

technology. Consideration will be given to comments and suggestions submitted in writing within 60 days of this publication.

Please direct your written comments to R. Corey Booth, Director/Chief Information Officer, Securities and Exchange Commission, C/O Shirley Martinson, 6432 General Green Way, Alexandria, Virginia 22312; or send an e-mail to: *PRA_Mailbox@sec.gov*.

Dated: March 17, 2008.

Florence E. Harmon,
Deputy Secretary.

[FR Doc. E8-5920 Filed 3-24-08; 8:45 am]

BILLING CODE 8011-01-P

SECURITIES AND EXCHANGE COMMISSION

[Rel. No. IC-28197; File No. 812-13445]

American Family Life Insurance Company, et al.

March 19, 2008.

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

ACTION: Notice of application for an order under Section 26(c) of the Investment Company Act of 1940, as amended (the "Act").

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

SUMMARY OF APPLICATION: Applicants request an order of the Commission, pursuant to Section 26(c) of the Act, approving the substitution of (1) Service Class Shares of the Fidelity Variable Insurance Products Investment Grade Bond Portfolio ("Replacement Portfolio A") of the Fidelity Variable Insurance Products Fund V ("Fidelity Fund") for shares of the Federated Quality Bond Fund II ("Replaced Portfolio A") of the Federated Insurance Series ("Federated Fund") and (2) shares of the Vanguard International Portfolio ("Replacement Portfolio B") of the Vanguard Variable Insurance Fund ("Vanguard Fund") for shares of the Federated International Equity Fund II ("Replaced Portfolio B") of the Federated Fund, currently held by the Life Account and the Annuity Account (each an "Account," together, the "Accounts") to support variable life insurance and annuity contracts issued by the Company (collectively, the "Contracts").

FILING DATE: The application was filed on November 2, 2007 and amended and restated on March 14, 2008.

HEARING OR NOTIFICATION OF HEARING: An order granting the application will be issued unless the Commission orders a hearing. Interested persons may request a hearing by writing to the Secretary of the Commission and serving Applicants with a copy of the request, personally or by mail. Hearing requests must be received by the Commission by 5:30 p.m. on April 15, 2008, 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 requester'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 Secretary of the Commission.

ADDRESSES: Secretary, Securities and Exchange Commission, 100 F Street, NE., Washington, DC 20549-1090. Applicants, c/o James F. Eldridge, Esq., American Family Life Insurance Company, 6000 American Parkway, Madison, Wisconsin 53783-0001. Copy to Thomas E. Bisset, Esq., Sutherland Asbill & Brennan LLP, 1275 Pennsylvania Ave., NW., Washington, DC 20004-2415.

FOR FURTHER INFORMATION CONTACT: Michael Kosoff, Staff Attorney, at (202) 551-6754 or Harry Eisenstein, Branch Chief, Office of Insurance Products, Division of Investment Management, at (202) 551-6795.

SUPPLEMENTARY INFORMATION: The following is a summary of the application. The complete application may be obtained for a fee from the Public Reference Branch of the Commission, 100 F Street, NE., Washington, DC 20549 (202-551-8090).

Applicants' Representations

1. The Company is a stock life insurance company organized under Wisconsin law in 1957. The company is a wholly-owned subsidiary of AmFam, Inc. AmFam, Inc. is a downstream holding company and a wholly-owned subsidiary of American Family Mutual Insurance Company ("American Family Mutual"). American Family Mutual is one of the leading property/casualty insurance companies in the United States with operations in eighteen states. As of December 31, 2006, the Company had assets in excess of \$4.2 billion.

2. The Company conducts a conventional life insurance business and is authorized to transact the business of life insurance, including

annuities, in eighteen states. For purposes of the Act, the Company is the depositor and sponsor of each of the Accounts as those terms have been interpreted by the Commission with respect to variable life insurance and variable annuity separate accounts.

3. Under the insurance law of Wisconsin, the assets of each Account attributable to the Contracts issued through that Account are owned by the Company, but are held separately from the other assets of the Company for the benefit of the owners of, and the persons entitled to payment under, those Contracts. Each Account is registered with the Commission as a unit investment trust. Each Account is comprised of a number of subaccounts and each subaccount invests exclusively in one of the insurance dedicated mutual fund portfolios made available as investment vehicles underlying the Contracts. Currently, Replaced Portfolio A and Replaced Portfolio B are each available as an investment option under the Company's variable life insurance and variable annuity contracts.

4. The Life Account is currently divided into nine subaccounts. The assets of the Life Account support variable life insurance contracts and interests in the Account offered through such contracts have been registered under the Securities Act of 1933, as amended (the "1933 Act"), on Form N-6 (File No. 333-44956).

5. The Annuity Account is currently divided into nine subaccounts. The assets of the Annuity Account support variable annuity contracts and interests in the Account offered through such contracts have been registered under the 1933 Act on Form N-4 (File No. 333-45592).

6. The Federated Fund is registered as an open-end management investment company under the Act (File No. 811-08042) and currently offers twelve (12) separate investment portfolios (each, a "Portfolio"), two of which would be involved in the proposed substitution. The Federated Fund issues a separate series of shares of beneficial interest in connection with each Portfolio and has registered those shares under the 1933 Act on Form N-1A (File No. 33-69268).

7. Federated Investment Management Company ("FIMC") serves as the investment advisor for Replaced Portfolio A. The advisor manages the Fund's assets, including buying and selling portfolio securities. Federated Advisory Services Company ("FASC"), an affiliate of the advisor, provides certain support services to the advisor. The fee for FASC's services is paid by FIMC and not by the Fund.

8. Federated Global Investment Management Corp. ("FGIMC") serves as the investment advisor for Replaced Portfolio B. The advisor manages the Fund's assets, including buying and selling portfolio securities. FASC provides research, quantitative analysis, equity trading and transaction settlement and certain support services to the advisor. The fee for FASC's services is paid by FGIMC and not by the Fund.

9. Neither the Federated Fund, any of its portfolios, FGIMC, FIMC, nor FASC is affiliated with the Applicants. Neither Replaced Portfolio A nor Replaced Portfolio B has exemptive relief from Section 15(a) of the Act and Rule 18f-2 under the Act to permit the hiring of sub-advisors and the revision of sub-advisory agreements without obtaining a shareholder vote ("manager-of-manager relief").

10. The Fidelity Fund is registered as an open-end management investment company under the Act (File No. 811-05361) and currently offers twenty-three (23) investment portfolios, including Replacement Portfolio A. The Fidelity Fund issues a series of shares of beneficial interest in connection with each portfolio and has registered such shares under the 1933 Act on Form N-1A (File No. 033-17704).

11. Each portfolio of the Fidelity Fund has entered into an advisory agreement with Fidelity Management and Research Company ("FMR") under which FMR acts as investment advisor for the portfolio. Under each investment advisory agreement, FMR has overall responsibility for the selection of investments in accordance with the investment objective, policies, and limitations of the portfolio and for handling the portfolio's business affairs. FMR, at its own expense, provides or arranges for the provision of substantially all management and administrative services required by each portfolio. Each portfolio of the Fidelity Fund does, however, pay its own auditor's fees, compensation to (and expenses of) trustees who are not interested persons, independent counsel fees, custodian fees and extraordinary expenses.

12. Fidelity Investments Money Management, Inc. ("FIMM"), an investment advisor affiliate of FMR, has entered into a sub-advisory agreement with FMR under which FIMM acts as sub-advisor for the Fidelity Fund, including Replacement Portfolio A. FIMM has day-to-day responsibility for choosing investments for Replacement Portfolio A. FMR pays FIMM for providing sub-advisory services. As of March 29, 2007, FMR and FIMM had

over \$1.6 billion and \$370 billion in assets under management, respectively.

13. Fidelity Research & Analysis Company ("FRAC"), an affiliate of FMR, also serves as sub-advisor for the Fidelity Fund and may provide investment research and advice for the Fidelity Fund, including Replacement Portfolio A.

14. Fidelity International Investment Advisors ("FIIA") and Fidelity International Investment Advisors (U.K.) Limited ("FIIA(U.K.)") investment advisor affiliates of FMR, assist FMR with the investment and reinvestment of assets in Replacement Portfolio A in foreign investments. FIIA and FIIA(U.K.) have each entered into a sub-advisory agreement with FMR and each acts as sub-advisor to Replacement Fund A. Under the sub-advisory agreements, FMR may receive from FIIA and FIIA(U.K.) investment research and advice on issuers based outside the United States and, in particular, makes minimal credit risk and comparable quality determinations for foreign issuers that issue U.S. dollar-denominated securities. FMR or FIMM pays FIIA for providing sub-advisory services. In turn, FIIA pays FIIA(U.K.) for providing sub-advisory services.

15. Neither the Fidelity Fund, any of its portfolios, FMR, FIMM, FRAC, FIIA nor FIIA(U.K.) is affiliated with the Applicants. The Fidelity Fund does not have manager-of-managers relief.

16. The Vanguard Variable Insurance Fund is registered as an open-end management investment company under the Act (File No. 811-05962) and currently offers fifteen (15) portfolios. The Vanguard Fund issues a series of shares of beneficial interest in connection with each portfolio and has registered such shares under the 1933 Act on Form N-1A (File No. 33-32216).

17. The Vanguard Fund uses a multi-manager approach to investing the assets of Replacement Portfolio B, and has entered into investment advisory agreements with Baillie Gifford Overseas Ltd. ("Baillie Gifford") and Schroder Investment Management North America Inc. ("Schroders"). The board of trustees of the Vanguard Fund designates the proportion of Replacement Portfolio B assets to be managed by each advisor, and may change those proportions at any time. Under the supervision and oversight of the trustees and officers of the Vanguard Fund, each advisor independently selects and maintains a portfolio of common stocks for its assigned portion of the assets of Replacement Portfolio B. The Fund pays each advisor a fee at the end of each quarter.

18. Baillie Gifford—located at Carlton Square, 1 Greenside Row, Edinburgh, EH1 3AN, Scotland—is wholly-owned by Baillie Gifford & Co., one of the largest independently owned investment management firms in the United Kingdom. As of December 31, 2006, Baillie Gifford & Co. had assets under management that totaled approximately \$95 billion.

19. Schroders has entered into a sub-advisory agreement with its affiliate, Schroder Investment Management North America Limited ("Schroder Limited"), pursuant to which Schroder Limited has primary responsibility for choosing investments for Schroder's assigned portion of the Replacement Portfolio B assets. Schroders pays Schroder Limited a portion of the management fees payable to Schroders under the management agreement between Schroders and the Vanguard Fund. Both Schroders and Schroder Limited are wholly-owned subsidiaries of Schroders plc, the ultimate parent of a large worldwide group of financial service companies. As of September 30, 2006, Schroders, together with its affiliated companies, managed approximately \$229.4 billion in assets.

20. Neither the Vanguard Fund or any of its portfolios, Baillie Gifford, or Schroders is affiliated with the Applicants. The Vanguard Fund has manager-of-manager relief.¹

21. The Contracts are flexible premium variable annuity and variable life insurance contracts. The variable annuity Contracts provide for the accumulation of values on a variable basis, fixed basis, or both, during the accumulation period, and provide settlement or annuity payment options on a fixed basis. The variable life insurance Contracts provide for the accumulation of values on a variable basis, fixed basis, or both, throughout the insured's life, and for a substantial death benefit upon the death of the insured. Under each of the Contracts, the Company reserves the right to substitute shares of one Fund for shares of another, or of another investment portfolio, including a portfolio of a different management company.

22. The Company proposes to substitute Service Class shares of Replacement Portfolio A for shares of Replaced Portfolio A, and to substitute shares of Replacement Portfolio B for shares of Replaced Portfolio B held in the Accounts (the "proposed substitutions").

¹ Vanguard Convertible Securities Fund, *et al.*, Inv. Co. Act Rel. No. 26089 (June 25, 2003 (Order), File No. 812-12380.

23. The proposed substitutions are part of an effort by the Company to provide a portfolio selection within the Contracts that: (1) Provides a more competitive fee structure relative to other funds in the asset class peer

group; (2) provides more competitive long-term returns relative to other funds in the asset class peer group; and (3) maintains the goal of offering a mix of investment options covering basic categories in the risk/return spectrum.

24. The following charts set out the investment objectives, principal investment strategies, and principal investment risks of each Replaced and Replacement Portfolio, as stated in their respective prospectuses.

Replaced Portfolio A	Replacement Portfolio A
<p>Federated Quality Bond Fund II</p> <p>Investment Objective</p> <p>Current income</p> <p>Principal Investment Strategies</p> <p>The fund invests in a diversified portfolio of investment-grade, fixed-income securities, consisting primarily of corporate debt securities, U.S. government and privately issued mortgage-backed securities, and U.S. Treasury and agency securities. The investment advisor seeks to enhance the fund's performance by allocating relatively more of its portfolio to the security type that the advisor expects to offer the best balance between current income and risk. Some of the corporate debt securities in which the fund invests are considered to be "foreign securities." The fund may invest in derivative contracts to implement its investment strategies.</p> <p>Although the value of the Fund's shares will fluctuate, the investment advisor seeks to manage the magnitude of the fluctuation by limiting, under normal market conditions, the Fund's dollar-weighted average maturity to between three and ten years and dollar-weighted average duration to between three and seven years.</p> <p>Principal Investment Risks</p> <p>Interest Rate Risk. Prices of fixed-income securities generally fall when interest rates rise. Interest rate changes have a greater effect on the price of fixed-income securities with longer durations.</p> <p>Credit Risk. Issuers of securities in which the fund may invest may default in the payment of interest or principal on securities when due.</p> <p>Call and Prepayment Risk. An issuer of a security held by the fund may redeem the security prior to maturity at a price below its current market value.</p> <p>Risks of Foreign Investing. Share price may be more affected by foreign economic and political conditions, taxation policies and accounting standards than would otherwise be the case.</p> <p>Liquidity Risk. Fixed-income securities may be less readily marketable and subject to greater fluctuation in price than other securities. Also, the fund may not be able to sell a security or close out a derivative contract when desired.</p>	<p>Fidelity VIP Investment Grade Bond Portfolio</p> <p>Investment Objective</p> <p>High current income consistent with preservation of capital.</p> <p>Principal Investment Strategies</p> <p>FMR normally invests at least 80% of the fund's assets in investment-grade debt securities (those of high and medium quality) of all types and repurchase agreements for those securities. FMR manages the fund to have an overall interest rate risk similar to the Lehman Brothers Aggregate Bond Index. The investment advisor allocates assets across different market sectors and maturities and invests in domestic and foreign issuers. FMR analyzes the credit quality of the issuer, security-specific features, current and potential future valuation, and trading opportunities to select investments for the fund.</p> <p>The fund may invest in lower-quality debt securities, sometimes referred to as "junk bond securities," and in Fidelity's central funds. The fund may engage in transactions that have a leveraging effect.</p> <p>Principal Investment Risks</p> <p>Interest Rate Changes. Interest rate increases can cause the price of a debt security to decrease.</p> <p>Foreign Exposure. Foreign markets can be more volatile than the U.S. market due to increased risks of adverse issuer, political, regulatory, market, or economic developments, and can perform differently than the U.S. market.</p> <p>Prepayment. The ability of an issuer of a debt security to repay principal prior to a security's maturity can cause greater price volatility if interest rates change.</p> <p>Issuer-Specific Changes. The value of an individual security or particular type of security can be more volatile than the market as a whole and can perform differently from the value of the market as a whole. Lower-quality debt securities (those of less than investment-grade quality) involve greater risk of default or price changes due to changes in the credit quality of the issuer. The value of lower-quality debt securities can be more volatile due to increased sensitivity to adverse issuer, political, regulatory, market, or economic developments.</p> <p>Leverage Risk. Leverage can increase market exposure and magnify investment risks.</p>
<p>Federated International Equity Fund II</p> <p>Investment Objective</p> <p>Total return on assets by investing primarily in equity securities of companies based outside the United States. Total return will consist of two components: (1) changes in the market value of portfolio securities (both realized and unrealized appreciation); and (2) income received from portfolio securities. Changes in market value are expected to comprise the largest component of total return.</p> <p>Principal Investment Strategies</p> <p>The investment advisor uses a "bottom-up" approach to stock selection and selection of industry and country are secondary considerations. The fund is not limited to investing according to any particular style or size of company, or to maintaining minimum allocations to any particular region or country. However, the investment advisor anticipates that normally the fund will primarily invest in mid-to large-capitalization companies based outside the United States that have been selected using a growth style of stock selection. The fund may invest up to 20% of its assets in foreign companies based in emerging markets.</p>	<p>Vanguard International Portfolio</p> <p>Investment Objective</p> <p>Long-term capital appreciation.</p> <p>Principal Investment Strategies</p> <p>The portfolio invests predominantly in the stocks of companies located outside the United States. In selecting stocks, the portfolio's investment advisors evaluate foreign markets around the world and choose companies with above-average growth potential. The portfolio uses multiple investment advisors.</p>

Replaced Portfolio B	Replacement Portfolio B
Principal Investment Risks	Principal Investment Risks
Stock Market Risks. The value of equity securities in the fund's portfolio will fluctuate and, as a result, the fund's share price may decline suddenly or over a sustained period of time.	Stock Market Risk. Stock market risk is the chance that stock prices overall will decline. Stock markets tend to move in cycles, with periods of rising prices and periods of falling prices. In addition, investments in foreign stock markets can be riskier than U.S. stock investments. The prices of foreign stocks and the prices of U.S. stocks have, at times, moved in opposite directions.
Risks of Foreign Investing. Share price may be more affected by foreign economic and political conditions, taxation policies, and accounting and auditing standards than would otherwise be the case.	Investment Style Risk. Investment style risk is the chance that returns from non-U.S. growth stocks, and, to the extent that the portfolio is invested in them, small- and mid-capitalizations stocks, will trail returns from the overall domestic stock market. Historically, small- and mid-cap stocks have been more volatile in price than large-cap stocks that dominate the market, and they often perform quite differently.
Currency Risks. Because the exchange rates for currencies fluctuate daily, prices of the foreign market securities in which the fund invests are more volatile than prices of securities traded exclusively in the United States.	Country Risk/Regional Risk. Country risk/regional risk is the chance that domestic events—such as political upheaval, financial troubles, or natural disasters—will weaken a country's or region's securities markets. Because the portfolio may invest a large portion of its assets in securities of companies located in any one country or region, its performance may be hurt disproportionately by the poor performance of investments in that area. Country/regional risk is especially high in emerging markets.
Emerging Market Risks. Securities issued or traded in emerging markets generally entail greater risks than securities issued or traded in developed markets. Emerging market countries may have relatively unstable governments and may present the risk of nationalization of businesses, expropriation, confiscatory taxation or, in certain instances, reversion to closed market, centrally planned economies.	Currency Risk. Currency risk is the chance that the value of a foreign investment, measured in U.S. dollars, will decrease because of unfavorable changes in currency exchange rates.
Liquidity Risks. Trading opportunities are more limited for equity securities that are not widely held. This may make it more difficult to sell or buy a security at a favorable price or time. Consequently, the fund may have to accept a lower price to sell a security, sell other securities to raise cash, or give up an investment opportunity, any of which could have a negative effect on the fund's performance.	Manager Risk. Manager risk is the chance that poor security selection will cause the portfolio to underperform relevant benchmarks or other funds with a similar investment objective.

25. The following charts compare advisory fees, other expenses, total operating expenses (before and after any waivers and reimbursements), and portfolio turnover rates for the year ended December 31, 2006, expressed as an annual percentage of average daily

net assets, of the Replaced and Replacement Portfolios. Although Replacement Portfolio A is subject to a distribution (12b-1) fee of the Act, and none currently applies to Replaced Portfolio A, the net operating expenses for Replacement Portfolio A are still

significantly less than the total operating expenses for Replaced Portfolio A.² Neither the Replaced Portfolios nor the Replacement Portfolios impose a redemption fee.

	Replaced Portfolio A	Replacement Portfolio A
	Federated Quality Bond Fund II (percent)	Fidelity VIP Investment Grade Bond Portfolio (percent)
Advisory Fee	0.60	0.32
Distribution (12b-1) Fee	0.25	^a 0.10
Other Expenses	0.39	0.12
Total Operating Expenses	1.24	0.54
Less Expense Waivers and Reimbursements	^b 0.54	N/A
Net Operating Expenses	0.70	0.54
Portfolio Turnover Rate	64	34

^a With regard to Replacement Portfolio A, its Service Class is authorized to pay a 12b-1 fee at an annual rate of 0.25% of its average net assets, or such lesser amount as the Portfolio's Trustees may determine from time to time. The Service Class currently pays a 12b-1 fee at an annual rate of 0.10% of its average net assets throughout the month. The 12b-1 fee rate may be increased only when the Trustees believe that it is in the best interests of variable product owners to do so.

^b With regard to Replaced Portfolio A, the investment adviser waived and the distributor and shareholder services provider elected not to charge certain amounts. The investment adviser voluntarily waived a portion of the advisory fee which waiver the investment adviser may terminate at any time. The advisory fee paid by Replaced Portfolio A (after the voluntary waiver of the advisory fee) was 0.56% for the fiscal year ended December 31, 2006. Replaced Portfolio A did not pay or accrue the distribution (12b-1) fee during the fiscal year ended December 31, 2006. The prospectus for Replaced Portfolio A notes that there is no present intention for Replaced Portfolio A to pay or accrue a distribution (12b-1) fee during the fiscal year ended December 31, 2007. Also, Replaced Portfolio A did not pay or accrue the shareholder services fee/account administration fee during the fiscal year ended December 31, 2006. Total other expenses for Replaced Portfolio A (after the voluntary waiver of the shareholder services fee/account administration fee) were 0.14% for the fiscal year ended December 31, 2006.

² With regard to the Replaced Portfolios, the investment adviser for each Portfolio has entered into an agreement with the Company for the payment of a fee equal to an annual percentage of the assets of the Replaced Portfolio attributable to the Contracts for the performance of administrative services. With regard to Replacement Portfolio A,

the investment adviser for the Portfolio and the Company have entered into a similar agreement, however, the fee payable under that agreement is significantly less than the fee payable under the agreement between the Company and the investment adviser for Replaced Portfolio A. With regard to Replacement Portfolio B, the investment

adviser for the Portfolio and the Company have *not* entered into a similar agreement. As such, the Company will not receive revenue sharing payments from the investment adviser for Replacement Portfolio B.

	Replaced Portfolio B	Replacement Portfolio B
	Federated International Equity Fund II (percent)	Vanguard International Portfolio (percent)
Advisory Fee	1.00	0.39
Distribution (12b-1) Fee	N/A	N/A
Other Expenses	0.77	0.05
Total Operating Expenses	1.77	0.44
Less Expense Waivers and Reimbursements	° 0.28	N/A
Net Operating Expenses	1.49	0.44
Portfolio Turnover Rate	83	29

° With regard to Replaced Portfolio B, the administrator and shareholder services provider waived and/or elected not to charge certain amounts. Replaced Portfolio B did not pay or accrue a shareholder services fee during the fiscal year ended December 31, 2006. The prospectus for Replaced Portfolio B notes that there is no present intention for Replaced Portfolio B to pay or accrue a shareholder services fee during the fiscal year ended December 31, 2007. Also, the administrator voluntarily waived a portion of its fee which waiver the administrator may terminate at any time. Total other expenses for Replaced Portfolio B (after the voluntary waivers and reduction) were 0.49% for the fiscal year ended December 31, 2006.

26. The following tables compare the respective asset levels, expenses ratios (after expense waivers and

reimbursements) and performance data for each Replaced Portfolio and each

Replacement Portfolio for fiscal years 2004, 2005 and 2006.

	Net assets at end of period	Expense ratio (percent)	Total return (percent)
Federated Quality Bond Fund II			
2004	\$518,023,000	0.70	3.62
2005	480,859,000	0.70	1.30
2006	390,738,000	0.70	4.15
Fidelity VIP Investment Grade Bond Portfolio			
2004	1,611,417,000	0.66	4.32
2005	1,649,333,000	0.58	2.08
2006	1,782,079,000	0.54	4.30
Federated International Equity Fund II			
2004	53,093,000	1.57	14.06
2005	58,700,000	1.58	9.08
2006	70,213,000	1.49	18.89
Vanguard International Portfolio			
2004	557,000,000	0.41	19.42
2005	840,000,000	0.41	16.31
2006	1,562,000,000	0.44	26.75

27. Replaced Portfolio A, which has a high concentration in corporate debt securities, is positioned on the conservative end of the risk/return spectrum for fixed income investment options and offered Contract owners a fixed income option with limited risk. Over the past seven years, Replaced Portfolio A has significantly underperformed its peers leading the Company to reassess the position of its fixed income investment option. In an attempt to improve overall returns for the fixed income investment option while still maintaining a relatively low level of risk, the Company decided to select a fixed income investment option which is more representative of the overall bond market. Applicants believe

that Replacement Portfolio A meets this goal.

28. The Company selected Replaced Portfolio B to diversify the investment options under the Contract to include a portfolio selection that pursued international investment opportunities. The managers of Replaced Portfolio B pursue positive total return on assets invested primarily in equity securities of mid- to large-capitalization companies based outside the U.S. Over the past five years, however, Replaced Portfolio B has underperformed the Morgan Stanley Capital International, Europe, Australasia, Far East Index ("MSCI EAFE Index"), the benchmark used by Replaced Portfolio B as well as peer funds. Replacement Portfolio B

uses a multiple manager approach to pursue long-term capital appreciation by investing primarily in non-U.S. growth stocks of large, stable companies diversified across countries that the investment managers believe demonstrate above-average growth potential. Although the overall characteristics of the assets of Replacement Portfolio B may differ from broad international stock indices, over the past five years, the performance of Replacement Portfolio B has, in each of the last three years, exceeded the performance of Replaced Portfolio B.

29. In the case of Replaced Portfolio A, performance has been in the bottom quartile for comparable funds over the last three years, and has been lower than

its benchmark for the past five years. In the case of Replaced Portfolio B, performance ranks in the bottom decile for comparable funds over the last 1-, 3-, and 5-year periods.

30. The stated investment objective, principal investment strategies and principal investment risks of the Replacement Portfolios are substantially similar to those of the Replaced Portfolios, so that Contract owners will have continuity in investment and risk expectations. The net expenses of each Replacement Portfolio is substantially less than those for the corresponding Replaced Portfolio for the year ended December 31, 2006, even after expense waivers and reimbursements for the Replaced Portfolio have been taken into account.

31. Replacement Portfolio A has a substantially identical investment objective as that of Replaced Portfolio A. Both pursue their investment objective by investing, under normal market conditions, in a diversified portfolio of investment grade fixed-income securities, consisting of corporate debt securities, U.S. government issued mortgage-backed securities and U.S. Treasury and agency securities. Each retains the flexibility to invest in corporate debt securities of foreign issuers and in derivative instruments, such as options, futures and swap contracts.

32. The primary difference in the implementation of investment strategies of Replaced Portfolio A and Replacement Portfolio A manifest in the degree of flexibility exercised by their advisors in implementing the strategies. Replaced Portfolio A's investment advisor emphasizes an active trading approach and relies on a fundamental analysis of each company in making an investment decision while the investment advisor for Replacement Portfolio A uses the Lehman Brothers U.S. Aggregate Index (the "Lehman Index") as the primary guide to structure Replacement Portfolio A and select investments with the goal of managing Replacement Portfolio A to have an overall interest rate risk similar to the Lehman Index. Conversely, whereas Replaced Portfolio A's investment advisor invests exclusively in fixed-income securities rated investment grade, the investment advisor for Replacement Portfolio A is not so constrained and may invest up to 10 percent of Replacement Portfolio A's assets in lower quality debt securities, sometimes referred to as junk bond securities.

33. Notwithstanding some difference in the stated investment objectives of Replacement Portfolio B and Replaced

Portfolio B, both emphasize capital appreciation as the primary investment objective and both follow substantially identical investment strategies to pursue their investment objectives. Both pursue their investment objectives by investing primarily in equity securities of well-capitalized companies based outside the United States that have favorable growth prospects. The investment advisor for Replaced Portfolio B and the investment advisors for Replacement Portfolio B each use an active management approach and rely on a combination of fundamental analysis of each company and an analysis of stock market and economic cycles before making an investment decision. None of the investment advisors are limited with respect to the countries and industries in which they may invest. Each investment advisor retains the flexibility to invest in securities issued by mid-cap and small-cap companies as well as securities of companies in emerging markets.

34. The primary difference in investment objectives of Replaced Portfolio B and Replacement Portfolio B manifests in the degree to which Replaced Portfolio B emphasizes income from portfolio securities as a secondary investment objective. In that regard, Replaced Portfolio B's investment advisor may purchase a security solely to generate income or for the potential to generate income without regard to capital appreciation whereas the investment advisors for Replacement Portfolio B would not purchase a security solely for that purpose. Replaced Portfolio B also places a slightly greater emphasis on investment in securities of mid-cap companies than Replacement Portfolio B.

35. Replacement Portfolio A has available to it transactional advantages attributable to achieved economies of scale greater than those of Replaced Portfolio A and has a significantly lower expense ratio than Replaced Portfolio A even after expense waivers and reimbursements for Replaced Portfolio A have been taken into account. Although Replacement Portfolio B has not yet achieved a level of assets equal to or greater than Replaced Portfolio B, Replacement Portfolio B has a significantly lower expense ratio than Replaced Portfolio B even after expense waivers and reimbursements for Replaced Portfolio B have been taken into account.

36. For Contract owners on the date of the proposed substitutions, the Company will reimburse, on the last business day of each fiscal period (not to exceed a fiscal quarter) during the

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

37. By the May 1, 2008 prospectuses for the Contracts and the Accounts, the Company will notify owners of the Contracts of their intention to take the necessary actions to carry out the proposed substitutions. The current prospectus for each Replacement Fund, as well as the current prospectuses for all other portfolios available as investment options available under the Contracts, will be bound together with the May 1, 2008 prospectuses for the Contracts and the Accounts.

38. The prospectuses for the Contracts will advise the Contract owners that from the date of the prospectus until the date of the proposed substitutions, the Company will not exercise any rights reserved by it under any Contract to impose additional charges for transfers until at least 30 days after the proposed substitutions. Similarly, the prospectus will disclose that, from May 1, 2008 until the date of the proposed substitutions, the Company will permit Contract owners to transfer Contract value out of each subaccount currently holding shares of a Replaced Portfolio to other subaccounts and the fixed account without those transfers being treated as transfers for purposes of determining the remaining number of transfers that may be permitted in the Contract year without a transfer charge. The prospectuses will also advise Contract owners that if the proposed substitutions are carried out, then each Contract owner affected by the substitutions will be sent a written notice (described immediately below) informing them of the facts and details of the substitutions.

39. Within five days after the proposed substitutions, Contract owners who are affected by the substitutions will be sent a written notice informing them that the substitutions were carried

out. The notice will also reiterate the facts that the Company: (1) Will not exercise any rights reserved by it under any of the Contracts to impose additional charges for transfers until at least 30 days after the proposed substitutions, and (2) will, for at least 30 days following the proposed substitutions, permit such Contract owners to transfer Contract values out of the subaccounts holding shares of the Replacement Portfolios to other subaccounts and the fixed account without those transfers being treated as transfers for purposes of determining the remaining number of transfers permitted in the Contract year without a transfer charge. The notice as delivered in certain jurisdictions may also explain that the right of a Contract owner to make transfers in connection with the proposed substitutions will not affect such Contract owner's right, under insurance regulations in those jurisdictions, to exchange his or her Contract for a fixed-benefit life insurance contract or a fixed-benefit annuity Contract during the 60 days following the substitutions.

40. The Company will carry out the proposed substitutions by redeeming shares of each Replaced Portfolio held by the Accounts for cash and applying the proceeds to the purchase of shares of the Replacement Portfolios. The proposed substitutions will take place at relative net asset value with no change in the amount of any Contract owner's Contract value or death benefit or in the dollar value of his or her investment in any of the Accounts. Contract owners will not incur any fees or charges as a result of the proposed substitutions, nor will their rights or the Company's obligations under the Contracts be altered in any way. All applicable expenses incurred in connection with the proposed substitutions, including brokerage commissions and legal, accounting, and other fees and expenses, will be paid by the Company. 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 being paid by existing Contract owners to be greater after the proposed substitutions than before the proposed substitutions.

Applicants' Legal Analysis

1. The Applicants request that the Commission issue an order pursuant to Section 26(c) of the Act approving the substitution by the Company of Service Class shares of Replacement Portfolio A for shares of Replaced Portfolio A, and the substitution of shares of Replacement Portfolio B for shares of

Replaced Portfolio B held by the Accounts.

2. The Applicants assert that all the Contracts expressly reserve for the Company the right, subject to compliance with applicable law, to substitute shares of one fund or portfolio held by a subaccount of an Account for another. The prospectuses for the Contracts and the Accounts contain appropriate disclosure of this right.

3. Applicants maintain that Contract owners will be better served by the proposed substitutions and that the proposed substitutions are appropriate given the Replacement Portfolios, the Replaced Portfolios, and other investment options available under the Contracts. In the last three years, Replacement Portfolio A has had investment performance superior to that of Replaced Portfolio A, and Replacement Portfolio B has had investment performance superior to that of Replaced Portfolio B. In addition, Replacement Portfolio A has had substantially lower expenses over this same period than Replaced Portfolio A, and Replacement Portfolio B has had substantially lower expenses over this same period than Replaced Portfolio B.

4. Applicants believe that Replacement Portfolio A and Replaced Portfolio A are substantially the same in their stated investment objectives and principal investment strategies, and that Replacement Portfolio B and Replaced Portfolio B are substantially similar in their stated investment objectives and principal investment strategies, as to afford investors continuity of investment and risk.

5. Although each Replaced Portfolio benefits from an expense reimbursement arrangement that reduces the Portfolio's expenses, even after the reimbursement for each Replaced Portfolio has been taken into account, the expenses of the corresponding Replacement Portfolio are still significantly lower.

6. The Applicants represent that the proposed substitutions retain for Contract owners the investment flexibility that is a central feature of the Contracts. If the proposed substitutions are carried out, all Contract owners will be permitted to allocate purchase payments and transfer Contract values between and among the remaining subaccounts as they could before the proposed substitutions.

7. The Applicants maintain that the proposed substitutions are not the type of substitution that Section 26(c) was designed to prevent. Unlike traditional unit investment trusts where a depositor could only substitute an investment security in a manner which

permanently affected all the investors in the trust, the Contracts provide each Contract owner with the right to exercise his or her own judgment and transfer Contract values into other subaccounts and the fixed account. Moreover, the Contracts will offer Contract owners the opportunity to transfer amounts out of the affected subaccounts into any of the remaining subaccounts without cost or disadvantage. The proposed substitutions, therefore, will not result in the type of costly forced redemption that Section 26(c) was designed to prevent.

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, under delegated authority.

Florence E. Harmon,
Deputy Secretary.

[FR Doc. E8-5919 Filed 3-24-08; 8:45 am]

BILLING CODE 8011-01-P

SECURITIES AND EXCHANGE COMMISSION

[Release No. 34-57519; File No. SR-CBOE-2008-29]

Self-Regulatory Organizations; Chicago Board Options Exchange, Incorporated; Notice of Filing and Immediate Effectiveness of Proposed Rule Change To Extend Two Pilot Programs

March 18, 2008.

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 March 13, 2008, the Chicago Board Options Exchange, Incorporated ("CBOE" or "Exchange") filed with the Securities and Exchange Commission ("Commission") the proposed rule change as described in Items I and II below, which Items have been substantially prepared by the Exchange. The Exchange filed the proposed rule change pursuant to Section 19(b)(3)(A) of the Act³ and Rule 19b-4(f)(6) thereunder, which renders it effective upon filing with the Commission.⁴ The

¹ 15 U.S.C. 78s(b)(1).

² 17 CFR 240.19b-4.

³ 15 U.S.C. 78s(b)(3)(A).

⁴ 17 CFR 240.19b-4(f)(6).