Trustees and appropriate certifications that the New Agreements have been approved by the Funds' shareholders.

Applicants' Conditions

Applicants agree as conditions to the issuance of the exemptive order requested by the application that:

1. The New Agreements will have the same terms and conditions as the Prior Agreements, except for their effective and termination dates and escrow provisions.

2. Fees earned by the Adviser in respect of the New Agreements during the Interim Period will be maintained in an interest-bearing escrow account, and amounts in the account (including interest earned on such paid fees) will be paid: (a) To the Adviser in accordance with the New Agreements, after the requisite shareholder approval is obtained; or (b) to the Fund portfolio which paid the fees, in the absence of shareholder approval with respect to the Fund portfolio.

3. The Fund will hold a meeting of shareholders to vote on approval of the New Agreements on or before the 120th day following the termination of the Prior Agreements (but in no event later than July 6 1998).

4. The Adviser will bear the costs of preparing and filing the application and the costs relating to the solicitation of shareholder approval of the New Agreement necessitated by the Transaction.

5. The Adviser will take all appropriate steps so that the scope and quality of advisory and other services provided to the Fund during the Interim Period will be at least equivalent, in the judgment of the Board, including a majority of the Independent Trustees, to the scope and quality of services previously provided. In the event of any material change in the personnel providing services pursuant to the New Agreements, the Adviser will apprise and consult with the Board to assure that the Trustees, including a majority of the Independent Trustees, are satisfied that the services provided will not be diminished in scope or quality.

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

Jonathan G. Katz,

Secretary.

[FR Doc. 98–13647 Filed 5–21–98; 8:45 am]

BILLING CODE 8010–01–M

SECURITIES AND EXCHANGE COMMISSION

[Investment Company Act Release No. 23189; 812–10972]

General American Investors Company, Inc.; Notice of Application

May 15, 1998.

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

ACTION: Notice of application for an exemption under section 6(c) of the Investment Company Act of 1940 (the ''Act'') from section 19(b) of the Act and rule 19b–1 under the Act.

SUMMARY OF APPLICATION: Applicant, General American Investors Company, Inc., requests an order to permit it to make periodic distributions of net long-term capital gains in any one taxable year, so long as applicant maintains in effect a distribution policy with respect to its preferred stock calling for periodic dividends in an amount equal to a specified percentage of the liquidation preference of the preferred stock.

FILING DATES: The application was filed on January 16, 1998 and amended on April 29, 1998.

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 June 9, 1998, and should be accompanied by proof of service on applicant 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. Applicant: General American Investors Company, Inc., 450 Lexington Avenue, New York, New York 10017.

FOR FURTHER INFORMATION CONTACT: Edward P. Macdonald, Branch Chief, at (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 Fifth Street, NW., Washington, DC 20549 (tel. 202–942–8090).

Applicant's Representations

1. Applicant is registered under the Act as an internally-managed closed-end management investment company organized as a Delaware corporation. Applicant's board of directors has authorized it to issue and sell cumulative preferred stock. Applicant's investment objective is long term capital appreciation.

2. Applicant wishes to institute a dividend payment policy with respect to its cumulative preferred stock, and any future preferred stock, to be issued by applicant calling for periodic dividends in an amount equal to a specified percentage of the liquidation preference of applicant's preferred stock (''Distribution Policy''). The specified percentage may be determined at the time the preferred stock is initially issued, pursuant to periodic remarketings or auctions, or otherwise. Under the requested relief, the periodic payments may include long-term capital gains so long as applicant maintains in effect the Distribution Policy.

Applicant's Legal Analysis

1. Section 19(b) of the Act provides that a registered investment company may not in contravention of such rules, regulations, or orders as the SEC may prescribe, distribute long-term capital gains more often than once every twelve months. Rule 19b–1 under the Act limits the number of capital gains distributions, as defined in section 851(b)(3)(C) of the Internal Revenue Code of 1986, as amended (the ''Code''), that applicant may make with respect to any one taxable year to one, plus a supplemental distribution made pursuant to section 855 of the Code not exceeding 10% of the total amount distributed for the year, plus one additional net long-term capital gains distribution made in whole or in part to avoid the excise tax under section 4982 of the Code.

2. Applicant argues that rule 19b–1 may prevent the normal operation of the Distribution Policy whenever applicant's realized net long-term capital gains in any year exceed the total of the periodic distributions that under rule 19b–1 may include capital gains. In that situation, applicant asserts that rule 19b–1 effectively forces the distributions that under rule 19b–1 may not include these capital gains to be treated as a return of capital to stockholders, even though net long-term capital gains would otherwise be available. Applicant further states that federal tax rules require that current earnings and profits be allocated proportionately among all distributions

made for that year. The net long-term capital gains in excess of the periodic distributions permitted by rule 19b–1 then must either be added to one of the permitted capital gains distributions resulting in the total distributions for the year in excess of the amount required to be paid, added to a permitted distribution of long-term capital gains on the common stock, or retained by applicant (with applicant paying taxes on those amounts). Accordingly, applicant states that the requested relief would permit it to operate the Distribution Policy with respect to the preferred stock without these unintended adverse consequences.

3. Applicant asserts that its requested relief does not give rise to the concerns underlying section 19(b) of the Act and rule 19b–1. One of these concerns was that stockholders might not be able to distinguish between frequent distributions of capital gains and dividends from investment income. Applicant states that in the case of preferred stock there is little chance for investor confusion since all an investor expects to receive is the specified distribution for any particular dividend period, and no more. Moreover, in accordance with rule 19a–1 under the Act, a separate statement showing the sources of the distribution will accompany each periodic dividend, with a statement provided near the end of the last dividend period in a year indicating the sources (*i.e.*, net investment income and short-term capital gains, net long-term capital gains and return of capital) of each distribution that was made during the year. In addition, applicant notes that the amount and sources of distributions received during the year will be included on applicant's IRS Form 1099–DIV report sent to stockholders who received distributions during the year. This information will also be included in applicant's annual report to stockholders.

4. Applicant submits that another concern underlying section 19(b) and rule 19b–1, was that frequent capital gains distributions could facilitate improper fund distribution practices, including the practice of urging an investor to purchase shares on the basis of an upcoming dividend (''selling the dividend''), where the dividend results in an immediate corresponding reduction in net asset value and is in effect a return of the investor's capital. Applicant believes that this concern does not apply to preferred stock which entitles a holder to a specified periodic dividend and no more and, like a debt security, is initially sold at a price based on its liquidation preference plus an amount equal to any accumulated dividends. Applicant also states that this concern does not arise with regard to closed-end investment companies which do not continuously distribute their shares.

5. Section 6(c) of the Act provides that the SEC may exempt any person, security, or transaction from any provision of the Act, or from any rule thereunder, if such 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. For the reasons stated above, applicant believes that the requested exemption from section 19(b) of the Act and rule 19b–1, meets the standards set forth in section 6(c) of the Act.

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

Jonathan G. Katz,

Secretary.

[FR Doc. 98–13646 Filed 5–21–98; 8:45 am]

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34–39995; File No. SR–PCX–98–17]

Self-Regulatory Organizations; Notice of Filing of Proposed Rule Change by the Pacific Exchange, Inc. Relating to Expansion of the LMM Book Pilot Program

May 15, 1998.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (''Act'')[1] and Rule 19b–4 thereunder,[2] notice is hereby given that on April 16, 1998, the Pacific Exchange, Inc. (''PCX'' or ''Exchange'') filed with the Securities and Exchange Commission (''Commission'' or ''SEC'') the proposed rule change as described in Items I, II and III below, which Items have been prepared by the self-regulatory organization.[3] The Commission is published 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 PCX is proposing to remove the current cap on the number of LMMs who may participate in the program.[4]

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

In its filing with the Commission, the self-regulatory organization included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. The self-regulatory organization has prepared summaries, set forth in sections A, B, and C below, of the most significant aspects of such statements.

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

Purpose

On October 11, 1997, the Commission approved an Exchange proposal to adopt a one-year pilot program under which a limited number of LMMs would be able to assume operational responsibility for the options public limit order book (''Book'') in certain option issues.[5] On September 22, 1997, the Commission approved an Exchange proposal to extend the program for one year, so that it is currently set to expire on October 12, 1998.[6]

Under the pilot program, approved LMMs manage the Book function, take responsibility for trading disputes and errors, set rates for Book execution, and pay the Exchange a fee for systems and services.[7] Currently, both multiply-listed and non-multiply-listed option

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

[2] 17 CFR 240.19b–4 (1991).

[3] The Exchange had initially submitted the filing prior to April 16, 1998, but that submission did not include a signature page. By letter dated April 14, 1998, the Exchange filed Amendment No. 1 to the filing, which contained signatures for the filing. *See* Letter from Michael D. Pierson, Senior Attorney, Regulatory Policy, PCX, to Marie D'Aguanno Ito, Special Counsel, Division of Market Regulation, Commission, dated April 14, 1998.

[4] On May 1, 1998, PCX submitted Amendment No. 2 to the filing, seeking to withdraw the portion of the filing that proposed removing the limit on the number of option issues that may be included in the LMM program. The PCX represented in the Amendment that such proposal would be submitted in a separate filing. See Letter from Michael D. Pierson, Senior Attorney, Regulatory Policy, to Marie D'Aguanno Ito, Special Counsel, Division of Market Regulation, Commission, dated April 30, 1998.

[5] See Exchange Act Release No. 37810 (October 11, 1996), 61 FR 54481 (October 18, 1997) (approving File No. SR–PSE–96–09).

[6] See Exchange Act Release No. 39106 (September 22, 1997), 62 FR 31172 (September 30, 1997).

[7] See Exchange Act Release No. 37874 (October 28, 1996), 61 FR 56597 (November 1, 1996) (approving SR–PSE–96–38, establishing a staffing charge for LMMs who participate in the pilot program); see also File No. SR–PCX–98–03 (proposal to modify the LMM Book Pilot staffing charge).