

SECURITIES AND EXCHANGE COMMISSION

[Investment Company Act Release No. 27592; 812-13294]

The Mexico Equity and Income Fund, Inc.; Notice of Application

December 7, 2006

Agency: Securities and Exchange Commission (“Commission”).

Applicant: The Mexico Equity and Income Fund, Inc. (the “Fund”).

Actions: Notice of application for an order under sections 6(c) and 17(b) of the Investment Company Act of 1940 (the “Act”) for an exemption from section 17(a) of the Act.

Summary of Application: Applicant seeks an order that would permit in-kind repurchases of shares of preferred stock of the Fund held by certain affiliated shareholders of the Fund.

Filing Dates: The application was filed on May 16, 2006, and amended on November 17, 2006.

Hearing or Notification of Hearing: An order granting the requested relief will be issued unless the Commission orders a hearing. Interested persons may request a hearing by writing to the Commission’s Secretary and serving applicants with a copy of the request, personally or by mail. Hearing requests should be received by the Commission by 5:30 p.m. on January 2, 2007, and should be accompanied by proof of service on applicants, in the form of an affidavit or, for lawyers, a certificate of service. Hearing requests should state the nature of the writer’s interest, the reason for the request, and the issues contested. Persons who wish to be notified of a hearing may request notification by writing to the Commission’s Secretary.

Addresses: Secretary, Securities and Exchange Commission, 100 F Street, NE, Washington, DC 20549-1090. Applicant, c/o U.S. Bancorp Fund Services, LLC, 615 East Michigan Street, 2<sup>nd</sup> Floor, Milwaukee, WI 53202.

For Further Information Contact: Bruce R. MacNeil, Senior Counsel, at (202) 551-6817, or Julia Kim Gilmer, Branch Chief, at (202) 551-6821 (Division of Investment Management, Office of Investment Company Regulation).

Supplementary Information: The following is a summary of the application. The complete application may be obtained for a fee at the Commission's Public Reference Desk, 100 F Street, NE, Washington, DC 20549-0102 (tel. 202-551-5850).

Applicant's Representations:

1. The Fund, a Maryland corporation, is registered under the Act as a closed-end management investment company. The Fund's investment objective is to seek high total return through capital appreciation and current income by investing at least 80% of the Fund's assets in equity, convertible and debt securities of Mexican companies and issuers. Applicant states that substantially all of its assets are invested in Mexican securities that are listed on the Bolsa Mexicana de Valores, S.A. de C.V. (the "Mexican Stock Exchange").<sup>1</sup> The Fund has issued shares of common stock and preferred stock, both of which are listed and trade on the New York Stock Exchange. The preferred stock has the same rights and qualifications as the Fund's common stock, with exceptions pertaining to liquidation, voting rights, conversion and the right to participate in the In-Kind Tender Offers (as defined below). Pichardo Asset Management, S.A. de C.V. is registered under the Investment Advisers Act of 1940 and serves as the investment manager to the Fund.

2. The Fund proposes to repurchase all of its outstanding shares of preferred stock, through a series of semi-annual in-kind tender offers, which, in each case, will be for up to 25% of the Fund's issued and outstanding shares of preferred stock (the "In-Kind Tender Offers").

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<sup>1</sup> Applicant states that as of September 30, 2006, approximately 95.7% of its portfolio was trading on the Mexican Stock Exchange with the balance trading on securities markets in the United States.

Each preferred stock shareholder participating in an In-Kind Tender Offer may tender their preferred stock for repurchase in-kind for a pro rata share of the Fund's portfolio securities (with exceptions generally for odd lots, fractional shares and cash items) at a price equal to 99% of net asset value per share of the preferred stock. The In-Kind Tender Offers will be conducted in accordance with section 23(c)(2) of the Act and rule 13e-4 under the Securities Exchange Act of 1934.

3. Applicant states that the In-Kind Tender Offers are designed to accommodate the needs of both participating and non-participating shareholders. Under the In-Kind Tender Offers, only participating preferred stock shareholders will pay taxes on the gain on appreciated securities distributed in the In-Kind Tender Offers. Non-participating shareholders (both common and preferred) would avoid the imposition of a significant tax liability, which would occur if the Fund sold the appreciated securities to make payments in cash. Applicant further states that the In-Kind Tender Offers' in-kind payments will minimize market disruption, while allowing the Fund to avoid a cascade of distributions, required to preserve its tax status, that would reduce the size of the Fund drastically. Applicant also states that the In-Kind Tender Offers will benefit both the common and preferred shareholders by helping to preserve the value of the portfolio securities received by a participating preferred stockholder and the Fund's common stock shareholders by helping to minimize any disruption to the Fund's net asset value. Applicant requests relief to permit any preferred stock shareholder of the Fund who is an "affiliated person" of the Fund solely by reason of owning, controlling, or holding with the power to vote, 5% or more of the Fund's outstanding voting securities ("Affiliated Shareholder") to participate in the proposed In-Kind Tender Offers.

Applicant's Legal Analysis:

1. Section 17(a) of the Act prohibits an affiliated person of a registered investment company, or any affiliated person of the person, acting as principal, from knowingly purchasing or selling any security or other property from or to the company. Section 2(a)(3) of the Act defines an "affiliated person" of another person to include any person who directly or indirectly owns, controls, or holds with power to vote 5% or more of the outstanding voting securities of the other person. Applicant states that to the extent that the In-Kind Tender Offers would constitute the purchase or sale of securities by an Affiliated Shareholder, the transactions would be prohibited by section 17(a). Accordingly, applicant requests an exemption from section 17(a) of the Act to the extent necessary to permit the participation of Affiliated Shareholders in the In-Kind Repurchase Offers.

2. Section 17(b) of the Act authorizes the Commission to exempt any transaction from the provisions of section 17(a) if the terms of the transaction, including the consideration to be paid or received, are reasonable and fair and do not involve overreaching on the part of any person concerned, and the transaction is consistent with the policy of each registered investment company and with the general purposes of the Act. Section 6(c) of the Act provides that the Commission may exempt any person, security, or transaction or any class or classes of persons, securities, or transactions, from any provision of the Act or rule thereunder, if and to the extent that such exemption is necessary or appropriate in the public interest and consistent with the protection of investors and the purposes fairly intended by the policy and provisions of the Act.

3. Applicant asserts that the terms of the In-Kind Tender Offers meet the requirements of sections 17(b) and 6(c) of the Act. Applicant asserts that neither the Fund nor an Affiliated Shareholder has any choice as to the portfolio securities to be received as proceeds from the In-Kind Tender Offers. Instead, shareholders will receive their pro rata portion of each

of the Fund's portfolio securities, excluding (a) securities which, if distributed, would have to be registered under the Securities Act of 1933 ("Securities Act"); (b) securities issued by entities in countries that restrict or prohibit the holdings of securities by non-residents other than through qualified investment vehicles, or whose distribution would otherwise be contrary to applicable local laws, rules or regulations; and (c) certain portfolio assets (such as forward currency exchange contracts and repurchase agreements) that although they may be liquid and marketable, include the assumption of contractual obligations, require special trading facilities, or can only be traded with the counterparty to the transaction in order to effect a change in beneficial ownership. Moreover, applicant states that the portfolio securities to be distributed in the In-Kind Tender Offer will be valued according to an objective, verifiable standard, and the In-Kind Tender Offers are consistent with the investment policies of the Fund. Applicant also believes that the In-Kind Tender Offers are consistent with the general purposes of the Act because the interests of all shareholders are equally protected and no Affiliated Shareholder would receive an advantage or special benefit not available to any other shareholder participating in the In-Kind Tender Offers.

Applicant's Conditions:

Applicant agrees that any order granting the requested relief will be subject to the following conditions:

1. Applicant will distribute to shareholders participating in the In-Kind Tender Offers an in-kind pro rata distribution of portfolio securities of applicant. The pro rata distribution will not include: (a) securities that, if distributed, would be required to be registered under the Securities Act; (b) securities issued by entities in countries that restrict or prohibit the holdings of securities by non-residents other than through qualified investment vehicles, or whose distribution would otherwise be contrary to applicable local laws, rules or regulations; and

(c) certain portfolio assets (such as forward currency exchange contracts and repurchase agreements) that although they may be liquid and marketable, include the assumption of contractual obligations, require special trading facilities or can only be traded with the counterparty to the transaction in order to effect a change in beneficial ownership. Cash will be paid for any portion of applicant's assets represented by cash and cash equivalents (such as certificates of deposit, commercial paper and repurchase agreements) and other assets which are not readily distributable (including receivables and prepaid expenses), net of all liabilities (including accounts payable). In addition, applicant may pay cash for fractional shares and/or odd lots of securities and/or amounts attributable to any cash positions (including short-term non-equity securities); distribute odd lots and any cash position to shareholders; or round off (up or down) fractional shares so as to eliminate them prior to distribution. Applicant may also distribute a higher pro rata percentage of other portfolio securities to represent such items.

2. The securities distributed to stockholders pursuant to the In-Kind Tender Offers will be limited to securities that are traded on a public securities market or for which quoted bid and asked prices are available.

3. The securities distributed to stockholders pursuant to the In-Kind Tender Offers will be valued in the same manner as they would be valued for purposes of computing applicant's net asset value, which, in the case of securities traded on a public securities market for which quotations are available, is their last reported sales price on the exchange on which the securities are primarily traded or at the last sales price on a public securities market, or, if the securities are not listed on an exchange or a public securities market or if there is no such reported price, the average of the most recent bid and asked price (or, if no such asked price is available, the last quoted bid price).

4. Applicant will maintain and preserve for a period of not less than six years from the end of the fiscal year in which any In-Kind Tender Offer occurs, the first two years in an easily accessible place, a written record of such In-Kind Repurchase Offer, that includes the identity of each shareholder of record that participated in such In-Kind Repurchase Offer, whether that shareholder was an Affiliated Shareholder, a description of each security distributed, the terms of the distribution, and the information or materials upon which the valuation was made.

For the Commission, by the Division of Investment Management, under delegated authority.

Nancy M. Morris  
Secretary