

portfolio to brokerage firms unrelated to Mellon.

7. Prior to November 5, 1993, Mellon generally invested assets of Client Plans for which it acted as a trustee with investment discretion in a series of CIFs. In addition, certain Client Plans where investment decisions were directed by a Second Fiduciary generally used a CIF as an investment option for individual accounts in the Client Plans. However, on Friday, November 5, 1993, Mellon terminated several of its CIFs (as noted below) and transferred in-kind the assets that were in these CIFs to various corresponding Funds. Mellon represents that the initial acquisition of shares in the Funds by Client Plans invested in the CIFs was accomplished by distributing the CIF assets to the Client Plans, and then transferring these assets from the Client Plans to the corresponding Funds.

Mellon anticipates that there will be additional in-kind transfers of CIF assets to the Funds in the future. Such transfers will normally take place over a weekend. The steps involved in transferring the assets of a CIF attributable to a Client Plan's investment to a corresponding Fund are as follows:

(a) Prior to the transfer, the assets of the CIF are reviewed to determine whether they are appropriate investments for the corresponding Fund, consistent with the Fund's investment objectives and policies as well as the applicable requirements under the 1940 Act and the Code. Mellon determines whether the assets are capable of being divided between the CIF and the Fund (or among the Client Plans receiving distributions, if the CIF is terminating). Assets that are not appropriate investments for the corresponding Fund or are not capable of being divided are liquidated prior to the transfer date.<sup>5</sup>

(b) For purposes of the transfer, the values of the CIF assets are determined based on market value as of the close of business on the Friday preceding the transfer. Values are determined in a single valuation in accordance with the valuation procedures described in Rule 17a-7(b) under the 1940 Act, 17 CFR 270.17a-7(b).<sup>6</sup> As noted below in

paragraph (e), the valuation of the securities is performed in the same manner for both the CIF's assets and the corresponding Fund's assets at the close of the same business day using independent market sources.

(c) Having established the value of the CIF assets, the CIF accounting unit determines the value of each Client Plan's investment in the CIF. If the Client Plan is transferring its investment, or if the CIF is terminating, the Plan's pro rata share of each investment is distributed to the Client Plan, either in kind if all the CIF assets are securities, or partly in kind and partly in cash if part of the CIF assets consist of cash. Thus, each Client Plan receives a pro rata share of each security and any cash. The CIF, if not terminating, retains the securities and cash representing the pro rata shares of the Client Plans that are not transferring their investments to the Funds.<sup>7</sup>

(d) If the Second Fiduciary provides written approval of the transfer of its CIF investments to the Fund by the deadline set for such approval, the assets and cash received by the Client Plan from the CIF are contributed to the corresponding Fund to purchase shares of that Fund through an exchange of securities or investment of cash. Exchanges are conducted in accordance with the procedures described in the Fund prospectus, which provide that the securities being exchanged need to meet the receiving Fund's investment objectives, policies and limitations, have a readily ascertainable market value, be liquid, and not be subject to resale restrictions.

(e) The securities received by the Fund are valued by the Fund for purposes of the in-kind transfer transaction in the same manner as of the same business day as the assets were valued by the corresponding CIF and the per-share value of the Fund shares issued are based on the Fund's then-current net asset value as of such date. Therefore, the value of a Client Plan's investment in a Fund as of the start of business the following Monday, based on the Client Plan's pro rata share of the underlying market value of the securities transferred to the Funds, is the same as the value of its investment

in the corresponding CIF as of the close of business the previous Friday.

The CIFs involved in the initial series of transfers and their corresponding Funds are as follows:

Mellon CIF	Laurel fund
Portfolio <sup>8</sup>	
EB Intermediate Bond	Intermediate Income
EB Stock .....	Stock
EB Special Stock .....	Midcap Stock
EB Composite Bond	Bond Market Index
Index.	
EB Composite Bond .	Bond Market Index
EB Stock Index .....	S&P 500 Stock Index
EB Equity Market .....	S&P 500 Stock Index
EB Savings .....	Prime Money Market
	I
EB Enhanced Tem-	Short-Term Bond
porary Investment.	

<sup>8</sup>As of October 1994, these Funds were renamed as follows: (i) Premier Limited Term Income; (ii) Dreyfus Disciplined Stock; (iii) Dreyfus Disciplined Midcap Stock; (iv) Dreyfus Bond Market Index; (v) Dreyfus S&P 500 Stock Index; (vi) Dreyfus/Laurel Prime Money Market; and (vii) Dreyfus/Laurel Short-Term Bond.

Mellon states that because of the relatively small number of Client Plans approving the transfer of assets from the EB Intermediate Bond Fund, the EB Composite Bond Index Fund and the EB Composite Bond Fund, and because of the nature of the assets in these CIFs, the transfers from these CIFs were made totally in cash rather than in kind. The Client Plans investing in these CIFs that had approved the transfer received a distribution of the cash value of their CIF units, and that cash was then used to acquire shares of the corresponding Funds. Therefore, no exemptive relief is requested for the in-kind transfer of assets from these three CIFs.

Each Client Plan that approved the CIF asset transfers to the Funds received account statements describing the asset transfers either in mid-December 1993, if such Plans were on a monthly account statement schedule, or mid-January 1994, if such Plans were on a quarterly account statement schedule. The statements showed the disposition of the CIF units from the Client Plan account and the acquisition by the account of Fund shares, both posted as of Monday, November 23, 1992.<sup>9</sup> This

<sup>5</sup> Mellon states that such assets are sold in the open market and are not sold through any brokerage firm affiliated with Mellon.

<sup>6</sup> Rule 17a-7 permits transactions between investment funds that use the same investment adviser, subject to certain conditions. Rule 17a-7 requires, among other things, that such transactions be effected at the "independent current market price" for each security, involve only securities for which market quotations are readily available, involve no brokerage commissions or other remuneration, and comply with valuation

procedures adopted by the board of directors of the investment company to ensure that all requirements of the Rule are satisfied.

<sup>7</sup> Such distributions are made in compliance with 12 CFR 9.18(b)(6), which requires that distributions in kind from CIFs must be made "ratably". The Client Plans withdrawing from the CIF and the Client Plans remaining invested in the CIF each receive their pro rata portions of each CIF asset and the CIF cash, so that both groups of Plans retain the same asset quality and liquidity following the transfers.

<sup>9</sup> The following example illustrates the contents of such a statement: Assume a Client Plan held 12,506 units of the Mellon Employee Benefit Stock Fund prior to the asset transfers. The account statement showed a disposition of 12,506 units of Mellon Employee Benefit Stock Fund, at a value of \$72.08 per unit, on November 23, 1992, with total proceeds of \$901,432.18. The statement also showed a purchase on that same date of 90,143.218 shares of the Laurel Stock Fund, the Fund corresponding to the Mellon Employee Benefit Stock Fund, at \$10 per share, at a total cost of \$901,432.18, the same amount as the proceeds of