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September 25, 1985

Act	ICA-40
Section	18(f)
Rule	
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Thomas P. Lemke, Esquire
Chief Counsel
Division of Investment Management
Securities and Exchange Commission
Judiciary Plaza
450 Fifth Street, N.W.
Washington, D.C. 20549

Re: No-Action Request of Prudential-Bache IncomeVertible Plus Fund, Inc. - Investment Company Act of 1940: Sections 18(f) and 17(f)

Dear Mr. Lemke:

This letter is submitted on behalf of Prudential-Bache IncomeVertible Plus Fund, Inc. (the "Fund") (File No. 2-68011). The Fund's former corporate name was Chancellor Cash Fund, Inc. ("Chancellor Cash"), which has been changed by amendment to the Fund's Articles of Incorporation. The Fund is registered with the Securities and Exchange Commission (the "Commission") under the Securities Act of 1933 and the Investment Company Act of 1940 and on August 2, 1985, filed on Form N-1A Post-Effective Amendment No. 6 to the Registration Statement of Chancellor Cash to reflect its change of name and investment policies.

The Fund is seeking the advice of the staff of the Division of Investment Management (the "Staff") that the Staff will not recommend that the Commission take enforcement action against the Fund if the Fund purchases and sells interest rate futures contracts and related options in the manner described below.

I. BACKGROUND

The investment adviser to the Fund is The Prudential Insurance Company of America ("Prudential");[1] Prudential-Bache Securities Inc., an indirect wholly-owned subsidiary of Prudential, will serve as Administrator and Distributor to the Fund. Three copies of the Fund's Prospectus, as included in Post-Effective Amendment No. 6 to its Registration Statement currently on file with the Commission, are enclosed.

The investment objective of the Fund, as reflected in the enclosed Prospectus, is to seek both high current income and appreciation of capital. The Fund will seek to achieve this objective by investing primarily in convertible securities, i.e., convertible bonds and convertible preferred stocks, and "synthetic convertibles", i.e., combinations of securities comprised of nonconvertible fixed-income securities and warrants or exchange-listed call options. The Fund may also invest in common stocks and in nonconvertible debt and equity securities other than those included in "synthetic convertibles". In addition, the Fund intends to write covered calls and purchase protective puts with respect to certain of its portfolio securities and to enter into closing purchase and sale transactions with respect to certain of such options.[2]

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[1] Prudential is the Fund's investment adviser and is registered with the Commission as an investment adviser under the Investment Advisers Act of 1940, as amended. Pursuant to a service agreement between Prudential and its wholly-owned subsidiary, The Prudential Investment Corporation ("PIC"), PIC furnishes to Prudential such services as Prudential may require in performing its obligations under the investment advisory agreement with the Fund. Prudential continues to have responsibility for all investment advisory services undertaken by it in the investment advisory agreement and supervises PIC's performance of such services. Because of PIC's involvement in the advisory process, this letter's references to Prudential shall be deemed to apply to PIC as well as Prudential.

[2] The Fund will purchase put options on certain of its portfolio securities, and write covered call options on certain debt and equity securities and stock indices. The Fund's intended use of such options, and the restrictions thereon, are described in the enclosed Prospectus. These proposed

(Footnote continued on next page)

In pursuing its investment objective the Fund also intends to hedge its securities portfolio against interest rate changes through transactions in options on interest rate futures. Specifically, the Fund proposes to write covered call options, and purchase put and call options, on interest rate futures contracts. The Fund does not intend to purchase or sell interest rate futures contracts, except to close interest rate futures positions acquired by exercise of a related option or in connection with the assignment of an exercise notice. The Fund will not effect transactions in options on interest rate futures for speculation, but only as a hedge against changes in interest rates (and the consequent change in market value) of the securities the Fund owns or intends to acquire. We describe these hedging transactions below.

II. <u>Description of Proposed Hedging Transactions</u>

A. <u>Hedges of Existing Positions</u>

The Fund may purchase put options on futures contracts, and write call options on futures contracts, in anticipation of or during an increase in interest rates, in an endeavor to offset the reduction in the value of the Fund's portfolio resulting from a decrease in the market value of the Fund's fixed-income securities. For example, the Fund may adopt such a strategy to protect against anticipated short-term adverse market action when Prudential believes that disposition of the Fund's fixed-income securities should be deferred. When the Fund purchases a put option, or writes a call option, it will always own an amount of fixed-income securities corresponding to the open short futures position. In addition, when the Fund writes a call option it will deposit in a segregated

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option transactions are similar to those that have been engaged in by investment companies for several years and, therefore, we do not seek a no-action position with respect thereto. The no-action positions requested herein are sought because the use by investment companies of futures contracts and options thereon, while serving hedging purposes similar to those that can be attained by writing and purchasing options on securities or indices of securities, is a relatively new development.

account with its custodian, State Street Bank & Trust Company ("State Street"), an amount of cash, U.S. Government securities, or other high-grade debt obligations corresponding to the market value of the obligation under the call option.

B. Anticipatory Hedges

When the Fund is not fully invested in fixed-income securities and Prudential anticipates a decline in interest rates, the Fund might purchase call options on interest rate futures contracts to wholly or partially offset a potential increase in the market prices of fixed-income securities the Fund intends to purchase. Such a transaction is referred to herein as an "anticipatory hedge" transaction. When entering into an anticipatory hedge transaction, the Fund will deposit in a segregated account with State Street, an amount of cash, U.S. Government securities, or other high-grade debt obligations corresponding to the market value of the obligation under the futures contract or option position. This is designed to ensure that the Fund's anticipatory hedge transactions are never leveraged.

C. Closing Transactions

The Fund will also enter into futures and options transactions to close existing futures and options positions in interest rate futures contracts and options thereon.

III. Limitations on the Purchase and Sale of Futures Contracts and Related Options

A. Senior Securities

Section 18(f)(1) of the Investment Company Act of 1940 (the "Act") makes it unlawful for a registered investment company to issue any class of senior security or to sell any senior security of which it is the issuer, except for certain bank borrowings. We are cognizant of the Commission's position that futures contracts and the writing of options thereon might, because of the Fund's contingent obligation to make variation margin payments, constitute the issuance by the Fund of a "senior security" in violation of Section 18(f)(1) of the Act. Because interest rate futures contracts and options thereon are not "securities" for purposes of the Act, however, such contracts and options arguably cannot constitute "senior securities" under Section 18(g) of the Act or be subject to regulation under Section 18(f)(1) thereof. Furthermore, management of the Fund believes that, because the Fund's transactions in futures and related options will be entered into only for hedging purposes, and because such transactions will be subject to the limitations set forth below, the Fund's proposed use of futures and related options does not give rise to the speculative abuses which Section 18(f)(1) of the Act was intended to prevent. The limitations on the Fund's use of futures contracts and options thereon conform generally to those set forth in the correspondence relating to other no-action positions taken by the Staff. <u>See</u>, <u>e.g.</u>, <u>Prudential-Bache Government Plus Fund, Inc.</u> (April 1, 1985); <u>Colonial Government Securities Plus Trust</u> (June 15, 1984); <u>Z-Seven Fund, Inc.</u> (May 21, 1984); <u>SteinRoe Bond Fund</u> (January 17, 1984).

On April 23, 1985, the Commodities Futures Trading Commission ("CFTC") adopted Regulation §4.5 which conditionally excludes, upon the filing of a notice of eligibility, investment companies registered under the Act from the definition of a "commodity pool operator" as such term is defined in the Commodities Exchange Act. The Fund's notice of eligibility filed with the CFTC represents that the Fund will use commodity futures or commodity options contracts solely for bona fide hedging purposes.

Accordingly, the Fund will acquire an option on a "short" position in an interest rate future only to hedge an existing position in fixed-income securities. Therefore, when the Fund purchases a put option, or writes a call option on an interest rate future, it will always own an amount of fixed-income securities, corresponding to the open "short" futures position.

In addition, the Fund will enter into anticipatory hedge transactions using "long" calls on interest rate futures contracts only with the intention of ultimately purchasing fixed-income securities. Because unusual market conditions during the term of a "long" call may make it inappropriate to purchase such securities, it can be expected that not every anticipatory hedge will be completed. Nevertheless, the Fund expects that over the long term at least a substantial majority (approximately 75%) of such anticipatory hedge transactions will be completed; that is, upon sale (or other termination) of "long" call options on futures contracts, the Fund will have purchased or will purchase corresponding amounts of fixed-income securities.

As further evidence of the Fund's intention to use futures contracts only for hedging purposes, the Fund's notice of eligibility filed with the CFTC represents that the Fund will not enter into commodity futures and commodity options contracts for which the aggregate initial margin and premiums exceed 5 percent of the fair market value of the Fund's assets, after taking into account unrealized profits and unrealized losses on any such contracts it has entered into.

B. Custodial Arrangements

Section 17(f) of the Act requires, inter alia, that the securities and similar investments of a registered management company be maintained in the custody of a bank meeting the requirements set forth in the Act or in the custody of a member of a national securities exchange in accordance with the rules and regulations of the Commission.

When entering into futures transactions and related options, the purchaser of a futures contract deposits initial margin with its futures commission merchant ("FCM"), through which such transactions are effected. The operation of the commodities futures marketplace requires that the Fund deposit with the FCM effecting its interest rate futures transactions an amount of cash or U.S. Treasury bills equal to approximately 1 to 2 percent of the contract value of each futures contract. This is known as initial margin, and is in the nature of a performance bond or good faith deposit on the contract which is returned upon termination of the futures contract if all contractual obligations have been satisfied. Futures initial margin is, thus, different from securities margin which represents a payment on a loan extended by the broker to the customer.

Initial margin also differs from variation margin. Variation margin deposits may be required to be made with the FCM subsequent to entering into futures contracts as a result of marking the contracts to market on a daily basis as the contract value fluctuates. Variation margin payments also do not represent repayment of a loan, but rather the daily settlement of the amount the contractholder would owe or be owed if on that day the contract expired or was liquidated.

Under the rules of the commodities exchanges, custody of initial margin deposits which are required to be made in connection with the Fund's futures contracts and related options must be maintained with the FCM or FCMs handling the Fund's futures account. A line of no-action letters from the Staff sets forth guidelines for the maintenance of the initial margin accounts of investment companies. See, e.g., SteinRoe Bond Fund (January 17, 1984); Z-Seven Fund (May 21, 1984). The Fund intends to maintain its initial margin deposits in accordance with the guidelines set forth in these letters.

Therefore, the Fund will enter into a separate special custody agreement with State Street and each FCM that the Fund uses or will execute an amendment to its existing agreement with State Street, pursuant to which the Fund's initial margin deposits will be held by State Street in one or more separate accounts (each, a "Special FCM Account") subject to disposition by the FCM in accordance with the FCM's customer agreement with the Fund, the rules of the CFTC and the rules of the applicable commodities exchange.

In this connection, the only permitted delivery or disposition of the initial margin from a Special FCM Account for the benefit of the FCM, as opposed to that of the Fund, is in connection with a liquidation of a futures position by the FCM on default by the Fund. In that case, the FCM is required to state in writing to State Street and the Fund that, pursuant to its customer agreement with the Fund, the condition precedent to its right to give State Street such an instruction has been satisfied. The only condition precedent which will give rise to the right of the FCM to dispose of the initial margin in a Special FCM Account will be a default by the Fund in making required margin payments. In addition, the Fund, when it has the right to receive variation margin payments from an FCM, will promptly demand such payments.

Conclusion

Management of the Fund believes that, in light of the limitations on the Fund's intended use of interest rate futures contracts and related options, the purchase and sale of such instruments will constitute a non-speculative adjunct to the Fund's investment program that will enhance the Fund's ability to attain its investment objective. The Fund respectfully requests the Staff's advice that the Division would not recommend enforcement action to the Commission (i) under Section 18(f)(1) of the Act if the Fund uses interest rate futures contracts and related options in the manner described above, or (ii) under Section 17(f) of the Act if the Fund maintains initial and variation margin payments with State Street in the manner described above.

If you have any questions, please contact Robert I. Jones of this office at (212) 486-9500.

Very truly yours,

Reavis & McGrath

Reavis & McGrath

cc: Stephanie Monaco, Esquire

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RESPONSE OF THE OFFICE OF CHIEF COUNSEL
DIVISION OF INVESTMENT MANAGEMENT

Our Ref. No. 85-481-CC
Prudential-Bache Income-Vertible Plus Fund, Inc.
File Nos. 811-3067

On several occasions, we have stated that we would not recommend any enforcement action to the Commission under Section 18 of the Investment Company Act of 1940 ("Act") if a registered investment company ("fund") enters into futures and options transactions as described below:

1. sells futures contracts to offset expected declines in the value of its portfolio securities, provided the value of such futures contracts does not exceed the total market value of those securities; 1/

2. writes covered call options on futures contracts, indexes of securities, or other securities; 2/

3. purchases futures contracts, provided it creates a segregated account consisting of cash or cash equivalents in an amount equal to the total market value of any such futures contract, less the amount of initial margin for the contract; 3/ and

4. writes covered put options on futures contracts, indexes of securities, or other securities. 4/

E.g., GMO Core Trust (pub. avail. Aug. 19, 1985), Koenig Tax-Advantaged Liquidity Fund, Inc. (pub. avail. March 27, 1985), Z-Seven Fund, Inc. (pub. avail. May 21, 1984), Pension Hedge Fund, Inc. (pub. avail. Jan. 20, 1984), and SteinRoe Bond Fund, Inc. (pub. avail. Jan. 17, 1984)[hereinafter cited as Supporting Letters].

1/ We have not objected if the total market value of futures contracts a fund sells is more than the total market value of the fund's portfolio securities solely because of differences in the volatility factor of the portfolio securities vis-a-vis the futures contracts. Z-Seven Fund, Inc. (pub. avail. May 21, 1984).

2/ A fund can cover a call option on a futures contract it writes by owning a long futures position. A fund can cover a call option on a stock index it writes by, for example, having a portfolio of securities which correlates with the stock index. Id. See Investment Company Act Rel. No. 7221 (June 9, 1972) ("Release 7221") for alternative methods by which a fund can cover call options.

3/ In this regard, we no longer take the position that a fund may purchase a futures contract only for "hedging" purposes. Compare SteinRoe Bond Fund, Inc. (pub. avail. Jan. 17, 1984) (which permitted a fund to purchase futures contracts only for hedging purposes) with GMO Core Trust (pub. avail. Aug. 19, 1985) (which permitted a fund to purchase futures contracts without the hedging requirement). See Investment Company Act Rel. No. 10666 (April 18, 1979) for a discussion of segregated accounts.

4/ A fund can cover a put option on a futures contract it writes by owning a short futures position. A fund may cover a put option on a stock index it writes only by complying with one of the alternatives stated in Release 7221. See Koenig Tax-Advantaged Liquidity Fund, Inc. (pub. avail. March 27, 1985).

In addition, we have stated that we would not recommend any enforcement action to the Commission under Section 17(f) of the Act if the initial margin for a futures contract is maintained by the fund's custodian in an account in the name of the fund's futures commission merchant ("FCM"), provided that the FCM is permitted access to the account only upon the fund's default on the contract. We also have stated that we would not recommend any enforcement action to the Commission if the fund's FCM temporarily retains excess variation margin gains overnight or over a weekend. E.g., Supporting Letters.

Having stated our interpretation of these provisions in this context, we will no longer respond to no-action requests in this area unless they raise novel or unique questions.

Stephanie M. Monaco
Attorney