

corresponding sub-accounts of the Accounts.

2. Section 26(b) of the 1940 Act provides, in pertinent part, that "[i]t shall be unlawful for any depositor or trustee of a registered unit investment trust holding the security of a single issuer to substitute another security for such security unless the Commission shall have approved such substitution." Section 26(b) of the 1940 Act also provides that the Commission shall issue an order approving such substitution if the evidence establishes that the substitution is consistent with the protection of investors and the purposes fairly intended by the policies and provisions of the 1940 Act.

3. Applicants assert that the Contracts give Western Reserve the right, subject to Commission approval, to substitute shares of another open-end management investment company for shares of an open-end management investment company held by a sub-account of the relevant Account. Applicants also assert that the prospectuses for the Contracts and the Accounts contain appropriate disclosure of this right.

4. Applicants contend that the Substitute Portfolios will have lower or equal future expense ratios than the past expense ratios of the Replaced Portfolios. Each of the Substitute Portfolios is substantially larger than the corresponding Replaced Portfolio and each Substitute Portfolio (except the U.S. Equity Portfolio, which commenced operations on January 2, 1997) has had more favorable expense ratios over the last two years than the corresponding Replaced Portfolio.

5. As of November 15, 1997, the Replaced Portfolios will no longer be available for new investment, and most likely will experience the net redemption of their shares from that date forward. Therefore, Applicants assert that it is highly likely that in the near future each Replaced Portfolio's asset base will decrease and, accordingly, each Replaced Portfolio's expense ratio will increase.

6. Applicants state that each Substitute Portfolio has performed favorably over the past two years (except the U.S. Equity Portfolio, which commenced operations on January 2, 1997), and since its inception compared to the corresponding Replaced Portfolio. Applicants therefore anticipate that after the proposed substitutions, the Substitute Portfolios will provide Contract owners with more favorable or comparable investment results than would be the case if the proposed substitutions do not take place.

7. Applicants represent that each of the Substitute Portfolios is a suitable

and appropriate investment vehicle for Contract owners and that each Substitute Portfolio has, or will have, substantially identical or similar investment objectives and policies to its corresponding Replaced Portfolio.

Conclusion

Applicants submit that, for all the reasons summarized above, the proposed substitutions are consistent with the protection of investors and the purposes fairly intended by the policy and provisions of the 1940 Act.

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

Margaret H. McFarland,

Deputy Security.

[FR Doc. 97-31016 Filed 11-27-97; 8:45 am]

BILLING CODE 8010-01-M

SECURITIES AND EXCHANGE COMMISSION

[Rel. No. IC-22898]

Allied Capital Corporation (File No. 811-907) and Allied Capital Lending Corporation (File No. 811-2708); Notice of Proposed Deregistration

November 20, 1997.

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

ACTION: Notice of proposed deregistration under section 8(f) of the Investment Company Act of 1940 (the "Act").

SUMMARY OF NOTICE: The SEC proposes to declare by order on its own motion that the registrations of Allied Capital Corporation ("Allied") and Allied Capital Lending Corporation ("Allied Lending") under the Act have ceased to be in effect as of June 28, 1991, and November 12, 1993, respectively, the dates that each elected to be regulated as a business development company ("BDC").

HEARING OR NOTIFICATION OF HEARING: An order will be issued unless the SEC orders a hearing. Interested persons may request a hearing by writing to the SEC's Secretary and serving the relevant registrant 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 15, 1997, and should be accompanied by proof of service on the registrant, 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 5th Street, N.W., Washington, D.C. 20549. Allied and Allied Lending: 1666 K Street, N.W., 9th Floor, Washington, D.C. 20006-2803.

FOR FURTHER INFORMATION CONTACT: Elaine M. Boggs, Senior Counsel, at (202) 942-0572, or Mercer E. Bullard, Branch Chief, at (202) 942-0572, (Office of Investment Company Regulation, Division of Investment Management).

SUPPLEMENTARY INFORMATION:

Statement of Facts

1. Allied and Allied Lending, both Maryland corporations and closed-end investment companies registered under the Act, filed Notifications of Registration under the Act on September 29, 1959 and November 23, 1976, respectively. In January 1960, Allied began a public offering. Until November 23, 1993, Allied Lending was a wholly-owned subsidiary of Allied. Allied Lending filed a registration statement under the Act and the Securities Act of 1933 that became effective on November 16, 1993. Allied commenced an initial public offering of its shares on November 23, 1997.

2. Section 54(a) of the Act provides that any company that satisfies the definition of a BDC under sections 2(a)(48) (A) and (B) of the Act may elect to be subject to the provisions of sections 55 through 65 of the Act and be regulated as a BDC by filing with the SEC a notification of the election, if the company: (i) has a class of its equity securities registered under section 12 of the Securities Exchange Act of 1934 (the "Exchange Act"); or (ii) has filed a registration statement pursuant to section 12 of the Exchange Act for a class of its equity securities. On June 28, 1991, and November 12, 1993, Allied and Allied Lending, respectively, each elected BDC status by filing a Form N-54A. Allied Lending filed a registration statement under the Exchange Act on November 12, 1993. Allied did not file a registration statement under the Exchange Act in reliance on the exemption provided by rule 12g-2 under the Exchange Act.

3. Section 8(a) of the Act, which requires registration of investment companies, does not apply to BDCs. After an existing registered investment company has filed an election to be regulated as a BDC, the SEC on its own motion will declare by order under section 8(f) that the company's registration under the Act has ceased to be in effect. The order will be effective retroactively, as of the date the SEC

received the company's election. See Investment Company Act Release No. 11703 (March 26, 1981).

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

Margaret H. McFarland,

Deputy Secretary.

[FR Doc. 97-31018 Filed 11-25-97; 8:45 am]

BILLING CODE 8010-01-M

SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-39338; File No. SR-CBOE-97-48]

Self-Regulatory Organizations; Chicago Board Options Exchange, Inc.; Order Approving Proposed Rule Change Relating to a Reduction in the Value of the Standard & Poor's 100 Stock Index and a Corresponding Increase in the Existing Position and Exercise Limits for the Option Traded on the Index

November 19, 1997.

I. Introduction

On September 19, 1997, the Chicago Board Options Exchange, Inc. ("CBOE" or "Exchange") submitted to the Securities and Exchange Commission ("Commission"), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act")¹ and Rule 19b-4 thereunder,² a proposed rule change to double current position and exercise limits in connection with a reduction by Standard & Poor's ("S&P") of the value of its S&P 100 Stock Index ("Index") option ("OEX") to one-half of its present value by doubling the divisor used in calculating the Index.

The proposed rule change appeared in the **Federal Register** on October 10, 1997.³ No comments were received on the proposed rule change. This order approves the CBOE's proposal.

II. Description of the Proposal

In March 1983, the CBOE began trading OEX options,⁴ which are American-style, cash-settled options on the Index. The Exchange notes that the value of the OEX has doubled in value since mid-1995, such that the value of the Index stood at 928.20 as of August 7, 1997. As a result of the significant increase in the value of the underlying Index, the premium for OEX options

also has increased. This has caused OEX options to trade at a level that may be uncomfortably high for retail investors, a large and important part of the market for OEX options.

As a result, pursuant to CBOE's request, S&P (the reporting authority and sole party responsible for maintaining the Index) has agreed to a "two-for-one split" of the Index. The change, which will be implemented immediately following the November expiration,⁵ will result in a halving of the Index level, as well as a doubling of the number of OEX contracts outstanding, such that for each OEX contract held, the holder will receive two contracts at the reduced value, with a strike price of one-half of the original strike price.⁶

In addition to the above, the CBOE proposes to double the position limits applicable to the OEX from 25,000 to 50,000 contracts.⁷ The CBOE also proposes to double the exercise limits applicable to OEX options from 15,000 to 30,000 contracts. The Exchange believes this increase in the position and exercise limits is justified because the reduction in the divisor would result in each contract overlying only one-half of the value of a current OEX contract. Consequently, the revised position and exercise limits would be equivalent to the current levels in terms of the value of the Index.

The CBOE announced the effective date of the change by way of an Exchange circular to its membership, which also described the changes to the strike prices and the position and exercise limits.⁸

The Exchange expects the proposed changes to attract additional customer business in OEX in those series in

⁵The Index is scheduled to be split on November 24, 1997. Telephone conversation between Timothy Thompson, Senior Attorney, CBOE, and Michael Walinskas, Senior Special Counsel, Division of Market Regulation, Commission, on November 10, 1997.

⁶The value of reduced-value Long-Term Anticipation Securities ("LEAPS") based on the Index will not be affected by the proposed change in the value of the Index. Therefore, reduced value OEX LEAPS, based on one-tenth of the value of the Index, will be based on one-fifth of the value of the Index after the value of the Index is reduced by one-half. See Letter from Timothy H. Thompson, Senior Attorney, CBOE, to Michael Walinskas, Division of Market Regulation, Commission, dated November 11, 1997.

⁷The Exchange has separately requested an increase in the position and exercise limits for OEX. See Securities Exchange Act Release No. 38525 (April 18, 1997) 62 FR 20046 (April 24, 1997) (noticing SR-CBOE-97-11).

⁸In this regard, the Commission notes that in a circular dated November 13, 1997, the CBOE provided notice to its members and member organizations of the S&P's intent to reduce the value of the Index by one-half and of the CBOE's intent to double the position and exercise limits for OEX.

which retail customers are interested most in trading. The Exchange believes the proposed change will permit some retail investors to trade these options who otherwise have been priced out of the market due to the recent market surge. The Exchange further believes that OEX options provide an important opportunity for investors to hedge and speculate upon the market risk associated with the stocks comprising this broad-based, widely followed Index. By reducing the value of the Index, investors will be able to utilize this trading vehicle, while extending a smaller outlay of capital. The Exchange believes that this should attract additional investors and create a more active and liquid trading environment.

The Exchange believes that reducing the value of the Index does not raise manipulation concerns and will not cause adverse market impact because the Exchange will continue to employ the same surveillance procedures and has proposed an orderly procedure to achieve the Index split, including adequate prior notice to market participants.

III. Discussion

The Commission finds that the proposed rule change is consistent with the requirements of Section 6(b) of the Act⁹ and the rules and regulations thereunder applicable to a national securities exchange.¹⁰ Specifically, because reducing the value of the Index will enhance the depth and liquidity of the market for both members and investors in general, the Commission believes that this rule change is consistent with and furthers the objectives of Section 6(b)(5) of the Act¹¹ in that it would remove impediments to and perfect the mechanism of a free and open market in a manner consistent with the protection of investors and the public interest.

By reducing the value of the Index, the Commission believes that a broader range of investors will be provided with a means to hedge their exposure to the market risk associated with the stocks underlying the Index. Similarly, the Commission believes that reducing the value of the Index may attract additional investors, thus creating a more active and liquid trading market in OEX.

The Commission also believes that CBOE's adjustments to its position and exercise limits are appropriate and consistent with the Act. In particular,

⁹ 15 U.S.C. 78f(b).

¹⁰ In approving this rule, the Commission notes that it has considered the proposed rule's impact on efficiency, competition, and capital formation. 15 U.S.C. 78c(f).

¹¹ 15 U.S.C. 78f(b)(5).

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ See Securities Exchange Act Release No. 39192 (October 3, 1997) 62 FR 53040.

⁴ See Securities Exchange Act Release No. 19264 (November 22, 1997) 47 FR 53981 (November 30, 1982).