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March 15, 2011

By E-Mail

Douglas J. Scheidt, Esq.,
Associate Director and Chief Counsel,
Division of Investment Management,
U.S. Securities and Exchange Commission,
100 F Street, N.E.,
Washington, DC 20549.

Re: LCH Clearnet Limited/Request for No-Action Relief

Dear Mr. Scheidt:

We are writing on behalf of our client, LCH.Clearnet Limited ("*LCH*") to request assurance that the staff of the Division of Investment Management (the "*Staff*") of the Securities and Exchange Commission (the "*SEC*") will not recommend enforcement action under Section 17(f) of the Investment Company Act of 1940, as amended (the "*1940 Act*") if a registered management investment company (a "*Fund*") places and maintains Fund assets in the custody of LCH or one of its clearing members, in accordance with SEC Rule 17f-6, for purposes of posting margin pursuant to a service whereby LCH acts as a clearinghouse in respect of interest rate swaps (referred to as "*swaps*" or "*IRSs*") entered into between a Fund and a third-party counterparty. Rule 17f-6, by its terms, applies only to margin deposited by Funds in connection with futures trading. We are therefore requesting that LCH and its clearing members be permitted to operate under Rule 17f-6 with respect to margin deposited by Funds in connection with cleared swaps.

The relief requested herein is essential to enable Funds to participate in the clearing service offered by LCH and, without this relief, LCH believes that Funds will not participate. The clearing service offered by LCH will allow its participants to reduce the credit risks arising from IRS transactions that are a necessary part of their risk management and overall portfolio management operations. The service therefore advances the objectives identified by the SEC and other regulators, as well as Congress,

in connection with the centralized clearing of over-the-counter ("*OTC*") derivatives. Indeed, under the recently enacted Wall Street Reform and Consumer Protection Act ("*Dodd-Frank*" or the "*Dodd-Frank Act*"), market participants will generally be required to clear IRSs and other categories of swaps through regulated clearing houses. If the Funds are unable to participate in this service, they may be unable to satisfy their obligations under the Dodd-Frank Act and will be exposed to greater risk in connection with their necessary risk management and overall portfolio management, and their operations. As a result, the Funds will be significantly disadvantaged relative to other categories of investors.

We note that the Staff has recently issued a no-action letter to the Chicago Mercantile Exchange ("*CME*") in connection with the CME's clearing of OTC credit default swaps. CME Group, Inc., SEC Staff No-Action Letter (July 16, 2010) and CME Group, Inc., SEC Staff No-Action Letter (Dec. 3, 2010) (collectively, the "*CME Letter*"). We believe that the CME Letter, the substantial similarity between the clearing models to be used by the CME and LCH and the provisions of the Dodd-Frank Act requiring that most OTC derivatives be cleared through a DCO all support the granting of the relief requested hereunder.

Background

LCH is a private company, limited by shares, that is registered and operates in the United Kingdom. It is a leading independent clearing house, serving major international exchanges and platforms, as well as a range of OTC markets, and provides clearing services to U.S. and non-U.S. market participants. It clears a broad range of asset classes including: securities, exchange traded derivatives, energy, freight, interbank interest rate swaps and euro and sterling denominated bonds and repos; and it works closely with market participants and exchanges to identify and develop clearing services for new asset classes. LCH is registered with the Commodity Futures Trading Commission ("*CFTC*") as a derivatives clearing organization ("*DCO*") under Section 5b of the Commodity Exchange Act, as amended (the "*CEA*").

In 1999, LCH established its SwapClear service, pursuant to which LCH acts as a central counterparty in respect of certain "plain vanilla" interest rate swaps between two SwapClear Clearing Members ("*SCMs*"). SCMs are highly regulated financial institutions, required to meet certain criteria under LCH's rules, including but not limited to: (a) minimum levels of net capital, (b) appropriate banking arrangements, (c) staff with sufficient experience and knowledge of interest rate swaps, (d) appropriate systems to cope with clearing activities and (e) ratings requirements. In the United States, SCMs generally include U.S. insured depository institutions that are either

national banks or New York state chartered banks, and entities that are eligible to be debtors under the U.S. Bankruptcy Code.[1]

In order to clear a transaction between two SCMs under the existing SwapClear service, the original transaction between the two SCMs is terminated and replaced by two separate identical, back-to-back bilateral replacement transactions with LCH and governed by the LCH Rulebook (the "*LCH Rules*"). The new cleared transactions are on the same economic terms as the original trade, and standard LCH terms between LCH and each participant. Each SCM's economic position is unchanged, but each now faces LCH as its counterparty instead of the other SCM and is exposed to LCH's credit risk. LCH is similarly exposed to the credit risk of both SCMs, but has no other economic exposure because of the offsetting transactions.

Pursuant to LCH Rules, each SCM is required to post initial margin ("*Initial Margin*") on each transaction cleared through SwapClear. The Initial Margin is intended to protect LCH from changes in the mark-to-market value of transactions between the SCM and LCH. In addition, both the SCM and LCH are required to post variation margin ("*Variation Margin*") to each other on a daily basis in respect of each cleared transaction to reflect changes in the present value of the transaction. Variation Margin is intended to protect LCH from the changes in the value of transactions between the SCM and LCH prior to an SCM default.

Facts

In December 2009, LCH began clearing IRS transactions between an SCM and a client of the SCM (each, a "*Client*"). The structure of the Client clearing service is substantially similar to the structure for proprietary clearing described above, except that each SCM enters into an offsetting transaction with its Client and must collect the margin required in connection with each transaction from the Client. Pursuant to the Dodd-Frank Act, however, clearing members that offer to clear swaps from the U.S. or on behalf of U.S. clients will be required to be registered with the CFTC as futures commission merchants ("*FCMs*"). This requirement is currently scheduled to take effect at the conclusion of a one-year transition period following the effective date of the Dodd-Frank Act, which will occur on July 16, 2011. As a result, while LCH will continue to

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[1] There are currently 26 SCMs, including ABN AMRO Bank, N.V., Banca IMI SpA, Bank of America NA, Barclays Bank plc, BNP Paribas, Calyon SA, Citibank NA, Commerzbank AG, Credit Suisse International, Credit Suisse Securities (Europe) Limited, Deutsche Bank AG, Goldman Sachs Bank USA, Goldman Sachs International, HSBC Bank PLC, HSBC France, ING Bank NV, JPMorgan Chase Bank N.A, Merrill Lynch International Bank Ltd., Morgan Stanley Capital Services Inc., Natixis, Nomura Global Financial Products Inc., Nomura International plc, Rabobank International (Coöperative Centrale Raiffeisen-Boerenleenbank BA), The Royal Bank of Scotland plc, Societe Generale and UBS AG.

offer the Client SwapClear service through SCMs outside of the United States, any clearing member located in the United States or providing clearing services to U.S. persons, will be required to be registered as an FCM. LCH introduced FCM clearing on March 8, 2011. The clearing of swaps through FCMs is and will be conducted in a manner substantially identical to the manner in which transactions are cleared through FCMs on other DCOs.

Specifically, under the FCM clearing model, U.S. Clients (including Funds) that wish to clear swaps through LCH are required to maintain a clearing relationship with an LCH clearing member, which is required to be registered as an FCM and serves as the Clients' agent and guarantor in respect of cleared IRSs. Clients, including Funds, will execute swaps through executing dealers with which they have swaps trading relationships. The Client's side of the transaction will then be given up for clearing by the executing dealer to the Client's FCM, pursuant to "Give-up Agreements" entered into among the FCM, the executing dealer and the Client. LCH has established Initial Margin requirements for all cleared swaps, in order to protect against changes in the mark-to-market value of transactions. Each FCM is required to deposit Initial Margin with LCH on behalf of its Clients, and the FCM in turn requires the Clients to deposit the Initial Margin with the FCM. The FCM may then either pass the Clients' Initial Margin on to LCH, or deposit its own assets and hold the Clients' Initial Margin as security for performance of their obligations. In addition, as is the case with respect to clearing by SCMs, each FCM (on behalf of its Clients) and LCH is required to pay Variation Margin as the present value of each IRS fluctuates on a daily basis.

LCH rules require that any clearing member that is either located in the United States or clears swaps for U.S. Clients (including any Fund) must: (1) be registered with the CFTC as an FCM; (2) effectively provide for the segregation of Client assets in accordance with the CEA and CFTC rules; (3) maintain adequate capital and liquidity; and (4) maintain sufficient books and records to establish (a) that the clearing member is maintaining adequate capital and liquidity and (b) separate ownership of the Funds, securities, and positions it may hold for the purpose of purchasing, selling, or holding swap positions for clients and any such positions that it holds for its proprietary accounts.

In 2010, the CFTC adopted amendments to its Part 190 Bankruptcy Rules to create a separate "cleared over-the-counter derivatives" account class (the "*OTC Derivatives Account Class*") that would apply in the event of a bankruptcy of an FCM. The OTC Derivatives Account Class is intended to provide clients with protection parallel to the existing Section 4d account class that exists with respect to futures positions, including similar safeguards under the Bankruptcy Rules set forth in Part 190

of CFTC rules.[2] LCH Rules with respect to segregation of client assets held as part of this separate account class incorporate the relevant provisions of Section 4d of the CEA and CFTC regulations with respect to the futures account class (i.e., 17 C.F.R. §§ 1.20, et seq.), including but not limited to the separate treatment of client positions and property from the clearing member's positions and property. Pursuant to these LCH Rules, all funds and property received from customers in connection with purchasing or holding swap positions will be treated as part of the OTC Derivatives Account Class. We note, however, that, in contrast to other DCOs, LCH does not currently provide clearing services for U.S. designated contract markets. While clearing members are required to maintain assets held to margin swaps in a separate account class in accordance with CFTC rules, therefore, LCH's clearing service does not raise any issues related to the potential commingling of margin held in connection with swaps with margin held in connection with futures.

Analysis

Section 17(f) of the 1940 Act requires a Fund to place and maintain its assets only with (a) a bank[3] meeting certain minimum qualifications under the 1940 Act, (b) a member of a national securities exchange (subject to certain conditions), (c) the Fund itself, but only in accordance with the rules, regulations or orders of the SEC or (d) a national securities depository. As a consequence of the restrictions in Section 17(f), an FCM would not be able to clear IRSs through SwapClear on behalf of Funds because the assets deposited by a Fund as initial margin could not be transferred to LCH or, as

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2 See, 75 Fed. Reg. 17297 (Apr. 6, 2010) (adopting final rules establishing a sixth and separate account class applicable to cleared over-the-counter derivatives only.)

3 The term "bank" is defined in Section 2(a)(5) of the 1940 Act to mean:

(A) a depository institution or a branch or agency of a foreign bank (as such terms are defined in 12 U.S.C. §§ 1813 and 3101),

(B) a member bank of the Federal Reserve System,

(C) any other banking institution or trust company, whether incorporated or not, doing business under the laws of any State or of the United States, a substantial portion of the business of which consists of receiving deposits or exercising fiduciary powers similar to those permitted to national banks under the authority of the Comptroller of the Currency, and which is supervised and examined by State or Federal authority having supervision over banks, and which is not operated for the purpose of evading the provisions of this subchapter, and

(D) a receiver, conservator, or other liquidating agent of any institution or firm included in clauses (A), (B), or (C).

discussed below, otherwise be used by the FCM in financing the cost of posting its own assets as margin if the FCM itself if not an eligible custodian under Section 17(f). Funds will thus be denied the benefits of clearing, thereby exposing them to greater credit risk in connection with their interest rate swap transactions.

An exception to the custodial requirements of Section 17(f) is provided in Rule 17f-6, which permits a Fund to deposit its assets with an FCM in amounts necessary to effect the Fund's transactions in "Exchange Traded Futures Contracts," subject to certain conditions. In the release adopting Rule 17f-6[4], the SEC indicated that one of the purposes of the rule was to allow Funds to meet FCM margin requirements. In the release, the SEC stated that it considered Initial Margin, which is not "part of the contract or option price, and is returned upon termination of the position," to remain an asset of the Fund, and thereby subject to the restrictions or Section 17(f). In contrast, the SEC deems Variation Margin, "which is credited or assessed at least daily to reflect any gains or losses in the contract's value," to be a payment by the Fund and no longer an asset.

Rule 17f-6 permits Funds to place and maintain assets with an FCM so long as certain criteria are met. First, the FCM's maintenance of the Fund's assets must be governed by a written contract which provides that (i) the FCM must comply with the segregation requirements of Section 4d of the CEA and the rules thereunder, (ii) the FCM, as appropriate to the Fund's transactions and in accordance with the CEA, may place and maintain the assets with another FCM or an organization designated as a "clearing organization" by the CFTC and (iii) the FCM must promptly furnish copies of its records pertaining to the Fund's assets as requested by the CFTC. In addition, any non-de minimis gains on the Fund's transactions must be returned to the Fund within one business day following receipt. Finally, if the custodial relationship no longer meets any of the above requirements, the Fund must withdraw its assets from the FCM as soon as possible.

The transactions to be cleared by LCH through its FCM clearing members on behalf of Funds will be cleared swaps, not futures. However, aside from this distinction, all of the substantive requirements under Rule 17f-6 will be satisfied. In fact, under the Dodd-Frank Act, cleared swaps will be regulated in a manner substantially similar to futures. In this regard, LCH hereby represents that each FCM clearing member which holds assets for an unaffiliated Fund client wishing to clear IRS transactions through LCH will be required to address each of the requirements of Rule 17f-6, and that, in particular, the manner in which an LCH clearing member will maintain such a Fund's

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[4] Final Rule: Custody of Investment Company Assets with Futures Commission Merchants and Commodity Clearing Organizations, Release No. IC-22389 (December 11, 1996), available at: http://www.sec.gov/rules/final/ic-22389.txt.

assets will be required to be governed by a written contract between the Fund and the clearing member, which will provide that:

(i) the clearing member will comply with the requirements relating to the segregation and separate treatment of client Funds and property under LCH rules specifying the substantive requirements for the treatment of cleared OTC derivatives in the OTC Derivatives Account Class prior to any bankruptcy;

(ii) the clearing member may place and maintain the Fund's assets as appropriate to effect the Fund's cleared IRS transactions through LCH in accordance with the CEA and the CFTC's rules thereunder, and will obtain an acknowledgement, as required under CFTC Rule 1.20(a), as applicable, that such assets are held on behalf of the clearing member's customers in accordance with the provisions of the CEA;

(iii) the clearing member will promptly furnish copies of or extracts from its records or such other information pertaining to the Fund's assets as the Commission through its employees or agents may request;

(iv) any gains on the Fund's transactions, other than de minimis amounts, may be maintained with the clearing member only until the next business day following receipt; and

(v) the Fund will have the ability to withdraw its assets from the clearing member as soon as reasonably practicable if the custodial arrangement no longer meets the requirements of Rule 17f-6, as applicable.

LCH believes that the requested relief would provide Funds equal access to the benefits and protections afforded to other market participants utilizing the SwapClear system and is appropriate based on the fact that clearing services provided through FCMs will be substantially similar to those provided by FCMs in connection with Funds' futures trading activities. Unlike futures contracts, which are traded by FCMs on an exchange, interest rate swaps cleared with SwapClear are currently treated as OTC instruments and are not executed on a regulated exchange. However, under the Dodd-Frank Act, as noted, most swaps will be required to be executed on a regulated exchange or trading facility. Given the fact that centralized clearing and, in particular, the SwapClear model, provides substantial credit protections to Clients entering into interest rate swaps, and given that most market participants will be required to clear their IRS transactions in any event, we believe that the relief requested herein is warranted. Preventing Funds from participating in the clearing of swaps will expose Funds to greater risk and prevent them from realizing the benefits of clearing recognized by Congress and market participants.

The passage of the Dodd-Frank Act reflects a policy determination by Congress that the centralized clearing of swaps is in the best interests of market participants and the markets generally and that such clearing will reduce credit and systemic risks. Under the Dodd-Frank Act, as noted, interest rate swaps are required to be cleared through a DCO that is registered with the CFTC. The CFTC is required to adopt regulations identifying the swaps under its jurisdiction that are subject to the clearing requirement, but it is anticipated that it will require that virtually all interest rate swaps, or at least all standardized interest rate swaps, be cleared through a DCO. In addition, as noted, Dodd-Frank amended the CEA to require that swaps subject to the clearing requirement be cleared on behalf of customers through a registered FCM. It is in part for this reason that LCH has introduced its FCM clearing model and is transitioning from its SCM clearing model to an FCM clearing model with respect to U.S. market participants.

Under the Dodd-Frank Act, the clearing requirement becomes effective in July, 2011, subject to the CFTC's adoption of the necessary regulations.[5] In particular, the CFTC is required under the Dodd-Frank Act to identify the swaps that are subject to the mandatory clearing requirement and to adopt regulations regarding the mechanics of clearing, segregation of customers' margin funds and other matters. Some of the required regulations have been proposed, although none have yet been adopted, and not all of the required regulations have yet been proposed. We understand that the CFTC intends to adopt all of the necessary regulations by the July, 2011 statutory deadline but that it may phase in the effectiveness of the requirements. However, it is generally anticipated that the clearing of IRSs will be in the first phase of required clearing, given that interest rate swaps are currently being cleared and that these products are the most liquid and standardized of the cleared over-the-counter derivative products. In addition, the clearing of swaps will be subject to the jurisdiction of the CFTC, to a rigorous regulatory regime and to substantial oversight by the CFTC.

Notwithstanding the statutory timetable for implementation of Dodd-Frank, LCH and its market participants, for business reasons, have implemented client clearing in the US through FCMs in order to position themselves for the effectiveness of the Dodd-Frank requirements. Therefore, LCH has structured the clearing mechanics, rules and other documents to take into account the statutory requirements under Dodd-Frank and the CEA and the proposals the CFTC has issued to date. While it may be

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5 It is possible that the actual effective date of these regulations may be delayed beyond July 16, 2011.

necessary to make some changes in response to regulations ultimately adopted by the CFTC, LCH believes that no major changes will be required.[6]

We note that the CFTC does not currently have jurisdiction over interest rate swaps, although it clearly will have such jurisdiction once the Dodd-Frank provisions become effective. However, even prior to the effective date of those provisions, the CFTC has jurisdiction over all activities of LCH by virtue of its status as a registered DCO. For example, the CFTC oversees its risk management functions, capitalization and other features that could potentially impact its ability to provide clearing services. That oversight necessarily includes oversight of the IRS clearing business because of its potential effect on LCH generally. Therefore, the CFTC reviews the clearing systems and mechanics, LCH's margin requirements and calculations and its compliance procedures. Of course, the CFTC's role with respect to oversight of LCH will become more substantial once Dodd-Frank is fully effective.

With respect to regulation of FCMs, both the CFTC and the National Futures Association ("*NFA*"), the industry self-regulatory organization, have jurisdiction over all activities of an FCM that could affect its financial condition, liability to customers and other risk exposures. As a result, despite the fact that the CFTC does not currently regulate interest rate swaps themselves, it and the NFA oversee FCMs' clearing of interest rate swaps and the regulations regarding financial management and reporting, compliance and books and records include the interest rate swap clearing business, in much the same way that the SEC and the Financial Industry Regulatory Authority examine all activities of a registered broker-dealer, including its non-securities activities. The only difference in oversight of an FCM that clears futures and an FCM clearing interest rate swaps, therefore, is the fact that the CFTC does not, in the latter case, regulate the instruments themselves, but it does regulate the clearing of such instruments by FCMs and their carrying of the resulting positions. In sum, LCH's clearing of IRSs is currently subject to CFTC oversight and will be subject to substantially greater oversight and regulation as the Dodd-Frank Act is implemented in the near future. As noted, under the Dodd-Frank Act, cleared swaps will be subject to a regulatory scheme substantially similar to that applicable to futures.

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[6] One potential change is that the CFTC has proposed permitting DCOs to establish individual segregated sub-accounts on behalf of customers of the FCMs clearing transactions through such DCOs, rather than requiring that all DCOs operate under the model currently in effect, which involves full mutualization of risk across all customers of an FCM. If the CFTC adopts regulations permitting individual segregated sub-accounts, LCH expects to modify its clearing structure and rules to facilitate such sub-accounts, but we cannot predict at this point whether the CFTC will adopt such regulations or the specific requirements that will be imposed under any such regulations.

As noted, the Staff has recently issued the CME Letter with respect to the clearing of credit default swaps through FCMs that are clearing members of the CME. With the exception of the fact that LCH will be clearing interest rate swaps, and not credit default swaps, the facts and the representations set forth herein are substantially identical to those set forth in the relief granted to the CME and we respectfully submit that LCH should be entitled to the same relief. We also note that the CME Letter was based in part on the order previously granted to the CME by the SEC, regarding certain issues related to the status of credit default swaps under the securities laws. Securities Exchange Act Rel. No. 61803 (March 30, 2010) (the "*CME Order*"). LCH has not requested or obtained, and does not require, any similar order of the SEC. However, LCH represents that the features of the CME's clearing model that were referenced in the CME Letter, will apply equally to LCH's clearing of IRSs through its FCM clearing members. Specifically,

(i) Each FCM that is a clearing member of LCH will hold Fund assets as part of the OTC Derivatives Account Class;

(ii) each FCM clearing member carrying accounts on behalf of Funds will be required to provide LCH, on an annual basis, with a self-assessment that it is in material compliance with the representations set forth herein, along with a report by the clearing member's independent third-party auditor that attests to that assessment;

(iii) each FCM clearing member carrying accounts on behalf of Funds will be required to provide LCH on annual basis with a self-assessment that it is in material compliance with LCH Rules;

(iv) each FCM clearing member will be required to segregate customer funds and securities from the FCM clearing member's own assets;

(v) each FCM Clearing Member carrying accounts on behalf of Funds will be required to represent to LCH, on an annual basis, that it is in material compliance with applicable laws and regulations relating to capital, liquidity, and segregation of customer assets (and related books and records provisions) with respect to interest rate swaps that are cleared by LCH; and

(vi) LCH has the authority to enforce its rules against each FCM Clearing Member and, in the event that LCH discovers or becomes aware of a violation of such rules by an FCM Clearing Member, LCH will take appropriate enforcement action against such FCM Clearing Member, which may include termination of its status as an FCM Clearing Member.

Conclusion

For the foregoing reasons, LCH respectfully requests assurance that the Staff will not recommend enforcement action under Section 17(f) of the 1940 act if a Fund posts and maintains Fund assets in the custody of LCH, or an FCM that is not an affiliated person of such investment company or an affiliated person of such person[7], for the purpose of satisfying LCH's or such FCM's Initial Margin requirements.

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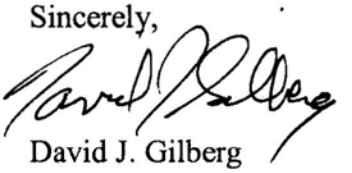
If you have any questions or require additional information, please feel free to contact either David J. Gilberg at (212) 558-4680 or Frederick Wertheim at (212) 558-4974.

Thank you very much.

Sincerely,



David J. Gilberg

[7] The definition of "Futures Commission Merchant" under Rule 17f-6 expressly excludes a person that is an affiliated person of a Fund or an affiliated person of such person. LCH recognizes the value of preventing Funds from placing its assets with an FCM that is related to the Fund and expects that any relief granted in accordance with its request would provide for a similar limitation on a Fund's ability to place assets with an FCM that is affiliated with the Fund or an affiliate of such person.