

invested in open-end investment companies, or "mutual funds"—have grown steadily. The conferees will discuss a number of Commission initiatives aimed at improving disclosure to mutual fund investors.

The conferees will discuss ways to improve the quality of information regarding mutual funds available to investors, particularly less experienced investors, as well as federal and state efforts toward more uniform federal and state investment company disclosure requirements. The conferees will also discuss the steps they are taking to examine and to improve the clarity and adequacy of mutual fund prospectuses.

In response to a request from certain members of Congress, the Division of Investment Management prepared a study dated September 26, 1994 on the use of derivatives by mutual funds. As part of its study, the Division recommended that the Commission consider seeking public comment in early 1995 on alternatives for improving risk disclosure in mutual fund prospectuses. The conferees are expected to discuss issues relating to investment company risk disclosure, including the possible use of quantitative risk measurement. In addition, the conferees will discuss ways to facilitate investor access to information about portfolio securities held by funds.

The Commission recently proposed rule and form amendments relating to the reporting of expenses by investment companies.²⁰ The proposed amendments would require an investment company to reflect as expenses in its financial statement certain liabilities of the company paid by broker-dealers in connection with the allocation of the company's brokerage transactions to the broker-dealers. The amendments are intended to enhance the information provided to investors so that they may better assess investment company expenses and performance. The conferees are expected to discuss this proposal and the comments that the Commission has received.

In October of 1994, the Commission adopted significant revisions to the proxy rules applicable to funds.²¹ The amended rules are the first significant revisions to the fund proxy rules since 1960 and reflect the Commission's commitment to improved disclosure for fund shareholders. The conferees are expected to discuss the revised rules.

²⁰Investment Company Act Release No. 20472 (Aug. 11, 1994) (59 FR 42187) (proposing amendments to Rule 6-07 of Regulation S-X).

²¹Investment Company Act Release No. 20614 (Oct. 13, 1994) (59 FR 52689).

b. Investment Advisers

On March 16, 1994, the Commission proposed two new rules under the Investment Advisers Act of 1940 ("Advisers Act").²² One of these rules would expressly prohibit investment advisers from making unsuitable recommendations to clients; the other proposed rule would prohibit registered investment advisers from exercising investment discretion over client accounts unless they reasonably believe that the custodians of those accounts send account statements to the clients at least quarterly. The conferees will discuss the status of the proposed rules.

The conferees will also discuss ways in which the Commission and the states can coordinate their respective investment adviser inspection programs and efforts to identify investment advisers that have failed to register as such with the Commission or the appropriate state authorities.

(4) Enforcement Issues

In addition to the above-stated topics, the state and federal regulators will discuss various enforcement-related issues which are of mutual interest.

(5) Investor Education

Recently, the Commission announced a number of initiatives to aid investors in understanding how to invest wisely and protect themselves from abusive and fraudulent industry practices. The States and NASAA have a longstanding commitment to investor education and the Commission is intent on coordinating and complementing those efforts to the greatest extent possible. The participants at the conference will discuss investor education and potential joint projects in each of the working group sessions. They will specifically consider the results of recent Commission activities in this area: Information generated at a series of town meetings and investor forums; public reaction to a new toll-free information line for investors and a new electronic bulletin board which provides information about the Commission and its responsibilities; the usefulness of other explanatory informational materials, including new pamphlets provided by the Commission to the public; and the progress of Commission efforts to develop "plain English" instructions for mandatory disclosure items, and guidelines for simpler summaries of information in required filings. Future projects to be considered will include the following:

(1) Developing an "Investor Information

Kit" for novice or unsophisticated investors that includes basic information that every investor should know in an easy-to-use format; (2) developing a model curriculum for high school classes and adult seminars on the basics of how to invest wisely and what to do if a problem arises; and (3) designing a distribution plan for Commission educational products to assure that information is provided to investors when they are in the process of making major investment decisions and most likely to need such information.

(6) General

There are a number of matters which are applicable to all, or a number, of the areas noted above. These include EDGAR, the Commission's electronic disclosure system, rulemaking procedures, training and education of staff examiners and analysts and sharing of information.

The Commission and NASAA request specific public comments and recommendations on the above-mentioned topics. Commenters should focus on the agenda but may also discuss or comment on other proposals which would enhance uniformity in the existing scheme of state and federal regulations, while helping to maintain high standards of investor protection.

Dated: February 15, 1995.

By the Commission.

Margaret H. McFarland,

Deputy Secretary.

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[Release No. 34-35378; File No. SR-DTC-95-02]

Self-Regulatory Organizations; The Depository Trust Company; Notice of Filing and Order Granting Accelerated Approval of Proposed Rule Change Concerning Procedures Relating to Rule 17Ad-16 and Order Designating The Depository Trust Company as the Approved Qualified Registered Securities Depository

February 15, 1995.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),¹ notice is hereby given that on January 13, 1995, The Depository Trust Company ("DTC") filed with the Securities and Exchange Commission ("Commission") the proposed rule change as described in Items I and II below, which items have been prepared primarily by DTC. The Commission is

²²Investment Advisers Act Release No. 1406 (March 16, 1994) (59 FR 13464).

¹ 15 U.S.C. 78s(b)(1) (1988).

publishing this notice and order to solicit comments from interested persons and to grant accelerated approval to the proposed rule change.

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

DTC, seeks designation as the "appropriate qualified registered securities depository" to receive notices of transfer agent changes pursuant to the recently adopted Rule 17Ad-16² of the Act. This proposed rule change also seeks approval of procedures that DTC has established to receive and transmit such notices to other registered securities depositories, participants, and others.

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

In its filing with the Commission, DTC 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. DTC 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

The Commission recently adopted Rule 17Ad-16. That rule is designed to address the current and continuing problem of transfer delays due to unannounced transfer agent changes, including the change of a transfer agent for a particular issue and the change of the name or address of a transfer agent. The rule requires a registered transfer agent to send a notice to the "appropriate qualified registered securities depository"³ when the assuming or terminating transfer agent

² Securities Exchange Act Release No. 35039 (December 1, 1994), 59 FR 63656.

³ An "appropriate qualified registered securities depository" is defined by Rule 17Ad-16 to mean the qualified registered securities depository that the Commission so designates by order or, in the absence of such designation, the qualified registered securities depository that is the largest holder of record of all qualified registered securities depositories as of the most recent record date. A "qualified registered securities depository" is defined by Rule 17Ad-16 to mean a clearing agency registered under Section 17A of the Act that performs clearing agency functions and that has rules and procedures concerning its responsibility for maintaining, updating, and providing appropriate access to the information it receives.

services on behalf of an issuer or when changing its name or address.

In order to eliminate uncertainty about where registered transfer agents should direct notices required by Rule 17Ad-16 and to reduce unnecessary costs and administrative burdens for transfer agents and registered securities depositories, DTC hereby respectfully requests designation as the "appropriate qualified registered securities depository" in order to be the sole recipient for all such notices sent by transfer agents pursuant to the rule.⁴

DTC has established procedures for providing copies of each such notice received to the other registered securities depositories and to participants and others. Generally, DTC will forward such notices to the Midwest Securities Depository Trust Company ("MSTC") and the Philadelphia Depository Trust Company ("Philadep") by facsimile transmission no later than the business day following DTC's receipt of such notice from the transfer agent. DTC will notify its participants and other interested parties through DTC's Legal Notice System ("LENS")⁵ no later than the business day following DTC's receipt of such notice from the transfer agent.

The proposed rule change is consistent with the requirements of Section 17A of the Act in that it promotes the prompt and accurate clearance and settlement of securities transactions as well as the timely transfer of securities certificates resulting in greater number of securities being immobilized promptly.

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

DTC does not believe that the proposed rule change will impose any burden on competition not necessary or appropriate in furtherance of the purposes of the Act.

⁴ DTC has consulted with both the Philadelphia Depository Trust Company ("Philadep") and the Midwest Securities Trust Company ("MSTC") regarding DTC's designation as the appropriate qualified registered securities depository. Both Philadep and MSTC have agreed, either orally or in writing, that DTC should be designated as the appropriate qualified registered securities depository. Letter from J. Keith Kessel, Compliance Officer, Philadep, to Walter Harris, Manager, DTC (December 19, 1994). Both of these depositories have filed with the Commission procedures for disseminating to their participants information on transfer agent changes received from DTC. File Nos. SR-MSTC-95-02 and SR-Philadep-95-01.

⁵ LENS enables DTC Participants to choose from a menu on their Participant Terminal System screen certain notices received by DTC which they wish to order. The Securities and Exchange Commission issued an order approving DTC's LENS on June 12, 1991 (Securities Exchange Act Release No. 29291 (June 12, 1991), 56 FR 28190 [File No. SR-DTC-91-08]).

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

Written comments from DTC participants or others have not been solicited or received.

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

The Commission believes DTC's proposed rule change is consistent with the requirements of the Act, particularly Section 17A of the Act, and the rules and regulations thereunder applicable to registered securities depositories. The proposed rule change will allow DTC to comply with Commission Rule 17Ad-16 which requires registered securities depository to provide their participants with notices received from a transfer agent, directly or through the appropriate qualified registered securities depository, when the transfer agent is terminating or assuming transfer agent services on behalf of an issuer or when changing its name or address. Rule 17Ad-16 became effective on February 6, 1995. DTC also has requested that the Commission find good cause for approving the proposed rule change prior to the thirtieth day after the day of publication of notice of the filing in the **Federal Register** because accelerated approval will permit DTC to comply with the requirements of Rule 17Ad-16. The Commission finds good cause for so approving the proposed rule change on an accelerated basis.

With this order, the Commission also is designating DTC as the appropriate qualified registered securities depository.⁶ DTC is the largest holder of record among qualified registered securities depositories for the most issues.⁷ Also, as previously stated, both MSTC and Philadep have agreed that DTC should be designated as the appropriate qualified registered securities depository.

IV. Solicitation of Comments

Interested persons are invited to submit written date, views, and arguments concerning the foregoing. Persons making written submissions

⁶ The Commission delegated to the Director of the Division of Market Regulation authority to designate by order the appropriate qualified registered securities depository. Securities Exchange Act Release No. 35039 (December 1, 1994), 59 FR 63565; 17 CFR 200.30-3(a)(56) (1994).

⁷ DTC held securities on behalf of participants that equaled \$7.5 trillion and 98.8% of the total market value of securities held in total by the three registered securities depositories that handle corporate securities. DTC 1993 Annual Report at 5.

should file six copies thereof with the Secretary, Securities and Exchange Commission, 450 Fifth Avenue, NW., Washington, DC 20549. Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 U.S.C. 552, will be available for inspection and copying in the Commission's Public Reference Room, 450 Fifth Avenue, NW., Washington, DC. Copies of such filing will also be available for inspection and copying at the principle office of DTC. All submissions should refer to the File No. SR-DTC-95-02 and should be submitted by March 15, 1995.

It is hereby ordered, Pursuant to Section 19(b)(2) that the proposed rule change (File No. SR-DTC-95-02) be, and hereby is approved. *It is further ordered*, pursuant to delegated authority that DTC is designated the appropriate qualified registered securities depository.⁸

For the Commission by the Division of Market Regulation, pursuant to the delegated authority.⁹

Margaret H. McFarland,

Deputy Secretary.

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[Release No. 34-35380; File No. SR-MSTC-95-2]

**Self-Regulatory Organizations;
Midwest Securities Trust Company;
Notice of Filing and Order Granting
Accelerated Approval of Proposed
Rule Change Relating to the
Modifications of Procedures
Implementing Rule 17Ad-16**

February 15, 1995.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (the "Act"),¹ notice is hereby given that on January 24, 1995, the Midwest Securities Trust Company ("MSTC") filed with the Securities and Exchange Commission (the "Commission") the proposed rule change as described in Items I and II below, which items have been prepared primarily by MSTC. The Commission is publishing this notice and order to solicit comments from

interested persons and to grant accelerated approval of the proposed rule change.

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

MSTC, a "qualified registered securities depository,"² as that term is defined in Rule 17Ad-16³ under the Act, proposes to adopt procedures to maintain, update, and provide appropriate access to the information it receives pursuant to Commission Rule 17Ad-16. MSTC requests that the Commission designate The Depository Trust Company ("DTC") as the "appropriate qualified registered securities depository"⁴ authorized to receive Rule 17Ad-16 notices on behalf of MSTC.

To ensure that Rule 17Ad-16 notices are timely disseminated, DTC and MSTC have agreed that all such notices will be forwarded by DTC to MSTC via facsimile transmission on a daily basis. MSTC proposes to maintain the Rule 17Ad-16 notices received from DTC for at least two years with the first six months being in an easily accessible place on MSTC's premises.

MSTC proposes to maintain conformity with Rule 17Ad-16 by making all material information contained in any Rule 17Ad-16 notice that MSTC receives from DTC available to its participants. This will be accomplished by updating MSTC's security account masterfile on a daily basis. Upon electronic inquiry by a participant, the security account masterfile will provide the participant with on-line information about a security, including the transfer agent's name and address.

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

In its filing with the Commission, MSTC included statements concerning the purpose of and basis for the proposed rule change and discussed any

² Rule 17Ad-16 defines a "qualified registered securities depository" as a clearing agency registered under Section 17A of the Act that performs clearing agency functions and that has rules and procedures concerning its responsibility for maintaining, updating, and providing appropriate access to the information it receives pursuant to this section.

³ 17 CFR § 240.17Ad-16 (1994).

⁴ Rule 17Ad-16 defines an "appropriate qualified registered securities depository" as the qualified registered securities depository that the Commission so designates by order or, in the absence of such designation, the qualified registered securities depository that is the largest holder of record of all qualified registered securities depositories as of the most recent record date.

comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. MSTC 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 Purposes of, and
Statutory Basis for, the Proposed Rule
Change*

On December 1, 1994, the Commission adopted Rule 17Ad-16.⁵ Among other things, the rule requires a transfer agent to file a notice with the appropriate qualified registered securities depository if the transfer agent ceases to perform transfer agent services or assumes transfer agent services on behalf of an issuer or changes its name or address. The rule also requires the appropriate qualified registered securities depository to forward those notices to all qualified registered securities depositories, that in turn must notify their participants of such transfer agent changes. Because MSTC has agreed that DTC should be the appropriate qualified registered securities depository, transfer agents will send these notices to DTC. DTC then will forward a copy of these notices to all qualified registered securities depositories.

MSTC will provide its members on-line access to the information in the notices by updating MSTC's security account masterfile on a daily basis. The purpose of this proposed rule change is to adopt procedures to implement and assure compliance with Rule 17Ad-16. MSTC states that the proposed rule change is consistent with Sections 17A(b)(3) (A) and (F) of the Act in that it facilitates the prompt and accurate clearance and settlement of securities transactions.

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

MSTC believes that no burden will be placed on competition as a result of the proposed rule change.

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

MSTC neither solicited nor received written comments on the proposed rule change.

⁵ 17 CFR § 240.17Ad-16. See also Securities Exchange Act Release No. 35039 (December 1, 1994), 59 FR 63656 (release adopting Rule 17Ad-16).

⁸ 17 CFR 200.30-3(a)(56) (1994).

⁹ 17 CFR 200.30-3(a)(12) (1994).

¹ 15 U.S.C. 78s(b)(1) (1988).