



DIVISION OF
MARKET REGULATION

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

December 12, 2006

Mr. Jeffrey H. Long
Vice President, Controller, and
Assistant Treasurer
John Hancock Funds, LLC
601 Congress Street, 10th Floor
Boston, MA 02210-2805

RE: Request For No-Action Relief Under Rule 15c3-1(c)(2)(i)(C) With Respect To Certain
Deferred Tax Liabilities.

Dear Mr. Long:

This is in response to your letter, dated December 8, 2006 on behalf of John Hancock Funds, LLC, (the "Firm") in which you requested that the Division of Market Regulation of the Securities and Exchange Commission ("Division") provide No Action relief to the Firm pursuant to Securities Exchange Act of 1934 (the "Exchange Act") Rule 15c3-1(c)(2)(i)(C)¹ with respect to certain intangible assets and pre-paid selling commissions that have related deferred tax liabilities.

I. Background

You have represented the following information with respect to your request:

Intangible Assets

In connection with Manulife Financial Corporation's acquisition of the Firm's indirect parent, John Hancock Financial Services, generally accepted accounting principles ("GAAP")² required the Firm to 1) record an intangible asset on its books representing the value ascribed to the Firm's retail distribution network as of the date of the acquisition as required by GAAP when using purchase accounting, 2) recognize a corresponding increase in additional paid-in capital, and 3) recognize a deferred tax liability to account for the income tax consequences associated with the recognition of the "distribution network" asset.

Pre-paid Commissions

The Firm is the distribution agent for several affiliated registered mutual funds. Some of these affiliated funds sell Class B shares, which do not charge the customer an up-front load, but instead charge the customer a contingent deferred sales charge if the customer sells the shares before a certain time period has elapsed. When another broker-dealer sells Class B shares in one of the Firm's affiliated funds, the Firm pays the selling broker-dealer a commission immediately.

¹ 17 C.F.R. § 240.17a-3(a)(17)(i)(B)(1).

² Securities and Exchange Act of 1934 Release No. 18737 (May 13, 1982), 47 FR 23919 (June 2, 1982) specifically requires a broker-dealer to adopt the accrual method of accounting under GAAP for its financial reporting.

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That commission is an expense for tax purposes, but GAAP requires that the Firm defer recognition of the tax benefit because the Firm retains ongoing rights related to the sale of the mutual fund shares. Consequently, the Firm 1) records the amount it pays the selling broker-dealer as an asset (e.g., prepaid commissions), and 2) records a corresponding deferred tax liability on its books.

II. Request for Relief

Rule 15c3-1 provides that a broker-dealer's net capital is net worth (or assets minus liabilities) adjusted for certain items, including a deduction for assets that are not readily convertible into cash. Pursuant to this Rule, the Firm is required to deduct both the deferred tax liability and the related intangible asset and prepaid commission asset when calculating its net capital.

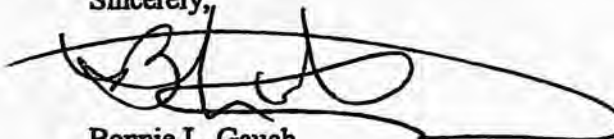
The Firm requests no-action relief from the Staff under Exchange Act Rule 15c3-1(c)(1)(i)(C) if the Firm, when computing net capital on a going-forward basis, adds-back the portion of its deferred tax liabilities that directly relate to the above-described 1) non-allowable, "distribution intangible network" asset, and 2) non-allowable prepaid commission asset.

III. Response

Based on the facts and representations set forth in your letter, as set forth above, the staff of the Division will not recommend enforcement action to the Commission under Exchange Act Rule 15c3-1(c)(1)(i)(C) if the Firm, when computing net capital on a going-forward basis, adds-back the portion of its deferred tax liabilities that directly relate to 1) the non-allowable, "distribution network" intangible asset, and 2) the non-allowable prepaid selling commission asset.

This is a position of the Division's staff concerning enforcement action with regard to Exchange Act Rule 15c3-1(c)(1)(i)(C) only, and does not purport to express any legal conclusions with respect to the applicability of the statutory or regulatory provisions of the federal securities laws. Moreover, this response is based solely upon the facts you have provided and the representations you have made, and any different facts or conditions might require a different response. This position may be withdrawn or modified if the Division determines that such action is necessary in the public interest, for the protection of investors, or otherwise, in furtherance of the purposes of the securities laws.

Sincerely,



Bonnie L. Gauch
Special Counsel

John Hancock Advisers, LLC

601 Congress Street
Boston, Massachusetts 02210-2805



December 8, 2006

Mr. Thomas McGowan
Assistant Director
U.S. Securities and Exchange Commission
Division of Market Regulation
100 F Street, NE
Washington, DC 20549-6628

Re: John Hancock Funds LLC – SEC Rule 15c3-1(c)(2)(i)(C)

Dear Mr. McGowan:

This letter requests that the staff of the Division of Market Regulation (the "Division") of the Securities and Exchange Commission (the "SEC") grant John Hancock Funds LLC (the "Firm") a "non-action" position allowing the Firm to net certain deferred selling commissions and intangible assets with related deferred tax liabilities when computing net capital under Rule 15c3-1 ("Rule 15c3-1") promulgated under the Securities Exchange Act of 1934, as amended (the "1934 Act"), as described in this letter.

Rule 15c3-1

Rule 15c3-1 provides that a broker-dealer's net capital is net worth adjusted for certain items. Rule 15c3-1(c)(2)(iv) requires that a broker-dealer deduct assets that are not readily convertible into cash, ("Non-Allowable Assets") from net worth to arrive at net capital. Rule 15c3-1(c)(2)(i)(C) provides for certain instances where deferred tax liabilities may be added back to net worth in computing net capital. This rule specifically allows a broker-dealer to add back those deferred tax liabilities that relate to "income accrued" which is directly related to an asset otherwise deducted pursuant to the rule. Thus, to avoid a double charge to net capital, to the extent that the value of a Non-Allowable Asset is reduced by certain types of deferred tax liabilities, the rule recognizes an adjustment to net capital for the net difference between the Non-Allowable Asset and the deferred tax liability established for that asset.

Non-Allowable Assets

The firm has two types of Non-Allowable Assets which directly relate to deferred tax liabilities on the firm's books: intangible assets and prepaid selling commissions.

Intangible Assets

In connection with the acquisition of its indirect parent, the Firm recorded an intangible asset on its books representing the value ascribed to the Firm's retail distribution network at the time of such acquisition, as required by GAAP, (SFAS #109) when using purchase accounting.¹ GAAP also requires recording a deferred tax liability related to the distribution network's intangible assets at the time the asset is recognized on the books.

This intangible asset is amortized over its estimatable life in an amount that reflects the pattern of economic benefit to be derived from the use of the distribution network. The intangible asset related to the Firm's distribution network has identifiable revenue streams associated with it from (1) the sale of the Funds raised by the wholesaling force; and (2) the associated net underwriting income and 12b-1 income earned on those assets of the Funds.

The costs related to the acquisition and the intangible asset were not deductible by the Firm for tax purposes in the year paid, nor are the amortization expenses associated with the asset deductible in future year as it is amortized for book purposes. The deferred tax liability recognized at inception is taken down over time through a shift from the deferred tax provision to the current tax provision and their related current and deferred tax liability accounts as the asset is amortized for book purposes. This transfer between the deferred and current tax provision is necessary to ensure the non-deductible expenses associated with the book amortization are not deducted from taxable income.

Prepaid Selling Commissions (Deferred Selling Commissions)

¹ The Firm accounted for the acquisition using the purchase method under Statement of Financial Accounting Standards ("SFAS") No. 141 "Business Combinations" and SFAS No. 142 "Goodwill and Other Intangible Assets."

The Firm pays an upfront selling commission to the selling broker-dealer for sales of the Funds' Class B shares, which also carry contingent deferred sales charges ("CDSC"). Generally accepted accounting principles ("GAAP") require that those costs be initially recorded as assets, and then amortized over the time period for which the selling commission is expected to benefit the Firm.² GAAP also requires recording a deferred tax liability related to the deferred selling commissions. The benefits provided by the deferred selling commissions include two identifiable revenue streams associated with the commissions: (1) CDSC payments received from Fund shareholders upon early redemption; and (2) fees earned pursuant to Rule 12b-1 promulgated under the Investment Company Act of 1940, as amended ("Rule 12b-1") on the eligible deferred selling commissions.

Although the selling commission is deductible in its entirety for tax purposes in the year paid, GAAP requires that the Firm defer recognition of the tax benefit over the book amortization period. To accomplish that deferral and reflect the temporary difference resulting from the difference between GAAP accounting and IRS tax pronouncements, the Firm records a deferred tax liability on its books.

Effect on Firm

Capitalizing costs and purchasing intangible assets, as the Firm did, create amortizable Non-Allowable Assets and defer recognition of expenses resulting in increased current earnings, and thus net worth on the Firm's books. The resultant increase in net worth on the Firm's books is reduced by effect of income taxes, while the deduction of Non-Allowable Assets will not be reflected on a tax-adjusted basis in the net capital computation unless the deferred tax liabilities are added back. As a result the Firm's net capital is reduced by an amount in excess of the increase in net worth created by the Non-Allowable asset recorded on the Firm's book. For example, for \$1,000 of selling commission expense or distribution intangible expense capitalized, equity capital increases by \$600 (the \$1,000 prepaid selling commission or distribution intangible expense reduced by the \$400 in related deferred tax liabilities). However Rule 15c3-1 presently requires the firm to deduct the entire \$1,000 as a non-allowable asset with no compensating adjustment for the associated deferred taxes.

This occurs even though there has been no change in cash flows, income tax liability or overall operating risk profile. GAAP treatment of the Non-Allowable Assets merely

² 1934 Act Release No. 18737 (May 13, 1982), 47FR 23919 (June 2, 1982) specifically requires a broker-dealer to adopt the accrual method of accounting under GAAP for its financial reporting.

alters the timing under which expenses related to those Non-Allowable assets recognized in book net income.. As the Non-Allowable Assets and related deferred tax liabilities are amortized by journal entries and reflected in earnings, this impact on net capital will be eliminated over the useful life of the Non-Allowable Assets without any additional outlay of funds.

The Division previously indicated in two separate "no-action" letters that it would not recommend enforcement action if, when computing net capital, a registered broker-dealer adds back to its net worth the amount of its deferred tax liability directly related to a Non-Allowable Asset.³

Conclusion

The Firm requests that the Division grant the Firm a "no-action" position to net certain deferred selling commissions and intangible assets with related deferred tax liabilities for purposes of computing net capital under Rule 15c3-1.

Sincerely,



Jeffrey H. Long

Vice President & Corporate Controller

³ Charles Schwab & Co. SEC No-Action Letter (Publicly Available November 5, 1999) and Advanced Clearing, Inc. SEC No-Action Letter (Publicly Available November 5, 1999).