

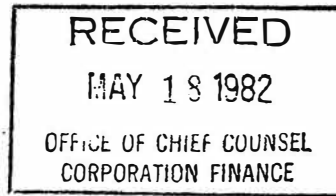
SAFECO

SAFECO CORPORATION
SAFECO PLAZA
SEATTLE, WASHINGTON 98185

ROLAND M. TRAFTON, CHAIRMAN

TELEPHONE (206) 545-5000

May 12, 1982



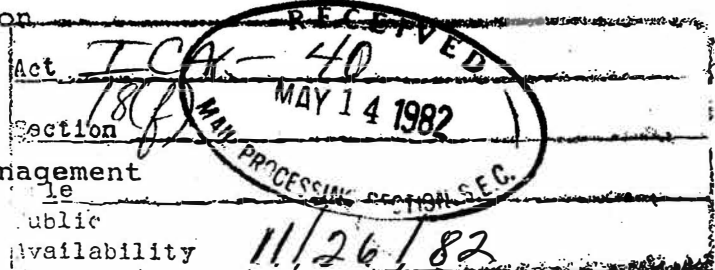
IC1940/\$18(f)

Securities and Exchange Commission
500 N. Capitol Street
Washington, DC 20549

Attn: Office of Chief Counsel
Division of Investment Management

Gentlemen:

Re: SAFECO Municipal Bond Fund, Inc.
No-Action Request §18(f) of the
Investment Company Act of 1940



SAFECO Municipal Bond Fund, Inc. ("Fund") requests that the staff of the Securities and Exchange Commission ("Commission") take a position that it would not recommend action to the Commission with regard to the Fund engaging in the purchase of "when-issued" bonds, establishing a segregated asset accounts, and accounting for the transactions all in the manner described below.

DESCRIPTION OF THE FUND

The Fund is a Washington corporation which registered as an open-end investment company under the Investment Company Act of 1940 ("Act") on August 10, 1981. Shares of the Fund are registered under the Securities Act of 1933 pursuant to a registration statement on Form N-1 which statement was declared effective on November 18, 1981. The investment objective of the Fund is to provide as high a level of current interest income exempt from federal income tax as is consistent with the relative stability of capital.

The Fund at page 7 of its prospectus states it may purchase when-issued bonds. A copy of the current prospectus is enclosed. When-issued bonds are securities whose terms and conditions, including price, are fixed by the issuer in advance of the date upon which settlement and delivery will occur. The settlement date is usually 30 to 45 days after the date upon which a commitment to purchase the bond is made.

The Fund limits commitments to purchase when-issued securities to an amount equal to no more than the value of 20% of its total assets. The Fund segregates a portion of its assets on the date that it commits to purchase when-issued bonds to cover such commitment.



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SAFECOM, INC
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For additional information with regard to the Fund see its registration statement, Registration No. 2-73597.

SECTION 18 OF THE ACT

Section 18(f) of the Act provides as here pertinent that it shall be unlawful for any registered open-end investment company to issue any class of senior security or to sell any senior security of which it is the issuer, except that such investment company may be permitted to borrow from a bank provided that asset coverage in a certain amount shall exist immediately after such borrowing. Section 18(g) of the Act defines "senior security" to mean as here pertinent "any bond, debenture, note or similar obligation or instrument constituting a security and evidencing indebtedness." Section 2(a)(36) of the Act defines "security" to mean as here pertinent "any note, stock, treasury stock, debenture, evidence of indebtedness . . . or, in general, any interest or instrument commonly known as a 'security.'"

STATEMENT OF POLICY BY THE COMMISSION

The Commission in Release No. IC-10666, available April 18, 1979, 17 CFR 271.10666, expressed its view as a statement of policy that commitments by an investment company to purchase when-issued securities (called firm commitment agreements by the Commission) constitute the issue of "evidence of indebtedness" by the investment company for purposes of Section 18 of the Act. The Commission stated that its views were

based not so much on the conclusion that . . . firm commitment agreements, considered in isolation, are inherently securities for all purposes, but more upon the proposition that trading practices involving the use by investment companies of such agreements for speculative purposes or to accomplish leveraging fall within the legislative purposes of Section 18.

The Commission, while viewing the purchase of when-issued securities as constituting the issuance of a senior security within the meaning of Section 18(f) of the Act, stated that the danger of speculation could be countered by an investment company "covering" the senior security by establishing and maintaining a "segregated account." The Commission stated:

A segregated account freezes certain assets of the investment company and renders such assets unavailable for sale or other disposition. If an investment company continues to engage in the described securities trading practices

and properly segregates assets, the segregated amount will function as a practical limit on the amount of leverage which the investment company may undertake and on the potential increase in the speculative character of its outstanding common stock. Additionally, such accounts will assure the availability of adequate funds to meet the obligations arising from such activities.

The Commission believes that only liquid assets, such as cash, U. S. government securities or other appropriate high grade debt obligations, should be placed in such segregated accounts. Segregated assets may be replaced by other appropriate non-segregated assets of equal value. The value of U. S. government securities or other assets in an account should be marked to the market daily, and additional assets should be placed in the segregated account whenever the total value of the account falls below that amount described in the following guidelines. With respect to the segregation of assets, the Commission recommends:

- . . .
- (2) With regard to each firm commitment agreement the investment company should maintain in a segregated account (not with a broker) beginning on the date the investment company enters into the firm commitment agreement, liquid assets equal in value to the purchase price due on the settlement date under the firm commitment agreement.

DESCRIPTION OF THE TRANSACTIONS

From time to time the Fund will make the investment decision to replace a currently held portfolio security with another for, basically, one of four reasons:

1. To replace a bond which is selling at about its call price with a bond of like quality but selling for less than its call price in order to avoid having a portfolio security called by its issuer.
2. To increase the quality of the portfolio by replacing a bond of lower quality with one of higher quality at comparable yield and maturity.
3. To increase the yield of the portfolio by replacing a bond of lower yield with a bond of comparable quality and maturity but with a higher yield.

4. To increase liquidity by replacing a bond for which there is a "thin" market with one of comparable quality and a comparable price for which there is a better market.

It is possible to arrange for delayed delivery of a portfolio security which is sold.

The Fund proposes to commit to purchase a when-issued security and to commit to sell on a delayed basis a portfolio security, the physical possession of which will be maintained by the Fund's custodian until the settlement date. The Fund will arrange for the settlement date of both transactions to be the same day. The amount the Fund will receive on the settlement date for the sale of its portfolio security will be known at the time the trade is made. That amount will be segregated in an account to cover the commitment to purchase the when-issued security.

As the Fund's prospectus indicates, the account will be maintained and accounted for in the manner recommended by the Commission in Release 10666. The when-issued security will be marked to the market on a daily basis and its value compared to the amount to be received for the sale of the portfolio security. If the amount to be received is or becomes less than the value of the when-issued security, then additional assets will be segregated.

DISCUSSION

The Fund believes that this method of trading and accounting fully addresses the concerns expressed by the Commission in Release 10666. By covering the amount of the when-issued security with a known receivable the Fund restricts its ability to "leverage" its portfolio. This trading practice should be distinguished from a single commitment to purchase a when-issued security. In the latter case the Commission has properly questioned whether an investment company may commit to purchase a when-issued security. Without segregating assets such practice might place the investment company in the position of having to sell portfolio securities it would otherwise have retained in order to settle the when-issued trade. The Fund's practice as described above differs markedly in that the Fund will segregate a portfolio security it has determined to sell when the commitment to purchase a when-issued security is made. In addition the Fund restricts its ability to purchase when-issued securities by committing to limit such purchases to no more than 20% of the value of the Fund's total assets at any one time.

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As outlined below, the purchase of a when-issued security and the sale of a portfolio security which have a common settlement date assure there will be funds available to pay for the when-issued security. (As previously noted, to the extent the purchase price of the when-issued security exceeds the sale price of the portfolio security additional assets will be segregated.) First, the Fund in such transactions segregates an asset it has determined to sell rather than one it may wish to hold. Second, at the time the commitment to purchase the when-issued security is made the exact value of the sold portfolio security is known. Third, since the Fund through its custodian retains physical possession of its portfolio security until settlement, a timely settlement of the entire transaction is assured. Fourth, while it is disingenuous to argue that system must be established to protect against a defaulting purchaser of the Fund's portfolio securities since that risk is extremely remote and common to all security transactions, often in fact the same broker will be involved as purchaser of the portfolio security and seller of the when-issued security, which circumstance will provide the Fund with additional protection against the risk of a defaulting purchaser.

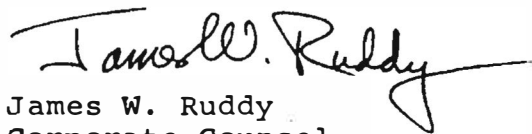
The Fund believes that the transactions described above will enable it to provide its shareholders with a better yield and fully meet the concerns of the Commission as expressed in Release 10666. For the reasons stated above the Fund believes that a "no-action" position should be taken by the staff.

The Fund would appreciate the staff's early consideration of this matter.

Seven additional copies of this letter and the Fund's prospectus are included.

Please indicate receipt of this request by signing and dating the enclosed self-address, stamped card and mailing the same to the undersigned.

Very truly yours,



James W. Ruddy
Corporate Counsel
cc

SAFECO

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SAFECO PLAZA
SEATTLE, WASHINGTON 98185

TELEPHONE (206) 545-5000

ROLAND M. TRAFTON, CHAIRMAN

September 15, 1982



Securities and Exchange Commission
Judiciary Plaza
450 Fifth Street N.W.
Washington, DC 20549

Attn: Division of Investment Management
Elizabeth Tsai

Dear Ms. Tsai:

The following is a further explanation in support of SAFECO Municipal Bond Fund, Inc.'s (Fund) request that the staff take a position that it would not recommend action to the Commission with regard to the Fund engaging in the purchase of "when-issued" bonds, establishing a segregated asset account, and accounting for the transactions all in the manner described in my letter of May 12, 1982, and supplemented by this letter.

First, let me confirm a number of matters which have been the subject of our telephone conversations over the past few weeks. The purpose of the Fund engaging in the sale of portfolio securities and the purchase of when-issued bonds so that both transactions have the same settlement date is to benefit the Fund's shareholders by keeping the Fund's portfolio as fully invested as possible. As outlined in my letter of May 12, sales of portfolio securities are made to increase the quality of the portfolio.

After an initial segregation of portfolio securities and the receivable represented by such sale, to the extent that the value of the when-issued bonds purchased becomes greater than the segregated account the Fund will add cash or U. S. Government securities to the segregated account.

The Fund believes that in many instances the same broker will be the seller of the when-issued bonds and the purchaser of the portfolio securities of the Fund. As we have discussed,



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since the broker is a buyer and seller of securities which are to settle on the same day, it is unlikely the broker would default on the purchase side of the transaction. Were the broker to default, the Fund might refuse to go through with the purchase of when-issued bonds. While, as we stressed, we believe that this is extremely unlikely, because two transactions are involved some additional measure of safety exists.

The Fund will make several entries in its books of account when it agrees to sell a portfolio security and purchase a when-issued bond both of which are to settle on the same day. For purposes of this explanation assume that the Fund enters into an agreement to purchase when-issued bonds for \$300,000 and which purchase will settle in 20 business days. Also assume that the Fund concurrently enters into an agreement to sell portfolio securities with a value of \$295,000 which transaction will settle on a delayed delivery basis in 20 business days.

The above transactions would be recorded in the Fund's general ledger as follows:

1. The purchase of when-issued bonds --
 - a. A "When-Issued -- Cost" account is debited \$300,000.
 - b. A "When-Issued -- Accounts Payable" account is credited \$300,000.
2. The sale of portfolio securities --
 - a. An "Accounts Receivable -- Sales Account" is debited \$295,000.
 - b. A "Portfolio Cost" account is credited \$295,000.
3. Segregation of assets --
 - a. A "When-Issued -- Segregated Assets" account is debited \$300,000.
 - b. A "Restricted Cash" account is credited \$5,000.
 - c. A "Restricted Receivables" account is credited \$295,000.

From the above, you can see that the transactions are fully reflected on the Fund's general ledger at the time into which they are entered. Of course, the importance of the segregation of assets is not the entries but how that information is used by the investment adviser to the Fund.

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The When-Issued -- Segregated Assets account serves as the control account for segregated assets. The Restricted Cash and Restricted Receivables accounts will act as "contra" accounts to cash and receivables, respectively. These accounts represent the reduction of the amount of cash which is available to the investment adviser for investment.

Each morning the Fund's portfolio manager receives a cash forecast which projects funds available for investment during the next 5 business days. Among other items, funds available for investment include cash and receivables. The cash amount available for investment is reduced by the amount of the Restricted Cash account. Likewise, the amount in the Restricted Receivables account reduces the total receivables in the cash forecast.

In the normal course of business receivables, which are the result of portfolio sales, become available for investment 5 business days from the trade date. These receivables are included in the cash forecast as available for immediate investment because any purchase resulting from the investment of funds realized from such receivables would settle after the date the receivables are realized. The restriction of receivables prevents their inclusion of the amount which is available for investment. In other words, in the example given, \$300,000 would not be included as funds available for investment until such time as the sale of portfolio securities has been settled. At that time, there would not be \$300,000 for additional investment since these funds will have been used to settle the purchase of the when-issued securities.

Were the Fund not to segregate its assets as described above, it would have to restrict cash or other liquid securities in the amount of \$300,000. The restricted cash would, of course, earn no interest for 20 business days to the detriment of the Fund's shareholders. In contrast, in the example given above only \$5,000 is restricted cash which earns no interest. The remaining \$295,000 in restricted receivables continues to earn interest until the settlement date.

We believe that these procedures for segregating assets restrict the Fund's ability "to leverage" and fully address the central concern expressed by the Commission in Release 10666.

Very truly yours,


James W. Ruddy
Corporate Counsel
cc

27 OCT 1982

PUBLIC

RESPONSE OF THE OFFICE OF CHIEF COUNSEL
DIVISION OF INVESTMENT MANAGEMENT

Our Ref. No. 82-191-CC
SAFECO Municipal Bond
Fund, Inc.
File No. 811-3239

Based on the representations in your letters of May 12, and September 15, 1982, and your telephone conversation with Elizabeth Tsai of this office on October 8, 1982, we understand the following. SAFECO Municipal Bond Fund, Inc. ("Fund"), a registered open-end management investment company, proposes to commit to buy bonds whose price and yield are fixed by the issuer before the settlement date (occurring usually 30 to 45 days after the date of the commitment) ("when-issued bonds") and, to cover such commitment, the Fund will commit to sell portfolio securities at a stated price (not less than the purchase price of the when-issued bonds) on a fixed future date (coinciding with the settlement date for the when-issued bonds). When the Fund enters into any commitment to buy when-issued bonds, it will simultaneously enter into an offsetting commitment to sell specified portfolio securities through the same broker. The Fund's obligation to pay for the when-issued bonds will be contingent on the receipt of payment for the securities that it is committing to sell. When the value of the when-issued bonds (which will be marked to the market daily) exceeds the sale price of such portfolio securities, the Fund will place in a segregated account cash in the amount of, or U.S. Government securities having a market value equal to, the difference. The Fund will limit its commitments to buy when-issued bonds to 20 percent of the value of its total assets at any one time and will commit to buy them only with the intent of actually acquiring the bonds when they are issued. In these circumstances, we would not recommend that the Commission take any enforcement action under section 18(f) of the Investment Company Act of 1940 if the Fund proceeds in the manner described above.



Stanley B. Judd
Deputy Chief Counsel