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June 11, 1985

Investment Company Act
Section 17(f)
Section 18(f)

Ms. Stephanie L. Monaco
Division of Investment Management
Securities and Exchange Commission
Judiciary Plaza
450 Fifth Street, N.W.
Washington, D.C. 20549

Act	ICA-40
Section	18(f)
Rule	
Public	
Availability	7/25/85

Re: Colonial High Yield Securities Trust
File No. 2-41251
Colonial Enhanced Mortgage Trust
File No. 2-95121
Interest Rate Futures Contracts and Options on
Interest Rate Futures Contracts

Dear Ms. Monaco:

Pursuant to our recent telephone conversations, I hereby withdraw the no-action request submitted on behalf of the captioned Trusts by my letter dated March 28, 1985 and substitute therefor the no-action request contained herein. I understand that this request will receive expedited consideration.

Colonial High Yield Securities Trust ("CHYST") is a diversified open-end investment company which was established as a Massachusetts business trust under the laws of The Commonwealth of Massachusetts by an Agreement and Declaration of Trust dated March 14, 1985. CHYST is successor to Colonial High Yield Securities, Inc. (the "Corporation"), a registered diversified open-end management investment company which was incorporated under the laws of The Commonwealth of Massachusetts in 1971. The Corporation filed Post-Effective Amendment No. 26 (the "CHYST Amendment") to its registration statement on Form N-1A (File No. 2-41251) under the Investment Company Act of 1940 and the Securities Act of 1933 with the Securities and Exchange Commission (the "Commission") on March 1, 1985, which amendment became effective April 30, 1985. The CHYST Amendment reflects the reorganization of the Corporation as

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a Massachusetts business trust. It also reflects the approval of a change in CHYST's investment policies which allows it to engage in transactions in interest rate futures ("futures") contracts and options on futures contracts. Three copies each of CHYST's Prospectus and Statement of Additional Information are enclosed herewith.

Colonial Enhanced Mortgage Trust ("CEMT") (CHYST and CEMT sometimes are referred to herein collectively as the "Trusts" and individually as a "Trust") was established as a Massachusetts business trust under the laws of The Commonwealth of Massachusetts by an Agreement and Declaration of Trust dated December 20, 1984. CEMT filed with the Commission on December 31, 1985 a registration statement on Form N-1A (File No. 2-95121) covering an indefinite number of its shares of beneficial interest. CEMT's registration statement, as amended, was declared effective by the Commission on March 27, 1985. Three copies each of CEMT's Prospectus and Statement of Additional Information are enclosed herewith.

CHYST and CEMT both are managed by Colonial Management Associates, Inc. Colonial Investment Services, Inc. is the distributor of shares of both CHYST and CEMT.

As stated in its Prospectus, CHYST invests primarily in high yield securities with the primary investment objective of seeking high current income and a secondary objective of capital appreciation. CHYST is permitted to hedge against changes in interest rates through the use of interest rate futures contracts ("futures contracts") and options thereon. CHYST may purchase and sell futures contracts and purchase and write call and put options on futures contracts.

As stated in CEMT's Prospectus, CEMT's primary investment objective is to seek a high level of current income by investing primarily in mortgage-related obligations. As a secondary investment objective, CEMT seeks to protect against a decline in the value of its shares resulting from decreases in the value of its portfolio securities by engaging in hedging transactions involving futures contracts and options on futures contracts or options on debt securities. CEMT may purchase and sell futures contracts and purchase and write call and put options on futures contracts.

Futures contracts and options on futures contracts, and the commodities exchanges on which they are traded, are subject to regulation by the Commodities Futures Trading Commission ("CFTC") under the Commodities Exchange Act ("CEA"). Each Trust concurrently herewith is filing with the CFTC (i) a notice of eligibility to claim the exclusion

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from the definition of "commodity pool operator" in § 2(a)(1)(A) of the CEA that is provided in Rule 4.5 under the CEA, 17 CFR § 4.5 (the "CFTC Notice"), and (ii) a request that the CFTC issue a letter that the Trust will not be treated as a "pool" as defined in Section 4.10(d) of the CFTC's General Regulations and that such Trust will not be a "commodity pool operator" as a result of writing options on futures contracts.

In connection with this "no-action" letter request each Trust represents as follows:

No consideration will be paid or received by the Trust upon the purchase or sale of a futures contract or upon the writing of a call or put option on a futures contract. Initially, the Trust will be required to deposit, for the account and in the name of the broker, in a segregated account with The First National Bank of Boston, its custodian (The First National Bank of Boston and any successor custodian are referred to herein as the "Custodian"), an amount of cash or United States Treasury bills which is equal to a small percentage of the contract amount in the case of a futures contract, or, upon the sale of an option on a futures contract, a specific dollar amount for each written option. This amount is known as initial margin. The nature of initial margin in futures transactions and in written options on futures is different from that of margin in securities transactions in that futures contracts and written options margin do 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 Trust upon termination of the futures contract, assuming all contractual obligations have been satisfied, or upon the closing of written options. Subsequent payments, called variation 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 option fluctuates. Variation margin does not represent a borrowing or loan by the Trust but is instead the daily settlement between the Trust and the broker of the amount one would owe the other if on such day the contract expired or the written option was exercised. The broker has access to the amount of initial margin on deposit only if the Trust defaults in making payments of variation margin, and only after notice given by the broker to the Trust accompanied by the broker's statement to the Custodian that all conditions precedent to its rights to reach the initial margin have been satisfied.

Each Trust undertakes that, on the occasions that it has the right to receive variation margin payments from the broker, it will promptly demand payment by the broker of such amounts upon notification by the broker that such amounts are payable. Any such funds received by the Trust will be held by the Custodian. At any time prior to expiration of the futures contract or the written option, the Trust may elect to close the position by taking an opposite position, which will operate to terminate the Trust'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 Trust, the Trust will realize a loss or a gain.

The Trusts' futures contracts 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 Trust undertakes that the Custodian will have copies of such exchange terms and conditions and that the Custodian will have possession of such confirmations.

Each Trust represents that it has stated in its CFTC Notice that its transactions in futures contracts and options on futures contracts will be solely for bona fide hedging purposes. Each Trust represents that its sales of futures contracts, its writing of call options on futures contracts and its purchase of put options on futures contracts will be solely for the purpose of protecting its portfolio against a decline in value. Each Trust further represented that its purchase of futures contracts and its purchase of call options on futures contracts and sale of put options on futures contracts will be solely for the purpose of protecting the Trust against an increase in value of securities it wants eventually to purchase. Thus, the Trust will not 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 which are held by the Trust or in which it intends to invest.

Each Trust further represents that it stated in its CFTC Notice that it will not purchase or sell futures contracts or purchase or write related options if, immediately thereafter, the sum of the amount of initial margin deposits on the Trust's existing futures and options on futures contracts positions and premiums paid for options on futures contracts would exceed 5% of the market value of the Trust's total assets.

With respect to so-called "long hedges", that is, hedges against increases in the market prices of securities it intends to purchase through the purchase of futures contracts and the purchase of call options on futures contracts and the writing of put options on futures contracts, each Trust represents that it will deposit cash or cash equivalents equal to the market value of the futures contracts purchased and the exercise price of related call options purchased and related put options written (less in each case any margin deposits thereon, which are held by the Custodian in a separate segregated account) in a segregated account with the Custodian to collateralize such long positions. Such deposited assets will not be used to support any other transactions in which the Trust may engage. Collateralization of long futures contracts and related call options it has purchased and put options it has written prevents the Trust from leveraging through the use of such futures and related options. Collateralization to insure that the Trust's use of such instruments is unleveraged is consistent with the conditions which the Commission prescribed in Investment Company Act Release No. 10666 to prevent investment companies from leveraging through the use of reverse repurchase agreements, standby commitments and similar arrangements.

Each Trust represents that it will not maintain open short positions in futures contracts if, in the aggregate, the value of its open positions (marked to market) exceeds the current market value of its securities portfolio plus or minus the unrealized gain or loss on such open positions, adjusted for the historical volatility relationship between the portfolio and futures contracts. If either Trust exceeds this limitation at any time, such Trust will take prompt action to close out the appropriate number of open contracts to bring its open futures position within this limitation.

Section 18(f)(1) of the 1940 Act limits the issuance of senior securities by an open-end registered investment company. A futures contract or the sale of a related option may, because of a Trust's contingent obligation to pay variation margin during the 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 Trust may constitute the issuance of a senior security by the Trust in violation of Section 18(f)(1) of the Act. In addition, to the extent that variation margin payments to the Trust in connection with a futures contract or the sale of a related option are held overnight by a

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broker, the Trust may be unable to comply with the provisions of Section 17(f) of the Act.

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

The Trusts believe that it is an open question whether financial futures contracts and related options are "securities" within the meaning of Section 2(a)(16) of the Act. If such contracts and options are not securities under Section 2(a)(16), they cannot constitute "senior securities" under Section 18(g) or be subject to regulation under Section 18(f)(1). Even if such contracts and options are securities under Section 2(a)(16), and further are considered to be senior securities under Section 18(f) of the Act, the proposed use by each Trust of such contracts and options, and the limitations on such use, will not permit the speculative abuses which Section 18(f)(1) was designed to prevent. The limitations on each Trust's use of such contracts and options and the requirement, in connection with the purchase of a futures contract and the purchase of call options and writing of put options thereon, that each Trust deposit in a segregated account cash or cash equivalents equal to the market value of such futures contract and the exercise price of related options are, in fact, consistent with the procedures set forth in Release No. 10666 to minimize the speculative aspects of the leveraged investments which were the subject of Release No. 10666.

The Trusts also believe that, if futures contracts and related options are "securities" or "similar investments" within the meaning of Section 17(f) of the Act, separate custodian, safekeeping and procedural agreements among each Trust, the Custodian and the futures commission merchant, pursuant to which the Trust's 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).

We refer you to the following no-action letters previously issued by the staff of the Commission with respect to the foregoing issues. IDS Bond Fund, Inc. (available April 11, 1983), SteinRoe Bond Fund, Inc. (available January 17, 1984), Pension Hedge Fund, Inc. (available January 20, 1984), Z-Seven Fund Inc. (available May 21, 1984), Colonial Option Growth Trust (available June

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15, 1984), Colonial Government Securities Plus Trust
(available June 15, 1984), Colonial Option Income Trust --
Portfolio II (available September 10, 1984), Pilot Fund,
Inc. (available October 22, 1984).


Your advice is requested 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) or 17(f) of the Act with respect to each Trust's proposed transactions in financial futures contracts and related options.

If any questions arise or further information is required with respect to this request, please contact the undersigned or Peter MacDougall of this office.

Please date-stamp the enclosed copy of this letter to indicate receipt of this filing and return the stamped copy to the messenger making the filing.

Thank you.

Very truly yours,



Brian D. Kilb

Enclosures

cc: Arthur O. Stern, Esquire
Julian Daly, Esquire
Mr. William W. Hennig

PUBLIC

JUN 25 1985

RESPONSE OF THE OFFICE OF CHIEF COUNSEL
DIVISION OF INVESTMENT MANAGEMENT

Our Ref. No. 85-331-CC
Colonial High Yield Securities
Trust
Colonial Enhanced Mortgage Trust
File Nos. 811-2214; 811-4197

We would not recommend any enforcement action to the Commission under section 17(f) or 18(f) of the Investment Company Act of 1940 if the Colonial High Yield Securities Trust and the Colonial Enhanced Mortgage Trust proceed as described in your letter of June 11, 1985. Our position is based on the facts and representations contained in that letter.


Stephanie M. Monaco
Attorney