

sales will take place in the Partnership in the near future.

Any interested person may, on or before April 4, 1996 submit by letter to the Secretary of the Securities and Exchange Commission, 450 Fifth Street, NW., Washington, DC 20549, facts bearing upon whether the application has been made in accordance with the rules of the exchanges and what terms, if any, should be imposed by the Commission for the protection of investors. The Commission, based on the information submitted to it, will issue an order granting the application after the date mentioned above, unless the Commission determines to order a hearing on the matter.

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

Jonathan G. Katz,  
Secretary.

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[Investment Company Release No. 21825;  
812-9778]

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

March 13, 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 Institutional Portfolios, Inc., Vanguard Municipal Bond Fund, Inc., Vanguard California 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 Florida Tax-Free Fund, Vanguard Bond Index Fund, Vanguard Fixed Income Securities Fund, Inc., Vanguard/Wellesley Income Fund, Inc., Vanguard Asset Allocation Fund, Inc., Vanguard Convertible Securities Fund, Inc., Vanguard STAR Fund, Vanguard/Wellington Fund, Inc., Vanguard/Trustees Equity Fund, Vanguard Equity Income Fund, Inc., Vanguard Index Trust, Vanguard International Equity Index Fund, Inc., Vanguard Quantitative Portfolios, Inc., Vanguard Preferred Stock Fund, Vanguard/Windsor Funds, Inc., Vanguard/PRIMECAP Fund, Inc., Gemini II, Inc., Vanguard World Fund, Inc., Vanguard/Morgan Growth Fund, Inc., Vanguard Explorer Fund, Inc., Vanguard Specialized Portfolios, Inc., Vanguard Variable Insurance Fund,

Vanguard Tax-Managed Fund, Inc., Vanguard Horizon Fund, Inc., Vanguard Admiral Funds (together with any future investment company, or portfolio thereof, that proposed to participate in the proposed credit facility that (a) is part of a group of investment companies which holds itself out to investors as related companies for purposes of investment and investor services, and (b) obtains corporate management, administrative, and distribution services from The Vanguard Group, Inc. ("TVGI") (the "Funds");<sup>1</sup> and TVGI. **RELEVANT ACT SECTIONS:** Order under section 6(c) of the Act for an exemption from sections 12(d)(1), 18(f), and 21(b) of the Act, under sections 6(c) and 17(b) for an exemption from sections 17(a)(1) and 17(a)(3) of the Act, and under section 17(d) of the Act and rule 17d-1 thereunder to permit certain joint arrangements.

**SUMMARY OF APPLICATION:** Applicants request an order that would permit the Funds to borrow from and lend to each other through a proposed credit facility.

**FLING DATES:** The application was filed on September 22, 1995 and amended on January 16, 1996. Applicants have agreed to file an amendment during the notice period, the substance of which is included in this notice.

**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 April 8, 1996, and should be accompanied by proof of service on the 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: Vanguard Financial Center, Valley Forge, Pennsylvania 19482.

**FOR FURTHER INFORMATION CONTACT:** Marianne H. Khawly, Staff Attorney, at (202) 942-0562, or Alison E. Baur, Branch Chief, at (202) 942-0564 (Division of Investment Management, Office of Investment Company Regulation).

<sup>1</sup> All Funds that presently intend to rely on the requested relief are included as named applicants. Other Funds will be covered by the order if they later decide to participate in the proposed credit facility.

**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 of the Funds, except Vanguard STAR Fund and Vanguard Institutional Index Fund are members of the Vanguard group of investment companies. Each of the Funds, except Gemini II, is registered as an open-end, management investment company under the Act. Gemini II is registered as a closed-end investment company under the Act. TVGI is a wholly and jointly owned subsidiary of the Funds that provides corporate management, administrative, transfer agent, and distribution services on an at-cost basis to each Fund, except Vanguard Institutional Index Fund, pursuant to a service agreement. TVGI provides such services to Vanguard Institutional Index Fund on an at-cost basis pursuant to a separate service agreement.

2. In 1987, the Funds and TVGI obtained an order exempting them from the provisions of section 17(d) of the Act and rule 17d-1 thereunder to the extent necessary to permit the Funds to establish a joint account (the "Joint Account") for investing in certain repurchase agreements.<sup>2</sup> At the end of each trading day, the Funds' uninvested cash balances are deposited in the Joint Account. Cash balances in the Joint Account are then invested in one or more large short-term repurchase agreements, each of which has a duration of no more than seven days. TVGI invests these cash balances as part of its duties under its existing management and service agreement with each of the Funds and does not charge any additional fee for this service.

3. At any particular time, while some Funds are lending money by entering into repurchase agreements (either directly or through the Joint Account) other Funds may be borrowing money to satisfy redemption requests. Currently, the Funds have loan agreements with four banks, although no Fund has agreements with all four banks. The interest rate paid by the Funds for bank borrowings is usually significantly higher (ranging between 60 and 85 basis points) than the rate earned on investments in repurchase agreements. Applicants believe that the differential does not reflect a material difference in the quality or the risk or respective

<sup>2</sup> *Wellington Fund, Inc.*, Investment Company Act Release Nos. 15605 (March 5, 1987) (notice) and 15653 (March 31, 1987) (order).

transactions, but rather reflects the power of the banks to negotiate a higher rate of interest on Fund borrowings than they pay on repurchase agreements.

4. The Funds propose to enter into master loan agreements that would permit the Funds to lend money to each other for temporary purposes through a proposed credit facility. The credit facility is intended to reduce substantially the Funds borrowing costs and to enhance the ability of the Funds to earn higher rates of interest for their short-term lendings. Although the credit facility would substantially reduce the Funds' reliance on bank credit arrangements, the Trusts would continue to maintain existing loan agreements and to borrow money from banks.

5. The proposed transactions are likely to provide the Funds with significant savings at times when the cash position of a Fund is insufficient to meet temporary cash requirements. This situation generally arises when shareholder redemptions exceed anticipated volumes and the Funds have insufficient cash on hand to satisfy such redemptions. When the Funds liquidate portfolio securities to meet redemption requests, they often do not receive payment in settlement for up to seven days (or longer for certain foreign transactions). However, shareholder redemption requests are normally effected immediately. Therefore, the Funds need a source of immediate, short-term liquidity pending settlement of the sale of portfolio securities.

6. While bank borrowings will continue to be available to supply such liquidity, the rates charged under the proposed credit facility would be below those offered by the banks on short-term loans. Likewise, Funds making cash loans to other Funds would earn interest at a rate higher than they otherwise could obtain from investing their cash in short-term repurchase agreements. Thus, the credit facility would benefit both those Funds that are borrowers and those Funds that are lenders.

7. The interest rate to be charged to the Funds on any loan made pursuant to the credit facility would be the average of the highest interest rate available through the Joint Account and a single benchmark rate set for all Funds. The benchmark rate would be calculated each day by TVGI according to a formula established by the Funds' boards of directors/trustees to approximate the lowest interest rate at which bank loans are available to the Funds. The formula would be based upon a publicly available rate (e.g., Federal Funds plus 25 basis points) and

would vary with this rate so as to reflect changing bank loan rates.

8. The Cash Management Department of TVGI would administer the credit facility. On each business day, the Cash Management Department would compare the interfund loan rate with the available Joint Account repurchase agreement rate for that day (which will reflect actual rates negotiated by the Cash Management Department that day for the Joint Account) and the available borrowing rates quoted by at least three of the banks with which the Funds have loan agreements. The Cash Management Department will make cash available to borrowing Funds only if the interfund loan rate is more favorable to the lending Fund than the Joint Account repurchase agreement rate and more favorable to the borrowing Fund than the lowest quoted bank loan rate.

9. The lending banks are currently large banks of national standing. Generally, the size and prominence of banks able to make loans of this size ensure that the rates quoted to the Funds and loans will be representative of the available market rates. TVGI currently solicits daily rate quotes from each bank with which the Funds have loan agreements. While applicants anticipate that this practice will continue, TVGI will obtain three such representative quotes on any day on which an interfund loan takes place. If quotes are solicited from fewer than all lending banks, TVGI will solicit quotes from those banks which, on the basis of the facts and circumstances known at the time, it believes will offer loan interest rates as favorable to the borrowing Funds as comparable loans from the other banks with which one or more Funds have lending agreements. Applicants submit that these procedures provide a high level of assurance that quoted rates will be representative of the prevailing bank loan rates.

10. Under the proposal, the portfolio managers for each participating Fund, other than the money market Funds, may provide the Cash Management Department with standing instructions to participate in the credit facility daily as a borrower or lender. A Fund would not participate in the credit facility as a lender unless it also elected to participate in the Joint Account or, in the case of money market Funds, unless the Fund would invest on any given day in the Joint Account. As in the case of the Joint Account, the Cash Management Department on each business day would collect data on the uninvested cash balances and borrowing requirements of all participating Funds, other than the money market Funds, from the Funds' custodians. With

respect to the money market Funds, the portfolio managers would inform the Cash Management Department directly each day by a time or times specified by the Cash Management Department (initially midmorning) of the amount of cash, if any, they wished to direct to the credit facility as a lender.<sup>3</sup> The money market Funds typically would not participate as borrowers because they rarely need to borrow cash to meet redemptions.

11. The Cash Management Department would allocate borrowing demand and cash available for lending among the Funds on an equitable basis, subject to certain administrative procedures applicable to all Funds, such as the time of filing requests to participate, minimum loans lot sizes, and the need to keep the number of transactions and associated administrative costs to a minimum. To reduce transaction costs, each single loan normally would be allocated in a manner that would minimize the number of participants necessary to complete the loan transaction.

12. Applicants expect that there would be far more available uninvested cash each day than borrowing demand. Therefore, after the Cash Management Department has allocated cash for interfund loans, it will inform the money market portfolio managers of the amount of interfund loans, if any, made for each money market Fund so that the Fund portfolio managers may invest any remaining cash in the Joint Account or other available investments. With respect to other participating Funds, the Cash Management Department would follow standing instructions from the portfolio managers to invest the remaining amounts daily through the Joint Account.

13. No Fund would be permitted to participate in the proposed credit facility unless: (a) the Fund had obtained shareholder approval for its participation or, if such approval were not required by law, the Fund's prospectus and/or statement of additional information had disclosed at all times the possibility of the Fund's participation in the credit facility upon receipt of requisite regulatory approvals; (b) the Fund had fully disclosed all material information concerning the proposed credit facility in its prospectus and/or statement of additional

<sup>3</sup> Money market Fund managers would not delegate investment of cash balances to the Cash Management Department under standing instructions because applicants believe that the investment objective of such Funds and the unique requirements of rule 2a-7 require their direct management of all money market Fund assets, including short-term cash positions.

information; and (c) the Fund's participation in the credit facility was consistent with its investment objective, fundamental limitations and/or Declaration of Trust or Articles of Incorporation. Even if a Fund's participation in the credit facility were found not to require shareholder approval, each Fund would seek such approval unless it had previously obtained such approval or its prospectus and/or statement of additional information had at all times disclosed the possibility of its participation upon receipt of requisite regulatory approvals.

#### Applicants' Legal Analysis

1. Applicants request an order under section 6(c) of the Act for an exemption from sections 12(d)(1), 18(f), and 21(b) of the Act, under sections 6(c) and 17(b) of the Act for an exemption from sections 17(a)(1) and 17(a)(3) of the Act, and under section 17(d) of the Act and rule 17d-1 thereunder to permit certain joint arrangements. The requested order would permit the Funds to borrow from and lend to each other through a proposed credit facility.

2. Applicants contend that the interfund loans would be equivalent in credit quality to other money market instruments rated "high quality" by independent statistical rating organizations because of: (a) the very high asset coverage requirement for all interfund loans; (b) the high quality and liquidity of the assets covering the loans; (c) the fact that all interfund loans having less than 1000% asset coverage will be fully collateralized; (d) the requirement that if a lending bank requires collateral from a Fund, all interfund loans to the Fund will be similarly collateralized regardless of asset coverage level; (e) the ability to call interfund loans on any business day; and (f) the fact that the independent directors/trustees will exercise effective oversight of the interfund lending program as administered by TVGI.

3. Applicants also believe that the program would involve no realistic risk resulting from potential conflicts of interest. TVGI has no pecuniary interest in the administration of the program. TVGI would administer the credit facility as part of its duties under its existing management and service agreement with each Fund and would receive no additional fee as compensation for its services. Thus, TVGI would administer the facility as a disinterested fiduciary.

4. The interfund lending program does not involve any potential that one Fund might receive a preferential rate to the disadvantage of another Fund.

Under the credit facility, the Funds would neither negotiate interest rates between themselves, nor would TVGI set the rates in its discretion. Rather, rates would be set pursuant to a preestablished formula, approved by the directors/trustees, which would be the function of the current rates quoted by an independent third-party for short-term borrowings and for short-term repurchase agreements. All Funds participating in the credit facility on any given day would receive the same rate.

5. Because of the broad definition of "security" in section 2(a)(36) of the Act, the obligation of a borrowing Fund to repay an interfund loan could constitute a security for the purposes of section 12(d)(1) of the Act. Applicants request an exemption from the provisions of section 12(d)(1) of the Act only to the extent necessary for applicants to participate in the credit facility. Applicants will in all other respects comply with section 12(d)(1) of the Act and the terms of any Commission orders granted to applicants, including the order granted in the matter of *Vanguard STAR Fund*, Investment Company Act Release Nos. 21372 (Sept. 22, 1995) (notice) and 21426 (Oct. 18, 1995) (order).

6. Applicants submit that the credit facility would not involve the type of abuses at which section 12(d)(1) of the Act was directed. Section 12(d)(1) of the Act was intended to prevent the pyramiding of investment companies and the additional and duplicative costs and fees attendant upon multiple layers of investments. In this case, the purpose of the proposed credit facility is to save money for all participating Funds. In addition, there would be no duplicative costs to the Funds or their shareholders.

7. Applicants also submit that the credit facility would not involve the type of abuses that section 18(f) was intended to prevent. Applicants seek relief from section 18(f) to the limited extent necessary to allow a Fund to borrow from other Funds in amounts, as measured on the day when the most recent loan was made, not to exceed 125% of the borrowing Funds net cash redemptions for the preceding seven calendar days. Applicants would be subject to all of the proposed conditions, including the percentage and collateral limitations on interfund borrowings. The Funds would remain subject to the requirement of section 18(f)(1) that all borrowings of a Fund, including interfund and bank borrowings, have at least 300% asset coverage.

8. Applicants contend that the proposed credit facility is consistent with the overall purpose of section 21(b)

of the Act. This section is intended to prevent a party with strong potential adverse interests and influence over the investment decisions of a registered investment company from causing or inducing the investment company to engage in lending transactions that are detrimental to the best interests of the investment company and its shareholders. The proposed transactions do not raise such concerns because: (a) TVGI would administer the program as a disinterested fiduciary; (b) all loans made by any Fund to another Fund would consist only of uninvested cash reserves that the Fund otherwise would invest in short-term repurchase agreements or comparable short-term instruments; (c) the interfund loans would not involve a significantly greater risk than such other investments; (d) the lending Fund would receive interest at a higher rate than it could obtain through such other investments; and (e) the borrowing Fund would pay interest at a rate lower than would otherwise be available to it under its bank loan agreements. Moreover, the proposed conditions would effectively preclude the possibility of any undue advantage.

9. Section 6(c) provides, in relevant part, that the SEC may, conditionally or unconditionally, by order, exempt any person or class of persons from any provision of the Act or from any rule thereunder, if such exemption is necessary or appropriate in the public interest, consistent with the protection of investors, and consistent with the purposes fairly intended by the policy and provisions of the Act. Applicants submit that the relief requested from the above provisions satisfies this standard.

10. Funds that are advised by the same entity are "affiliated person" of each other under section 2(a)(3)(C) of the Act by reason of being under common control. As investment adviser and/or principal underwriter to the Funds, TVGI is deemed an "affiliated person" of the Funds under section 2(a)(3) of the Act. Section 17(a)(1) is intended to prevent the same abuses contemplated by section 12(d)(1) by generally prohibiting an affiliated person of a registered investment company from selling any security to such registered investment company. Section 17(a)(3) is intended to prevent the same abuses contemplated by section 21(b) by generally prohibiting an affiliated person of a registered investment company from borrowing money or other property from such investment company.

11. Section 17(b) authorizes the SEC to exempt a proposed transaction from section 17(a) if evidence establishes that the terms of the transaction, including

the consideration to be paid or received, are reasonable and fair and do not involve overreaching on the part of any person concerned, the transaction is consistent with the policies of the registered investment company, and the general purposes of the Act. For the reasons discussed above, applicants assert that the proposed transaction satisfies the criteria of section 17(b).

12. Section 17(d) and rule 17d-1 generally prohibit a registered investment company's joint or joint and several participation with an affiliated person in a transaction in connection with any joint enterprise or joint arrangement or profit-sharing plan "on a basis different from or less advantageous than that of" the affiliated person. For the reasons discussed above, each applicant's participation in the credit facility would not involve overreaching or unfair advantage over any other applicant, would be consistent with the provisions, policies, and purposes of the Act, and participation by each Fund would be on the same terms that are no different from or less advantageous than that of other participating Funds.

#### Applicant's Conditions

1. The interest rates to be charged to the Funds under the credit facility will be the average of the current Joint Account repurchase agreement rate and a benchmark rate established periodically to approximate the lowest rate available from banks on loans to the Funds.

2. The Cash Management Department on each business day will compare the interfund loan rate set pursuant to the formula calculated as provided in condition 1 with the Joint Account repurchase agreement rate negotiated that day and all short-term borrowing rates quoted to any of the Funds by any bank with which any Fund has a loan agreement. At least three such quotations will be obtained each day in which any Fund borrows through the credit facility prior to such borrowing. The Cash Management Department will make cash available for interfund loans only if the interfund rate is more favorable to the lending Fund than the Joint Account repurchase agreement rate and more favorable to the borrowing Fund than the lowest quoted bank loan rate.

3. If a Fund has outstanding borrowings, any interfund loans: (a) Will be at an interest rate equal to or lower than any outstanding bank loan; (b) will be secured at least on an equal priority basis with at least an equivalent percentage of collateral to loan value as any outstanding bank loan that requires

collateral; (c) will have a maturity no longer than any outstanding bank loan (and in no event over seven days); and (d) will provide that, if an event of default by the Fund occurs under any agreement evidencing an outstanding bank loan to the Fund, that event of default will automatically (without need for action or notice by the lending Fund) constitute an immediate event of default under the interfund loan agreement entitling the lending Fund to call the interfund loan (and exercise all rights with respect to any collateral) and that such call will be made if the lending bank exercises its right to call its loan under its agreement with the Fund.

4. A Fund may make an unsecured borrowing through the credit facility if its outstanding borrowings from all sources immediately after the borrowing total less than 10% of its total assets, provided that if a Fund has a secured loan outstanding from any lender, including but not limited to another Fund, the Fund's interfund borrowing will be secured on at least an equal priority basis with at least an equivalent percentage of collateral to loan value as any outstanding loan that requires collateral. If a Fund's total outstanding borrowings immediately after an interfund borrowing would be greater than 10% of its total assets, the Fund may borrow through the credit facility only on a secured basis. A Fund could not borrow through the credit facility if its total outstanding borrowings immediately after the interfund borrowing would be more than 33 $\frac{1}{3}$ % of its total assets.

5. Before any Fund that has outstanding interfund borrowings may, through additional borrowings, cause its outstanding borrowings from all sources to exceed 10% of its total assets, the Fund must first secure each outstanding interfund loan by the pledge of segregated collateral with a market value at least equal to 102% of the outstanding principal value of the loan. If the total outstanding borrowings of a Fund with outstanding interfund loans exceeds 10% of its total assets for any other reason (such as decline in net asset value or because of shareholder redemptions), the Fund will within one business day thereafter: (a) Repay all its outstanding interfund loans; (b) reduce its outstanding indebtedness to 10% or less of its total assets; or (c) secure each outstanding interfund loan by the pledge of segregated collateral with a market value at least equal to 102% of the outstanding principal value of the loan until the Fund's total outstanding borrowings cease to exceed 10% of its total assets, at which time the collateral called for by this condition 5 shall no

longer be required. Until each interfund loan that is outstanding at any time that a Fund's total outstanding borrowings exceeds 10% is repaid or the Fund's total outstanding borrowings cease to exceed 10% of its total assets, the Fund will mark the value of the collateral to market each day and will pledge such additional collateral as is necessary to maintain the market value of the collateral that secures each outstanding interfund loan at least equal to 102% of the outstanding principal value of the interfund loan.

6. No equity, taxable bond, or money market Fund may loan funds through the credit facility if the loan would cause its aggregate outstanding loans through the credit facility to exceed 5%, 7.5%, or 10%, respectively, of its net assets at the time of the loan.

7. A Fund's interfund loans to any one Fund shall not exceed 5% of the lending Fund's net assets.

8. The duration of interfund loans will be limited to the time required to receive payment for securities sold, but in no event more than seven days. Loans effected within seven days of each other will be treated as separate loan transactions for purposes of this condition.

9. A Fund's borrowings through the credit facility, as measured on the day the most recent interfund loan was made to the Fund, will not exceed 125% of the Fund's total net cash redemptions for the preceding seven calendar days.

10. Each interfund loan may be called on one business day's notice by the lending Fund and may be repaid on any day by the borrowing Fund.

11. A Fund's participation in the credit facility must be consistent with its investment policies and limitations and Declaration of Trust or Articles of Incorporation.

12. The Cash management Department will calculate total Fund borrowing and lending demand through the credit facility, and allocate interfund loans on an equitable basis among Funds, without the intervention of the portfolio manager of any Fund. The Cash management Department will not solicit cash for the credit facility from any Fund or prospectively publish or disseminate loan demand data to portfolio managers. The Cash Management Department will invest amounts remaining after satisfaction of borrowing demand in accordance with standing instructions from portfolio managers or return remaining amounts for investment directly by the portfolio managers of the money market Funds.

13. TVGI will monitor the interest rates charged and the other terms and conditions of the interfund loans and

will make a quarterly report to the boards of directors/trustees of the Funds concerning their participation in the credit facility and the terms and other conditions of any extensions of credit thereunder.

14. Each Fund's board of directors/trustees, including a majority of the independent directors/trustees: (a) will review no less frequently than quarterly the Fund's participation in the credit facility during the preceding quarter for compliance with the conditions of any order permitting such transactions; (b) will establish the benchmark rate formula used to determine the interest rate on interfund loans, and review no less frequently than annually the continuing appropriateness of such benchmark rate formula; and (c) will review no less frequently than annually the continuing appropriateness of the Fund's participation in the credit facility.

15. In the event an interfund loan is not paid according to its terms and such default is not cured within two business days from its maturity or from the time the lending Fund makes a demand for payment under the provisions of the interfund loan agreement, TVGI will promptly refer such loan for arbitration to an independent arbitrator selected by the board of each Fund involved in the loan who will serve as arbitrator of disputes concerning interfund loans. The arbitrator will resolve any problem promptly, and the arbitrator's decision will be binding on both Funds. The arbitrator will submit, at least annually, a written report to the boards setting forth a description of the nature of any dispute and the actions taken by the Funds to resolve the dispute.

16. Each Fund will maintain and preserve for a period of not less than six years from the end of the fiscal year in which any transaction by it under the credit facility occurred, the first two years in an easily accessible place, written records of all such transactions setting forth a description of the terms of the transaction, including the amount, the maturity, and the rate of interest available at the time on short-term repurchase agreements and commercial bank borrowings, and such other information presented to the Funds' board of directors/trustees in connection with the review required by conditions 13 and 14.

17. TVGI will prepare and submit to the Fund boards for review an initial special report on the "Design of a system" with respect to the operations of the interfund credit facility prior to the commencement of operations of the facility, including a report thereon of its independent public accountants. A test

program of modest duration involving actual transactions may be conducted prior to submission of the initial report to the boards. An appropriate single Fund which next files its form N-SAR after board review of the initial report will file the report with its Form N-SAR, and the other Funds will incorporate the report by reference in their next N-SAR filings. Thereafter, an annual report on the "Design of the System and Certain Compliance Tests" with respect to the accounting control procedures for the credit facility which includes an opinion of the independent public accountants will be filed for two years (measured from the commencement of the facility subsequent to the test program) with the Form N-SAR of an appropriate single Fund which next files its Form N-SAR after the release of such annual report and opinion, and the other Funds will incorporate each such annual report by reference to their next subsequent Form N-SAR filings. A form of the independent public accountants' opinion is attached as an exhibit to the application. The initial "Design" report and the annual "Design and Compliance Tests" report will each be prepared in accordance with the requirements of Statement of Auditing Standards No. 70 ("SAS 70") as it may be amended from time to time or pursuant to similar auditing standards as may be adopted by the American Institute of Certified Public Accountants from time to time, including reports of independent accountants thereon. Each SAS report will include a description of the principal procedures used by TVGI to monitor compliance with certain of the conditions the Funds have agreed to as part of the relief requested. The principal procedures described in the initial "Design" report and the annual "Design and Certain Compliance Tests" reports will include, at a minimum, procedures that are designed to achieve the following objectives: (a) the Funds are required to comply with the net redemption and percentage limitations on borrowing, and the percentage limitations on lending; (b) the Funds are required to make loans only at the interfund rate and such rate must be higher than the Joint Account repurchase agreement rate but lower than the lowest daily quote rate for available borrowing; (c) the Funds are required to allocate borrowing and lending demand in accordance with procedures established by the boards of directors/trustees; (d) if a Fund, at the time of its borrowing from a Fund, also has outstanding third-party borrowings, the interest rate on such interfund

borrowing cannot exceed the interest rate on third-party borrowings; and (e) the Funds are required to pledge collateral for interfund loans when and to the extent provided by the conditions to any order issued on the application. Each annual SAS 70 report will consider compliance with the procedures designed to achieve the foregoing objectives. After the final annual SAS 70 report, compliance with the conditions to any order issued on the application will be considered by the external auditors as part of their internal accounting control procedures, performed in connection with Fund audit examinations, which form the basis, in part, of the auditors' report on internal accounting controls in Form N-SAR.

18. No fund will be permitted to participate in the Credit Facility upon receipt of requisite regulatory approval unless the Fund has fully disclosed in its prospectus all material facts about its intended participation.

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

Margaret H. McFarland,

*Deputy Secretary.*

[FR Doc. 96-6638 Filed 3-19-96; 8:45 am]

BILLING CODE 8010-01-M

[Release No. 34-36953; File No. SR-Amex-96-08]

**Self-Regulatory Organizations; Notice of Filing of Proposed Rule Change by the American Stock Exchange, Inc., Relating to the Trading of Options on the Amex Gold BUGS<sup>SM</sup> Index**

March 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 February 9, 1996, the American Stock Exchange, Inc. ("Amex" or "Exchange") filed with the Securities and Exchange Commission ("SEC" or "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 Amex proposes to list and trade standardized options on the Amex Gold BUGS<sup>SM</sup> Index ("Index"), a modified equal-dollar weighted index developed by the Amex and comprised of 15 gold mining company stocks (or American