

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) offer 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").¹

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

¹ 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.

A. Deferred Sales Charge and Waiver of Deferred Sales Charge under Certain Circumstances

1. Applicants request an order to the extent necessary to permit one or more Series to impose sales charges on a deferred basis. For each Series, the Sponsor would set a maximum sales charge per Unit, a portion of which may be collected "up front" (*i.e.*, at the time an investor purchases Units). The deferred portion of the sales charge ("DSC") would be collected subsequently in equal installments ("Installment Payments") from Unitholders' distributions on the Units. The Sponsor would not add any amount for interest or any similar or related charge to adjust for such deferral.

2. The Trustee would withdraw the Installment Payment from distribution income and pay the amount directly to the Sponsor. If distribution income is insufficient to pay an Installment Payment or if a Series' portfolio consists of non-income producing securities, the Trustee will have the authority to sell portfolio securities in an amount necessary to pay the Installment Payment.

3. When a Unitholder redeems or sells Units, the Sponsor intends to deduct any unpaid DSC from the redemption or sale proceeds. When calculating the amount due, the Sponsor will assume that Units on which the DSC has been paid in full are redeemed or sold first. With respect to Units on which the DSC has not been paid in full, the Sponsor will assume that Units held for the longest time are redeemed or sold first. Applicants represent that the DSC collected at the time of redemption or sale, together with the Installment Payments and any amount collected up front, will not exceed the maximum sales charge per Unit. Under certain circumstances, the Sponsor may waive the collection of any unpaid DSC in connection with redemption or sales of Units. These circumstances will be disclosed in the prospectus for the relevant Series and implemented in accordance with rule 22d-1 under the Act.

4. Each Series offering Units subject to a DSC will state the maximum sales charge per Unit in its prospectus. The prospectus also will disclose that portfolio securities may be sold to pay an Installment Payment if distribution income is insufficient, and that the securities will be sold pro rata or a specific security will be designated for sale.

B. Exchange Option and Rollover Option

1. Applicants request an order to the extent necessary to permit Unitholders of a Series to exchange their Units for Units of another Series ("Exchange Option") and Unitholders of a Series that is terminating ("Rollover Series") to exchange their Units for Units of a new Series of the same type ("Rollover Option"). The Exchange Option and Rollover Option would apply to all exchanges of Units sold with a front-end sales charge or a DSC.

2. A Unitholder who purchases Units under the Exchange Option or Rollover Option would pay a lower sales charge than that which would be paid for the Units by a new investor. The reduced sales charge will be reasonably related to the expenses incurred in connection with the administration of the DSC program, which may include an amount that will fairly and adequately compensate the Sponsor and participating underwriters and brokers for their services in providing the DSC program.

3. Pursuant to the Exchange Option, an adjustment would be made if Units of any Series are exchanged within five months of their acquisition for Units of a Series with a higher sales charge ("Five Months Adjustment"). An adjustment also would be made if Units on which a DSC is collected are exchanged for Units of a Series that imposes a front-end sales charge and the exchange occurs before the DSC collected (plus any amount collected up front on the exchanged Units) at least equals the per Unit sales charge on the acquired Units ("DSC Front-end Exchange Adjustment"). If an exchange involves either the Five Months Adjustment or the DSC Front-End Exchange Adjustment, the Unitholder would pay the greater of the reduced sales charge or an amount which, together with the sale charge already paid on the exchanged Units, equals the normal sales charge on the acquired Units on the date of the exchange. With appropriate disclosures, the Sponsor may waive such payment. Further, the Sponsor would reserve the right to vary the sales charge normally applicable to a Series and the charge applicable to exchanges, as well as to modify, suspend, or terminate the Exchange Options set forth in the conditions to the application.

C. Investments in Securities-Related Issuers on Certain Indices

1. Each Rollover Series will hold a portfolio of common stocks that represents a portion of a specific index

("Index"). The investment objective of each Rollover Series is to seek a greater total return than that achieved by the stocks comprising the entire relevant Index over the life of the Series.

2. Certain Rollover Series (each a "Ten Series") will invest approximately 10%, but in no event more than 10.5%, of their total assets in each of the ten common stocks in the Dow Jones Industrial Average ("DJIA"), the Financial Times Industrial Ordinary Share Index ("FT Index"), or the Hang Seng Index having the highest dividend yields no more than three business days prior to the Ten Series' initial date of deposit. Certain other Rollover Series (each a "Five Series") will invest approximately 20%, but in no event more than 20.5%, of their total assets in each of the five lowest dollar price per share stocks of the ten common stocks in the DJIA, the FT Index, or the Hang Seng Index having the highest dividend yields no more than three business days prior to the Five Series' initial date of deposit.²

3. Each of the DJIA, the FT Index, and the Hang Seng Index is a recognized indicator of the stock market in its respective country.³ The publishers of the Indices are not affiliated with any Rollover Series or the Sponsor, and do not participate in any way in the creation of any Rollover Series or the selection of its stocks. The common stocks included in the Indices may include stocks of issuers that derive more than 15% of their gross revenues from securities-related activities, as that term is defined in rule 12d3-1 under the Act ("Securities-Related Issuers"). Applicants accordingly request an order to the extent necessary to permit each Ten Series and Five Series to invest in the stocks of Securities Related Issuers.

4. The securities deposited in each rollover Series will be chosen solely according to the formula described above and will not necessarily reflect

² The Sponsor strives to purchase equal values of each of the common stocks in a Rollover Series' portfolio. However, it is more efficient to purchase securities in 100-share lots and 50-share lots. As a result, applicants may choose to purchase securities of a Securities-Related Issuer (as defined below) that represent more than 10%, but in no event more than 10.5%, of a Ten Series' assets, and more than 20%, but in no event more than 20.5%, of a Five Series' assets, on the initial date of deposit to the extent necessary to enable the Sponsor to meet its purchase requirements and to obtain the best price for the securities.

³ The DJIA, which is owned by Dow Jones & Company, Inc., comprises 30 widely-held common stocks listed on the New York Stock Exchange that are chosen by the editors of *The Wall Street Journal*. The FT Index comprises 30 widely-held common stocks listed on the London Stock Exchange that are chosen by the editors of *The Financial Times*. The Hang Seng Index comprises 33 common stocks listed on the Stock Exchange of Hong Kong, Ltd.

the research opinions or buy or sell recommendations of the Sponsor. The Sponsor is authorized to determine the date of deposit, to purchase securities for deposit in the Rollover Series, and to supervise each Rollover Series' portfolio. The Sponsor will have no discretion as to which securities are purchased.

5. The portfolios of the Rollover Series will not be actively managed. Sales of portfolio securities will be made in connection with redemption of Units, payment of expenses, and the termination of a Rollover Series. The Sponsor has no discretion as to when securities will be sold except that it authorized to sell securities in extremely limited circumstances, such as when an issuer defaults on the payment of any of its outstanding obligations, or when the price of a security has declined to such an extent or other credit factors exist so that, in the opinion of the Sponsor, retaining the securities would be detrimental to the Series. The adverse financial condition of an issuer will not necessarily require the sale of its securities from a Rollover Series' portfolio.

D. Purchase and Sale Transactions Between a Rollover Series and a New Series

1. Each Rollover Series will have a date ("Rollover Date") by which Unitholders of that Series may elect to redeem their Units and receive in return Units of a subsequent Series of the same type ("New Series"). The New Series will be created on or after the Rollover Date. The securities in each Rollover Series will be: (a) actively traded (*i.e.*, have had an average daily trading volume in the preceding six months of at least 500 shares, with a value equal to at least U.S. \$25,000) on (i) an exchange ("Exchange") that is either a national securities exchange meeting the qualifications of section 6 of the Securities Exchange Act of 1934, or a foreign securities exchange meeting the qualifications set forth in the proposed amendments to rule 12d3-1(d)(6) under the Act⁴ and releasing daily closing

prices or (ii) the Nasdaq-National Market System ("Nasdaq-NMS"); and (b) included in a published Index, including but not limited to the DJIA, and FT Index, or the Hang Seng Index ("Equity Securities").

2. Applicants anticipate that there will be some overlap in the Equity Securities selected for the portfolios of a Rollover Series and the related New Series. Absent the requested relief, a Rollover Series would, upon termination, sell all of its Equity Securities on the applicable Exchange or Nasdaq-NMS. Likewise, a New Series would acquire its Equity Securities on the applicable Exchange or Nasdaq-NMS. This procedure would result in the Unitholders of both the Rollover Series and the New Series incurring brokerage commissions on the same Equity Securities. Applicants accordingly request an order to the extent necessary to permit a Rollover Series to sell its portfolio securities to a New Series and to permit the New Series to purchase those securities.

Applicants' Legal Analysis

A. DSC and Waiver or DSC

1. Section 4(2) of the Act defines a "unit investment trust" as an investment company that issues only redeemable securities. Section 2(a)(32) of the Act defines a "redeemable security" as a security that, upon its presentation to the issuer, entitles the holder to receive approximately his or her proportionate share of the issuer's current net assets or the cash equivalent of those assets. Rule 22c-1 under the Act requires that the price of a redeemable security issued by a registered investment company for purposes of sale, redemption, and repurchase be based on the security's current net asset value ("NAV"). Because the collection of any unpaid DSC may cause a redeeming Unitholder to receive an amount less than NAV of the redeemed Units, applicants request relief from section 2(a)(32) and rule 22c-1.

2. Section 22(d) of the Act and rule 22d-1 under the Act require a registered investment company and its principal underwriter and dealers to sell securities only at the current public offering price described in the investment company's prospectus, with the exception of sales of redeemable securities at prices that reflect scheduled variations in the sales load. Section 2(a)(35) of the Act defines the term "sales load" as the difference between the sales price and the portion invested by the depositor or trustee. Applicants request relief from sections

2(a)(35) and 22(d) to permit waivers, deferrals or other scheduled variations of the sales load.

3. Under section 6(c) of the Act, the Commission may exempt classes of transactions, if and to the extent that 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. Applicants state that their proposal meets the standards of section 6(c). Applicants state that the provisions of section 22(d) are intended to prevent (i) riskless trading in investment company securities due to backward pricing, (ii) disruption of orderly distribution by dealers selling shares at a discount, and (iii) discrimination among investors resulting from different prices charged to different investors. Applicants assert that the proposed DSC program will present none of these abuses. Applicants further state that all scheduled variations in the sales load will be disclosed in the prospectus of each Series and applied uniformly to all investors, and that applicants will comply with all of the conditions set forth in rule 22d-1.

4. Section 26(a)(2) of the Act, in relevant part, prohibits a trustee or custodian of a UIT from collecting from the trust as an expense any payment to the trust's depositor or principal underwriter. Because the Trustee's payment of the DSC to the Sponsor may be deemed to be an expensed under section 26(a)(2)(C), applicants request relief under section 6(c) from section 26(a)(2) to the extent necessary to permit the Trustee to collect Installment Payments and disburse them to the Sponsor. Applicants submit that the relief is appropriate because the DSC is more properly characterized as a sales load.

B. Exchange Option and Rollover Option

Sections 11(a) and (c) of the Act prohibit any offer or exchange by a UIT for the securities of any other investment company unless the terms of the offer have been approved in advance by the Commission. Applicants request an order under section 11(a) for an exemption from section 11(c) to permit the Exchange Option and the Rollover Option. Applicants state that the Five Months Adjustment and the DSC Front-End Exchange Adjustment in certain circumstances are appropriate in order to maintain the equitable treatment of various investors in each Series.

⁴ Investment Company Rel. No. 17096 (Aug. 3, 1989) (proposing amendments to rule 12d3-1). The proposed amendment rule defined a "Qualified Foreign Exchange" as a stock exchange in a country other than the United States where: (1) Trading generally occurred at least four days per week, (ii) there were limited restrictions on the ability of acquiring companies to trade their holdings on the exchange, (iii) the exchange had a trading volume in stocks for the previous year of at least U.S. \$7.5 billion, and (iv) the exchange had a turnover ratio for the preceding year of at least 20% of its market capitalization. The version of the amended rule that was adopted did not include the part of the proposed amendment defining the term "Qualified Foreign Exchange."

C. Investments in Securities-Related Issuers on Certain Indices

1. Section 12(d)(3) of the Act, with limited exceptions, prohibits a registered investment company from acquiring any security issued by a person who is a broker, dealer, underwriter, or investment adviser. Rule 12d3-1 under the Act, in relevant part, exempts the purchase of securities of a Securities-Related Issuer, provided that, immediately after the acquisition, the acquiring company has invested not more than 5% of the value of its total assets of the Securities-Related Issuer.

2. As noted above, applicants state that some of the stocks comprising the DJIA, the FT Index, and the Hang Seng Index include securities of Securities-Related Issuers. Applicants assert that, absent the requested relief, each Ten Series and Five Series may be precluded from implementing most effectively the Series' investment objective. Applicants accordingly request an exemption under section 6(c) from section 12(d)(3) to permit each Ten Series to invest up to approximately 10%, but in no event more than 10.5%, of the value of its total assets in securities of a Securities-Related Issuer, and to permit each Five Series to invest up to approximately 20%, but in no event more than 20.5%, of the value of its total assets in securities of a Securities-Related Issuer.

3. Applicants state that the proposed transactions satisfy the requirements of section 6(c). Applicants state that section 12(d)(3) was intended to prevent investment companies from exposing their assets to the entrepreneurial risks of securities-related businesses, to prevent potential conflicts of interest and to eliminate certain reciprocal practices between investment companies and securities-related businesses, and to ensure that investment companies maintain adequate liquidity in their portfolios. One potential conflict could occur if an investment company purchased securities or other interests in a broker-dealer to reward that broker-dealer for selling fund shares, rather than solely on investment merit. Applicants state that this concern does not arise in connection with the Ten Series or Five Series because neither the Series nor the Sponsor has discretion in choosing the securities of a Securities-Related Issuer or the amount purchased; rather, the Securities Related Issuer must qualify as either one of the ten highest dividend yielding stocks or one of the five lowest dollar price per share stocks of the ten highest dividend yielding stocks in the relevant Index.

4. Applicants also state that the effect of a Ten Series' or Five Series' purchase of the stock of a Securities-Related Issuer would be de minimis. Applicants assert that the Securities-Related Issuers represented in the DJIA, the FT Index, and the Hang Seng Index are widely held and have active markets, and that potential purchases by any Ten Series or Five Series would represent an insignificant amount of the outstanding common stock and trading volume of any of these Securities-Related Issuers.

5. Another potential conflict of interest could occur if an investment company directed brokerage to a broker-dealer in which the company has invested to enhance the broker-dealer's profitability or to assist it during financial difficulty, even though that broker dealer may not offer the best price and execution. To preclude this type of conflict, applicants agree, as a condition to the order, that no company held in the portfolio of a Ten Series or Five Series, nor any affiliate of the company, will act as a broker for any Series in the purchase or sale of any security for the Series' portfolio.

D. Purchase and Sale Transactions Between a Rollover Series and a New Series

1. Section 17(a) of the Act prohibits an affiliated person of a registered investment company from selling securities to, or purchasing securities from, the company. Section 2(a)(3) of the Act defines an "affiliated person" of another person to include any person directly or indirectly controlling, controlled by, or under common control with the other person. Each Series will have a common sponsor. Since the Sponsor of a Series may be deemed to control the Series, all of the Series may be deemed to be affiliated persons of each other.

2. Rule 17a-7 under the Act permits registered investment companies that may be deemed affiliated persons solely by reason of having common investment advisers, directors, and/or officers, to sell securities to, or purchase securities from, one another at an independently determined price, provided certain conditions are met. Paragraph (e) of the rule requires an investment company's board of directors to adopt and monitor procedures to assure compliance with the rule. Because UITs do not have boards of directors, the Series would be unable to comply with this requirement. Applicants represent that they will comply with all of the provisions of rule 17a-7, other than paragraph (e).

3. Section 17(b) of the Act provides that the Commission will exempt a proposed transaction from section 17(a)

if evidence establishes that: (i) the terms of the transaction are reasonable and fair and do not involve overreaching; (ii) the transaction is consistent with the policies of each registered investment company involved; and (iii) the transaction is consistent with the general purposes of the Act. Applicants request relief under sections 6(c) and 17(b) to permit a Rollover Series to sell Equity Securities to a New Series and to permit the New Series to purchase the Equity Securities.

4. Applicants state that the proposed transactions satisfy the standards of sections 6(b) and 17(b). Applicants represent that purchases and sales between Series will be consistent with the policies of each Series. Applicants further state that permitting the proposed transactions would result in savings on brokerage fees for the Series.

5. Applicants state that the condition that the Equity Securities must be actively traded on an Exchange or the Nasdaq-NMS protects against overreaching. In addition, applicants state that the Sponsor will certify to the Trustee, within five days of each sale of Equity Securities from a Rollover Series to a New Series: (i) That the transaction is consistent with the policy of both the Rollover Series and the New Series, as recited in their respective registration statements and reports filed under the Act; (ii) the date of the transaction; and (iii) the closing sales price on the Exchange or on the Nasdaq-NMS for the sale date of the Equity Securities. The Trustee will then countersign the certificate unless, in the unlikely event that the Trustee disagrees with the closing sales price listed on the certificate, the Trustee immediately informs the Sponsor orally of such disagreement and returns the certificate within five days to the Sponsor with corrections duly noted. Upon the Sponsor's receipt of a corrected certificate, if the Sponsor can verify the corrected price by reference to an independently published list of closing sales prices for the date of the transactions, the Sponsor will ensure that the price of the Units of the New Series, and the distribution to Unitholders of the Rollover Series, accurately reflect the corrected price. To the extent that the Sponsor disagrees with the Trustee's corrected price, the Sponsor and the Trustee will jointly determine the correct sales price by reference to a mutually agreeable, independently published list of closing sales prices for the date of the transaction.

E. Net Worth Requirement

1. Section 14(a) of the Act requires that registered investment companies have \$100,000 of net worth prior to making a public offering. Applicants state that each Series will comply with this requirement because the Sponsor will deposit substantially more than \$100,000 of debt and/or equity securities, depending on the objective of the particular Series. Applicants assert, however, that the Commission has interpreted section 14(a) as requiring that the initial capital investment in an investment company be made without any intention to dispose of the investment. Applicants state that, under this interpretation, a Series would not satisfy section 14(a) because of the Sponsor's intention to sell all the Units of the Series.

2. Rule 14a-3 under the Act exempts UITs from section 14(a) if certain conditions are met, including the trust invest only in "eligible trust securities," as defined in the rule. Applicants state that they may not rely on rule 14a-3 because certain future Series (collectively, "Equity Series") will invest all or a portion of their assets in equity securities, which do not satisfy the definition of eligible trust securities.

3. Applicants request an exemption under section 6(c) from section 14(a) to the extent necessary to exempt the Equity Series from the net worth requirement in section 14(a). Applicants state that they will comply in all respects with rule 14a-3, except that the Equity Series will not restrict their portfolio investments to eligible trust securities.

F. Capital Gains Distribution

1. Section 19(b) of the Act and rule 19b-1 under the Act provide that, except under limited circumstances, no registered investment company may distribute long-term gains more than once every twelve months. Rule 19b-1(c), under certain circumstances, exempts a UIT investing in eligible trust securities (as defined in rule 14a-3) from the requirements of rule 19b-1. Because the Equity Series do not limit their investments to eligible trust securities, however, such trusts will not qualify for that exemption. Applicants therefore request relief under section 6(c) from section 19(b) and rule 19b-1 to the extent necessary to permit capital gains earned in connection with the sale of portfolio securities to be distributed to Unitholders along with the Equity Series' regular distributions. In all other respects, applicants will comply with section 19(b) and rule 19b-1.

2. Applicants state that their proposal meets the standards of section 6(c). Applicants assert that any sale of portfolio securities would be triggered by the need to meet Series' expenses, Installment Payments, or by redemption requests, events over which the Sponsor and the Equity Series do not have control. Applicants further state that, because principal distributions must be clearly indicated in accompanying reports to Unitholders as a return of principal and will be relatively small in comparison to normal dividend distributions, there is little danger of confusion from failure to differentiate among distributions.

Applicants' Conditions

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

A. DSC and Exchange and Rollover Options

1. Whenever the Exchange Option or the Rollover Option is to be terminated or its terms are to be amended materially, any holder of a security subject to that privilege will be given prominent notice of the impending termination or amendment at least 60 days prior to the date of termination or the effective date of the amendment, provided that: (a) No such notice need be given if the only material effect of an amendment is to reduce or eliminate the sales charge payable at the time of an exchange, to make one or more new Series eligible for the Exchange Option or the Rollover Option, or to delete a Series which has terminated; and (b) no notice need be given if, under extraordinary circumstances, either (i) there is a suspension of the redemption of Units of the Series under section 22(e) of the Act and the rules and regulations promulgated under that section, or (ii) a Series temporarily delays or ceases the sale of its Units because it is unable to invest amounts effectively in accordance with applicable investment objectives, policies, and restrictions.

2. An investor who purchases Units under the Exchange Option or the Rollover Option will pay a lower sales charge than that which would be paid for the Units by a new investor.

3. The prospectus of each series offering exchanges or rollovers and any sales literature or advertising that mentions the existence of the Exchange Option or Rollover Option will disclose that the Exchange Option and the Rollover Option are subject to modification, termination, or suspension without notice, except in certain limited cases.

4. Any DSC imposed on a Series' Units will comply with the requirements of subparagraphs (1), (2), and (3) of rule 6c-10(a) under the Act.

5. Each Series offering Units subject to a DSC will include in its prospectus the disclosure required in Form N-1A relating to deferred sales charges (modified as appropriate to reflect the differences between UITs and open-end management investment companies) and a schedule setting forth the number and date of each Installment Payment.

B. Investments in Securities-Related Issuers

No company held in the portfolio of a Ten Series or Five Series, nor any affiliated person thereof, will act as broker for any Ten Series or Five Series in the purchase or sale of any security for the Series' portfolio.

C. Purchase and Sale Transactions Between a Rollover Series and a New Series

1. Each sale of Equity Securities by a Rollover Series to a New Series will be effected at the closing price of the securities sold on the applicable Exchange or the Nasdaq NMS on the sale date, without any brokerage charges or other remuneration except customary transfer fees, if any.

2. The nature and conditions of such transactions will be fully disclosed to investors in the appropriate prospectus of each Rollover Series and New Series.

3. The Trustee of each Rollover Series and New Series will (i) review the procedures discussed in the application relating to the sale of securities from a Rollover Series and the purchase of those securities for deposit in a New Series and (ii) make such changes to the procedures as the Trustee deems necessary that are reasonably designed to comply with paragraphs (a) through (d) of rule 17a-7.

4. A written copy of these procedures and a written record of each transaction pursuant to this order will be maintained as provided in rule 17a-7(f).

D. Net Worth Requirement

Applicants will comply in all respects with the requirements of rule 14a-3, except that the Equity Series will not restrict their portfolio investments to "eligible trust securities".

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

Margaret H. McFarland,
Deputy Secretary.

[FR Doc. 01-19977 Filed 8-8-01; 8:45 am]

BILLING CODE 8010-01-M