

million in cash deposit and \$700 million in committed line(s) of credit.<sup>22</sup> In the event that a participant fails to settle for any reason, the all-cash fund in most cases should provide enough immediate liquidity to complete settlement without causing DTC to use its lines of credit. The size of the fund, \$400 million in cash, was designed to provide sufficient liquidity to cover all but a few of DTC's largest participants' individual net settlement debits. The \$700 million in committed lines of credit should provide additional liquidity sufficient to cover the large end-of-day net debits expected to be produced by these few largest participants with the application of a new net debit cap of \$900 million.

Although the minimum deposit to the Participants Fund has been decreased from \$200,000 to \$10,000, participants will be required to deposit additional amounts based on the size of their intraday net debits weighted against other participants' net debits. As a result, the cash deposits in the SDFS system fund will be increased from \$210 to \$400 million. The allocation under the new Participants Fund formula will apportion fund deposits among participants in proportion to the liquidity requirements they generate in the system. The new Participants Fund formula also will more accurately reflect each participant's liquidity requirements because it is based on a participant's net debit peaks for the prior sixty days. The current fund formula is based on a participant's average gross debits and credits only for the prior month. While the use of gross debits and credits reflects a participant's activity levels, the use of net debit peaks reflects a participant's actual liquidity needs.

The changes to DTC's risk management controls also are intended to protect DTC and its participants against the inability of one or more participants to fulfill its or their settlement obligations. DTC's risk management controls are based on the Board of Governors of the Federal Reserve System's guidelines for book-entry securities systems that settle over Fedwire.<sup>23</sup> The new net debit cap formula establishes a single net debit cap as opposed to the several adjustable

and fixed net debit caps currently used in the SDFS system.<sup>24</sup> The new net debit cap will better reflect the participants' most recent liquidity needs and not just its liquidity needs for the prior month<sup>25</sup> because it will be calculated daily using a 90-day rolling average.<sup>26</sup> By requiring participants to have sufficient collateral to support their net debits and by ensuring that their net debits do not exceed their net debit caps, the new LPNC procedure should help to ensure that the occurrence of a combined MMI issuer's default and a participant's failure to settle does not expose DTC to loss and liquidity risks. The application of the LPNC procedure to both the net debit cap and the collateralization procedures should result in a failing participant's net debit remaining collateralized and within its net debit cap if the MMI issuer in which it has the largest net credit also defaulted.

The rule change implements certain modifications to DTC's current SDFS system to provide for an efficient conversion to SDFS environment for all securities transactions. The Commission believes that the overall conversion to a SDFS system will help reduce systemic risk by eliminating overnight credit risk. The SDFS system also will reduce risk by achieving closer conformity with the payment methods used in the derivatives markets, government securities markets and other markets.

For the reasons described above, the Commission believes that DTC's proposed rule change fulfills the requirements of Section 17A(b)(3)(F) of the Act because the proposal assures the safeguarding of securities and funds in the custody and control of DTC. Furthermore, the proposed rule change facilitates the overall conversion of DTC's payment system to an SDFS system which should facilitate the prompt and accurate clearance and settlement of securities transactions.

DTC has requested that the Commission find good cause for approving the proposed rule change prior to the thirtieth day after the date of publication of notice of the filing. The Commission finds good cause for so approving the proposed rule change

<sup>24</sup> A participant's net debit cap currently is the least of the following: (1) An amount which is a multiple of the participant's mandatory and voluntary deposits in the fund; (2) an amount equal to 75% of DTC's lines of credit; (3) an amount, if any, determined by the participant's settling bank; or (4) an amount, if any, determined by DTC.

<sup>25</sup> Because a participant's current adjustable net debit cap is based on the participant's mandatory fund deposit, it will only change on a monthly basis as the required deposit changes. However, a participant may choose to increase its adjustable net debit cap at any time by making voluntary deposits.

<sup>26</sup> *Supra* note 15.

because the modifications implemented by the rule change are part of the planned conversion of DTC's entire money settlement system to an SDFS system. The Commission believes that participants should have the opportunity to become familiar with the SDFS system capability and the new risk management controls prior to the complete conversion to an SDFS system for securities transactions.

### III. Conclusion

On the basis of the foregoing, the Commission finds that the proposal is consistent with the requirements of the Act, particularly with Section 17A(b)(3)(F) of the Act and the rules and regulations thereunder.

*It is therefore ordered*, pursuant to Section 19(b)(2) of the Act, that the proposed rule change (File No. SR-DTC-95-06) be, and hereby is, approved.

For the Commission by the Division of Market Regulation, pursuant to delegated authority.<sup>27</sup>

**Margaret H. McFarland,**

*Deputy Secretary.*

[FR Doc. 95-12520 Filed 5-22-95; 8:45 am]

BILLING CODE 8010-01-M

[Release No. IC-21075; 812-9530]

### Northern Life Insurance Company, et al.; Notice of Application

May 16, 1995.

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

**ACTION:** Notice of application for an Order under the Investment Company Act of 1940 (the "Act").

**APPLICANTS:** Northern Life Insurance Company ("Northern Life"), Separate Account One (the "Separate Account"), and Washington Square Securities, Inc. (the "Distributor").

**RELEVANT ACT SECTIONS:** Order requested under section 6(c) of the Act granting an exemption from sections 26(a)(2)(C) and 27(c)(2) of the Act.

**SUMMARY OF APPLICATION:** Applicants request an order permitting Northern Life to deduct a mortality and expense risk charge from the assets of the Separate Account in connection with the offering of certain flexible premium individual deferred variable annuity contracts.

**FILING DATE:** The application was filed on March 20, 1995.

**HEARING OR NOTIFICATION OF HEARING:** An order granting the application will be

<sup>27</sup> 17 CFR 200.30-3(a)(12) (1994).

<sup>22</sup> The current SDFS Participants Fund consists of approximately \$253 million in cash contributions, \$50 million in internal sources, \$500 million in external lines of credit and \$500 million in additional external lines of credit exclusively dedicated to the MMI program.

<sup>23</sup> "Federal Reserve Policy Statement on Private Delivery-Against-Payment Systems," Board of Governors of the Federal Reserve System (June 15, 1989).

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 p.m. on June 13, 1995, 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 may request notification of a hearing by writing to the SEC's Secretary.

**ADDRESSES:** Secretary, SEC, 450 Fifth Street, N.W., Washington, D.C. 20549. Applicants, c/o James E. Nelson, Esq., ReliaStar Financial Corp., 20 Washington Avenue South, Minneapolis, Minnesota 55401.

**FOR FURTHER INFORMATION CONTACT:** Sarah A. Wagman, Staff Attorney, at (202) 942-0654, or Robert A. Robertson, Branch Chief, at (202) 942-0564 (Division of Investment Management, Office of Investment Company Regulation).

**SUPPLEMENTARY INFORMATION:** Following is a summary of the application. The complete application may be obtained for a fee from the SEC's Public Reference Branch.

**Applicants' Representations**

1. Northern Life, a stock life insurance company, is incorporated under Washington law. Northern Life is an indirect, wholly-owned subsidiary of ReliaStar Financial Corp.

2. The Separate Account was established by Northern Life as a funding medium for certain flexible premium individual deferred variable annuity contracts (the "Contracts"). The Separate Account is registered with the SEC as a unit investment trust under the Act. Units of interest in the Separate Account under the Contracts will be registered under the Securities Act of 1933.

3. The Separate Account currently is divided into subaccounts which invest in the series ("Series") of Variable Insurance Products Fund, Variable Insurance Products Fund II, or Northstar/NWNL (each, a "Fund"). Each Fund is a diversified, open-end management investment company. Each Series has separate investment objectives and policies.

4. The Distributor is the distributor and principal underwriter of the Contracts. The Distributor is registered under the Securities Exchange Act of 1934 as a broker-dealer, and is a

member of the National Association of Securities Dealers, Inc.

5. The Contracts consist of two series of flexible premium individual deferred variable annuity contracts. The first series of Contracts consists of an individual deferred tax-sheltered annuity contract, an individual deferred retirement annuity contract, and an individual deferred annuity contract (the "Transfer Series Contracts"). The second series of Contracts consists of a flexible premium individual deferred tax-sheltered annuity contract and a flexible premium individual deferred retirement annuity contract (the "Flex Series Contracts").

6. The minimum purchase payment for a Transfer Series Contract is \$15,000, and subsequent payments must be at least \$5,000. The minimum purchase payment, and minimum subsequent payment, for a Flex Series Contract is \$50. Purchase payments may be allocated to one or more of the subaccounts of the Separate Account which have been established to support the Contracts, or to Fixed Account A or Fixed Account B, which are part of the general account of Northern Life.

7. Several annuity payout options, on both a fixed and variable basis, are available under the Contracts. Northern Life also provides a guaranteed death benefit. If the Contract owner (or, in the case of certain Transfer Series Contracts, the annuitant) dies prior to age 80, the death benefit is equal to the greater of (i) all purchase payments less any withdrawals, amounts used to purchase annuity payouts, any outstanding loan balance, and the amount of previously deducted annual Contract charges, (ii) the Contract value less any outstanding loan balance, or (iii) the Contract value on the most recent Contract anniversary that is a multiple of six years, measured from the Contract issue date, plus any purchase payments since that anniversary and minus any withdrawals, amounts used to purchase annuity payouts, and any previously deducted annual Contract charges since that anniversary, and less any outstanding loan balance. If the Contract owner (or, in the case of certain Transfer Series Contracts, the annuitant) dies on or after age 80, the death benefit is the Contract value less the outstanding loan balance. If the Contract owner of a Transfer Series individual deferred annuity Contract dies at any age, the death benefit will be equal to the Contract value less any applicable contingent deferred sales charge, any outstanding loan balance and the \$30 annual Contract charge.

8. Among the various charges and fees Northern Life will deduct under the

Contracts is an annual Contract charge of \$30 designed to compensate Northern Life for the administrative services provided under the Contracts. It will be deducted *pro rata* from the fixed accounts and each Separate Account subaccount, and is guaranteed not to increase.

9. Northern Life also will deduct from the assets of the Separate Account a daily asset administration charge, equal to an annual rate of .15%. This charge is designed to reimburse Northern Life for administrative services it provides with respect to the Contracts and the Separate Account, and is guaranteed not to increase.

10. Northern Life does not currently intend to impose a charge for any transfers among the Separate Account subaccounts and the fixed accounts, but reserves the right to impose a charge of up to \$25 for each transfer. Northern Life also does not currently intend to impose a processing fee for partial withdrawals of Contract value, but reserves the right to assess a fee not to exceed the lesser of 2% of the partial withdrawal account, of \$25.

11. These administrative charges will be deducted in reliance on rule 26a-1 under the Act, and each represents reimbursement only for administration costs expected to be incurred over the life of the Contracts. Northern Life does not anticipate any profit from any of these charges. Administrative charges may be reduced or waived under certain circumstances.

12. Northern Life may assess a contingent deferred sales charge ("CDSC") in the event of any partial or full withdrawal of Contract value under the Transfer Series Contracts and the Flex Series Contracts. The CDSC for the Transfer Series Contracts is calculated as a percentage of each purchase payment. The CDSC will apply during the year the Contract takes effect and for the five Contract years immediately thereafter, according to the following schedule:

Contract year of withdrawal minus contract year of purchase payment	Withdrawal charge as a percentage of each purchase payment (percent)
0 .....	6
1 .....	6
2 .....	5
3 .....	5
4 .....	4
5 .....	2
6 and later .....	0

For purposes of imposing the CDSC, purchase payments are considered to be withdrawn on a first-in, first-out basis,

and purchase payments are considered to be withdrawn before earnings thereon. No CDSC is imposed upon either annuitization or payment of the death benefit, except that if the Contract owner of a Transfer Series individual deferred annuity Contracts dies, a CDSC is deducted upon payment of the death benefit.

13. The CDSC for the Flex Series Contracts is calculated as a percentage of Contract value withdrawn. The CDSC may be assessed against any full or partial withdrawal of Contract value occurring before the eleventh Contract year, in accordance with the following schedule:

Contract year	Withdrawal charge
1 .....	8
2 .....	8
3 .....	8
4 .....	7
5 .....	6
6 .....	5
7 .....	4
8 .....	3
9 .....	2
10 .....	1
11+ .....	0

No CDSC is imposed upon either annuitization or payment of the death benefit.

14. Under both the Transfer Series Contracts and the Flex Series Contracts, the Contract owner may withdraw a portion of the Contract value during any 12-month period after the issue date of the Contract without Northern Life deducting a CDSC. The amount on which no CDSC will be imposed is the greater of: (i) 10% of the Contract value less any outstanding loan balance, or (ii) the purchase payments remaining which are no longer subject to a CDSC (Transfer Series Contracts) or the Contract value no longer subject to a CDSC (Flex Series Contracts). This privilege may only be exercised a limited number of times during any 12-month period. In addition, the CDSC may be reduced or waived under certain circumstances.

15. Northern Life does not anticipate that CDSC revenues from the Transfer Series Contracts and the Flex Series Contracts will generate sufficient funds to pay the cost of distributing the Contracts. If CDSC revenues are insufficient to cover distribution expenses, the deficiency will be met with amounts from Northern Life's general account, which may include amounts derived from the mortality and expense risk charge.

16. Northern Life may deduct any applicable premium taxes levied by any

unit of government. As permitted or required by applicable state law, Northern Life may deduct premium taxes from purchase payments upon receipt, or deduct premium taxes from Contract value at a later date.

17. Northern Life proposes to assess a charge to compensate it for bearing certain mortality and expense risks in connection with both Contracts. This charge is equal to an effective annual rate of 1.25% of the value of the assets in the Separate Account. Of that amount, .85% is attributable to mortality risks, and .40% is attributed to expense risks. The rate of the mortality and expense risk charge is guaranteed not to increase.

18. The mortality risk arises from Northern Life's contractual obligation to make annuity payments regardless of how long all annuitants, or any individual annuitant, may live. This obligation assures that neither an annuitant's own longevity, nor an improvement in general life expectancy, will adversely affect the monthly annuity payments that an annuitant will receive under a Contract. Northern Life also incurs a mortality risk in connection with the death benefit guarantee. In addition, Northern Life assumes the expense risk that its actual administrative costs will exceed the amount recovered through the administrative charges.

19. If the mortality and expense risk charge is insufficient to cover Northern Life's actual costs and assumed risks, the loss will fall on Northern Life. If the charge is more than sufficient to cover costs, any excess will be profit to Northern Life. Northern Life currently anticipates a profit from this charge.

**Applicant's Legal Analysis**

1. Applicants request an exemption under section 6(c) of the Act from sections 26(a)(2)(C) and 27(c)(2) of the Act to permit the deduction of a mortality and expense risk charge from the assets of the Separate Account under the Contracts.

2. Sections 26(a)(2)(C) and 27(c)(2) of the Act, in relevant part, prohibit a principle underwriter for, or depositor of, a registered unit investment trust from selling periodic payment plan certificates unless the proceeds of all payments, other than sales loads, on such certificates are deposited with a qualified trustee or custodian, within the meaning of section 26(a)(1), and are held under arrangements that prohibit any payment to the depositor or principal underwriter except a reasonable fee, as the SEC may prescribe, for performing bookkeeping and other administrative duties

normally performed by the trustee or custodian. Northern Life's deduction of a mortality and expense risk charge from the assets of the Separate Account may be deemed to be a payment prohibited by sections 26(a)(2)(C) and 27(c)(2).

3. Section 6(c) of the Act authorizes the SEC, by order upon application, to grant an exemption from any provision of the Act, or any rule or regulation promulgated thereunder, 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.

4. Applicants believe that Northern Life is entitled to reasonable compensation for its assumption of mortality and expense risks. Applicants represent that the proposed mortality and expense risk charge of 1.25% is consistent with the protection of investors because it is a reasonable and proper insurance charge. The charge is a reasonable one to compensate Northern Life for the risks that: (i) Annuitants under the Contracts will live longer individually or as a group than has been anticipated in setting the annuity rates guaranteed in the Contracts; (ii) the Contract value will be less than the death benefit; and (iii) administrative expenses will be greater than amounts derived from the administrative charges.

5. Northern Life represents that the 1.25% mortality and expense risk charge under the Contracts is within the range of industry practice for comparable annuity products. This representation is based upon Northern Life's analysis of publicly available information about similar industry products, taking into consideration such factors as current charge levels, the existence of charge level guarantees, and guaranteed annuity rates. Northern Life will maintain at its administrative offices, and make available to the SEC upon request, a memorandum setting forth in detail the products analyzed in the course of, and the methodology and results of, its comparative survey.

6. Applicants acknowledge that if a profit is realized from the mortality and expense risk charge, all or a portion of such profit may be viewed as being offset by distribution expenses not reimbursed by CDSC revenues. Northern Life has concluded that there is a reasonable likelihood that the proposed distribution financing arrangements for the Contracts will benefit the Separate Account and the Contract owners. The basis for that conclusion will be set forth in a memorandum that will be

maintained by Northern Life at its administrative offices and will be available to the SEC.

7. Northern Life states that the Separate Account will invest only in those management investment companies that undertake, in the event such company should adopt a plan under rule 12b-1 under the Act to finance distribution expenses, to have a board of directors (or trustees), a majority of whom are not "interested persons" of such investment company, formulate and approve any such plan pursuant to rule 12b-1.

#### Conclusion

For the reasons set forth above, applicants believe that the requested 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.

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

**Margaret H. McFarland,**  
Deputy Secretary.

[FR Doc. 95-12598 Filed 5-22-95; 8:45 am]

BILLING CODE 8010-01-M

[Rel. No. IC-21079; 812-9496]

#### Quest for Value Distributors, et al.; Notice of Application

May 17, 1995.

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

**ACTION:** Notice of application for exemption under the Investment Company Act of 1940 (the "Act").

**APPLICANTS:** Quest for Value's Unit Investment Laddered Trust Series ("Quilts") and Quest for Value Distributors ("Quest Distributors" or the "Sponsor").

**RELEVANT ACT SECTIONS:** Order requested under sections 11(a) and 11(c).

**SUMMARY OF APPLICATION:** Applicants request an order to permit certain offers of exchange between unit investment trusts.

**FILING DATES:** The application was filed on February 23, 1995, and amended on April 12, 1995 and May 5, 1995.

**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 p.m. on

June 12, 1995, 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: Two World Trade Center, 225 Liberty Street, New York, New York 10080-6116.

**FOR FURTHER INFORMATION CONTACT:** Elaine M. Boggs, Staff Attorney (202) 942-0572, or C. David Messman, Branch Chief, at (202) 942-0564 (Division of Investment Management, Office of Investment Company Regulation).

**SUPPLEMENTARY INFORMATION:** The following is a summary of the application. The complete application is available for a fee at the SEC's Public Reference Branch.

#### Applicants' Representations

1. Quilts is a series of unit investment trusts registered under the Act and is sponsored by Quest Distributors. Quilts consists of Quilts Monthly Income—U.S. Treasury Series 1, Quilts Asset Builder—U.S. Series 3, Quilts Income—Corporate Series 1, and Quilts Municipal Insured Series 1. Applicants also request relief for future series of Quilts and subsequently issued unit investment trusts sponsored by the Sponsor or a sponsor controlled by or under common control with the Sponsor and registered (or to be registered) under the Securities Act of 1933 and the Act (collectively with Quilts, the "Trusts").

2. The sales charge for initial investment in the Trusts currently ranges between .85% to 4.5% of the public offering price, subject to discounts for certain volume transactions. Quest Distributors intends to maintain a secondary market for the units of each series, although it is not obligated to do so. The sales charge upon units sold in the secondary market ranges from .85% to 4.5% plus net accrued interest.

3. Applicants propose to offer an exchange privilege to unitholders of the Trusts at a reduced sales charge (the "Exchange Privilege"). Unitholders would be able to exchange any of their units for units in one or more available series of the Trusts (the "Exchange Trust"). Applicants also propose to offer a rollover privilege to unitholders of the Trusts at a reduced sales charge (the "Rollover Privilege"). Unitholders

would be able to "roll over" their units in a series which is terminating for units of one or more new series of the Trusts (the "Rollover Trust").

4. To exercise the Exchange or Rollover Privilege, a unitholder must notify the Sponsor. Exercise of the Exchange or Rollover Privilege is subject to the following conditions: (a) The Sponsor must be maintaining a secondary market in units of the Trust held by the unitholder and units of the Trust to be acquired in the exchange, (b) at the time of the exchange, there must be units of the Exchange or Rollover Trust to be acquired available for sale, and (c) exchanges will be in whole units only.

5. Unitholders who wish to exchange units under the Exchange or Rollover Privileges within the first five months of purchase will not be eligible for the reduced sales charge. Such unitholders will be charged a sales load equal to the greater of (a) the reduced sales load or (b) an amount which, when added to the sales charge paid by the unitholder upon his or her original purchase of units of the Trusts, would equal the sales charge applicable to the direct purchase of the newly acquired units, determined as of the date of exchange.

#### Applicants' Legal Analysis

1. Section 11(a) requires SEC approval of an offer to exchange securities between open-end investment companies if the exchange occurs on any basis other than the relative net asset values of the securities to be exchanged. Section 11(c) makes section 11(a) applicable to any type of exchange offer of securities of registered unit investment trusts for the securities of any other investment company, irrespective of the basis of exchange.

2. Applicants represent that unitholders will not be induced or encouraged to participate in the exchange privilege through an active advertising or sales campaign. Quest Distributors recognizes its responsibility to its customers against generating excessive commissions through churning and asserts that the sales charge collected will not be a significant economic incentive to salesmen to promote inappropriately the exchange privilege. Applicants further believe that the Exchange and Rollover Privileges are 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.