

credit facility and the procedures to be implemented to ensure that all Funds are treated fairly. After the commencement of operations of the credit facility, INVESCO will report on the operations of the credit facility at the Trustees' quarterly meetings.

In addition, for two years following the commencement of the credit facility, the independent public accountant for each Fund that is a registered investment company shall prepare an annual report that evaluates INVESCO's assertion that it has established procedures reasonably designed to achieve compliance with the conditions of the order. The report shall be prepared in accordance with the Statements on Standards for Attestation Engagements No. 3 and it shall be filed pursuant to Item 77Q3 of Form N-SAR. In particular, the report shall address procedures designed to achieve the following objectives: (a) That the Interfund Rate will be higher than the Repo Rate and the yield on the Money Market Fund, but lower than the Bank Loan Rate; (b) compliance with the collateral requirements as set forth in the application; (c) compliance with the percentage limitations on interfund borrowing and lending; (d) allocation of interfund borrowing and lending demand in an equitable manner and in accordance with procedures established by the Trustees; and (e) that the interest rate on any Interfund Loan does not exceed the interest rate on any third party borrowings of a borrowing Fund at the time of the Interfund Loan.

After the final report is filed, the Fund's external auditors, in connection with their Fund audit examinations, will continue to review the operation of the credit facility for compliance with the conditions of the application and their review will form the basis, in part, of the auditor's report on internal accounting controls in Form N-SAR.

18. No Fund will participate in the credit facility unless it has fully disclosed in its SAI 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. 99-31208 Filed 11-30-99; 8:45 am]

BILLING CODE 8010-01-M

SECURITIES AND EXCHANGE COMMISSION

[Investment Company Act Release No. 24175, 812-11816]

MAS Funds, et al.; Notice of Application

November 23, 1999.

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

ACTION: Notice of application under section 6(c) of the Investment Company Act of 1940 (the "Act") for an exemption from sections 18(f) and 21(b) of the Act, under section 12(d)(1)(I) of the Act for an exemption from section 12(d)(1) 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 under the Act to permit certain joint arrangements.

SUMMARY OF THE APPLICATION:

Applicants request an order that would permit series of a registered open-end management investment company to participate in a joint leading and borrowing facility.

APPLICANTS: MAS Funds (the "Fund") and Miller Anderson & Sherrerd, LLP (the "Adviser").

FILING DATES: The application was filed on October 14, 1999. Applicants have agreed to file an amendment, the substance of which is reflected in this notice, during the notice period.

HEARING OR NOTIFICATION OF HEARING: An order granting the application will be issued unless the SEC orders a hearing. Interested persons may request a hearing by writing to the SEC's Secretary and serving applicant with a copy of the request, personally or by mail. Hearing requests should be received by the SEC by 5:30 p.m. on December 20, 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 by writing to the SEC's Secretary.

ADDRESSES: Secretary, SEC, 450 Fifth Street, N.W., Washington, D.C. 20549-0609. Applicants, One Tower Bridge, West Conshohocken, PA 19428.

FOR FURTHER INFORMATION CONTACT: Marilyn Mann, Senior Counsel, at (202) 942-0582, or Mary Kay Frech, Branch Chief, at (202) 942-0564 (Division of Investment Management, Office of Investment Company Regulation).

SUPPLEMENTARY INFORMATION: The following is a summary of the application. The complete application may be obtained for a fee at the SEC's Public Reference Branch, 450 Fifth Street, N.W., Washington, D.C. 20549-0102 (tel. 202-942-8090).

Applicant's Representations

1. The Fund is registered under the Act as an open-end management investment company and currently consists of the following investment portfolios: Equity Portfolio, Mid Cap Growth Portfolio, Mid Cap Value Portfolio, Small Cap Growth Portfolio, Small Cap Value Portfolio, Value Portfolio, Cash Reserves Portfolio, Domestic Fixed Income Portfolio, Fixed Income Portfolio, Fixed Income II Portfolio, Global Fixed Income Portfolio, High Yield Portfolio, Intermediate Duration Portfolio, International Fixed Income Portfolio, Limited Duration Portfolio, Multi-Market Fixed Income Portfolio, Municipal Portfolio, Special Purpose Fixed Income Portfolio, Targeted Duration Portfolio, Balanced Portfolio, Multi-Asset-Class Portfolio, Advisory Mortgage Portfolio, Advisory Foreign Fixed Income Portfolio, Growth Portfolio, Value II Portfolio, Balanced Plus Portfolio and New York Municipal Portfolio (the "Portfolios"). Applicants request that any relief granted pursuant to the application also apply to future investment portfolios of the Fund.

2. The Adviser serves as investment adviser to each Portfolio. Morgan Stanley Dean Witter Advisory, Inc. (the "Sub-Adviser") acts as investment sub-adviser to the Cash Reserves Portfolio. The Adviser and the Sub-Adviser are subsidiaries of Morgan Stanley Dean Witter & Co. and are registered under the Investment Advisers Act of 1940. The Fund has entered into an investment advisory agreement with the Adviser under which the Adviser oversees each Portfolio's investments and manages its business affairs, subject to the oversight of the Board of Trustees of the Fund (the "Board"). The Adviser and, with respect to the Cash Reserves Portfolio only, the Sub-Adviser, exercises discretionary authority to purchase and sell securities for the Portfolios.

3. Some Portfolios may lend money to banks or other entities by entering into repurchase agreements, either directly or through a joint account, or purchasing other short-term instruments. Applicants have obtained an order permitting them to deposit uninvested cash balances that remain at the end of a trading day in one or more joint trading accounts ("Joint Accounts") to be used to enter into

repurchase agreements.¹ Other Portfolios may need to borrow money from a bank to satisfy redemption requests, cover unanticipated cash shortfalls such as a trade "fail" in which cash payment for a portfolio security sold by a Fund has been delayed, or for other temporary purposes. Currently, if a Portfolio has a temporary cash need it would incur an overdraft with the custodian bank.

4. If the Portfolios were to borrow money from a bank under their current arrangements or under other credit arrangements, they would pay interest on the borrowed cash at a rate which would be higher than the rate that would be earned by other (non-borrowing) Portfolios on investments in repurchase agreements and other short-term instruments of the same maturity as the bank loan. Applicants state that this differential represents the bank's profit for serving as a middleman between a borrower and lender. Other bank loan arrangements, such as committed lines of credit, would require the portfolios to pay substantial commitment fees in addition to the interest rate to be paid by the borrowing Portfolio.

5. Applicants request an order that would permit the Portfolios to enter into lending agreements ("Interfund Lending Agreements") under which the Portfolios would lend and borrow money for temporary purposes directly to and from each other ("Interfund Loans") through a credit facility ("Credit Facility"). Applicants believe that the proposed Credit Facility would substantially reduce the Portfolios' potential borrowing costs and enhance their ability to earn higher rates of interests on short-term loans. Although the proposed Credit Facility would substantially reduce the Portfolios' needs to borrow from banks, the Portfolios would still be free to establish committed lines of credit or other borrowing arrangements with banks.

6. Applicants anticipate that the Credit Facility would provide a borrowing Portfolio with savings when the cash position of the Portfolio is insufficient to meet temporary cash requirements. This situation could arise when redemptions exceed anticipated volumes and certain Portfolios have insufficient cash on hand to satisfy such redemptions. When the Portfolios liquidate portfolio securities to meet redemption requests, which normally

are effected immediately, they often do not receive payment in settlement for up to three days (or longer for certain foreign transactions). The Credit Facility would provide a source of immediate, short-term liquidity pending settlement of the sale of portfolio securities.

7. Applicants also propose using the Credit Facility when a sale of securities fails due to circumstances such as a delay in the delivery of cash to the Portfolio's custodian or improper delivery instructions by the broker affecting the transaction. Sales fails may present a cash shortfall if the Portfolio has undertaken to purchase a security with the proceeds from securities sold. When the Portfolio experiences a cash shortfall due to a sales fail, the custodian typically extends temporary credit to cover the shortfall and the Portfolio incurs overdraft charges. Alternatively the Portfolio could fail on its intended purchase due to lack of funds from the previous sale, resulting in additional cost to the Portfolio, or sell a security on a same day settlement basis, earning a lower return on the investment. Use of the Credit Facility under these circumstances would enable the portfolio to have access to immediate short-term liquidity without incurring custodian overdraft or other charges.

8. While borrowing arrangements with banks will continue to be available to cover unanticipated redemptions and sales fails, under the proposed Credit Facility a borrowing Portfolio would pay lower interest rates than those offered by banks on short-term loans. In addition, Portfolios making short-term cash loans directly to other Portfolios would earn interest at a rate higher than they otherwise could obtain from investing their cash in repurchase agreements. Thus, applicants believe that the proposed Credit Facility would benefit both borrowing and lending Portfolios.

9. The interest rate charged to the Portfolios on any Interfund Loan (the "Interfund Loan Rate") would be the average of the "Repo Rate" and the "Bank Loan Rate," both as defined below. The Repo Rate for any day would be the highest rate available to the Portfolios from investments in overnight repurchase agreements through a Joint Account. The Bank Loan Rate for any day would be calculated by the Adviser on each day an Interfund loan is made according to a formula established by the Board. The formula would be designed to approximate the lowest interest rate at which bank short-term loans would be available to the Portfolios, and would be based upon a publicly available rate (e.g., the Federal

Funds rate) plus a certain premium reflecting the spread over the publicly available rate typically paid by the Portfolios (e.g., 25 basis points). In accordance with this formula, the Interfund Loan Rate would vary with the publicly available rate so as to reflect changing bank loan rates. The Board periodically would review the continuing appropriateness of using the publicly available rate, as well as the relationship between the Bank Loan Rate and current bank loan rates that would be available to the Portfolios. The initial formula and any subsequent modifications to the formula would be subject to the approval of the Board.

10. The Credit Facility would be administered by employees of the Adviser (the "Cash Management Team"). Under the proposed Credit Facility, the portfolio managers for each participating Portfolio could provide standing instructions to participate daily as a borrower or lender. The Cash Management Team on each business day would collect data on the uninvested cash and borrowing requirements of all participating Portfolios from the Portfolios' custodian. Once it had determined the aggregate amount of cash available for loans and borrowing demand, the Cash Management Team would allocate loans among borrowing Portfolios without any further communication from portfolio managers. After the Cash Management Team has allocated cash for Interfund Loans, the Adviser will invest any remaining cash in accordance with the standing instructions of portfolio managers. The money market Portfolios typically would not participate as borrowers because they rarely need to borrow cash to meet redemptions.

11. The Cash Management Team will allocate borrowing demand and cash available for lending among the Portfolios on what the Cash Management Team believes to be an equitable basis, subject to certain administrative procedures applicable to all Portfolios, such as the time of filing requests to participate, minimum loan lot sizes, and the need to minimize the number of transactions and associated administrative costs. To reduce transaction costs, each loan normally would be allocated administrative costs. To reduce transaction costs, each loan normally would be allocated in a manner intended to minimize the number of participants necessary to complete the loan transactions. The method of allocation and related administrative procedures would be approved by the Board, including a majority of Trustees who are not "interested persons" of the Fund, as

¹ MAS Pooled Trust Fund, Investment Company Act Release Nos. 18081 (Apr. 8, 1991) (notice) and 18135 (May 6, 1991) (order); MAS Pooled Trust Fund, Investment Company Act Release Nos. 19377 (Apr. 1, 1993) (notice) and 19437 (Apr. 27, 1993) (amended order).

defined in section 2(a)(19) of the Act ("Independent Trustees"), to ensure that both borrowing and lending Portfolios participate on an equitable basis.

12. The Adviser would (i) monitor the interest rates charged and the other terms and conditions of the loans, (ii) limit the borrowings and loans entered into by each Portfolio to ensure that they comply with the Portfolio's investment policies and limitations, (iii) ensure equitable treatment of each Portfolio, and (iv) make quarterly reports to the Board concerning any transactions by the Portfolios under the Credit Facility and the interest rates charged.

13. The Adviser would administer the Credit Facility as part of its duties under its existing advisory contract with each Portfolio and would receive no additional fee as compensation for its services. The Adviser may collect standard pricing, recordkeeping, bookkeeping, and accounting fees applicable to repurchase and lending transactions generally, including transactions effected through the Credit Facility. Fees would be no higher than those applicable for comparable bank loan transactions.

14. Each Portfolio's participation in the proposed Credit facility will be consistent with its organizational documents and its investment policies and limitations. The statement of additional information of each Portfolio participating in the interfund lending arrangements will disclose the existence of such arrangements.

15. In connection with the Credit Facility, applicants request an order under (i) section 6(c) of the Act granting relief from sections 18(f) and 21(b) of the act; (ii) section 12(d)(1)(J) of the Act granting relief from section 12(d)(1) of the Act; (iii) sections 6(c) and 17(b) of the Act granting relief from sections 17(a)(1) and 17(a)(3) of the Act; and (iv) section 17(d) of the Act and rule 17d-1 under the Act to permit certain joint arrangements.

Applicants' Legal Analysis

1. Section 17(a)(3) generally prohibits any affiliated person, or affiliated person of an affiliated person, from borrowing money or other property from a registered investment company. Section 21(b) generally prohibits any registered management investment company from lending money or other property to any person if that person controls or is under common control with the company. Section 2(a)(3)(C) of the Act defines an "affiliated person" of another person, in part, to be any person directly or indirectly controlling, controlled by, or under common control

with, the other person. Because the Adviser may be deemed to control the Portfolios, the Portfolios might be deemed to be under common control and thus affiliated persons of each other.

2. Section 6(c) provides that an exemptive order may be granted where an exemption is necessary or appropriate in the public interest and consistent with the protection of investors and the purposes fairly intended by the policy and provisions of the Act. Section 17(b) authorizes the SEC to exempt a proposed transaction from section 17(a) provided that the terms of the transaction, including the consideration to be paid or received, are fair and reasonable and do not involve overreaching on the part of any person concerned, and the transaction is consistent with the policy of the investment company as recited in its registration statement and with the general purposes of the Act. Applicants believe that the proposed arrangements satisfy these standards.

3. Applicants submit that sections 17(a)(3) and 21(b) of the Act were intended to prevent a person with strong potential adverse interests to and some influence over the investment decisions of a registered investment company from causing or inducing the investment company to engage in lending transactions that unfairly inure to the benefit of that person and that are detrimental to the best interests of the investment company and its shareholders. Applicants assert that the proposed Credit Facility transactions do not raise these concerns because (i) the Adviser would administer the program as a disinterested fiduciary; (ii) all Interfund Loans would consist only of uninvested cash reserves that the Portfolios otherwise would invest in short-term repurchase agreements or other short-term instruments either directly or through the Joint Accounts; (iii) the Interfund Loans would not involve a greater risk than other similar investments; (iv) the lending Portfolios would receive interest at a rate higher than they could obtain through other similar investments; and (v) the borrowing Portfolios would pay interest at a rate lower than otherwise available to them under its bank loan agreements and avoid the up-front commitment fees associated with committed lines of credit. Moreover, applicants believe that the other conditions in the application would effectively preclude the possibility of any Portfolio obtaining an undue advantage over any other Portfolio.

4. Section 17(a)(1) generally prohibits an affiliated person of a registered

investment company, or an affiliated person of an affiliated person, from selling any securities or other property to the company. Section 12(d)(1) of the Act generally makes it unlawful for a registered investment company to purchase or otherwise acquire any security issued by any other investment company except in accordance with the limitations set forth in that section. Applicants believe that the obligation of a borrowing Portfolio to repay an Interfund Loan may constitute a security under sections 17(a)(1) and 12(d)(1). Section 12(d)(1)(J) provides that the SEC may exempt persons or transactions from any provision of section 12(d)(1) if and to the extent such exception is consistent with the public interest and the protection of investors. Applicants contend that the standards under sections 6(c), 17(b) and 12(d)(1) are satisfied for all the reasons set forth above in support of their request for relief from sections 17(a)(3) and 21(b) and for the reasons discussed below.

5. Applicants state that section 12(d)(1) was intended to prevent the pyramiding of investment companies in order to avoid duplicative costs and fees attendant upon multiple layers of investment companies. Applicants submit that the proposed Credit Facility does not involve these abuses. Applicants note that there would be no duplicative costs or fees to the Portfolios or shareholders, and that the Adviser would receive no additional compensation for its services in administering the Credit Facility. Applicants also note that the purpose of the proposed Credit facility is to provide economic benefits for all the participating Portfolios.

6. Section 18(f)(1) prohibits open-end investment companies from issuing any senior security except that a company is permitted to borrow from any bank, if immediately after the borrowing, there is an asset coverage of at least 300 percent for all borrowings of the company. Under section 18(g) of the Act, the term "senior security" includes any bond, debenture, note, or similar obligation or instrument constituting a security and evidencing indebtedness. Applicants request exemptive relief from section 18(f)(1) to the limited extent necessary to implement the Credit Facility (because the lending Portfolios are not banks).

7. Applicants believe that granting relief under section 6(c) is appropriate because the Portfolios would remain subject to the requirement of section 18(f)(1) that all borrowings of the Portfolio, including combined Credit Facility and bank borrowings, have at least 300% asset coverage. Based on the

conditions and safeguard described in the application, applicants also submit that to allow the Portfolios to borrow from other Portfolios pursuant to the proposed Credit Facility is consistent with the purposes and policies of section 18(f)(1).

8. Section 17(d) and rule 17d-1 generally prohibit any affiliated person of a registered investment company, or affiliated person of an affiliated person, when acting as principal, from effecting any joint transaction in which the company participates unless the transaction is approved by the SEC. Rule 17d-1 provides that in passing upon applications for exemptive relief from section 17(d), the SEC will consider whether the participation of a registered investment company in a joint enterprise on the basis proposed is consistent with the provisions, Policies, and purposes of the Act and the extent to which the company's participation is on a basis different from or less advantageous than that of other participants.

9. Applicants submit that the purpose of section 17(d) is to avoid overreaching by and unfair advantage to investment company insiders. Applicants believe that the Credit Facility is consistent with the provisions, policies and purposes of the Act in that it offers both reduced borrowing costs and enhanced returns on loaned funds to all participating Portfolios and their shareholders. Applicants note that each Portfolio would have an equal opportunity to borrow and lend on equal terms consistent with its investment policies and fundamental investment limitations. Applicants therefore believe that each Portfolio's participation in the Credit Facility will be on terms which are no different from or less advantageous than that of other participating Portfolios.

Applicants' Conditions

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

1. The interest rates to be charged to the Portfolios under the Credit Facility will be the average of the Repo Rate and the Bank Loan Rate.

2. On each business day, the Adviser will compare the Bank Loan Rate with the Repo Rate and will make cash available for Interfund Loans only if the Interfund Loan Rate is (a) more favorable to the lending Portfolio than the Repo Rate, and (b) more favorable to the borrowing Portfolio than the Bank Loan Rate.

3. If a Portfolio has outstanding borrowings, any Interfund Loans to the Portfolio (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 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 any event not over (7) days), and (d) will provide that, if an event of default occurs under any agreement evidencing an outstanding bank loan to the Portfolio, that event of default will automatically (without need for action or notice by the lending Portfolio) constitute an immediate event of default under the Interfund Lending Agreement entitling the lending Portfolio to call the Interfund Loan (and exercise all rights with respect to collateral, if any) and that such call will be made if the lending bank exercises its right to call its loan under its agreement with the borrowing Portfolio.

4. A Portfolio may make an unsecured borrowing through the Credit Facility if its outstanding borrowings from all sources immediately after the interfund borrowing total 10% or less of its total assets, provided that if the Portfolio has a secured loan outstanding from any other lender, including but not limited to another Portfolio, the Portfolio'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 Portfolio's total outstanding borrowings immediately after an interfund borrowing would be greater than 10% of its total assets, the Portfolio may borrow through the Credit Facility on a secured basis only. A Portfolio may not borrow through the Credit Facility or from any other source 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 Portfolio that has outstanding interfund borrowings may, through additional borrowings, cause its outstanding borrowings from all sources to exceed 10% of its total assets, the Portfolio 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 Portfolio 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 Portfolio will within one (1) 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 Portfolio'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 Portfolio's total outstanding borrowings exceed 10% is repaid, or the Portfolio's total outstanding borrowings cease to exceed 10% of its total assets, the Portfolio 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 loan.

6. No equity, fixed income or money market Portfolio may lend to another Portfolio 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 Portfolio's Interfund Loans to any one Portfolio shall not exceed 5% of the lending Portfolio'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 (7) days. Loan affected within seven (7) days of each other will be treated as separate loan transactions for purposes of this condition.

9. A Portfolio's borrowings through the Credit Facility, as measured on the day when the most recent loan was made, will not exceed the greater of 125% of the Portfolio's total net cash redemptions and 102% of failed trades for the preceding seven (7) calendar days.

10. Each Interfund Loan may be called on one (1) business day's notice by a lending Portfolio and may be repaid on any day by a borrowing Portfolio.

11. A portfolio's participation in the Credit Facility must be consistent with its investment policies and limitations and organizational documents.

12. The Cash Management Team will calculate total Portfolio borrowing and lending demand through the Credit Facility, and allocate loans on an equitable basis among the Portfolios without the intervention of any Portfolio manager. The Cash Management Team will not solicit cash for the Credit Facility from any Portfolio or prospectively publish or disseminate loan demand data to Portfolio managers. The Adviser will invest any amounts

remaining after satisfaction of borrowing demand in accordance with the standing instructions from Portfolio managers.

13. The Adviser will monitor the interest rates charged and the other terms and conditions of the Interfund Loans and will make a quarterly report to the Board concerning the participation of the Portfolios in the Credit Facility and the terms and other conditions of any extensions of credit thereunder.

14. The Board, including a majority of the Independent Trustees:

(a) Will review no less frequently than quarterly each Portfolio's participation in the Credit Facility during the preceding quarter for compliance with the conditions of any order permitting the transactions;

(b) Will establish the Bank Loan Rate formula used to determine the interest rate on Interfund Loans and review no less frequently than annually the continuing appropriateness of the Bank Loan Rate formula; and

(c) Will review no less frequently than annually the continuing appropriateness of each Portfolio's participation in the Credit Facility.

15. In the event an Interfund Loan is not paid according to its terms and the default is not cured within two (2) business days from its maturity or from the time the lending Portfolio makes a demand of payment under the provisions of the Interfund Lending Agreement, the Adviser will promptly refer the loan for arbitration to an independent arbitrator selected by the Board 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 Portfolios. The arbitrator will submit at least annually a written report to the Board setting forth a description of the nature of any dispute and the actions taken by the Portfolios to resolve the dispute.

16. The Fund will maintain and preserve for a period of not less than six (6) years from the end of the fiscal year in which any transaction under the Credit Facility occurred, the first two (2) 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 rate of interest on the loan, the rate of interest available at the time on short-term repurchase agreements and bank borrowings, and such other information presented to the Board in connection with the review required by conditions 13 and 14.

17. The Adviser will prepare and submit to the Board for review, an

initial report describing the operations of the Credit Facility and the procedures to be implemented to ensure that all Portfolios are treated fairly. After the commencement of operations of the Credit Facility, the Adviser will report on the operations of the Credit Facility at the Board's quarterly meetings.

In addition, for two (2) years following the commencement of the Credit Facility, the independent public accountant for the Fund shall prepare an annual report that evaluates the Adviser's assertions that it has established procedures reasonably designed to achieve compliance with the conditions of the order. The report shall be prepared in accordance with the Statements on Standards for Attestation Engagements No. 3 and it shall be filed pursuant to Item 77Q3 of Form N-SAR. In particular, the report shall address procedures designed to achieve the following objectives:

(a) that the Interfund Loan Rate will be higher than the Repo Rate, but lower than the Bank Loan Rate;

(b) compliance with the collateral requirements as set forth in the application;

(c) compliance with the percentage limitations on interfund borrowing and lending;

(d) allocation of interfund borrowing and lending demand in an equitable manner and in accordance with procedures established by the Board; and

(e) that the interest rate on any Interfund Loan does not exceed the interest rate on any third party borrowings of a borrowing Portfolio at the time of the Interfund Loan.

After the final report is filed, the Fund's auditors, in connection with their Fund audit examinations, will continue to review the operation of the Credit Facility for compliance with the conditions of the application and their review will form the basis, in part, of the auditor's report on internal accounting controls in Form N-SAR.

18. No Portfolio will participate in the Credit Facility upon receipt of requisite regulatory approval unless it has fully disclosed in its statement of additional information all material facts about its intended participation.

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

Margaret H. McFarland,
Deputy Secretary.

[FR Doc. 99-31161 Filed 11-30-99; 8:45 am]

BILLING CODE 8010-01-M

SECURITIES AND EXCHANGE COMMISSION

[Rel. No. IC-24174; 812-11700]

Scudder California Tax Free Trust, et al.; Notice of Application

November 23, 1999.

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

ACTION: Notice of application for an order under the Investment Company Act of 1940 (the "Act") under (i) section 6(c) of the Act granting an exemption from sections 18(f) and 21(b) of the Act; (ii) section 12(d)(1)(J) of the Act granting an exemption from section 12(d)(1) of the Act; (iii) sections 6(c) and 17(b) of the Act granting an exemption from sections 17(a)(1) and 17(a)(3) of the Act; and (iv) section 17(d) of the Act and rule 17d-1 under the Act to permit certain joint arrangements.

Summary of Application: Applicants request an order that would permit certain registered investment companies to participate in a joint lending and borrowing facility.

Applicants: Scudder California Tax Free Trust, Scudder Cash Investment Trust, Scudder Fund, Inc., Scudder Funds Trust, Scudder GNMA Fund, Scudder International Fund, Inc., Scudder Municipal Trust, Scudder Mutual Funds, Inc., Scudder Pathway Series, Scudder Portfolio Trust, Scudder Securities Trust, Scudder State Tax Free Trust, Scudder Tax Free Money Fund, Scudder Tax Free Trust, Scudder U.S. Treasury Money Fund, Scudder Variable Life Investment Fund, Farmers Investment Trust, Global/International Fund, Inc., Investment Trust, Value Equity Trust, The Japan Fund, Inc. (collectively, the "Scudder Funds"), AARP Cash Investment Funds, AARP Growth Trust, AARP Income Trust, AARP Managed Investment Portfolios Trust, AARP Tax Free Income Trust (collectively, the "AARP Funds"), Cash Account Trust, Cash Equivalent Fund, Investors Cash Trust, Investors Municipal Cash Fund, Kemper Aggressive Growth Fund, Kemper Asian Growth Fund, Kemper Blue Chip Fund, Kemper Equity Trust, Kemper Europe Fund, Kemper Floating Rate Fund, Kemper Funds Trust, Kemper Global Income Fund, Kemper Global/International Series, Inc., Kemper Growth Fund, Kemper High Yield Series, Kemper Horizon Fund, Kemper Income and Capital Preservation Fund, Kemper Income Trust, Kemper International Fund, Kemper National Tax-Free Income Series, Kemper Portfolios, Kemper Securities Trust, Kemper Short-Term US Government