shared funding on terms and conditions materially different from any exemptions granted in the order requested by Applicants, then the Funds and/or the Participants, as appropriate, shall take such steps as may be necessary to comply with Rules 6e–2 and 6e–3(T), as amended, and Rule 6e–3, as adopted, to the extent such rules are applicable.

11. No less than annually, the Participants shall submit to the Boards such reports, materials, or data as those Boards may reasonably request so the Boards may carry out fully the conditions contained in these express conditions. Such reports, materials, and data shall be submitted more frequently if deemed appropriate by the Boards. The obligations of the Participants to provide these reports, materials, and data to the Boards shall be a contractual obligation of all Participants under the agreements governing their participation in the Funds.

12. If a Plan becomes an owner of 10% or more of the assets of a Fund, such Plan will execute a fund participation agreement with that Fund. A Plan will execute an application containing an acknowledgement of this condition at the time of its initial purchase of the shares of the Fund.

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

Jonathan G. Katz,

Secretary.

[FR Doc. 96–7845 Filed 3–29–96; 8:45 am]

BILLING CODE 8010–01–M

[Rel. No. IC–21855; No. 812–9808]

Principal Aggressive Growth Fund., et al.

March 25, 1996.

AGENCY: Securities and Exchange Commission (''Commission'' or ''SEC'').

ACTION: Notice of Application for order under the Investment Company Act of 1940 (''1940 Act'').

APPLICANTS: Princor Management Corporation (''Princor Management''), Principal Aggressive Growth Fund, Inc., Principal Asset Allocation Fund, Inc., Principal Balanced Fund, Inc., Principal Bond Fund, Inc., Principal Capital Accumulation Fund, Inc., Principal Emerging Growth Fund, Inc., Principal Government Securities Fund, Inc., Principal Growth Fund, Inc., Principal High Yield Fund, Inc., Principal Money Market Fund, Inc., Principal Special Markets Funds, Inc., Principal World Fund, Inc., Princor Balanced Fund, Inc., Princor Blue Chip Fund, Inc., Princor Bond Fund, Inc., Princor Capital Accumulation Fund, Inc., Princor Cash Management Fund, Inc., Princor Emerging Growth Fund, Inc., Princor Government Securities Income Fund, Inc., Princor Growth Fund, Inc., Princor High Yield Fund, Inc., Princor Tax-Exempt Bond Fund, Inc., Princor Tax-Exempt Cash Management Fund, Inc., Princor Utilities Fund, Inc., Princor World Fund, Inc. (individually a ''Fund,'' collectively, ''Funds''), and such other registered investment companies (''Future Funds'') that in the future are advised by Princor Management or an affiliated person thereof.

RELEVANT 1940 ACT SECTIONS: Order requested under Rule 17d–1 of the 1940 Act.

SUMMARY OF APPLICATION: Exemptions requested to the extent necessary to permit the Funds and Future Funds to pool their daily cash balances into a single joint trading account (''Joint Account'') for the purpose of investing those balances in one or more short-term investment transactions, including repurchase agreements and short-term money market instruments, to the extent permitted by each Fund's or Future Funds's investment objectives, policies and restrictions.

FILING DATES: The application was filed on October 5, 1995, and amended on March 13, 1996.

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 on this application by writing to the Secretary of the SEC and serving Applicants with a copy of the request, personally or by mail. Hearing requests must be received by the SEC by 5:30 p.m. on April 19, 1996, and should be accompanied by proof of service on Applicants in the form of an affidavit or, for layers, by certificate of service. Hearing requests should state the nature of the interest, the reason for the request, and the issues contested. Persons may request notification of the date of a hearing by writing to the Secretary of the SEC.

ADDRESSES: Secretary, SEC, 450 5th Street, NW., Washington, DC 20549. Applicants, c/o Michael D. Roughton, Esq., The Principal Financial Group, Des Moines, Iowa 50392–0300.

FOR FURTHER INFORMATION CONTACT: Patrice M. Pitts, Special Counsel, Office of Insurance Products (Division of Investment Management), at (202) 942–0670.

SUPPLEMENTARY INFORMATION: The following is a summary of the application. The complete application is available for a fee from the Public Reference Branch of the SEC.

Applicants' Representations

1. Each Fund is a Maryland corporation registered under the 1940 Act as an open-end, management investment company. Future Funds may include management investment companies organized in Maryland or in other states.

2. Princor Management is registered as an investment adviser under the Investment Advisers Act of 1940 and serves as each Fund's investment adviser. Princor Management has retained sub-advisers to manage a number of Funds. Princor Management manages the short-term cash assets of each of the Funds except Principal Aggressive Growth Fund, Inc. and Principal Asset Allocation Fund, Inc. The short-term cash assets of those Funds are managed by their sub-adviser, Morgan Stanley Asset Management, Inc.[1]

3. Princor Management has discretion to purchase and sell securities for each Fund in accordance with its investment objectives policies and restrictions. Each Fund is authorized to invest in repurchase agreements, except Principal Capital Accumulation Fund., Inc., which will participate in repurchase transactions if and when it is authorized to do so. Each Fund is authorized to invest at least a portion of its uninvested cash assets in certain short-term money market instruments.

4. Bank of America National Trust and Savings Association (''Custodian'') currently is the custodian for all Funds except those Funds which will not participate in the proposed Joint Account for so long as they do not use Custodian: (a) Principal World Fund., Inc.; (b) Princor World Fund, Inc.; and (c) the International Portfolio of the Principal Special Markets Fund, Inc.

5. Applicants state that at the end of each trading day, it is expected that some or all of the Funds will have uninvested cash balances in their custodian accounts. Currently, such cash balances are used on an individual basis to invest in short-term instruments, including individual issues of commercial paper or United States Government agency paper. Applicants argue that these separate purchases result in certain inefficiencies which limit the return each of the Funds may

[1] Applicants state that Funds for which Princor Management or an affiliate does not manage short-term cash assets (including Principal Asset Allocation Fund, Inc. and Principal Aggressive Growth Fund, Inc.), are not expected to participate in the proposed joint account.

achieve. In addition, some Funds' assets are too small or become available too late to be invested effectively on an individual basis.

6. Accordingly, Applicants request an order to permit the Funds to deposit their uninvested cash balances into a single joint account (the ''Joint Account'') to be used to enter into one or more short-term investment transactions, including repurchase agreements and short-term money market instruments (''Joint Investment''). Applicants state that each Fund (''Participant'') will participate in the Joint Account and in any given Joint Investment on the same voluntary basis as every other Participant and in conformity with that Participant's fundamental investment objectives, policies and restrictions.

7. Applicants represent that the proposed Joint Account would invest in one or more repurchase agreements with a bank, a non-bank government securities dealer or major brokerage house.

8. Each of the Funds has established substantially similar systems and standards which require that repurchase agreements always be at least 100% collateralized. Repurchase agreements would be collateralized by obligations issued or guaranteed as to principal and interest by the government of the United States or by any of its agencies or instrumentalities. Applicants represent that these systems and standards presently are in compliance with the standards and guidelines set forth in Investment Company Act Release No. 13005 (Feb. 2, 1983), and with other existing positions the Commission has taken regarding repurchase transactions.[2] Applicants will monitor the Commission's published statements on repurchase agreements and, in the event that the Commission sets forth different or additional requirements, each Participant will modify its systems and standards accordingly.

9. Each Participant will invest in repurchase agreements only to the extent such investment would be consistent with its investment objectives, policies and restrictions. Accordingly, each such repurchase agreement will be collateralized to the extent required by the most restrictive collateral requirements of the Participants. Further, each Participant will not necessarily invest in every Joint Investment: a Participant's investment restrictions could preclude it from participating in a repurchase agreement with a particular counterparty or from purchasing certain short-term instruments; a Participant's cash may not be available in time to be included in a repurchase agreement negotiated on a given day, or its cash may be insufficient to invest individually; and Princor Management may seek to limit investment risk by entering into multiple investments, even if the same return is available from each counterparty or issuer. Nevertheless, Applicants submit that all similarly situated Participants would benefit from the Joint Investment.

10. The proposed Joint Account also would purchase short-term money market instruments from dealers in the open market or directly from issuers. Investments will be in various taxable and tax exempt short-term money market instruments with overnight, over-the-weekend or over-the-holiday maturities. Such instruments may include: overnight commercial paper; Treasury bills; certain U.S. government agency certificates; Euro CDs; term bank deposits; certificates of deposit and bankers' acceptances for investment by taxable Funds; certain tax-exempt floating and variable rate demand notes and bonds; and such additional short-term money market instruments with overnight, over-the-holiday or over-the-weekend maturity as may become available. Princor Management will invest Participant assets only in short-term money market instruments which constitute ''eligible securities'' within the meaning of Rule 2a–7 under the 1940 Act.

11. Applicants will monitor the Commission's published statements on short-term money market instruments and, in the event that the Commission or its staff set forth guidelines with respect to such instruments, each Participant will conform its investments to such guidelines and, as necessary, will adopt appropriate systems and standards.

12. Princor Management will have no monetary participation in the joint account, but will be responsible for: investing assets in the Joint Account; establishing accounting and control procedures; and fairly allocating investment opportunities among the Funds.

13. The assets of a Participant held in the Joint Account will not be subject to the claims of creditors of other Participants.

14. Applicants assert that the proposed Joint Account arrangement would benefit Participants for a number of reasons, including the following:

- Participants would save significant amounts in yearly transaction fees by reducing the total number of transactions, thereby increasing the rate of return on their investments.[3]
- Participants would obtain a higher investment return through the Joint Account than through individual investment accounts. Because the Joint Account would invest larger cash amounts than the individual Funds, it could negotiate a higher rate of return than could be negotiated by each individual Fund.
- The Joint Account should result in an increase in the number of dealers willing to enter into Joint Investments with some of the Participants whose uninvested cash balances otherwise would be insufficient or be made available too late in the day to invest in such short-term instruments. Flexibility in the management of the Participants' cash balances thus would be enhanced, thereby reducing the possibility that any Participant will have a cash balance uninvested overnight.
- By reducing the number of trade tickets which would have to be written, the proposed Joint Account arrangement will simplify transactions and thus reduce the opportunity for errors.
- The use of a single Joint Account will result in savings of the costs of establishing and maintaining several different accounts. Applicants represent that the Joint Account's recordkeeping system will employ certain recordkeeping and accounting control mechanisms and that it will be substantively identical to that which would be used if several joint accounts were set up, with each investing only in specific types of instruments.

Applicants' Legal Analysis

1. Rule 17d–1 under the 1940 Act provides that an ''affiliated person'' of a registered investment company, acting as principal, shall not participate in, or effect any transaction in connection with, any joint enterprise or other joint arrangement in which the registered investment company is a participant unless the Commission has issued an order approving such arrangement.

2. Section 2(a)(3) of the 1940 Act defines the term ''affiliated person'' of

[2] Applicants state that these systems and standards presently are in compliance with the Division of Investment Management's interpretations set forth in letters to the Investment Company Institute, dated January 25, May 7 and June 19, 1985.

[3] Currently, the Funds pay the Custodian a processing fee of $8.50 to $20 per transaction (based on different negotiated fee schedules under their respective agreements), regardless of the size of a transaction. Applicants represent that, during the twelve months ended December 31, 1994, aggregate fees and other transaction costs for the Funds approximated $97,000. Applicants assert that, if the proposed Joint Account had been in effect during this same period, such aggregate fees and costs would have approximated $64,000, for an annual savings of approximately $33,000.

another person to include ''any person under common control with such other person'' and, ''if such other person is an investment company, any investment adviser thereof.'' Applicants submit that Princor Management is an affiliated person of each of the Funds, and the Funds could be deemed to be affiliated persons of one another, within the meaning of Section 2(a)(3) of the 1940 Act.

3. Applicants further submit that each Fund—by participating in the proposed Joint Account arrangement—and Princor Management—by managing the proposed Joint Account—may be deemed to be joint participants in a transaction within the meaning of Section 17(d). In addition, the proposed Joint Account could be deemed a joint arrangement or joint enterprise within the meaning of Rule 17d–1 under the 1940 Act.

4. In passing applications under Rule 17d–1, the Commission may consider the extent to which an entity's participation in a joint arrangement or enterprise is on a ''basis different from or less advantageous than that of other participants.'' Each Participant's decision to invest in the Joint Account would be solely at its option. Participants will not be required either to invest a minimum amount or to maintain a minimum balance in the Joint Account. Applicants assert that because each Participant will hold a *pro rata* interest in, and receive a *pro rata* share of, the income derived from each repurchase agreement and short-term money market instrument held in the Joint Account in which such Participant has an interest, no Participant will receive fewer relative benefits from the proposed Joint Account arrangement than any other Participant.

5. Applicants represent that the board of directors of each Fund (each a ''Board'') has considered the proposed Joint Account arrangement and, based on information supplied by Princor Management, has determined that each Participant will benefit from the Joint Account arrangement. Applicants further represent that each Board has determined that the proposed method of operation for the Joint Account will not result in any conflicts of interest among the Participants. Applicants also represent that each Board also has determined that: There appears to be no basis upon which to predicate greater benefit to one Participant than to another; the operation of the Joint Account will be free of any inherent bias in favor of any one Participant over another; and the anticipated benefits flowing to each Participant should fall within an acceptable range of fairness.

6. Applicants represent that the Boards believe that the primary beneficiaries of this Joint Account arrangement will be the Participants and their shareholders, as the Joint Account represents a more efficient means of administering the Funds' daily investment transactions.

7. Applicants represent that the Boards have determined that their conclusions with respect to participation in the Joint Account by the Funds would not be altered by participation in the Joint Account by Future Funds. The Boards further have determined that it would be desirable to permit Future Funds to participate in the Joint Account without the necessity of applying for additional Commission authorization. Applicants represent that Future Funds will be permitted to participate in the Joint Account only on the same terms and conditions as the Funds have set forth herein.

Applicants' Conditions

Applicants agree that any order issued by the Commission in connection with this application will be subject to the following conditions.

1. A separate Joint Account will be established with the Custodian. Each Fund will be able to deposit its uninvested net cash balances into the Joint Account on a daily basis.

2. Cash in the Joint Account will be invested by Princor Management in repurchase agreements and/or short-term money market instruments with overnight, over-the-weekend or over-the-holiday maturities. Using the proposed Joint Account or making separate investments on behalf of individual Funds, Princor Management is obligated to consider the same factors, including: (a) Each Participant's investment objectives, policies and restrictions and repurchase agreement collateral requirements; (b) its obligation to fairly allocate investment opportunities among the Participants; (c) the need for diversification; and (d) the time when cash becomes available for investment on a given day.

3. A Fund's participation in a Joint Investment will be wholly voluntary and only to the extent permitted by its investment objectives, policies and restrictions. To the extent that a Participant's cash balance is applied to a particular Joint Investment, the Participant will own a proportionate share of such Joint Investment and the income earned or accrued thereon, based upon the percentage of such Joint Investment purchased with such Participant's cash balance.

4. Princor Management and the Custodian will maintain records documenting for any given day each Participant's aggregate investment in the Joint Account and its *pro rata* share of each Joint Investment. The records will be maintained in conformity with Section 31 of the 1940 Act and the rules thereunder.

5. Each repurchase agreement entered into through a Joint Investment will be collateralized by obligations issued or guaranteed as to principal and interest by the government of the United States or by any of its agencies or instrumentalities to the extent required by the most restrictive collateral requirements of the Participants, in no event less than 100 percent. The securities subject to the repurchase agreement will be transferred to the Joint Account and they will not be held by the Participant's repurchase counterparty or by an affiliated person of that counterparty. The Joint Account will invest only in short-term money market instruments which constitute ''eligible securities'' within the meaning of Rule 2a–7 under the 1940 Act.

6. All investments held by the Joint Account will be valued on an amortized cost basis.

7. Each Participant valuing its net assets in reliance upon Rule 2a–7 under the 1940 Act will use the average maturity of the instrument(s) in the Joint Account in which such Participant has an interest for the purpose of computing that Participant's average portfolio maturity with respect to the portion of its assets held in the Joint Account for that day.

8. To ensure that there will be no opportunity for one Participant to use any part of the Joint Account credited to another Participant, no Participant will be allowed to create a negative balance in the Joint Account. However, a Participant will be permitted to draw down its entire balance at any time. No Fund will be obligated either to invest in the Joint Account or to maintain any minimum balance in the Joint Account.

9. Princor Management will manage the Joint Account as part of its duties under its existing or any future investment advisory contracts with the Funds. Princor Management will not collect an additional fee from any Fund for managing the Joint Account.

10. The administration of the Joint Account will be within the fidelity bond coverage required by Section 17(g) of the 1940 Act and Rule 17g–1 thereunder.

11. The Board members of each Fund will evaluate the Joint Account arrangements annually. Each Board will vote to continue a Fund's participation in the Joint Account only if it determines that there is a reasonable

likelihood that the Fund and its shareholders will benefit from the Joint Account arrangement, and no Participant will be treated on a less advantageous basis than another.

12. The Future Funds will be permitted to participate in the Joint Account only on the same terms and conditions as the Funds have set forth herein.

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

Jonathan G. Katz,

Secretary.

[FR Doc. 96–7799 Filed 3–29–96; 8:45 am]

BILLING CODE 8010–01–M

[Release No. 34–37024; File No. 600–25]

Self-Regulatory Organizations; Participants Trust Company; Order Granting Approval of Application for Extension of Temporary Registration as a Clearing Agency

March 26, 1996.

On February 22, 1996, the Participants Trust Company (''PTC'') filed with the Securities and Exchange Commission (''Commission''), pursuant to Section 19(a) of the Securities Exchange Act of 1934 (''Act''),[1] a request for extension of its temporary registration as a clearing agency under Section 17A of the Act for a period of one year.[2] Notice of PTC's request for extension of temporary registration appeared in the Federal Register on March 13, 1996.[3] This order approves PTC's request for extension of its temporary registration as a clearing agency through March 31, 1997.

On March 28, 1989, the Commission granted PTC's application for registration as a clearing agency pursuant to Sections 17A(b)(2) and 19(a) of the Act[4] on a temporary basis for a period of one year.[5] Subsequently, the Commission issued orders that extended PTC's temporary registration as a clearing agency.[6] PTC's current temporary registration extends through March 31, 1996.

As discussed in detail in the initial order granting PTC's temporary registration,[7] one of the primary reasons for PTC's registration was to develop depository facilities for mortgage-backed securities, particularly securities guaranteed by the Government National Mortgage Association (''GNMA''). PTC services include certificate safekeeping, book-entry deliveries, and other services related to the immobilization of securities certificates.

PTC continues to make significant progress in the areas of financial performance, regulatory commitments, and operational capabilities. For example, the original face value of securities on deposit at PTC as of December 31, 1995, totalled $1.1 trillion, which was an increase of approximately $1.26 billion over the amount on deposit as of December 31, 1994. Total pools on deposit, which were held at PTC in a total of 1.1 million participant positions, rose from 279,000 as of December 31, 1994, to more than 302,000 as of December 31, 1995.[8] In addition, PTC declared a dividend of $.98 per share to stockholders of record as of the close of business on December 21, 1995.[9] Four new participants and four new shareholders also were added in 1995 bringing the total participation in PTC to twenty-nine banks, twenty-three broker/dealers, and two government-sponsored enterprises.

In support of the securities industry's effort to move security payments to same-day funds, PTC also saw continued improvement in its GNMA I principal and interest (''P&I'') collection and disbursement efforts. For example, PTC modified its program for the intraday distribution of GNMA I P&I by increasing the maximum amount of collected and available GNMA I P&I that may be distributed intraday from fifty percent to sixty-five percent.[10] An overall reduction in mortgage prepayment trends throughout 1995 had a noticeable impact on the volume of P&I disbursed, which was $86 billion in 1995 compared to $116 billion in 1994.

PTC also continued its efforts over the past year to implement the operational and procedural changes that PTC committed to make in an agreement with the Commission and with the Federal Reserve Bank of New York in connection with PTC's original temporary registration.[11] For example, PTC implemented improvements to its SPEED securities processing system on January 8, 1996.[12] These improvements cause transaction credits and debits to be posted simultaneously on the deliver and receive sides of a transaction. PTC believes that this change to its processing system satisfies Commitment No. 3 of PTC's nine commitments. Of PTC's nine commitments, only Commitment No. 6 remains to be fulfilled by PTC.[13]

The Commission believes that PTC has functioned effectively as a registered clearing agency for the past seven years and has demonstrated that it has the operational and procedural capacities to comply with the statutory obligations set forth under Section 17A(b)(3) of the Act,[14] which sets forth the prerequisites for registration as a clearing agency. Therefore, the Commission is extending PTC's temporary registration as a clearing agency through March 31, 1997. Comments received during PTC's temporary registration will be considered in determining whether PTC should receive permanent registration as a clearing agency under Section 17A(b) of the Act.[15]

It is therefore ordered, that PTC's registration as a clearing agency be and hereby is approved on a temporary basis through March 31, 1997.

For the Commission by the Division of Market Regulation, pursuant to delegated authority.[16]

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[1] 15 U.S.C. § 78s(a) (1988).

[2] Letter from John J. Sceppa, President and Chief Executive Officer, PTC, to Jerry Carpenter, Assistant Director, Division of Market Regulation, Commission (February 21, 1996).

[3] Securities Exchange Act Release No. 36938 (March 7, 1996), 61 FR 10409.

[4] 15 U.S.C. §§ 78q–1(b)(2) and 78s(a) (1988).

[5] Securities Exchange Act Release No. 26671 (March 28, 1989), 54 FR 13266.

[6] Securities Exchange Act Release Nos. 27858 (March 28, 1990), 55 FR 12614; 29024 (March 28, 1991), 56 FR 13848; 30537 (April 9, 1992), 57 FR 12351; 32040 (March 23, 1993), 58 FR 16902; 33734 (March 8, 1994), 59 FR 11815; and 35482 (March 13, 1995), 60 FR 14806.

[7] *Supra* note 5.

[8] *Supra* note 2.

[9] Securities Exchange Act Release No. 36790 (January 30, 1996), 61 FR 4507.

[10] Securities Exchange Act Release No. 35574 (April 16, 1995), 60 FR 18866.

[11] The nine operational and procedural changes PTC committed to make included:

(1) eliminating trade reversals from PTC's procedures to cover a participant default;

(2) phasing out the aggregate excess net debit limitation for extensions under the net debit monitoring level procedures;

(3) allowing participants to retrieve securities in the abeyance account and not allowing participants to reverse transfers because customers may not be able to fulfill financial obligations to the participants;

(4) eliminating the deliverer's security interest and replacing it with a substitute;

(5) reexamining PTC's account structure rules to make them consistent with PTC's lien procedures;

(6) making principal and interest advances, now mandatory, optional;

(7) expanding and diversifying PTC's lines of credit;

(8) assuring operational integrity by developing and constructing a back-up facility; and

(9) reviewing PTC rules and procedures for consistency with current operations.

[12] Securities Exchange Act Release No. 36711 (January 11, 1996), 61 FR 1809.

[13] *Supra note 11.*

[14] 15 U.S.C. § 78q–1(b)(3) (1988).

[15] 15 U.S.C. § 78q–1(b) (1988).

[16] 17 CFR 200.30–3(a)(50) (1995).