[Rel. No. IC—22275; 812–10246]

Vanguard Money Market Reserves, Inc., et al.; Notice of Application

October 10, 1996.

AGENCY: Securities and Exchange Commission (''SEC'').

ACTION: Notice of Application for Exemption Under the Investment Company Act of 1940 (the ''Act'').

APPLICANTS: Vanguard Money Market Reserves, Inc., Vanguard Balanced Index Fund, Inc., Vanguard Municipal Bond Fund, Inc., Vanguard California Tax-Free Fund, Vanguard Florida Insured Tax-Free Fund, Vanguard New Jersey Tax-Free Fund, Vanguard New York Insured Tax-Free Fund, Vanguard Ohio Tax-Free Fund, Vanguard Pennsylvania Tax-Free Fund, Vanguard Bond Index Fund, Inc., Vanguard Fixed Income Securities Fund, Inc., Vanguard/Wellesley Income Fund, Inc., Vanguard Asset Allocation Fund, Inc., Vanguard Convertible Securities Fund, Inc., Vanguard/Windsor Funds, Inc., Vanguard/Wellington Fund, Inc., Vanguard/Trustees' Equity Fund, Vanguard Equity Income Fund, Inc., Vanguard Index Trust, Vanguard Institutional Index Fund, Vanguard International Equity Index Fund, Inc., Vanguard Quantitative Portfolios, Inc., Vanguard Preferred Stock Fund, Vanguard/PRIMECAP Fund, Inc., Vanguard World Fund, Inc., Vanguard/Morgan Growth Fund, Inc., Vanguard Explorer Fund, Inc., Vanguard Specialized Portfolios, Inc., Vanguard Variable Insurance Fund, Vanguard Admiral Funds, Inc., Vanguard Tax-Managed Fund, Inc., Vanguard Whitehall Funds, Inc., Vanguard STAR Fund, and Gemini II, Inc., (collectively, the ''Funds'') and The Vanguard Group, Inc. (the ''Vanguard Group'' or ''Vanguard'').

RELEVANT ACT SECTION: Order requested under section 17(d) of the Act and rule 17d–1 thereunder.

SUMMARY OF APPLICATION: Applicants seek to amend an existing order (the ''Existing Order'') that permitted applicants to operate a joint account that invests solely in repurchase agreements of seven days or less.[1] The amended order would permit applicants to deposit uninvested cash into one or more joint accounts authorized to invest in repurchase agreements with maturities of up to 60 days as well as other short-term investments.

FILING DATES: The application was filed on July 11, 1996, and amended on September 27, 1996. Applicants agree to file an amendment, the substance of which is incorporated herein, during the notice period.

HEARING OR NOTIFICATION OF HEARING: An order granting the application will be issued unless the SEC orders a hearing. Interested persons may request a hearing by writing to the SEC's Secretary and serving applicants with a copy of the request, personally or by mail. Hearing requests should be received by the SEC by 5:30 p.m. on November 4, 1996, 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 SEC's Secretary.

ADDRESSES: Secretary, SEC, 450 5th Street, N.W., Washington, D.C. 20549. Applicants: Vanguard Financial Center, Valley Forge, Pennsylvania 19482.

FOR FURTHER INFORMATION CONTACT: Sarah A. Buescher, Staff Attorney, at (202) 942–0573, or Alison E. Baur, Branch Chief, (202) 942–0564 (Office of Investment Company Regulation, Division of Investment Management).

SUPPLEMENTARY INFORMATION: The following is a summary of the application. The complete application may be obtained for a fee at the SEC's Public Reference Branch.

Applicants' Representations

1. The Funds, except for Vanguard STAR Fund and Vanguard Institutional Index Fund, are members of the Vanguard Group of Investment Companies, a group of over 30 registered management investment companies that currently offer shares in over 90 portfolios. Each Fund is registered as an open-end management investment company, except for Gemini II, Inc., which is registered as a closed-end investment company. Applicants request that any relief granted pursuant to the application also apply to any other investment companies or portfolios thereof which are or may become members of the Vanguard Group of Investment Companies or for which Vanguard provides advisory or distribution services.

2. The Vanguard Group, a wholly and jointly owned subsidiary of its member Funds, and a registered investment adviser and transfer agent, provides corporate management, administrative, transfer agent, and distribution services to the Funds on a at-cost basis pursuant to an agreement approved by shareholders of each of its member Funds. Vanguard also provides investment advisory services to certain member Funds on an at-cost basis. Vanguard Institutional Index Fund is not a member of the Vanguard Group, but receives services from Vanguard on an at-cost basis pursuant to an individual service agreement. Vanguard STAR Fund, which invests exclusively in other Vanguard Funds, is also not a member of the Vanguard Group. The boards of directors of the Funds and of Vanguard are presently the same. Eight of the ten directors have no affiliation with the Funds or Vanguard other than as directors.

3. The Existing Order permits the Funds to invest through a joint account (''Joint Account'') in repurchase agreements with a maturity of seven days or less. Applicants propose to continue to operate the Joint Account in the same manner as permitted by the Existing Order, subject to the proposed modifications discussed below.

4. Applicants propose to amend the Existing Order to permit the Funds to pool their daily uninvested cash balances into one or more Joint Accounts authorized to (a) invest in (i) tax-exempt variable rate demand notes (''VRDNs'') with demand features providing for maturities of up to 30 days or one month and (ii) securities (other than VRDNs) exempt from federal and/or state income tax with remaining maturities of up to 60 days (collectively, ''Tax-Exempt Securities''), (b) invest in commercial paper, certificates of deposit, other non-government money market securities, and U.S. Government Securities (i.e., obligations issued or guaranteed as to principal or interest by the U.S. Government and by any of its agencies or instrumentalities, and satisfying the uniform standards set by the Funds for such investments) that have remaining maturities of up to 60 days (collectively, ''Short-Term Money Market Securities'') and (c) invest in repurchase agreements with maturities of up to 60 days.

5. If a tax-exempt money market fund contributes cash to a Joint Account, the cash only will be invested in securities that qualify for purchase by a tax-exempt money market fund under rule 2a–7 under the Act, as it may be amended from time to time.

6. The VRDNs include short-term tax-exempt demand obligations that have a variable or floating interest rate and an unconditional right to demand payment of the unpaid principal and accrued interest within 30 days or one month. The variable or floating rate features of the VRDNs provide for the readjustment of the interest rate to a rate then

[1] *Wellington Fund, Inc., et al.,* Investment Company Act Release Nos. 15605 (March 5, 1987) (notice) and 15653 (March 31, 1987) (order).

prevailing for similar instruments so that such securities reasonably can be expected to maintain a market value that approximates the par value of the notes.

7. Vanguard's investment management staff is responsible for negotiating the terms of the repurchase agreements. In connection with the use of repurchase transactions collateralized by U.S. Government Securities, each of the Funds has established the same systems and standards. These include quality standards for issuers of repurchase agreements and for collateral, and requirements that the repurchase agreements will be collateralized fully, as defined in rule 2a–7 under the Act. Any joint repurchase agreement transaction will be effected in accordance with Investment Company Act Release No. 13005 (Feb. 2, 1983) and with any other existing and future positions taken by the SEC in any release proposing, reproposing, or adopting any new rule or any amendments to any existing rule.

8. Each Fund will automatically transfer its uninvested cash remaining after the conclusion of its daily trading activity into the Joint Account. The officers and employees of Vanguard, or the investment adviser of each Fund will determine whether to invest a Fund's assets in repurchase agreements, Tax-Exempt Securities, or Short-Term Money Market Securities (collectively, ''Short-Term Investments''). Each Fund will be able to invest in Short-Term Investments through a Joint Account if such investment is consistent with the Fund's investment objectives and policies. The transactions entered into on behalf of a Joint Account will be recorded and monitored following the same procedures set forth in the Existing Order. Each portfolio manager would have the discretion whether to invest a Fund's cash in the securities purchased by the Joint Account or to separately invest cash on an individual Fund basis in appropriate short-term investments given a Fund's investment limitations.

Applicants' Legal Analysis

1. Section 17(d) of the Act and rule 17d–1 thereunder prohibit an affiliated person of a registered investment company from participating in any joint enterprise or arrangement in which such investment company is a participant, without an SEC order.

2. Each Fund, by participating in the proposed Joint Accounts, as proposed to be modified, and Vanguard, by managing the proposed Joint Accounts, could be deemed to be ''joint participants'' in a transaction within the meaning of section 17(d). In addition, a proposed Joint Account could be deemed to be a ''joint enterprise or other joint arrangement'' within the meaning of rule 17d–1.

3. Applicants believe that the proposed amendments to the method of operating the Joint Account will not result in any conflicts of interest between any of the Funds or between the Funds and Vanguard or a Fund's adviser. Although an adviser will realize some benefits through administrative convenience and some possible reduction in clerical costs, the Funds will be the primary beneficiaries because the Joint Accounts may result in higher returns and would be a more efficient means of administering daily cash investments. Applicants believe that the operation of the Joint Account will be free of any inherent bias favoring one Fund over another.

4. Applicants also believe that the future participation in the Joint Account by one or more Funds that do not presently exist would be desirable without the necessity of applying for an amendment of the requested order. Applicants represent that additional Funds will only be permitted to participate in the Joint Account on the same terms and conditions as the existing Funds.

Applicants' Conditions

Applicants will comply with the following as conditions to any order granted by the SEC:

1. The Joint Account will not be distinguishable from any other accounts maintained by a Fund with its custodian bank or a designated sub-custodian bank except that monies from the Fund will be deposited in it on a commingled basis. The Joint Account will not have any separate existence which will have indicia of a separate legal entity. The sole function of the Joint Account will be to provide a convenient way of aggregating what otherwise will be one or more individual daily transactions for each Fund necessary to manage the daily uninvested cash balances of each Fund.

2. Cash contributed by a Fund to the Joint Account will be invested in one or more of the following, as directed by the Fund: (a)(1) Tax-exempt variable rate demand notes (''VRDNs'') with demand features providing for maturities of up to 30 days or one month and (2) securities (other than VRNDs) exempt from federal and/or state income tax with remaining maturities of up to 60 days, (b) commercial paper, certificates of deposit, other non-government money market securities, and U.S Government Securities that constitute ''Eligible Securities'' within the meaning of rule 2a–7 under the Act which have remaining maturities of up to 60 days, and (c) repurchase agreements with maturities of up to 60 days ''collateralized fully,'' as defined in rule 2a–7 under the Act, by U.S. Government Securities.

3. Any investment made by a Fund or Funds through the Joint Account will satisfy the investment criteria of all Funds participating in that investment.

4. All investments held by a Fund or Funds through the Joint Account would be valued on the basis of amortized cost to the extent permitted by applicable SEC release, rule or order.

5. Each Fund valuing its net assets in reliance upon rule 2a–7 under the Act will use the average maturity of the instrument(s) in the Joint Account in which such Fund has an interest (determined on a dollar weighted basis) for the purpose of computing the Fund's average portfolio maturity with respect to the portion of its assets held in the Joint Account on that day.

6. In order to assure that there will be no opportunity for one Fund to use any part of a balance of the Joint Account credited to another Fund, no one Fund will be allowed to create a negative balance in the Joint Account for any reason. A Fund's decision to invest in the Joint Account will be solely at the Fund's option. A Fund will not be obligated to invest in the Joint Account nor to maintain any minimum balance. A Fund will be permitted to withdraw all, or a portion, of its investment in the Joint Account at any time. In addition, a Fund will retain the sole rights of ownership of any of its assets, including any interest payable on such assets invested in the Joint Account.

7. Each Fund and the custodian for each Fund will maintain records (in conformity with section 31 of the Act and the rules and regulations thereunder) documenting, for any given day, each Fund's aggregate investment in the Joint Account and each Fund's *pro rata* share of each Short-Term Investment made through the Joint Account.

8. Not every Fund participating in the Joint Account will necessarily have its cash invested in every Short-Term Investment held in the Joint Account. However, to the extent a Fund's cash is applied to particular Short-Term Investments made through the Joint Account, the Fund will participate in and own a proportionate share of such investment, and the income earned or accrued thereon, based upon the percentage of such investment purchased with monies contributed by the Fund.

9. Vanguard will administer the investment of cash balances in and operation of the Joint Account without payment of any additional fee or compensation. The investment adviser of each Fund will collect its fees based upon the assets of the Fund, which include the value of any assets the Fund has invested in the Joint Account.

10. The Board of Directors (Trustees) of each Fund will adopt procedures pursuant to which the Joint Account will operate, which will be reasonably designed to provide that the requirements of the application will be met. Each Board will make and approve such changes as it deems necessary to ensure that such procedures are followed. In addition, the Boards will determine, no less frequently than annually, that the Joint Account has been operated in accordance with such procedures and will only permit a Fund to continue to participate in a Joint Account if it determines that there is a reasonable likelihood that the Fund and its shareholders will benefit from the Fund's continued participation.

11. The administration of the Joint Account will be within the fidelity bond coverage required by section 17(g) of the Act and rule 17g–1 thereunder.

12. Short-Term Investments held through the Joint Account generally will not be sold prior to maturity except: (a) If the officers or employees of Vanguard believe the security no longer presents minimal credit risk; (b) in the case of taxable and tax-exempt securities, if as a result of a credit downgrading or otherwise, the security no longer satisfies the investment criteria of all Funds participating in that investment; or (c) in the case of a repurchase agreement, if the counterparty defaults. A Fund may, however, sell its fractional portion of a Short-Term Investment prior to the maturity of the investment if the cost of such transaction will be borne solely by the selling Fund and the transaction would not adversely affect the other Funds participating in the Short-Term Investment. In no case would an early termination by less than all participating Funds be permitted if it would reduce the principal amount or yield received by other funds participating in a particular Short-Term Investment or otherwise adversely affect the other participating Funds. Each Fund participating in the Short-Term Investment will be deemed to have consented to such sale and partition of the Short-Term Investment.

13. Any Short-Term Investment held through the Joint Account with a remaining maturity of more than seven days will be considered illiquid and, for any Fund that is an open-end management investment company registered under the Act, subject to the restriction that the Fund may not invest more than 15% (or such other percentages as set forth by the SEC from time to time) of its net assets in illiquid securities, if the Fund cannot sell its fractional interest in the Short-Term Investment pursuant to the requirements described in the preceding condition.

For the SEC, by the Division of Investment Management, pursuant to delegated authority.

Margaret H. McFarland,

Deputy Secretary.

[FR Doc. 96–26712 Filed 10–17–96; 8:45 am]

BILLING CODE 8010–01–M

Sunshine Act Meeting

''FEDERAL REGISTER'' CITATION OF PREVIOUS ANNOUNCEMENT: [To be Published].

STATUS: Closed Meeting.

PLACE: 450 Fifth Street, N.W., Washington, D.C.

DATE PREVIOUSLY ANNOUNCED: To be Published.

CHANGE IN THE MEETING: Additional Item.

The following item will be considered at a closed meeting scheduled to be held on Wednesday, October 16, 1996, at 10:00 a.m.:

Opinion.

Commissioner Wallman, as duty officer, determined that Commission business required the above change and that no earlier notice thereof was possible.

At times, changes in Commission priorities require alterations in the scheduling of meeting items. For further information and to ascertain what, if any, matters have been added, deleted or postponed, please contact: The Office of the Secretary (202) 942–7070.

Dated: October 16, 1996.

Jonathan G. Katz,

Secretary.

[FR Doc. 96–26928 Filed 10–16–96; 2:10 pm]

BILLING CODE 8010–01–M

[Release No. 34–37811; File No. SR–CSE–96–08]

Self-Regulatory Organizations; Notice of Filing of Proposed Rule Change by the Cincinnati Stock Exchange Relating to Continuous or Regular Quotation Obligations

October 11, 1996.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (''Act''), 15 U.S.C. 78s(b)(1), notice is hereby given that on October 3, 1996, the Cincinnati Stock Exchange (''CSE'' or ''Exchange'') filed with the Securities and Exchange Commission (''Commission'') the proposed rule change as described in Items I, II, and III below, which Items have been prepared by the self-regulatory organization. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

I. Self-Regulatory Organization's Statement of the Terms of Substance of the Proposed Rule Change

The CSE hereby proposes to issue a reiteration and clarification of its rules concerning dealer obligations to provide continuous, two-sided quotations. Members will be notified of this reiteration and clarification by means of a Regulatory Circular (''Circular'').[1]

II. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

In its filing with the Commission, the self-regulatory organization included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. The self-regulatory organization has prepared summaries, set forth in Sections A, B, and C below, of the most significant aspects of such statements.

A. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change

1. Purpose

The purpose of the proposed rule change is to clarify the obligations of Designated Dealers to provide continuous quotations during the trading day. The Circular to be disseminated following approval of the proposal will provide guidance concerning quotation obligations at the opening and intra-day, during computer systems problems and unusual market conditions and will delineate enforcement standards. It will reiterate the obligations of a Designated Dealer to display a two-sided quotation immediately following the opening of the security on the primary market, and immediately to reestablish a quotation if that quotation is taken out during the day as a result of a transaction. The Exchange will thus reemphasize the

[1] The text of the Circular may be examined at the places specified in Item IV, *infra.*