

Dated: January 24, 2000.

Margaret H. McFarland,

Deputy Secretary.

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SECURITIES AND EXCHANGE COMMISSION

[Rel. No. IC-24267; File No. 812-11802]

The Lincoln National Life Insurance Company, et al.

January 28, 2000.

AGENCY: U.S. Securities and Exchange Commission (the "Commission" or "SEC")

ACTION: Notice of application for an order of approval under Section 26(b) of the Investment Company Act of 1940 (the "1940 Act" or "Act").

SUMMARY OF APPLICATION: Applicants seek an order to permit The Lincoln National Life Insurance Company ("Lincoln Life"), on behalf of Lincoln National Variable Annuity Account C (the "Account"), to substitute securities issued by certain management investment companies and held by the Account to support the eAnnuity™ individual variable annuity contract (the "eAnnuity Contract" or the "Contract") issued by Lincoln Life.

APPLICANTS: The Lincoln National Life Insurance Company and Lincoln National Variable Annuity Account C (together, the "Applicants").

FILING DATE: The Application was filed on October 5, 1999.

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 Secretary of the SEC and serving the Applicants with a copy of the request, personally or by mail. Hearing requests must be received by the SEC by 5:30 p.m. on February 23, 2000, 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 SEC.

ADDRESSES: Secretary, U.S. Securities and Exchange Commission, 450 Fifth Street, NW, Washington, D.C. 20549-0609. Applicants, Brian Burke, Esq., The Lincoln National Life Insurance Company, 1300 South Clinton Street, Fort Wayne, IN 46802. Copies to Kimberly J. Smith, Esq., Sutherland Asbill & Brennan LLP, 1275

Pennsylvania Avenue, NW, Washington, DC 20004-2415.

FOR FURTHER INFORMATION CONTACT:

Lorna MacLeod, Senior Counsel, or Susan Olson, 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.

Applicants' Representations

1. Lincoln Life, a stock life insurance company incorporated under the laws of the State of Indiana, is the depositor and sponsor of the Lincoln National Account C. Lincoln Life is wholly owned by Lincoln National Corporation, a publicly-held insurance holding company.

2. The Account is registered under the Act as a unit investment trust (File No. 811-3214). The assets of the Account support certain individual variable annuity contracts, including the eAnnuity Contract, and interests in the Account offered through such contracts have been registered under the Securities Act of 1933 ("1933 Act") on Form N-4 (Reg. File Nos. 333-50817). Twenty-one sub-accounts are currently available as investment options under the Contract.

3. Each of the twenty-one sub-accounts invests in a corresponding open-end management investment company that is registered on Form N-1A (each a "Fund") or a portfolio thereof. The twenty-one funds/portfolios are: Lincoln National Aggressive Growth Fund, Inc., Lincoln National Bond Fund, Inc., Lincoln National Capital Appreciation Fund, Inc., Lincoln National Equity-Income Fund, Inc., Lincoln National Global Asset Allocation Fund, Inc., Lincoln National Growth and Income Fund, Inc., Lincoln National International Fund, Inc., Lincoln National Managed Fund, Inc., Lincoln National Money Market Fund, Inc., Lincoln National Social Awareness Fund, Inc., Lincoln National Special Opportunities Fund, Inc., Delaware Group Premium Fund, Inc.—Growth and Income Series, Delaware Group Premium Fund, Inc.—Global Bond Series, Delaware Group Premium Fund, Inc.—Trend Series, BT Insurance Funds Trust—Equity 500 Index Fund, BT Insurance Funds Trust—Small Cap Index Fund, American Century Variable Portfolios, Inc.—VP International Fund, Baron Capital Funds Trust—Baron Capital Asset Fund, Neuberger Berman Advisors Management Trust—"AMT")

Partners Portfolio, Neuberger Berman Advisors Management Trust—"AMT") Mid Cap Growth Portfolio, Janus Aspen Series—Worldwide Growth Portfolio.

4. The Contract reserves to Lincoln Life the right, subject to Commission approval, to substitute shares of another open-end management investment company for shares of an open-end management investment company held by a sub-account of the Account. The prospectus for the Contract discloses this right.

5. Currently, Contract owners may transfer cash value in unlimited amounts among and between the sub-accounts available as investment options under the Contract without the imposition of a transfer charge. The Contract reserves to Lincoln Life the right to restrict transfer privileges.

6. Applicants state that in 1999 they received notice from Putnam Investment Management, Inc. ("Putnam") that it no longer wished to serve as sub-advisor to any fund made available through the eAnnuity Contract. Putnam currently serves as sub-advisor to two such portfolios of the Fund: Lincoln National Aggressive Growth Fund (the "Aggressive Growth Fund") and Lincoln National Global Asset Allocation fund (the "Global Asset Allocation Fund"). Lincoln Investment Management, Inc., is the advisor to the fund. Applicants assert that this notice is consistent with Putnam's business plan to make Putnam-managed investments available through financial advisors, including brokers or other financial intermediaries, and not sold directly to investors. The eAnnuity Contract is sold directly to the public via the internet. Applicants state that Putnam further notified Lincoln Life that it would not continue as sub-advisor to the Aggressive Growth Fund and the Global Asset Allocation Fund if they continued to be available through the eAnnuity Contract. At present, Fund management does not seek to replace Putnam as sub-advisor to the two funds, which are available through a number of other Lincoln Life variable contracts that are sold through financial advisors. For this reason, Lincoln Life has determined that the Aggressive Growth Fund and the Global Asset Allocation Fund (the "Replaced Funds") are appropriate candidates for substitution within the eAnnuity Contract.

7. The Applicants propose to replace the portfolios with two comparable portfolios that are currently offered through the eAnnuity Contract. Applicants propose to replace shares of the Aggressive Growth Fund with shares of the AMT Mid Cap Growth Portfolio,

which is advised and sub-advised by Neuberger Berman Management, Inc. and Neuberger Berman, LLC, respectively, and shares of the Global Asset Allocation Fund with shares of the Lincoln National Managed Fund (the "Managed Fund", together with the AMT Mid Cap Growth Portfolio, the "Substitute Funds").

8. The investment objective of the Aggressive Growth Fund is to increase the value of its shares. The fund invests primarily in equity securities of companies comparable to those included in the Russell Mid-Cap Growth Index, but may also invest in convertible bonds, convertible preferred stock, and warrants to purchase common stock. The fund limits its investment in foreign securities to 15% of its assets.

9. The investment objective of the AMT Mid Cap Growth Portfolio is growth of capital. The AMT Mid Cap

Growth Portfolio invests primarily in equity securities of mid-capitalization companies, but may also invest up to 35% of its net assets in debt securities, including commercial paper that has received the highest rating. The portfolio limits its investment in foreign currency denominated securities to 20% of its total assets.

10. The investment objective of the Global Asset Allocation Fund is long-term total return consistent with preservation of capital. The fund pursues its investment objective by buying and holding three categories of securities: Equity securities (conservative, growth, aggressive growth and international), fixed-income securities (U.S. fixed-income, international fixed-income and lower-rated fixed-income), and money market securities. The fund invests in securities of both U.S. and foreign issuers. Under normal circumstances, the fund will not

invest more than 50% of its total assets in conservative stocks, more than 15% of its assets in Lower-Rated Fixed-Income debt obligations and more than 35% of its asset in any other category.

11. The investment objective of the Managed Fund is maximum long-term total return consistent with prudent investment strategy. The fund is a balanced fund that pursues its investment objective by buying and holding three categories of securities: equity securities of U.S. companies, high and medium grade fixed-income securities and money market securities. The fund may not invest more than 75% of its assets in either the stock or debt obligations categories.

12. The following chart shows the total returns for the Replaced Funds for the past three calendar years and for the six months ended June 30, 1999.

[Figures in percent]

Replaced funds	Six months ended 6/30/99	Calendar year 1998	Calendar year 1997	Calendar year 1996
Lincoln National Aggressive Growth Fund (inception date: February 3, 1994)	4.80	(6.20)	23.09	17.02
Lincoln National Global Asset Allocation Fund (inception date: August 3, 1987)	3.49	13.50	19.47	15.04

13. The following chart shows the total returns for the Substitute Funds for the past three calendar years and for the six months ended June 30, 1999.

[Figures in percent]

Substitute funds	Six months ended 6/30/99	Calendar year 1998	Calendar year 1997	Calendar year 1996
AMT Mid Cap Growth Portfolio (inception date: February 3, 1997)	5.13	39.28	17.20 (from Nov. 3, 1997).	N/A
Lincoln National Managed Fund (inception date: April 27, 1983)	3.65	12.72	21.82	12.05

14. The following chart shows the approximate size and expense ratios for each of the Replaced Funds.¹

Replaced funds	Net assets at June 30, 1999 (in thousands)	Calendar year 1998 expense ratio (percent)
Lincoln National Aggressive Growth Fund, June 30, 1999 (inception date: February 3, 1994)	\$318,400	0.81
Lincoln National Global Asset Allocation Fund, June 30, 1999 (inception date: August 3, 1987)	499,900	0.91

15. The following chart shows the approximate size and expense ratios for each of the Substitute Funds.²

¹ Expense ratios include management fees and operation expenses. Each fund currently pays a monthly management fee based on its average daily net assets at the following annual rates: Aggressive Growth Fund, 0.81% and Global Asset Allocation Fund, 0.91%.

² Expense ratios include management fees and operating expenses. Each Substitute Fund currently pays a monthly management fee based on its average daily net assets. The management fee for each Substitute Fund as of June 30, 1999, is as follows: AMT Mid Cap Growth, 1.00% and Managed Fund, 0.39%. Without the voluntary reimbursement of certain operating expenses by NBMI (the Advisor), total expenses for the year ended 12/31/98 for the fund would have been 1.43%.

Substitute funds	Net assets at June 30, 1999 (in thousands)	Calendar year 1998 expense ratio (percent)
AMT Mid Cap Growth Portfolio, (inception date: November 3, 1997)	\$51,700	1.00
Lincoln National Managed Fund (inception date: April 27, 1983)	960,900	0.39

16. By a supplement to the prospectus for the Contract, all owners and perspective owners of the Contract have been notified of Lincoln Life's intention to take the necessary actions, including seeking the order requested by the Application, to substitute portfolios. The supplements advise owners and prospective owners that they will be unable to allocate net purchase payments to, or transfer cash values to, the sub-accounts of the Account corresponding to each of the Replaced Funds after May 1, 2000, and that on the date of the proposed substitution (on or about May 1, 2000, after the relief requested has been obtained and all necessary systems support changes have been made), the Substitute Funds will replace the Replaced Funds as they underlying investments for such sub-accounts. In addition, the supplements will inform owners and prospective owners that Lincoln Life will not exercise any rights reserved by it under the Contract to impose restrictions or fees on transfers until at least thirty days after the proposed substitutions.

17. At least sixty days before the date of the proposed substitutions, affected owners will also be provided with a prospectus for each Substitute Fund which includes current information concerning the Substitute Funds.

18. The proposed substitutions will take place at relative net asset value with no change in the amount of any Contract owners's cash value or death benefit or in the dollar value of his or her investment in either of the sub-accounts. Contract owners will not incur any additional fees or charges as a result of the proposed substitutions nor will their rights or Lincoln Life's obligations under the Contract be altered in any way. All expenses incurred in connection with the proposed substitutions, including legal, accounting and other fees and expenses, will be paid by Lincoln Life. In addition, the proposed substitutions will not impose any tax liability on Contract owners. The proposed substitutions will not cause the Contract fees and charges currently paid by existing Contract owners to be greater after the proposed substitutions than before the proposed substitutions. Lincoln Life does not currently impose

any restrictions or fees on transfers under the Contract, and will not exercise any right it may have under the Contract to impose restrictions on transfers under the Contract for a period of at least thirty days following the proposed substitutions.

19. Within five days after the proposed substitutions any owner who was affected by the substitutions will be sent a written notice informing them that the substitutions were carried out and that they may transfer all cash value under a Contract invested in either or both of the affected sub-accounts to other available sub-account(s). The notice will also reiterate that Lincoln Life will not exercise any right reserved by it under the Contract to impose any restriction or fee on transfers until at least thirty days after the proposed substitution.

Applicants' Legal Analysis

1. Section 26(b) of the Act requires the depositor of a registered unit investment trust holding the securities of a single issuer to obtain Commission approval before substituting the securities held by the trust. Specially, Section 26(b) states:

It shall be 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 shall have approved such substitution. The Commission shall issue an order approving such 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 this title.

2. Applicants state that the proposed substitution of shares of the Substitute Portfolios for those of the Replaced Portfolios involves a substitution of securities within the meaning of Section 26(b) of the Act. Applicants therefore request an order from the Commission pursuant to Section 26(b) approving the proposed substitutions.

3. The investment objective of the Aggressive Growth Fund and the AMT Mid Cap Growth Portfolio are substantially similar. While their specific investment policies differ somewhat, both portfolios seek growth or appreciation in value by investing in equity securities of medium-sized growth companies. Applicants assert that, although there are differences in

the objectives and policies of the portfolios, their objectives and policies are sufficiently consistent to assure that, following the substitution, the achievement of the core investment goals of the affected owners in the Aggressive Growth Fund will continue to be pursued.

4. Applicants assert that the investment objectives of the Global Asset Allocation Fund and the Managed Fund are substantially similar. Although the Global Asset Allocation Fund invests globally while the Managed Fund only invests in domestic issuers, both portfolios invest in the same broad categories of securities: equity securities, fixed-income securities and money market instruments. Applicants assert that, although there are differences in the objectives and policies of the portfolios, their objectives and policies are sufficiently consistent to assure that following the substitution, the achievement of the core investment goals of the affected owners in the Global Asset Allocation Fund will continue to be pursued.

5. The AMT Mid Cap Growth Portfolio has performed substantially better than the Aggressive Growth Fund since its inception in 1998. The Global Asset Allocation Fund and the Managed Fund performed very similarly over the last three years. While past performance is not necessarily indicative of future performance, Applicants assert that the proposed substitutions are appropriate in light of the performance comparisons of the Replaced Funds and the Substitute Funds.

6. Applicants assert that although the AMT Mid Cap Growth Portfolio currently has a higher expense ratio than the Aggressive Growth Fund, as a newer fund, it has a good potential for further growth in assets and that its expense ratio may come down in the future due to increased assets under management and the potential to leverage the assets of the other nine portfolios offered within the Neuberger Berman Advisers Management Trust.

7. The Managed Fund has a much lower expense ratio and is larger than the Global Asset Allocation Fund.

8. Last year, Putnam informed Applicants that it would no longer serve as adviser to the Aggressive Growth

Fund and the Global Asset Allocation Fund if Lincoln Life continued to make the funds available through the Annuity Contract.

Conclusion

Applicants submit that, for all the reasons stated above, the proposed substitutions are consistent with the protection of investors and the purposes fairly intended by the policy and provisions of the Act.

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

Margaret H. McFarland,

Deputy Secretary.

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-42357; File No. SR-PCX-99-50]

Self-Regulatory Organizations; Notice of Filing of Proposed Rule Change by the Pacific Exchange, Inc. Relating to Non-Agency Orders in P/COAST

January 27, 2000.

Pursuant to section 19(b)(1) of the Securities Exchange Act of 1934 ("Act")¹ and Rule 19b-4 thereunder,² notice is hereby given that on November 18, 1999, the Pacific Exchange, Inc. ("PCX" or "Exchange") filed with the Securities and Exchange Commission ("Commission" or "SEC") the proposed rule change as described in Items I, II and III below, which Items have been prepared by the Exchange. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

I. Self-Regulatory Organization's Statement of the Terms of Substance of the Proposed Rule Change

The Exchange is proposing to amend its rules to allow non-agency orders to be executed in the P/COAST system.³ The text of the proposed rule change is available at the Office of the Secretary, the PCX and at the Commission.

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 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 IV below. The Exchange 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

Currently, pursuant to PCX Rule 5.25(b)(1), only "agency" orders are permitted to be routed through and executed in the P/COAST system.⁴ While the PCX Rules do not currently define the term "agency orders,"⁵ the Exchange notes that, in general, all

⁴ Cf. Boston Stock Exchange ("BSE") Rules, ch. XXXIII, sec. 1(d); Cincinnati Stock Exchange ("CSE") Rules 11.8 and 11.9; Chicago Stock Exchange ("CHX") Rules, art. XX, Rule 37; and Philadelphia Stock Exchange ("Phlx") Rule 229.

⁵ Cf. CSE Rule 11.8(b) ("For purposes of Rule 11.8, a public agency order shall mean any order for the account [of] a person other than a member, which order is represented, as agent, by a member"); CSE Rule 11.9(a)(7) ("The term 'public agency order' means any order for the account of a person other than a member, an Approved Dealer or a person who could become an Approved Dealer by complying with this Rule with respect to his use of the System, which order is presented, as agent, by a User"); CSE Rule 11.9(a)(8) ("The term 'professional agency order' means an order entered by a User as agent for the account of a broker-dealer, a futures commission merchant, or a member of a contract market"); NASD Manual—The Nasdaq Stock Market, Rule 4710(h) ("The term 'agency order' shall mean public customer orders which are executed by the SOES Order Entry Firm on an agency basis. It shall also include, for purposes of these rules, an order entered into SOES on a principal basis by a SOES Order Entry Firm that is not a market maker in the SOES security, in SOES or otherwise, where the SOES Order Entry Firm has contemporaneously received an order from a customer and executed the transaction on a riskless principal basis"); and Phlx Rule 229, Supp. Mat. .02 ("For purposes of the PACE System, an agency order is any order entered on behalf of a public customer, and does not include any order entered for the account 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"). See also New York Stock Exchange Information Memo No. 96-36 re New Audit Trail Identifiers (defining the term "As Agent for Other Member, Competing Market-Maker" as "a member or member organization trading as agent for another member's competing market-maker account" and also defining "Other Agency" as a member or member organization trading as agent for "any other customer (including institutions, non-member broker/dealers and managed accounts)").

orders are either "agency" orders or "principal" orders, *i.e.*, orders for the principal account of a registered broker-dealer.⁶ In any event, under the Exchange's proposal, the distinction will be abolished so the both agency and principal orders will be permitted to be executed through the P/COAST system.

The Exchange is proposing to eliminate Rule 5.25(b)(1) as a competitive measure. The Exchange believes that the rule change will help to attract new market participants to the PCX and will result in an increase in the amount of order flow currently sent to the Exchange.

The Exchange is not proposing to change its existing rules regarding the priority of bids and offers,⁷ which do not currently distinguish between agency and principal orders.⁸ Accordingly, agency and principal orders will, in general, be on a par with respect to their priority for execution in the P/COAST system.

2. Basis

The Exchange believes the proposed rule change is consistent with Section 6(b)⁹ of the Act, in general, and furthers the objectives of section 6(b)(5),¹⁰ in particular, that it is designed to facilitate transactions in securities, to promote just and equitable principles of trade, to protect investors and the public interest, and to remove impediments to and perfect the mechanism of a free and open market and a national market system.

B. Self-Regulatory Organization's Statement on Burden on Competition

The Exchange does not believe that the proposed rule change will impose any burden on competition that is not necessary or appropriate in furtherance of the purposes of the Act.

C. Self-Regulatory Organization's Statement on Comments on the Proposed Rule Change Received From Members, Participants, or Others

Written comments on the proposed rule change were neither solicited nor received.

⁶ See *supra* notes 2-3.

⁷ See, *e.g.*, PCX Rule 5.8(c).

⁸ However, the Exchange notes that the rule change will not alter the rule that orders for the proprietary accounts of PCX specialists and floor brokers must yield priority, parity and precedence to other orders (unless an exception applies). See SEC Rule 11a-1 *et seq.*

⁹ 15 U.S.C. 78f(b).

¹⁰ 15 U.S.C. 78f(b)(5).

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ P/COAST, the "Pacific Computerized Order Access System," is the Exchange's communication, order routing and execution system for equity securities. It operates on a dual processing system, with mainframe computers in San Francisco and Los Angeles. The system allows trading to be integrated from two separate trading floors. See PCX Rule 5.25.