporation with respect to such securities signed by the President or a Vice President or the Treasurer or the Secretary and another person who is the President, a Vice President, the Treasurer, the Secretary, an Assistant Treasurer or an Assistant Secretary of this Corporation...."

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In 1972 US&F in order to comply with Rule 17f-3 terminated its checking account with MHT and directed MHT to hold all payments transmitted to it for the account of US&F in US&F's Custodian account and to make payments from such account as directed by written order signed by two persons one of whom must be an officer and the other an officer or assistant officer of US&F.

In 1979 US&F, pursuant to Rule 17f-4, authorized MHT to deposit US&F's portfolio securities with Depository Trust Company which acts as a clearing agency registered with the Commission under Section 17A of the Securities Exchange Act of 1934.

US&F in past years has increased its return on its investments by lending its portfolio securities to brokers and investing the cash collateral in short-term money market instruments - or, in the case of collateral consisting of U.S. Government securities, receiving cash fees from the borrowers. Large pension funds have recently begun to lend their portfolio securities and the increased competition has rendered it virtually impossible for an entity of US&F's size to make loans through its own efforts.

MHT has offered to act as Agent for US&F to negotiate loans of such of US&F's portfolio securities as US&F may notify MHT that US&F has no present intention of selling and are available for loans.

In order to permit MHT to act as such Agent it is proposed that US&F and MHT enter into a Securities Lending Agreement (the "Agreement") which would amend the Custodian Agreement. The Agreement would provide, among other things, that:

1. MHT shall only make loans for US&F of those of its portfolio securities that are stated to be available for loans on lists furnished by US&F from time to time and signed by two persons, one of whom must be an officer and the other an officer or an assistant officer of US&F.
2. MHT shall make the loans on such terms and conditions as it may determine provided that (a) they are made to reputable and financially responsible brokers and dealers (b) they are terminable by US&F at will, and (c) collateral is received as stated below.
3. MHT shall receive as collateral for such loans cash or United States Government securities in an amount or value equal to at least 102% of the value of the securities loaned.

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4. MHT shall require additional collateral in the event that the market value of the loaned securities shall become greater than the value of the collateral so as to bring the collateral up to at least 102% of the value of the loaned securities.

5. MHT will lend the cash collateral to Manufacturers Hanover Corporation (parent of MHT) under a master note program or invest such cash collateral in other legally permissible prime short-term money market instruments.

6. When MHT receives U.S. Government securities as collateral for a loan the borrower will deliver to MHT on termination of the loan a cash premium based on the value of the loaned securities and the term of the loan, which premium (less compensation to MHT) will be credited to US&F's Custodian account.

7. US&F will have the right on one banking day's notice to require the transfer to US&F's Custodian account of the cash collateral which has been invested in the master note program or money market instruments.

8. MHT's compensation for services under the Agreement shall be based upon rates which shall be determined by MHT and US&F from time to time. Such compensation shall be based on a percentage of the collateral for the term of the loan. A percentage of the collateral may also be paid to the borrower.

9. MHT will notify US&F of every activity in connection with the lending of US&F's securities on the day it occurs.

10. Each dividend on the loaned securities shall be deposited in US&F's Custodian account on the payable date.

11. US&F will not retain voting rights of the loaned securities as is the usual practice with security loans.

12. Upon termination of a loan MHT will be obligated to return to US&F's Custody account the loaned securities or equivalent securities even though the borrower for any reason fails to deliver such securities to MHT.

As supplementary information we enclose a copy of the Agreement.

The Board of Directors of US&F has authorized its officers to execute the Agreement provided that no more than ten per cent in value of US&F's portfolio shall be on loan at any one time and that such officers shall monitor the loans on a daily basis, and subject to clearing it with the staff of the Commission by obtaining a "no action letter" or in some other satisfactory way.

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US&F desires to enter into the Agreement in order to obtain additional income and because it believes that the Agreement provides adequate safeguards for the protection of US&F's portfolio securities and cash. Such belief is based on MHT's obligation to make loans only to reputable and financial borrowers, MHT's obligation on termination of loans to return the loaned securities or equivalent securities to US&F, MHT's obligation to advise US&F of all activity under the Agreement on the day such activity occurs, the fact that US&F can terminate any loan at will, and the financial strength and reputation of MHT.

It seems to us that the procedures contemplated by the proposed Securities Lending Agreement might possibly raise a question in regard to the interpretation of Rule 17f-2 under the 1940 Act. We would, therefore, appreciate your advice as to whether the staff would recommend that the Commission take any enforcement action if US&F enters into the Agreement and makes loans of its portfolio securities pursuant thereto.

Very truly yours,


President

Enclosure

PUBLIC

October 27, 1982

RESPONSE OF THE OFFICE OF CHIEF COUNSEL
DIVISION OF INVESTMENT MANAGEMENT

Our Ref. No. 81-721-CC
United States & Foreign
Securities Corporation
File No. 811-283

On August 16, 1982, Richard Lyons, secretary of the United States and Foreign Securities Corporation ("US&F"), represented in a telephone conversation with Elizabeth Tsai of this office that under the proposed securities lending agreement ("agreement") between US&F and Manufacturers Hanover Trust Company ("MHT") (1) the collateral for Government securities loaned by MHT to borrowers would equal at least the market value of the Government securities and the accrued interest thereon; (2) upon termination of a loan of Government securities, MHT would be obligated to return to US&F's custodian account the loaned securities or equivalent securities (with as much accrued interest as those loaned) irrespective of any default of the borrower; and (3) MHT would be obligated to deposit in US&F's custodian account, on their due date, dividends and interests on the loaned securities irrespective of any default of the borrower. Based on these representations and the representations in your foregoing letter, we would not recommend that the Commission take any enforcement action against US&F under section 17(f) of the Investment Company Act of 1940 if US&F enters into the agreement and make loans of its portfolio securities pursuant thereto so long as the board of directors of US&F, in the exercise of its business judgment, approves and exercises continuous responsibility with respect to the continuity of the agreement which, among other things, authorizes and directs MHT, as US&F's agent, to lend cash, which MHT receives as collateral for loans of US&F's securities, to Manufacturers Hanover Corporation (parent of MHT) under a master note program.



Stanley B. Judd
Deputy Chief Counsel

SECURITIES LENDING AMENDMENT TO CUSTODIAN AGREEMENT

Gentlemen:

With reference to the Custodian Agreement between you and the undersigned (the "Custodian Agreement"), you have indicated that you wish us to act as your agent (the "Agent") as described below in connection with loans (the "Loans") of securities held in your custodian account (the "Custodian Account") to brokerage firms and/or government securities dealers (individually, the "Borrower", collectively the "Borrowers") which may advise us that they wish to borrow certain securities from our custodial customers.

In order to amend the Custodian Agreement to provide, among other things, for our acting as your Agent as aforesaid, you and we hereby agree under this amendment to the Custodian Agreement (the "Amendment") as follows:

1. You shall make available to us as you may from time to time determine, certain securities held in the Custodian Account which you have no present intention of selling (the "Available Securities"). You shall notify us of the Available Securities by submitting to us from time to time a list of the Available Securities which shall remain in effect until the next list is submitted or written notice to the contrary is received. Each list shall be signed by two persons,

one of whom must be an officer of your corporation and the other an officer or an assistant officer of your corporation. You agree to promptly notify us in the event you wish to withdraw certain securities from the list of Available Securities.

2. In each case in which you have furnished us with a list of Available Securities you instruct us, as your Agent, in connection with the lending of the Available Securities to (a) negotiate Loan(s) of such securities with the Borrower pursuant to certain loan agreements on such terms and conditions as we may, in our sole discretion, determine, ("Securities Lending Agreements"); provided, however, that any Loan(s) under this paragraph (2) made by us as your Agent shall be made to reputable and financially responsible brokers and dealers registered under Section 15 of the Securities Exchange Act of 1934, as amended, or Government Securities Dealers Reporting to the Domestic Reports Division of the Federal Reserve Bank of New York; (b) from time to time deliver to the Borrower certain of the Available Securities (the "Loaned Securities"); and (c) receive from the Borrower against delivery of the Loaned Securities, as collateral security for the obligation of the Borrower to return the Loaned Securities or the equivalent number of securities of the same issuer and of the same class as the Loaned Securities

(hereinafter referred to as "Equivalent Securities"), at our option (i) a certified or bank cashier's check in an amount equal to at least 102% of the then Market Value, as hereinafter defined below, of the Loaned Securities as of the close of trading on the previous business day, or (ii) cash in an amount equal to at least 102% of the then Market Value of the Loaned Securities as of the close of trading on the previous business day, which, in the event the Borrower is a member in a central depository system of which we are also a member, shall be effected through such central depository system pursuant to the rules and regulations of such depository, ((i) and (ii) singly and jointly hereinafter sometimes referred to as "Cash Collateral") or (iii) marketable government securities issued by the United States Government, its agencies and instrumentalities acceptable to us ("Securities Collateral") in an amount equal to at least 102% of the Market Value of the Loaned Securities as of the close of trading on the previous business day, (the "Cash Collateral", and "Securities Collateral" sometimes hereinafter individually or collectively referred to as the "Collateral").

As used in this Amendment the term Market Value shall mean: (a) in the case of obligations issued or guaranteed as to interest and principal by the government of the United States or agencies or instrumentali-

ties thereof, the mean between the closing asked quotations from two recognized dealers thereof; (b) in the case of other securities: if the principal market for such securities is a national securities exchange, the last sale price on such exchange on the preceding trading day; if the principal market for such securities is over-the-counter, the mean between asked quotations from two recognized dealers thereof.

3. In the event that the Market Value of the Loaned Securities at the close of trading on any business day shall be greater than the Market Value of all of the Collateral then held by us we will by notice to the Borrowers, require such Borrowers to deposit with us additional collateral, which together with the Collateral then held by us as your Agent shall equal at least 102% of the Market Value of the Loaned Securities at the close of business on that day.

Conversely, in the event that the Market Value of all the outstanding Loaned Securities at the close of trading on any business day shall decrease to such an amount that the Market Value of all Collateral then held by us as your Agent shall exceed 102% of Market Value of the Loaned Securities and any Borrower by notice to us demands that we remit to such Borrower the excess of Collateral over 102% of the Market Value of the Loaned Securities, you authorize us to release such excess collateral to such Borrower.

4. In regard to Loan(s) made against Securities Collateral the Borrowers in consideration thereof will deliver to us a loan premium (the "Premium") based on the value of the Loaned Securities. We, as your Agent, shall deposit the Premium to your account, less our compensation under paragraph (9) hereof.

In regard to Cash Collateral received from Borrowers, we as your Agent, as authorized and directed by you herein, will lend the Cash Collateral to Manufacturers Hanover Corporation ("MHC") under a master note program (the "Master Note Program") with MHC in such amounts as MHC may determine, and in that connection we have provided you with the most recent annual report of MHC. Because of the minimum investment requirements of the Master Note Program initial loans must be in amounts equal to or exceeding \$100,000 and additional loans must be in increments of at least \$1,000. The Master Note is not an obligation of a bank and is not FDIC insured. If MHC elects to discontinue borrowing the Cash Collateral, you direct us, as your Agent, to invest such Cash Collateral in such other legally permissible prime short term money market instruments as are available.

5. You shall have the right at any time upon one banking day's prior notice to require the transfer of all or any part of the Cash Collateral which has been

invested by us, as your Agent, in either the Master Note Program or in other prime short term money market instruments, to your account.

6. You understand and agree that we in no way represent that any of your Available Securities will in fact be loaned to Borrowers and that all requests for Loans from Borrowers may be allotted in our sole discretion among our Custodian Account customers in any manner deemed in our judgment to be fair and equitable.

7. You understand and agree that through our commercial lending, trust or other departments, we may be a creditor of the Borrowers for our own account. You further understand and agree that to the extent that our own portfolio contains government securities which may be utilized for a loan to a Borrower, we will lend our securities prior to making a Loan to such Borrower as your Agent hereunder. In connection with all of the foregoing, we agree to hold sufficient collateral for all of such transactions, both for our own account and as your Agent.

8. You understand and agree that any yield on investment in the Master Note Program ("Yield") or Premium, will vary depending upon market conditions. The Yields derived from the Master Note Program net our compensations and fees to the Borrower, if any, under paragraph 9 which are received by you shall be paid

monthly and automatically deposited by us to your account by the third business day of each month.

9. Our compensation for services rendered under this Amendment shall be based upon rates which shall be mutually determined from time to time. Our current compensation schedule is annexed hereto as Schedule A. It is understood that our compensation for services rendered under this Agreement shall be based upon a percentage of the Cash Collateral for the term of the Loan and that a percentage of the Cash Collateral may also be paid to the Borrower as a fee. Except as otherwise specifically provided for herein or otherwise mutually agreed upon in writing, notification of the yields or income due to the lending of your Available Securities through the Master Note Program will be made by mailing you a monthly statement. Such monthly statement shall be rendered by the third business day of the month. Notification of all activity due to the lending of your Available Securities will be made by mailing you an advice on the day such activity occurs.

10. It is understood between us that you are the beneficial owner of the Loaned Securities and that we shall deposit to your account on payable date, all distributions made by the Issuer in respect of the Loaned Securities, including without limitation, cash dividends, and bond interest of any kind. You under-

stand and agree, however, that you shall not retain voting rights of the Loaned Securities.

11. We agree that the Loan(s) made on your behalf shall be terminable by you at will. Nonetheless, you agree that you shall immediately notify us of your intention to terminate the Loan(s). Such notice shall be given no later than the trade date for the sale of the Loaned Securities in question and you understand and agree that we shall not be liable to you for fails occurring on settlement date if timely notification as aforesaid is not given by you.

12. Upon any termination of the Loan(s) we agree that we shall return to your custody account the Loaned Securities or Equivalent Securities, irrespective of any default on the part of the Borrower(s).

13. You represent, warrant and covenant that you have the legal right, power and authority to execute, deliver and perform this Agreement and carry out transactions contemplated hereby, including any consents required from persons having an interest in the Loaned Securities and that no contractual or other legal obligation exists which will prohibit you from so doing; that you have received all necessary corporate authorization and all necessary authorization from any regulatory bodies of the transactions contemplated hereby; and that the execution and delivery of this

Agreement will not violate any laws, regulations, charters, by-laws, judgments or other instruments, restrictions or provisions applicable to you.

14. In addition to any other provision contained herein with respect to our acting as Agent for you in connection with the lending of the Available Securities, you agree that we shall have no responsibilities or duties except those expressly set forth herein, and no implied covenants, functions, responsibilities, duties, obligations or liabilities shall be read into this Agreement or otherwise exist against us. You also agree to execute such documents as we may reasonably request to assist us as your Agent in carrying out our responsibility hereunder.

Except as modified by the provisions hereof, the Custodian Agreement shall remain in full force and effect.

In order to indicate your agreement with the foregoing please sign and date the enclosed copies of this letter whereupon the Custodian Agreement shall be deemed to have been amended as provided herein.

Very truly yours,

MANUFACTURERS HANOVER TRUST COMPANY

By: _____

Read and Adopted

UNITED STATES & FOREIGN SECURITIES CORPORATION

By: _____

Dated: _____