INVESTMENT COMPANY INSTITUTE

MEMO# 2119

August 16, 1990

SEC STAFF CLARIFIES POSITION ON COVERING PUT OPTIONS WRITTEN BY AN INVESTMENT COMPANY

August 16, 1990 TO: SEC RULES COMMITTEE NO. 44-90 ACCOUNTING/TREASURERS COMMITTEE NO. 26-90 RE: SEC STAFF CLARIFIES POSITION ON COVERING PUT OPTIONS WRITTEN BY AN INVESTMENT COMPANY

____ In a recent no-action letter issued to Sanford C. Bernstein Fund, Inc. ("Fund"), the staff of the Division of Investment Management clarified its view of how an investment company that writes put options on securities or futures contracts may eliminate potential senior securities problems. Copies of the staff's no-action response and the Fund's inquiry letter are attached. The Fund requested the staff's assurance that it would not recommend enforcement action to the Commission under Section 18(f) of the Investment Company Act of 1940 if any series of the Fund ("Portfolio") used the same assets to cover both the put and the call components of straddles written on securities or futures contracts, rather than covering each component separately. In granting the Fund's no-action request, the staff expressed its view that when an investment company writes a put option, placing the same underlying security or instrument in a segregated account to cover the position does not adequately reduce the potential leveraging effect on the investment company's assets. The staff noted that the value of that underlying security or instrument could decline, in which case the value of the segregated assets also would decline, thus requiring the investment company to place additional assets in the segregated account. Accordingly, the staff stated, a segregated account eliminates potential senior security problems arising when an investment company writes a put option only where all of the assets segregated to cover the option are different from the security or instrument underlying the option. Therefore, the staff's no-action position specifically relied on the Fund's representation that when a Portfolio segregates assets to cover a straddle it writes that are the same as the security or instrument underlying the straddle (e.g., liquid, high grade debt securities), it will at all times maintain 300% asset coverage with respect to the combined value of such assets and any outstanding senior securities such as bank borrowings. Frances M. Stadler Assistant General Counsel Attachment