

Acquiring Series after the Fund Reorganizations; (c) the fact that the costs estimated to be incurred by the Series as a result of the Fund Reorganizations will not be borne by the Series, but by American General; and (d) the tax-free nature of the Fund Reorganizations.

8. The Plans are subject to a number of conditions precedent, including that: (a) the Plans will have been approved by the Boards of each of the Acquired Series and the Acquiring Series and by the shareholders of each of the Acquired Series; (b) each Acquired Series will solicit proxies from its shareholders pursuant to definitive proxy materials filed with the Commission; (c) the applicants will have received an opinion of counsel concerning the federal income tax aspects of the Fund Reorganizations; and (d) applicants will have received from the Commission exemptive relief from section 17(a) of the Act for the Fund Reorganizations. Each Plan may be terminated by mutual agreement of the Boards at any time prior to the Closing Date. Applicants agree not to make any material changes to the Plans that affect the application without prior SEC approval.

9. Definitive proxy materials have been filed with the Commission and were mailed to shareholders of each Acquired Series on or about June 1, 2000. A special meeting of the shareholders of each Acquired Series is scheduled to be held on or about June 22, 2000.

#### **Applicant's Legal Analysis**

1. Section 17(a) of the Act generally prohibits an affiliated person of a registered investment company, or an affiliated person of such a person, acting as principal, from selling any security to, or purchasing any security from, the company. Section 2(a)(3) of the Act defines an "affiliated person" of another person to include: (a) any person directly or indirectly owning, controlling, or holding with power to vote 5% or more of the outstanding voting securities of the other person; (b) any person 5% or more of whose securities are directly or indirectly owned, controlled, or held with power to vote by the other person; (c) any person directly or indirectly controlling, controlled by, or under common control with the other person; and (d) if the other person is an investment company, any investment adviser of that company. Applicants state that the Series may be deemed affiliated persons and, thus, the Fund Reorganizations may be prohibited by section 17(a).

2. Rule 17a-8 under the Act exempts from the prohibitions of section 17(a)

mergers, consolidations, or purchasers or sales of substantially all of the assets of registered investment companies that are affiliated persons, or affiliated persons of an affiliated person, solely by reason of having a common investment adviser, common directors, and/or common officers, provided that certain conditions set forth in the rule are satisfied.

3. Applicants believe that they may not rely on rule 17a-8 in connection with the Fund Reorganizations because certain Series may be deemed to be affiliated for reasons other than those set forth in the rule. By virtue of the direct or indirect ownership by VALIC and the Affiliated Plan of more than 5% (in some cases, more than 25%) of the outstanding voting securities of certain of the Acquired Series, each Acquired Series may be deemed an affiliated person of an affiliated person of the corresponding Acquiring Series.

4. Section 17(b) of the Act provides that the SEC may exempt a transaction from the provisions of section 17(a) if the evidence establishes that the terms of the proposed transaction, including the consideration to be paid, are reasonable and fair and do not involve overreaching on the part of any person concerned, and that the proposed transaction is consistent with the policy of each registered investment company concerned and with the general purposes of the Act.

5. Applicants request an order under section 17(b) of the Act exempting them from section 17(a) of the Act to the extent necessary to permit applicants to consummate the Fund Reorganizations. Applicants submit that the Fund Reorganizations satisfy the standards of section 17(b) of the Act. Applicants submit that the Fund Reorganizations satisfy the standards of section 17(b) of the Act. Applicants state that the Boards of AGSPC2 and NAF, including in each case a majority of their Independent Trustees, found that participating in the Fund Reorganizations is in the best interests of the shareholders of each of the Series, and that the interests of the shareholders will not be diluted as a result of the Fund Reorganizations. Applicants also note that the exchange of the Acquired Series' assets for shares of the Acquiring Series will be based on the Series' relative NAVs.

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

**Margaret H. McFarland,**

*Deputy Secretary.*

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## **SECURITIES AND EXCHANGE COMMISSION**

[Release No. 34-42872; File No. SR-Amex-00-18]

### **Self-Regulatory Organizations; American Stock Exchange LLC; Order Granting Accelerated Approval of Proposed Rule Change to Raise Equity Options Transaction Fees for Non-Member Broker-Dealers**

May 31, 2000.

#### **I. Introduction**

On April 7, 2000, the American Stock Exchange LLC ("Amex" or "Exchange") filed with the Securities and Exchange Commission ("SEC" or "Commission"), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act")<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> a proposed rule change was published for comment in the **Federal Register** on May 10, 2000.<sup>3</sup> The Commission received no comments on the proposal. This order grants accelerated approval of the proposal.

#### **II. Description of the Proposal**

The Amex proposes to increase equity options transaction fees for non-member broker-dealer orders. The Amex currently imposes a transaction charge on options trades executed on the Exchange. The charges vary depending on whether the transaction involves an equity or index option and whether the transaction is executed for a specialist or market maker account, a member firm's proprietary account, a non-member broker-dealer, or a customer account. The Amex also imposes a charge for clearance of options trades and an options floor brokerage charge, which also depends upon the type of account for which the trade is executed. In addition, all three types of charges—transactions, options clearance, and options floor brokerage—are subject to caps on the number of options contracts subject to the charges on a given day.<sup>4</sup>

Recently, the Amex eliminated all options transaction, clearance, and floor brokerage fees for customer equity options orders.<sup>5</sup> To offset the elimination of these fees for customer equity options orders, the Exchange raised the equity options transaction fee

<sup>1</sup> 15 U.S.C. 78s(b)(1).

<sup>2</sup> 17 CFR 240.19b-4.

<sup>3</sup> See Securities Exchange Act Release No. 42752 (May 3, 2000), 65 FR 30154.

<sup>4</sup> The current caps are set at 2,000 contracts for customer trades and 3,000 contracts for member firm proprietary, non-member broker-dealer, specialist, and market maker trades.

<sup>5</sup> See Securities Exchange Act Release No. 42675, (April 13, 2000), 65 FR 21223 (April 20, 2000).

from \$0.07 to \$0.19 per contract side for member firm proprietary orders and from \$0.08 to \$0.17 per contract side for specialist and market maker orders. To further offset the elimination of options transaction, clearance and brokerage fees for customer equity option orders, the Exchange proposes to increase the equity options transaction fee for non-member broker-dealer orders from \$0.07 to \$0.19 per contract side. This revised fee will also apply to both LEAPS<sup>6</sup> and FLEX<sup>7</sup> options. Equity options clearance and floor brokerage fees for non-member broker-dealers will remain unchanged at \$0.04 and \$0.03 per contract side, respectively.

### III. 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 and in particular, with the requirements of Section 6 of the Act.<sup>8</sup> Specifically, the Commission finds that the proposal is consistent with Section 6(b)(4) of the Act, which requires a registered national securities exchange to promulgate rules that provide for the equitable allocation of reasonable dues, fees, and other charges among its members and other persons using its facilities.<sup>9</sup> The Commission believes that the proposed increase in the equity options transaction fee for non-member broker-dealer orders is not unreasonable and should not discriminate unfairly among market participants. In addition, the Commission notes that member firm proprietary orders are charged the same options transaction fee as is proposed for non-member proprietary orders.

The Commission finds good cause for approving the proposed rule change prior to the thirtieth day after the date of publication of notice thereof in the **Federal Register**. Approval of the proposal will enable the Exchange to offset the recent elimination of options transaction, clearance, and floor brokerage fees for customer equity options orders in an expeditious manner. The Commission notes that the Exchange recently raised the equity options transaction fee for member firm proprietary orders to help offset the

elimination of options transaction, clearance, and floor brokerage fees for customer equity options orders, and no comments were received on that proposal.<sup>10</sup> Therefore, the Commission believes it is consistent with Section 6(b)(5) and Section 19(b)(2) of the Act to grant accelerated approval to the proposed rule change.<sup>11</sup>

### IV. Conclusion

*It is therefore ordered*, pursuant to Section 19(b)(2) of the Act,<sup>12</sup> that the proposed rule change (SR-Amex-00-18) is approved.

For the Commission, by the Division of Market Regulation, pursuant to delegated authority.<sup>13</sup>

**Margaret H. McFarland,**

*Deputy Secretary.*

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## SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-42870; File No. SR-CBOE-97-37]

### Self-Regulatory Organizations; Chicago Board Options Exchange, Inc.; Order Approving Proposed Rule Change and Notice of Filing and Order Granting Accelerated Approval of Amendment Nos. 1, 2, 3, 4 and 5 to the Proposed Rule Change Relating to Eligibility Requirements for Participation on the RAES System

May 31, 2000.

### I. Introduction

On August 6, 1997, the Chicago Board Options Exchange, Inc. ("CBOE" or "Exchange") submitted to the Securities and Exchange Commission ("SEC" or "Commission"), pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 ("Act")<sup>1</sup> and Rule 19b-4 thereunder,<sup>2</sup> a proposed rule change to amend its Retail Automatic Execution System ("RAES") eligibility requirements for market makers. The proposed rule change was published in the **Federal Register** on August 20, 1997.<sup>3</sup> The Commission received three

comment letters on the proposed rule change.<sup>4</sup>

On July 23, 1998, the CBOE submitted Amendment No. 1 to the proposed rule change.<sup>5</sup> On September 28, 1999, the CBOE submitted Amendment No. 2 to the proposed rule change.<sup>6</sup> On December 8, 1999, the CBOE submitted Amendment No. 3 to the proposed rule change.<sup>7</sup> On March 22, 2000, the CBOE submitted Amendment No. 4 to the proposed rule change.<sup>8</sup> Finally, on May 19, 2000, the CBOE submitted

<sup>4</sup> Letters from James I. Gelbort to the Commissioners, SEC, dated September 7, 1997 ("Gelbort Letter"); Scott Kilrea, President, Letco, Lee E. Tenzer Trading Company, to Jonathan G. Katz, Secretary, SEC, dated February 20, 1998 ("Letco Letter No. 1"); and Scott Kilrea, President Letco, Lee E. Tenzer Trading Company, et al, to Heather Seidel, Division of Market Regulation ("Division"), SEC, dated August 7, 1998 ("Letco Letter No. 2").

<sup>5</sup> Letter from Timothy H. Thompson, Director, Regulatory Affairs, Legal Department, CBOE, to Heather Seidel, Division, SEC, dated July 22, 1998 ("Amendment No. 1"). In Amendment No. 1, the Exchange amended the proposal by establishing a floor percentage that may be set by the Market Performance Committee ("MPC") that limits a market maker's total transactions and contract volume executed on RAES. The CBOE also proposed that the market maker percentages should be established and calculated on a quarterly basis. Amendment No. 1 contained guidelines to be used by the MPC when determining whether to exempt market maker activity on one or more trading days during the applicable calendar quarter and guidelines for the exercise of discretion by the MPC pursuant to Interpretation .01 of the proposed rule change, which permits the MPC to apply the eligibility requirements to fewer than all classes traded at a particular trading station. Finally, the CBOE responded to issues raised in Letco Letter No. 1 (*see supra* note 4).

<sup>6</sup> Letter from Timothy Thompson, Director, Regulatory Affairs, Legal Department, CBOE, to Richard Strasser, Division, SEC, dated September 23, 1999 ("Amendment No. 2"). In Amendment No. 2, the CBOE amended the proposal to limit its application to those options classes identified by the Exchange as having market makers that trade an inordinate percentage of their transactions on RAES. The Exchange also reiterated its belief that the proposed rule language afforded protections against potential discrimination by the MPC when it determines which trading days to exempt from the percentage calculations because the MPC will not know the identity of market makers from the data it reviews. Finally, the Exchange responded to issues raised in Letco Letter No. 2 (*see supra* note 4).

<sup>7</sup> Letter from Stephanie C. Mullins, Attorney, CBOE, to Kelly Riley, Division, SEC, dated December 7, 1999 ("Amendment No. 3"). In Amendment No. 3, the CBOE amended the proposed rule change to provide an exemption from the proposed RAES percentage requirements for designated primary market makers ("DPMs") and their designees, when acting in the capacity as a DPM in an option class.

<sup>8</sup> Letter from Timothy Thompson, Director, Regulatory Affairs, Legal Department, CBOE, to Kelly Riley, Division, SEC, dated March 21, 2000 ("Amendment No. 4"). In Amendment No. 4, the CBOE corrected rule language submitted in Amendment No. 3, which failed to reflect the revisions proposed in Amendment No. 2.

<sup>6</sup> LEAPS are Long Term Equity Anticipation Securities or options with durations of up to 36 months. *See* Amex Rule 903c.

<sup>7</sup> FLEX options are customized options with individually specified terms such as strike price, expiration date, and exercise style. *See* Amex Rule 900G.

<sup>8</sup> 15 U.S.C. 78f. In approving this rule, the Commission has considered the proposed rule's impact on efficiency, competition, and capital formation. 15 U.S.C. 78c(f).

<sup>9</sup> 15 U.S.C. 78f(b)(4).

<sup>10</sup> *See* Securities Exchange Act Release No. 42675, (April 13, 2000), 65 FR 21223 (April 20, 2000) (approving SR-Amex-00-15).

<sup>11</sup> 15 U.S.C. 78f(b)(5) and 78s(b)(2).

<sup>12</sup> 15 U.S.C. 78s(b)(2).

<sup>13</sup> 17 CFR 200.30-3(a)(12).

<sup>14</sup> 15 U.S.C. 78s(b)(1).

<sup>15</sup> 17 CFR 240.19b-4.

<sup>16</sup> Exchange Act Release No. 38928 (August 12, 1997), 62 FR 44296.