

longer Contract Owner money invested in it. United Life has no other choice but to effect a Substitution.

3. The Substitution will not result in the type of costly forced redemption that Section 26(c) was intended to guard against and is consistent with the protection of investors and the purposes fairly intended by the 1940 Act for the following reasons: (a) The Substitution is of shares of the Limited Maturity Bond Portfolio whose objectives, policies, and restrictions are similar to the objectives, policies, and restrictions of the Fixed Income Portfolio so as to continue fulfilling the Contract Owners' objectives and risk expectations; (b) the total annual expenses of the Limited Maturity Bond Portfolio as a percentage of net assets are lower than the Fixed Income Portfolio; (c) if a Contract Owner so requests, during the Free Transfer Period, assets will be reallocated for investment in a Contract Owner-selected sub-account; (d) the Substitution will, in all cases, be effected at net asset value of the respective shares, without the imposition of any transfer or similar charge; (e) United Life has undertaken to assume the expenses and transaction costs, including among others, legal and accounting fees and any brokerage expenses, relating to the Substitutions in a manner that attributes transaction costs to United Life; (f) the Substitution will in no way alter the insurance benefits to Contract Owners or the contractual obligations of United Life; (g) the Substitution will in no way alter the tax benefits to Contract Owners; (h) Contract Owners may choose simply to withdraw amounts credited to them following the Substitution under the conditions that currently exist, subject to any applicable contingent deferred sales charge; and (i) the Substitution is expected to confer certain economic benefits to Contract Owners by virtue of the enhanced asset size and lower total expenses, as described below.

4. United Life, on the basis of the following facts and circumstances, has determined that it is in the best interests of Contract Owners to substitute shares of the Limited Maturity Bond Portfolio for shares of the Fixed Income Portfolio:

(a) The investment objectives and programs of the Limited Maturity Bond Portfolio and the Fixed Income Portfolio are sufficiently similar so as to continue fulfilling the Contract Owner's objectives and risk expectations.

(b) The total expenses of the Limited Maturity Bond Portfolio are lower than the total expenses of the Fixed Income Portfolio.

(c) On December 31, 2000, the Fixed Income Portfolio had approximately

\$1,572,000 in net assets. On December 31, 2000, the Limited Maturity Bond Portfolio had approximately \$214,400,000 in net assets.

(d) The larger size of the Limited Maturity Bond Portfolio lends itself to greater flexibility in purchasing attractive investments and consequently the Limited Maturity Bond Portfolio can more readily react to changes in market conditions. Contract Owners would benefit in the long run through the more effective management of a larger portfolio such as the Limited Maturity Bond Portfolio.

5. United Life does not currently receive (and will not receive for 3 years from the date of the Commission order requested herein) any direct or indirect benefit from the Limited Maturity Bond Portfolio of Neuberger Berman Advisers Management Trust or Neuberger Berman Management Inc. (and their affiliates including Neuberger Berman LLC and its affiliates) that would exceed the amount that United Life had received from the Fixed Income Portfolio of the Credit Suisse Warburg Pincus Trust II or Credit Suisse Asset Management LLC (or their affiliates), including without limitations, 12b-1, shareholder service, administrative or other service fees, revenue sharing or other arrangements, either with respect to specific reference to the Limited Maturity Bond Portfolio or as part of an overall business arrangement.

Conclusion

Applicants submit, for all of the reasons stated herein, that the requested Order under Section 26(c) of the 1940 Act meets the standards of that section.

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

Margaret H. McFarland,
Deputy Secretary.

[FR Doc. 01-26754 Filed 10-23-01; 8:45 am]
BILLING CODE 8010-01-M

SECURITIES AND EXCHANGE COMMISSION

Sunshine Act Meeting

FEDERAL REGISTER CITATION OF PREVIOUS ANNOUNCEMENT: [66 FR 53272, October 19, 2001].

STATUS: Open meeting.

PLACE: 450 Fifth Street, NW, Washington, DC.

DATE AND TIME OF PREVIOUSLY ANNOUNCED MEETING: Thursday, October 25, 2001 at 2:30 p.m.

CHANGE IN THE MEETING: Additional item.

The following item has been added to the open meeting scheduled for Thursday, October 25, 2001:

The Commission will consider extending the comment periods for the joint proposed rules relating to Customer Margin for Security Futures (File No. S7-16-01) and Applicability of CFTC and SEC Customer Protection, Recordkeeping, Reporting, and Bankruptcy Rules and the Securities Investor Protection Act of 1970 to Accounts Holding Security Futures Products (File No. S7-17-01).

For further information, contact Jennifer Colihan at 202 942-0735.

Commissioner Unger, as duty officer, determined that Commission business required the above change and that no earlier notice thereof was possible.

At times, changes in Commission priorities require alterations in the scheduling of meeting items. For further information and to ascertain what, if any, matters have been added, deleted or postponed, please contact: The Office of the Secretary at (202) 942-7070.

Dated: October 22, 2001.

Jonathan G. Katz,
Secretary.

[FR Doc. 01-26962 Filed 10-22-01; 4:01 pm]
BILLING CODE 8010-01-M

SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-44946; File No. SR-GSCC-2001-01]

Self-Regulatory Organizations; Government Securities Clearing Corporation; Order Granting Approval of a Proposed Rule Change Relating to the Redesign of Comparison Rules

October 17, 2001.

On January 16, 2001, the Government Securities Clearing Corporation ("GSCC") filed with the Securities and Exchange Commission ("Commission") and on April 11 and August 17, 2001,¹ amended the proposed rule change (File No. SR-GSCC-2001-01) pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act").² Notice of the proposal was published in the **Federal Register** on May 16, 2001.³ No comment letters were received. For the reasons discussed below, the

¹ The August 17, 2001, amendment withdrew a portion of the proposed rule change which was reflected by GSCC in a subsequent proposed rule change. Securities Exchange Act Release No. 44907 (October 4, 2001), 66 FR 51988 (October 11, 2001) [File No. SR-GSCC-2001-09]. As such, republication of notice was not required.

² 15 U.S.C. 78s(b)(1).

³ Securities Exchange Act Release No. 44282 (May 8, 2001), 66 FR 27190.

Commission is granting approval for the proposed rule change.

I. Description

The purpose of the filing is to redesign GSCC's comparison rules in order to implement real-time interactive services. In a white paper distributed to all members in early 1997, GSCC outlined its long-range plans to provide straight-through processing and a point-of-trade guarantee to its members primarily through the implementation of real-time interactive services. Last years, GSCC announced that it would implement its interactive services in three phases. Phase 1 will introduce interactive messaging to support real-time comparison; phase 2 will introduce interactive messaging to support netting; and phase 3 will introduce support of same-day settlement of repo start legs.

During the latter part of 2000, GSCC implemented the necessary technical changes to its automated system to implement the first phase of its interactive processing service (*i.e.*, making available the interactive messaging facility to support real-time comparison). Up until this point, GSCC's processing experience has been essentially batch. Members now have the ready ability, from a technological perspective, to submit trade input on an automated basis to GSCC intraday as trades are executed. While GSCC will continue to support its existing batch input and output facilities initially, it plans to eventually stop supporting these older formats. Members will be encouraged to make the shift from batch to interactive processing as soon as it is feasible for them to do so. At some point in time, once a sufficient nucleus of members has begun processing interactively, GSCC will implement disincentives to discourage members from continuing to submit and receive data via the old batch formats.⁴

Concurrent with this development, GSCC has been redesigning its matching and comparison procedures to better meet the needs of its members during their transition from batch to an interactive environment. This redesign is the subject of this proposed rule change. GSCC's central goal in this redesign is to provide straight-through processing by allowing for the easy identification and resolution of trades intraday to achieve 100 percent comparison. GSCC believes that interactive messaging and enhanced real-time matching processing are

critical steps in helping to reduce risk by ensuring that more transactions are compared earlier in the day and then eventually also netted and guaranteed through GSCC so that intraday credit exposure to counterparties is minimized.

In the current environment, with the exception being certain locked-in trades, most trades such as members' Federal Reserve auction purchases are compared within the GSCC system as a result of bilateral comparison. To facilitate real-time comparison while still providing members with the flexibility to transition from batch to interactive submission according to a timeframe suitable to their own needs and resources, GSCC is proposing to: (i) Amend its rules to provide for three types of trade comparison: (a) bilateral comparison, (b) demand comparison, and (c) locked-in comparison; and (ii) make certain other related rules changes as further discussed below.

Bilateral Comparison

Bilateral comparison, which is the traditional method of comparison, will continue to require that the two trade counterparties (or if one or both of the counterparties are not GSCC members, the members acting on their behalf) submit trades to GSCC in which certain mandatory details either match or fall within predefined parameters to effect a match. Bilateral comparison will remain the primary comparison type for dealer-to-dealer trades and will be available in both real-time and batch. Members may elect to submit interactively regardless of whether their trade counterparties do so.

A new feature of bilateral comparison will be the ability for members to "DK" any trades they "do not know". The proposed rule change introduces the term "DK Notice" to GSCC's rules. If a member determines that a request for comparison is invalid or incorrect, it can send a DK notice to GSCC which will be forwarded to the original submitter. The receipt of the DK notice by GSCC will prevent the trade from comparing on GSCC's system. If a member that sent a DK notice determines that it did so erroneously, the member will be able to remove the DK and enable comparison to occur if it does so within the timeframes prescribed by GSCC for such purpose.

Demand Comparison

Demand comparison is a new type of comparison that has been designed to provide members with flexibility and control over the comparison process for trades executive via intermediaries. Demand comparison strikes a balance

between bilateral comparison, where the member is required to submit trade data in order for its trade to compare, and locked-in comparison (discussed in more detail below), where the trade has essentially been operationally compared before being submitted to GSCC.

Demand trades will be submitted by approved intermediaries (*e.g.*, brokers) that will be called "demand trade sources." Demand trade sources must be able to communicate with GSCC interactively. In order for GSCC to accept trades from a demand trade source on a member's behalf, the member must provide GSCC with prior written authorization. The intermediary must also be approved and authorized by GSCC to be a demand trade source.

GSCC will deem a demand trade compared upon receipt of the trade data from the demand trade source. However, if a member does not know a trade submitted on its behalf by a demand trade source, the member will be able to submit a DK notice to GSCC. The receipt of a DK notice by GSCC will cause the demand trade to no longer be eligible for comparison. If a member that sent a DK notice determines that it did so erroneously, the member will be able to remove the DK and enable comparison to occur if it does so within the timeframes prescribed by GSCC for such purpose.

GSCC is making incidental rules changes to Rules 11, 16, 18, 21, 22, and 39 to take into account the introduction of demand trades.

Locked-In Comparison

Locked-in comparison will be similar to that currently provided for in GSCC's rules. Locked-in comparison presumes that a member would elect not to submit corresponding trade details to affect a match because the trade has been precompared by the trade source. An example of a trade appropriate for locked-in comparison would be one executed through a "pure" electronic trading system that is terminal-driven and that no discretion over trade details is exercised once the trade is submitted.

In order to participate, the locked-in trade source must be authorized by both the members of whose behalf it will be submitting trade data and by GSCC. With the exception of some current locked-in sources, such as the Federal Reserve banks, locked-in trade sources will be expected to communicate interactively with GSCC.

Locked-in trades will be deemed compared upon receipt by GSCC. The DK feature will also be available for locked-in trades. However, unlike the case of demand trades, a DK of a locked-in trade will be treated by GSCC as a

⁴ GSCC will file with the Commission pursuant to Section 19 of the Act proposed rule changes with respect to any fees intended as disincentives to discourage members from using batch formats.

request for cancellation to the locked-in trade source. In order to actually cancel the trade on GSCC's system, the locked-in trade source will have to respond to the request by submitting a trade cancellation. The locked-in trade source can modify the trade in response to a DK notice.

Submission Methods

In order to set forth the concept of a member submitting interactively versus submitting in one of the batch modes, GSCC is adding three new definitions to its rules: "interactive submission method," "multiple batch submission method," and "single batch submission method." The proposed rules changes make clear which submission type is required for each type of comparison. In addition, GSCC is adding a definition of "real time" in its rules to be used to indicate when a particular process (e.g., the enhanced comparison processes set forth in Rule 10) will be performed by GSCC in real time as opposed to at end of day.

Submission of Full-Sized Trades

GSCC is permitting members to submit full-sized trades. Currently, non-GCF Repo trades are submitted in \$50 million increments. Because members' internal systems tend to reflect the full size of each trade (as opposed to the pieces that they submit to GSCC), the submission of full-sized trades will permit members to better reconcile their trading activity. GSCC recognizes that not all members will be able to begin processing full-sized trades immediately. Therefore, GSCC will not require that members exercise this option.

Timing of Key Processes of GSCC

GSCC's key processes are comparison, netting, novation, and guaranty of settlement. GSCC is changing the timing of the comparison and guaranty of settlement processes.

With respect to the timing of comparison, GSCC's rules currently provide that it occurs when GSCC makes its comparison output available to members. GSCC is amending its rules to state that, while comparison will continue to occur upon issuance of the comparison message by GSCC with respect to trades submitted for bilateral comparison, comparison will be deemed to occur upon receipt of trade data from the authorized trade source with respect to trades submitted for demand comparison and locked-in comparison.

With respect to the timing of netting, GSCC's rules currently provide that netting occurs upon issuance of the report of or output on net settlement

positions by GSCC. This will continue to be the case. Similarly, GSCC's rules currently provide that novation, the process by which GSCC becomes the substituted counterparty to trades submitted to it, occurs upon the issuance of the report of or output on net settlement positions by GSCC. This will also remain unchanged.

With respect to the timing of GSCC's guaranty of settlement, GSCC's current rules provide that GSCC guarantees the settlement of a netting-eligible trade upon issuance of the report/output that sets forth the member's net settlement position.⁵ The proposed rule changes will move the timing of GSCC's guaranty to the point of comparison. This means that a netting-eligible trade submitted for bilateral comparison will be guaranteed upon issuance of the comparison message by GSCC, and a netting-eligible trade submitted for demand or locked-in comparison will be guaranteed upon receipt of trade, data from the authorized trade source. If a trade is DKed (and with respect to a locked-in trade cancelled by the locked-in trade source), GSCC's guaranty will no longer be in effect with respect to that trade. As a transition measure that recognizes that members may need some time to switch to interactive processing, GSCC is proposing that it maintain its policy of guaranteeing blind brokered repo trades entered into in good faith upon trade execution through the year 2001.

General Responsibilities of Members

GSCC's comparison rule contains a provision that requires members to review documents that they receive from GSCC. GSCC desires to expand the provision to cover any type of communication provided to members by GSCC and to require members to inform GSCC promptly, but in no event later than ten calendar days upon receipt of the communication, if there is any error, omission, or other problem with respect to the communication. GSCC's netting rule contains a similar provision with respect to which GSCC is adding the ten-day requirement. GSCC believes that the ten-day time frame will provide members with a sufficient amount of time within which to detect problems in a communication from GSCC.

⁵ The exception to this rule is GSCC's policy of guaranteeing blind brokered repos entered into in good faith upon trade execution. GSCC adopted this policy in order to comfort dealers that have intraday credit exposure to brokers through whom they execute such transactions. The policy only applies to such transactions that are entered into in good faith, which means, for example, that GSCC would not honor it in the event that a dealer entered into a transaction knowing that the counterparty was insolvent.

Amendments to Schedules

GSCC is making incidental changes to certain of its Schedules for clarification purposes and to bring them into conformity with the proposed rules changes discussed above. Specifically, GSCC is expanding the output time slot in its "Schedule of Timeframes" from "midnight to 2:00 a.m." to "8:00 p.m. to 2:00 a.m." This change reflects the fact that GSCC may be able to provide certain output earlier given the implementation of real-time trade matching and also the recent shift to the 8:00 p.m. trade submission deadline.

GSCC is also adding language to make clear that the 10:30 a.m. deadline for satisfaction of a clearing fund deficiency call is approximate because members have two hours after a call is made to fulfill their obligation.

GSCC is also updating its "Schedule of Required Match Data," "Schedule of Required Data Submission Items," and its "Schedule of Required Data Submission Items for a Right of Substitution" to make clear that the only locked-in trades to which those schedules do not apply are Treasury/Federal Reserve auction purchases and GCF repo transactions.

GSCC is also amending its fee structure to set fees for demand trades which will be the same as those currently imposed on locked-in trades.

II. Discussion

Section 17A(b)(3)(F)⁶ of the Act requires that the rules of a clearing agency be designed to promote the prompt and accurate clearance and settlement of securities transactions and to assure the safeguarding of securities and funds which are in the custody or control of GSCC. The rule change, which allows GSCC to implement interactive messaging to support real-time comparison, will enable GSCC to reduce risk by enabling firms to know earlier of any trades which do not compare and to have more time to resolve the problems. This should reduce the number of failed trades at GSCC. The rule change also provides for more efficient procedures in the comparison process thereby facilitating prompt and accurate clearance and settlement of securities at GSCC. Therefore, the Commission finds that the rule change is consistent with Section 17A and the rules and regulations thereunder.

III. Conclusion

On the basis of the foregoing, the Commission finds that the proposed rule change is consistent with the

⁶ 15 U.S.C. 78q-1(b)(3)(F).

requirements of the Act and in particular Section 17A of the Act and the rules and regulations thereunder.

It is Therefore Ordered, pursuant to Section 19(b)(2) of the Act, that the proposed rule change (File No. SR-GSCC-2001-01) be and hereby is approved.

For the Commission by the Division of Market Regulation, pursuant to delegated authority.⁷

Margaret H. McFarland,

Deputy Secretary.

[FR Doc. 01-26727 Filed 10-23-01; 8:45 am]

BILLING CODE 8010-01-M

SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-44955; File No. SR-ISE-2001-18]

Self-Regulatory Organizations; Order Granting Approval of Proposed Rule Change, and Notice of Filing and Order Granting Accelerated Approval of Amendment No. 4 to Proposed Rule Change, by the International Securities Exchange LLC, Relating to Priority Principles on Complex Orders

October 18, 2001.

I. Introduction

On May 25, 2001, the International Securities Exchange LLC ("ISE" or "Exchange") filed with the Securities and Exchange Commission ("Commission" or "SEC"), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act"),¹ and Rule 19b-4 thereunder,² a proposed rule change to establish priority and order handling principles for complex orders. Notice of the proposed rule change and Amendment Nos. 1, 2 and 3 thereto was published for comment in the **Federal Register** on August 13, 2001.³ No comments were received.

On October 16, 2001, the ISE filed Amendment No. 4 to the proposed rule change. In Amendment No. 4, the Exchange added text to proposed new Rule 722(b)(5) to provide that the right to facilitate or cross up to 40% of a customer's complex order without exposing the order for 30 seconds, as is otherwise required by ISE rules, would be limited to those complex orders where at least one leg of the order was for at least 50 contracts.⁴

This order approves the proposed rule change as amended, accelerates approval of Amendment No. 4, and solicits comment from interested persons on that amendment.

II. Discussion

The Commission finds that the proposed rule change is consistent with the requirements of the Act and the rules and regulations thereunder applicable to a national securities exchange.⁵ In particular, the Commission believes that the proposal is consistent with Section 6(b)(5) of the Act,⁶ which requires, among other things, that the rules of an exchange be designed to promote just and equitable principles of trade, to remove impediments to and perfect the mechanism of a free and open market, and to protect investors and the public interest.

The Commission notes that the rules of other options exchanges allow similar procedures for the execution of complex orders.⁷ In general, such rules serve to reduce the risk of incomplete or inadequate executions, while increasing efficiency and competitive pricing. At the same time, they protect the priority of orders of public customers by permitting the legs of complex orders to trade ahead of bids and offers established in the marketplace only under restrictions such as those proposed here. Although the ISE's proposal would apply to more types of orders than the rules of other options exchanges, such as box spread and collar orders, the Commission believes that these types of orders are of a similar degree of complexity to those approved in the past for special priority rules, and it is therefore appropriate to accord them the same treatment.

As originally proposed, the new rule would have allowed a firm to execute immediately up to 40% of a complex order, either as principal ("facilitation") or against an order it has solicited ("crossing"), as opposed to first exposing the order to the market for 30 seconds, as is otherwise required by paragraphs (d) and (e) of ISE Rule 717. In Amendment No. 4 to the proposed rule change, the ISE limited this allowance to orders where at least one

leg of the transaction was for at least 50 contracts.⁸

The Commission finds that Amendment No. 4 is consistent with the Act, and finds good cause to approve it prior to the thirtieth day after the date of publication of notice of its filing in the **Federal Register**. Amendment No. 4 conforms the proposed rules to existing ISE Rules 716 and 717, which permit similar execution procedures for other orders, provided that they are for 50 contracts or more. The Commission believes that limiting such facilitation or crossing rights to orders of this size should help to adequately protect competitive pricing for smaller orders. Finally, the Commission notes that a broker who accepts a customer's order has a fiduciary duty toward that order.

Therefore, the Commission finds good cause to approve Amendment No. 4 to the proposed rule change on an accelerated basis.

III. Solicitation of Comments

Interested persons are invited to submit written data, views and arguments concerning Amendment No. 4, including whether Amendment No. 4 is consistent with the Act. Persons making written submissions should file six copies thereof with the Secretary, Securities and Exchange Commission, 450 Fifth Street, NW., Washington, DC 20549-0609. Copies of the submission, all subsequent amendments, all written statements with respect to the proposed rule change that are filed with the Commission, and all written communications relating to the proposed rule change between the Commission and any person, other than those that may be withheld from the public in accordance with the provisions of 5 USC 552, will be available for inspection and copying at the Commission's Public Reference Room. Copies of such filing will also be available for inspection and copying at the principal office of the Exchange. All submissions should refer to File No. SR-ISE-2001-18 and should be submitted by November 14, 2001.

IV. Conclusion

It Is Therefore Ordered, pursuant to Section 19(b)(2) of the Act,⁹ that the proposed rule change (File No. SR-ISE-2001-18), as amended, be, and it hereby is, approved.

⁸ See fn. 4, *supra*.

⁹ 15 USC 78s(b)(2).

⁷ 17 CFR 200.30-3(a)(12).

¹ 15 USC 78s(b)(1).

² 17 CFR 240.19b-4.

³ See Securities Exchange Act Release No. 44659 (August 6, 2001), 66 FR 42575 (August 13, 2001) ("Notice").

⁴ See letter from Jennifer Lamie, Assistant General Counsel, ISE, to Nancy Sanow, Assistant Director,

Division of Market Regulation, Commission, dated October 15, 2001 ("Amendment No. 4").

⁵ In approving this proposal, the Commission has considered the proposed rule's impact on efficiency, competition, and capital formation. 15 USC 78c(f).

⁶ 15 USC 78f(b)(5).

⁷ See Chicago Board Options Exchange Rule 6.45; American Stock Exchange Rule 950(d), Commentary .01; Philadelphia Stock Exchange Rule 1033; Pacific Exchange Rule 6.75.