

**Summary of Proposal(s)**

- (1) *Collection title:* Survivor Questionnaire.
- (2) *Form(s) submitted:* RL-94-F.
- (3) *OMB Number:* 3220-0032.
- (4) *Expiration date of current OMB clearance:* 6/30/2003.
- (5) *Type of request:* Extension of a currently approved collection.
- (6) *Respondents:* Individuals or households.
- (7) *Estimated annual number of respondents:* 8,000.
- (8) *Total annual responses:* 8,000.
- (9) *Total annual reporting hours:* 1,391.
- (10) *Collection description:* Under section 6 of the Railroad Retirement Act, benefits are payable to the survivors or the estates of deceased railroad employees. The collection obtains information about the survivors if any, the payment of burial expenses and administration of estate when unknown to the Railroad Retirement Board. The information is used to determine whether and to whom benefits are payable.

*Additional Information or Comments:* Copies of the forms and supporting documents can be obtained from Chuck Mierzwa, the agency clearance officer (312-751-3363).

Comments regarding the information collection should be addressed to Ronald J. Hodapp, Railroad Retirement Board, 844 North Rush Street, Chicago, Illinois, 60611-2092 and to the OMB Desk Officer for the RRB, at the Office of Management and Budget, Room 10230, New Executive Office Building, Washington, DC 20503.

**Chuck Mierzwa,**  
Clearance Officer.

[FR Doc. 03-8871 Filed 4-10-03; 8:45 am]

BILLING CODE 7905-01-M

**SECURITIES AND EXCHANGE COMMISSION**

[Release No. IC-25994; File No. 812-12815]

**Principal Life Insurance Company, et al., Notice of Application**

April 7, 2003.

**AGENCY:** Securities and Exchange Commission ("SEC" or "Commission").

**ACTION:** Notice of application for an order pursuant to section 26(c) of the Investment Company Act of 1940 (the "Act") approving the substitution of securities and an order of exemption pursuant to section 17(b) of the Act.

**APPLICANTS:** Principal Life Insurance Company ("Principal Life"), Principal

Life Insurance Company Variable Life Separate Account (the "Separate Account").

**SUMMARY OF APPLICATION:** Applicants seek an order to permit, under the specific circumstances identified in the application, the substitution of shares of the Bond Account of Principal Variable Contracts Fund, Inc. ("Bond Account") for shares of the High Yield Account of Principal Variable Contracts Fund, Inc. ("High Yield Account"). The shares are currently held by the Separate Account which is a unit investment trust under the Act. Applicants also request an order exempting the proposed substitution from the provisions of section 17(a) of the Act.

**FILING DATE:** The Application was filed on May 8, 2002, and amended on December 19, 2002, and March 24, 2003.

**HEARING OR NOTIFICATION OF HEARING:** An order granting the Application will be issued unless the SEC orders a hearing. Interested persons may request a hearing by writing to the SEC's Secretary and serving Applicants with a copy of the request, personally or by mail. Hearing requests should be received by the SEC by 5:30 on April 29, 2003 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 SEC's Secretary.

**ADDRESSES:** Secretary, SEC, 450 5th Street, NW, Washington, DC 20549. Applicants, c/o John W. Blouch, Esq., Jones & Blouch L.L.P., 1025 Thomas Jefferson Street, NW., Washington, DC 20007-0805; copy to Michael D. Roughton, Esq., Principal Financial Group, Inc., 711 High Street, Des Moines, Iowa 50392-0200.

**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:** Following is a summary of the Application; the complete Application is available for a fee from the SEC's Public Reference Branch, 450 Fifth Street, NW., Washington, DC 20549-0102 (telephone (202) 942-8090).

**Applicants' Representations**

1. Principal Life is a stock life insurance company organized under the laws of Iowa in 1879. It is authorized to

transact life insurance and annuity business in all of the United States and the District of Columbia.

2. The Separate Account was established in 1987 by Principal Life as a separate account under Iowa law for the purpose of funding variable life contracts issued by Principal Life. The only contract affected by this application is a flexible premium variable life insurance policy called "Flex Variable Life" (File No. 33-13481) (the "Contract"). The Separate Account is registered as a unit investment trust under the Act.

3. Purchase payments for the Contract are allocated to one or more subaccounts ("Divisions") of the Separate Account. The Contracts permit allocations of accumulation value to the available Divisions. Each Division invests in shares of an underlying mutual fund ("Underlying Fund"). There currently are 40 Divisions available under the Contract, 23 of which invest in Principal Variable Contracts Fund, Inc. ("Principal Fund"), an open-end management investment company registered under the Act (File Nos. 811-01944 and 002-35570). The only Divisions affected by this application are the High Yield Division which invests solely in the High Yield Account and the Bond Division which invests solely in the Bond Account. The High Yield Account and the Bond Account are referred to collectively as the "Funds."

4. The Contract permits transfers of accumulation value from one Division to another. No sales charge applies to a transfer of accumulation value among the Divisions. Under the Contract, four free transfers are permitted each year, and \$25 is charged for each subsequent transfer.

5. Applicants propose a substitution of shares of the Bond Account for shares of the High Yield Account held by the High Yield Division.

6. The High Yield Account is managed by Principal Management Corporation ("PMC"), an indirect, wholly-owned subsidiary of Principal Financial Group, Inc. The High Yield Account's investment objective is to seek high current income primarily by purchasing high yielding, lower or non-rated, fixed income securities which are believed not to involve undue risk to income or principal. Capital growth is a secondary objective when consistent with the objective of high current income. The expense ratio of the High Yield Account for 2002 was 0.66%. The High Yield Account has no 12b-1 plan. The total return of the High Yield Account was 1.90% for the year ended December 31, 2002. The average annual

total return for the five-year period ended December 31, 2002, was  $-0.12\%$  and for the ten-year period ended December 31, 2002 was  $6.51\%$ .

7. The Bond Account is managed by PMC. The Bond Account's investment objective is to seek as high a level of income as is consistent with the preservation of capital and prudent investment risk by investing primarily in intermediate maturity fixed-income or debt securities rated BBB or higher by Standard & Poor's Rating Service or Baa or higher by Moody's Investor's Service, Inc. The expense ratio of the Bond Account for 2002 was  $0.49\%$ . The Bond Account has no 12b-1 plan. The total return of the Bond Account for the year ended December 31, 2002, was  $9.26\%$ . The average annual total return for the five-year period ended December 31, 2002, was  $6.04\%$ , and for the ten-year period ended December 31, 2002 was  $7.23\%$ . There are no fee waiver or expense reimbursement provisions with respect to either Fund.

8. Applicants believe that the substitution will better serve the interests of contractowners because it will eliminate an investment option under the Contract that has never been able to attract significant contractowner interest, will provide contractowners with an investment in an account that has similar, although not identical, investment objectives and policies, a lower expense ratio and superior historical performance, and should benefit contractowners by providing economies of scale that result from investing in a much larger account. Applicants represent that the substitution will take place at the relative net asset values determined on the date of the substitution in accordance with Section 22 of the Act and Rule 22c-1 thereunder. Applicants represent that there will be no financial impact to any contractowner.

9. Applicants agree that, to the extent that the annualized expenses of the Bond Account exceed, for each fiscal quarter during the two-year period following the Substitution, the 2002 net expense level of the High Yield Account, Principal Life will, for each Contract outstanding on the date of the Substitution, make a reduction in (or reimbursement of) the Bond Division expenses on the last day of each such fiscal period, such that the sum of the net expenses of the Bond Account and the net expenses of the Bond Division will, on an annualized basis, be no greater than the sum of the net expenses of the High Yield Account and the net expenses of the High Yield Division for the 2002 fiscal year. In addition, for the two-year period following the

Substitution, Principal Life will not increase asset-based fees or charges under the Contract.

10. The substitution will be effected by having the High Yield Division redeem its shares of the High Yield Account for cash at the net asset value calculated on the date of the substitution and purchase shares of the Bond Account for cash at net asset value on the same date. In the alternative, the substitution may be effected by having a partial "in-kind" redemption with the High Yield Division receiving from the High Yield Account securities that are eligible investments for the Bond Account and that have a value equal to the net asset value of the shares of the High Yield Account being redeemed and then contributing these securities to the Bond Account in exchange for shares of the Bond Account having a net asset value equal to the value of the securities contributed (the "In-Kind Transaction"). In connection with the completion of the substitution, Principal Life will withdraw its seed money from the High Yield Account and terminate the High Yield Account. In addition, Principal Life will combine the High Yield Division with the Bond Division.

11. Applicants represent that the proposed substitution was described in a supplement to the prospectus for the Contract ("Sticker") filed with the Commission on August 16, 2002, and mailed to contractowners. The Sticker gave contractowners notice of the substitution, described the reasons for engaging in the substitution and informed the contractowners that no amounts may be transferred to the High Yield Division on or after May 31, 2003. In addition, the Sticker informed affected contractowners that they will have an opportunity to reallocate accumulation value, prior to the substitution, from the High Yield Division, or for 60 days after the substitution, from the Bond Division to another Division available under the Contract, without the imposition of any transfer-charge or limitation and without counting the transfer as one of the four annual free transfers (the "Free Transfer Right"). Contractowners may elect to reallocate accumulation value to the Fidelity VIP High Yield Division ("Fidelity High Income Division") that invests solely in an Underlying Fund that, like the High Yield Account, emphasizes investment in lower-quality debt securities.

12. Each contractowner has been provided a prospectus for the Bond Account. Within five days after the substitution, Principal Life will send to contractowners written confirmation that the substitution has occurred.

13. Applicants represent that Principal Life will pay all expenses and transaction costs of the substitution. Affected contractowners will not incur any fees or charges as a result of the substitution, nor will their rights or the obligations of Principal Life under the Contract be altered in any way. The proposed substitution will not cause the fees and charges under the Contract currently being paid by contractowners to be greater after the substitution than before the substitution. The proposed substitution will not have a tax impact on contractowners.

#### Applicants' Legal Analysis

1. Applicants request an order pursuant to section 26(c) of the Act approving the substitution. Section 26(c) of the Act makes it unlawful for any depositor or trustee of a registered unit investment trust holding the security of a single issuer to substitute another security for such security unless the Commission approves the substitution. The Commission will approve such a substitution if the evidence establishes that it is consistent with the protection of investors and the purposes fairly intended by the policy and provisions of the Act.

2. Applicants assert that the purposes, terms and conditions of the substitution are consistent with the principles and purposes of section 26(c) and do not entail any of the abuses that section 26(c) is designed to prevent. Substitution is an appropriate solution to the small size and higher relative expense of the High Yield Account. Applicants believe that the Bond Account will better serve contractowner interests because of its larger size, lower expenses and better historical performance. Moreover, Principal Life has reserved the right to effect substitutions in the Contract and disclosed this reserved right in the prospectus for the Contract.

3. Applicants represent that the substitution will not result in the type of costly, forced redemption that section 26(c) was intended to guard against and, for the following reasons, is consistent with the protection of investors and the purposes fairly intended by the Act:

(a) The proposed substitution permits contractowners continuity of investment objectives and expectations. Both the Bond Account and the High Yield Account seek a high level of income through investing in fixed-income securities. Although the Bond Account and the High Yield Account differ significantly in the credit quality of the securities in which each principally invests, there is substantial overlap in the range of the credit qualities of the

securities in which each may invest, and the Bond Account, with its emphasis on investment grade securities, will afford shareholders of the High Yield Account an opportunity for continued, if reduced, investment exposure to high yield securities.

(b) The contract owners will have ample opportunity to consider their investment options because they will be given notice prior to the substitution and will have an opportunity to reallocate accumulation value among other available Divisions without the imposition of any transfer charge or limitation as a result of the Free Transfer Right. Contractowners who wish to maintain a higher investment exposure to high yield securities than is possible through the Bond Division may elect to reallocate accumulation value to the Fidelity High Income Division available under the Contract.

(c) The costs of the substitution will be borne by Principal Life and will not be borne by the Funds or the contractowners.

(d) The substitution will be at net asset values of the respective shares, without the imposition of any transfer or similar charge and with no change in the amount of any contractowner's accumulation value under the Contract.

(e) The substitution will not cause the fees and charges under the Contract currently being paid by contractowners to be greater after the substitution than before the substitution.

(f) Within five days after the substitution, Principal Life will send to contractowners written confirmation that the substitution has occurred.

(g) The substitution will in no way alter the insurance benefits to contractowners or the contractual obligations of Principal Life.

(h) The substitution will in no way alter the tax benefits to contractowners.

(i) To the extent that the annualized expenses of the Bond Account exceed, for each fiscal quarter during the two-year period following the substitution, the 2002 net expense level of the High Yield Account, Principal Life will, for each Contract outstanding on the date of the substitution, make a reduction in (or reimbursement of) the Bond Division expenses on the last day of each such fiscal period, such that the sum of the net expenses of the Bond Account and the net expenses of the Bond Division will, on an annualized basis, be no greater than the sum of the net expenses of the High Yield Account and the net expenses of the High Yield Division for the 2002 fiscal year. In addition, for the two-year period following the substitution, Principal Life will not

increase asset-based fees or charges under the Contract.

4. Section 17(a) of the Act provides, in pertinent part, that it is unlawful for any affiliated person of a registered investment company, or any affiliated person of such an affiliated person, acting as principal, knowingly to sell any security or other property to such registered company or to purchase from such registered company any security or other property. Section 2(a)(3) of the Act defines the term "affiliated person" of another person to include in pertinent part "(A) any person directly or indirectly owning, controlling, or holding with power to vote, 5 per centum or more of the outstanding voting securities of such other person; (B) any person 5 per centum or more of whose outstanding voting securities are directly or indirectly owned, controlled, or held with power to vote, by such other person; (C) any person directly or indirectly controlling, controlled by, or under common control with such other person; \* \* \* (E) if such other person is an investment company, any investment adviser thereof or any member of an advisory board thereof."

5. Each of the Funds was sponsored by Principal Life. Principal Life may be deemed an affiliated person of an affiliated person of each of the Funds because it is under common control with PMC, which serves as the investment adviser to the Funds. Moreover, Principal Life is the owner of all the outstanding shares of the Bond Account and all of the outstanding shares of the High Yield Account. As a result of these relationships, the Funds might be deemed to be under common control and, therefore, affiliated persons of each other for purposes of the prohibitions set forth in section 17(a) of the Act. Thus, absent exemptive relief, consummation of the substitution using the In-Kind Transaction could result in a violation of section 17(a) because the transaction would involve the purchase from and sale of securities to an investment company by an affiliated person, or an affiliated person of an affiliated person, of that investment company.

6. Section 17(b) of the Act provides that the Commission may exempt any transaction from the prohibitions of section 17(a) if the evidence establishes that:

(a) The terms of the proposed transaction, including the consideration to be paid or received, are fair and reasonable and do not involve overreaching on the part of any person concerned;

(b) The proposed transaction is consistent with the policy of each

registered investment company concerned, as recited in the registration statements and reports filed under the Act; and

(c) The proposed transaction is consistent with the general purposes of the Act.

7. Applicants assert that the terms of the proposed In-Kind Transaction are reasonable and fair and do not involve any overreaching on the part of any person concerned. The substitution will be accomplished on the basis of the relative net asset values of each of the Funds and, therefore, will have no economic impact on the interest of any contractowner.

8. Applicants assert that the substitution is consistent with the investment objective of each of the Funds in that both Funds seek a high level of income through investing in fixed-income securities. Although the funds differ significantly in the credit quality of the securities in which each principally invests, there is substantial overlap in the range of the credit qualities of the securities in which each may invest, and the Bond Account, with its emphasis on investment grade securities, will nonetheless afford contractowners with an interest in the High Yield Division an opportunity for continued, if reduced, investment exposure to high yield securities. In addition, contractowners with an opportunity to transfer their interest, without charge, to any other Division, including the Fidelity High Income Division.

9. Applicants assert that the substitution is consistent with the general purposes of the Act. Section 1(b)(2) of the Act declares that the public interest and interest of investors are adversely affected when investment companies are organized and managed in the interest of affiliated persons, rather than in the interest of the company's security holders. The substitution does not result in any of the self-dealing abuses that the Act was designed to prevent. Principal Life will pay all expenses incurred in connection with the substitution. The substitution will be effected by Principal Life in accordance with the terms of the Contract. The substitution will eliminate a small fund that has never been able to attract significant investor interest, will provide contractowners with an interest in that fund with an interest in a fund that has similar, although not identical, investment objectives and policies as well as a lower expense ratio and superior historical performance, and should benefit the shareholders of both Funds by providing economies of scale that

result from combining the assets and operations of the two Funds.

10. Applicants request an order of the Commission pursuant to Section 26(c) of the Act approving the substitution and an order of exemption pursuant to section 17(b) of the Act in connection with aspects of the substitution that may be deemed to be prohibited by section 17(a), as described above. 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 the Act. For the reasons and upon the facts set forth above, Applicants believe that the requested order meets the standards set forth in section 26(c) and should, therefore, be granted. Section 17(b) of the Act provides that the Commission may grant an order exempting transactions prohibited by section 17(a) of the Act upon application subject to certain conditions. Applicants represent that the proposed In-Kind Transaction meets all of the requirements of section 17(b) of the Act and that an exemption should be granted, to the extent necessary, from the provisions of section 17(a).

#### Conclusion

Section 6(c) of the Act, in pertinent part, provides that the Commission, by order upon application, may conditionally or unconditionally exempt any persons, security or transaction, or any class or classes of persons, securities or transactions, from any provision or provisions of the Act, or any rule or regulation thereunder, 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 submit that, for the reasons stated in the Application, their exemptive requests meet the standards set out in section 6(c) and that an order should, therefore, be granted.

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

**Margaret H. McFarland,**

*Deputy Secretary.*

[FR Doc. 03-8921 Filed 4-10-03; 8:45 am]

**BILLING CODE 8010-01-P**

## SECURITIES AND EXCHANGE COMMISSION

[Release No. IC-25995; File No. 812-12840]

### Principal Life Insurance Company, et al., Notice of Application

April 7, 2003.

**AGENCY:** Securities and Exchange Commission ("SEC" or "Commission").

**ACTION:** Notice of application for an order pursuant to section 26(b) of the Investment Company Act of 1940 (the "Act") approving the substitution of securities and an order of exemption pursuant to section 17(b) of the Act.

**APPLICANTS:** Principal Life Insurance Company ("Principal Life"), Principal Life Insurance Company Variable Life VL Separate Account (the "VL Separate Account"), and Principal Life Insurance Company Separate Account B ("Separate Account B").

**SUMMARY:** Applicants seek an order to permit, under the specific circumstances identified in the application, the substitution of shares of the SmallCap Account of Principal Variable Contracts Fund, Inc. ("SmallCap Account") for shares of the MicroCap Account of Principal Variable Contracts Fund, Inc. ("MicroCap Account"). Applicants also request an order exempting the proposed substitution from the provisions of section 17(a) of the Act.

**DATES:** The Application was filed on May 8, 2002, and amended on December 19, 2002, and March 24, 2003.

**HEARING OR NOTIFICATION OF HEARING:** An order granting the Application will be issued unless the SEC orders a hearing. Interested persons may request a hearing by writing to the SEC's Secretary and serving Applicants with a copy of the request, personally or by mail. Hearing requests should be received by the SEC by 5:30 on April 29, 2003, 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 SEC's Secretary.

**ADDRESSES:** Secretary, SEC, 450 5th Street, NW., Washington, DC 20549. Applicants, c/o John W. Blouch, Esq., Jones & Blouch L.L.P., 1025 Thomas Jefferson Street, NW., Washington, DC 20007-0805; copy to Michael D. Roughton, Esq., Principal Financial Group, Inc., 711 High Street, Des Moines, Iowa 50392-0200.

#### 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:** Following is a summary of the Application; the complete Application is available for a fee from the SEC's Public Reference Branch, 450 Fifth Street, NW., Washington, DC 20549-0102 (telephone (202) 942-8090).

#### Applicants' Representations

1. Principal Life is a stock life insurance company organized under the laws of Iowa in 1879. It is authorized to transact life insurance and annuity business in all of the United States and the District of Columbia.

2. The VL Separate Account was established in 1987 by Principal Life as a separate account under Iowa law for the purpose of funding variable life contracts issued by Principal Life (File No. 811-05118). Separate Account B was established in 1970 by Principal Life as a separate account under Iowa law for the purpose of funding variable annuity contracts issued by Principal Life (File No. 811-02091). The only contracts affected by this application are: (a) Four flexible premium variable life insurance policies called "Flex Variable Life" (File No. 033-13481) ("FVL Contract"), "Prinflex Life" (File No. 333-00101) ("Prinflex Contract"), "Survivorship Variable Universal Life" (File No. 333-71521) ("Survivorship Contract"), and "Principal Variable Universal Life Accumulator" (File No. 333-65690) ("Accumulator Contract"); (b) an individual deferred annuity contract called "Flexible Variable Annuity" (File No. 33-74232) ("FVA Contract"); and (c) a group variable annuity contract called "Premier Variable Annuity Contract" (File No. 333-63401) ("Premier Contract," collectively with FVL Contract, Prinflex Contract, Survivorship Contract, Accumulator Contract and FVA Contract, the "Contracts").

3. Purchase payments for FVL, Prinflex, Survivorship and Accumulator Contracts are allocated to one or more subaccounts ("Divisions") of VL Separate Account. Purchase payments for FVA and Premier Contracts are allocated to one or more Divisions of Separate Account B. The Contracts permit allocations of accumulation value to the available Divisions. Each Division invests in shares of an underlying mutual fund ("Underlying Fund"). There currently are 40 Divisions available under the FVL