Dated: October 26, 2004.

Connie M. Downs,

OPIC Corporate Secretary.
[FR Doc. 04–24187 Filed 10–26–04; 10:55

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SECURITIES AND EXCHANGE COMMISSION

[Release No. IC-26642; File No. 812-13082]

American Family Life Insurance Company, et al.

October 21, 2004.

AGENCY: Securities and Exchange Commission (the "Commission").

ACTION: Notice of application for an order of approval pursuant to section 26(c) of the Investment Company Act of 1940, as amended (the "Act").

APPLICANTS: American Family Life Insurance Company (the "Company"), American Family Variable Account I (the "Life Account"), and American Family Variable Account II (the "Annuity Account") (collectively, the "Applicants").

SUMMARY OF APPLICATION: Applicants request an order approving the substitution of (1) Initial Class shares of the Fidelity VIP Mid Cap Portfolio ("Replacement Portfolio") of the Fidelity Variable Insurance Products Fund III ("Fidelity Fund") for Investor Class shares of Strong Mid Cap Growth Fund II ("Replaced Portfolio A") of the Strong Variable Insurance Funds, Inc. ("Strong Fund") and (2) Initial Class shares of the Replacement Portfolio for Investor Class shares of Strong Opportunity Fund II ("Replaced Portfolio B") of Strong Opportunity Fund II, Inc. ("Strong Opportunity Fund") currently held by the Life Account and the Annuity Account (each, an "Account," together, the "Accounts") to support variable life insurance or variable annuity contracts issued by the Company (collectively, the "Contracts").

FILING DATES: The application was filed on April 30, 2004, and amended and restated on August 25, 2004.

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 Secretary of the Commission and serving the 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 November 17, 2004, and should be accompanied by proof of

service on the 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 may request notification of a hearing by writing to the Secretary of the Commission.

ADDRESSES: Secretary, Securities and Exchange Commission, 450 Fifth Street, NW., Washington, DC 20549–0609. Applicants, c/o James F. Eldridge, Esq., American Family Life Insurance Company, 6000 American Parkway, Madison, Wisconsin 53783–0001, and Thomas E. Bisset, Esq., Sutherland Asbill & Brennan LLP, 1275 Pennsylvania Avenue, NW., Washington, DC 20004–2415.

FOR FURTHER INFORMATION CONTACT:

Rebecca A. Marquigny, Senior Counsel, or Zandra Bailes, Branch Chief, Office of Insurance Products, Division of Investment Management, at (202) 942–0670.

SUPPLEMENTARY INFORMATION: The following is a summary of the amended and restated application. The complete amended and restated application is available for a fee from the Commission's Public Reference Branch, 450 Fifth Street, NW., Washington, DC 20549–0102 (telephone 202–942–8090).

Applicants' Representations

- 1. The Company is a stock life insurance company organized under Wisconsin law in 1957. The Company conducts a conventional life insurance business and is authorized to transact the business of life insurance, including annuities, in seventeen states.
- 2. Each of the Accounts is a segregated asset account of the Company, is a "separate account" as defined by Rule 0–1(e) under the Act, and is registered with the Commission as a unit investment trust. Income, gains and losses, realized or unrealized, from the assets of each Account are credited to or charged against that Account without regard to other income, gains or losses of the Company. Purchase payments made under the Contracts are allocated to one or more subaccounts of each Account.
- 3. The Life Account currently is divided into 11 subaccounts, each of which invests exclusively in a specific investment portfolio of an underlying mutual fund. The assets of the Life Account support variable life insurance contracts issued by the Company, and interests in the Life Account offered through such Contracts have been registered under the Securities Act of

1933, as amended (the "1933 Act") on Form N-6 (File No. 333-44956).

4. The Annuity Account currently is divided into 11 subaccounts, each of which invests exclusively in a specific investment portfolio of an underlying mutual fund. The assets of the Annuity Account support variable annuity contracts issued by the Company, and interests in the Annuity Account offered through such contracts have been registered under the 1933 Act on Form N–4 (File No. 333–45592).

5. The Contracts are flexible premium variable annuity and variable life insurance contracts. For as long as a variable life insurance Contract remains in force or a variable annuity Contract has not yet been annuitized, a Contract owner may transfer all or part of the Contract value from one subaccount to another subaccount or to a fixed account. The Company reserves the right to revoke or modify the transfer privilege at any time, and reserves the right to assess a charge for transfers in excess of 12 per transfer year.

6. Each of the Contracts expressly reserves for the Company the right, subject to compliance with applicable law, to substitute shares of one underlying mutual fund or portfolio held by a subaccount of an Account for another. This right is disclosed in the prospectuses for the Contracts.

7. The Company proposes to substitute Initial Class shares of the Replacement Portfolio for Investor Class shares of Replaced Portfolio A and Investor Class shares of Replaced Portfolio B held in the Accounts (the "proposed substitutions"). The proposed substitutions are part of an effort by the Company to provide a portfolio selection within the Contracts that: (1) Better represents the designated asset classes; (2) provides more favorable name recognition; and (3) provides more competitive long-term returns relative to other funds in the asset class peer group.

8. The Strong Fund is registered as an open-end management investment company under the Act (File No. 811–06553) and currently offers 3 separate investment portfolios, only one of which, Replaced Portfolio A, would be involved in the proposed substitution. The Strong Fund issues a separate series of shares of beneficial interest in connection with each portfolio and has registered such shares under the 1933 Act on Form N–1A (File No. 33–45321). Strong Capital Management, Inc. ("Strong") serves as the investment adviser to each portfolio.

9. The investment objective of Replaced Portfolio A is capital growth through investment of at least 80% of its net assets in stocks of mediumcapitalization companies (substantially from the technology sector) that the Portfolio's managers believe have favorable prospects for growth of earnings and capital appreciation. The net operating expenses (i.e., after expense waivers and fee reimbursements) for the year ended December 31, 2003, was 1.18% (expressed as a percentage of average daily net assets). The average annual total return for the past three fiscal years for Replaced Portfolio A was: -30.8% (2001); -37.6% (2002); and 34.2% (2003).

10. The Strong Opportunity Fund is registered as an open-end management investment company under the Act (File No. 811-06552) and currently offers one investment portfolio, Replaced Portfolio B. The Strong Opportunity Fund issues a series of shares of beneficial interest in connection with the portfolio and has registered such shares under the 1933 Act on Form N–1A (File No. 33–45320). Strong serves as investment adviser to

the portfolio.

11. The investment objective of Replaced Portfolio B is capital growth through investment primarily in stocks of medium-capitalization companies (defined as companies with market capitalization substantially similar to that of companies in the Russell Midcap Index) that the Portfolio's managers believe are underpriced yet have favorable prospects for growth of earnings. The net operating expenses (i.e., after expense waivers and fee reimbursements) for the year ended December 31, 2003, was 1.09% (expressed as a percentage of average daily net assets). The average annual total return for the past three fiscal years for Replaced Portfolio B was: -3.7% (2001); -26.8% (2002); and 37.0% (2003).

12. The Fidelity VIP Fund is registered as an open-end management investment company under the Act (File No. 811–07205); the Replacement Fund is one of seven investment portfolios it currently offers. The Fidelity VIP Fund issues a series of shares of beneficial interest in connection with each portfolio and has registered such shares under the 1933 Act on Form N-1A (File No. 33–54837). Each portfolio of the Fidelity VIP Fund has entered into an agreement with Fidelity Management & Research Company ("FMR") under which FMR acts as investment adviser for the portfolio. Under each such investment advisory agreement, FMR has overall responsibility for the selection of investments in accordance with the investment objective, policies and limitations of the portfolio, and for

handling the portfolio's business affairs. FMR Co., Inc. ("FMRC"), an investment adviser affiliate of FMR, has entered into a sub-advisory agreement with FMR under which FMRC acts as subadviser for each portfolio of the Fidelity VIP Fund, including the Replacement Portfolio. FMRC has daily responsibility for the management of the investment and reinvestment of the assets of the Replacement Portfolio.

13. The investment objective of the Replacement Portfolio is long-term growth of capital through investment of at least 80% of portfolio assets in securities of companies with medium market capitalization (defined as companies with market capitalization similar to that of companies in the Russell Midcap Index or the S&P MidCap 400). The net operating expenses (i.e., after expense waivers and fee reimbursements) for the year ended December 31, 2003, was 0.70% (expressed as a percentage of average daily net assets). The average annual total return for the past three fiscal years for the Replacement Portfolio was: -3.26% (2001); -9.82% (2002); and 38.64% (2003).

14. Applicants assert that the Replacement Portfolio is an appropriate replacement for the Replaced Portfolios for each Contract. The investment objectives of the Replacement Portfolio are substantially identical to those of Replaced Portfolio A. Both pursue their investment objective by investing, under normal market conditions, at least 80% of their assets in medium capitalization companies that have favorable growth prospects. The investment adviser for Replaced Portfolio A and the investment adviser for the Replacement Portfolio also emphasize an active trading approach and rely on a fundamental analysis of each company in making an investment decision.

15. The Replacement Portfolio's investment objective also is substantially similar to that of Replaced Portfolio B. Both pursue their investment objective by investing primarily in medium capitalization companies that have favorable growth prospects. The investment adviser for Replaced Portfolio B and the investment adviser for the Replacement Portfolio also rely on a fundamental analysis of each company before making an investment decision.

16. Applicants represent that the Replacement Portfolio has available to it transactional advantages attributable to achieve economies of scale greater than those of each Replaced Portfolio and has a significantly lower expense ratio than either Replaced Portfolio even after expense waivers and reimbursements

for the Replaced Portfolios have been taken into account.

17. In the May 2004 prospectuses for the Accounts and the Contracts, the Company notified owners of the Contracts of its intention to take the necessary actions, including the order requested by the amended and restated application, to carry out the proposed substitutions. The current prospectus for the Replacement Fund and the current prospectuses for each of the other portfolios available as investment options available under the Contracts, were bound together with the May 1, 2004, prospectuses for the Contracts and the Accounts.

Applicants' Legal Analysis

- 1. Section 26(c) of the Act requires the depositor of a registered unit investment trust holding the securities of a single issuer to receive Commission approval before substituting the securities held by the trust. The Commission will approve such a substitution if the evidence establishes that the substitution is consistent with the protection of investors and the purposes fairly intended by the policy and provisions of the Act.
- 2. The proposed substitutions appear to involve the substitution of securities within the meaning of Section 26(c) of the Act. Applicants therefore request an order from the Commission pursuant to Section 26(c) approving the proposed substitutions.
- 3. Applicants maintain that Contract owners will be better served by the proposed substitutions and that the proposed substitutions are appropriate given the Portfolios and other investment options available under the Contracts. In the last three years, the Replacement Portfolio has had investment performance superior to that of each Replaced Portfolio. The Replacement Portfolio has had substantially lower expenses over this same period than each Replaced Portfolio and substantially greater
- 4. Applicants assert that the Replacement Portfolio and Replaced Portfolio A are substantially the same in their stated investment objectives and principal investment strategies. Applicants represent that the Replacement Portfolio and Replaced Portfolio B are substantially similar in their stated investment objectives and principal investment strategies as to afford investors continuity of investment. Applicants also assert that there is similarity in the principal investment risks for each Replaced Portfolio and the Replacement Portfolio.

- 5. Applicants state that, although each Replaced Portfolio benefits from an expense reimbursement arrangement that reduces the Portfolio's expenses, even after the reimbursements for the Replaced Portfolios have been taken into account, the expenses of the Replacement Portfolio are still lower than those of each Replaced Portfolio. Also, there is no assurance that the expense reimbursement arrangements for the Replaced Portfolios will continue in the future. Moreover, for two years following the proposed substitution, Contract owners affected by the proposed substitution will benefit from a subaccount and underlying Portfolio with aggregate annualized expenses that can be no higher than the aggregate annualized expenses of Replaced Portfolio B and the subaccount invested in Replaced Portfolio B for the fiscal year ended December 31, 2003.
- 6. Applicants assert that the proposed substitutions are not the type of substitution that Section 26(c) was designed to prevent. Unlike traditional unit investment trusts where a depositor could only substitute an investment security in a manner which permanently affected all the investors in the trust, the Contracts provide each Contract owner with the right to exercise his or her own judgment and transfer Contract values into other subaccounts, Moreover, the Contracts will offer Contract owners the opportunity to transfer amounts out of the affected subaccounts into any of the remaining subaccounts without cost or disadvantage. Applicants assert that the proposed substitutions, therefore, will not result in the type of costly forced redemption that Section 26(c) was designed to prevent.
- 7. Applicants represent that the proposed substitutions also are unlike the type of substitution that Section 26(c) was designed to prevent in that by purchasing a Contract, Contract owners select much more than a particular investment company in which to invest their Contract values. They also select the specific type of coverage offered by the Company under the Contract, as well as numerous other rights and privileges set forth in the Contract. Contract owners may also have considered the size, financial condition, type and reputation for service of the Company, from whom they purchased their Contract in the first place. These factors will not change because of the proposed substitutions.
- 8. Further, the proposed substitutions are consistent with the protection of investors and the purposes fairly intended by the Act for the following reasons:

- a. Within five days after the proposed substitutions, Applicants represent that the Company will send Contract owners who are affected by the substitutions written notice informing them that the substitutions have taken place, and will explain other procedures the Company intends to follow in connection with Contract owner transfers and exchanges following the substitutions.
- b. From June 1, 2004, until the date of the proposed substitutions, the Company will permit Contract owners to make transfers of Contract value out of each Replaced Portfolio subaccount to other subaccounts or the fixed account without those transfers counting toward the limited number of transfers permitted each Contract year without a transfer charge. Likewise, for at least 30 days following the proposed substitutions, the Company will permit Contract owners affected by the substitutions to transfer Contract value out of the Replacement Portfolio subaccount to other subaccounts or the fixed account without those transfers counting toward the limited number of transfers permitted each Contract year without a transfer charge.
- c. The Company will carry out the proposed substitutions by redeeming shares of each Replaced Portfolio held by the Accounts for cash and then applying the proceeds to the purchase of shares of the Replacement Fund. The proposed substitutions will take place at relative net asset value with no change in the amount of any Contract owner's Contract value or death benefit, or in the dollar value of his or her investment in any of the Accounts.
- d. Contract owners will not incur any fees or charges as a result of the proposed substitutions, nor will their rights or the Company's obligations under the Contracts be altered in any way. The Company will pay all applicable expenses incurred in connection with the proposed substitutions, including brokerage commissions and legal, accounting, and other fees and expenses. The proposed substitutions will not cause the Contract fees and charges currently being paid by existing Contract owners to be greater after the proposed substitutions than before the proposed substitutions. In addition, the proposed substitutions will not result in adverse tax consequences for and will not alter the tax benefits to Contract owners.
- e. For those who were Contract owners on the date of the proposed substitutions, the Company will reimburse, on the last business day of each fiscal period (not to exceed a fiscal quarter) during the twenty-four months following the date of the proposed

substitutions, the subaccount investing in the Replacement Portfolio such that the sum of the Replacement Portfolio's operating expenses (taking into account fee waivers and expense reimbursements) and subaccount expenses (asset-based fees and charges deducted on a daily basis from subaccount assets and reflected in the calculation of subaccount unit values) for such period will not exceed, on an annualized basis, the sum of Replaced Portfolio B's operating expenses (taking into account fee waivers and expense reimbursements) and subaccount expenses for the fiscal year preceding the date of the proposed substitution. In addition, for twenty-four months following the proposed substitutions, the Company will not increase assetbased fees or charges for Contracts outstanding on the date of the proposed substitutions.

Conclusion

Applicants request an order of the Commission pursuant to Section 26(c) of the Act approving the substitutions. Section 26(c) in pertinent part, provides that the Commission shall issue an order approving a substitution of securities if the evidence establishes that it is consistent with the protection of investors and the purposes fairly intended by the policy and provisions of Act.

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

J. Lynn Taylor,

Assistant Secretary.
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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-50561; File No. 4-429]

Joint Industry Plan; Order Approving Joint Amendment No. 13 to the Options Intermarket Linkage Plan Regarding Natural Size

October 19, 2004.

I. Introduction

On May 10, 2004, May 11, 2004, June 22, 2004, July 21, 2004, August 12, 2004, and August 16, 2004, the International Securities Exchange, Inc. ("ISE"), the Chicago Board Options Exchange, Inc. ("CBOE"), the American Stock Exchange LLC ("Amex"), the Pacific Exchange, Inc. ("PCX"), the Philadelphia Stock Exchange, Inc. ("Phlx"), and the Boston Stock Exchange, Inc. ("BSE") (collectively, the "Participants"), respectively, filed with