

extent that further exemption from those terms is specifically requested herein.

Redeemability

5. Section 27(i)(2)(A) provides that no registered separate account funding variable insurance contracts or its sponsoring insurance company shall sell such a contract unless it is a "redeemable security." Section 2(a)(32) defines a "redeemable security" as any security (other than short-term paper) entitling its holder to receive "approximately his proportionate share of the issuer's current net assets" (or the cash equivalent thereof) upon presentation to the issuer. Applicants request relief from the requirement in Section 27(i)(2)(A) that the Policy be a "redeemable security," and from the definition of "redeemable security" set forth in Section 2(a)(32), in connection with the issuance and sale of the Policies and the surrender charge applicable to the Policies.

6. Rule 22c-1 promulgated under Section 22(c) of the Act requires that a security be redeemed at a price based on the current net asset value of the security next computed after receipt of request for surrender. If the conditions of Rule 6e-2(b)(12) are satisfied, paragraph (b)(12) provides certain exemptions from Rule 22c-1. However, a surrender charge such as the one provided under the Policies may not be contemplated by Rule 6e-2(b)(12), and thus may be deemed inconsistent with the foregoing provisions, to the extent that the charge can be viewed as causing a Policy to be redeemed at a price based on less than the current net asset value that is next computed after surrender of the Policy. Accordingly, Applicants request relief from Rule 22c-1 and Rule 6e-2(b)(12) to the extent necessary to permit the deduction of the surrender charge on surrender of a Policy.

7. Although Section 2(a)(32) does not specifically contemplate the imposition of a charge at the time of redemption, Applicants state that such charges are not necessarily inconsistent with the definition of "redeemable security."

8. Applicants submit that each of the Policies will be a "redeemable security." Each Policy provides for full surrender of the Policy for its net surrender value. The prospectuses for the Policies will disclose the nature of the surrender charge. Accordingly, Applicants state that there will be no restriction on, or impediment to, surrender that should cause a Policy to be considered other than a redeemable security within the meaning of the Act and rules thereunder. Upon surrender, a Policy owner will receive his or her "proportionate share" of the assets of

the appropriate Separate Account, *i.e.*, the amount of premiums paid, reduced by the amount of all charges and loans, and increased or decreased by the amount of investment performance credited to the Policy.

9. Applicants, consistent with their current procedures, will determine the net surrender value under a Policy in accordance with the requirements of Rules 6e-2(b)(12) and 22c-1 and on a basis next computed after receipt of a Policy owner's request for surrender of the Policy.

10. Applicants also state that the charge structure has been accepted as an appropriate feature of life insurance products under Rule 6e-3(T), as well as pursuant to exemptive relief granted by the Commission.

11. Therefore, Applicants respectfully submit that the surrender charge is consistent with the principles and policies underlying the limitations in Sections 2(a)(32) and 27(i)(2)(A) of the Act and Rules 6e-2(b)(12) and 22c-1 thereunder.

Class Exemption for Future Underwriters

12. Applicants also seek the relief herein with respect to Future Underwriters, a class consisting of NASD member broker-dealers which may, in the future, act as principal underwriter of the Policies.

13. Applicants represent that the terms of the relief requested with respect to any Future Underwriters are consistent with the standards set forth in Section 6(c) of the Act. Further, Applicants state that, without the requested class relief, exemptive relief any Future Underwriter would have to be requested and obtained separately. Applicants assert that such additional requests for exemptive relief would present no issues under the Act not already addressed herein. Applicants state that if Applicants were to repeatedly seek exemptive relief with respect to the same issues addressed in their application, investors would not receive additional protection or benefit, and investors and Applicants could be disadvantaged by increased costs from preparing additional requests for relief. Applicants argue that the requested class relief will promote competitiveness in the variable life insurance market by eliminating the need for the Companies to file redundant exemptive applications, thereby reducing administrative expenses and maximizing efficient use of resources. Applicants submit, for all the reasons stated herein, that their request for class exemptions 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, and that an order of the Commission including such class relief, should, therefore, be granted.

Conclusion

Applicants submit, for all of the reasons stated therein, that their request for exemptions are 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.

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

Margaret H. McFarland,

Deputy Secretary.

[FR Doc. 99-7089 Filed 3-22-99; 8:45 am]

BILLING CODE 8010-01-M

SECURITIES AND EXCHANGE COMMISSION

[Rel. No. IC-23740; File No. 812-11378]

Protective Life Insurance Co., et al.

March 16, 1999.

AGENCY: Securities and Exchange Commission ("SEC" or "Commission").

ACTION: Notice of application for an order under Section 26(b) of the Investment Company Act of 1940 ("Act") approving the proposed substitution of securities.

SUMMARY OF APPLICATION: Applicants seek an order approving the substitution of shares of Oppenheimer Variable Account Funds ("Oppenheimer Variable Funds") representing interests in its Oppenheimer Money Fund for shares of Protective Investment Company ("PIC") representing interests in its Money Market Fund and held by the Life Account, Annuity Account, and Account A (together, the "Accounts") to support variable life insurance contracts or variable annuity contracts (collectively, the "Contracts") issued by Protective Life or American Foundation.

APPLICANTS: Protective Life Insurance Company ("Protective Life"), American Foundation Life Insurance Company ("American Foundation"), Protective Variable Life Separate Account ("Life Account"), Protective Variable Annuity Separate Account ("Annuity Account"), and Variable Annuity Account A of American Foundation ("Account A").

FILING DATE: The application was filed October 28, 1998 and amended and restated on February 9, 1999.

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 the Secretary of the SEC and serving Applicants with a copy of the request, in person or by mail. Hearing requests should be received by the SEC by 5:30 p.m. on April 12, 1999, and should be accompanied by proof of service on Applicants, in the form of an affidavit or, for lawyers, a certificate of service. Hearing requests should state the nature of the writer's interest, the reason for the request, and the issues contested. Persons who wish to be notified of a hearing may request notification of a hearing by writing to the Secretary of the SEC.

ADDRESSES: Secretary, Securities and Exchange Commission, 450 Fifth Street, NW., Washington, DC 20549-0609. Applicants, c/o Steve M. Callaway, Esq., Protective Life Insurance Company, 2801 Highway 280 South, Birmingham, AL 35223. Copies to Stephen E. Roth, Esq. and David S. Goldstein, Esq., Sutherland Asbill & Brennan LLP, 1275 Pennsylvania Avenue, NW., Washington, DC 20004-2415.

FOR FURTHER INFORMATION CONTACT: Elisa D. Metzger, Senior Counsel, and/or Susan M. Olson, Branch Chief, on (202) 942-0670, Office of Insurance Products, Division of Investment Management.

SUPPLEMENTARY INFORMATION: Following is a summary of the application. The complete application is available for a fee from the Public Reference Branch of the SEC, 450 Fifth Street, NW., Washington, DC 20549 or call (202) 942-8090.

Applicants' Representations

1. Protective Life is a stock life insurance company organized under Alabama law in 1907 and redomesticated under Tennessee law in 1992. Protective Life provides individual life and health insurance, annuities, group life and health insurance, and guaranteed investment contracts, and is licensed to transact insurance business in 49 states and the District of Columbia. As of December 31, 1997, Protective Life had total assets of approximately \$10.4 billion. Protective Life is the principal operating subsidiary of Protective Life Corporation ("PLC"), a Delaware insurance holding company whose stock is traded on the New York Stock Exchange. For the purposes of the Act, Applicants state that Protective Life is the depositor and sponsor of the Life Account and Annuity Account.

2. American Foundation, an Alabama insurance company, is a wholly owned subsidiary of Protective Life. American Foundation provides individual life, annuity, and group dental insurance products, and is licensed to transact insurance business in 30 states, including New York. As of December 31, 1997, the company had assets in excess of \$100 million. For the purposes of the Act, Applicants state that American Foundation is the depositor and sponsor of Account A.

3. Protective Life established the Life Account on February 22, 1995, and the Annuity Account on October 23, 1993, as separate investment accounts under Tennessee law. American Foundation established the Account A on December 1, 1997, as a separate investment account under Alabama law. Under both Tennessee and Alabama laws, the assets of each Account attributable to the Contracts through which interests in that Account are issued are owned by either Protective Life or American Foundation as appropriate, but are held separately from all other assets of Protective Life or American Foundation Life, for the benefit of the owners of, and the persons entitled to payment under, those contracts. Consequently, such assets in each Account are not chargeable with liabilities arising out of any other business that Protective Life or American Foundation may conduct. Income, gains and losses, realized or unrealized, from each of these Account's assets are credited to or charged against the amounts allocated to that Account in accordance with the Contracts without regard to other income, gains or losses of Protective Life or American Foundation. Each Account is a "separate account" as defined by Rule 0-1(e) under the Act, and is registered with the Commission as an unit investment trust.

4. The Life Account, Annuity Account, and Account A each are divided into seventeen sub-accounts. Each sub-account invests exclusively in shares representing an interest in a separate corresponding investment portfolio (each, a "Fund") of one of four series type management investment companies. The assets of the Life Account support variable life insurance contracts and the assets of the Annuity Account and the Account A support variable annuity contracts. Interests in these Accounts offered through such Contracts have been registered under the Securities Act of 1933 (the "1933 Act") on Form S-6 (Life Account) and on Form N-4 (Annuity Account and Account A). The Life Account, Annuity Account, and Account A each invest in the Protective Money Market Fund of

PIC that is involved in the substitution discussed in this application.

5. PIC was organized as a Maryland corporation on September 2, 1993, to serve as an investment vehicle for Protective Life's and American Foundation Life's variable life and variable annuity separate accounts. PIC is registered under the Act as an open-end management investment company, and is a series investment company as defined by Rule 18f-2 under the Act. PIC issues a separate series of shares of stock in connection with each Fund, and has registered such shares under the 1933 Act on Form N-1A. Protective Investment Advisors, Inc. ("Protective Investment Advisor"), formerly Investment Distributors Advisory Services, Inc., a wholly owned subsidiary of PLC, serves as the investment manager to PIC. PIC currently comprises seven Funds, one of which is the Protective Money Market Fund and is the subject of the proposed substitution.

6. Oppenheimer Variable Funds was organized in 1984 as a Massachusetts business trust, and is registered under the Act as a diversified, open-end management investment company. Oppenheimer Variable Funds is a series investment company as defined by Rule 18f-2 under the Act, and issues a separate series of shares of beneficial interest in connection with each Fund. Oppenheimer Variable Funds has registered shares of such Funds under the 1933 Act on Form N-1A. Oppenheimer Funds, Inc., serves as the investment manager to Oppenheimer Variable Funds. Oppenheimer Variable Funds currently comprises ten Funds, one of which, the Oppenheimer Money Fund, is the subject of the proposed substitution.

7. The Contracts are individual flexible premium variable and fixed life insurance contracts, individual modified single premium variable and fixed life insurance contracts, and individual flexible premium deferred variable and fixed annuity contracts. Protective Life issues three variable life insurance contracts and one variable annuity contract. American Foundation issues one variable annuity contract. The Contracts provide for the accumulation of values on a variable basis, fixed basis or both, and provide settlement or annuity payment options on a fixed basis. Protective Life's variable annuity contract also provides for variable annuity payment options. Protective Life or American Foundation, under each of the Contracts, reserves the right to substitute shares of one Fund for shares of another, including a Fund of

a different management investment company.

8. Under all of the Contracts, subject to certain conditions, Contract owners may make unlimited free transfers (in minimum amounts of \$100 or the entire value of the subaccount or fixed account being transferred) between and among the subaccounts of the appropriate Account and a fixed account that is part of Protective Life's or American Foundation's general account. Protective Life and American Foundation, however, under each of the Contracts, reserve the right to limit transfers to 12 per contract year and to charge a transfer fee of \$25 for each transfer after the twelfth in a contract year. Applicants also serve the right to restrict the maximum amount which may be transferred from the fixed account in any contract year to the greater of (i) \$2500, or (ii) 25% of the fixed account value.

9. Protective Investment Advisors has recommended to Protective Life and American Foundation that it cease operating Protective Money Market Fund. Since its inception, Protective Money Market Fund has been relatively small for several reasons, including the fact that it is only offered in Protective Life or American Foundation products and that Contracts owners generally do not allocate contract value to the Fund on a long-term basis. As a result,

Protective Money Market Fund has been unable to generate a sufficient level of assets to achieve any significant economics of scale, and has not been able to achieve above-average performance results or otherwise distinguish itself from other money market funds. Likewise, the small size of the Fund results in little income being generated from management fees. Conversely, due to the requirements of Rule 2a-7 under the Act, management of the Fund is time consuming and difficult for either Protective Investment Advisors or the subadvisor retained by Protective Investment Advisors to manage the day-to-day operations of the Fund. In light of the fact that a number of unaffiliated mutual fund organizations have large and successful insurance product money market funds in which the Accounts could invest, the foregoing factors have led Protective Life and American Foundation to conclude that there is little reason for Protective Investment Advisors to maintain an affiliated money market fund for them. Consequently, after consulting with the PIC's board of directors, Protective Investment Advisors, Protective Life and American Foundation have determined to liquidate Protective Money Market Fund via a substitution.

10. Protective Money Market Fund and Oppenheimer Money Fund have

identical investment objectives and achieve these objectives by investing in "money market" securities. Both Funds seek to maintain a constant net asset value per share of \$1.00. Applicants believe that by making the proposed substitution, they can better serve the interests of Contract owners by offering them a Fund which in recent years has had lower expenses and better performance than Protective Money Market Fund.

11. The assets of Oppenheimer Money Fund have been significantly greater than the assets of Protective Money Market Fund for each of the past three years. For the years 1997, 1996, and 1995, the net assets of the Oppenheimer Money Fund¹ were \$126,782,000; \$129,719,000; and \$65,386,000, respectively. For the years 1997, 1996, and 1995, the net assets of the Protective Money Market Fund² were \$3,622,000; \$6,121,000; and \$5,070,000, respectively. As a result of its size, Oppenheimer Money Fund has been able to achieve economies of scale that Protective Money Market could not attain. These economies of scale are reflected in Oppenheimer Money Fund's ratio of total operating expenses to net asset value. Oppenheimer Money Fund's expenses have ranged from one half to one third of those of the Protective Money Market Fund over the past three years.

RATIO OF OPERATING EXPENSES TO AVERAGE NET ASSETS

	1997 (percent)	1996 (percent)	1995 (percent)
Protective Money Market Fund (before reimbursement)	1.42	1.27	1.17
Protective Money Market Fund (after reimbursement)60	.60	.60
Oppenheimer Money Fund48	.49	.51

12. Applicants believe that Oppenheimer Money Fund will continue to have significantly greater assets than Protective Money Market Fund, and have no reason to believe, given the limited distribution of

Protective Money Market Fund's shares and the relatively short-term nature of contract owners' investment in the Fund, that Protective Money Market Fund will match the low expense ratios of Oppenheimer Money Fund in the

near future. Likewise, for each of the past three years, Oppenheimer Money Fund has had somewhat higher total returns than Protective Money Market Fund.

	Annual total return		
	1997 (percent)	1996 (percent)	1995 (percent)
Protective Money Market Fund	4.96	4.82	5.32
Oppenheimer Money Fund	5.31	5.13	5.62

¹ Oppenheimer Money Fund pays a monthly investment management fee based upon the average daily net assets of the Fund at an annual rate of .450% of the first \$500 million, .425% of the next

\$500 million, .400% of the next \$500 million, and .375% of the average net assets over \$1.5 billion.

² Protective Money Market Fund pays a monthly investment management fee based upon the average daily net assets of the Fund at an annual rate of

.60%. Protective Life or Protective Investment Advisors has voluntarily reimbursed the Fund for expenses in excess of its management fee over each of the last three fiscal years.

Applicants have no reason to believe that, in the near term, the performance of Protective Money Market Fund will match or exceed that of Oppenheimer Money Fund.

13. For the foregoing reasons, Applicants submit that the proposed substitution of Oppenheimer Money Fund for shares of Protective Money Market Fund is in the best interests of Contract owners.

14. Protective Life and American Foundation will redeem Protective Money Market Fund shares for cash and apply the redemption proceeds to the purchase of Oppenheimer Money Fund shares. The proposed substitution will take place at relative net asset value with no change in the amount of any Contract owner's contract or policy value, death benefit, or in the dollar value of his or her investment in any of the Accounts. As a result, Contract owners will remain fully invested. Contract owners will not incur any fees or charges as a result of the proposed substitution, nor will their rights nor Protective Life's or American Foundation's obligations under the Contracts be altered in any way. All expenses incurred in connection with the proposed substitution, including legal, accounting, and other fees and expenses, will be paid by Protective Life or American Foundation. In addition, the proposed substitution will not impose any tax liability on Contract owners. The proposed substitution will not cause the Contract fees and charges currently being paid by existing Contract owners to be greater after the proposed substitution than before the proposed substitution. The proposed substitution will not, of course, be treated as a transfer for the purpose of assessing transfer charges or for determining the number of remaining permissible transfers in a Contract year. Protective Life and American Foundation will not exercise their rights under the Contracts to impose additional restrictions on transfers from the affected subaccount to another subaccount or a fixed account for a period of at least 30 days following the substitution.

15. Applicants state that by supplements to the various prospectuses for the Contracts and the Accounts, all owners of the Contracts have been notified of Protective Life's and American Foundation's intention to take the necessary actions, including seeking the order requested by this application, to substitute shares of Protective Money Market Fund as described herein. The supplements for the Accounts advise Contract owners that from the date of the supplement until the date of the

proposed substitution, owners are permitted to make one transfer of all amounts under a Contract invested in the affected subaccount on the date of the supplement to another subaccount or a fixed account available under a Contract without that transfer counting as a "free" transfer permitted under a Contract. The supplements also inform Contract owners that Protective Life and American Foundation will not exercise their rights reserved under the Contracts to impose additional restrictions on transfers from the affected subaccount to another subaccount or a fixed account until at least 30 days after the proposed substitution.

16. In addition to the prospectus supplements distributed to owners of Contracts, within five days after the proposed substitution, any Contract owners who were affected by the substitution will be sent a written notice informing them that the substitution was carried out and that they may make one transfer of all amounts under a Contract invested in the affected subaccount on the date of the notice to another sub-account or a fixed account available under their Contract without that transfer counting as one of any limited number of transfers permitted in a Contract year or as one of a limited number of transfers permitted in a Contract year free of charge. The notice will also reiterate the fact that Protective Life and American Foundation will not exercise any rights reserved by either under any of the Contracts to impose additional restrictions on transfers from the affected subaccount to another subaccount or a fixed account until at least 30 days after the proposed substitution. The notice as delivered in certain states also may explain that, under the insurance regulations in those states, Contract owners who are affected by the substitution may exchange their Contracts for fixed-benefit life insurance contracts or annuity contracts, as applicable, issued by Protective Life or American Foundation (or one of their affiliates) during the 60 days following the proposed substitution. The notices will be preceded or accompanied by a current prospectus for Oppenheimer Variable Funds.

17. Protective Life and American Foundation also are seeking approval of the proposed substitution from any state insurance regulators whose approval may be necessary or appropriate.

Applicants' Legal Analysis

1. Applicants request an order from the Commission pursuant to Section 26(b) approving the proposed substitution of securities issued by Oppenheimer Variable Funds for those

issued by PIC which are currently held by the Accounts.

2. Section 26(b) of the Act requires the depositor of a registered unit investment trust holding the securities of a single issuer to receive Commission approval before substituting the securities held by the trust.

3. The Contracts expressly reserve for Protective Life or American Foundation the right, subject to compliance with applicable law, to substitute shares of another investment management company for shares of an investment management company held by an Account or a subaccount of an Account. The prospectuses for the Contracts and the Accounts contain appropriate disclosure of this right. Protective Life and American Foundation each reserved this right of substitution both to protect themselves and their Contract owners in situations where either might be harmed or disadvantaged by circumstances surrounding the issuer of the shares held by one or more of their separate accounts and to afford the opportunity to replace such shares where to do so could benefit itself and Contract owners.

4. Applicants state that in this case the proposed substitution of shares is necessary because Protective Money Market Fund will no longer be offered. Further, Applicants submit that the proposed substitution of shares of Oppenheimer Money Fund for shares of Protective Money Market Fund, will benefit Contract owners by replacing Protective Money Market Fund with a Fund that not only has identical investment objectives but which also has lower expenses and better performance.

5. Applicants anticipate that Contract owners will be at least as well off with the proposed array of subaccounts offered after the proposed substitution as they have been with the array of subaccounts offered prior to the substitution. Applicants state that the proposed substitution retains for Contract owners the investment flexibility which is a central feature of the Contracts.

6. Applicants state that the proposed substitution is not the type of substitution which Section 26(b) was designed to prevent. Unlike traditional unit investment trusts where a depositor could only substitute an investment security in a manner which permanently affected all the investors in the trust, the Contracts provide each Contract owner with the right to exercise his or her own judgment and transfer account values into other sub-accounts. Moreover, Applicants state that the Contracts will offer Contract owners the opportunity to transfer

amounts out of the affected subaccount into any of the remaining sub-accounts without cost or other disadvantage. Therefore, Applicants submit that the proposed substitution will not result in the type of costly forced redemption which Section 26(b) was designed to prevent

7. Applicants state that the proposed substitution also is unlike the type of substitution which Section 26(b) was designed to prevent in that by purchasing a Contract, Contract owners select much more than a particular investment company in which to invest their contract or policy values. They also select the specific type of insurance coverage offered by Protective Life or American Foundation under their Contract as well as numerous other rights and privileges set forth in the Contract. Contract owners may also have considered Protective Life's or American Foundation's size, financial condition, type and its reputation for service in selecting their Contract. These factors will not change as a result of the proposed substitution.

8. Applicants request an order of the Commission pursuant to Section 26(b) of the Act approving the proposed substitution by Protective Life and American Foundation.

Conclusion

Applicants submit that, for all the reasons and facts summarized herein, the proposed substitution is consistent with the protection of investors and the purposes fairly intended by the policy and provisions of the Act.

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

Margaret H. McFarland,

Deputy Secretary.

[FR Doc. 99-6971 Filed 3-22-99; 8:45 am]

BILLING CODE 8010-01-M

SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-41167; File No. SR-CHX-99-01]

Self-Regulatory Organizations; Notice of Filing of Proposed Rule Change by the Chicago Stock Exchange, Inc. Relating to the Establishment of Net Capital Requirements for Specialists

March 12, 1999.

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 February

26, 1999, the Chicago Stock Exchange, Inc. ("CHX" 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 CHX. 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 Exchange proposes to amend CHX Rule 3 of Article XI, and add interpretation and policy .01 thereunder, to increase the minimum net capital requirements for CHX. Below is the text of the proposed rule change. Proposed new language is italicized; proposed deletions are in brackets.

* * * * *

Article XI—Financial Responsibility and Reporting Requirements

Rule 3. Net Capital and Aggregate Indebtedness.

(a)(1) *Except as otherwise provided below, [A] a member or member organization shall at all times—*

(i) maintain net capital not less than that prescribed by SEC 15c3-1 (17 CFR 240.15c3-1) and

(ii) maintain subordinated cash borrowings and secured demand notes equal to or greater than 50% of its total subordinated borrowings to the extent that these subordinated borrowings are part of the debt equity total.

(2) A member or member organization that is registered as a specialist on the Exchange whose specialist transactions are effected through and carried in a specialist account cleared by another broker or dealer shall at all times—

(i) maintain, at a minimum, net capital that is the greater of (a) \$100,000, or (b) the amount prescribed by SEC 15c3-1 (17 CFR 240.15c3-1), and

(ii) maintain subordinated cash borrowings and secured demand notes equal to or greater than 50% of its total subordinated borrowings to the extent that these subordinated borrowings are part of the debt equity total.

(3) A member or member organization that is registered as a specialist on the Exchange in less than 200 securities and that clears its own specialist account(s) shall at all times—

(i) maintain, at a minimum, net capital that is the greater of (a) \$250,000, subject to the phase-in period set forth in Interpretation and Policy, .01, below, or (b) the amount prescribed by SEC 15c3-1 (17 CFR 240.15c3-1) and,

(ii) maintain subordinated cash borrowings and secured demand notes equal to or greater than 50% of its total subordinated borrowings to the extent that these subordinated borrowings are part of the debt equity total.

(4) A member or member organization that is registered as a specialist on the Exchange in 200 or more securities and that clears its own specialist account(s) shall at all times—

(i) maintain, at a minimum, net capital that is the greater of (a) \$350,000, subject to the phase-in period set forth in Interpretation and Policy .01, below, or (b) the amount prescribed by SEC 15c3-1 (17 CFR 240.15c3-1), and

(ii) maintain subordinated cash borrowings and secured demand notes equal to or greater than 50% of its total subordinated borrowings to the extent that these subordinated borrowings are part of the debt equity total.

(5) A member or member organization that clears the specialist accounts of another member or member organization registered as a specialist on the Exchange shall, at all times—

(i) maintain, at a minimum, net capital that is the greater of (a) \$500,000, subject to the phase-in period set forth in Interpretation and Policy, .01, below, or (b) the amount prescribed by SEC 15c3-1 (17 CFR 240.15c3-1), and

(ii) maintain subordinated cash borrowings and secured demand notes equal to or greater than 50% of its total subordinated borrowings to the extent that these subordinated borrowings are part of the debt equity total.

[(2)](6) A member or member organization shall promptly notify the Exchange if it ceases to be in compliance with the requirements of clauses (1), (2), (3), (4) or (5) (which ever is applicable) of this paragraph (a) or if it becomes obligated to file monthly reports under paragraph (b) of this Rule. A member or member organization shall also promptly notify the Exchange of any material unsecured or partly secured loan, drawing in excess of share of profits, or other obligation owed to the member or member organization by (i) any person, including a subordinated lender, having a capital interest in the member or member organization, (ii) any partner, officer, director or employee of the member or member organization, or (iii) any corporation, firm or entity in which any partner, officer, director or employee of the member or member organization holds office or has a material financial interest. Such notification may show such obligations owed to the member or member organization by category

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.