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

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). There currently are 47 Divisions available under the Accumulator and Prinflex Contracts, 25 of which invest in Principal Fund. There currently are 39 Divisions available under the Survivorship Contract, 25 of which invest in Principal Fund. There currently are 41 Divisions available under the FBA Contract, 26 of which invest in Principal Fund. There currently are 25 Divisions available under the Premier Contract, all of which invest in Principal Fund. The only Divisions affected by this application are the MicroCap Divisions of VL Separate Account and Separate Account B which invest solely in the MicroCap Account and the SmallCap Division of those two Separate Accounts which invest solely in the SmallCap Account. MicroCap Account and SmallCap Account are referred to collectively as the ''Funds.''

4. The Contracts permit transfers of accumulated value from one Division to another. The total amount transferred each time must be at least $250 under the FVL Contract or $100 under the FVA, Survivorship, Accumulator, or Prinflex Contracts, unless a lesser amount constitutes the Contract's entire accumulated value in a Division. Transfers between Divisions under the Premier Contract are not subject to a minimum amount or any charge. A transaction charge of $25 is imposed on each transfer of accumulated value among Divisions under the FVL Contract exceeding four per policy year. A transaction charge of $30 is imposed on each transfer of accumulated value among Divisions under the FVA Contract exceeding twelve per policy year. No transaction charge applies to transfers under the Prinflex, Accumulator or Survivorship Contracts.

5. Applicants propose a substitution of shares of the SmallCap Account for shares of the MicroCap Account held by the MicroCap Divisions of VL Separate Account and Separate Account B.

6. Principal Management Corporation (''PMC''), a registered investment adviser under the Investment Advisers Act of 1940, as amended (''Advisers Act''), and an indirect, wholly-owned subsidiary of Principal Financial Group, Inc., serves as the investment adviser for the Funds. Pursuant to sub-advisory agreements, the MicroCap Account is managed by Goldman Sachs Asset Management (''GSAM''), a registered investment adviser under the Advisers Act, and the SmallCap Account is managed by Invista Capital Management, LLC (''Invista''), a registered investment adviser under the Advisers Act. Invista is an indirect, wholly-owned subsidiary of Principal Life.

7. The MicroCap Account's investment objective is to seek long term growth of capital primarily by investing in value and growth oriented companies with small market capitalizations. Under normal market conditions, the MicroCap Account invests at least 80% of its net assets plus any borrowings for investment purposes (measured at the time of purchase) in a broadly diversified portfolio of equity securities in microcap U.S. issuers (including foreign issuers that are traded in the United States). These microcap issuers will generally have market capitalizations of less than $1 billion at the time of investment. The expense ratio of the MicroCap Account for 2002 was 1.25%. The MicroCap Account has no 12b–1 plan. The total return of the MicroCap Account was −16.89% for the year ended December 31, 2002, and the average annual total return for the life of the Account through December 31, 2002, was −5.54%.

8. The SmallCap Account's investment objective is to seek long term growth of capital by investing primarily in equity securities of both growth and value oriented companies with comparatively smaller market capitalizations. Under normal market conditions, the SmallCap Account invests at least 80% of its assets in common stocks of companies with small market capitalizations (those with market capitalizations similar to companies in the Russell 2000 Index) at the time of purchase. The expense ratio of the SmallCap Account for 2002 was 0.97%. The SmallCap Account has no 12b–1 plan. The total return of the SmallCap Account for the year ended December 31, 2002, was −27.33%, and the average annual total return for the life of the Account through December 31, 2002, was −5.95%. There are no fee waiver or expense reimbursement provisions with respect to either Fund.

9. Applicants believe that the substitution will better serve the interests of contractowners because it will eliminate an investment option under the Contracts that has never been able to attract significant contractowner interest and will provide contractowners with an investment in an account that has similar, although not identical, investment objectives and policies as well as a lower expense ratio. Applicants also believe that the substitution 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(c) of the Act and rule 22c–1 thereunder. Applicants represent that there will be no financial impact to any contractowner. The substitution will be effected by having the MicroCap Divisions redeem their shares of the MicroCap Account for cash at the net asset value calculated on the date of the substitution and purchase shares of the SmallCap 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 MicroCap Divisions receiving from the MicroCap Account securities that are eligible investments for the SmallCap Account and that have a value equal to the net asset value of the shares of the MicroCap Account being redeemed and then contributing these securities to the SmallCap Account in exchange for shares of the SmallCap 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 MicroCap Account and terminate the MicroCap Account. In addition, Principal Life will combine the MicroCap Division with the SmallCap Division.

10. Applicants represent that the proposed substitution was described in supplements to the prospectuses for the Contracts (''Stickers'') which were filed with the Commission on August 16, 2002, and mailed to contractowners. The Stickers gave contractowners notice of the substitution, described the reasons for engaging in the substitution, and informed contractowners that no amounts may be transferred to the MicroCap Division on or after May 31, 2003. In addition, the Stickers informed affected contractowners that they will have an opportunity to reallocate accumulation value, prior to the substitution, from the MicroCap Division, or for 60 days after the substitution, from the SmallCap Division to another Division available under the Contracts, without the imposition of any transfer charge or limitation and without counting the transfer as one of the annual free transfers (the ''Free Transfer Right'').

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

that the substitution has occurred. The confirmation will be accompanied by a notice describing the Free Transfer Right.

12. 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 Contracts be altered in any way. The proposed substitution will not cause the fees and charges under the Contracts 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 MicroCap Account. Applicants believe that the SmallCap Account will better serve contractowner interests because of its larger size and lower expenses. Moreover, Principal Life has reserved the right to effect substitutions in the Contracts and disclosed this reserved right in the prospectus for the Contracts.

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 SmallCap Account and the MicroCap Account seek long term growth of capital primarily by investing in value and growth oriented companies. Although the SmallCap Account and the MicroCap Account differ primarily in the market capitalization of the companies in which they invest, with the SmallCap Account investing primarily in companies with small market capitalizations ranging approximately from $150 million to $1.4 billion, and the MicroCap Account investing primarily in companies with market capitalizations under $1 billion, there is substantial overlap in the securities in which each may invest. The SmallCap Account, with its emphasis on investing in companies with small market capitalizations, will afford shareholders of the MicroCap Account an opportunity for continued investment exposure to companies with smaller market capitalizations.

(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.

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

(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 contract owner's accumulation value under the Contracts.

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

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

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

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

(i) To the extent that the annualized expenses of the SmallCap Account exceed, for each fiscal quarter during the two-year period following the substitution, the 2002 net expense level of the MicroCap Account, Principal Life will, for each Contract outstanding on the date of the substitution, make a reduction in (or reimbursement of) the SmallCap Division expenses on the last day of each such fiscal period, such that the sum of the net expenses of the SmallCap Account and the net expenses of the SmallCap Division will, on an annualized basis, be no greater than the sum of the net expenses of the MicroCap Account and the net expenses of the MicroCap 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 Contracts.

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 Principal Management Corporation, which serves as the investment adviser to the Funds. Moreover, Principal Life is the owner of all the outstanding shares of the SmallCap Account and all of the outstanding shares of the MicroCap 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 represent 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 contract owner.

8. Applicants represent that the substitution is consistent with the investment objective of each of the Funds in that both Funds seek long term growth of capital by investing primarily in value and growth oriented companies. Although the SmallCap Account and the MicroCap Account differ primarily in the market capitalization of the companies they invest in, with the SmallCap Account investing primarily in companies with small market capitalizations, ranging approximately from $150 million to $1.4 billion, and the MicroCap Account investing primarily in companies with market capitalizations under $1 billion, there is substantial overlap in the securities in which each may invest, and the SmallCap Account, with its emphasis on investing in companies with small market capitalizations, will afford shareholders of the MicroCap Account an opportunity for continued investment exposure to companies with smaller market capitalizations. In addition, contract owners with an interest in the MicroCap Division will have the opportunity to transfer their interest, without charge, to any other Division.

9. Applicants represent 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 Contracts. The substitution will eliminate a small fund that has never been able to attract significant investor interest, will provide contract owners 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 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. 03–8922 Filed 4–10–03; 8:45 am]

BILLING CODE 8010–01–P

SECURITIES AND EXCHANGE COMMISSION

Sunshine Act; Meetings

Notice is hereby given, pursuant to the provisions of the Government in the Sunshine Act, Pub. L. 94–409, that the Securities and Exchange Commission will hold the following meeting during the week of April 14, 2003:

A Closed Meeting will be held on Tuesday, April 15, 2003 at 10 a.m.

Commissioners, Counsel to the Commissioners, the Secretary to the Commission, and recording secretaries will attend the Closed Meeting. Certain staff members who have an interest in the matters may also be present.

The General Counsel of the Commission, or his designee, has certified that, in his opinion, one or more of the exemptions set forth in 5 U.S.C. 552b(c) (5), (7), (8), (9)(B) and (10) and 17 CFR 200.402(a) (5), (7), (8), (9)(ii) and (10), permit consideration of the scheduled matters at the Closed Meeting.

The subject matter of the Closed Meeting scheduled for Tuesday, April 15, 2003 will be:

Institution and settlement of administrative proceedings of an enforcement nature;

Regulatory matter regarding a financial institution;

Institution and settlement of injunctive actions; and

Formal Orders of Investigation;

At times, changes in Commission priorities require alterations in the scheduling of meeting items. For further information and to ascertain what, if any, matters have been added, deleted, or postponed, please contact:

The Office of the Secretary at (202) 942–7070.

Dated: April 8, 2003.

Jonathan G. Katz,

Secretary.

[FR Doc. 03–8996 Filed 4–8–03; 4:08 pm]

BILLING CODE 8010–01–P