

specific deadline, creating some uncertainty as to what might satisfy its request since the Commission's rules do not specify an intervention deadline. Deadlines for interventions in the last three proceedings under the experimental rules were 22 days (docket no. MC2002-3), 28 days (docket no. MC2002-2), and 20 days (docket no. MC2001-2).<sup>14</sup> In any event, it would appear that the request is designed to compel potential participants to evaluate the merits of the proposal in an even shorter time. Under the circumstances, that result would be inappropriate.

By statute, the Commission is required "to conduct its proceedings with utmost expedition consistent with procedural fairness to the parties."<sup>15</sup> Accordingly, the Commission will conduct this proceeding with dispatch. Moreover, assuming this case is considered under the experimental rules, nothing in those rules precludes an adoption of a recommended decision in advance of the 150-day deadline. See rule 67d.

The Postal Service indicates it wishes to implement this program in time for the 2003 holiday mailing season, suggesting an early October effective date would be necessary.<sup>16</sup> This is a reasonable goal, but the Service does not provide any explanation of when a recommendation would have to be issued to enable the Service to achieve that goal. The Postal Service controls its own calendar. It is the Commission's understanding that this proposal has been under development for some time, perhaps 12 months or more.

The due date for notices of intervention is June 18, 2003. Any person wishing to intervene must file a notice electronically via the Commission's Filing Online system, in conformance with the Commission's rules 9 through 12. See 39 CFR 3001.9-3001.12. Notices should indicate whether participation will be on a full or limited basis. See 39 CFR 3001.20 and 3001.20a.

Turning to the balance of the Postal Service's suggestions, participants should indicate in their notices of intervention whether they request a hearing and, if so, they should identify all issues of material fact that may

warrant such a hearing.<sup>17</sup> Given the due date for interventions established by this order, prospective intervenors will have sufficient time to review the Postal Service's proposal and formulate a position on whether or not to request a hearing. No decision has been made at this point on whether a hearing will be held in this case.

Settlements are to be encouraged. Given the Postal Service's representations that the proposal is widely supported and should not adversely affect competitors or other mailers, the Commission will authorize settlement negotiations in this proceeding. It appoints Postal Service counsel as settlement coordinator. In this capacity, Postal Service counsel shall file periodic reports on the status of settlement discussions. The Commission authorizes the settlement coordinator to hold a settlement conference on June 23, 24 or 25, 2003, at 10:00 a.m. in the Commission's hearing room. Authorization of settlement discussions does not constitute a finding on the proposal's experimental status or on the need for a hearing.

Finally, under the Commission's rules, discovery is permissible upon intervention. The Postal Service suggests that time limits for discovery be abbreviated without suggesting specific time limits. At this stage of the proceeding, the Commission is unable to determine whether and to what extent, if any, discovery may ensue. Nonetheless, to facilitate resolution of this proceeding, participants desiring to engage in any discovery are encouraged to submit it promptly and to be prepared to discuss the need for additional discovery at the prehearing conference. Postal Service's responses will be due within 10 days after the filing of the discovery. Objections, if any, should be filed within 7 days of the filing of the discovery. Motions to compel, if any, should be filed within 7 days of the filing of the relevant objection.<sup>18</sup>

Representation of the general public. In conformance with section 3624(a) of title 39, the Commission designates Shelley S. Dreifuss, director of the Commission's office of the consumer advocate (OCA), to represent the interests of the general public in this proceeding. Pursuant to this designation, Ms. Dreifuss will direct the activities of Commission personnel

assigned to assist her and, upon request, will supply their names for the record. Neither Ms. Dreifuss nor any of the assigned personnel will participate in or provide advice on any Commission decision in this proceeding.

Prehearing conference. A prehearing conference will be held June 25, 2003, at 2 p.m. in the Commission's hearing room. Participants shall be prepared to address matters referred to in this ruling.

### Ordering Paragraphs

It is ordered:

1. The Commission establishes docket no. MC2003-2, experimental parcel return services, to consider the Postal Service request referred to in the body of this order.

2. The Commission will sit en banc in this proceeding.

3. The deadline for filing notices of intervention is June 18, 2003.

4. Notices of intervention shall indicate whether the participant seeks a hearing and, if so, identify with particularity any genuine issues of material fact that may warrant a hearing.

5. Responses to the Postal Service's conditional motion for waiver of certain filing requirements are due on or before June 27, 2003.

6. The United States Postal Service's request for expedition and establishment of settlement procedures is denied, in part, and granted, in part, as set forth in the body of this order.

7. Postal Service counsel is appointed to serve as settlement coordinator in this proceeding.

8. A prehearing conference will be held June 25, 2003 at 2:00 p.m. in the Commission's hearing room.

9. Shelley S. Dreifuss, director of the Commission's Office of the Consumer Advocate, is designated to represent the interests of the general public.

10. The Secretary shall arrange for publication of this notice and order in the **Federal Register**.

By the Commission.

Issued June 3, 2003.

**Steven W. Williams,**  
*Secretary.*

[FR Doc. 03-14483 Filed 6-9-03; 8:45 am]

BILLING CODE 7710-FW-P

## SECURITIES AND EXCHANGE COMMISSION

[Release No. IC-26067; 812-12792]

### AB Funds Trust, et al.; Notice of Application

June 4, 2003.

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

<sup>14</sup> See PRC Order No. 1347, October 2, 2002, PRC Order No. 1346, September 24, 2002, and PRC Order No. 1323, September 25, 2001, respectively.

<sup>15</sup> 39 U.S.C. 3624(b); see also id. at 3624(a) ("The Postal Rate Commission shall promptly consider a request made under section 3622 or 3623 of this title, \* \* \*").

<sup>16</sup> Request at 4-5; Request for Expedition at 2.

<sup>17</sup> Notices of intervention not addressing these issues will be deemed not to have requested a hearing.

<sup>18</sup> Participants may, if desired, file comments concerning these deadlines. Such comments should be provided on or before June 24, 2003.

**ACTION:** Notice of an application for an order under (a) section 6(c) of the Investment Company Act of 1940 ("Act") for an exemption from sections 18(f) and 21(b) of the Act; (b) section 12(d)(1)(f) of the Act for an exemption from sections 12(d)(1)(A) and (B) of the Act; (c) sections 6(c) and 17(b) of the Act for an exemption from sections 17(a)(1) and 17(a)(3) of the Act; and (d) section 17(d) of the Act and rule 17d-1 under the Act to permit certain joint transactions.

*Summary of Application:* Applicants request an order that would permit certain registered open-end investment companies to participate in a joint lending and borrowing facility.

*Applicants:* AB Funds Trust (the "Trust") and SBC Financial Services, Inc. ("SBC Financial").

*Filing Dates:* The application was filed on March 4, 2002, and amended on June 4, 2003.

*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 June 30, 2003, 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, NW., Washington, DC 20549-0609. Applicants, c/o Donald W. Smith, Esq., Kirkpatrick & Lockhart LLP, 1800 Massachusetts Avenue, NW., Washington, DC 20036.

**FOR FURTHER INFORMATION CONTACT:** Deepak T. Pai, Senior Counsel, or Todd Kuehl, 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 20549-0102 (telephone 202-942-8090).

#### Applicants' Representations

1. The Trust is registered under the Act as an open-end management

investment company and is organized as a Delaware business trust. The Trust is composed of thirteen series; each series has separate investment objectives, policies, and assets (the "Funds").<sup>1</sup> SBC Financial, an investment adviser registered under the Investment Advisers Act of 1940, serves as investment adviser for each Fund. An existing Commission order permits the non-money market Funds to invest uninvested cash balances in certain money market Funds that comply with rule 2a-7 under the Act ("Money Market Funds").<sup>2</sup>

2. Some Funds may lend money to banks or other entities by entering into repurchase agreements or purchasing other short-term instruments. Other Funds may borrow money from the banks for temporary purposes to satisfy redemption requests or to cover unanticipated cash shortfalls such as a trade "fail" in which cash payment for a security sold by a Fund has been delayed.

3. If the Funds were to borrow money from a bank, under their current credit arrangement the Funds would pay interest on the borrowed cash at a rate that would be significantly higher than the rate that would be earned by other (non-borrowing) Funds on repurchase agreements and other short-term instruments of the same maturity as the bank loan. Applicants state that this differential represents the profit the bank would earn for serving as a middleman between a borrower and a lender. The borrowing Funds also pay commitment and facility fees to the bank.

4. Applicants request an order that would permit the Funds to enter into master interfund lending agreements ("Interfund Lending Agreements") with each other that would permit the Funds to lend and borrow money for temporary purposes directly to and from each other through a credit facility ("Interfund Loan"). Applicants state that the proposed credit facility would reduce potential borrowing Funds' costs and enhance lending Funds' ability to earn higher rates of interest on their short-term lendings. Although the

<sup>1</sup> Applicants request that the relief also apply to any future series of the Trust and to any other registered open-end management investment company or series thereof that is advised by SBC Financial or any person controlling, controlled by, or under common control with SBC Financial ("Future Funds," included in the term "Funds"). All Funds that currently intend to rely on the order have been named as applicants, and any other existing or future Fund that subsequently may rely on the order will comply with the terms and conditions in the application.

<sup>2</sup> AB Funds Trust, ICA Rel. Nos. 24999 (June 7, 2001) (notice) and 25054 (June 29, 2001) (order).

proposed credit facility would reduce the Funds' need to borrow from banks, the Funds would be free to continue the existing lines of credit or establish new lines of credit or other borrowing arrangements with banks.

5. Applicants anticipate that the credit facility would provide borrowing Funds with significant savings when the cash position of the Funds is insufficient to meet temporary cash requirements. This situation could arise when redemptions exceed anticipated volumes and the Funds have insufficient cash on hand to satisfy such redemptions. When the Funds liquidate portfolio securities to meet redemption requests, they often do not receive payment in settlement for up to three days (or longer for certain foreign transactions). However, redemption requests normally are satisfied immediately. The credit facility would provide a source of immediate, short-term liquidity pending settlement of the sale of portfolio securities.

6. Applicants also propose using the credit facility when a sale of securities fails due to circumstances beyond a Fund's control, such as a delay in the delivery of cash to the Fund's custodian or improper delivery instructions by the broker effecting the transaction. Sales fails may present a cash shortfall if the Fund has undertaken to purchase a security using the proceeds from securities sold. Under such circumstances, the Fund could (i) fail on its intended purchase due to lack of funds from the previous sale, resulting in additional cost to the Fund, or (ii) sell a security on a same day settlement basis, earning a lower return on the investment. Use of the credit facility would give the Funds access to immediate short-term liquidity without incurring custodian overdraft or other charges.

7. While bank borrowings generally could supply needed cash to cover unanticipated redemptions and sales fails, under the proposed credit facility, a borrowing Fund would pay lower interest rates than those that would be payable under short-term loans offered by banks. In addition, Funds making short-term cash loans directly to other Funds would earn interest at a rate higher than they otherwise could obtain from investing their cash in repurchase agreements or purchasing shares of a Money Market Fund. Thus, applicants believe that the proposed credit facility would benefit both borrowing and lending Funds.

8. The interest rate charged to the Funds on any loan made pursuant to the proposed credit facility (the "Interfund Loan Rate") would be determined daily

and would be the average of (i) the "Repo Rate" and (ii) the "Bank Loan Rate," both as defined below. The Repo Rate on any day would be the highest rate available to a lending Fund from investments in overnight repurchase agreements. The Bank Loan Rate on any day would be calculated by SBC Financial according to a formula established by each Fund's board of trustees ("Board"), intended to approximate the lowest interest rate at which a bank short-term loan would be available to the Funds. The formula would be based upon a publicly available rate (e.g., Federal funds plus 25 basis points) which rate would vary so as to reflect changing bank loan rates. The initial formula and any subsequent modifications to the formula would be subject to the approval of the Fund's Board. The Board of each Fund periodically would review the continuing appropriateness of reliance on the publicly available rate used to determine the Bank Loan Rate, as well as the relationship between the Bank Loan Rate and current bank loan rates that would be available to the Funds.

9. The credit facility would be administered by staff members of SBC Financial who are not portfolio managers (the "Administrative Staff"). Under the credit facility, the portfolio managers for each participating Fund, or the staff of SBC Financial responsible for coordinating the portfolio managers and overseeing their management of each Fund, (who are not the Administrative Staff) could provide standing instructions to participate in the credit facility daily as a borrower or lender. On each business day, the Administrative Staff would collect data on the uninvested cash and borrowing requirements of all participating Funds from the Fund's custodian. Once it had determined the aggregate amount of cash available for loans and borrowing demand, the Administrative Staff would allocate loans among borrowing Funds without any further communication from portfolio managers. After the Administrative Staff has allocated cash for Interfund Loans, the Administrative Staff will invest any remaining cash in accordance with the standing instructions of portfolio managers or return remaining amounts to the Funds.

10. The Administrative Staff would allocate borrowing demand and cash available for lending among the Funds on what the Administrative Staff believes to be an equitable basis, subject to certain administrative procedures applicable to all Funds, such as (i) the time of filing requests to participate, (ii) minimum loan lot sizes, and (iii) the need to minimize the number of

transactions and associated administrative costs. To reduce transaction costs, each Interfund Loan normally would be allocated in a manner intended to minimize the number of participants necessary to complete the loan transaction.

11. SBC Financial would (a) monitor the interest rates charged and the other terms and conditions of the loans, (b) limit the borrowings and loans entered into by each Fund to ensure that they comply with the Fund's investment policies and limitations, (c) ensure equitable treatment of each Fund, and (d) make quarterly reports to the Board of each Fund concerning any transactions by the Fund under the credit facility and the interest rates charged. The method of allocation and related administrative procedures would be approved by the Board, including a majority of the Board members who are not "interested persons" of the Funds as that term is defined in section 2(a)(19) of the Act ("Independent Trustees"), to ensure that both borrowing and lending Funds participate on an equitable basis.

12. SBC Financial would administer the credit facility as part of its duties under its existing advisory contract with each Fund and would receive no additional fee as compensation for its services. SBC Financial may collect standard pricing and record keeping, bookkeeping, and accounting fees associated with repurchase and lending transactions generally, including transactions effected through the credit facility. Fees paid to SBC Financial in connection with an Interfund Loan would be no higher than those associated with comparable bank loan transactions.

13. No Fund may participate in the credit facility unless: (i) The Fund has obtained shareholder approval for its participation, if such approval is required by law; (ii) the Fund has fully disclosed all material information concerning the credit facility in its prospectus and/or SAI; and (iii) the Fund's participation in the credit facility is consistent with its investment objectives, limitations, and organizational documents.

14. In connection with the credit facility, applicants request an order under (i) section 6(c) of the Act granting relief from sections 18(f) and 21(b) of the Act; (ii) section 12(d)(1)(f) of the Act granting relief from sections 12(d)(1)(A) and (B) of the Act; (iii) sections 6(c) and 17(b) of the Act granting relief from sections 17(a)(1) and 17(a)(3) of the Act; and (iv) section 17(d) of the Act and rule 17d-1 under the Act to permit certain joint transactions.

### Applicants' Legal Analysis

1. Section 17(a)(3) of the Act generally prohibits an affiliated person, or an affiliated person of an affiliated person, from borrowing money or other property from a registered investment company. Section 21(b) of the Act generally prohibits any registered management company from lending money or other property to any person if that person controls or is under common control with that company. Section 2(a)(3) of the Act defines an "affiliated person" of another person, in part, to be any person directly or indirectly controlling, controlled by, or under common control with, the other person. Applicants state that the Funds may be under common control by virtue of having SBC Financial as their common investment adviser, and/or by reason of having common officers, directors and/or trustees.

2. Section 6(c) of the Act provides that an exemptive order may be granted where an 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. Section 17(b) of the Act authorizes the Commission to exempt a proposed transaction from section 17(a) provided that the terms of the transaction, including the consideration to be paid or received, are fair and reasonable and do not involve overreaching on the part of any person concerned, and the transaction is consistent with the policy of the investment companies involved, as recited in their registration statements, and with the general purposes of the Act. Applicants believe that the proposed arrangements satisfy these standards for the reasons discussed below.

3. Applicants submit that sections 17(a)(3) and 21(b) of the Act were intended to prevent a person with potential adverse interests to, and some influence over the investment decisions of, a registered investment company from causing or inducing the investment company to engage in lending transactions that unfairly inure to the benefit of that person and that are detrimental to the best interests of the investment company and its shareholders. Applicants assert that the proposed credit facility transactions do not raise these concerns because: (i) SBC Financial would administer the program as a disinterested fiduciary in the best interests of the Funds' shareholders; (ii) all Interfund Loans would consist only of uninvested cash reserves that a Fund otherwise would invest in short-term

repurchase agreements or other short-term instruments either directly or through a Money Market Fund; (iii) the Interfund Loans would not involve a greater risk than such other investments; (iv) a lending Fund would receive interest at a rate higher than it could obtain through such other investments; and (v) a borrowing Fund would pay interest at a rate lower than otherwise available to it under bank loan agreements and avoid the up-front commitment fees associated with committed lines of credit. Moreover, applicants believe that the other conditions that applicants propose would effectively preclude the possibility of any Fund obtaining an undue advantage over any other Fund.

4. Section 17(a)(1) of the Act generally prohibits an affiliated person of a registered investment company, or an affiliated person of an affiliated person, from selling any securities or other property to the company. Section 12(d)(1) of the Act generally makes it unlawful for a registered investment company to purchase or otherwise acquire any security issued by any other investment company, except in accordance with the limitations set forth in that section. Applicants state that the obligation of a borrowing Fund to repay an Interfund Loan may constitute a security for purposes of sections 17(a)(1) and 12(d)(1) of the Act. Section 12(d)(1)(f) 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 such exception is consistent with the public interest and the protection of investors. Applicants contend that the standards under sections 6(c), 17(b) and 12(d)(1)(f) of the Act are satisfied for all the reasons set forth above in support of their request for relief from sections 17(a)(3) and 21(b) and for the reasons discussed below.

5. Applicants state that section 12(d)(1) was intended to prevent the pyramiding of investment companies in order to avoid duplicative costs and fees attendant upon multiple layers of investment companies. Applicants submit that the proposed credit facility does not involve these abuses. Applicants note that there would be no duplicative costs or fees to the Funds or shareholders. SBC Financial would administer the credit facility under its existing advisory agreements with the Funds, and would receive no additional compensation for its services. Applicants also note that the purpose of the proposed credit facility is to provide economic benefits for all of the participating Funds and their shareholders.

6. Section 18(f)(1) of the Act prohibits open-end investment companies from issuing any senior security, except that a company is permitted to borrow from any bank, if immediately after the borrowing there is an asset coverage of at least 300 percent for all borrowings of the company. Under section 18(g) of the Act, the term "senior security" includes any bond, debenture, note, or similar obligation or instrument constituting a security and evidencing indebtedness. Applicants request exemptive relief from section 18(f)(1) to the limited extent necessary to implement the credit facility (because the lending Funds are not banks).

7. Applicants believe that granting relief under section 6(c) of the Act is appropriate because the Funds would remain subject to the requirement of section 18(f)(1) that all borrowings of the Fund, including combined credit facility and bank borrowings, have at least 300% asset coverage. Based on the conditions and safeguards described in the application, applicants also submit that to allow the Funds to borrow from other Funds pursuant to the proposed credit facility is consistent with the purposes and policies of section 18(f)(1).

8. Section 17(d) of the Act and rule 17d-1 under the Act generally prohibit an affiliated person of a registered investment company, or an affiliated person of such a person, when acting as principal, from effecting any joint transaction unless the transaction is approved by the Commission. Rule 17d-1(b) under the Act provides that in passing upon applications for exemptive relief from section 17(d), the Commission will consider whether the participation of a registered investment company in a joint enterprise on the basis proposed is consistent with the provisions, policies, and purposes of the Act and the extent to which the company's participation is on a basis different from, or less advantageous than, that of other participants.

9. Applicants submit that the purpose of section 17(d) is to avoid overreaching by, and unfair advantage to, investment company insiders. Applicants believe that the credit facility is consistent with the provisions, policies and purposes of the Act in that it offers both reduced borrowing costs and enhanced returns on loaned funds to all participating Funds and their shareholders.

Applicants note that each Fund would have an equal opportunity to borrow and lend on equal terms consistent with its investment policies and fundamental investment limitations. Applicants therefore believe that each Fund's participation in the proposed credit facility will be on terms no different

from, or less advantageous than, that of other participating Funds.

#### Applicants' Conditions

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

1. The Interfund Loan Rate to be charged to the Funds under the credit facility will be the average of the Repo Rate and the Bank Loan Rate.

2. On each business day, SBC Financial will compare the Bank Loan Rate with the Repo Rate and will make cash available for Interfund Loans only if the Interfund Loan Rate is (i) more favorable to the lending Fund than the Repo Rate and, if applicable, the yield of any Money Market Fund in which the lending Fund could otherwise invest and (ii) more favorable to the borrowing Fund than the Bank Loan Rate.

3. If a Fund has outstanding borrowings, any Interfund Loans to the Fund (i) will be at an interest rate equal to or lower than any outstanding bank loan, (ii) will be secured at least on an equal priority basis with at least an equivalent percentage of collateral to loan value as any outstanding bank loan that requires collateral, (iii) will have a maturity no longer than any outstanding bank loan (and in any event not over seven days), and (iv) will provide that, if an event of default occurs under any agreement evidencing an outstanding bank loan to the Fund, that event of default will automatically (without need for action or notice by the lending Fund) constitute an immediate event of default under the Interfund Lending Agreement entitling the lending Fund to call the Interfund Loan (and exercise all rights with respect to any collateral) and that such call will be made if the lending bank exercises its right to call its loan under its agreement with the borrowing Fund.

4. A Fund may make an unsecured borrowing through the credit facility if its outstanding borrowings from all sources immediately after the interfund borrowing total 10% or less of its total assets, provided that if the Fund has a secured loan outstanding from any other lender, including but not limited to another Fund, the Fund's interfund borrowing will be secured on at least an equal priority basis with at least an equivalent percentage of collateral to loan value as any outstanding loan that requires collateral. If a Fund's total outstanding borrowings immediately after an interfund borrowing would be greater than 10% of its total assets, the Fund may borrow through the credit facility on a secured basis only. A Fund may not borrow through the credit facility or from any other source if its

total outstanding borrowings immediately after the interfund borrowing would be more than 33 $\frac{1}{3}$ % of its total assets.

5. Before any Fund that has outstanding interfund borrowings may, through additional borrowings, cause its outstanding borrowings from all sources to exceed 10% of its total assets, the Fund must first secure each outstanding Interfund Loan by the pledge of segregated collateral with a market value at least equal to 102% of the outstanding principal value of the loan. If the total outstanding borrowings of a Fund with outstanding Interfund Loans exceed 10% of its total assets for any other reason (such as a decline in net asset value or because of shareholder redemptions), the Fund will within one business day thereafter (a) repay all its outstanding Interfund Loans, (b) reduce its outstanding indebtedness to 10% or less of its total assets, or (c) secure each outstanding Interfund Loan by the pledge of segregated collateral with market value at least equal to 102% of the outstanding principal value of the loan until the Fund's total outstanding borrowings cease to exceed 10% of its total assets, at which time the collateral called for by this condition 5 shall no longer be required. Until each Interfund Loan that is outstanding at any time that a Fund's total outstanding borrowings exceeds 10% is repaid or the Fund's total outstanding borrowings cease to exceed 10% of its total assets, the Fund will mark the value of the collateral to market each day and will pledge such additional collateral as is necessary to maintain the market value of the collateral that secures each outstanding Interfund Loan at least equal to 102% of the outstanding principal value of the loan.

6. No Fund may lend funds through the credit facility if the loan would cause its aggregate outstanding loans through the credit facility to exceed 15% of its net assets at the time of the loan.

7. A Fund's Interfund Loans to any one Fund shall not exceed 5% of the lending Fund's net assets.

8. The duration of Interfund Loans will be limited to the time required to receive payment for securities sold, but in no event more than seven days. Loans effected within seven days of each other will be treated as separate loan transactions for purposes of this condition.

9. Each Interfund Loan may be called on one business day's notice by a lending Fund and may be repaid on any day by a borrowing Fund.

10. A Fund's participation in the credit facility must be consistent with

its investment policies and limitations and organizational documents.

11. The Administrative Staff will calculate total Fund borrowing and lending demand through the credit facility, and allocate loans on an equitable basis among the Funds without the intervention of any portfolio manager of the Funds. The Administrative Staff will not solicit cash for the credit facility from any Fund or prospectively publish or disseminate loan demand data to portfolio managers. The Administrative Staff will invest any amount remaining after satisfaction of borrowing demand in accordance with the standing instructions from portfolio managers or return remaining amounts to the Funds.

12. SBC Financial will monitor the interest rates charged and the other terms and conditions of the Interfund Loans and will make a quarterly report to the Board concerning the participation of the Funds in the credit facility and the terms and other conditions of any extensions of credit under the facility.

13. The Fund's Board, including a majority of the Independent Trustees: (a) Will review no less frequently than quarterly the Fund's participation in the credit facility during the preceding quarter for compliance with the conditions of any order permitting the transactions; (b) will establish the Bank Loan Rate formula used to determine the interest rate on Interfund Loans and review no less frequently than annually the continuing appropriateness of the Bank Loan Rate formula, and (c) will review no less frequently than annually the continuing appropriateness of the Fund's participation in the credit facility.

14. In the event an Interfund Loan is not paid according to its terms and the default is not cured within two business days from its maturity or from the time the lending Fund makes a demand for payment under the provisions of the Interfund Lending Agreement, SBC Financial will promptly refer the loan for arbitration to an independent arbitrator selected by the Board of any Fund involved in the loan who will serve as arbitrator of disputes concerning Interfund Loans. The arbitrator will resolve any problem promptly, and the arbitrator's decision will be binding on both Funds.<sup>3</sup> The arbitrator will submit, at least annually, a written report to the Board of each Fund setting forth a description of the

nature of any dispute and the actions taken by the Funds to resolve the dispute.

15. Each Fund will maintain and preserve for a period of not less than six years from the end of the fiscal year in which any transaction under the credit facility occurred, the first two years in an easily accessible place, written records of all such transactions setting forth a description of the terms of the transaction, including the amount, the maturity and the rate of interest on the loan, the rate of interest available at the time on overnight repurchase agreements and bank borrowings, the yield of any Money Market Fund in which the lending Fund could otherwise invest and such other information presented to the Fund's Board in connection with the review required by conditions 12 and 13.

16. SBC Financial will prepare and submit to the Board of each Fund for review an initial report describing the operations of the credit facility and the procedures to be implemented to ensure that all Funds are treated fairly. After the commencement of operations of the credit facility, SBC Financial will report on the operations of the credit facility at the quarterly Board meetings.

In addition, for two years following the commencement of the credit facility, the independent public accountant for each Fund shall prepare an annual report that evaluates SBC Financial's assertion that it has established procedures reasonably designed to achieve compliance with the conditions of the order. The report shall be prepared in accordance with the Statements on Standards for Attestation Engagements No. 3 and it shall be filed pursuant to Item 77Q3 of Form N-SAR. In particular, the report shall address procedures designed to achieve the following objectives: (a) That the Interfund Loan Rate will be higher than the Repo Rate, and if applicable, the yield of the Money Market Funds, but lower than the Bank Loan Rate; (b) compliance with the collateral requirements as set forth in the application; (c) compliance with the percentage limitations on interfund borrowing and lending; (d) allocation of interfund borrowing and lending demand in an equitable manner and in accordance with procedures established by the Board; and, (e) that the interest rate on any Interfund Loan does not exceed the interest rate on any third-party borrowings of a borrowing Fund at the time of the Interfund Loan.

After the final report is filed, a Fund's external auditors, in connection with their Fund audit examinations, will continue to review the operation of the

<sup>3</sup> If the dispute involves Fund with different Boards, the Board of each Fund will select an independent arbitrator that is satisfactory to each Fund.

credit facility for compliance with the conditions of the application and their review will form the basis, in part, of the auditor's report on internal accounting controls in Form N-SAR.

17. No Fund will participate in the credit facility upon receipt of requisite regulatory approval unless it has fully disclosed in its SAI all material facts about its intended participation.

18. A Fund's borrowings through the credit facility, as measured on the day when the most recent loan was made, will not exceed the greater of 125% of the Fund's total net cash redemptions and 102% of sales fails for the preceding seven calendar days.

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

**Jill M. Peterson,**

*Assistant Secretary.*

[FR Doc. 03-14562 Filed 6-9-03; 8:45 am]

BILLING CODE 8010-01-P

## SECURITIES AND EXCHANGE COMMISSION

[Release No. 35-27684]

### Filings Under the Public Utility Holding Company Act of 1935, as Amended ("Act")

June 4, 2003.

Notice is hereby given that the following filing(s) has/have been made with the Commission under provisions of the Act and rules promulgated under the Act. All interested persons are referred to the application(s) and/or declaration(s) for complete statements of the proposed transaction(s) summarized below. The application(s) and/or declaration(s) and any amendment(s) is/are available for public inspection through the Commission's Branch of Public Reference.

Interested persons wishing to comment or request a hearing on the application(s) and/or declaration(s) should submit their views in writing by June 27, 2003, to the Secretary, Securities and Exchange Commission, Washington, DC 20549-0609, and serve a copy on the relevant applicant(s) and/or declarant(s) at the address(es) specified below. Proof of service (by affidavit or, in the case of an attorney at law, by certificate) should be filed with the request. Any request for hearing should identify specifically the issues of facts or law that are disputed. A person who so requests will be notified of any hearing, if ordered, and will receive a copy of any notice or order issued in the matter. After June 27, 2003 the application(s) and/or declaration(s), as

filed or as amended, may be granted and/or permitted to become effective.

#### Northeast Utilities, *et al.* (70-9755)

Northeast Utilities ("NU"), located at 174 Brush Hill Avenue, West Springfield, MA 01090-0010, a registered holding company under the Act, Northeast Utilities Service Company ("NUSCO"), its wholly-owned service company subsidiary, located at 107 Selden Street, Berlin, CT 06307, and NU's wholly-owned public-utility subsidiaries, Western Massachusetts Electric Company ("WMECO"), located at 174 Brush Hill Avenue, West Springfield, MA 01090-0010, The Connecticut Light and Power Company ("CL&P"), located at 107 Selden Street, Berlin, CT 06307, Holyoke Water Power Company ("HWP"), located at One Canal Street, Holyoke, MA 01040, Public Service Company of New Hampshire ("PSNH") and North Atlantic Energy Corporation ("NAEC"), both located at 780 North Commercial Street, Manchester, NH 03101, Northeast Nuclear Energy Company ("NNECO") and NU's wholly-owned nonutility subsidiaries, NU Enterprises, Inc. ("NUEI"), a wholly-owned nonutility holding company subsidiary of NU and its direct and indirect wholly-owned subsidiaries, Northeast Generation Company ("NGC"), Northeast Generation Services Company ("NGS"), ES Boulos Company ("Boulos"), Woods Electrical Company, Inc. ("Woods"), Woods Network Services, Inc. ("Woods Network"), Select Energy, Inc. ("Select Energy"), Select Energy New York, Inc. ("SENY"), Mode 1 Communications, Inc. ("Mode 1"); Yankee Energy System, Inc. ("YES"), a wholly-owned holding company subsidiary exempt under 3(a)(1) of the Act by rule 2 and its wholly-owned subsidiaries, Yankee Gas Services Company ("Yankee Gas"), a gas public-utility, Yankee Energy Financial Services Company ("Yankee Financial"), Yankee Energy Services Company ("YESCO") and NorConn Properties, Inc. ("NorConn"); The Rocky River Realty Company ("RR") and The Quinnehtuk Company ("Quinnehtuk"), all located at 107 Selden Street, Berlin, CT 06307; Select Energy Services, Inc., (formerly HEC Inc.) ("SESI"), located at 24 Prime Parkway, Natick, MA 01760 (collectively, the "Applicants"), have filed a post-effective amendment to their application-declaration ("Application") under sections 6(a), 7, 9(a), 10, 12(b), 32 and 33 of the Act and rules 43, 53 and 54.

#### I. Background

NU has seven public-utility company subsidiaries, CL&P, WMECO, PSNH, Yankee Gas, HWP, NAEC and NNECO. CL&P, WMECO and PSNH engage, among other things, in the sale of electric energy at retail and Yankee Gas engages in the sale of natural gas at retail. Prior to the sale by the NU system of all of its nuclear assets, NAEC and NNECO were an owner and a manager, respectively, of various nuclear generating assets. As noted above, YES is an intrastate exempt holding company subsidiary of NU. CL&P, WMECO, PSNH, YES and Yankee Gas are referred to collectively below as the "Utility Borrowers."

Applicant nonutility subsidiaries of NU are: NUSCO, the NU system service company; NGC, an exempt wholesale generator ("EWG"); NUEI, a nonutility holding company; RR, Quinnehtuk and NorConn, each a real estate company; SESI, an energy services company; Select, SENY, NGS, Woods, Boulos and YESCO, each a rule 58 company; Mode 1 and Woods Network, each an exempt telecommunications company under section 34 of the Act ("ETC"); and Yankee Financial, a financial services company. The Applicants, with the exception of NUSCO, are also referred to as "Pool Participants" and NU, YES, Mode 1, Woods Network and NGC are referred to as "Non-borrowing Pool Participants."

By order dated December 28, 2000 (the "Prior Order"), the Commission authorized NU, CL&P, WMECO, PSNH, YES and Yankee Gas, among others, to enter into short-term unsecured debt within specified limits and parameters through June 30, 2003.<sup>1</sup> In addition, the Prior Order authorized all of the Applicants, except NUSCO, to enter into short-term debt transactions with NU and to extend credit to, and acquire promissory notes from, one another through their participation in the NU Money Pool. The Prior Order authorized NUSCO to administer the NU Money Pool.

Applicants now seek the following authorizations:

1. continuation through June 30, 2006 (the "Authorization Period") for NU and the Utility Borrowers to issue short-term unsecured debt to unaffiliated third parties;

2. amendment of the NU, utility and nonutility subsidiary dollar limitations imposed by the Prior Order upon the short-term borrowings of the respective company, whether from unaffiliated third parties or the NU Money Pool;

<sup>1</sup> Holding Co. Act Release No. 27328.