personnel that managed the Funds prior to the announcement of the Merger. In the event there is any material change in personnel providing advisory services under the Interim Advisory Agreements during the Interim Period, applicants state that New Adviser will apprise and consult the Board to ensure that such Board, including a majority of the Independent Trustees, is satisfied that the services provided by New Adviser will not be diminished in scope and quality. Applicants state that the Board's approval of the Interim Advisory Agreements signifies its independent determination that implementing the Agreements prior to shareholder approval was necessary to protect the Funds and their shareholders.

7. Applicants submit that to deprive New Adviser of its customary fees during the Interim Period for no reason, other than the fact that the Merger may be deemed to result in an assignment of the Existing Advisory Agreements, would be unduly harsh and unreasonable penalty to impose upon an investment adviser. New Adviser submits that, in good faith and consistent with the Act and the spirit of rule 15a–4, it seeks to promote the interests of the Funds and their shareholders by undertaking the fee and other arrangements described in the application. Applicants state that the fees payable to New Adviser under the Interim Advisory Agreements have been approved by the Board, including a majority of the Independent Trustees, in accordance with their fiduciary and other obligations under the Act, and that such fees will not be released by the escrow agent without the approval of the respective Fund's shareholders.

8. Section 6(c) provides that the SEC may exempt any person, security, or transaction from any provision of the Act, 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. Applicants believe that the relief requested satisfies this standard.

Applicants' Conditions

Applicants agree as conditions to the issuance of the exemptive order requested by the application that:

1. Each Interim Advisory Agreement will have the same terms and conditions as the respective Existing Advisory Agreement, except for the effective and termination dates, escrow provisions, and the substitution of New Adviser in place of Adviser.

2. Fees earned by New Adviser and paid by a Fund during the Interim Period in accordance with the Interim Advisory Agreement will be maintained with as unaffiliated financial institution in an interest-bearing escrow account, and amounts in the such account (including interest earned on such amounts) will be paid to New Adviser only upon approval of the shareholders of the related Fund or, in the absence of approval by such shareholders, to the Fund.

3. The Qualivest Funds will hold meetings of shareholders to vote on approval of the Interim Advisory Agreements for the Funds on or before the 120th day following the earlier of the termination of the Existing Advisory Agreements on the Effective Date or September 30, 1997.

4. New Adviser will pay the costs of preparing and filing the application. New Adviser will pay the costs relating to the solicitation of approval of Fund shareholders, to the extent such costs relate to shareholder approval of the Interim Advisory Agreements necessitated by the Merger.

5. New Adviser will take all appropriate actions to ensure that the scope and quality of advisory and other services provided to the Funds under the Interim Advisory Agreements will be at least equivalent, in the judgment of the Board, including a majority of the Independent Trustees, to the scope and quality of services provided under the Existing Advisory Agreements. In the event of any material change in personnel providing services pursuant to the Interim Advisory Agreements, New Adviser will apprise and consult the Board to assure that the Board, including a majority of the Independent Trustees, is satisfied that the services provided by New Adviser will not be diminished in scope or quality.

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

Jonathan G. Katz,

Secretary.

[FR Doc. 97–17988 Filed 7–9–97; 8:45 am]

BILLING CODE 8010–01–M

SECURITIES AND EXCHANGE COMMISSION

[Investment Company Act Release No. 22732; 812–10580]

Reserve Investment Funds, Inc., et al., Notice of Application

July 2, 1997.

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

ACTION: Notice of application for an order under the Investment Company Act of 1940 (the ''Act'').

APPLICANTS: Reserve Investment Funds, Inc., T. Rowe Price Balanced Fund, Inc., T. Rowe Price Blue Chip Growth Fund, Inc., T. Rowe Price Capital Appreciation Fund, T. Rowe Price Capital Opportunity Fund, Inc., T. Rowe Price Dividend Growth Fund, Inc., T. Rowe Price Equity Income Fund, T. Rowe Price Equity Series, Inc., T. Rowe Price Equity Income Portfolio, T. Rowe Price Mid-Cap Growth Portfolio, T. Rowe Price New America Growth Portfolio, T. Rowe Price Personal Strategy Balanced Portfolio, T. Rowe Price Financial Services Fund, Inc., T. Rowe Price Growth & Income Fund, Inc., T. Rowe Price Growth Stock Fund, Inc., T. Rowe Price Health Sciences Fund, Inc., T. Rowe Price Index Trust, Inc., T. Rowe Price Equity Index Fund, Institutional Equity Fund, Inc., Mid-Cap Equity Growth Fund, Institutional International Funds, Inc., Foreign Equity Fund, T. Rowe Price International Fund, Inc., T. Rowe Price International Discovery Fund, T. Rowe Price International Stock Fund, T. Rowe Price European Stock Fund, T. Rowe Price New Asia Fund, T. Rowe Price Japan Fund, T. Rowe Price Latin America Fund, T. Rowe Price Emerging Markets Stock Fund, T. Rowe Price Global Stock Fund, T. Rowe Price International Bond Fund, T. Rowe Price Global Government Bond Fund, T. Rowe Price Emerging Markets Bond Fund, T. Rowe Price International Series, Inc., T. Rowe Price International Stock Portfolio, T. Rowe Price Mid-Cap Growth Fund, Inc., T. Rowe Price Mid-Cap Value Fund, Inc., T. Rowe Price New America Growth Fund, T. Rowe Price New Era Fund, Inc., T. Rowe Price New Horizons Fund, Inc., T. Rowe Price OTC Fund, Inc., T. Rowe Price OTC Fund, T. Rowe Price Science & Technology Fund, Inc., T. Rowe Price Small-Cap Value Fund, Inc., T. Rowe Price Spectrum Fund, Inc., Spectrum Growth Fund, Spectrum Income Fund, Spectrum International Fund, T. Rowe Price Value Fund, Inc., New Age Media Fund, Inc., T. Rowe Price California Tax-Free Income Trust, California Tax-Free Bond Fund, California Tax-Free Money Fund, T. Rowe Price Corporate Income Fund, Inc., T. Rowe Price Fixed Income Series, Inc., T. Rowe Price Limited-Term Bond Portfolio, T. Rowe Price Prime Reserve Portfolio, T. Rowe Price GNMA Fund, T. Rowe Price High Yield Fund, Inc., T. Rowe Price New Income Fund, Inc., T. Rowe Price Personal Strategy Fund, Inc., T. Rowe Price Personal Strategy Balanced Fund, T. Rowe Price Personal Strategy Growth

Fund, T. Rowe Price Personal Strategy Income Fund, T. Rowe Price Prime Reserve Fund, Inc., T. Rowe Price Short-Term Bond Fund, Inc., T. Rowe Price Short-Term U.S. Government Fund, Inc., (formerly known as T. Rowe Price Adjustable Rate U.S. Government Fund, Inc.), T. Rowe Price State Tax-Free Income Trust, Maryland Tax-Free BondFund, Maryland Short-Term Tax-Free Bond Fund, New York Tax-Free Bond Fund, New York Tax-Free Money Fund, Virginia Tax-Free Bond Fund, Virginia Short-Term Tax-Free Bond Fund, New Jersey Tax-Free Bond Fund, Georgia Tax-Free Bond Fund, Florida Insured Intermediate Tax-Free Fund, T. Rowe Price Summit Funds, Inc., T. Rowe Price Summit Cash Reserves Fund, T. Rowe Price Summit Limited-Term Bond Fund, T. Rowe Price Summit GNMA Fund, T. Rowe Price Summit Municipal Funds, Inc., T. Rowe Price Summit Municipal Money Market Fund, T. Rowe Price Summit Municipal Intermediate Fund, T. Rowe Price Summit Municipal Income Fund, T. Rowe Price Tax-Exempt Money Fund, Inc., T. Rowe Price Tax-Free High Yield Fund Inc., T. Rowe Price Tax-Free Income Fund, Inc., T. Rowe Price Tax-Free Insured Intermediate Bond Fund, Inc., T. Rowe Price Tax-Free Short-Intermediate Fund, Inc., T. Rowe Price U.S. Treasury Funds, Inc., U.S. Treasury Intermediate Fund, U.S. Treasury Long-Term Fund, U.S. Treasury Money Fund, T. Rowe Price Associates, Inc. (''T. Rowe Price''), Rowe Price-Fleming International, Inc. (''Price-Fleming''), each fund and all other registered investment companies and series thereof that are advised by T. Rowe Price or Price-Fleming or a person controlling, controlled by, or under common control with T. Rowe Price or Price-Fleming (collectively, the ''Adviser''), and all other registered investment companies and series thereof for which the Adviser in the future acts as investment adviser (collectively, the ''Price Funds''); T. Rowe Price Trust Company (''Trust Company''); collective trust funds, the trustee for which, or in the future the trustee for which, is Trust Company or the Adviser that are excepted from the definition of investment company by section 3(c)(11) of the Act (the ''3(c)(11) Entities''); institutional and individual managed accounts advised by the Adviser (''Institutional Accounts'')[1] (collectively, the Price Funds, the 3(c)(11) Entities, and the Institutional Accounts, the ''Funds''),[2] T. Rowe Price Services, Inc. (''Services''), T. Rowe Price (Canada), Inc. (''Price Canada''), and T. Rowe Price Stable Asset Management, Inc. (''Price SAM'').

RELEVANT ACT SECTIONS: Order of requested under section 12(d)(1)(J) of the Act exempting applicant from sections 12(d)(1) (A) and (B) of the Act, under section 6(c) of the Act exempting applicants from rule 2a–7(c)(4) (i) and (ii) under the Act, under sections 6(c) and 17(b) of the Act exempting applicants from section 17(a) of the Act, and under rule 17d–1 under the Act to permit certain transactions in accordance with section 17(d) of the Act and rule 17d–1 thereunder.

SUMMARY OF APPLICATION: The requested order would permit certain Funds, including money market funds (the ''Participating Funds''), to purchase shares of one or more non-publicly traded T. Rowe Price money market funds and/or short-term bond funds (the ''Central Funds'') for cash management purposes, and permit the Participating Funds and the Central Funds to engage in certain transactions with each other. The requested order also would amend a condition of a prior order.[3]

FILING DATES: The application was filed on March 14, 1997 and amended on June 9, 1997 and June 19, 1997. Applicants have agreed 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 July 28, 1997 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 may request notification of a hearing by writing to the SEC's Secretary.

ADDRESSES: Secretary, SEC, 450 Fifth Street, NW., Washington, DC 20549. Applicants, 100 East Pratt Street, Baltimore, MD 21202.

FOR FURTHER INFORMATION CONTACT: David W. Grim, Staff Attorney, at (202) 942–0571, or Mercer E. Bullard, Branch Chief, at (202) 942–0564 (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 from the SEC's Public Reference Branch.

Applicants' Representations

1. Each Price Fund is or will be registered under the Act, and the shares of each series in a Price Fund are or will be registered under the Securities Act of 1933 (the ''1933 Act''). Most of the Price Funds are series companies and may issue one or more series and/or one or more classes of shares. The 3(c)(11) Entities are common trust funds established by Trust Company under Maryland law and exempt from registration under the Act in reliance on section 3(c)(11) thereunder. Trust Company, which is a wholly-owned subsidiary of T. Rowe Price, acts as trustee for each common trust.[4]

2. T. Rowe Price and Price-Fleming are each registered under the Investment Advisers Act of 1940 (the ''Advisers Act''). T. Rowe Price acts as the investment manager for all domestic Funds and Price-Fleming acts as the investment manager for all international and global Funds. T. Rowe Price provides all Funds with certain administrative services and Price-Fleming provides the international and global Funds with certain administrative services. Services, a wholly-owned subsidiary of T. Rowe Price, is a registered transfer agent and acts as the shareholder servicing, transfer, and dividend paying agent for each of the Price Funds. Price Canada, a wholly-owned subsidiary of T. Rowe Price, is an investment adviser organized in Maryland and registered under the Advisers Act and with the Ontario Securities Commission to provide advisory services to individual and institutional clients residing in Canada. Price SAM is a wholly-owned subsidiary of T. Rowe Price and is registered under the Advisers Act. Price SAM provides investment management

[1] An Institutional Account is defined as any separately managed account (as distinct from a Price Fund or collective trust fund).

[2] Each Fund that currently intends to rely on the requested relief has been named as an applicant. Any other existing Fund that may rely on the order in the future and any future Fund that relies on the order will do so only in accordance with the terms and conditions of the application.

[3] T. Rowe Price Spectrum Fund, Inc., Investment Company Act Release Nos. 21371 (Sept. 22, 1995) (notice) and 21425 (Oct. 18, 1995) (order) (''Spectrum Fund Order'').

[4] Trust Company, in its capacity as trustee, is the legal owner of the assets of the 3(c)(11) Entities, although the assets within each such entity are beneficially owned by the participating employee benefit plans therein. Accordingly, applicants submit that Trust Company can appropriately join as an applicant on behalf of the 3(c)(11) Entities without each entity individually also joining as an applicant.

services for portfolios investing in guaranteed investment contracts, bank investment contracts, and structured investment contracts issued by banks and insurance companies, as well as short-term fixed income securities.

3. Each Participating Fund has, or may be expected to have, uninvested cash held by its custodian bank. Such cash may result from a variety of sources, including dividends or interest received from portfolio securities, reserves held for investment strategy purposes, scheduled maturity of investments, liquidation of investment securities to meet anticipated redemptions and dividend payments, and new monies received from investors.

4. The Central Funds will be open-end management investment companies registered under the Act, but will not register their shares for sale under 1933 Act. The Central Funds will be taxable or tax-exempt money market funds or short-term bond funds with a portfolio maturity of three years or less.[5] The Central Funds are anticipated to be used as an additional cash management device for temporary investment by the Participating Funds. Shares of the Central Funds will be sold only to the Participating Funds.

5. No front-end sales charge, contingent deferred sales charge, rule 12b–1 fee, or other underwriting and distribution fee will be charged in connection with the purchase and sale of shares of the Central Funds. The Adviser currently intends not to collect any advisory fee from a Central Fund for serving as its investment adviser.

6. Applicants believe that it will be in the best interests of the Participating Funds and their shareholders to provide the widest possible range of investments for available cash. By adding shares of the Central Funds as another investment option, applicants believe that the Participating Funds may reduce their aggregate exposure to counterparty risk in repurchase agreements and diversify the risk associated with direct purchases of short-term obligations while providing high current rates of return, ready liquidity, and increased diversity of holdings indirectly through investment in the Central Funds. Reducing the amount of uninvested cash held at custodian banks also would reduce the Participating Funds' credit exposure to such banks. These benefits would be particularly pronounced for any tax-exempt Participating Funds, which have fewer cash management options than taxable funds.

7. Applicants intend that Participating Funds and the Central Funds engage in certain interfund purchase and sale transactions in securities. From time to time, certain of the Participating Funds engage in interfund purchase and sale transactions involving short-term money market instruments. Typically, these transactions would be between one entity that has a need to raise cash and another that has cash to invest on a short-term basis or between a fund seeking to implement a portfolio strategy and another fund seeking to raise or invest cash. These transactions provide the Participating Funds with an additional source of liquidity and an additional source of securities for investment.

8. Applicants seek an order to permit (i) the Participating Funds to purchase shares of the Central Funds; (ii) the Central Funds to sell such shares to the Participating Funds; (iii) the Central Funds to purchase (redeem) such shares from the Participating Funds; (iv) the Adviser to effect such purchases and sales (collectively, the ''Proposed Transactions''); (v) the Participating Funds and the Central Funds to engage in interfund purchase and sale transactions in securities (including daily and weekly variable rate demand notes that trade at par plus accrued interest, if any (''VRDNs'')) that otherwise would be effected in reliance on rule 17a–7[6] (the ''Interfund Transactions''); and (vi) the Participating Funds that are money market funds (the ''Money Funds'') to invest more than five percent of their assets (but no more than 25% of their total net assets) in the Central Funds that are money market funds.

9. Applicants state that T. Rowe Price Spectrum Fund, Inc. (''Spectrum Fund'') is a party to the application. Spectrum is a fund of funds registered under the Act and the 1933 Act that operates under the Spectrum Fund Order. Applicants state that one of the conditions of the Spectrum Fund Order is that the underlying funds in which Spectrum Fund can invest cannot themselves acquire securities of any other investment company in excess of the limits contained in section 12(d)(1)(A) of the Act. Applicants request that if the requested relief is granted, the Price Funds, which include the underlying funds in which Spectrum Fund can invest, will be permitted to purchase shares in excess of the limits contained in section 12(d)(1)(A) of the Act.

Applicants' Legal Analysis

A. Section 12(d)(1)

1. Section 12(d)(1)(A) of the Act provides that no registered investment company may acquire securities of another investment company if such securities represent more than 3% of the outstanding voting stock of the acquired company's voting stock, more than 5% of the acquiring company's total assets, or if such securities, together with the securities of any other acquired investment companies, represent more than 10% of the acquiring company's total assets. Section 12(d)(1)(B) provides that no registered open-end investment company may sell its securities to another investment company if the sale will cause the acquiring company to own more than 3% of the acquired company's voting stock, or if the sale will cause more than 10% of the acquired company's voting stock to be owned by investment companies.

2. Applicants state that because the Participating Funds will be the only shareholders of the Central Funds, it is unavoidable that more than 3% of the shares of each Central Fund may be owned from time to time by one or more of the Participating Funds that are Price Funds and that more than 10% of each Central Fund's shares may be held by one or more Price Funds. In addition, applicants state that each of the Price Funds will invest in, and hold shares of, the Central Funds to the extent that a Price Fund's aggregate investment in the Central Funds at the time the investment is made does not exceed 25% of the Price Fund's total net assets. For these reasons, applicants seek an exemption from the provisions of section 12(d)(1) to the extent necessary to implement the Proposed Transactions.

3. Section 12(d)(1)(J) provides that the SEC may exempt persons or transactions from any provision of section 12(d)(1) if and to the extent such exemption is consistent with the public interest and the protection of investors.

4. Applicants state that while any equity fund might from time to time have a larger than 10% portion of assets temporarily in cash, and while new funds during their start-up phase may even have larger cash positions, applicants believe that a maximum of 25% of a Participating Fund's assets

[5] An investment in a Central Fund that is a short-term bond fund would be available only to those Participating Funds for which direct investment in short-term bonds would be consistent with their investment objectives, policies, and restrictions. Participating Funds that are money market funds would not be eligible to invest in a Central Fund that is a short-term bond fund, but would be eligible to invest in a Central Fund meeting the requirements of rule 2a–7

[6] Rule 17a–7 generally permits purchase or sale transactions between registered investment companies and certain affiliated persons provided that certain conditions are met.

will cover normal investment patterns and permit the majority of equity fund cash to be invested in a Central Fund (assuming that a fund's fundamental investment policies permit such investment). In addition, applicants assert that a 25% limit would be consistent with the requirements and experience of the tax-exempt bond Funds. Furthermore, applicants submit that while the 25% limit might not accommodate the needs of the tax-exempt Money Funds during all periods, it would still allow such Funds an important alternative means of investing for liquidity purposes. Finally, applicants state that they have reviewed the operations of taxable funds with respect to their historic short-term liquid investment requirements and believe that limiting a Participating Fund's investment in the Central Funds to 25% of its total net assets would adequately accommodate cash investment requirements.

5. Applicants state that section 12(d)(1) is intended to protect an investment company's shareholders against (i) undue influence over portfolio management through the threat of large-scale redemptions, the threat of loss of advisory fees to the adviser, and the disruption of orderly management of the investment company through the maintenance of large cash balances to meet potential redemptions, (ii) the acquisition of voting control of the company, and (iii) the layering of sales charges, advisory fees, and administrative costs. Applicants state that each of the Central Funds will be managed specifically to maintain a highly liquid portfolio and that access to the Central Fund will enhance each Participating Fund's ability to manage and invest cash. In addition, applicants state that because the Adviser will serve as investment adviser to both the Participating Funds and the Central Funds, it is not susceptible to undue influence regarding its management of the Central Funds due to threatened redemptions or loss of fees. Further, applicants assert that because no Central Fund will be publicly offered, only the Participating Funds will exercise voting control over the Central Funds and each Participating Fund will hold a *pro rata* share of a Central Fund's outstanding voting securities based on the amount of its investment. Additionally, applicants state that because the Participating Funds will not incur many of the expenses associated with direct investment, these expense savings should significantly offset the effect of the remaining expenses incurred by the Central Funds. Therefore, applicants believe none of the perceived abuses meant to be addressed by section 12(d)(1) is created by the Proposed Transactions.

B. Rule 2a–7

1. Rule 2a–7(c)(4) (i) and (ii) require money market funds to limit their investment in the securities of any one issuer (other than certain specified securities) to 5% of fund assets with respect to either 100% or 75% of the fund's total assets. The SEC has interpreted rule 2a–7(c)(4) (i) and (ii) as applying to a money market fund's investment in another money market fund.[7] Accordingly, applicants seek relief from rule 2a–7(c)(4) (i) and (ii) to the extent necessary to permit the Money Funds to invest in a Central Fund that is a money market fund, to the same extent, and on the same basis, as Participating Funds that are not money market funds.

2. Section 6(c) permits the SEC to exempt any person or transaction from any provision of the Act, if 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. Applicants state that rule 2a–7 is designed to minimize the risk that a money market fund will not be able to maintain a stable net asset value. Applicants note that a Central Fund that is a money market fund will seek to maintain a constant net asset value and will be as liquid as a publicly offered money market fund. Applicants state that the net asset value per share of a money market Participating Fund would be made no more volatile as a result of investing a portion of its assets in another money market fund. In addition, applicants note that investment in a Central Fund would be as liquid as other investment alternatives. Accordingly, applicants believe that the investment by a money market Participating Fund in a Central Fund that is a money market fund would be consistent with the risk-limiting objectives of rule 2a–7.

C. Section 17(a)

1. Section 17(a) of the Act generally prohibits sales or purchases of securities between a registered investment company and any affiliated person of that company. Applicants request an exemption from the provisions of section 17(a) to permit (i) the sale of shares of the Central Funds to the Participating Funds that are registered investment companies and the redemption of such shares to the Central Funds, and (ii) the Participating Funds, and the Central Fund to engage in certain Interfund Transactions involving the purchase and sale of securities (including VRDNs) that otherwise would be effected in reliance on rule 17a–7.

2. Section 2(a)(3) of the Act defines an affiliated person of an investment company to include any person that owns more than 5% of the outstanding voting securities of that company, any investment adviser of the investment company, and any person directly or indirectly controlling, controlled by, or under common control with, such investment company. Applicants state that the Adviser is an affiliated person of each Fund under section 2(a)(3). Applicants state that because the Funds either share a common investment adviser or have an investment adviser that is under common control with those of the other Funds, and certain Price Funds also share a common board of directors/trustees, some or all of the Funds may be deemed to be under common control with some or all the other Funds, and, therefore, affiliated persons of those Funds. In addition, applicants state that it is likely that a Participating Fund would own more than 5% of the outstanding voting securities of the Central Fund. Thus, each Participating Fund and the Central Fund may be affiliated persons (or affiliates of affiliates) of each other Fund.

3. Applicants state that the Participating Funds currently rely on rule 17a–7 under the Act to conduct Interfund Transactions. Rule 17a–7 excepts from the prohibitions of section 17(a) the purchase or sale of certain securities between registered investment companies which are affiliated persons, or affiliated persons of affiliated persons, or each other or between a registered investment company and a person which is an affiliated person of such company (or an affiliated person of such person) solely by reason of having a comment investment adviser, common officers, and/or common directors, Applicants believe that Participating Funds could be affiliated persons of each other, and of the Central Funds, by virtue of a Participating Fund owning 5% or more of the outstanding voting securities of a Central Fund. Thus, applicants believe they would not be able to reply on rule 17a–7 to effect Interfund Transactions.

4. Section 17(b) permits the SEC to grant an order permitting a transaction otherwise prohibited by section 17(a) if

[7] *See* Investment Company Act Release No. 21837 (Mar. 21, 1996) (release adopting amendments to rule 2a–7).

it finds that the terms of the proposed transaction are reasonable and fair and do not involve overreaching on the part of any person concerned, the proposed transaction is consistent with the policy of each registered investment company concerned, and the proposed transaction is consistent with the general purposes of the Act. Applicants state that section 17(b) applies only to individual proposed transactions. However, applicants note that the SEC has frequently used its authority under section 6(c) of the Act to exempt a series of future affiliated transactions that otherwise met the standards of section 17(b). Applicants submit that their request for relief is consistent with these standards.

5. Applicants assert that the terms of the Proposed Transactions will be fair and reasonable, and do not involve overreaching. Applicants state that the consideration paid and received for the sale and redemption of shares of the Central Funds will be based on the net asset value per share of the Central Funds. In addition, applicants submit that the Proposed Transactions will be consistent with the policies of each Fund involved. Applicants state that the investment of assets of the Participating Funds in shares of the Central Funds, and the issuance of shares of the Central Funds, will be effected in accordance with each Participating Fund's investment guidelines, if any, and will be consistent with each Participating Price Fund's policies as set forth in its registration statement.

6. With respect to the relief requested from section 17(a) for the Interfund Transactions, applicants state that the Funds will comply with rule 17a–7 under the Act in all respects, other than the requirement that the registered investment company and the affiliated person thereof (or the affiliated person of such person) be affiliated persons of each other solely by reason of having a common investment adviser or investment advisers which are affiliated persons of each other, common officers, and/or common directors. Applicants state that the additional affiliation created by the Proposed Transactions does not affect the other protections provided by rule 17a–7, including the integrity of the pricing mechanism employed and oversight by the board of directors/trustees of each Price Fund.

7. Applicants believe that Interfund Transactions do not raise the types of concerns that section 17 was designed to address. Applicants state that all Interfund Transactions will be effected at the independent current market value of the security. Applicants contend that effecting Interfund Transactions at the current market value assures that there is an independent basis for determining that value of the securities. Applicants note that no brokerage commission, fee, or other remuneration will be paid in connection with the transactions. Applicants also note that the Adviser will not be a party to the transactions. Applicants therefore believe that Interfund Transactions will be reasonable and fair, will not involve overreaching, and will be consistent with the purposes of the Act and the policy of each registered investment company concerned.

D. Section 17(d) and Rule 17d–1

1. Section 17(d) of the Act and rule 17d–1 thereunder generally prohibit an affiliated person of a registered investment company, acting as principal, from participating in or effecting any transaction in connection with any joint enterprise or joint arrangement in which the investment company participates. Applicants contend that because they are acting together to create the Central Funds as a private facility for their cash management needs, the Central Funds may be deemed a joint enterprise for the purposes of section 17(d) and rule 17d–1. Applicants also believe that the Funds and Services, by participating in the Proposed Transactions, and the Adviser, by managing the Proposed Transactions, could be deemed to be joint participants in a joint transaction.

2. In order to grant an exemption from the provisions of section 17(d), rule 17d–1 requires that the SEC consider whether an investment company's participation in a joint enterprise or joint arrangement is consistent with the provisions, policies, and purposes of the Act, and the extent to which such participation is on a basis different from or less advantageous than that of other participants.

3. Applicants state that, for the reasons explained above, the Proposed Transactions are consistent with the provisions, policies, and purposes of the Act. Applicants also assert that the Participating Funds that are Price Funds and the Central Funds will not participate in this arrangement on a basis that is different from or less advantageous than the participants that are not investment companies. Rather, applicants state that the Proposed Transactions are intended to provide substantial benefits to all Participating Funds and that the Central Funds will benefit from having as large an asset base as possible. Moreover, applicants state that the arrangement is not intended to increase the fees for the Adviser or any other non-investment company participant. Finally, applicants note that each Participating Fund may purchase and redeem shares of each Central Fund, and would receive dividends and bear expenses on the same basis as each other Participating Fund that also invests in such Central Fund.

E. Spectrum Fund

1. Applicants also request relief under section 12(d)(1)(J) of the Act for an exemption from sections 12(d)(1) (A) and (B) of the Act, and under sections 6(c) and 17(b) of the Act for an exemption from section 17(a) of the Act to the extent necessary to amend the Spectrum Fund Order. Applicants submit that the Spectrum Fund Order should be modified solely to the extent necessary to permit the underlying funds in which Spectrum Fund can invest to purchase shares of the Central Funds in excess of the limits contained in section 12(d)(1)(A) of the Act. Applicants believe that the proposed relief satisfies the standards of sections 12(d)(1)(J), 6(c), and 17(b). Applicants state that the underlying funds in which Spectrum Fund invests will be investing in the Central Funds solely for cash management purposes, and such investment will not create any of the abuses to which section 12(d)(1)(A) is addressed for the reasons discussed above.

Applicants' Conditions

Applicants agree that any order of the SEC granting the requested relief will be subject to the following conditions:

1. The shares of the Central Funds sold to and redeemed from the Funds will not be subject to a sales load, redemption fee, distribution fee under a plan adopted in accordance with rule 12b–1, or service fee (as defined in rule 2830(b)(9) of the National Association of Securities Dealers' Conduct Rules).[8]

2. If the Adviser to a Central Fund collects a fee from the Central Fund for acting as its investment adviser, before the next meeting of the board of directors/trustees of a Price Fund that invests in the Central Fund is held for the purpose of voting on an advisory contract under section 15, the Adviser to the Price Fund will provide the board of directors/trustees with specific information regarding the approximate cost to the Adviser for managing the assets for the Price Fund that can be expected to be invested in such Central Funds. Before approving any advisory contract under section 15, the board of

[8] The staff notes that until recently rule 2830 of the NASD's Conduct Rules was section 26 of Article III of the NASD Rules of Fair Practice.

directors/trustees of such Price Fund, including a majority of the directors/trustees who are not ''interested persons,'' as defined in section 2(a)(19), shall consider to what extent, if any, the advisory fees charged to the Price Fund by the Adviser should be reduced to account for the fee indirectly paid by the Price Fund because of the advisory fee paid by the Central Fund. The minute books of the Price Fund will record fully the directors/trustees' consideration in approving the advisory contract, including the considerations relating to fees referred to above.

3. Each Participating Fund, each Central Fund, and any future fund that may rely on the order shall be advised by or, in the case of a 3(c)(11) Entity, shall have as its trustee, T. Rowe Price or Price-Fleming or a person controlling, controlled by, or under common control with T. Rowe Price or Price-Fleming.

4. Investment in shares of the Central Funds will be in accordance with each Price Fund's respective investment restrictions, if any, and will be consistent with each Price Fund's policies as set forth in its prospectuses and statements of additional information.

5. No Central Fund shall acquire securities of any other investment company in excess of the limits contained in section 12(d)(1) (A) of the Act.

6. A majority of the directors/trustees of each Price Fund will not be ''interested persons,'' as defined in section 2(a)(19) of the Act.

7. Each of the Price Funds will invest uninvested cash in, and hold shares of, the Central Funds only to the extent that the Price Fund's aggregate investment in the Central Funds at the time the investment is made does not exceed 25% of the Price Fund's total net assets. For purposes of this limitation, each Price Fund or series thereof will be treated as a separate investment company.

8. To engage in Interfund Transactions, the Funds will comply with rule 17a–7 under the Act in all respects other than the requirement that the parties to the transaction be affiliated persons (or affiliated persons of affiliated persons) of each other solely be reason of having a common investment adviser or investment advisers which are affiliated person of each other, common officers, and/or common directors.

Applicants also agree that condition number 2 to the Spectrum Fund Order would be modified as follows:

No Underlying Fund shall acquire securities of any other investment company in excess of the limits contained in section 12(d)(1)(A) of the Act, except to the extent such Underlying Fund acquires securities of another investment company pursuant to exemptive relief from the SEC permitting such Underlying Fund to acquire securities of one or more affiliated investment companies for short-term cash management purposes.

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

Jonathan G. Katz,

Secretary.

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34–38810; International Series Release No. 1090; File No. 600–30]

Self-Regulatory Organizations; Emerging Markets Clearing Corporation; Notice of Filing of Application for Registration as a Clearing Agency

July 1, 1997.

I. Introduction

On May 30, 1997, the Emerging Markets Clearing Corporation (''EMCC'') filed with the Securities and Exchange Commission (''Commission'') an application on Form CA–1 for registration as a clearing agency pursuant to Section 17A of the Securities Exchange Act of 1934 (''Exchange Act'')[1] and Rule 17Ab2–1 thereunder[2] in order to perform the functions of a clearing agency with respect to transactions in U.S. dollar-denominated Brady bonds.[3] The Commission is publishing this notice to solicit comments from interested persons.[4] Comments are solicited on all aspects of the EMCC application, and in particular the matters discussed in Section IV of this notice.

II. Structure of the EMCC System

EMCC is a corporation organized under the laws of the State of New York. EMCC was formed by the Emerging Markets Traders Association (''EMTA'') and the International Securities Clearing Corporation (''ISCC'') in response to an industry initiative to reduce risk in the clearance and settlement of emerging markets debt instruments.

Initially, EMCC will be owned by EMTA, the National Securities Clearing Corporation (''NSCC''), and the International Securities Markets Association (''ISMA''). EMTA will be issued 300 shares (37.5% of the outstanding shares), NSCC will be issued 300 shares (37.5% of the outstanding shares), and ISMA will be issued 200 shares (25% of the outstanding shares).[5]

EMTA is a trade association organized as a New York not-for-profit corporation in 1990 by financial institutions to promote the orderly development of trading markets in emerging market instruments. As of the end of 1996, EMTA had 154 members, which were mainly broker-dealers and banks. EMTA had 154 members, which were mainly broker-dealers and bankers. EMTA owns 100% of the outstanding voting securities of EMTA Black, Inc. EMTA Black, Inc. in turn owns 100% of the outstanding voting securities of each of Clear-EM, Inc., Match-EM, Inc., and Net-Em, Inc. Match-EM, Inc. is the owner of Match-EM, which is an electronic post-trade confirmation and matching system for Brady bonds and sovereign loans operated by GE Information Services, Inc. (''GE''). Match-EM also enables EMTA to disseminate daily market volume and price data. Match-EM began services in May 1995.

ISMA is an industry association composed of member broker-dealer firms. ISMA has approximately 820 members in 48 countries. ISMA is organized under the laws of Switzerland and is registered in the United Kingdom (''U.K.'') as a designated investment exchange. ISMA owns TRAX, a trade matching and reporting system started in 1989. U.K. broker-dealers can use TRAX to fulfill their U.K. reporting requirements. ISMA's wholly-owned subsidiary, International Securities Market Association Limited (''ISMA Ltd.''), operates TRAX.

NSCC is a clearing agency registered under Section 17A of the Exchange Act.[6] NSCC is owned by the New York Stock Exchange, Inc., the American Stock Exchange, Inc., and the National

[1] 15 U.S.C. 78q-1.

[2] 17 CFR 240.17Ab2–1.

[3] On June 2, 1997, and June 17, 1997, EMCC filed amendments to its application. Copies of the application are available for inspection and copying at the Commisison's Public Reference Room

[4] The description set forth in this notice regarding the structure and operations of EMCC have been largely derived from information contained in EMCC's Form CA–1 application and publicly available sources.

[5] After the initial issuance of shares to EMTA, NSCC, and ISMA, EMCC intends to issue shares to persons that have contributed to the EMCC development fund and to finance EMCC's initial operations in such amounts and at such time as determined by EMCC. EMCC intends to issue shares no later than June 30, 1998. EMCC will file a proposed rule change prior to any such issuances.

[6] *See* Securities Exchange Act Release No. 20221 (September 23, 1983), 48 FR 45167 (order approving full registration of NSCC as a clearing agency.