

Corporate & Financial Weekly Digest

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SEC Provides Temporary Relief for Investment Companies Regarding Custody of Collateral to Support Cleared Interest Rate Swaps

In a no-action letter issued on March 16, the Securities and Exchange Commission's Division of Investment Management extended temporary no-action relief under Section 17(f) of the Investment Company Act of 1940 to any registered investment company (Fund) if the Fund or its custodian places and maintains assets in the custody of LCH.Clearnet Limited (LCH), a U.K. derivatives clearing organization, or an LCH clearing member that is a futures commission merchant registered with the Commodity Futures Trading Commission for purposes of meeting LCH's or a clearing member's margin requirements for certain cleared interest rate swap contracts. The SEC relied, among other things, upon the following representations in deciding to flexibly apply the 1940 Act's custody requirements: (1) LCH and clearing members will address each of the requirements of Rule 17f-6 under the 1940 Act; (2) each clearing member will hold Fund assets as part of the over-the-counter derivatives account class; and (3) each clearing member will be required to segregate customer funds and securities from the clearing member's own assets. The SEC's temporary no-action position will expire on July 16, upon the conclusion of a one-year transition period following the effective date of the Dodd-Frank Wall Street Reform and Consumer Protection Act.

Click [here](#) to read the SEC's no-action letter.

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