Act generally prohibits the same persons, acting as principals, from knowingly purchasing any security or other property from the registered investment company.

2. Section 17(b) of the 1940 Act provides that the Commission may, upon application, issue an order exempting any proposed transaction from Section 17(a) if: (a) The terms of the proposed transactions are reasonable and fair and do not involve overreaching on the part of any person concerned; (b) the proposed transactions are consistent with the policy of each registered investment company concerned; and (c) the proposed transactions are consistent with the general purposes of the 1940 Act.

3. The Section 17 Applicants request an order pursuant to Section 17(b) of the 1940 Act exempting them from the provisions of Section 17(a) to the extent necessary to permit them to carry out the In-Kind Transactions.

4. The Section 17 Applicants submit that the terms of the proposed In-Kind Transactions, including the consideration to be paid and received are reasonable and fair and do not involve overreaching on the part of any person concerned. Applicants state that the In-Kind Transactions will be effected at the respective net asset values of the Removed Portfolio and the Replacement Portfolio, as determined in accordance with the procedures disclosed in the registration statement for the Trust and as required by Rule 22c–1 under the 1940 Act. Applicants further state that the In-Kind Transactions will not change the dollar value of any Contract owner's or participant's investment in any of the Separate Accounts, the value of any Contract, the accumulation value or other value credited to any Contract, or the death benefit payable under any Contract. After the proposed In-Kind Transactions, the value of a Separate Account's investment in the Replacement Portfolio will equal the value of its investments in the Removed Portfolio (together with the value of any pre-existing investments in the Replacement Portfolio) before the In-Kind Transactions.

5. Applicants state that the Section 17 Applicants will assure themselves that the In-Kind Transactions will be in substantial compliance with the conditions of Rule 17a–7. To the extent that the In-Kind Transactions do not comply fully with the provisions of paragraphs (a) and (b) of Rule 17a–7, the Section 17 Applicants assert that the terms of the In-Kind Transactions provide the same degree of protection to the participating companies and their shareholders as if the In-Kind Transactions satisfied all of the conditions enumerated in Rule 17a–7. The Section 17 Applicants also assert that the proposed In-Kind Transactions by the Section 17 Applicants do not involve overreaching on the part of any person concerned. Furthermore, the Section 17 Applicants represent that the proposed Substitution will be consistent with the policies of the Removed Portfolio and the Replacement Portfolio, as recited in the Trust's current registration statement.

6. Applicants also assert that the proposed In-Kind Transactions are consistent with the general purposes of the 1940 Act and that the proposed In-Kind Transactions do not present any conditions or abuses that the 1940 Act was designed to prevent.

**Conclusion**

For the reasons set forth in the Application, the Section 26 Applicants and the Section 17 Applicants each respectively state that the proposed Substitution and the related In-Kind Transactions meet the standards of Section 26(c) of the 1940 Act and Section 17(b) of the 1940 Act, respectively, and respectfully request that the Commission issue an order of approval pursuant to Section 26(c) of the 1940 Act and Section 17(b) of the 1940 Act.

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

**Margaret H. McFarland,**

*Deputy Secretary.*

[FR Doc. 02–20854 Filed 8–15–02; 8:45 am]

**BILLING CODE 8010–01–P**

## SECURITIES AND EXCHANGE COMMISSION

**[Release No. 34–46335; File No. SR–OCC–2002–07]**

## Self-Regulatory Organizations; the Options Clearing Corporation; Notice of Filing of a Proposed Rule Change Relating To Clearing Security Futures Transactions and Arrangements With Associated Clearinghouses

August 9, 2002.

Pursuant to section 19(b)(1) of the Securities Exchange Act of 1934 (''Act''),[1] notice is hereby given that on May 9, 2002, The Options Clearing Corporation (''OCC'') filed with the Securities and Exchange Commission (''Commission''), and on August 9, 2002, amended, the proposed rule change as described in Items I, II, and III below, which items have been prepared primarily by OCC. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

**I. Self-Regulatory Organization's Statement of the Terms of Substance of the Proposed Rule Change**

The proposed rule change would amend OCC Rule 1303 to provide that OCC may agree with an associate clearinghouse to open one or more omnibus accounts to enable its clearing members to clear trades in futures, which include security futures, and futures options, through the facilities of OCC. In addition, the proposed rule change requests approval of OCC's agreements with OneChicago, LLC (''OCX'') and the Chicago Mercantile Exchange (''CME'') with respect to clearing security futures transactions.

**II. Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change**

In its filing with the Commission, OCC included statements concerning the purpose of and basis for the proposed rule change and discussed any comments it received on the proposed rule change. The text of these statements may be examined at the places specified in Item IV below. OCC has prepared summaries, set forth in sections (A), (B), and (C) below, of the most significant aspects of such statements.[2]

*(A) Self-Regulatory Organization's Statement of the Purpose of, and Statutory Basis for, the Proposed Rule Change*

Under OCC's Rule 1303, OCC may open one or more omnibus accounts with an associate clearinghouse (''ACH'') for the purposes of enabling the ACH's clearing members that are not OCC clearing members to clear transactions in security futures through the ACH rather than directly through OCC. Affiliates of OCC clearing members are permitted to clear transactions in security futures through the ACH through January 1, 2003. The principal purpose of the proposed rule change is to extend this same accommodation to OCC clearing members and to provide that the initial period during which either OCC clearing members or their affiliates may clear through an ACH will end one year from the date when general trading in security futures commences rather than on a specified date. OCC also seeks

[1] 15 U.S.C. 78s(b)(1).

[2] The Commission has modified parts of these statements.

Commission approval of the Agreement for Clearing and Settlement Services between OCC and OCX (''OCX Clearing Agreement'') and the ACH Agreement between OCC and CME.

1. Background

OCC is preparing to clear security futures for a number of markets, including certain national securities exchanges that presently clear options through OCC and certain futures exchanges that are notice-registered as national securities exchanges under Section 6(g) of the Act. In SR–OCC–2001–07, OCC filed detailed rules for the clearance of security futures, including Rule 1303, which provides that OCC may agree with an ACH to carry omnibus accounts for the ACH in which the ACH may clear security futures transactions for certain of its clearing members.[3] In SR–OCC–2001–07, the Commission also approved the Agreement for Clearing and Settlement Services between OCC and Nasdaq Liffe Markets, LLC[4] (''NqLX Clearing Agreement'').[5]

2. Amendments to Rule 1303

Under current Rule 1303(a), an OCC clearing member that is also an ACH clearing member may not clear its security futures transactions through the ACH. Additionally, Rule 1303(b) currently provides that affiliates of OCC clearing members that are eligible to become OCC clearing members may not continue to clear security futures through an ACH past January 1, 2003.[6]

OCC has learned that some OCC clearing members may initially have difficulty clearing security futures through OCC because the systems that they use to clear futures contracts are configured to interface with the clearing systems of commodity clearing organizations and not with OCC's systems. To accommodate these clearing members, OCC is proposing in this filing to amend Rule 1303(a) to allow OCC clearing members that are members of an ACH to clear security futures through the ACH for a period of time while systems issues are resolved.

As in the case of affiliates of OCC clearing members, an OCC clearing member that elects to clear through an ACH would be permitted to do so only for the period specified in Rule 1303(b). That period was initially set to end on June 1, 2002, and was later extended to January 1, 2003.[7] Because the commencement of trading in security futures has repeatedly been postponed, OCC is proposing in this rule filing to set the grace period at ''one year after the commencement of general trading in security futures.'' OCC believes that this is a reasonable period of time for OCC clearing members and their affiliates to make the necessary arrangements to clear security futures directly through OCC. OCC nevertheless retains the ability under Rule 1303(b) to consent to a longer grace period if the circumstances of individual firms so require. As amended, Rule 1303 would continue to permit a clearing member of an ACH that is neither an OCC clearing member nor an affiliate of an OCC clearing member to clear through the ACH indefinitely.

3. OCX Clearing Agreement

OCX is a joint venture among CME, the Chicago Board Options Exchange, and the Chicago Board of Trade. OCX and OCC have entered into the OCX Clearing Agreement so that OCC may clear and settle security futures transactions that take place on OCX.[8] OCC seeks Commission approval of the OCX Clearing Agreement because it varies in several material respects from the NqLX Clearing Agreement approved by the Commission last year.[9] Significant differences are discussed below.

New Section 6(b), ''Clearing Members and Associate Clearinghouses,'' of the OCX Clearing Agreement requires OCC to designate CME as an ACH for OCX, subject to the terms of the ACH Agreement between OCC and CME (which terms are summarized below). The NqLX Clearing Agreement contains no similar provision. Section 6(b) of the OCX Clearing Agreement also provides that all present OCC clearing members and their successors may clear trades executed on OCX. However, future OCC clearing members will not be allowed to clear OCX trades without prior approval from OCX. OCX may require that future OCC clearing members become members of OCX as a condition to being allowed to clear trades on OCX. The NqLX Clearing Agreement contains no similar provision.

Section 10(b), ''Risk Margin Offsets,'' of the OCX Clearing Agreement states that OCC will not make OCX products fungible with products traded on other markets, exchanges, or electronic trading platforms unless OCC is required to do so by law or has received prior written approval from OCX. The NqLX Clearing Agreement contains no similar provision.

Section 13, ''Financial Arrangements,'' of the OCX Clearing Agreement states that OCC will charge clearing fees for trades executed on OCX to OCX rather than to clearing members. However, OCX will be required to pass OCC's fees through to OCC clearing member(s) on sides of OCX trades that are cleared directly through OCC.[10] OCX negotiated a discount to the fees OCC normally charges for clearing services in exchange for giving up the right to participate in any year-end fee reductions or rebates. OCX may, however, opt into OCC's regular rebate-eligible fee structure on a prospective basis at any time. The discount is greater for trade sides cleared through CME as an ACH reflecting the fact that CME is sharing the clearing function and the associated risk. OCC will charge no clearing fees when both sides are cleared through CME.

Paragraph (b) of Section 14, ''CME as Associate Clearinghouse,'' of the OCX Clearing Agreement prohibits OCX from soliciting or providing incentives for CME members to clear OCX trades through CME rather than OCC. The reason for this restriction is discussed below in connection with related provisions of the ACH Agreement.

4. ACH Agreement

OCC and CME have entered into the ACH Agreement[11] so that CME may act as an ACH for purposes of clearing and settling transactions of certain CME clearing members on OCX. The ACH Agreement provides that CME generally will be treated as an OCC clearing member but with important exceptions. First, Section 2, ''CME an Associate

[3] Securities Exchange Act Release No. 44727 (August 20, 2001), 66 FR 45351 (order approving rules for clearance of security futures.) SR–OCC–2001–07 also amended Article I of OCC's By-Laws to include within the definition of ''associate clearinghouse'' a ''derivatives clearing organization regulated as such under the Commodity Exchange Act.''

[4] Previously Nasdaq LIFFE, LLC.

[5] Securities Exchange Act Release No. 44727 (August 20, 2001), 66 FR 45351.

[6] For purposes of Rule 1303, an entity shall be deemed to be an affiliated entity of a clearing member if the clearing member owns, directly or indirectly, at least 50% of the equity in such entity or if at least 50% of the equity of the clearing member and in such entity is, directly or indirectly, under common ownership.

[7] Securities Exchange Act Release No. 45946 (May 22, 2002), 67 FR 36056 [File No. SR–OCC–2001–16].

[8] The OCX Clearing Agreement is attached as Exhibit A to OCC's filing.

[9] A blackline version showing the differences between the NqLX Clearing Agreement and the OCX Clearing Agreement is attached as Exhibit A–1 to OCC's filing. OCC has filed with the Commission an amended and restated version of the NqLX Clearing Agreement, which has been amended to provide that OCC will clear and settle commodity futures (specifically, broad-based index options) traded on NqLX.

[10] This requirement enables OCC to police ''the equitable allocation of reasonable dues, fees, and other charges among its participants'' required under Section 17A(b)(3)(D) of the Act.

[11] Attached as Exhibit B to OCC's filing.

Clearinghouse,'' states that CME may clear through its accounts at OCC only security futures traded on OCX. Second, Section 3, ''Applicability of the Rules,'' makes clear that CME is bound only by certain OCC rules, which generally speaking are those that apply to OCC's clearance and settlement of security futures contracts and to OCC's right to suspend clearing members including an ACH with certain modifications set forth in the ACH Agreement. CME is not subject to OCC's by-laws and rules requiring deposits to OCC's clearing fund and requiring risk margin deposits. Likewise, under Section 6, ''Risk Margin; Clearing Fund Contributions; Security Deposits,'' OCC is not required to contribute to CME's clearing fund or to post margin with CME.

Given that each clearing organization has credit exposure to the other, OCC and CME have determined that the cost of a mutual posting of collateral by each with the other would outweigh any benefits to be obtained. Although OCC is exposed to some uncollateralized credit risk with respect to CME (and vice versa), that risk is considered minimal because CME's clearinghouse division is a registered derivatives clearing organization subject to regulation and oversight by the Commodity Futures Trading Commission (''CFTC'') and is believed by OCC to be well run and highly creditworthy. Sections 3(c), ''Applicability of the Rules,'' and 10, ''Application of Chapter XI of the Rules,'' of the ACH Agreement provide that if CME fails to deliver securities or funds to OCC, breaches certain of its obligations under the Commodity Exchange Act (''CEA'') or the ACH Agreement, or is in such financial or operational difficulty that OCC believes suspension of CME as an ACH is required, OCC may without notice liquidate all positions in the CME ACH omnibus accounts regardless of whether any CME clearing member is in default to CME. OCC may then apply the proceeds from the CME Proprietary Account (described below) against all obligations of CME under the ACH Agreement and the proceeds from the CME Customer Account (described below) against all obligations in that account.

Where both sides of a matched trade are submitted to OCC for the accounts of regular OCC clearing members, CME will have no role in the transaction. Where one side of a matched trade is submitted for the account of a regular OCC clearing member and the other is submitted for the account of a CME clearing member, the CME member's transaction will clear in the ACH account and CME as ACH will be the OCC clearing member on the trade. If both sides of a matched trade are cleared through CME, there will be no effect on the open interest on OCC's books, and OCC will have no obligation on the trade except to the limited extent described below in the case of delivery obligations on physically-settled stock futures. The rights and obligations of CME members with respect to security futures cleared through CME be determined under the rules of CME, but Section 4(a) of the ACH Agreement requires that CME's rules provide that the terms of security futures cleared by CME will be identical to the terms of security futures cleared by OCC and that any adjustments to the terms of outstanding contracts must be identical and take effect at the same time to ensure fungibility and maintain a balanced open interest at both clearing organizations.

Section 8, ''Allocation of Clearing Responsibilities,'' of the ACH Agreement is consistent with the terms of OCC Rule 1303 as proposed to be amended in this filing. It is intended to permit the use of the ACH arrangements by CME members only to the extent that clearing through OCC directly might reasonably impose a hardship. An OCC clearing member that is or that has an affiliate that is a CME clearing member may clear through CME until one year after the commencement of security futures trading, at which point all trades of such entity must be cleared through OCC unless OCC consents to an extension of time. However, where a futures affiliate of an OCC clearing member is substantially larger than the clearing member, OCC has agreed to permit the affiliate to clear through CME indefinitely on the ground that where the principal business of the consolidated entities is a futures business it is inappropriate to compel all security futures clearing to be directed through the securities affiliate.[12] A CME clearing member that is not an OCC clearing member and is not an affiliate of an OCC clearing member may clear its security futures trades through CME indefinitely. By generally requiring firms that are OCC clearing members or that have affiliates that are OCC clearing members to take the necessary steps to clear their security futures activity directly through the OCC clearing member, the ACH Agreement limits the mutual uncollateralized exposure between OCC and CME and minimizes the number of transactions that require coordinated clearance and settlement by two clearing organizations.[13] For the same purpose of minimizing unnecessary use of the ACH arrangement, the OCX Clearing Agreement as noted above prohibits the ACH from soliciting its members to clear transactions through the ACH rather than through OCC.

In order to comply with the customer segregation rules under the CEA, Section 9(a), ''Maintenance of CME Accounts,'' of the ACH Agreement requires CME to have two accounts at OCC, one for proprietary positions and one for customer positions. Each will function as an omnibus account containing the positions and margin carried by CME members for whom CME acts as an ACH. The ''CME Proprietary Account'' will carry only transactions of persons whose accounts on the books of the carrying CME clearing member are ''proprietary accounts'' as defined in CFTC Regulation 1.3(y). The ''CME Customer Account'' will carry only transactions of customers of CME clearing members and will be subject to the customer protection provisions of the CFTC. In accordance with those provisions, Section 9(b) of the ACH Agreement provides that OCC will have a lien on the positions in the CME Customer Account as security for CME's obligations to OCC only with respect to positions and transactions in that account. In contrast, OCC will have a lien on and security interest in the positions in the CME Proprietary Account as security for all obligations of CME to OCC under the ACH Agreement.

As noted above, OCC has agreed in Section 4 of the ACH Agreement to perform a limited role in connection with delivery obligations of CME clearing members arising from physically-settled security futures in CME member accounts. CME will require each of its clearing members that trades physically-settled security futures to enter into arrangements satisfactory to OCC through which an OCC stock clearing member will agree to act on the CME clearing member's behalf for the purpose of settling through the facilities of National Securities Clearing Corporation (''NSCC'') or otherwise delivery obligations arising from maturing security futures contracts in its accounts at CME. Promptly following

[12] Proposed Interpretations and Policies .01 to Rule 1303.

[13] In approving OCC's previous ACH arrangement with the Associate Clearing House Amsterdam, the Commission stated, ''As a general matter, the Commission believes that OCC-issued options should be cleared through full OCC clearing members and not through intermediaries created only for clearing purposes.'' Securities Exchange Act Release No. 24832 (August 21, 1987), 52 FR 32377, n.16 (File No. SR–OCC–87–9).

the close of trading on the last trading day prior to maturity of any series of physically-settled security futures, CME will notify OCC of the identity of each OCC clearing member that will be obligated to receive or to deliver stock on behalf of CME members and the quantity of each underlying stock to be received or delivered. OCC will include these receive and deliver obligations with the other receive and deliver obligations of its clearing members in its reports to NSCC in accordance with OCC Rule 913. In the event that settlement is rejected by NSCC for any reason, settlement will be completed between the delivering and receiving OCC clearing members in accordance with OCC's rules, but CME will be responsible to OCC for any loss reasonably determined by OCC to have been incurred by it as a result of an OCC clearing member default in connection with settlements arising from security futures contracts in CME clearing member accounts. OCC will not require the delivering OCC clearing member or receiving OCC clearing member to deposit margin with OCC with respect to settlements attributable to security futures in CME clearing member accounts but will instead look to the credit of CME.

OCC believes that the proposed rule change, OCX Clearing Agreement, and ACH Agreement are consistent with the requirements of Section 17A of the Act because they promote the prompt and accurate clearance and settlement of securities transactions, foster cooperation and coordination with persons engaged in the clearance and settlement of securities transactions, remove impediments to and perfect the mechanism of a national system for the prompt and accurate clearance and settlement of securities transactions, and in general, protect investors and the public interest.

*(B) Self-Regulatory Organization's Statement on Burden on Competition*

OCC does not believe that the proposed rule change would impose any burden on competition.

*(C) Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received From Members, Participants, or Others*

Written comments were not and are not intended to be solicited with respect to the proposed rule change, and none have been received.

**III. Date of Effectiveness of the Proposed Rule Change and Timing for Commission Action**

Within thirty five days of the date of publication of this notice in the **Federal Register** or within such longer period (i) as the Commission may designate up to ninety days of such date if it finds such longer period to be appropriate and publishes its reasons for so finding or (ii) as to which the self-regulatory organization consents, the Commission will:

(a) By order approve the proposed rule change or

(b) Institute proceedings to determine whether the proposed rule change should be disapproved.

**VI. Solicitation of Comments**

Interested persons are invited to submit written data, views, and arguments concerning the foregoing, including whether the proposed rule change 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 U.S.C. 552, will be available for inspection and copying in the Commission's Public Reference Section, 450 Fifth Street NW., Washington, DC 20549. Copies of such filing will also be available for inspection and copying at the principal office of OCC. All submissions should refer to the File No. SR–OCC–2002–07 and should be submitted by September 6, 2002.

For the Commission by the Division of Market Regulation, pursuant to delegated authority.[14]

**Margaret H. McFarland,**

*Deputy Secretary.*

[FR Doc. 02–20855 Filed 8–15–02; 8:45 am]

**BILLING CODE 8010–01–P**

[14] 17 CFR 200.30–3(a)(12).

## DEPARTMENT OF STATE

**[Public Notice 4098]**

### Bureau of Educational and Cultural Affairs; Notice: Grants/Grantsmanship Workshop

**SUMMARY:** The State Department's Bureau of Educational and Cultural Affairs sponsors and administers a wide range of academic, professional and cultural exchange programs and activities promoting ties between the people of the United States and people from 140 countries around the world. In an effort to broaden the base of participation in its different programs and activities, the Bureau announces that it will be holding a grants/grantsmanship workshop, inviting representatives from nongovernmental organizations and institutions to learn about the Bureau's different international exchange grant program opportunities. The Bureau is particularly interested in meeting representatives of organizations that have not previously participated in Bureau programs. The workshop will take place on September 26, 2002, from 1:30 pm to 4:30 pm in the Discovery Ballroom of the Holiday Inn, 550 C St., SW., Washington, DC.

**Additional Information**

Interested organizations and institutions should contact David Levin at (202) 619–5386 or by e-mail at *dlevin@pd.state.gov* by September 23, 2002 to complete registration and reserve a place at the workshop.

Dated: August 12, 2002.

**Patricia S. Harrison,**

*Assistant Secretary for Educational and Cultural Affairs, Department of State.*

[FR Doc. 02–20858 Filed 8–15–02; 8:45 am]

**BILLING CODE 4710–05–P**

## DEPARTMENT OF TRANSPORTATION

### Federal Aviation Administration

### Approval of Noise Compatibility Program: Lake Charles Regional Airport, Lake Charles, LA

**AGENCY:** Federal Aviation Administration, DOT.

**ACTION:** Notice.

**SUMMARY:** The Federal Aviation Administration (FAA) announces its findings on the noise compatibility program submitted by the Airport Authority Board of Calcasieu Parish (AABCP) under the provisions of Title 49, U.S.C., Chapter 475 and 14 CFR part 150. These findings are made in