

COMMENT LETTER

January 31, 2002

Comment Letter on Proposed Amendments to Rules Governing Use of Depositories, February 2002

Attachment

Proposed Language for Revised Rule 17f-4

§ 270.17-4. Use of Securities Depositories and Intermediary Custodians by Investment Companies and Custodians[; Direct Holding of Certain Uncertificated Securities by Investment Companies].

(a) Ability of Fund Custodians to Maintain Financial Assets With Securities Depositories and Intermediary Custodians. A Fund's Custodian may maintain financial assets corresponding to the security entitlements that the Custodian establishes for the Fund by acquiring and maintaining its own security entitlements with one or more Securities Depositories or Intermediary Custodians, provided that the Custodian:

(1) is at a minimum obligated to exercise due care in accordance with reasonable commercial standards in discharging its duty as a securities intermediary to obtain and thereafter maintain such financial assets;

(2) is required to promptly provide the Fund such periodic reports concerning the internal accounting controls and financial strength of the Custodian, and to permit the Fund to perform such audits of the Custodian's own security entitlements and internal controls, in each case as the Fund may reasonably request; and

(3) requires any Intermediary Custodian at a minimum to exercise due care in accordance with reasonable commercial standards in discharging its duty as a securities intermediary to obtain and thereafter maintain financial assets corresponding to the security entitlements of its entitlement holders.

(b) Ability of a Fund to Maintain Financial Assets With Securities Depositories. A Fund may acquire and maintain security entitlements with a Securities Depository, provided that:

(1) the Fund's contract with the Securities Depository or the Securities Depository's written rules for its participants:

(i) obligate the Securities Depository at a minimum to exercise due care in accordance with reasonable commercial standards in discharging its duty as a securities intermediary to obtain and thereafter maintain financial assets corresponding to the Fund's security entitlements; and

(ii) allow the Fund to obtain available reports concerning the internal accounting controls and financial strength of the Securities Depository; and

(2) the Fund has implemented internal control systems reasonably designed to prevent unauthorized Officer's Instructions (by providing at least for the form, content and means of giving, recording and reviewing all Officer's Instructions).

(c) [Ability of a Fund to Hold Uncertificated Securities Directly. A Fund may hold its investments in uncertificated securities by becoming the registered owner of those securities upon original issue or registration of transfer on the books of the issuer or its transfer agent, provided that the Fund has implemented internal control systems reasonably designed to prevent unauthorized Officer's Instructions (by providing at least for the form, content and means of giving, recording and reviewing all Officer's Instructions).

(d)] Definitions.

(1) The terms clearing corporation, financial asset, securities intermediary, security entitlement, and uncertificated securities have the same meanings as is attributed to those terms in Uniform Commercial Code, 2001 Official Text, which is incorporated by reference in this section pursuant to 5 U.S.C. 552(a) and 1 CFR part 51

(2) Custodian means

(3) Foreign Custodian means

(4) Fund means an investment company registered under the Act and, where the context so requires with respect to a Non-Management Company, includes the Fund's trustee.

(5) Intermediary Custodian means any subcustodian that is a securities intermediary and that is qualified to act as a Custodian.

(6) Non-Management Company means

(7) Officer's Instruction means a request or direction by or in the name of a Fund to a Securities Depository or its operator, or to a transfer agent with respect to an uncertificated security, by one or more persons authorized

(8) Safekeeping Facility means ... if the Fund maintains its own assets there in accordance with §270.17f-2.

(9) Securities Depository means a clearing corporation operated by:

(i) a Federal Reserve Bank or other person authorized to operate the federal book entry system described in regulations of the Department of Treasury codified at 31 CFR Part 357, Subpart B, or book-entry systems operated pursuant to comparable regulations of other federal agencies; or

(ii) a clearing agency registered with the Commission under section 17A of the Securities

Exchange Act of 1934 (15 U.S.C. 78q).

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