6. Applicant contends that AZ's assets are not of the sort that Congress was concerned about in creating the Act. Applicant submits that, rather than being liquid, mobile and readily negotiable or large pools of funds, AZ's sole assets will be the ordinary shares and a series of non-equity shares of ZFS, together with certain related assets (such as non-equity shares in AZH and dividends received from ZFS and AZH prior to distribution to AZ's shareholders). Applicant states that AZ is prohibited from engaging in any activities unrelated to its investment in ZFS or transferring or otherwise encumbering the ZFS securities without the consent of Zurich. Applicant submits that AZ's business does not entail the types of risk to public investors that the Act was designed to eliminate or mitigate.

Applicant's Conditions

Applicant agrees that the order granting the requested relief will be subject to the following conditions:

1. AZ will not hold itself out as being engaged in the business of investing, reinvesting, or trading in securities.

2. AZ will not acquire any investment securities as that term is defined in section 3(a)(2) of the Act, except securities of ZFS and its majority-owned subsidiaries that are neither investment companies nor relying on section 3(c)(1) or 3(c)(7) of the Act and for cash management purposes, certificates of deposit, banker's acceptances, and time deposits maturing within 180 days from the date of acquisition thereof, securities issued or guaranteed by a foreign government with a maturity not exceeding one year, and shares of money market mutual funds.

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

Margaret H. McFarland,

Deputy Secretary.

[FR Doc. 98–9125 Filed 4–7–98; 8:45 am]

BILLING CODE 8010–01–M

SECURITIES AND EXCHANGE COMMISSION

[Investment Company Act Release No. 23098; 812–11052]

CoreFunds, Inc. and CoreStates Investment Advisers, Inc.; Notice of Application

April 2, 1998.

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

ACTION: Notice of application under section 6(c) of the Investment Company Act of 1940 (the ''Act'') for an exemption from section 15(a) of the Act.

SUMMARY OF APPLICATION: Applicants seek an order to permit the implementation, without prior shareholder approval, of an interim investment advisory agreement and sub-advisory agreements (collectively the ''Interim Agreements'') between CoreFunds, Inc. (''Fund'') and CoreStates Investment Advisers, Inc. (''Adviser'') and sub-advisers, in connection with the merger of CoreStates Financial Corp. (''CoreStates'') with and into First Union Corporation (''First Union''). The order would cover a period of up to 150 days following the date of the consummation of the merger (but in no event later than September 30, 1998) (''Interim Period''). The order also would permit the Adviser and sub-advisers to receive all fees earned under the Interim Agreements during the Interim period, following shareholder approval.

APPLICANTS: The Funds, or behalf of its separate investment portfolios, Equity Index Funds, Core Equity Fund, Growth Equity Fund, Special Equity Fund, International Growth Fund, Balanced Fund, Short-Term Income Fund, Short-Intermediate Bond Fund, Government Income Fund, Bond Fund, Global Bond Fund, Intermediate Municipal Bond Fund, Pennsylvania Municipal Bond Fund, New Jersey Municipal Bond Fund, Treasury Reserve Fund, Cash Reserve Fund, Tax-Free Reserve Fund, Elite Cash Reserve Fund, Elite Treasury Reserve Fund, Elite Tax-Free Reserve Fund (collectively the ''Portfolios'') and the Adviser.

FILING DATES: The application was filed on March 6, 1998. Applicants have agreed to file an amendment to the application during the notice period, the substance of which is included in this notice.

HEARING OR NOTIFICATION OF HEARING: An order granting the application will be issued unless the Commission orders a hearing. Interested persons may request a hearing by writing to the Commission's Secretary and serving applicants with a copy of the request, personally or by mail. Hearing requests should be received by the Commission by 5:30 p.m. on April 27, 1998, and should be accompanied by proof of service on applicants in the form of an affidavit or, for lawyers, a certificate of service. Hearing requests should state the nature of the writer's interest, the reason for the request, and the issues contested. Persons who wish to be notified of a hearing may request notification by writing to the Commission's Secretary.

ADDRESSES: Secretary, Securities and Exchange Commission, 450 Fifth Street, N.W., Washington, D.C. 20549. CoreFunds, Inc., c/o John A. Dudley, Esq., 1025 Connecticut Avenue, N.W., Washington, D.C. 20036 and James W. Jennings, Esq., 2000 One Logan Square, Philadelphia, PA 19103–6993, CoreStates Investment Advisers, Inc., c/o Mark E. Stalnecker, 1500 Market Street, (FC–1–3–86–11), Philadelphia, Pennsylvania 19102.

FOR FURTHER INFORMATION CONTACT: Emerson S. Davis, Senior Counsel, at (202) 942–0714, or George J. Zornada, Branch Chief, at (202) 942–0564 (Office of Investment Company Regulation, Division of Investment Management).

SUPPLEMENTARY INFORMATION: The following is a summary of the application. The complete application may be obtained for a fee at the Commission's Public Reference Branch, 450 Fifth Street, N.W., Washington, D.C. 20549 (tel. 202–942–8090).

Applicant's Representations

1. The Fund is a Maryland corporation registered under the Act as an open-end management investment company and is organized as a series company offering the Portfolios. The Adviser is an investment adviser registered under the Investment Advisers Act of 1940 (''Advisers Act'') and is a wholly-owned subsidiary of CoreStates. The Adviser serves as investment adviser to each of the Portfolios. The Fund and the Adviser also have sub-advisory agreements for certain Portfolios with advisers registered under the Advisers Act.[1]

2. CoreStates, which is a bank holding company, has agreed to merge with and into First Union or a designated subsidiary of First Union (the ''Transaction''). Applicants currently expect the Transaction to close on April 30, 1998. As a result of the Transaction, the Adviser will come under the control of First Union.

3. Applicants believe that the Transaction will result in an assignment and thus automatic termination of the existing investment advisory and sub-advisory agreements between the Fund and the Adviser and the sub-advisers (collectively, ''Existing Agreements''). Applicants request an exemption: (i) to

[1] The following firms serve as sub-advisers to the respective Portfolios under sub-advisory agreements with the Adviser: Martin Currie, Inc. (for the International Growth Fund); Aberdeen Fund Managers, Inc. (for the International Growth Fund); and Analytic TSA International, Inc. (for the Global Bond Fund).

permit the implementation, prior to shareholder approval, of the Interim Agreements; and (ii) to permit the Adviser and sub-advisers, upon shareholder approval, to receive any and all fees earned under the Interim Agreements during the Interim Period. Applicants state that the Interim Agreements will be identical in substance to the Existing Agreements, except for their effective and termination dates. The Fund and the Adviser also will have an escrow arrangement as described below.

4. On February 6, 1998, the Fund's board of directors (''Board'') met in-person and considered the Interim Agreements. At the meeting, a majority of the Board, including a majority of the directors who are not ''interested persons'' as defined in section 2(a)(19) of the Act (''Independent Directors''), voted in accordance with section 15(c) of the Act and (i) approved the Interim Agreements after evaluating whether the terms were in the best interests of the Portfolios and their shareholders, and (ii) agreed to recommend approval of the Interim Agreements to shareholders of the Portfolios. A vote of the shareholders of the Portfolios is scheduled for July 17, 1998.

5. Applicants propose to enter into an escrow arrangement with an unaffiliated bank (''Escrow Agency''). The fees payable to the Adviser and sub-advisers under the Interim Agreements during the Interim Period will be paid into an interest-bearing escrow account maintained by the Escrow Agent. The amounts in the escrow account (including interest earned on such paid fees) will be paid to the Adviser and, if applicable, sub-advisers only if Portfolio shareholders approve the Interim Agreements. If the Interim Period has ended and shareholders of any Portfolio have failed to approve the Interim Agreements, the Escrow Agent will pay to the Portfolio the escrow amounts (including any interest earned). Before the release of any such escrow amounts, the Fund's Independent Directors will be notified.

Applicants' Legal Analysis

1. Section 15(a) of the Act provides, in pertinent part, that it shall be unlawful for any person to serve or act as an investment adviser of a registered investment company, except pursuant to a written contract that has been approved by the vote of a majority of the outstanding voting securities of such registered investment company. Section 15(a)(4) of the Act further requires that such written contract provide for automatic termination in the event of its ''assignment.'' Section 2(a)(4) of the Act defines ''assignment'' to include any direct or indirect transfer of a contract by the assignor, or of a controlling block of the assignor's outstanding voting securities by a security holder of the assignor.

2. Applicants state that, upon completion of the Transaction, indirect control of the Adviser will transfer to First Union. Accordingly, the Transaction will result in an assignment of the Existing Agreements and the Existing Agreements will terminate by their terms upon consummation of the Transaction.

3. Rule 15a–4 provides, in pertinent part, that if an investment advisory contract with a registered investment company is terminated by an assignment in which the adviser does not directly or indirectly receive a benefit, the adviser may continue to act as such for the company for 120 days under a written contract that has been approved by the company's shareholders, provided that: (a) the new contract is approved by that company's board of directors (including a majority of the non-interested directors); (b) the compensation to be paid under the new contract does not exceed the compensation that would have been paid under the contract most recently approved by the company's shareholders; and (c) neither the adviser nor any controlling person of the adviser ''directly or indirectly receives money or other benefit'' in connection with the assignment. Applicants state that they cannot rely on rule 15a–4 because of the benefits CoreStates, the Adviser's parent, will receive from the Transaction.

4. Section 6(c) of the Act provides that the Commission may exempt any person, security, or transaction from any provision of the Act, if and to the extent that such exemption is necessary or appropriate in the public interest and consistent with the protection of investors and the purposes fairly intended by the policy and provisions of the Act. Applicants assert that the requested relief meets this standard.

5. Applicants submit that the terms and timing of the Transaction arose primarily out of business considerations unrelated to the Fund and the Adviser. Applicants state that the requested relief would permit the continuity of investment management for the Fund, without interruption, during the period following the Transaction. Applicants also state that there is not sufficient time to make an adequate solicitation of fund shareholders prior to the closing of the Transaction.

6. Applicants submit that the scope and quality of investment advisory services provided for the Fund during the Interim Period will not be diminished. During the Interim Period, the Adviser and sub-advisers will operate under the Interim Agreements, which the Board has approved and which will be substantively the same as the Existing Agreements, except for their effective and termination dates. In addition, there will be an escrow agreement as discussed above. Applicants are not aware of any material changes in the personnel that will provide investment management services during the Interim Period. Accordingly, the Fund should receive, during the Interim Period, the same investment advisory services, at the same fee levels, provided in the same manner as the Fund received before the Transaction. Applicants state that, in the event that a material change in the personnel of the Adviser or sub-adviser occurs during the Interim Period, the Adviser or sub-adviser will apprise and consult the Board, including the Independent Directors, to assure that the Board and the Independent Directors are satisfied that the services provided by the Adviser or sub-adviser will not be diminished in scope and quality.

7. Applicants assert that to deprive the Adviser or sub-advisers of fees during the Interim Period would be unduly harsh and an unreasonable penalty to attach to the Transaction. Applicants submit that adequate safeguards exist in that the fees payable to the Adviser and sub-advisers under the Interim Agreements during the Interim Period will be maintained in an interest-bearing escrow account by the Escrow Agent and that such fees will not be released by the Escrow Agent without notice to the Independent Directors and appropriate certification that the Interim Agreements have been approved by the shareholders of the Portfolios.

Applicants' Conditions

Applicants agree as conditions to the issuance of the exemptive order requested by the application that:

1. The Interim Agreements will be identical in substance to the Existing Agreements with the exception of the effective and termination dates.

2. Fees earned by the Adviser and sub-advisers during the Interim Period in accordance with the Interim Agreements will be maintained in an interest-bearing escrow account with an unaffiliated bank, and amounts in the account (including interest earned on such paid fees) will be paid to the Adviser, and if applicable, sub-adviser, only upon approval of the related Portfolio shareholders, or, in the

absence of such approval, to the related Portfolio.

3. The Fund will hold meetings of shareholders to vote on approval of the Interim Agreements on or before the 150th day following the termination of the Existing Agreements (but in no event later than September 30, 1998).

4. First Union will bear the costs of preparing and filing the application and the costs relating to the solicitation of shareholder approval of the Portfolios necessitated by the Transaction.

5. The Adviser and sub-advisers will take all appropriate steps so that the scope and quality of advisory and other services provided to the Portfolios during the Interim Period will be at least equivalent, in the judgment of the Board, including a majority of the Independent Directors, to the scope and quality of services previously provided. If personnel providing material services during the Interim Period change materially, the Adviser or any sub-adviser will apprise and consult with the Board to assure that the Directors, including a majority of the Independent Directors of the Fund, are satisfied that the services provided will not be diminished in scope or quality.

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

Margaret H. McFarland,

Deputy Secretary.

[FR Doc. 98–9124 Filed 4–7–98; 8:45 am]

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34–39823; File No. SR–CHX–98–03]

Self-Regulatory Organizations; Notice of Filing and Order Granting Accelerated Approval of Proposed Rule Change and Amendment No. 1 by the Chicago Stock Exchange, Incorporated Relating to the Trading of Nasdaq/NM Securities on the CHX

March 31, 1998.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (''Act''),[1] notice is hereby given that on February 3, 1998, the Chicago Stock Exchange, Incorporated (''CHX'' or ''Exchange'') filed with the Securities and Exchange Commission (''Commission'') the proposed rule change. The Exchange filed Amendment No. 1 to the proposal on March 25, 1998. The proposal, as amended, is described in Items I and II below, which Items have been prepared by the self-regulatory organization. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons and to grant accelerated approval of the proposed rule change.

I. Self-Regulatory Organizations Statement of the Terms of Substance of the Proposed Rule Change

The Exchange requests a three month extension of the pilot program relating to the trading of Nasdaq/NM Securities on the Exchange that is currently due to expire on March 31, 1998. Specifically, the pilot program amended Article XX, Rule 37 and Article XX, Rule 43 of the Exchange's Rules and the Exchange proposes that the amendments remain in effect on a pilot basis through June 30, 1998.

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

In its filing with the Commission, the Exchange included statements concerning the purpose of, and statutory 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 III below. The self-regulatory organization has prepared summaries, set forth in sections A, B, and C below, of the most significant aspects of such statements.

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

1. Purpose

On May 4, 1987, the Commission approved certain Exchange rules and procedures relating to the trading of Nasdaq/NM securities on the Exchange.[2] Among other things, these rules made the Exchange's BEST Rule guarantee (Article XX, Rule 37(a)) applicable to Nasdaq/NM securities and made Nasdaq/NM securities eligible for the automatic execution feature of the Exchange's Midwest Automated Execution System (''MAX system'').[3]

On January 3, 1997, the Commission approved,[4] on a one year pilot basis, a program that eliminated the requirement that CHX specialists automatically execute orders in Nasdaq/NM securities when the specialist is not quoting at the national best bid or best offer (''NBBO'').[5] When the Commission approved the program on a pilot basis, it noted that during the pilot program it was expected that the Exchange would effectuate a linkage between the CHX systems and Nasdaq systems in order to permit market makers in each market to route orders to the other market center.

The Commission also requested that the Exchange submit a report to the Commission describing the Exchange's experience with the pilot program. The Commission stated that the report should include at least six months worth of trading data. Due to programming issues, the pilot program was not implemented until April, 1997. Six months of trading data did not become available until November, 1997. As a result, the Exchange requested an additional three month extension to collect the data and prepare the report for the Commission.

On December 31, 1998, the Commission extended the pilot program for an additional three months to give the Exchange additional time to prepare and submit the report and to give the Commission adequate time to review the report prior to approving the pilot on a permanent basis.[6] The Exchange submitted the report to the Commission on January 30, 1998.

The current proposal, filed February 3, 1998 and amended March 24, 1998,[7] is for a continuation of the current pilot program through June 30, 1998.

Under the pilot program, specialists must continue to accept agency [8] market order or marketable limit orders, but only for orders of 100 to 1000 shares in Nasdaq/NM securities rather than the

[1] 15 U.S.C. § 78s(b)(1).

[2] *See* Securities Exchange Act Release No. 24424 (May 4, 1987), 52 FR 17868 (May 12, 1987) (order approving File No. SR–MSE–87–2). *See* Securities Exchange Act Release Nos. 28146 (June 26, 1990), 55 FR 27917 (July 6, 1990) (order expanding the number of eligible securities to 100); 36102 (August 14, 1995), 60 FR 43626 (August 22, 1995) (order expanding the number of eligible securities to 500).

[3] The MAX system may be used to provide an automated delivery and execution facility for orders that are eligible for execution under the Exchange's BEST rule and certain other orders. *See* CHX, Art. XX, Rule 37(b). A MAX order that fits under the BEST parameters is executed pursuant to the BEST Rule via the MAX system. If an order is outside the BEST parameters, the BEST Rule does not apply, but MAX system handling rules do apply.

[4] *See* Securities Exchange Act Release No. 38119.

[5] The NBBO is the best bid or offer disseminated pursuant to SEC Rule 11Ac1–1.

[6] *See* Securities Exchange Act Release No. 39512 (December 31, 1997), 62 FR 1517 (January 9, 1998).

[7] *See* Letter from David T. Rusoff, Foley & Lardner, to Gail A. Marshall, Division of Market Regulation, dated March 24, 1998.

[8] The term ''agency order'' means an order for the account of a customer, but shall not include professional orders as defined in CHX, Article XXX, Rule 2, interpretation and policy .04. The Rule defines a ''professional order'' as any order for the account of a broker-dealer, the account of an associated person of a broker-dealer, or any account in which a broker-dealer or an associated person of a broker-dealer has any direct or indirect interest.