

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

Fund, Kemper Small Capitalization Equity Fund, Kemper State Tax-Free Income Series, Kemper Strategic Income Fund, Kemper Target Equity Fund, Kemper Technology Fund, Kemper Total Return Fund, Kemper U.S. Government Securities Fund, Kemper Value Plus Growth Fund, Kemper Value Series, Inc., Kemper Variable Series, Tax-Exempt California Money Market Fund, Zurich Money Funds, Zurich Yieldwise Money Fund (collectively, the "Kemper Funds" and, together with the Scudder Funds and the AARP Funds, the "Investment Companies"), Scudder Kemper Investments, Inc. ("Scudder Kemper"), and all other open-end registered investment companies and their series that are advised by Scudder Kemper or a person controlling, controlled by, or under common control with Scudder Kemper (together with the Investment Companies, the "Funds").<sup>1</sup>

**Filing Dates:** The application was filed on July 16, 1999. Applicants have agreed to file an amendment during the notice period, the substance of which is reflected in this notice.

**Hearing or Notification of Hearing:** An order granting the requested relief 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 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, NW, Washington, DC 20549-0609.

**Applicants:** AARP Funds, Two International Place, Boston, Massachusetts 02110; Scudder Funds, Two International Place, Boston, Massachusetts 02110 or 345 Park Avenue, New York, New York 10154; Kemper Funds, 222 South Riverside Plaza, Chicago, Illinois 60606; Scudder Kemper, 345 Park Avenue, New York, New York 10154.

**FOR FURTHER INFORMATION CONTACT:** J. Amanda Machen, Senior Counsel, (202)

942-7120, or Mary Kay Frech, Branch Chief, (202) 942-0564 (Office of Investment Company Regulation, Division of Investment Management).

**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 5th Street, NW, Washington, DC 20549-0102 (tel. 202-942-8090).

#### Applicants' Representations

1. Each Investment Company is registered under the Act as an open-end management investment company and is organized either as a Maryland corporation or a Massachusetts business trust. Scudder Kemper is registered under the Investment Advisers Act of 1940 and serves as investment adviser to the Funds.

2. Some Funds may lend money to banks to other entities by entering into repurchase agreements, either directly or through a joint account. Under an existing order, each Fund can deposit its uninvested daily cash balances into a joint account administered by Scudder Kemper ("Joint Account").<sup>2</sup> The funds in the Joint Account are used to enter into repurchase agreements. Scudder Kemper determines the amount of cash balances to be invested in the Joint Account each day, and receives no additional compensation for managing the Joint Account. In addition, the Funds and Scudder Kemper have filed and application for an order to permit certain non-money market Funds to use their uninvested cash to purchase shares of certain affiliated funds for cash management purposes (collectively, the "Central Funds").

3. Other Funds may borrow money from the same or other banks for temporary purposes, such as to satisfy redemption requests. Currently, most Funds have a committed line of credit with certain banks through which each Fund may borrow money for temporary or emergency purposes, including funding shareholder redemptions and the payment of dividends ("Committed Credit Facility"). The rate of interest paid by the Funds when they borrow under the Committed Credit Facility is significantly higher than the rate of interest earned on repurchase agreements entered into by the Funds. Applicants state that this differential represents the bank's profit for serving as a middleman between a borrower and lender.

4. Applicants request an order that would permit the Funds to enter into lending agreements under which the Funds would lend and borrow money for temporary purposes directly to and from each other through a credit facility ("Proposed Credit Facility"). Applicants believe that the Proposed Credit Facility would substantially reduce the Funds' potential borrowing costs and enhance their ability to earn higher rates of interest on short-term lendings. Although the Proposed Credit Facility would substantially reduce the Funds' need to borrow from banks, bank loans will continue to be available to the Funds.

5. Applicants anticipate that the Proposed Credit Facility would provide the Funds with significant savings when the cash position of any Fund is insufficient to meet temporary cash requirements. This situation could arise when 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, 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 Proposed Credit Facility would provide a source of immediate, short-term liquidity pending settlement of the sale of portfolio securities.

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

7. The interest rate charged to the Funds on any loan under the Proposed Credit Facility (the "Interfund Loan Rate") would be the average of the current overnight repurchase agreement rate available through the Joint Account (the "Joint Account Repo Rate") and a single benchmark rate set for all Funds. The benchmark rate would be calculated by Scudder Kemper each day that a Fund borrows or lends, according to a formula established by each Fund's board of directors or trustees (collectively, "Boards") to approximate the lowest interest rate at which bank loans would be available to the Funds ("Bank Loan Rate"). The formula would

<sup>1</sup> All existing Funds that currently intend to rely on the requested order are named as applicants, and any Fund that relies on the order in the future will comply with the terms and conditions of the application.

<sup>2</sup> Scudder Global Fund, Inc., Investment Company Act Release Nos. 23482 (Oct. 7, 1998) (notice) and 23525 (Nov. 5, 1998) (order).

be based upon a publicly available rate and would vary with this rate so as to reflect changing bank loan rates. Each Fund's Board periodically would review the continuing appropriateness of using the formula to determine the Bank Loan Rate, as well as the relationship between the Bank Loan Rate and current Bank loan rates that would be available to the Funds. The initial formula and any subsequent modifications to the formula would be subject to the approval of each Fund's Board.

8. The Proposed Credit Facility would be administered by the officers and employees of Scudder Kemper responsible for overseeing short-term trading for the Joint Account (including a money market Fund portfolio manager) ("Cash Management Group"). A Fund would not participate in the Proposed 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. Under the proposed Credit Facility, the portfolio managers for each participating Fund, other than the money market Funds, may provide standing instructions to participate daily as a borrower or lender. As in the case of the Joint Account, the Cash Management Group on each business day would collect data on the uninvested cash and borrowing requirements of all participating Funds, other than the money market Funds, from the Funds' custodians. The portfolio managers for the money market Funds would inform the Cash Management Group directly each day of the amount of cash, if any, they wished to make available under the Proposed Credit Facility as a lender. The money market Funds typically would not participate as a borrower because they rarely need to borrow cash to meet redemptions. Once it had determined the aggregate amount of cash available for loans and borrowing demand, the Cash Management Group would allocate loans among borrowing Funds without any further communication from portfolio managers. Applicants expect far more available uninvested cash each day than borrowing demand. After allocating cash for interfund loans, the Cash Management Group will inform the money market Fund managers of the amount of loans, if any, made for each money market Fund so that the Fund managers may invest any remaining cash in the Joint Account or other available instruments. With respect to other participating Funds, the Cash Management Group will follow standing instructions from the portfolio managers

to invest the remaining amounts daily through the Joint Account.

9. The Cash Management Group would allocate borrowing demand and cash available for lending among the Funds on what it believes to be an equitable basis, subject to certain administrative procedures applicable to all Funds, 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 in a manner intended to minimize the number of participants necessary to complete the loan transaction. The method of allocation and related administrative procedures would be approved by each Fund's Board, including a majority of directors who are not "interested persons" of the Funds, as defined in section 2(a)(19) of the Act ("Independent Directors"), to ensure that both borrowing and lending Funds participate on an equitable basis.

10. Scudder Kemper 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 Fund to ensure that they comply with the Fund's investment policies and limitations, (iii) ensure equitable treatment of each Fund, and (iv) make quarterly reports to the Boards of the Funds concerning any transactions by the Funds under the Proposed Credit Facility and the interest rates charged. Scudder Kemper would administer the Proposed Credit Facility as part of its duties under its existing management or advisory and service contract with each Fund and would receive no additional fee as compensation for its services.

11. Each Fund's participation in the Proposed Credit Facility will be consistent with its organizational documents and its investment policies and limitations. The current investment limitations of certain Funds provide that they may borrow money as a temporary measure for extraordinary or emergency purposes in amounts up to 33⅓% of total assets in order to meet redemption requests. To the extent the fundamental investment limitations of a Fund are inconsistent with participation in the Proposed Credit Facility, the fund would seek shareholder approval, where necessary, to participate in the Proposed Credit Facility. No Fund would be permitted to participate in the Proposed Credit Facility unless the Fund had fully disclosed all material information concerning the Proposed Credit Facility in its prospectus and/or statement of additional information ("SAI").

12. In connection with the Proposed 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)() 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. Applicants state that the Funds may be under common control by virtue of having Scudder Kemper as their common investment adviser and, in some instances, the same Board.

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 for the reasons discussed below.

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) Scudder Kemper will administer the program as a disinterested fiduciary; (ii) all interfund loans will consist only of uninvested cash balances that the Fund otherwise would invest in short-term repurchased agreements or other short-term instruments either directly or through the Joint Account; (iii) the interfund loans will not involve a greater risk than other similar investments; (iv) the lending Fund will receive interest at a rate higher than it could obtain through other similar investments; and (v) the borrowing Fund will pay interest at a rate lower than otherwise available to it under its bank loan agreements and avoid the up-front commitment fees associated with committed line of credit. Moreover, applicants believe that the other conditions in the application would effectively preclude the possibility of any Fund obtaining an undue advantage over any other Fund.

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 Fund to repay an Interfund Loan may constitute a security under sections 17(a)(1) and 12(d)(1). Section 12(d)(1)(f) 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 section 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) 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 duplicate costs or fees to the Funds or shareholders, and that Scudder Kemper would receive no additional compensation for its services in administering the Proposed Credit

Facility. Applicants also note that the purpose of the Proposed Credit Facility is to provide economic benefits for all the participating Funds.

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 a least 300 per cent for all borrowing 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 Proposed Credit Facility (because the lending Funds are not banks).

7. Applicants believe that granting relief under section 6(c) is appropriate because the Funds would remain subject to the requirement of section 18(f)(1) that all borrowings of the Fund, including combined credit facility and bank borrowings, have a least 300% asset coverage. Based on the conditions and safeguards described in the application, applicants also submit that to allow the Funds to borrow from other Funds under 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 an unfair advantage to investment company insiders. Applicants believe that the Proposed 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 Funds and their shareholders. Applicants note that each Fund 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 Fund's participation in the Proposed Credit Facility will be on terms which are no different from or less advantageous than that of other participating Funds.

#### Applicants' Conditions

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

1. The interest rate to be charged to the Funds under the Proposed Credit Facility will be the average of the Repo Rate and the Bank Loan Rate.

2. On each business day, the Cash Management Group 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 Fund than the Repo Rate and, if applicable, the yield on the Central Funds and (b) more favorable to the borrowing Fund than the Bank Loan Rate and, if applicable, the Committed Loan Rate.

3. If a Fund has outstanding borrowings, any interfund loans to the Fund (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 than 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 borrowing Fund.

4. A fund may make an unsecured borrowing through the Proposed Credit Facility if its outstanding borrowings from all sources immediately after the interfund borrowing total less than 10% of its total assets, provided that if the 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 interfund borrowing

would be greater than 10% of its total assets, the Fund may borrow through the Proposed Credit Facility only on a secured basis. A Fund may not borrow through the Proposed Credit Facility or from any other source if its total outstanding borrowings immediately after the interfund borrowing would be more than 33⅓% 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 a 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 loan.

6. No Fund may lend to another Fund through the Proposed Credit Facility if the loan would cause its aggregate outstanding loans through the Proposed Credit Facility to exceed 15% 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. 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.

10. A Fund's participation in the Proposed Credit Facility must be consistent with its investment policies and limitations and organizational documents. A Fund may not borrow through the Proposed Credit Facility unless the Fund has a policy that prevents the Fund from borrowing for other than temporary or emergency purposes (and not for leveraging), except that certain Funds may engage in reverse repurchase agreements for any purpose.

11. The Cash Management Group will calculate total Fund borrowing and lending demand through the Proposed Credit Facility, and allocate interfund loans on an equitable basis among the Funds without the intervention of any portfolio manager of any Fund (except the money market Fund portfolio manager acting in his capacity as a member of the Cash Management Group). The Cash Management Group will not solicit cash for the Proposed Credit Facility from any Fund or prospectively publish or disseminate loan demand data to portfolio managers (except to the text that the money market Fund portfolio manager has access to loan demand data). The Cash Management Group 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.

12. Scudder Kemper 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 concerning the participation of the Funds in the Proposed Credit Facility and the terms and other conditions of any extensions of credit thereunder.

13. Each Fund's Board, including a majority of the Independent Directors: (a) will review no less frequently than quarterly the Fund's participation in the Proposed 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 the Fund's participation in the Proposed Credit Facility.

14. In the event an interfund loan is not paid according to its terms and the 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, Scudder Kemper will promptly refer the 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 loan. 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.

15. 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 under the Proposed 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 on the loan, the rate of interest available at the time on short-term repurchase agreements and bank borrowings, the yield on the Central Funds, if applicable, and such other information presented to the Fund's Board in connection with the review required by conditions 12 and 13.

16. Scudder Kemper will prepare and submit to the Funds' Boards for review an initial report describing the operations of the Proposed Credit Facility and the procedures to be implemented to ensure that all Funds are treated fairly. After commencement of operations of the Proposed Credit Facility, Scudder Kemper will report on the operations of the Proposed Credit Facility at the Boards' quarterly meetings.

In addition, for two years following the commencement of the Proposed Credit Facility, the independent public accountant for each Fund that is a registered investment company shall prepare an annual report that evaluates Scudder Kemper'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 Loan Rate will be

higher than the Joint Repo Rate and, if applicable, the yield on the Central Funds, but lower than the Bank Loan Rate and, if applicable, the Committed Loan Rate; (b) compliance with the collateral requirement 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 Boards; and (e) that the interest rate on any interfund loan does not exceed the interest rate on any third party borrowing 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 Proposed 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.

17. No Fund will participate in the Proposed Credit Facility upon receipt of requisite regulatory approval 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. 99-31162 Filed 11-30-99; 8:45 am]

BILLING CODE 8010-01-M

## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-42175; File No. SR-ISCC-99-01]

### Self-Regulatory Organizations; International Securities Clearing Corporation; Notice of Filing of Proposed Rule Change Relating to ISCC's Decision To Withdraw From the Clearance and Settlement Business

November 23, 1999.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),<sup>1</sup> notice is hereby given that on September 23, 1999, the International Securities Clearing Corporation ("ISCC") filed with the Securities and Exchange Commission ("Commission") the proposed rule change as described in Items I, II and III below, which items have been prepared primarily by ISCC. The Commission is publishing this notice to solicit comments on the

proposed rule change from interested parties.

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

Under the proposed rule change, ISCC will withdraw from the clearing agency business and transfer its core services to the National Securities Clearing Corporation ("NSCC").

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

In its filing with the Commission, ISCC included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. ISCC has prepared summaries, set forth in sections (A), (B) and (C) below, of the most significant aspects of these statements.<sup>2</sup>

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

On May 12, 1989, the Commission granted, pursuant to Sections 17A and 19(a) of the Act<sup>3</sup> and Rule 17Ab2-1,<sup>4</sup> the application of ISCC for registration as a clearing agency on a temporary basis for a period of eighteen months.<sup>5</sup> Since that time, the Commission has extended ISCC's temporary registration through February 29, 2000.<sup>6</sup>

ISCC was created to provide safe and efficient clearance and settlement of securities transactions between United States broker-dealers and foreign financial institutions.<sup>7</sup> ISCC serves this function through its core services, the Global Clearance Network ("GCN") and International Link services.<sup>8</sup>

ISCC, a wholly owned subsidiary of NSCC, proposes to deregister as a

clearing agency and transfer its core services to NSCC because it is no longer cost-effective to provide such services through a separate company.<sup>9</sup> The transfer of services of NSCC will be transparent to ISCC users. They will be required to perform any system modifications, and they will be charged the same fees for the services at NSCC as they are currently paying ISCC.

ISCC believes that the proposed rule change is consistent with the requirements of Section 17A of the Act<sup>10</sup> and the rules and regulations thereunder applicable to ISCC, because it will facilitate the prompt and accurate clearance and settlement of securities transactions.

##### (B) Self-Regulatory Organization's Statement on Burden on Competition

The proposed arrangements would impose no burden on competition. After consummation of the proposed arrangements, securities industry members will continue to have access to high-quality, low-cost clearing and custody service.

##### (C) Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received From Members, Participants or Others

No written comments relating to the proposed rule change have been solicited or received.

#### III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action

Within thirty-five days of the date of publication of this notice in the **Federal Register** or within such longer period (i) as the Commission may designate up to ninety days of such date if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the self-regulatory organization consents, the Commission will:

(A) by order approve such proposed rule change or

(B) institute proceedings to determine whether the proposed rule change should be disapproved.

#### IV. Solicitation of Comments

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule change is consistent with the Act. Persons making written submissions

<sup>2</sup> The Commission has modified the text of the summaries prepared by ISCC.

<sup>3</sup> 15 U.S.C. 78q-1 and 78s(a),

<sup>4</sup> 17 CFR 240.17AB2-2-(c).

<sup>5</sup> Securities Exchange Act Release No. 26812 (May 12, 1989), 54 FR 21691.

<sup>6</sup> Securities Exchange Act Release Nos. 28606 (November 16, 1990), 55 FR 47976; 30005 (November 27, 1991), 56 FR 63747; 33233 (November 22, 1993), 58 FR 63195; 36529 (November 29, 1995), 60 FR 62511; 37986 (November 25, 1996), 61 FR 64184; 38703 (May 30, 1997), 62 FR 31183; 39700 (February 26, 1998), 63 FR 10669; and 41103 (February 24, 1999), 64 FR 10521.

<sup>7</sup> Securities Exchange Act Release Nos. 29841 (October 18, 1991), 56 FR 55960, and 32564 (June 30, 1993), 58 FR 36722.

<sup>8</sup> ISCC has offered the International Link service since its inception in 1989.

<sup>9</sup> In connection with this rule filing, NSCC has submitted a proposed rule change (File No. SR-NSCC-99-12) to amend its rules to allow it to provide the GCN and the International Link Services.

<sup>10</sup> 15 U.S.C. 78q-1.

<sup>1</sup> 15 U.S.C. 78s(b)(1).