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Act ICA-440-RECEIVED
Section 17(f)
Rule
Public 10/8/84
Availability

MARCH 7 1984

March 7, 1984

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Investment Company Act of 1940/
Section 17(f); Rule 17f-2

Division of Investment Management
Securities and Exchange Commission
450 Fifth Street, N.W.
Washington, D.C. 20549

Re: The Adams Express Company
File No. 811-2624

Dear Sirs:

We are counsel to The Adams Express Company (the "Company"), a closed-end investment company registered under the Investment Company Act of 1940 (the "1940 Act"). The Bank of New York (the "Bank") acts as custodian of the Company's portfolio of securities in accordance with Rule 17f-2 promulgated under the 1940 Act. As a source of income, the Company has in the past loaned certain of the securities in its portfolio to qualified borrowers who collateralize such loans to the extent of no less than 102% of the full market value of the securities loaned. The Company's Board of Directors exercises close and

Division of Investment
Management

-2-

March 7, 1984

continuous control of the Company's securities loan program in accordance with its business judgment.

The Company now proposes to enter into an agreement with the Bank to appoint the Bank its agent to loan securities owned by the Company and held by the Bank in an account for the Company's benefit. The proposed securities loan agency agreement (the "Agreement") would maintain the Company's control over which securities are loaned, to whom they are loaned, and the value of collateral against which they are loaned. In addition, the Agreement would provide that the Bank may loan securities only to those prospective borrowers that meet the Bank's standards for creditworthiness, thus providing a second, independent evaluation of prospective borrowers that is not currently available to the Company.

The Agreement would provide that loans of securities could be made to any entity named on a list agreed to by the Company and the Bank from time to time, other than any entity whose name the Company has notified the Bank to delete from such list. In deleting names from such list, the Company will evaluate prospective borrowers in the same manner as it currently evaluates the qualifications and creditworthiness of prospective borrowers of its securities under the Company's existing securities loan

Division of Investment
Management

-3-

March 7, 1984

program. As is the case with the Company's existing securities loan program, loans made under the Agreement would be collateralized by bank letters of credit, securities and cash equal to not less than 102% of the market value of the loaned securities. The Bank may accept a letter of credit as collateral only if it was issued by a bank named on a list agreed to by the Company and the Bank from time to time. In evaluating the names on such list, the Company will evaluate each bank in the same manner as it currently evaluates banks when the Company accepts letters of credit as collateral for loans made under its existing securities loan program.

The Agreement would require the Bank to terminate any loan whenever it receives (a) oral or written instructions to terminate such loan from an officer of the Company designated by the Company as authorized (an "Authorized Person") to give such notice, (b) a written instruction from an Authorized Person that the name of the borrower is to be deleted from the list of potential borrowers or that the name of the bank which issued a letter of credit as collateral for the loan is to be deleted from the list of banks, or (c) notice of any default in connection with the loan. The Bank may at any time terminate any loan in its absolute discretion and, as stated above, the Bank must terminate any loan upon receiving notice from an Authorized

Division of Investment
Management

-4-

March 7, 1984

Person. Therefore the Company, acting through its Authorized Persons, retains full discretion and power to prevent any loan from being made or to terminate any loan once made.

As the Company's agent under the Agreement, the Bank would undertake to make collateralized loans of securities for the Company's account in conjunction with similar loans made for the accounts of other lenders of securities, mostly pension and profit-sharing funds. Although the Company would still exercise its business judgment in controlling the loans made by the Bank, the Company anticipates that it would obtain significant benefits under the Agreement from the Bank's economies of scale and access to markets. In addition, the Bank would perform certain administrative functions under the Agreement at lower cost to the Company than that available under the Company's existing securities loan program. As incentive to the Bank to make profitable loans for the Company and as full compensation under the Agreement, the Company would pay a fee to the Bank equal to a percentage of earnings on loans of securities made under the Agreement.

We note that the staff of the Commission has acknowledged that securities loan agency arrangements substantially similar to the Agreement meet the requirements of Section 17(f) of the 1940 Act and Rule 17f-2 thereunder.

Division of Investment
Management

-5-

March 7, 1984

In rendering no-action advice concerning the application of Rule 17f-2 in Twentieth Century Investors, Inc. (available November 26, 1982) and United States & Foreign Securities Corporation (available November 26, 1982), the staff of the Commission noted that the agent for the securities loan programs therein described would guarantee return to the lender of the loaned securities and payment when due of all interest, dividends and distributions in respect thereof, provisions not present in the Agreement. The Company has advised us that current market conditions and competition among those institutions lending securities have severely limited the yields earned by the Company under its existing securities loan program and the fees that might be earned by the Company under a securities loan agency agreement similar to the Agreement but with the borrower's performance guaranteed by the agent.

As with other investment decisions, the Company's management and Board of Directors have primary and ultimate responsibility for evaluating the relative risks and benefits of any proposed transaction. The Company assumes the burden of evaluating and selecting borrowers of securities and issuers of collateral in making loans under its existing securities loan program and would continue to do so for loans made under the Agreement. Although under the Agreement

Division of Investment
Management

-6-

March 7, 1984

the Bank would not guarantee the performance of the borrower, the Bank would evaluate the creditworthiness of prospective borrowers, exercise discretion in making particular loans and accepting collateral, and value daily the collateral to ensure that it equals no less than 102% of the market value of the loaned securities. These obligations of the Bank would add a second level of protection for the Company's stockholders that is not now present. We believe that to meet the requirements of Rule 17f-2 the Agreement need not require the Bank to guarantee the performance of a borrower.

We would appreciate your advice as to whether you concur in our views set forth herein. Because the Company is currently considering entering into the Agreement, we would appreciate your prompt response to our inquiry. If any further information is needed or if we can be helpful in any other way, please contact the undersigned or, in my absence, Christopher G. Karras of this office, by collect telephone (212) 541-5800.

Very truly yours,

Robert A. Howies

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July 12, 1984

SECURITIES AND EXCHANGE COMMISSION

RECEIVED

JUL 13 1984

OFFICE OF CHIEF COUNSEL
DIVISION OF INVESTMENT MANAGEMENT

Mr. Thomas S. Harman
Division of Investment Management
Securities and Exchange Commission
450 Fifth Street, N.W.
Washington, D.C. 20549

Re: The Adams Express Company
File Number: 811-2624

Dear Mr. Harman:

Reference is made to my letter of March 7, 1984 requesting your advice as to our views regarding the applicability of and requirements under Section 17(f) of the Investment Company Act of 1940 and Rule 17f-2 thereunder to certain securities loan transactions proposed to be entered into by The Adams Express Company (the "Company"). This letter is in response to the four questions you raised in our telephone conversation on July 11, 1984, as follows:

1. You have asked whether the collateral underlying securities loans will include accrued interest and dividends. I am advised that, under the proposed arrangements, the dividends payable on corporate stocks and accrued interest on corporate bonds will not be collateralized; however, interest accrued on government securities that are the subject of loans is collateralized. It may be noted in this connection that the proposed arrangements call for collateralization at 102% of the market value of any loan securities, with such collateral being marked to market; thus, it is likely that in substantially all securities loan transactions the margin of 2% of market value will be sufficient

Mr. Thomas S. Harman

-2-

July 12, 1984

to cover accrued quarterly dividends inasmuch as most corporate stocks do not carry annual dividends of 8% or more. Furthermore, it is normal practice that the dividends be paid, or credited through DTC, on the payment date or within one day following the payment date so that the Company would receive credit therefor within one day of payment.

As to U.S. government securities collateral, the accrued interest on such obligations is permitted under the proposed arrangements and is included as part of the collateral.

2. You have asked who receives the loan premium. The proposed agreement with The Bank of New York (the "Bank") will provide for the Company to pay to the Bank a loan fee in an amount equal to a percentage of the earnings on loaned securities and, for this purpose, earnings include the difference between any rebate paid to a borrower and the rate of return earned on cash collateral as well as any fees paid by borrowers on loans collateralized by letters of credit. The Bank will initially receive any such earnings or loan fees and will credit the Company's account for the amounts payable to the Company after retention of the Bank's fee. The current arrangements call for the Company to receive 60% of earnings on securities loans but such percentage is subject to adjustment upwards or downwards, depending upon experience under the proposed agreement and future negotiations with respect thereto.

3. You have asked what are the permissible investments of cash collateral and whether they include investments in securities of the Bank. The proposed agreement will provide for cash collateral to be invested in obligations issued or guaranteed as to interest and principal by the U.S. government or agencies or instrumentalities thereof, or commercial paper, certificates of deposit, bankers' acceptances, repurchase agreements with respect to the same, and/or bank time deposits issued or guaranteed as to interest and principal by an entity, except a broker/dealer, named on a list given to the Company by the Bank from time to time, other than an entity that the Company has notified the Bank to delete from such list. It is anticipated that the Bank of New York would be such an eligible entity, and the Company has determined that an investment of cash collateral in securities of the Bank will be limited to an aggregate principal amount of \$10,000,000 at any one time.

Mr. Thomas S. Harman

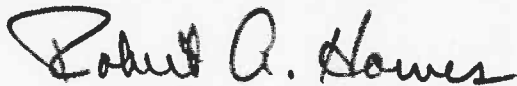
-3-

July 12, 1984

4. You have asked whether, if a letter of credit is involved, the Bank can be an issuer of such letter of credit. The proposed agreement precludes that the Bank of New York will be an issuer of any letters of credit used as collateral for loans of the Company's securities.

I trust the foregoing is responsive to your questions and if you need further clarification, I would appreciate your calling me.

Very truly yours,

A handwritten signature in cursive script that reads "Robert A. Howes". The signature is written in dark ink and is positioned above the printed name.

Robert A. Howes

cc: Mr. Simeon F. Wooten
The Adams Express Company

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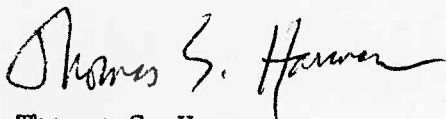
SEP 7 1984

RESPONSE OF THE OFFICE OF CHIEF COUNSEL
DIVISION OF INVESTMENT MANAGEMENT

Our Ref. No. 84-140-CC
The Adams Express Company
File No. 811-2624

We would not recommend that the Commission take any enforcement action pursuant to section 17(f) of the Investment Company Act of 1940 or rule 17f-2 thereunder if The Adams Express Company (the "Company") lends its portfolio securities as proposed. Our position is based on the understanding that the Company's board of directors will remain responsible for determining who may borrow the Company's securities and the propriety of any loan. Our position is also based upon the facts and representations in your letters of March 7 and July 12, 1984, and upon the representations made to Thomas S. Harman by Robert A. Howes on August 7, 1984, that:

- (1) the Bank of New York ("BNY") will value daily the collateral supporting the securities loaned to ensure that the collateral equals no less than 102% of the market value of the loaned securities;
- (2) the Company will retain full discretion and power to prevent any loan from being made or to terminate any loan once made;
- (3) the Company will receive all dividends, interest, and distributions on the securities it lends;
- (4) the valuation of any securities lent, for the purpose of determining the amount of the collateral to be deposited thereon, will include accrued interest;
- (5) any cash collateral invested with BNY will be limited to an aggregate principal amount of \$10,000,000 at any one time and BNY will pay interest on such cash collateral at a rate that is competitive with what it pays its other customers and with what other banks pay; and
- (6) any letter of credit accepted as collateral will be irrevocable and will not be issued by BNY.



Thomas S. Harman
Attorney