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1940 IC Act
Sects. 17(f) and 18(f) Direct Dial Number

June 3, 1985

Securities and Exchange Commission
450 5th Street, N.W.
Judiciary Plaza
Washington, DC 20549

File No. ICA-40
Section 18(f)
Date 10/21/85
Public Availability

Gentlemen:

State Street Income Fund and State Street Balanced Fund (the "Funds") are each diversified open-end management type investment companies established as Massachusetts business trusts under the laws of Massachusetts by their respective Agreement and Declaration of Trust, each dated January 30, 1985. The Funds have each filed registration statements under the Securities Act of 1933 and Investment Company Act of 1940, three copies of which are enclosed.

The Funds each intend to file with the Commodity Futures Trading Commission ("CFTC") a notice of eligibility for an exemption from any requirement that the Fund register as a "commodity pool operator" as defined in Section 2(a)(1)(A) of the Commodities Exchange Act ("CEA").

Each Fund is permitted to hedge its portfolio against price changes through the use of futures contracts and related options. Each Fund is advised by State Street Research & Management Company (the "Advisor"), which is an indirect wholly owned subsidiary of Metropolitan Life Insurance company of New York. MetLife Securities, Inc., also a subsidiary of Metropolitan Life, is the distributor of each Fund's shares. Futures contracts and related options, and the commodities exchanges on which they are traded, are subject to regulation by the CFTC under the CEA.

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No consideration is paid or received by a Fund upon the purchase or sale of a futures contract or upon the sale of a related put or call option. The Fund will be required to deposit an amount known as initial margin for the account and in the name of the broker in a segregated account with State Street Bank and Trust Company, its Custodian, or with the broker of the transaction. The amount can be deposited in cash or United States Treasury bills equal to 1-1/2% of the futures contract under present requirements or upon the sale of a related put or call option, the amount of the option premium plus a specific dollar amount for each written put or call option. The nature of initial margin in futures transactions and in written options on futures is different from that of margin in security transactions in that futures contracts and written options margin does not involve the borrowing of funds by the customer to finance the transactions. The initial margin is in the nature of a performance bond or good faith deposit on the contract which is returned to the Fund upon termination of the futures contract, assuming all contractual obligations have been satisfied, or upon the closing of written put or call options. The amount of initial margin on deposit may be retained by the broker if, among other things, the Fund defaults in making payment upon termination of the futures contract or of the maintenance margin discussed below. Subsequent payment, called maintenance margin, to and from the broker, a process known "as marking to market," will be made on a daily basis as the price of the futures contract fluctuates, thereby making the long and short positions in the futures contract more or less valuable or as the price of the written put or call option fluctuates. Maintenance margin does not represent a borrowing of or loan by the Fund but is instead the daily settlement between the Fund and the broker of the amount one would owe the other if on such day the contract expired or if the written option were exercised.

Each Fund undertakes that, on the occasions that it has the right to receive maintenance margin payments from the broker, it will promptly demand payment by the broker of such amounts. Any such funds received by the Fund will be held by the Fund's Custodian. At any time prior to expiration of the futures contract or the written option, the Fund may elect to close the position by taking an opposite position, which will terminate the Fund's position in the futures contract or the written option. A final determination of variation margin will then be made, and if additional cash is required to be paid by or released to the Fund, the Fund will realize a loss or a gain.

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Each Fund also intends to purchase call and put options on futures which are traded on a United States exchange or board of trade and may sell such options to terminate an existing position.

The Funds' futures and related options contracts are governed by the terms and conditions of such contracts determined by the exchanges on which such contracts are traded, and its futures and related option positions are evidenced by confirmations of transactions received from the executing broker. Each Fund undertakes that its Custodian will have copies of such exchange terms and conditions and that its Custodian will have possession of such confirmations.

Each Fund represents that its purchase and sales of futures contracts and options on futures contracts will be solely for purposes of hedging. Neither Fund will engage in transactions in futures contracts or related options for speculation but only as a hedge against changes resulting from market conditions in the values of securities held in the Fund's portfolio or which it intends to purchase. Neither Fund may purchase futures contracts or purchase related options if immediately thereafter, more than one-third of the Fund's net assets would be represented by long futures contracts or call options. In addition, neither Fund may purchase or sell futures contracts or purchase or sell options if, immediately thereafter, the sum of the amount of margin deposits on the Fund's existing futures and options positions and premiums paid for related options would exceed 5% of the market value of the Fund's total assets. It is further required that in connection with the purchase or a future contract or the sale of a related call option, that the Fund identify to the custodian money market instruments equal to the market value of such futures contract or call option. The collateralization of financial futures contracts and related options makes the use of such futures and related options consistent with reverse repurchase agreements, standby commitments and other similar arrangements discussed in Investment Company Act Release No. 10666 (April 18, 1979).

If, as assumed in previous interpretive releases, the Commission has jurisdiction over leveraged investments of registered investment companies generally pursuant to Section 18 of the Investment Company Act of 1940 (the "Act"), a futures contract or the sale of a related option may, because of a Fund's contingent obligation to pay variation margin during the

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life of the contract, constitute a "senior security" (as that term is defined in Section 18(g) of the Act), for the purpose of Section 18(f). Since such an obligation would not run to a bank, the purchase or sale of a futures contract or the sale of a related option thereon by a Fund may constitute the issuance of a senior security by the Fund in violation of Section 18(f)(1) of the Act. In addition, to the extent that variation margin payments to a Fund in connection with a futures contract or the sale of a related option are held overnight by a broker, a Fund may be unable to comply with the provisions of Section 17(f) of the Act.

Each Fund requests your advice to the effect that the Division of Investment Management would not recommend enforcement action to the Securities and Exchange Commission under the provisions of Section 18(f) and 17(f) of the Act with respect to the respective Fund's proposed transactions in futures contracts and related options.

In support of this requested "no-action" letter, each Fund believes that futures contracts and related options are not "securities" for the purpose of the Act, and, thus, such contracts and options cannot constitute "senior securities" under Section 18(g) or be subject to regulation under 18(f)(1). Furthermore, even if such contracts and options are considered to be senior securities under the Act, the proposed use by and limitations on each Fund with respect to such contracts and options do not give rise to the speculative abuses which Section 18(f)(1) was designed to prevent. The limitations on each Fund's use of such contracts and options and the requirement, in connection with the purchase of a futures contract or the sale of a related call option, that the Fund identify to the Custodian money market instruments equal to the market value of such futures contract or call option in connection with such options are, in fact, consistent with the procedures set forth in Release 10666 to minimize the speculative aspects of the leveraged investments which were the subject of Release 10666.

As stated above, neither Fund believes that futures contracts and related options are "securities" or that the legislative intent of the term "similar investments" reaches such contracts and options. In addition, the Fund believes a separate custodian agreement among the Fund, its Custodian and the futures commission merchant, pursuant to which the Fund's

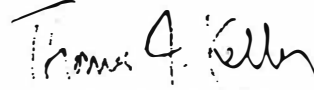
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margin deposits are held by the Custodian subject to disposition by the futures commission merchant in accordance with the CFTC Rules and the rules of the applicable commodities exchange, will be consistent with the provisions of Section 17(f).

Each Fund requests your advice to the effect that the Division of Investment Management would not recommend enforcement action to the Securities and Exchange Commission under the provisions of Section 18(f)(1) and 17(f) of the Act with respect to each Fund's proposed transactions in futures contracts and related options.

Very truly yours,



Thomas J. Kelly

TJK/nlm:5735S
Enclosures



SEP 20 1985

RESPONSE OF THE OFFICE OF CHIEF COUNSEL
DIVISION OF INVESTMENT MANAGEMENT

Our Ref. No. 85-430-CC
State Street Income Fund
State Street Balanced Fund
File Nos. 811-4219; 811-4220

On several occasions, we have stated that we would not recommend any enforcement action to the Commission under Section 18 of the Investment Company Act of 1940 ("Act") if a registered investment company ("fund") enters into futures and options transactions as described below:

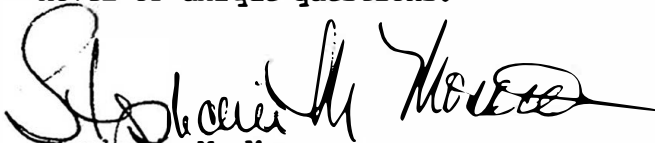
1. sells futures contracts to offset expected declines in the value of its portfolio securities, provided the value of such futures contracts does not exceed the total market value of those securities; 1/
2. writes covered call options on futures contracts, indexes of securities, or other securities; 2/
3. purchases futures contracts, provided it creates a segregated account consisting of cash or cash equivalents in an amount equal to the total market value of any such futures contract, less the amount of initial margin for the contract; 3/ and
4. writes covered put options on futures contracts, indexes of securities, or other securities. 4/

E.g., GMO Core Trust (pub. avail. Aug. 19, 1985), Koenig Tax-Advantaged Liquidity Fund, Inc. (pub. avail. March 27, 1985), Z-Seven Fund, Inc. (pub. avail. May 21, 1984), Pension Hedge Fund, Inc. (pub. avail. Jan. 20, 1984), and SteinRoe Bond Fund, Inc. (pub. avail. Jan. 17, 1984)[hereinafter cited as Supporting Letters].

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- 1/ We have not objected if the total market value of futures contracts a fund sells is more than the total market value of the fund's portfolio securities solely because of differences in the volatility factor of the portfolio securities vis-a-vis the futures contracts. Z-Seven Fund, Inc. (pub. avail. May 21, 1984).
 - 2/ A fund can cover a call option on a futures contract it writes by owning a long futures position. A fund can cover a call option on a stock index it writes by, for example, having a portfolio of securities which correlates with the stock index. Id. See Investment Company Act Rel. No. 7221 (June 9, 1972) ("Release 7221") for alternative methods by which a fund can cover call options.
 - 3/ In this regard, we no longer take the position that a fund may purchase a futures contract only for "hedging" purposes. Compare SteinRoe Bond Fund, Inc. (pub. avail. Jan. 17, 1984) (which permitted a fund to purchase futures contracts only for hedging purposes) with GMO Core Trust (pub. avail. Aug. 19, 1985) (which permitted a fund to purchase futures contracts without the hedging requirement). See Investment Company Act Rel. No. 10666 (April 18, 1979) for a discussion of segregated accounts.
 - 4/ A fund can cover a put option on a futures contract it writes by owning a short futures position. A fund may cover a put option on a stock index it writes only by complying with one of the alternatives stated in Release 7221. See Koenig Tax-Advantaged Liquidity Fund, Inc. (pub. avail. March 27, 1985).

In addition, we have stated that we would not recommend any enforcement action to the Commission under Section 17(f) of the Act if the initial margin for a futures contract is maintained by the fund's custodian in an account in the name of the fund's futures commission merchant ("FCM"), provided that the FCM is permitted access to the account only upon the fund's default on the contract. We also have stated that we would not recommend any enforcement action to the Commission if the fund's FCM temporarily retains excess variation margin gains overnight or over a weekend. E.g., Supporting Letters.

Having stated our interpretation of these provisions in this context, we will no longer respond to no-action requests in this area unless they raise novel or unique questions.



Stephanie M. Monaco
Attorney