substitutions, including legal, accounting and other fees and expenses. The proposed substitutions will not cause the contract fees and charges currently being paid by existing Contract owners to be greater after the proposed substitutions than before the proposed substitutions.

12. The investment objective of the Eliminated Portfolio is to seek capital appreciation by investing primarily in equity securities of companies outside the United States having total market capitalization of less than $1 billion, sound fundamental values, and potential for long-term growth at a reasonable price.

13. The investment objective of the American Century International Fund is to seek capital growth by investing primarily in securities of foreign companies that meet certain fundamental and technical standards of selection and have, in the opinion of the investment manager, potential for appreciation. The American Century International Fund will invest primarily in common stocks (defined to include depository receipts for common stock and other equity equivalents) of such companies.

14. Applicants represent that the total expenses of the American Century International Fund are currently 1.50%, which is less, absent the current waiver of such fees and expenses by Montgomery, than the total operating expenses of the Eliminated Portfolio. The Eliminated Portfolio has not borne any expenses due to the fact that Montgomery has waived all fees and absorbed all expenses in light of the very small asset base of the Portfolio. Applicants represent that if the substitution is not approved, Montgomery may ultimately be forced to cease absorbing the Eliminated portfolio's operating expenses, which would mean an effective annual fee rate of 1.50%.

15. The Contract owners will receive a confirmation of the Substitution transaction. The confirmation will contain a reminder of the Contract owner's ability to effect one transfer from the American Century International Fund without incurring any charges and such transfer will not be counted as one of the twelve free transfers permitted in a calendar year so long as the transfer is made within 30 days of the effective date of the Substitution.

16. No sales load deductions or transfer charges will be assessed in connection with any transfers among the investment divisions because of the substitution. For purposes of the $10 fee charged for each transfer in excess of twelve in any calendar year the proposed substitution will not count as a transfer.

Applicant's Legal Analysis and Conditions

1. Sections 26(b) of the 1940 Act provides that ''[i]t shall be unlawful for any depositor or trustee of a registered unit investment trust holding the security of a single issuer to substitute another security for such security unless the Commission shall have approved such substitution.'' Section 26(b) of the 1940 Act also provides that the Commission shall issue an order approving such substitution if the evidence establishes that the substitution is consistent with the protection of investors and the purposes fairly intended by the policies and provisions of the 1940 Act.

2. Applicants request an order pursuant to Section 26(b) of the 1940 Act approving the substitution of shares of the American Century VP International Fund for shares of the Montgomery Variable Series: International Small-Cap Fund.

3. Applicants represent that the purposes, terms, and conditions of the substitution are consistent with the protections for which Section 26(b) was designed and will not result in any of the harms which Section 26(b) was designed to prevent

4. Applicants maintain that the American Century VP International Fund has investment objectives and policies which are consistent with those of the Eliminated Portfolio and which are sufficiently similar so as to continue to fulfill the Contract owners' objectives and risk expectations. Applicants state that any Contract owner who does not want his or her assets allocated into the American Century International Fund would be able to transfer assets to any one of the other investment divisions, available under their Schwab Contract, without charge. Such transfers could be made prior to or after the Automatic Selection Date.

5. The Substitution will be effected at net asset value in conformity with Section 22 of the 1940 Act and Rule 22c–1 thereunder. Contract owners will not incur any fees or charges as a result of the transfer of account values from any Portfolio. There will be no increase in the Contract or separate account fees and charges after the Substitution. In addition, the Substitution is designed to avoid any adverse federal income tax impact to the Contract owners.

6. The substitution will be effected by redeeming shares of the Eliminated Portfolio on the Automatic Selection Date at net asset value and using the proceeds to purchase shares of the American Century International Fund at net asset value on the same date. Contract owners will not incur any fees or charges as a result of the transfer of account values from the Eliminated Portfolio. All contract values will remain unchanged and fully invested.

Conclusion

In light of the foregoing facts and representations, Applicants believe that the requested relief to allow the proposed substitution meets the applicable standards for an order under Section 26(b) of the 1940 Act.

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

Margaret H. McFarland,

Deputy Secretary.

[FR Doc. 98–32326 Filed 12–3–98; 8:45 am]

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SECURITIES AND EXCHANGE COMMISSION

Sunshine Act Meeting

Notice is hereby given, pursuant to the provisions of the Government in the Sunshine Act, Public Law 94–409, that the Securities and Exchange Commission will hold the following meetings during the week of December 7, 1998.

An open meeting will be held on Monday, December 7, 1998, at 10:00 a.m., in Room 6600. A closed meeting will be held on Monday, December 7, 1998, following the 10:00 a.m. open meeting. A closed meeting will be held on Tuesday, December 8, 1998, at 10:00 a.m.

Commissioners, Counsel to the Commissioners, the Secretary to the Commission, and recording secretaries will attend the closed meeting. Certain staff members who have an interest in the matters may also be present.

The General Counsel of the Commission, or his designee, has certified that, in his opinion, one or more of the exemptions set forth in 5 U.S.C. 552b(c)(4), (8), (9)(A) and (10) and 17 CFR 200.402(a)(4), (8), (9)(i) and (10), permit consideration of the scheduled matters at the closed meeting.

Commissioner Johnson, as duty officer, voted to consider the items listed for the closed meeting in a closed session.

The subject matter of the open meeting scheduled for Monday, December 7, 1998, at 10:00 a.m., will be:

The Commission will hear oral argument in an appeal by Jacob Wonsover from an administrative law

judge's initial decision. For further information, contact John Zecca at (202) 942–0950.

The subject matter of the closed meeting scheduled for Monday, December 7, 1998, following the 10:00 a.m. open meeting, will be:

Post argument discussion.

The subject matter of the closed meeting scheduled for Tuesday, December 8, 1998, at 10:00 a.m., will be:

Institution and settlement of injunctive action.

Institution and settlement of administrative proceedings of an enforcement nature.

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 at (202) 942–7070.

Dated: December 1, 1998.

Jonathan G. Katz,

Secretary.

[FR Doc. 98–32363 Filed 12–1–98; 4:29 pm]

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34–40708; File No. SR–CBOE–97–58]

Self-Regulatory Organizations; Notice of Filing of Amendment No. 1 to Proposed Rule Change by the Chicago Board Options Exchange, Incorporated Relating to Capital and Margin Requirements for Joint Back Office Arrangements

November 25, 1998.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (''Act''),[1] and Rule 19b–4 thereunder,[2] notice is hereby given that on July 27, 1998, the Chicago Board Options Exchange, Incorporated (''Exchange'' or ''CBOE'') filed with the Securities and Exchange Commission (''Commission'') Amendment No. 1 to the proposed rule change as described in Items I, II, and III below, which Items have been prepared by the Exchange. The Commission is publishing this notice to solicit comments on Amendment No. 1 to the proposed rule change from interested persons.

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

[2] 17 CFR 240.19b–4.

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

The Exchange seeks to establish margin and net capital requirements for Joint Back Office (''JBO'') participants and clearing firms. Under the provisions of Regulation T promulgated by the Board of Governors of the Federal Reserve System (''Federal Reserve Board''),[3] a clearing broker may extend good faith financing to an owner of the clearing broker who is either a broker-dealer or an exchange member. These financing relationships are referred to as ''JBO arrangements.''

The text of the proposed rule change, as amended, is available at the Office of the Secretary, the Exchange, and at the Commission.

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 Exchange 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 Exchange 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

a. *Background.* The Exchange filed its JBO proposal with the Commission on October 23, 1997, shortly after the New York Stock Exchange (''NYSE'') submitted its own JBO filing.[4] Notice of the Exchange's proposal was issued on December 10, 1997.[5] Among other matters, the Exchange's JBO filing proposes minimum financial standards for JBO participants and for the firms which clear JBO accounts.

[3] *See* 12 CFR 220. Regulation T is entitled ''Credit by Brokers and Dealers'' and was issued by the Federal Reserve Board pursuant to the Act.

[4] The NYSE's JBO filing, SR–NYSE–97–28, was filed with the Commission on October 2, 1997, and notice of its filing was issued on December 29, 1997. *See* Securities Exchange Act Release No. 39497 (Dec. 29, 1997), 63 FR 899 (Jan. 7, 1998). The NYSE filed Amendment No. 1 to its JBO filing on May 21, 1998, and Amendment No. 2 on September 28, 1998. Notice of Amendment Nos. 1 and 2 was issued on November 25, 1998. *See* Securities Exchange Act Release No. 40709 (Nov. 25, 1998).

[5] *See* Securities Exchange Act Release No. 39418 (Dec. 10, 1997), 62 FR 66154 (Dec. 17, 1997).

In its 1996 amendments to Regulation T, the Federal Reserve Board directed the securities self-regulatory organizations (''SROs'') to develop appropriate standards for JBO participants and their clearing firms.[6] The Exchange anticipates that all SROs will implement uniform standards for JBO arrangements. The NYSE formed a member firm subcommittee to develop appropriate standards for JBO participants and their clearing firms. The NYSE member firm subcommittee proposed that clearing firms maintain a minimum of $25 million in tentative net capital. The Exchange urged that an alternative standard be provided for options market-maker clearing firms to accommodate the JBO activities of the clearing firms' options market-maker clients. The compromise standard of $10 million net capital was agreed upon and incorporated into the JBO filings submitted by the Exchange and the NYSE.

Although at that time not all Exchange options market-maker clearing firms needed to maintain the $10 million level of capital to cover the haircut and financing needs of their market-maker and JBO clients, it was believed their actual capital needs would grow to exceed the $10 million standard by the time the Commission approved the Exchange's JBO proposal. While the capital needs of options market-marker clearing firms have in fact grown, they do not in all instances consistently satisfy the $10 million level.[7] As a result, the Commission received a number of comment letters from Exchange member firms that expressed concern over the $10 million standard.

b. *Amendment No. 1.* In response to the concerns of its members, the Exchange seeks to amend its JBO filing

[6] *See* Board of Governors of the Federal Reserve System Docket No. R–0772 (Apr. 26, 1996), 61 FR 20386 (May 6, 1996).

[7] The Exchange has represented that all Exchange options market-maker clearing firms currently maintain net capital sufficient to meet the proposed $7 million net capital standard. However, fluctuations in a clearing firm's net capital may occur due to changes in daily net deductions for the options market-maker and JBO participant accounts carried. Many clearing firms maintain revolving subordinated loan arrangements in order to cover such potential capital swings. According to the Exchange, there is a one time charge to establish such a facility of approximately $10,000 per $1 million (1%). The cost to maintain such a facility, undrawn, approximates $10,000 per year per $1 million (1%), or $28 per day. The cost to draw down such a facility approximates $95,000 per year per $1 million of drawn funds (at 1% over an 8½% prime), or $264 per day. Drawn down revolving subordinated debt may be repaid beginning the following day, with the term of the loan not to exceed 1 year. The Exchange believes these costs do not appear to be excessively burdensome to clearing firms that carry the accounts of JBO participants.