any investment policy that is changeable only if authorized by shareholder vote. The relief requested from section 13(a)(3) would extend only to the Funds with a fundamental investment restriction that prohibits investments in the securities of investment companies (''Restricted Funds''). Applicants state that each Restricted Fund has a fundamental investment restriction prohibiting it from investing in securities of other investment companies, except in connection with a merger, consolidation, acquisition or reorganization, or except as permitted by the Act. Applicants believe that purchases by the Restricted Funds of shares of any other Fund under the Modified Plan will not violate the Fund's policies because the purchases serve solely to offset the Fund's liabilities under the deferred fee arrangements, and, thus, have no impact on a Fund's investment results from the perspective of the shareholders. The value of the Underlying Securities will be *de minimis* in relation to the total assets of each Restricted Fund. Each Fund will disclose in its Statement of Additional Information the existence of the deferred fee arrangements. Each Restricted Fund also will disclose that, for the limited purpose of the deferred fee arrangements, it may invest in Underlying Securities.

7. Rule 2a–7 imposes certain restrictions on the investments of money market funds that use the amortized cost method or the penny-rounding method of computing their per share price. These restrictions would prohibit each Fund that is a money market fund from investing in the shares of any other Fund. Applicants submit that the requested exemption will permit the Funds to achieve an exact matching of Underlying Securities with the Deferred Fee Accounts, thereby ensuring that the deferred fee arrangements will not affect the Fund's net asset value. Applicants assert that the amounts involved in all cases will be *de minimis* in relation to the total net assets of each Fund and will have no effect on the per share net asset value of the Funds.

8. Section 17(a) generally prohibits an affiliated person of a registered investment company, or any affiliated person of such a person, from selling any security to or purchasing any security from the company. Section 2(a)(3)(C) defines the term *affiliated person* of another person to include any person controlling, controlled by, or under common control with such other person. Because the Funds share the same investment adviser, directors, and many officers, applicants believe that each Fund might be deemed to be under common control with all other Funds.

9. Applicants assert that section 17(a) is designed to prevent sponsors of investment companies from using investment company assets as capital for enterprises with which they are associated or to acquire controlling interests in these kinds of enterprises and other types of ''overreaching.'' Applicants believe that the purchase and sale of securities issued by the Funds under the Modified Plan will not implicate the concerns underlying section 17(a), but merely will facilitate the matching of liabilities for deferred Unaffiliated Directors' fees with the Underlying Securities that would determine the amount of a Fund's liability.

10. The SEC may exempt a proposed transaction from section 17(a) when: the terms of the proposed transaction are fair and reasonable and do not involve overreaching on the part of any person involved, and the transaction is consistent with the policies of the investment company and with the general purposes of the Act. Applicants assert that the terms of the deferred fee arrangements are fair and reasonable and show an absence of overreaching because the purchases and sales of Underlying Securities will be made at net asset value and market prices, which are the same prices at which the Unaffiliated Directors may purchase shares of the Funds outside of the Modified Plan. Applicants believe that the relief requested satisfies the standards of sections 6(c) and 17(b).

11. Section 17(d) and rule 17d-1 prohibit affiliated persons from participating in joint arrangements with a registered investment company unless authorized by the SEC. Rule 17d-1 provides that the SEC will consider whether the participation of an investment company is consistent with the provisions, policies and purposes of the Act and the extent to which the participation is on a basis different from or less advantageous than that of other participants. Applicants believe the Modified Plan may be construed to be a joint arrangement under section 17(d) and rule 17d-1. Applicants assert that deferral of Unaffiliated Directors' fees would have a negligible effect on each Fund's assets, liabilities, net assets and net income per share. Applicants believe that deferral of an Unaffiliated Director's fees essentially would maintain the parties, viewed both separately and in their relationship to one another, in the same position as if these fees were paid on a current basis.

Applicants' Condition

Applicants agree that the order granting the requested relief will be subject to the condition that, with respect to the requested relief from rule 2a-7 under the Act, any Fund that is a money market fund that values its assets by the amortized cost method or the penny-rounding method will buy and hold Underlying Securities that determine the performance of Deferred Fee Accounts to achieve an exact match between the Fund's liability to pay deferred fees and the assets that offset that liability.

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

Margaret H. McFarland,

Deputy Secretary.

[FR Doc. 97–32169 Filed 12–8–97; 8:45 am]

BILLING CODE 8010–01–M

SECURITIES AND EXCHANGE COMMISSION

[Release No. 34–39387; File No. SR–DTC–97–13]

Self-Regulatory Organizations; the Depository Trust Company; Order Approving a Proposed Rule Change Regarding the Branch Deposit Service

December 2, 1997.

On June 30, 1997, The Depository Trust Company (''DTC'') filed with the Securities and Exchange Commission (''Commission'') a proposed rule change (File No. SR–DTC–97–13) pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (''Act'').[1] Notice of the proposal was published in the **Federal Register** on September 19, 1997.[2] No comment letters were received. For the reasons discussed below, the Commission is approving the proposed rule change.

I. Description

DTC currently operates a branch deposit service (''BDS'') through which DTC participants may route securities certificates and related documentation from their branches and other satellite offices directly to DTC rather than routing them through the participants' own central locations for processing before they are deposited at DTC.[3] The rule change permits DTC to enter into contracts with individual participants to provide customized processing services

[1] 15 U.S.C. 78s(b)(1).

[2] Securities Exchange Act Release No. 39075 (September 12, 1997), 62 FR 49279.

[3] For a complete description of BDS, refer to Securities Exchange Act Release No. 34600 (August 25, 1994), 59 FR 45317 [File No. SR–DTC–94–05] (order approving proposed rule change).

under BDS. Under the proposed rule change, DTC will not be obligated to enter into any such contracts with participants or to offer the same terms under any such contracts to all participants. DTC has advised the Commission that it will base all fees charged for customization of BDS based on a consistently applied methodology.

II. Discussion

Section 17A(b)(3)(F) of the Act [4] requires that the rules of a clearing agency be designed to remove impediments to and perfect the mechanism of a national system for prompt and accurate clearance and settlement of securities transactions. The Commission believes that the proposed rule change is consistent with DTC's obligations under Section 17A(b)(3)(F) because it should increase the use of BDS by DTC's participants. This increase in use should improve efficiency in the processing of securities certificates by eliminating most of the certificate processing responsibilities of those participants electing to use BDS and by reducing the movement of physical securities certificates. This reduction in the processing and movement of physical securities certificates also should improve efficiency by reducing the instances of erroneous processing and loss that sometimes occur with physical certificates.

III. Conclusion

On the basis of the foregoing, the Commission finds that the proposal is consistent with the requirements of the Act and in particular with the requirements of Section 17A of the Act and the rules and regulations thereunder.

It is therefore ordered, pursuant to Section 19(b)(2) of the Act, that the proposed rule change (File No. SR–DTC–97–13) be, and hereby is, approved.

For the Commission by the Division of Market Regulation, pursuant to delegated authority.[5]

Margaret H. McFarland,

Deputy Secretary.

[FR Doc. 97–32172 Filed 12–8–97; 8:45 am]

BILLING CODE 8010–01–M

[4] 15 U.S.C. 78q–1(b)(3)(F).

[5] 17 CFR 200.30–3(a)(12).

SECURITIES AND EXCHANGE COMMISSION

[Release No. 34–39386; File No. SR–OCC–97–11]

Self-Regulatory Organizations; The Options Clearing Corporation; Notice of Filing of Proposed Rule Change Regarding the Stock Loan/Hedge System

December 2, 1997.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (''Act''),[1] notice is hereby given that on July 11, 1997, The Options Clearing Corp. (''OCC'') 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 primarily by OCC. The Commission is publishing this notice to solicit comments from interested persons on the proposed rule change.

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

The purpose of the proposed rule change is to amend OCC's by-laws governing OCC's stock loan/hedge system (''HEDGE system'') to eliminate the requirements with respect to the accounts in which stock loan positions must be maintained.

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

In its filing with the Commission, OCC 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. OCC has prepared summaries, set forth in sections (A), (B), and (C) below, of the most significant aspects of such statements.[2]

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

The HEDGE system is a clearing system for stock loans between OCC clearing members.[3] To date, OCC has approved only a few clearing members as stock lenders under the HEDGE system. OCC believes that the HEDGE system will have positive effects on OCC's risk profile and on the stock loan marketplace generally and would like to open the HEDGE system to a broader group of clearing members. However, OCC has determined that the HEDGE system's requirements with respect to the accounts in which stock loan positions must be maintained seriously limit clearing members' ability to use the HEDGE system.

OCC's by-laws governing the HEDGE system [4] currently treat stock loans as if they were pledges of loaned securities subject to the Commission's hypothecation rules.[5] The hypothecation rules limit the circumstances under which a broker-dealer may pledge securities carried for the account of any customer [6] and specifically prohibit broker-dealers from pledging securities carried for the account of any customer under circumstances that will permit such securities to be commingled with securities carried for the account of any person other than a bona fide customer of such broker or dealer under a lien for a loan made to such broker or dealer.[7] Accordingly, under the HEDGE system's account segregation rules, a clearing member that desires to lend stock must (1) first determine whether the stock is a customer or proprietary security; and (2) if the stock is a customer security, effect the loan through its OCC customers' account (or where permitted through its OCC market-maker's account).

According to OCC, stock loans historically have not been subject to the hypothecation rules and clearing members do not identify the stock in their ''loan boxes'' as to origin (*i.e.*, as customer or proprietary). OCC also has advised the Commission that ordinary over-the-counter stock loan transactions are not subject to the hypothecation rules. Therefore, according to OCC, clearing members that desire to loan stock through the HEDGE system find it difficult, if not impossible, to comply with the HEDGE system's account segregation requirements. OCC believes

[1] 15 U.S.C. 78s(b)(1).

[2] The Commission has modified the test of the summaries prepared by OCC.

[3] For a complete description of the HEDGE system, refer to Securities Exchange Act Release No. 32638 (July 15, 1993), 58 FR 39264 [File No. SR–OCC–92–34] (order approving proposed rule change establishing HEDGE system).

[4] OCC By-Laws, Article XXI, Section 5.

[5] 17 CFR 240.8c–1 and 240.15c2–1.

[6] For purposes of the hypothecation rules, the term ''customer'' includes registered broker-dealers so long as they are not affiliated in specified ways with the broker-dealer effecting the pledge. 17 CAR 240.8c–1(b)(1), 240.15c2–1(b)(1). References to ''customers'' and ''non-customers'' herein are based on the definition in the hypothecation rules.

[7] 17 CAR 240.15c2–1(a)(2). *See also* 17 CFR 240.8c–1(a)(2) (providing the same requirements as Rule 15c2–1(a)(2) except that its scope is limited to exchange members and brokers and dealers that transact business through exchange members.