

mandatory to ensure that broker-dealers do not commingle their securities or use them to finance the broker-dealers' proprietary business. This rule does not involve the collection of confidential information. Persons should be aware that an agency may not conduct or sponsor, and a person is not required to respond to, a collection of information unless it displays a current valid control number.

Written comments regarding the above information should be directed to the following persons: (i) Desk Officer for the Securities and Exchange Commission, Office of Information and Regulatory Affairs, Office of Management and Budget, Room 10102, New Executive Office Building, Washington, D.C. 20503; and (ii) Michael E. Bartell, Associate Executive Director, Office of Information Technology, Securities and Exchange Commission, 450 Fifth Street, NW., Washington, D.C. 20549. Comments must be submitted to OMB within 30 days of this notice.

Dated: August 1, 2001.

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

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## SECURITIES AND EXCHANGE COMMISSION

[Release No. IC-25099; 812-12084]

### The Dreyfus Fund Incorporated, et al.; Notice of Application

August 2, 2001.

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

**ACTION:** Notice of application for an order under section 12(d)(1)(J) of the Investment Company Act of 1940 ("act") for an exemption from sections 12(d)(1)(A) and (B) of the Act, under sections 6(c) and 17(b) of the act for an exemption from section 17(a) of the Act, and under section 17(d) of the act and rule 17d-1 under the act to permit certain joint transactions.

**SUMMARY:** Applicants request an order to permit certain registered investment companies (a) to use cash collateral received in connection with a securities lending program and uninvested cash to purchase shares of certain affiliated money market funds and (b) to pay an affiliated lending agent fees based on a share of the revenue generated from securities lending transactions.

**APPLICANTS:** The Dreyfus Fund Incorporated, Dreyfus Growth and Value Funds, Inc., Dreyfus Life and Annuity

Index Fund, Inc. (d/b/a Dreyfus Stock Index Fund), Dreyfus Index Funds, Inc., Peoples S&P MidCap Index Fund, Inc. (d/b/a Dreyfus MidCap Index Fund), Dreyfus Life Time Portfolios, Inc., Dreyfus Liquid Assets, Inc., Dreyfus Worldwide Dollar Money Market Fund, Inc., Dreyfus Institutional Short Term Treasury Fund, Dreyfus Investment Grade Bond Funds, Inc., Dreyfus Short-Intermediate Municipal Bond Fund, Dreyfus Short-Intermediate Government Fund, Dreyfus Municipal Income, Inc., Dreyfus California Municipal Income, Inc., Dreyfus New York Municipal Income, Inc., Dreyfus California Tax Exempt Money Market Fund, Dreyfus Insured Municipal Bond Fund, Inc., Dreyfus Municipal Money Market Fund, Inc., Dreyfus New Leaders Fund, Inc., Dreyfus Strategic Municipals Inc., Dreyfus Strategic Municipal Bond Fund, Inc., The Dreyfus/Laurel Funds, Inc., The Dreyfus/Laurel Funds Trust, The Dreyfus/Laurel Tax-Free Municipal Funds, Dreyfus High Yield Strategies Fund, Dreyfus BASIC U.S. Government Money Market Fund, Inc., Dreyfus BASIC Money Market Fund, Inc., Dreyfus California Intermediate Municipal Bond Fund, Dreyfus Connecticut Intermediate Municipal Bond Fund, Dreyfus Debt and Equity Funds, Dreyfus Massachusetts Intermediate Municipal Bond Fund, Dreyfus New Jersey Intermediate Municipal Bond Fund, Dreyfus Pennsylvania Intermediate Municipal Bond Fund, Dreyfus Premier Value Equity Funds (collectively, the "Funds"); The Dreyfus Corporation ("Dreyfus"); and Mellon Bank, N.A. ("Mellon").

**FILING DATE:** The application was filed on April 28, 2000 and amended on May 22, 2001. 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 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 August 27, 2001, 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 Commission's Secretary.

**ADDRESSES:** Secretary, Commission, 450 Fifth Street, N.W., Washington, D.C. 20549-0609. Applicants: Funds and Dreyfus, 200 Park Avenue, New York, New York 10166; Mellon, One Mellon Bank Center, Pittsburgh, Pennsylvania 15258.

**FOR FURTHER INFORMATION CONTACT:** Stacy L. Fuller, Staff Attorney, at (202) 942-0553, or 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 at the Commission's Public Reference Branch, 450 Fifth Street, NW., Washington, DC 20549-0101, (202) 942-8090.

### Applicant's Representations

1. Each of the Funds is an open-end or closed-end management investment company registered under the Act. Dreyfus is registered as an investment adviser under the Investment Advisers Act of 1940 and serves as the investment adviser to the Funds. Dreyfus is a wholly owned subsidiary of Mellon, a national banking association. Applicants request that the relief apply to any existing or future registered management investment company or series of such registered management investment company for which Dreyfus, or any person controlling by or under common control with Dreyfus (The "Adviser") serves as investment adviser.<sup>1</sup>

2. The Funds propose to participate in a securities lending program (the "Lending Program") in which Mellon or any person controlling, controlled by or under common control with Mellon will act as lending agent (the "Lending Agent") and administer the Lending Program pursuant to a securities lending agreement (a "Lending Agreement").<sup>2</sup> Each of the Funds participating in the Lending Program (the "Lending Funds") will be permitted by its operating policies to lend its portfolio securities,

<sup>1</sup> All existing entities currently intending to rely on the requested order have been named as applicants. Any existing or future entity will rely on such order only in compliance with the representations and conditions contained in the application.

<sup>2</sup> Personnel of the Lending Agent that provide day-to-day lending agency services to the Lending Funds do not and will not provide investment advisory services to the Lending Funds, or participate in any way in the selection of portfolio securities or other aspects of the management of the Lending Funds.

and its prospectus or statement of additional information will disclose that it may engage in securities lending.

3. Under the Lending Program, the Lending Agent will enter into agreements to lend securities of the Lending Funds to certain unaffiliated borrowers that have been approved by the respective Lending Funds ("Borrowers"). In exchange for the securities, the Lending Agent will be authorized to accept cash collateral ("Cash Collateral") and, upon consent of the Lending Fund, U.S. Government securities or other collateral. Collateral will have a market value at least equal to the market value of the securities loaned to the Borrower.

4. Each Lending Agreement will authorize and instruct the Lending Agent to invest Cash Collateral on behalf of the respective Lending Fund in accordance with specific written parameters established by the Lending Fund, including a list of eligible investments. Permissible investments will include repurchase agreements or other short-term money market instruments, as well as one or more registered money market funds that comply with rule 2a-7 under the Act and are advised by the Adviser ("Investment Funds").

5. When loans are collateralized by cash, the Borrowers will be entitled to receive a cash collateral fee, and the Lending Fund will be compensated based on the spread between the net amount earned on the investment of the Cash Collateral and the Borrower's fee. In the case of collateral other than cash, the Borrower will pay a loan fee to the Lending Fund. For its services to the Lending Funds, the Lending Agent will receive fees based on a share of the revenue generated from the securities lending transactions.

6. In addition to Cash Collateral, Funds may have uninvested cash ("Uninvested Cash") resulting from a variety of sources including dividends or interest received on portfolio securities, unsettled securities transactions, reserved held for investment strategy purposes, scheduled maturity of investments, liquidation of portfolio securities to meet anticipated redemptions or dividend payments, or from new monies received from investors.

7. Applicants seek an order to permit: (a) Funds to invest Cash Collateral and Uninvested Cash (together, "Cash Balances") in shares of Investment Funds (Funds that purchase shares of the Investment Funds, "Acquiring Funds"); and (b) Lending Funds to pay the Lending Agent fees based on a share of the proceeds derived from securities lending activities.

### Applicant's Legal Analysis

#### A. Investment of Cash Balances in the Investment Funds

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

2. Section 12(d)(1)(f) of the Act provides that the Commission may exempt any person or transaction from any provision of section 12(d)(1) if and to the extent that such exemption is consistent with the public interest and the protection of investors. Applicants request relief under section 12(d)(1)(f) to permit the Acquiring Funds to invest Cash Balances in the Investment Funds in excess of the limits in section 12(d)(1)(A), provided however that in no case will an Acquiring Fund's aggregate investment of Uninvested Cash in shares of the Investment Funds exceed 25% of the Acquiring Fund's total assets. Applicants also request relief to permit the Investment Funds to sell their shares to the Acquiring Funds in excess of the percentage limitations in section 12(d)(1)(B).

3. Applicants state that the proposed arrangement will not result in the abuses that sections 12(d)(1)(A) and (B) were intended to prevent. Applicants state that because all of the Funds are advised by the Adviser, there is no potential for undue influence by an Acquiring Fund over an Investment Fund. Applicants state that the arrangements will not result in layering of fees because no sales load, redemption fee, distribution fee adopted in accordance with rule 12b-1 under the Act, or service fee (as defined in rule 2830(b)(9) of the Conduct Rules of the National Association of Securities Dealers ("NASD Conduct Rules")) will be imposed in connection with the purchase or sale of shares of the Investment Funds. In addition, the Adviser will waive its advisory fee payable by an Acquiring Fund in an

amount that offsets the amount of advisory fees of the Investment Fund incurred by the Acquiring Fund as a result of the investment of Uninvested Cash in the Investment Fund. If an Investment Fund offers more than one class of shares, each Acquiring Fund will invest Cash Balances only in the class with the lowest expense ratio at the time of investment. Applicants also believe that the proposed arrangement will not create an overly complex fund structure because the Investment Funds will be prohibited from acquiring securities of any investment company in excess of the limits contained in section 12(d)(1)(A) of the Act.

4. Sections 17(a)(1) and (2) of the Act make it unlawful for any affiliated person of or principal underwriter for a registered investment company, or any affiliated person of such a person or principal underwriter, acting as principal, to sell any security to, or purchase any security from, such registered investment company. Section 2(a)(3) of the Act defines an "affiliated person" of another person to include: Any person directly or indirectly owning, controlling, or holding with power to vote 5% or more of the outstanding voting securities of the other person; any person directly or indirectly controlling, controlled by, or under common control with, the other person; and in the case of an investment company, its investment adviser.

5. Because the Acquiring Funds and the Investment Funds are advised by a common investment adviser, applicants state that the Acquiring Funds and the Investment Funds may be affiliated persons. In addition, if an Acquiring Fund owns 5% or more of the shares of an Investment Fund, applicants state that the Investment Fund may be deemed to be an affiliated person of the Acquiring Fund. Accordingly, applicants state that section 17(a) would prohibit the sale of shares of an Investment Fund to the Acquiring Funds and the redemption of such shares by the Investment Fund.

6. Section 17(b) of the Act authorizes the Commission to exempt a transaction from section 17(a) of the Act if the terms of the proposed transaction, including the consideration to be paid or received, are reasonable and fair and do not involve overreaching on the part of any person concerned, and if the proposed transaction is consistent with the policy of each registered investment company concerned and with the general purposes of the Act. Section 6(c) of the Act permits the Commission to exempt any person or transaction from any provision of the Act, 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.

7. Applicants request an order under sections 6(c) and 17(b) of the Act to permit the Investment Funds to sell shares to, and redeem shares from, the Acquiring Funds in connection with the investment of Cash Balances.

Applicants submit that the terms of the proposed transactions are fair and reasonable and do not involve overreaching. Applicants state that shares of the Investment Funds will be purchased and redeemed at their net asset value. Applicants state that each Acquiring Fund will be treated identically to all other investors in the Investment Funds. Applicants submit that the investment of Cash Balances in the Investment Funds will be consistent with the policies of each Acquiring Fund and each Investment Fund. Applicants state that the investment of the Cash Collateral will be in accordance with the Commission staff's securities lending guidelines.

8. Section 17(d) of the Act and rule 17d-1 under the Act prohibit an affiliated person of or principal underwriter for a registered investment company, or any affiliated person of such person, acting as principal, from participating in or effecting any transaction in connection with any joint enterprise or joint arrangement in which the investment company participates, unless the Commission has approved the transaction. Applicants state that by engaging in the proposed transactions, applicants may be deemed to be participants in a joint transaction under section 17(d) of the Act and rule 17d-1 under the Act.

9. Rule 17d-1 permits the Commission to approve a proposed joint transaction covered by the terms of section 17(d). In considering whether to approve a joint transaction under rule 17d-1, the Commission considers whether the proposed transaction is consistent with the provisions, policies, and purposes of the Act, and the extent to which the participation of the investment companies is on a basis different from or less advantageous than that of the other participants.

Applicants submit that the Acquiring Funds will participate in the proposed transactions on a basis no different from or less advantageous than that of any other participant, and that the transactions will be consistent with the Act.

#### *B. Lending Agent Fees*

1. As noted above, section 17(d) of the Act and rule 17d-1 under the Act generally prohibit joint transactions involving registered investment companies and certain of their affiliates unless the Commission has approved the transaction. As also noted above, section 2(a)(3) of the Act defines an affiliated person of an investment company to include its investment adviser. Applicants state that the Adviser is an affiliated person of the Lending Funds, and that the Lending Agent, as the parent company of the Adviser, is an affiliated person of an affiliated person of the Lending Funds. Because a fee arrangement between the Lending Agent and a Lending Fund under which compensation is based on a percentage of the revenue generated by securities lending transactions may be a joint enterprise or other joint arrangement or profit sharing plan within the meaning of section 17(d) and rule 17d-1, applicants request an order to permit each Lending Fund to pay, and the Lending Agent to accept, such fees in connection with services provided by the Lending Agent to a Lending Fund.

2. Applicants state that each Lending Fund will adopt the following procedures to ensure that the proposed fee arrangement and other terms governing the relationship with the Lending Agent will meet the standards of rule 17d-1:

(a) In connection with the approval of a Lending Agent for a Lending Fund and implementation of the proposed fee arrangement, a majority of the board of directors of the Lending Fund ("Board"), including a majority of the directors who are not "interested persons" as defined in section 2(a)(19) of the Act ("Disinterested Directors"), will determine that: (i) The contract with the Lending Agent is in the best interests of the Lending Fund and its shareholders; (ii) the services to be performed by the Lending Agent are appropriate for the Lending Fund; (iii) the nature and quality of the services provided by the Lending Agent are at least equal to those provided by others offering the same or similar services for similar compensation; and (iv) the fees for the Lending Agent's services are fair and reasonable in light of the usual and customary charges imposed by others for services of the same nature and quality.

(b) The Lending Agreement will be reviewed annually by each Board and will be approved for continuation only if a majority of the Board (including a majority of the Disinterested Directors)

makes the findings referred to in paragraph (a) above.

(c) In connection with the initial implementation of the proposed fee arrangement under which the Lending Agent will be compensated as lending agent based on a percentage of the revenue generated by a Lending Fund's participation in the Lending Program, the Adviser, on behalf of the Board, will obtain competing quotes with respect to lending agent fees from at least three independent lending agents to assist the Board in making the findings referred to in paragraph (a) above.

(d) The Board, including a majority of the Disinterested Directors, will (i) determine at each regular quarterly meeting that the loan transactions during the prior quarter were effected in compliance with the conditions and procedures set forth in the application and (ii) review no less frequently than annually the conditions and procedures set forth in the application for continuing appropriateness.

(e) Each Lending Fund will (i) maintain and preserve permanently in an easily accessible place a written copy of the procedures and conditions described in the application and (ii) maintain and preserve for a period not less than six years from the end of the fiscal year in which any loan transaction pursuant to the Lending Program occurred, the first two years in an easily accessible place, a written record of each such loan transaction setting forth a description of the security loaned, the identity of the Borrower, the terms of the loan transaction, and the information or materials upon which the determination was made that each loan was made in accordance with the procedures set forth above and the conditions to the application.

#### **Applicants' Conditions**

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

##### *A. General*

1. Each Acquiring Fund and Investment Fund that relies on the requested order will be advised by the Adviser.

2. The Lending Program will comply with all present and future applicable Commission and staff positions regarding securities lending arrangements.

3. Approval of the Fund's board of directors, including a majority of the Disinterested Directors, shall be required for the initial and subsequent approvals of the Lending Agency as lending agent for a Fund, for the institution of all procedures relating to

the Lending Program, and for any periodic review of loan transactions for which the Lending Agent acted as lending agent.

4. Before a Fund may participate in the Lending Program, a majority of its board of directors, including a majority of the Disinterested Directors, will approve the Fund's participation in the Lending Program. The board of directors will evaluate the securities lending arrangement and its results no less frequently than annually and a majority of the board, including a majority of the Disinterested Directors, will determine that any investment of Cash Collateral in the Investment Funds is in the best interests of the shareholders of the Fund.

#### *B. Investment of Cash Balances in the Investment Funds*

1. No Investment Fund will acquire securities of any other investment company in excess of the limits in section 12(d)(1)(A) of the Act.

2. Shares of the Investment Funds sold to and redeemed by the Acquiring Funds will not be subject to a sales load, redemption fee, distribution fee under a plan adopted in accordance with rule 12b-1 under the Act, or service fee (as defined in rule 2830(b)(9) of the NASD Conduct Rules).

3. Investment in shares of the Investment Funds will be in accordance with each Acquiring Fund's respective investment restrictions and will be consistent with such Acquiring Fund's policies as set forth in its registration statement.

4. Each of the Acquiring Funds will invest Uninvested Cash in, and hold shares of the Investment Funds only to the extent the Acquiring Fund's aggregate investment of Uninvested Cash in the Investment Funds does not exceed 25% of the Acquiring Fund's total assets. For purposes of this limitation, each Acquiring Fund or series thereof will be treated as a separate investment company.

5. The Adviser to the Acquiring Fund will waive its advisory fee payable by the Acquiring Fund in an amount that offsets the amount of advisory fees of the Investment Fund incurred by the Acquiring Fund as a result of the investment of its Uninvested Cash in the Investment Fund.

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

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

[FR Doc. 01-19930 Filed 8-8-01; 8:45 am]

**BILLING CODE 8010-01-M**

## **SECURITIES AND EXCHANGE COMMISSION**

[Investment Company Act Release No. 25101; 812-11160]

### **Legg Mason Wood Walker, Inc., et al. Notice of Application**

August 3, 2001.

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

**ACTION:** Notice of application under: (i) Section 6(c) of the Investment Company Act of 1940 ("Act") for exemptions from sections 2(a)(32), 2(a)(35), 12(d)(3), 14(a), 19(b), 22(d), and 26(a)(2) of the Act and from rules 19b-1 and 22c-1 under the Act; (ii) section 11(a) of the Act for an exemption from section 11(c) of the Act; and (iii) sections 6(c) and 17(b) of the Act for an exemption from section 17(a) of the Act.

*Summary of the Application:* Applicants request an order to permit certain unit investment trusts to: (i) Impose sales charges on a deferred basis and waive the deferred sales charge in certain cases; (ii) often unitholders certain exchange options; (iii) publicly offer units without requiring the sponsor to take for its own account or place with others \$100,000 worth of units; (iv) distribute capital gains resulting from the sale of portfolio securities within a reasonable time after receipt; (v) sell portfolio securities of a terminating series of the trust to a new series of the trust; and (vi) invest up to 10.5%, and in other cases up to 20.5%, of a series' assets in securities of issuers that derive more than 15% of their gross revenues from securities-related activities.

*Applicants:* Legg Mason Wood Walker, Incorporated ("Legg Mason" or "Sponsor"); Legg Mason Unit Investment Trust ("Legg Mason Trust"); any future registered unit investment trusts sponsored by the Sponsor (together with the Legg Mason Trust, "Trust"); and the series of each Trust (each a "Series").<sup>1</sup>

*Filing Dates:* The application was filed on May 27, 1998, and was amended on July 24, 2001.

*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

<sup>1</sup> Any future Series that relies on the requested order will comply with the terms and conditions of the application.

by 5:30 p.m. on August 30, 2001 and should be accompanied by proof of service on application 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, Securities and Exchange Commission, 450 Fifth Street, N.W., Washington, D.C. 20549-0609. Applicants, 100 Light Street, P.O. Box 1476, Baltimore, MD 21203-1476.

**FOR FURTHER INFORMATION CONTACT:** Karen L. Goldstein, Senior Counsel, at 202-942-0646 or Nadya B. Roytblat, Assistant Director, 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, N.W., Washington, D.C. 20549-0102 (telephone (202) 942-8090).

#### **Applicant's Representations**

1. Each Series will be a series of a Trust and will be a unit investment trust ("UIT") registered under the Act. The Sponsor, a wholly-owned subsidiary of Legg Mason, Inc., will be the sponsor of each Series. Each Series will be created by a trust indenture between the Sponsor and a banking institution or trust company as trustee ("Trustee").

2. The Sponsor acquires a portfolio of securities, which it deposits with the Trustee in exchange for certificates representing units of fractional undivided interest in the portfolio ("Units"). The Units are offered to the public by the Sponsor and dealers at a price which, during the initial offering period, is based upon the aggregate market value of the underlying securities plus a front-end sales charge. The Sponsor may reduce the sales charge in compliance with rule 22d-1 under the Act in certain circumstances, which are disclosed in the prospectus.

3. The Sponsor maintains a secondary market for Unit and continually offers to purchase these Units at prices based upon the bid side evaluation of the current public offering price plus a front-end sales charge. If the Sponsor discontinues maintaining such a market at any time for any Series, holders of Units ("Unitholders") of that Series may redeem their Units through the Trustee.