

brokers or dealers, or who are affiliated persons of registered brokers or dealers, provided certain conditions are met.<sup>2</sup>

2. Upon consummation of the Transaction, each Board will consist of a majority of directors who are not interested persons of any Adviser within the meaning of section 2(a)(19)(B) ("Independent Directors"). However, each Board also will consist of two or more directors who may be considered interested persons of one of the Advisers ("Interested Directors"), for a total of twenty-seven Interested Directors in the twelve investment company complexes involved. Twenty-five of the Interested Directors may be considered interested persons of one of the Advisers within the meaning of section 2(a)(19)(B)(v) by virtue of their relationship to a registered broker-dealer. Applicants state that the exemption provided by rule 2a19-1 will not be available with respect to these Interested Directors because the broker-dealers with which they are affiliated act as distributors for the Companies in questions or may engaged in transactions with other members of a Company's complex. The remaining two director positions will be filed by two individuals who are officers or directors of PIMCO Advisers and thus, each of these directors will be an interested person of one or more of the Advisers. With exception of these two directors, none of the members of the Companies' Boards will be affiliated persons within the meaning of section 2(a)(3) of the Act of any party to the Transaction.

3. Without the requested exemption, each Company would have to reconstitute its Board to meet the 75 person non-interested director requirement of section 15(f)(1)(A). Section 6(c) of the Act permits the SEC to exempt any person or transaction from any provision of the Act, or any rule regulation under the Act, if the 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.

4. Applicants request an exemption under section 6(c) from section 15(f)(1)(A). Applicants submit that the

addition of directors to achieve the 75 percent disinterested director ratio required by section 15(f)(1)(A) of the Act would make the Boards unduly large and unwieldy, make decisional and operational matters cumbersome, unnecessarily increase the ongoing expenses of the Companies, and would cause the Companies to incur additional expenses in connection with the selection and election of the additional directors. In addition, applicants state that shrinking the Boards by eliminating previously existing Interested Director positions would deny the Companies the valued services and insights these directors bring to their respective Boards.

5. Applicants state that although directors who are affiliated persons of broker-dealers may be viewed as interested persons of the Advisers, these directors and the broker-dealers with which they are affiliated are not affiliated persons of any party to the Transaction. Applicants assert that the requested exemption is consistent with the protection of investors. Applicants state that the Companies will continue to treat the Interested Directors as interested persons of the Companies and the Advisers for all purposes other than section 15(f)(1)(A) of the Act for so long as the directors are "interested persons" as defined in section 2(a)(19) of the Act and are not exempted from that definition by any applicable rules or order of the SEC.

6. Applicants also submit that the requested exemption is consistent with the purposes fairly intended by the policies and provisions of the Act. Applicants assert that the legislative history of section 15(f) indicates that Congress intended the SEC to deal flexibly with situations where the imposition of the 75 percent requirement might pose an unnecessary obstacle or burden on an investment company. Applicants also state that section 15(f)(1)(A) was designed primarily to address the types of biases and conflicts of interest that might exist where an investment company's board of directors is influenced by a substantial number of interested directors to approve a transaction because the interested directors have an economic interest in the adviser. Applicants state that these circumstances do not exist in the present case.

#### Applicants' Condition

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

If, within three years of the completion of the Transaction, it

becomes necessary to replace any director of a Company, that director will be replaced by a director who is not an "interested person" of any Adviser within the meaning of section 2(a)(19)(B) of the Act, unless at least 75% of the directors at that time, after giving effect to the order granted pursuant to the application, are not interested persons of any Adviser for purposes of section 15(f) of the Act. For any Company for which an Adviser serves solely as a subadviser, this condition will not: (a) Preclude replacement with or addition of a director who is an interested person of any Adviser solely by reason of being an affiliated person of a broker or dealer, provided that such broker or dealer is not an affiliated person of any Adviser, or (b) require replacement of a Director if a change in the director's circumstances causes him to become an interested person of an Adviser solely by reason of becoming an affiliated person of a broker or dealer, provided that such broker or dealer is not an affiliated person of any Adviser.

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

**Margaret H. McFarland,**  
*Deputy Secretary.*

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## SECURITIES AND EXCHANGE COMMISSION

[Investment Company Act Release No. 24382; 812-11770]

### Mercury QA Strategy Fund, Inc., et al.; Notice of Application

April 7, 2000.

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

**ACTION:** Notice of an application under section 12(d)(1)(f) of the Investment Company Act of 1940 ("Act") for an exemption from section 12(d)(1)(G)(i)(II) of the Act.

#### SUMMARY OF THE APPLICATION:

Applicants request an order to permit funds relying on section 12(d)(1)(G) of the Act to invest in certain securities and financial instruments.

**APPLICANTS:** Mercury QA Strategy Series, Inc. ("Company"), Quantitative Master Series Trust ("Master Trust"), Mercury QA Equity Series, Inc. ("Equity Series Fund"), Fund Asset Management, L.P. ("FAM").

**FILING DATES:** The application was filed on September 8, 1999. Applicants have agreed to file an amendment, the

<sup>2</sup> The rule generally provides that the exemption is available only if: (a) The broker or dealer does not execute any portfolio transactions for, engage in principal transactions with, or distribute shares for, the investment company complex, as defined in the rule, (b) the investment company's board determines that the investment company will not be adversely affected if the broker or dealer does not effect the portfolio or principal transactions or distribute shares of the investment company, and (c) no more than a minority of the investment company's directors are registered brokers or dealers or affiliated persons thereof.

substance of which is included in this notice, during the notice period.

**HEARING OR NOTIFICATION OF HEARING:** An order granting the application will be issued unless the Commission orders a hearing. Interested persons may request a hearing by writing to the Commission's Secretary and serving applicants with a copy of the request, personally or by mail. Hearing requests should be received by the Commission by 5:30 p.m. on May 2, 2000, 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 may request notification by writing to the Commission's Secretary.

**ADDRESSES:** Secretary, Commission, 450 Fifth Street, NW, Washington, DC 20549-0609. Applicants, 800 Scudders Mill Road, Plainsboro, NJ 08536.

**FOR FURTHER INFORMATION CONTACT:** Michael W. Mundt, Branch Chief, at (202) 942-0564 (Division of Investment Management, Office of Investment Company Regulation).

**SUPPLEMENTARY INFORMATION:** The following is a summary of the application. The complete application may be obtained for a fee from the Commission's Public Reference Branch, 450 Fifth Street, NW, Washington, DC 20549-0102 (telephone (202) 942-8090).

#### Applicants' Representations

1. The Company is organized as a Maryland corporation and registered under the Act as an open-end management investment company. The Company currently offers three series: Mercury QA Strategy Growth and Income Fund, Mercury QA Strategy Long-Term Growth Fund, and Mercury QA Strategy All-Equity Fund (each a "Strategy Fund"). Mercury Asset Management US ("MAM") will be the investment adviser to each Strategy Fund and is a division of FAM, an investment adviser registered under the Investment Advisers Act of 1940. The Master Trust, a Delaware business trust registered under the Act as an open-end management investment company, consists of eight operating series advised by FAM, including the Master Aggregate Bond Index Series ("Master Bond Series"). The Equity Series Fund is an open-end management investment company organized as a Maryland corporation and registered under the Act. The Equity Series Fund currently consists of six series (each an "Equity Series") that will be advised by MAM. The Strategy Funds will initially invest

primarily in the Master Bond Series and the Equity Series.

2. Applicants seek relief so that the Strategy Funds also may invest, consistent with their investment objectives, policies, and restrictions, in other securities of any kind permissible under the Act, including, without limitation, any security within the meaning of the Act (excluding investments in shares of investment companies other than those made in reliance on section 12(d)(1)(G)), reverse repurchase agreements, financial futures and options on currencies (collectively, "Other Securities"). Applicants request that the relief apply to any existing or future open-end management investment company or its series advised by FAM or other entities controlled by, in control of, or under common control with FAM (together with the Strategy Funds, the "Upper Tier Funds") that invests in a registered open-end management investment company or its series advised by FAM or other entities controlled by, in control of, or under common control with FAM and part of the same "group of investment companies" (as defined in section 12(d)(1)(G) of the Act) as the investing Upper Tier Fund (together with the Master Bond Series and Equity Series, the "Underlying Funds").<sup>1</sup>

#### Applicants' Legal Analysis

1. Section 12(d)(1)(A) of the Act provides that no registered investment company may acquire securities of another investment company if such securities represent more than 3% of the acquired company's outstanding voting stock or more than 5% of the acquiring company's total assets, or if such securities, together with the securities of other investment companies, represent more than 10% of the acquiring company's total assets. Section 12(d)(1)(B) of the Act provides that no registered open-end investment company may sell its securities to another investment company if the sale will cause the acquiring company to own more than 3% of the acquired company's voting stock, or cause more than 10% of the acquired company's voting stock to be owned by investment companies.

2. Section 12(d)(1)(G) of the Act provides that section 12(d)(1) will not apply to securities of an acquired company purchased by an acquiring company if: (i) The acquiring company

and the acquired company are part of the same group of investment companies; (ii) the acquiring company holds only securities of acquired companies that are part of the same group of investment companies, government securities, and short-term paper; (iii) the aggregate sales loads and distribution-related fees of the acquiring company and the acquired company are not excessive under rules adopted pursuant to section 22(b) or section 22(c) of the Act by a securities association registered under section 15A of the Securities Exchange Act of 1934 or by the Commission; and (iv) the acquired company has a policy that prohibits it from acquiring securities of registered open-end management investment companies or registered unit investment trust in reliance on section 12(d)(1)(F) or (G).

3. Section 12(d)(1)(J) of the Act provides that the Commission may exempt persons or transactions from any provision of section 12(d)(1) if, and to the extent that, the exemption is consistent with the public interest and the protection of investors. Applicants request an order under section 12(d)(1)(J) exempting them from section 12(d)(1)(G)(i)(II). Applicants assert that permitting Upper Tier Funds to invest in Underlying Funds and Other Securities as proposed would not raise any of the concerns that the requirements of section 12(d)(1)(G) were designed to address.

#### Applicant's Conditions

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

1. Before approving any advisory contract under section 15 of the Act, the board of directors of the Company (on behalf of each Strategy Fund) or of another Upper Tier Fund, including a majority of the directors who are not "interested persons" as defined in section 2(a)(19) of the Act, will find that advisory fees, if any, charge under the contract are based on services provided that are in addition to, rather than duplicative of, services provided pursuant to any Underlying Fund's advisory contract. This finding, and the basis upon which it was made, will be recorded fully in the minute books of the Company (on behalf of each Strategy Fund) or other Upper Tier Fund.

2. Applicants will comply with all provisions of section 12(d)(1)(G), except for section 12(d)(1)(G)(i)(II) to the extent that it restricts each Strategy Fund or other Upper Tier Fund from investing in Other Securities as described in the application.

<sup>1</sup> All existing entities that currently intend to rely on the order are named as applicants. Any registered open-end management investment company that may rely on the order in the future will do so only in accordance with the terms and conditions of the application.

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

Margaret H. McFarland,

Deputy Secretary.

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## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-42652; File No. SR-Amex-00-17]

### Self-Regulatory Organizations; Notice of Filing and Immediate Effectiveness of Proposed Rule Change and Amendment No. 1 by the American Stock Exchange LLC Relating to Auto-Match

April 7, 2000.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act")<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> notice is hereby given that on April 6, 2000, the American Stock Exchange LLC ("Amex" or "Exchange") 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 by the Amex.<sup>3</sup> The Commission is publishing 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 Amex proposes to enhance the Amex Order Display Book ("AODP") to automatically match and execute limit orders on the specialist's book that represent the displayed best bid or offer in select option classes. The text of the proposed rule change is available at the Amex and at the Commission's Public Reference Room.

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

<sup>2</sup> 17 CFR 240.19b-4.

<sup>3</sup> The Amex originally submitted the proposal on April 5, 2000, and requested that the proposal become immediately effective pursuant to Rule 19b-4(f)(5) under the Act. On April 6, 2000, the Amex submitted a letter from Scott Van Hatten, Legal Counsel, Derivative Securities, Amex, to Elizabeth King, Associate Director, Division of Market Regulation, Commission, amending the proposal ("Amendment No. 1"). In Amendment No. 1, the Amex requested that the Commission consider and review the proposal under Rule 19b-4(f)(6). Because this proposal was filed pursuant to Section 19(b)(3)(A) of the Act, it must be complete at the time it is filed. Therefore, the date of the amendment is deemed the date of the filing of the proposal.

#### 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 Exchange 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 Exchange 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

###### 1. Purpose

The Exchange proposes to enhance the AODB to automatically match and execute limit orders on the specialist's book that represent the displayed best bid or offer in select option classes. These limit orders will be automatically matched with incoming Auto-Ex eligible market or marketable limit orders and then automatically executed at the limit order's displayed best bid or offer. This will provide for a faster, more efficient execution of market and marketable limit orders, as well as more efficient handling of limit orders on the specialist's book. The AODB enhancement initially will be used in selected less-active option classes.

The AODP is an electronic specialist's book that provides for the handling of options orders and the executing and reporting of options transactions. The AODB handles both market and limit orders routed to the specialist through the Amex Order File ("AOF"). Limit orders that better the current displayed bid or offer become the Amex's displayed best bid or offer and market orders to buy or sell are executed at these prices. When a limit order represents the displayed best bid or offer, market and marketable limit orders sent through AOF to Auto-Ex for execution at the displayed bid or offer by-pass Auto-Ex and are sent directly to the AODB for handling and execution by the specialist with the limit order as contra-party to the trade. The Auto-Ex system is bypassed in these situations to prevent the specialist and any registered options traders signed on Auto-Ex from trading ahead of customer limit orders on the specialist's book in violation of Amex Rule 950.

The Exchange now proposes to enhance the AODB so that market and marketable limit orders that have

bypassed Auto-Ex for handling by the specialist will instead be automatically matched with the customer limit order representing the best bid or offer displayed on the AODB and automatically executed in the AODB. This enhancement initially will be used only in selected less-active option classes. Once experience is gained using this feature and the further enhancements discussed below are implemented, the staff, in consultation with the membership, will review the program and determine whether to expand it to other option classes.

It should also be noted that orders eligible for Auto-Ex execution are limited in size.<sup>4</sup> Therefore, if the limit order on the AODB is greater in size than the Auto-Ex eligible order, the limit order will be partially executed for the size of the Auto-Ex order and the remainder will be displayed on the AODB until it is canceled, replaced by a more competitive bid or offer, or completely executed. If the limit order on the AODB is smaller in size than the Auto-Ex eligible order, the limit order will be executed in full and the remaining contracts from the Auto-Ex order will be bought or sold by the specialist. For example, a limit order to buy 10 contracts represents the best bid in an option class whose Auto-Ex eligible size is 20 contracts and a market order of 20 contracts to sell is routed to the AODB. Under the proposal, 10 contracts will be matched and executed against the limit order and the remaining 10 contracts will be executed by the specialist. A further enhancement to AODB, expected by the end of the third quarter of 2000, will allow the excess portion of the Auto-Ex eligible order to be allocated to the specialist and any registered options traders participating in the crowd for that option class. Until this further enhancement is put in place, the automatic execution feature for AODB will only be used in those option classes that have no trading crowd and no participating registered options traders.

This will provide for a faster, more efficient execution of market and marketable limit orders as well as more efficient handling of limit orders on the specialist's book. More importantly, it will also assure that limit orders on the specialist's book retain priority, where appropriate, over other interest on the

<sup>4</sup> The current size parameters for Auto-Ex eligible order are 50, 20 and 10 contracts. Of the approximately 1256 options classes currently traded on Amex: 206 or 16.4% allow orders for 50 contracts to be automatically executed at the best bid or offer; 941 or 74.9% of option classes allow orders for 20 contracts, and 109 or 8.7% of option classes allow orders for 10 contracts.