

SECURITIES AND EXCHANGE COMMISSION

17 CFR Parts 230, 239, 270, and 274

[Release Nos. 33-8088; IC-25522; File No. S7-9-98]

RIN 3235-AG37

Registration Form for Insurance Company Separate Accounts Registered as Unit Investment Trusts That Offer Variable Life Insurance Policies

AGENCY: Securities and Exchange Commission.

ACTION: Final rule; Request for comments on Paperwork Reduction Act burden estimate.

SUMMARY: The Securities and Exchange Commission is adopting a new registration form for insurance company separate accounts that are registered as unit investment trusts and that offer variable life insurance policies. The form is to be used by these separate accounts to register under the Investment Company Act of 1940 and to offer their securities under the Securities Act of 1933. For these registrants, the form will replace the registration form currently used by unit investment trusts to register under the Investment Company Act, and the registration form currently used by unit investment trusts to offer their securities under the Securities Act. The new registration form focuses prospectus disclosure on essential information that will assist an investor in deciding whether to invest in a particular variable life insurance policy. The new form also will minimize prospectus disclosure about technical and legal matters, improve disclosure of fees and charges, and streamline the registration process by replacing two forms that were not specifically designed for variable life insurance policies with a single form tailored to these products. The Commission is also amending the registration form used by mutual funds to register under the Investment Company Act and to offer their shares under the Securities Act, to require a fee table for mutual funds that offer their shares as investment options for variable life insurance policies and variable annuity contracts.

DATES: *Effective Date:* June 1, 2002.

Compliance Dates:

1. *Form N-6:*

A. *Initial Compliance Date:* All new registration statements filed on or after December 1, 2002, for separate accounts that are registered as unit investment trusts and that offer variable life

insurance policies must comply with Form N-6.

B. *Final Compliance Date:* All insurance company separate accounts that are registered as unit investment trusts and that currently offer variable life insurance policies with effective registration statements must comply with Form N-6 for post-effective amendments that are annual updates to their registration statements filed on or after December 1, 2002, and no later than December 1, 2003.

2. *Form N-1A:* All new registration statements, and post-effective amendments that are annual updates to effective registration statements, filed on or after September 1, 2002, must comply with the amendment to Form N-1A.

Comment Date: Comments on the "collection of information" requirements within the meaning of the Paperwork Reduction Act of 1995 for the amendment to Form N-1A should be received by June 1, 2002.

ADDRESSES: Comments should be submitted in triplicate to Jonathan G. Katz, Secretary, Securities and Exchange Commission, 450 Fifth Street, NW., Washington, DC 20549-0609.

Comments also may be submitted electronically at the following E-mail address: rule-comments@sec.gov. All comment letters should refer to File No. S7-9-98; this file number should be included on the subject line if E-mail is used. All comments received will be available for public inspection and copying in the Commission's Public Reference Room, 450 Fifth Street, NW., Washington, DC 20549-0102. Electronically submitted comment letters also will be posted on the Commission's Internet site (<http://www.sec.gov>). We do not edit personal identifying information, such as names or electronic mail addresses, from electronic submissions. You should submit only information that you wish to make available publicly.

FOR FURTHER INFORMATION CONTACT:

Mark Cowan, Senior Counsel, Katy Mobedshahi, Attorney, or Paul G. Cellupica, Assistant Director, (202) 942-0721, Office of Disclosure and Insurance Product Regulation, Division of Investment Management, Securities and Exchange Commission, 450 Fifth Street, NW., Washington, DC 20549-0506.

SUPPLEMENTARY INFORMATION: The Securities and Exchange Commission ("Commission") is adopting new Form N-6 [17 CFR 239.17c; 17 CFR 274.11d] for insurance company separate accounts that are registered as unit investment trusts and that offer variable life insurance policies. The form will be used by these separate accounts to

register under the Investment Company Act of 1940 [15 U.S.C. 80a-1 *et seq.*] ("Investment Company Act") and to offer their securities under the Securities Act of 1933 [15 U.S.C. 77a *et seq.*] ("Securities Act"). For these registrants, the proposed form will replace Forms N-8B-2 [17 CFR 274.12] and S-6 [17 CFR 239.16], currently used by unit investment trusts to register under the Investment Company Act and to offer their securities under the Securities Act. In addition, the Commission is amending Form N-1A [17 CFR 239.15A; 17 CFR 274.11A] to require a fee table for mutual funds that offer their shares as investment options for variable life insurance policies and variable annuity contracts. The Commission also is adopting technical amendments to rules 134b, 430A, 495, 496, and 497 under the Securities Act [17 CFR 230.134b, 230.430, 230.430A, 230.495, 230.496, and 230.497]; rules 8b-11 and 8b-12 under the Investment Company Act [17 CFR 270.8b-11 and 270.8b-12]; and Form N-8B-2 [17 CFR 274.12]. In a companion release, the Commission is proposing amendments to Form N-4 [17 CFR 239.17b; 17 CFR 274.11c], the registration form for insurance company separate accounts that are registered as unit investment trusts and that offer variable annuity contracts. These proposed amendments would revise the format of the fee table of Form N-4 to require disclosure of the range of expenses for all of the investment options offered through a separate account.¹

Table of Contents

- I. Introduction and Background
- II. Discussion
 - A. Part A—Information in the Prospectus
 - 1. Risk/Benefit Summary: Benefits and Risks (Item 2)
 - 2. Risk/Benefit Summary: Fee Table (Item 3)
 - 3. General Description of Registrant, Depositor, and Portfolio Companies (Item 4)
 - 4. Charges (Item 5)
 - 5. Taxes (Item 12)
 - B. Part B—Statement of Additional Information
 - 1. Financial Statements (Item 24)
 - 2. Performance Data (Item 25)
 - 3. Illustrations (Item 26)
 - C. Part C—Other Information—Exhibits—Actuarial Opinion (Item 27(1))
 - D. Technical Rule Amendments
 - E. Adoption of Amendment to Form N-1A
 - F. Effective Dates and Transition Period
 - G. Form N-1
- III. Cost/Benefit Analysis
 - A. Background
 - B. Benefits

¹ Investment Company Act Release No. IC-25521 (April 12, 2002) ("Form N-4 Proposing Release").

C. Costs
 D. Conclusion
 IV. Paperwork Reduction Act
 V. Effects on Efficiency, Competition, and Capital Formation
 VI. Regulatory Flexibility Act Certification
 VII. Statutory Authority
 Text of Rule Amendments and Forms

I. Introduction and Background

Variable Life Insurance

Variable life insurance is similar to traditional life insurance, except that the cash value and/or death benefit vary based on the investment performance of the assets in which the premium payments are invested. Under a traditional life insurance policy, premium payments are allocated to an insurer's general account and invested, consistent with state law requirements, to enable the insurer to meet its death benefit and cash value guarantees. The investment return on assets in the general account has little or no direct effect on the cash value or the death benefit received.

Premium payments under a variable life policy, in contrast, are invested in an insurance company separate account, which generally is not subject to state law investment restrictions. A variable life policyholder typically is offered a variety of investment options (*e.g.*, equity, bond, and money market mutual funds). Death benefits and cash values are directly related to performance of the separate account, although typically there is a guaranteed minimum death benefit.

Variable life insurance was introduced in the early 1970s. During the years from the end of World War II to the late 1960s, there was a significant decline in the share of savings dollars invested with life insurance companies. In an effort to counteract this trend, insurers began to offer a greater variety of products, including equity-based products such as variable life insurance.² In recent years, variable life insurance has become an increasingly important segment of the insurance industry. By 2000, variable life insurance accounted for 51.3% of first year individual life insurance premiums, and 19.6% of total individual life insurance premiums.³ Since the early 1990s, assets in variable life products have grown substantially,

from \$4.8 billion in December 1991 to \$42.8 billion in November 2001.⁴

Current Forms for Variable Life Insurance Registration

A separate account funding a variable life insurance policy most commonly is registered as a unit investment trust under the Investment Company Act.⁵ Separate accounts registered as unit investment trusts are divided into sub-accounts, each of which invests in a different open-end management investment company, or mutual fund ("Portfolio Company").⁶

Both separate account unit investment trusts and the Portfolio Companies in which they invest are registered as investment companies under the Investment Company Act, and their securities are registered under the Securities Act. Investors in variable life insurance policies receive the prospectuses for both the separate account unit investment trust and the Portfolio Companies. Portfolio Companies, as mutual funds, use Form N-1A to register under the Investment Company Act and to register their shares under the Securities Act.⁷ Variable life separate accounts, as unit investment trusts, register under the Investment Company Act on Form N-8B-2 and register their securities under the Securities Act on Form S-6.

Forms N-8B-2 and S-6 were designed for non-separate account unit investment trusts and were adopted before the establishment of the first separate account to fund variable life insurance policies. While much of their required disclosure is useful, the forms request some information that is not typically of consequence to a buyer of

variable life insurance. More importantly, many matters that would be significant to a buyer of a variable life insurance policy are not addressed at all by the forms.

Another shortcoming of Forms N-8B-2 and S-6 is that they do not reflect fundamental improvements that we have made to other investment company registration forms, such as Form N-4 for variable annuities and Form N-1A for mutual funds, which facilitate clearer and more concise disclosure to investors.⁸ As a result, variable life insurance prospectuses have often been unnecessarily lengthy and complex.

Form N-6

To address these shortcomings, the Commission issued a release proposing Form N-6 for public comment ("Proposing Release").⁹ Unlike the current forms, proposed Form N-6 was specifically tailored to variable life insurance. The proposed requirements of the form focused on information that is essential to a decision to invest in a particular variable life insurance policy, and the form was intended to enhance the comparability of information about variable life insurance policies. The proposal sought to promote more effective communication of information about variable life insurance policies.

All commenters expressed strong support for proposed Form N-6.¹⁰ Commenters stated that proposed Form N-6 would improve the disclosure that investors receive about variable life insurance. Commenters indicated that proposed Form N-6 would require disclosure of essential information in the prospectus in a concise and user-friendly format and thus would

⁴ *Lipper Variable Insurance Products Performance Analysis*, 4th Quarter 2001 Report, Vol. I at 1-1 (Dec. 31, 2001); *Lipper Variable Insurance Products Performance Analysis Service*, Vol. I at 169 (Jan. 31, 1992).

⁵ Section 4(2) of the Investment Company Act defines "unit investment trust" as "an investment company which (A) is organized under a trust indenture, contract of custodianship or agency, or similar instrument, (B) does not have a board of directors, and (C) issues only redeemable securities, each of which represents an undivided interest in a unit of specified securities, but does not include a voting trust." 15 U.S.C. 80a-4(2).

⁶ An open-end management investment company is an investment company, other than a unit investment trust or face amount certificate company, that offers for sale or has outstanding any redeemable security of which it is the issuer. Section 4(3) of the Investment Company Act [15 U.S.C. 80a-4(3)]; Section 5(a)(1) of the Investment Company Act [15 U.S.C. 80a-5(a)(1)]. As an alternative to the structure described in the text, a variable life insurance separate account can be organized in a single-tier structure, as an open-end management investment company. Today, this structure is used by few variable life insurance registrants.

⁷ 17 CFR 274.11A.

⁸ Form N-1A [17 CFR 274.11A]; Form N-4 [17 CFR 274.11c]; Investment Company Act Release No. 13689 (Dec. 22, 1983) [49 FR 614] ("N-4 Proposing Release"); Investment Company Act Release No. 14575 (June 14, 1985) [50 FR 26145] ("N-4 Adopting Release"); Investment Company Act Release No. 12927 (Dec. 27, 1982) [48 FR 813] ("1982 N-1A Proposing Release"); Investment Company Act Release No. 13436 (Aug. 12, 1983) [48 FR 37928] ("1983 N-1A Adopting Release"); Investment Company Act Release No. 22528 (Feb. 27, 1997) [62 FR 10898], correction [62 FR 24160] ("1997 N-1A Proposing Release"); Investment Company Act Release No. 23064 (Mar. 13, 1998) [63 FR 13916] ("1998 N-1A Adopting Release").

⁹ Investment Company Act Release No. 23066 (March 13, 1998) [63 FR 13988] ("Form N-6 Proposing Release").

¹⁰ The Commission received 16 comment letters from 13 commenters on proposed Form N-6. The commenters included two trade associations, ten insurance companies, and one attorney. The comment letters, as well as a comment summary prepared by the Commission's staff, are available for public inspection and copying at the Commission's Public Reference Room in File No. S7-9-98. The comment summary is also available on the Commission's Internet website at <<http://www.sec.gov/rules/extra/33-7514consum.htm>>.

² Securities and Exchange Commission ("SEC"), Division of Investment Management, Variable Life Insurance and the Petition for the Issuance and Amendment of Exemptive Rules at 1-2 (Jan. 1973).

³ American Council of Life Insurers, *Life Insurers Fact Book* 101 (2001).

facilitate decision making by investors. Commenters also recommended changes to proposed Form N-6 to improve disclosure. We are adopting proposed Form N-6 substantially as proposed, with modifications that reflect our consideration of commenters' suggestions.

Form N-6 will promote effective disclosure to variable life insurance investors, providing the following benefits:

- *Tailored Registration Form.* Form N-6 will eliminate requirements in the current registration forms that are not relevant to variable life insurance.¹¹ Form N-6 also will include items that are specifically addressed to variable life insurance products, such as descriptions of contractual provisions relating to premiums, death benefits, cash values, surrenders and withdrawals, and loans.¹²

- *Plain English.* The Commission's plain English rule will apply to the front and back cover pages and the risk/benefit summary in the variable life insurance prospectus.¹³ This should result in better, clearer disclosure to investors.

- *Reducing Complex and Lengthy Prospectus Disclosure.* Form N-6 will streamline variable life prospectus disclosure by adopting a two-part format consisting of a simplified prospectus, designed to contain essential information that assists an investor in making an investment decision, and a statement of additional information ("SAI"), containing more extensive information and detailed discussion of matters included in the prospectus that investors could obtain upon request.

- *Standardized Fee Information.* Form N-6 will require variable life insurance registrants to provide a uniform, tabular presentation of fees and charges, in order to improve the disclosure to investors of the often complex charges associated with variable life insurance policies and increase the comparability of charges among policies.

- *Integrated Disclosure Document.* Form N-6 will provide variable life insurance registrants with an integrated form for Investment Company Act and Securities Act registration, eliminating unnecessary paperwork and duplicative reporting.

¹¹ See, e.g., Item 18(d) of Form N-8B-2 (requiring disclosure of schedule of distributions made to security holders).

¹² Items 7 (premiums), 8 (death benefits and cash values), 9 (surrenders and withdrawals), and 10 (loans).

¹³ Rule 421(d) under the Securities Act [17 CFR 230.421(d)].

The adoption of Form N-6 is the latest Commission action reflecting our long-standing commitment to improve the quality of disclosure available to investment company investors. During the 1980s, the Commission introduced the innovative two-part disclosure format for mutual funds and variable annuities and adopted uniform fee tables for mutual funds and variable annuities.¹⁴ We have taken significant steps in the past few years, including the comprehensive revision of Form N-1A, the mutual fund disclosure form, to provide a standardized risk/return summary at the beginning of every mutual fund prospectus, require mutual funds to prepare disclosure documents using plain English, and eliminate prospectus clutter that obscures information that is helpful to investors making an investment decision.¹⁵ Last year, we adopted amendments to our rules and forms to improve the disclosure that mutual funds provide about their independent directors and to require mutual funds to disclose after-tax returns.¹⁶

Form N-6 is designed to promote more effective communication of information about variable life insurance policies. Today's adoption of Form N-6 represents a significant step toward our goal of better, clearer, more concise disclosure for all investors.

II. Discussion

We discuss below the significant comments that we received on proposed Form N-6 and the Items that we have modified in response to comments.

A. Part A—Information in the Prospectus

1. Risk/Benefit Summary: Benefits and Risks (Item 2)

We are adopting, with modifications, the requirement that a risk/benefit summary be included at the beginning of every prospectus. The risk/benefit summary will provide key information about a policy, including its risks and benefits, and is intended to respond to investors' strong preference for summary information in a standardized

format.¹⁷ It is designed to assist investors in evaluating and comparing variable life insurance policies by providing them with key information about a policy in a standardized, easily accessible place. Commenters generally supported inclusion of the risk/benefit summary in the prospectus with suggested modifications, several of which we are adopting today.

As proposed, the risk/benefit summary would have been required to contain specified information in a required order and would not have been permitted to contain additional information.¹⁸ Some commenters expressed the view that providing registrants greater flexibility in describing policy features would result in more useful and understandable disclosure. We agree and have modified the proposed requirement to permit the inclusion of additional information and to eliminate the ordering requirements of Item 2. As adopted, Item 2 requires a concise, plain English description of the policy, including the benefits and principal risks.

We have eliminated the proposed requirement to disclose that part of the policy premium is allocated to insurance coverage, part of the premium is invested, and part of the premium is used to pay sales loads and other charges.¹⁹ Commenters noted that this disclosure may be inaccurate in some cases, e.g., charges may be deducted from cash value rather than premium payments. We agree. In addition, we believe that this disclosure is unnecessary because the investment and cost aspects of the policy are adequately covered elsewhere in the prospectus.²⁰

One commenter recommended that registrants be required to discuss the risk of replacing one policy with another, which may include substantial deferred sales charges on the surrendered policy, an additional medical examination, and higher insurance charges. Item 2, as proposed and adopted, requires disclosure that variable life insurance policies are unsuitable as short-term savings vehicles, and we would expect this disclosure to include a discussion of the adverse consequences of early

¹⁴ Investment Company Act Release No. 16766 (Jan. 23, 1989) [54 FR 4772] ("N-4 Fee Table Adopting Release"); Investment Company Act Release No. 16244 (Feb. 1, 1988) [53 FR 3192] ("N-1A Fee Table Adopting Release"); N-4 Adopting Release, *supra* note 8; 1983 N-1A Adopting Release, *supra* note.

¹⁵ 1998 N-1A Adopting Release, *supra* note 8.

¹⁶ Investment Company Act Release No. 24816 (January 2, 2001) [66 FR 3734], correction [66 FR 13234]; Investment Company Act Release No. 24832 (January 18, 2001) [66 FR 9002] ("After-Tax Returns Adopting Release").

¹⁷ For example, in connection with an initiative to permit mutual funds to use profiles summarizing key information, many individual investors wrote to the Commission about the need for concise, summary information relating to a fund. See Investment Company Act Release No. 23065 (Mar. 13, 1998) [63 FR 13968, 13969] (discussing individual investors' strong support for the Commission's fund profile proposal).

¹⁸ Form N-6 Proposing Release, *supra* note 9, 63 FR at 14008-09.

¹⁹ *Id.* at 14009.

²⁰ See, e.g., Item 3 and Item 7(f).

surrender, such as the payment of deferred sales charges. We have, however, determined not to require a separate discussion of replacement risks because the risks of a replacement transaction, including the risk that a replacement may be unsuitable, are not risks of a particular policy, and we believe that the prospectus should focus on the policy itself.

We are concerned, however, that replacement transactions associated with variable life insurance policies may not, in all cases, be in the best interests of investors. These transactions create a potential for sales practice abuses, through which contract owners may be induced to make disadvantageous exchanges that result in the payment of additional sales charges and broker compensation.²¹ We note that replacement transactions involving variable insurance products have been the object of increasing regulatory scrutiny in recent years.²² We remind broker-dealers of their obligation to recommend replacement transactions only when they are suitable.²³ We also urge life insurance companies to monitor replacement activity with respect to their policies on an ongoing basis.

Proposed Form N-6 contemplated that risks associated with Portfolio Companies would be addressed in the Portfolio Companies' prospectuses, not the variable life insurance prospectus. Policies frequently offer numerous Portfolio Companies as investment

options, and the Commission continues to believe that a variable life insurance prospectus may become too long and complex if it includes risk information specific to each Portfolio Company. As a result, investors are better served by consulting the Portfolio Company prospectus for risk information relating to the particular Portfolio Companies in which they are interested. At the suggestion of commenters, however, we have modified Item 2 to expressly permit the inclusion of information about the Portfolio Companies.²⁴ Whether or not a registrant elects to include information about the Portfolio Companies, Item 2 will require a statement to the effect that a comprehensive discussion of the risks of each Portfolio Company may be found in the Portfolio Company's prospectus.

We have added an instruction to make it clear that if the risk/benefit summary includes information that responds to the requirements of other form items, the information need not be repeated elsewhere in the Prospectus.²⁵ This could, for example, permit a registrant that includes information about the Portfolio Companies in the risk/benefit summary to modify or omit discussion of the Portfolio Companies in the body of the prospectus.

As these modifications to proposed Form N-6 suggest, we believe that it is appropriate to accord registrants broad flexibility to include a narrative summary that is most useful to their investors. We are, however, concerned that this flexibility would permit a registrant to include excessively detailed information in the summary, with the result that other important information that is not required by Item 2, particularly the fee table required by Item 3, would not be prominently located in the prospectus. In order to provide registrants broad flexibility to design the narrative summary, while ensuring that policy costs will receive the prominence they deserve, we have modified proposed Form N-6 to require that the fee table must precede the information required by Item 2 if the information provided in response to Item 2 exceeds five pages in length.²⁶

2. Risk/Benefit Summary: Fee Table (Item 3)

Fee Table Required

We are adopting, substantially as proposed, the requirement that a variable life insurance prospectus include a fee table immediately following the summary of risks and

benefits required by Item 2.²⁷ For the first time, variable life insurance prospectuses will include a fee table similar to those long required for both mutual funds and variable annuities.²⁸ Our goal is to promote, to the greatest extent possible, uniformity, simplicity, and comparability in fee disclosure.

Commenters were divided in their views on the requirement to include a tabular presentation of fees and charges at the beginning of all variable life insurance policy prospectuses. Commenters that supported the fee table noted that it would facilitate comparisons among variable life insurance policies and bring variable life insurance fee disclosure into general parity with variable annuities and mutual funds. Commenters that objected to the requirement asserted that the proposed fee table would not provide useful disclosure for a prospective investor seeking to evaluate a variable life insurance policy or to compare several variable life insurance policies because of the complexity of variable life insurance fees and charges. These commenters recommended alternatives that would permit issuers to provide disclosure of fees and charges in a format of their choosing, which could include tabular presentations, flow charts, and narrative descriptions.

As outlined in the Proposing Release, we agree with commenters that the fees and charges associated with variable life insurance policies often are quite complex for several reasons. First, the structure of fees often differs from one policy to another, making comparisons among products difficult. Second, fees typically are imposed at several levels within a variable life insurance policy, making it difficult to assess the aggregate effect of charges. For example, management and other expenses may be deducted at the Portfolio Company level, asset-based charges such as a mortality and expense risk charge may be deducted against separate account assets, and other charges, such as cost of insurance, may be assessed against a policyholder's individual cash value. Third, some variable life charges, particularly cost of insurance (*i.e.*, the charge imposed for death benefit coverage), vary based upon the individual characteristics of the purchaser and change over the life of a policy. The complexity of variable life insurance fees and charges makes it more difficult to prescribe a

²¹ Cf. NASD Notice to Members 00-44, *The NASD Reminds Members Of Their Responsibilities Regarding The Sale of Variable Life Insurance* (July 2000) (discussing need for NASD member firms to adopt procedures to ensure that replacement recommendations involving variable life insurance policies are suitable).

²² See *In the Matter of Raymond A. Parkins, Jr.*, Admin. Proc. File No. 3-10300, Investment Advisers Act Release No. 2010 (Jan. 18, 2002) (Order Making Findings and Imposing Remedial Sanctions and Cease-and-Desist Order) (finding that investment adviser fraudulently switched clients' variable annuity investments, and barring adviser from association with any broker, dealer, or investment adviser for two years); Press Release, *NASD Regulation Fines Pruco Securities \$20 Million* (Jul. 8, 1999) (announcing action against broker/dealer in connection with the offer and sale of variable life insurance policies, including misrepresentations in connection with the purchase of new variable life insurance policies by existing customers) <www.nasdr.com/news/pr1999/ne_section99_170.html> (visited Jan. 24, 2002); Letter from Susan Nash, Associate Director, Division of Investment Management, SEC, to W. Thomas Conner, National Association for Variable Annuities, Carl B. Wilkerson, American Council of Life Insurers, and Paul J. Mason, Insurance Marketplace Standards Association (June 19, 2001) <www.sec.gov/divisions/investment/guidance/nash061901.htm> (emphasizing Commission staff's concern with abusive switching of variable annuity contracts).

²³ See, e.g., NASD Conduct Rule 2310 (Recommendations to Customers (Suitability)).

²⁴ Instruction to Item 2.

²⁵ General Instruction C.3.(a).

²⁶ General Instruction C.3.(a) & C.3.(c)(ii).

²⁷ Item 3.

²⁸ Item 3 of Form N-1A; N-1A Fee Table Adopting Release, *supra* note 14; Item 3 of Form N-4; N-4 Fee Table Adopting Release, *supra* note 14.

standardized disclosure format than for mutual funds or variable annuities.

We continue to believe, however, that the complexity of variable life insurance fees and charges makes it particularly important that investors receive clear, understandable disclosure about this essential aspect of the investment decision. As we noted in the Proposing Release, the importance of this disclosure has been heightened since the passage of the National Securities Markets Improvement Act of 1996 ("NSMIA"). NSMIA amended Sections 26 and 27 of the Investment Company Act to replace specific limits on the amount, type, and timing of charges that applied to variable insurance contracts with a requirement that aggregate charges be reasonable in relation to the services rendered, the expenses expected to be incurred, and the risks assumed by the insurance company.²⁹ The increased flexibility to structure variable life insurance charges given to insurers by NSMIA increases the need for clear, understandable disclosure of charges.³⁰

Although we acknowledge the complexities associated with designing a fee table for variable life insurance, we agree with those commenters who believe that it will facilitate comparison among variable life insurance policies.³¹ As we noted in the Proposing Release, in recent years, the Commission has observed that a number of variable life insurance registrants, on their own initiative, have added relatively simple, tabular presentations of fees and charges to their prospectuses, including fee tables that conform generally to the format we proposed. The Commission believes that these registrants' efforts represent a significant step towards enhanced communication with investors about fees and charges and that it is appropriate, at this time, to extend these efforts to the industry as a whole, by requiring variable life

insurance prospectuses to include a fee table.

Fee Table Format

The fee table consists of three separate sections. The first section shows policyholder transaction fees, such as sales loads, surrender charges, and transfer fees. The second section shows annual charges, excluding annual Portfolio Company operating expenses. The third section shows annual Portfolio Company operating expenses, including management fees, distribution fees, and other expenses.

We are modifying the proposed four-column format that would have required a registrant to identify each charge, when the charge is deducted, the amount of the charge, and whether the charge is deducted from all policies or only certain policies. Commenters generally questioned the need for the fourth column, identifying whether the charge is deducted from all policies or only certain policies. We agree, and the fee table, as adopted, does not include this column. Registrants that desire to indicate that a charge is not applicable to all policies may do so through footnotes to the fee table or some similar means.

We are also changing the format of the Portfolio Company operating expenses section of the fee table in response to commenters' suggestions, so that the presentation of Portfolio Company fees and expenses will more closely resemble the presentations required by Forms N-1A and N-4. Under proposed Form N-6, Portfolio Company operating expenses would have been disclosed in a format similar to that prescribed for charges assessed by an insurer under the terms of a variable life insurance policy. We agree with a commenter who argued that the use of this format would tend to obscure the important differences between Portfolio Company charges and charges assessed under a variable life insurance policy, such as the fact that Portfolio Company expenses are not contractual and may vary from year to year. The Commission believes that the format used for mutual fund expenses in Forms N-1A and N-4 has provided uniformity, simplicity, and comparability in fund fee disclosure, and that presentation of Portfolio Company expenses in this format in Form N-6 will facilitate understanding of Portfolio Company expenses.³²

Requirement To Disclose All Fees and Charges

We are adopting, as proposed, the requirement that registrants disclose all fees and charges, whether or not a specific caption is provided for a charge in the fee table.³³ A number of commenters objected to the proposal to require disclosure of all fees and charges, particularly charges for riders, in the fee table. These commenters noted that rider charges generally apply to a limited number of policyholders, are not considered significant features of a policy, and could dominate a fee table and detract from the information about the base policy. Some commenters recommended instead that the Commission limit the disclosure required in the fee table to fees and charges that are relevant to most policies or that may be charged to a typical investor.

We share commenters' concern that investors not be overwhelmed by information of limited relevance. At the same time, however, we do not believe that it is feasible to distinguish between charges for optional features that ought to be included in the fee table because they are expected to be selected by most or a majority of investors, or by "typical" investors, and charges for optional features that are expected to be less popular and hence should be omitted from the fee table. We note that in recent years insurers have increasingly offered variable insurance products with a variety of so-called "unbundled" optional features, each of which has a specific charge.³⁴ Insurers maintain that these "unbundled" products are advantageous for investors because they allow investors to elect and pay for only those features that they want.³⁵ However, this trend toward unbundling of features and charges would make the task of separating out those optional features that will be selected by a "typical" investor much more difficult. Consequently, we are adopting the requirement as proposed. We note, however, that a registrant may

³³ Instruction 2.(c) to Item 3; Instruction 3.(e) to Item 3.

³⁴ Timothy C. Pfeifer, *Growing Rider Use Furthers Flexibility But Also Complexity*, National Underwriter Life & Health/Financial Services Edition, Sept. 3, 2001, at 22 (describing growth in optional riders on both variable annuities and variable life insurance); Linda Koco, *Shaping Up the Next-Gen VULs*, National Underwriter-Life & Health/Financial Services Edition, Jan. 1, 2001, at 20 (insurance company executive quoted as characterizing the variable universal life business as moving toward flexibility and unbundling).

³⁵ Timothy C. Pfeifer, *Growing Rider Use Furthers Flexibility But Also Complexity*, *supra* note 34 (arguing that optional riders facilitate policyholder choice).

²⁹ 15 U.S.C. 80a-26; 15 U.S.C. 80a-27; National Securities Markets Improvement Act of 1996, Pub. L. No. 104-290 (1996), Section 205; S. Rep. No. 293, 104th Cong., 2d Sess. 22 (1996); H. Rep. No. 622, 104th Cong., 2d Sess. 45-46 (1996); Division of Investment Management, SEC, Protecting Investors: A Half-Century of Investment Company Regulation, at 386-90 (1992) (describing pre-NSMIA regulation of variable life insurance policy charges).

³⁰ In addition, in light of NSMIA, the National Association of Securities Dealers, Inc. ("NASD") amended its Conduct Rules to eliminate the maximum sales charge limitations applicable to variable insurance contracts. Securities Exchange Act Release No. 42043 (Oct. 20, 1999) [64 FR 58112 (Oct. 28, 1999)] (order approving File No. SR-NASD-98-14).

³¹ We note that the Commission's plain English rule encourages use of tabular presentations for complex material whenever possible. 17 CFR 230.421(d).

³² See 1997 N-1A Proposing Release, *supra* note 8, 62 FR at 10907 (discussing role of Form N-1A fee table).

readily ensure that disclosure of rider charges does not overwhelm disclosure of base contract charges by, for example, disclosing rider charges at the end of the second section of the fee table, under a caption that indicates that the charges are for optional features.

Cost of Insurance

We are modifying the proposed requirement that registrants disclose in the fee table the minimum and maximum cost of insurance charges that may be imposed under a variable life insurance policy.³⁶ Cost of insurance generally is a significant expense item for variable life insurance policyholders.³⁷ For that reason, the Commission believes that it is important for investors to receive information about the level of this charge. The Commission also recognizes, however, that this charge varies from policyholder to policyholder, based on individual characteristics such as age, gender, and risk classification, so that the charge does not readily lend itself to quantification in a table that applies to all policyholders.

Commenters uniformly opposed the proposed requirement to disclose a range of the cost of insurance charge, arguing that this approach would result in the presentation of numbers that would have little relevance to many investors. Commenters, however, were far from uniform in their recommendations to address this issue. Some commenters suggested that the Commission require separate cost of insurance tables that disclose a range of cost of insurance rates for various issue ages, rate classes, genders, and policy years, noting that the added complexity of a more detailed presentation is outweighed by the benefit of more precise information about this charge which often represents the largest cost of a policy. Another commenter recommended disclosure of the cost of insurance charge for a policyholder with characteristics that are fairly representative of purchasers of a policy, which we had identified in the Proposing Release as a possible alternative approach to disclosure of cost of insurance.³⁸ Other commenters preferred a requirement to provide narrative disclosure about the cost of insurance, such as disclosure of the factors that affect the cost of insurance

charge and how the cost of insurance charge increases over the life of the policy.

We continue to believe that fee table disclosure of the cost of insurance can serve as a flag to prospective investors that this is a significant charge which bears further investigation. We are also persuaded that disclosure of the range of cost of insurance will more effectively demonstrate the significance of this charge if it is coupled with disclosure of the cost of insurance paid by a hypothetical representative policyholder. While the cost of insurance that will be paid by a prospective investor will likely differ from that shown for the representative policyholder, disclosure of the cost of insurance for the representative policyholder, together with disclosure of the minimum and maximum cost of insurance, should give prospective investors a general understanding of the range of cost of insurance charges. Therefore, we are requiring that registrants include in the fee table the cost of insurance charge that would be paid by a purchaser of the policy with characteristics (*e.g.*, sex, age, and rating classification) that are fairly representative of actual or expected purchasers of the policy, in addition to the minimum and maximum charges that may be imposed.³⁹ The requirements for the characteristics of the representative policyholder would be similar to the requirements for the characteristics of policyholders used in hypothetical illustrations, and the registrant would be required to describe these characteristics in a sub-caption for the charge.⁴⁰ To further address commenters' concerns that the specific numerical cost of insurance information in the fee table would have limited relevance to any particular investor, we are also requiring narrative disclosure (i) that the cost of insurance varies based on individual characteristics; (ii) that the cost of insurance charge or other charge shown in the table may not be representative of the charge that a particular policyholder will pay; and (iii) how a policyholder may obtain more information about the particular cost of insurance or other charges that would apply to him or her.

Further, we are permitting registrants to supplement this disclosure of the range of cost of insurance and the cost of insurance for a representative

policyholder with additional disclosure concerning the cost of insurance, immediately following the fee table.⁴¹ This disclosure might include, for example, an explanation of the factors that affect the cost of insurance or tables showing the cost of insurance for a spectrum of representative policyholders. Permitting this additional disclosure responds to commenters' concerns that simple numerical disclosure in the fee table may not be adequate to explain the cost of insurance to investors. Allowing additional disclosure will also permit registrants to experiment with different approaches, which may, over time, assist us in developing a better approach to disclosure of cost of insurance charges.

Requirement To Disclose Maximum Charges

The proposed fee table would have required disclosure of the maximum guaranteed charge for each item unless a specific instruction directs otherwise (*e.g.*, cost of insurance). Commenters that expressed views on this requirement recommended that the form permit registrants to disclose current charges along with the guaranteed charges, arguing that placing current charge information in a footnote will not adequately disclose variations between current and guaranteed charges and that disclosing only the guaranteed charge may significantly overstate the amount of a charge.

To address commenters' concerns, the Commission has revised Item 3 to permit, but not require, registrants to disclose current charges in the fee table so long as the current charge disclosure is no more prominent than, and does not obscure or impede understanding of, the required maximum guaranteed charge disclosure.⁴²

Captions in the Fee Table

We are making some technical changes to address commenters' concerns regarding the fee table captions. We are modifying the Instructions to the fee table to allow a registrant to modify or add captions if the captions shown do not provide an accurate description of its fees and expenses.⁴³ This modification recognizes that, following the enactment of NSMIA, insurers have increased flexibility to structure variable life insurance charges, subject to a

³⁶ Instruction 3.(b) to Item 3.

³⁷ See Roger L. Blease, *Costs Count: A Best's Policy Reports Survey Examines the Costs Incurred with the Life Insurance Portion of Variable Universal Life Policies*, Best's Review—Life-Health Insurance Edition, Jan. 1997, at 37.

³⁸ Form N-6 Proposing Release, *supra* note 9, 63 FR at 13993.

³⁹ Instruction 3.(b) to Item 3. This approach also applies to other charges that depend on individual policyholder characteristics. *Id.*

⁴⁰ Instruction 3.(b)(i) to Item 3. *Cf.* Item 26(c) and (d) (specifying requirements for premium amounts, ages, and rating classifications to be used in hypothetical illustrations).

⁴¹ Instruction 3.(b)(ii) to Item 3.

⁴² Instruction 1.(f) to Item 3.

⁴³ Instruction 1.(c) to Item 3.

requirement that those charges be reasonable in the aggregate.⁴⁴

The Commission also has revised Item 3 to require the heading "Periodic Charges" instead of "Annual Charges" at the beginning of the second section of the fee table. This reflects the fact that some charges under variable life insurance policies may be assessed at intervals other than annually (e.g., a monthly deduction for the cost of insurance charge).

Portfolio Company Fees and Charges

We are adopting, as proposed, the requirement that, for a registrant that offers multiple Portfolio Companies, the fee table require disclosure of the range of expenses for all of the Portfolio Companies.⁴⁵ Commenters were divided regarding how Portfolio Company expenses should be disclosed. Some commenters recommended that Form N-6 require registrants to include a complete presentation of the fees and charges for each Portfolio Company. Other commenters either supported the Commission's proposal to require disclosure of the range of the expenses for all of the Portfolio Companies or recommended that the Commission permit issuers to determine how to disclose Portfolio Company expenses.

As we stated in the Proposing Release, we are concerned that, because variable life fees and charges are complex, and because policies frequently offer numerous Portfolio Companies as investment options, investors could be overwhelmed by information if the fees and charges for each Portfolio Company were required to be separately stated in the fee table. For this reason, we have determined not to require a complete presentation of the fees and charges for each Portfolio Company. To address the concerns of some commenters, however, that the particular fees and charges of a specific Portfolio Company are more important to investors than the range of fees and charges for all Portfolio Companies, we are permitting, but not requiring, registrants to include disclosure of the fees and expenses for each Portfolio Company, in addition to the disclosure of the range of expenses for the Portfolio Companies.⁴⁶ This will provide registrants the flexibility to include this detailed information when they determine that it would be helpful, and not overwhelming, to investors.

In addition, we are revising Form N-1A to require the prospectus of a mutual

fund that offers its shares as investment options for variable insurance products to include a fee table.⁴⁷ The fee table in Form N-6 contains a statement referring investors to the Portfolio Company prospectuses for more detail concerning Portfolio Company fees and expenses. This will ensure that investors in variable life insurance policies have access to complete information about Portfolio Company fees and expenses.

We are also adopting, as proposed, the requirement that Portfolio Company operating expenses be disclosed before expense reimbursement and fee waiver arrangements. Expenses after reimbursement or waiver could be disclosed in a footnote. This approach is consistent with Form N-1A.⁴⁸

We have deleted the instruction to the Portfolio Company expenses section of the fee table that would have required separate disclosure of the portion of "Other Expenses" that represents distribution or similar expenses deducted from a Portfolio Company's assets other than pursuant to a rule 12b-1 plan.⁴⁹ This disclosure will be found in the prospectus for any Portfolio Company that deducts expenses of this nature, and we do not believe that disclosure of the range of such expenses for all Portfolio Companies will be particularly meaningful.

3. General Description of Registrant, Depositor, and Portfolio Companies (Item 4)

We are adopting, as proposed, Item 4, which requires a concise discussion of the organization and operation of the registrant, including a discussion of the rights of policyholders to instruct the insurance company depositor on the

⁴⁷ See Section II.E. *infra*, "Adoption of Amendment to Form N-1A."

⁴⁸ Under Form N-1A, the staff has permitted mutual funds with fees that are subject to a contractual limitation that requires reimbursement or waiver of expenses to add two lines to the fee table: one line showing the amount of the reimbursement or waiver, and a second line showing the fund's net expenses after subtracting the reimbursement or waiver from the total fund operating expenses. See Letter from Barry D. Miller, Associate Director, Division of Investment Management, SEC, to Craig S. Tyle, General Counsel, Investment Company Institute (Oct. 2, 1998). We intend that the staff construe the fee table requirements of Form N-6 consistent with the approach taken under Form N-1A, to permit the addition of one line to the fee table showing the range of net total Portfolio Company operating expenses after taking account of contractual limitations that require reimbursement or waiver of expenses. This additional line should be placed immediately under the "Total Annual [Portfolio Company] Operating Expenses" line of the fee table and should have an appropriate descriptive caption. A footnote to the fee table should describe the contractual arrangement.

⁴⁹ Form N-6 Proposing Release, *supra* note 9, 63 FR at 14010 (Proposed Instruction 4.(d) to Item 3).

voting of Portfolio Company shares. One commenter recommended, consistent with proposed Item 4, that a brief discussion of voting rights be included in the prospectus, with more technical aspects disclosed in the SAI. Another commenter suggested that all information about voting rights be included in the SAI, consistent with the approach of Form N-1A for mutual funds.⁵⁰ We have decided to retain the requirement that the variable life insurance prospectus concisely discuss policyholders' rights with respect to voting Portfolio Company shares. Unlike an investor in a mutual fund, the owner of a variable life insurance policy does not hold legal title to the shares of the underlying Portfolio Companies and a policyholder's rights to vote on matters affecting the Portfolio Companies are less obvious than the rights of mutual fund investors.

4. Charges (Item 5)

We are adopting Item 5, which requires registrants to describe briefly all charges deducted from premiums, cash value, assets of the registrant, or any other source, with technical modifications to address commenters' concerns. As proposed, Item 5(a) would have required registrants to explain what is provided in consideration for each charge. We have revised Item 5 to require an explanation of what is provided in consideration for "the charges," rather than "each charge." Where multiple charges are used as a combined pool of resources, a registrant may describe what is provided in consideration for the charges as a group. However, where it is possible to identify what is provided in consideration for a particular charge, this should be separately explained (e.g., use of sales load to pay distribution costs of the policy or use of the cost of insurance charge to pay for insurance coverage).

We have also revised the language of Instruction 2 to Item 5(a) to avoid confusion between the cost of insurance *rate*, and the cost of insurance *charge*, which is the cost of insurance rate times the net amount at risk. In addition, we have clarified that disclosure regarding increased cost of insurance rates for healthy individuals attributable to simplified underwriting is required only when simplified underwriting would cause healthy individuals to pay higher cost of insurance rates than they would pay under a substantially similar policy that is offered by the insurer using different underwriting methods.

We have eliminated proposed Item 5(d), which would have required a

⁴⁴ See *supra* Section II.A.2., "Fee Table Required" (discussing elimination of limits on variable life insurance charges by NSMIA).

⁴⁵ Instruction 4.(b) to Item 3.

⁴⁶ Instruction 4.(h) to Item 3.

⁵⁰ Item 17(a)(2)(iv) of Form N-1A.

description of the type of operating expenses for which the registrant is responsible, and, if the organizational expenses of the registrant are to be paid out of its assets, an explanation of how the expenses will be amortized and the period of amortization.⁵¹ We agree with commenters who argued that information about expenses paid out of separate account assets would be reflected in the fee table, and that additional disclosure about these specific categories of expenses would not be useful to investors. In addition, we note that organizational expenses may no longer be amortized in any event, but must be expensed as incurred.⁵²

5. Taxes (Item 12)

We are adopting, as proposed, the requirement that registrants describe the material tax consequences to the policyholder and beneficiary of buying, holding, exchanging, or exercising rights under the policy. Registrants are required to discuss the taxation of death benefit proceeds, periodic and non-periodic withdrawals, loans, and any other distribution that may be received under the policy, as well as tax benefits accorded the policy.

Two commenters expressed the view that tax disclosure in the prospectus should be brief, with more extensive, technical disclosure located in the SAI. We believe that the requirements we are adopting will focus prospectus disclosure on the likely tax consequences to policyholders of purchasing a variable life insurance policy. Our intent, as we stated in the Proposing Release, is to elicit disclosure that is not overly lengthy or technical and that does not use jargon that is difficult for the average or typical investor to understand. The Commission notes its strong desire that, in revising their prospectuses to comply with Form N-6, variable life insurance registrants pay particular attention to their existing tax disclosures to ensure that these disclosures do not discourage the use of variable life insurance prospectuses.

⁵¹ Cf. Instruction 2(f) to Item 6 of Form N-4 (requiring description of the type of operating expenses for which the registrant is responsible, and, if the organizational expenses of the registrant are to be paid out of its assets, an explanation of how the expenses will be amortized and the period over which the amortization will occur).

⁵² See American Institute of Certified Public Accountants' Accounting Standards Executive Committee, Statement of Position 98-5, "Reporting Costs of Start-up Activities," Apr. 1998 (requiring all start-up costs and organizational costs to be expensed as incurred).

B. Part B—Statement of Additional Information

1. Financial Statements (Item 24)

Location of Financial Statements

We are adopting the financial statement requirements of proposed Form N-6, which were generally supported by commenters and are similar to those of Form N-4, substantially as proposed. A variable life insurance prospectus will not be required to include the financial statements of either the registrant or the insurance company depositor.⁵³ The full financial statements of the registrant will be in the SAI, which will be available to investors upon request, free of charge. The SAI will also contain comparative balance sheets for the last two fiscal years for the depositor and, in certain cases, a more current interim balance sheet for the depositor. We are requiring that the other financial statements of the depositor (e.g., statements of income and statements of changes in stockholders' equity) be included in the registration statement, but they may be included in Part C rather than the SAI. We are requiring that these financial statements also be made available to investors upon request, free of charge.

Form N-6 would permit issuers to incorporate by reference into the SAI the required financial statements of the registrant and the depositor, subject to the rules of the Commission on incorporation by reference.⁵⁴ The financial statements would have to be delivered with the SAI in this case.⁵⁵ Two commenters suggested changes to Form N-6 that would require financial statements to be delivered to an investor only if the investor requested an SAI and not if the SAI was delivered for other reasons. These commenters noted that one state requires an SAI to be delivered to any applicant for a variable life insurance policy, and that this state requirement would result in high printing costs for variable life insurance policies sold in that state.

The Commission has determined to retain the requirements as proposed. The financial statements of the registrant may be useful to many investors and should be included in the SAI directly or by incorporation by reference. Further, the financial condition of the depositor is relevant to

⁵³ Item 14. If all of the required financial statements of the registrant and the depositor are not in the prospectus, Item 14 requires the prospectus to state where the financial statements may be found, and to briefly explain how investors may obtain any financial statements not in the SAI.

⁵⁴ General Instruction D.1.(c).

⁵⁵ Instruction to Item 15(a)(3)(C).

its ability to pay the insurance benefits offered under variable life insurance policies, and therefore many investors may find financial information about the depositor useful. The proposed approach to depositor financial information, which requires that the SAI contain only the depositor's balance sheets, will allow a shorter SAI than would be the case if complete financial statements of the depositor were required, while still providing investors with significant information about the financial condition of the depositor in the SAI. We are not persuaded that we should condition delivery of the financial statements, which are an integral part of the SAI, upon whether an investor has requested the SAI solely in order to alleviate the burden of state requirements.⁵⁶

Preparation of Depositor Financial Statements in Accordance With GAAP

We are revising Instruction 1 to Item 24(b) to clarify when a depositor's financial statements must be prepared in accordance with generally accepted accounting principles in the United States ("GAAP") and when they may be prepared in accordance with statutory requirements.⁵⁷ As adopted, Instruction 1 to Item 24(b), like Instruction 1 to Item 23(b) of Form N-4, would provide that a depositor's financial statements may be prepared in accordance with statutory requirements if the depositor would not have to prepare financial statements in accordance with GAAP except for use in a registration statement filed on Forms N-3, N-4, or N-6. Instruction 1 includes a sentence not

⁵⁶ Cf. Instruction to Item 10(a)(2)(iii) of Form N-1A (requiring that any information incorporated by reference into the SAI must be delivered with the SAI unless the information has been previously delivered in a shareholder report); General Instruction G to Form N-4 (SAI must be available to investor upon request at no charge, and any information or documents incorporated by reference into the SAI must be provided along with the SAI).

⁵⁷ GAAP is an accounting term that encompasses the conventions, rules, and practices that define accepted accounting at a particular time issued by various authoritative bodies including the Financial Accounting Standards Board ("FASB") and the American Institute of Certified Public Accountants ("AICPA"). See Codification of Financial Reporting Policies of the SEC, Section 101. Financial statements prepared in accordance with statutory requirements, which may vary from state to state, differ from those prepared in accordance with GAAP. Statutory requirements are the basis of accounting that insurance companies use to comply with the financial reporting requirements of state insurance regulations. Regulation S-X permits financial statements for mutual life insurance companies and wholly owned stock insurance company subsidiaries of mutual life insurance companies to be prepared in accordance with statutory requirements, except when the applicable registration forms specifically provide otherwise. 17 CFR 210.1-01(a); 17 CFR 210.7-02(b).

included in Form N-4, clarifying that the depositor's financial statements must be prepared in accordance with GAAP if the depositor prepares financial information in accordance with GAAP for use by its parent in consolidated financial statements in reports under the Securities Exchange Act of 1934 ("Exchange Act") or registration statements.⁵⁸ This sentence is consistent with the manner in which the Commission staff has construed the existing instructions to Form N-4.

Ideally, all financial statements for depositors of variable life insurance policies would be presented on a GAAP basis because this would promote uniformity and consistency of presentation. We believe, however, that our approach appropriately recognizes the cost burdens that would be imposed if we required GAAP financial statements in cases where the depositor is not otherwise required to prepare financial information in accordance with GAAP for use in its own registration statements or periodic reports or those of its parent company. One commenter expressed concern that proposed Form N-6 could require a depositor to include financial statements in accordance with GAAP if the depositor prepared GAAP financial statements solely for internal purposes, for example, in a case where a mutual insurer desires to use GAAP financial statements internally for several years before switching to GAAP financial statements in its public filings. We wish to clarify that Form N-6 would not require the use of GAAP when a depositor prepares GAAP financial statements solely for internal purposes.

2. Performance Data (Item 25)

The Commission is adopting, as proposed, the requirements that the SAI include (i) an explanation of how the registrant calculates performance data used in advertising, including how charges are reflected in the data, and (ii) a quotation of performance for each sub-account for which performance data is advertised. In addition, as proposed, Form N-6 will neither require disclosure of any historical performance information nor prohibit the presentation of historical performance information in a variable life insurance prospectus, provided that the information is not incomplete, inaccurate, or misleading and does not

⁵⁸This requirement would also apply if the depositor provides financial information in accordance with GAAP to a parent that is a foreign private issuer for purposes of the parent's reconciliation to GAAP. See Items 17 and 18 of Form 20-F (describing requirements for reconciliation to GAAP).

obscure or impede understanding of the information that is required to be included.⁵⁹

Variable life insurance performance is difficult to measure because of the complexity of the product and because policy charges and values are linked to individual characteristics of a particular investor. In addition, variable life policies provide cash value and death benefits, and both of these may be affected over time, in different ways, by policy charges and earnings. The Proposing Release identified the following three types of performance information that are sometimes included in variable life insurance registration statements.

- *Portfolio Company performance.*

This measure is net of investment management fees and other Portfolio Company fees and expenses, but is not adjusted for fees and expenses imposed on the separate account or individual policyholders.

- *Portfolio Company performance adjusted for separate account asset-based charges.* This is a hybrid measure that is net of investment management fees, other Portfolio Company fees and expenses, and separate account asset-based charges, but is not adjusted for charges imposed on individual policyholders.

- *Illustrations of cash values and death benefits.* These illustrations are based on actual investment performance of a Portfolio Company and specified assumptions about premiums and the insured individual (e.g., sex, age, rating classification), reflecting all of the fees and charges at the Portfolio Company, separate account, and individual policyholder levels.

Form N-6 does not require disclosure of any historical performance information. We believe, as we stated in the Proposing Release, that, at the present time, no method of measuring variable life insurance performance has been devised that is useful enough that its disclosure should be required. Commenters supported this approach. Commenters differed on whether the Commission should restrict the forms of performance information permitted in a variable life insurance prospectus. Several commenters stated that all of the categories of performance information discussed in the Proposing Release may have informational value to investors and should be permitted in the prospectus, provided that the limitations of the method chosen are described. A few commenters expressed concerns about the presentation of Portfolio Company performance or

⁵⁹General Instruction C.3.(b).

Portfolio Company performance adjusted for separate account asset-based charges. The commenters who were concerned about Portfolio Company performance argued that it does not reflect the return a policyholder might receive as accurately as would measures that reflect separate account charges. In contrast, a commenter who expressed concern about Portfolio Company performance adjusted for separate account asset-based charges stated that this measure of performance, unlike Portfolio Company performance, has no useful meaning but can mislead and cause misunderstanding because it reflects some, but not all, policy charges.

After considering these comments, the Commission has determined not to prohibit the use of any type of performance information in the separate account prospectus. We agree with the commenters who argued that all of the categories of performance information discussed in the Proposing Release may provide useful information to investors. We emphasize, however, that registrants are responsible for ensuring that any presentation of performance information is not incomplete, inaccurate, or misleading and does not obscure or impede understanding of the information that is required to be included in the prospectus. For example, a separate account using performance information that does not reflect all charges that a policyholder would incur, directly or indirectly, should include sufficient information about the omitted charges to ensure that the performance presentation is not misleading. In addition, as we indicated in the Proposing Release, we believe that Portfolio Company performance information is most appropriately included in the Portfolio Company's prospectus, where it can be considered along with the risks of investing in the Portfolio Company. Registrants should bear this in mind when determining whether it is appropriate to include Portfolio Company performance in the prospectus for the separate account.

3. Illustrations (Item 26)

Permitted Use of Hypothetical Illustrations

Commenters supported the Commission's proposal to permit, but not require, registrants to include hypothetical illustrations of a variable life insurance policy in either the prospectus or the SAI, and we are adopting the proposal.⁶⁰ Hypothetical illustrations are tabular presentations of

⁶⁰Item 26.

numbers that demonstrate how the cash value, cash surrender value, and death benefit under a policy change over time based on (i) assumed gross rates of return of the Portfolio Companies; and (ii) deduction of fees and charges for a hypothetical policyholder (e.g., a 40-year-old, non-smoking male) with a specified policy face amount and premium payment pattern.

Requirements for Hypothetical Illustrations

The Commission proposed requirements for any hypothetical illustrations included in the prospectus or SAI, in order to place reasonable limits on the assumptions that may be used and discourage the presentation of misleading illustrations. We are adopting these requirements with modifications, as discussed below. We remind registrants that, in addition to complying with these requirements, registrants remain responsible for ensuring that illustrations are not incomplete, inaccurate, or misleading and do not, because of their nature, quantity, or manner of presentation, obscure or impede understanding of information required to be included in the prospectus or SAI.⁶¹

Narrative Information. We are clarifying the requirement that a clear and concise explanation of the illustrations precede the illustrations. Specifically, the explanation should include a description of the expenses reflected in the illustrations; a statement that the illustrations are based on assumptions about investment returns and policyholder characteristics; a description of the circumstances under which actual results for a particular policyholder would differ from the illustrations (e.g., when policyholder characteristics, expenses, or investment returns differ from those illustrated); and whether personalized illustrations are available, and, if so, how they may be obtained.⁶² We note, however, that this prescribed disclosure is not intended to be exclusive, and that registrants should include any additional disclosure concerning the assumptions and limitations of the hypothetical illustrations necessary to ensure that the hypothetical illustrations are not incomplete, inaccurate, or misleading.

Assumed Rates of Return. The Commission proposed to require registrants to use gross rates of return of 0% and one other rate not exceeding

10%. Additional gross rates of return not greater than 10% would have been permitted. As adopted, Form N-6 will require registrants to use gross rates of return of 0%, 6%, and one other rate not greater than 12%. Additional gross rates of return no greater than 12% may also be used.⁶³ This is consistent with current practice in variable life insurance prospectuses, which typically use gross rates of 0%, 6%, and 12% in illustrations.⁶⁴ We proposed to require registrants using illustrations to use only two rates of return because, as the number of rates increases, the potential for overwhelming investors with excessive quantitative information that is of limited relevance to their particular circumstances also increases. We proposed to cap permissible rates at 10% because of our concerns that rates above 10% may have a significant tendency to invite unrealistic investor expectations and that investors might give undue weight to a 12% illustration, when coupled with a 0% illustration, because they might discount a 0% illustration as unrealistically low.

A number of commenters recommended that Form N-6 require registrants using illustrations to use three rates of return, rather than two, arguing that the use of three rates more effectively demonstrates how variable life insurance policies operate and the effect that Portfolio Company returns have on cash values and death benefits. In addition, commenters generally recommended that the Commission permit illustrations with rates as high as 12%, arguing that 12% fairly depicts historical stock market returns.

We have modified our proposal to require registrants to use three gross rates of return—0%, 6%, and one other rate not greater than 12%. We agree with commenters that the use of three rates of return may effectively demonstrate how a variable life insurance policy operates. In addition, we are persuaded that illustrations using a 12% rate should not be prohibited, in light of historical stock market returns. Although historical returns on large company stocks have averaged 10.7% from 1926 to the

present, returns for these stocks have exceeded 12% for many 5-, 10-, 15-, and 20-year periods.⁶⁵ As a result, illustrations at a 12% rate, when coupled with illustrations at 0% and 6% rates, may not be materially misleading. We note that each registrant should determine for itself whether the use of a 12% illustration is appropriate and not misleading under its particular facts and circumstances, such as the historical returns of the policy's Portfolio Companies and the actual and expected allocations by policyholders to various asset classes. We continue to believe, however, that investors might give undue weight to a 12% illustration, when coupled only with a 0% illustration, and we therefore believe that it is important to require the use of a third, intermediate rate.

Premium Amounts. Proposed Item 26(c) would have required that the premium amounts used in illustrations not be unduly larger or smaller than the actual or expected average policy size. We have modified the reference to "policy size" to clarify that we are referring to premium amount rather than policy face amount.⁶⁶

We have also modified the language of this Item to address the concern of a commenter that averaging of premium amounts may result in a premium amount that is significantly different from the premium amount that is representative of the actual policies sold. We are providing that premium amounts used in illustrations be representative of the actual or expected "typical" premium amount, with flexibility to base the typical premium amount on the average or median premium amount or another reasonable basis that results in a typical premium amount that is fairly representative of actual or expected policy sales.

Rating Classification. We are also modifying proposed Item 26(d), which would have required that illustrations be shown for the rating classification (e.g., nonsmoker, smoker, preferred, standard) with the greatest number of outstanding policies, to address a commenter's concern that this requirement may result in a rating

⁶³ Item 26(g).

⁶⁴ In its comment letters on variable life insurance filings, the Commission staff has objected to rates of return greater than 12%. See *Pacific Mutual Life Insurance Company*, Division of Investment Management no-action letter (Aug. 31, 1990) (describing development of staff position regarding use of rates of return in excess of 12%). See also NASD Conduct Rules, "Communications with the Public About Variable Life Insurance and Variable Annuities," IM-2210-2(b)(5)(A)(ii) (requiring variable life insurance illustrations used for advertising and sales literature to use a rate of 0% and any other rates not greater than 12%).

⁶⁵ The estimate that annual returns on large company stocks have averaged 10.7% from 1926 to 2001 was provided to the Commission staff by Ibbotson Associates, Inc. See also Ibbotson Associates, *Stocks, Bonds, Bills and Inflation Yearbook 25, 27* (2001) (compound annual growth rate of 11.0% for index of S&P 500 total returns from 1926 to 2000, assuming no transaction costs, full reinvestment of dividends on stocks or coupons on bonds, and no taxes); *id.* at 42-49 (showing compound annual returns for large company stocks and other asset classes for 5-, 10-, 15-, and 20-year holding periods).

⁶⁶ Item 26(c).

⁶¹ General Instruction C.3.(b).

⁶² Item 26(a). Disclosure about the availability of personalized illustrations would also be required on the back cover page of the prospectus. Item 1(b)(1).

classification being used that is not representative. For example, if a policy uses a large number of narrowly drawn rating classifications, the rating classification corresponding to the greatest number of outstanding policies may fall at one extreme of the range of rating classifications (e.g., the rating classification for healthy 20-year-old non-smokers) and thus may not be representative for most purchasers. We are modifying the Item to provide that if use of the rating classification with the greatest number of outstanding policies is not fairly representative of policy sales, illustrations should be shown for a commonly used rating classification that is fairly representative of policy sales.

Portfolio Company Charges and Expenses. We are adopting as proposed the requirement that Portfolio Company management fees and other Portfolio Company charges and expenses be reflected using the arithmetic average of those charges and expenses for all available Portfolio Companies. The average would be based on Portfolio Company charges and expenses incurred during the most recent fiscal year or any materially greater amount expected to be incurred during the current fiscal year.⁶⁷ A number of commenters opposed the required use of an arithmetic average, arguing that a weighted average would better reflect the proportionate allocations that investors actually make in a particular product and would therefore serve as a better proxy for the Portfolio Company expenses that a prospective investor might actually pay. Four commenters recommended that Form N-6 permit the use of either a weighted or an arithmetic average of Portfolio Company expenses, and three commenters recommended that the form require the use of a weighted average.

We disagree with commenters who recommended that we permit the use of either an arithmetic or weighted average of Portfolio Company expenses. This approach would lead to inconsistency among illustrations, the opportunity for "cherry-picking" the method that is most favorable from time to time, and the need for complicated rules governing when a change in the selected method is permitted. While we believe that there is some merit to the argument that a weighted average may serve as a better proxy for the Portfolio Company expenses that a "typical" prospective investor might pay, we note that, for any particular investor, a weighted average is not necessarily representative of the expenses he or she will pay. In addition,

computation of a weighted average is significantly more complicated than an arithmetic average, for example, requiring adjustments to the method to address new variable life insurance policies and the addition and removal of Portfolio Companies to or from an existing policy.

We wish to clarify, however, that although we are requiring the use of an arithmetic average of Portfolio Company fees and expenses in illustrations included in the prospectus and SAI, we would not object if personalized illustrations are provided to a particular investor based on a weighted average of the expenses of the Portfolio Companies in which the investor already invests or expects to invest, provided that the illustrations are not misleading. We believe that illustrations prepared in this manner may be significantly more useful to a particular investor than personalized illustrations using an arithmetic average of Portfolio Company expenses.

The proposed form would require that hypothetical illustrations reflect Portfolio Company charges and expenses without taking into account any fee waiver or expense reimbursement arrangements. Two commenters recommended that the form permit insurers to take into account fee waiver or expense reimbursement arrangements where the arrangements are binding either (1) for at least one year or until the next prospectus update, or (2) until the end of the current fiscal year. One of these commenters argued that as long as the arrangements are written commitments for at least one year or until the next prospectus update, they reflect the actual fees and expenses that policyholders would experience as investors in the Portfolio Companies, and therefore illustrations should be able to reflect these "capped" expenses. The other commenter recommended that whatever expenses are actually used in a particular variable life prospectus should be used for purposes of hypothetical illustrations.

We have retained the requirement that hypothetical illustrations be based on Portfolio Company expenses before fee waiver or expense reimbursement arrangements. This conforms to the fee table in Item 3, which requires disclosure of Portfolio Company expenses before expense reimbursement and fee waiver arrangements. However, we intend that the staff construe the requirements of Form N-6 governing hypothetical illustrations consistent with the approach it has taken with the expense example of Form N-1A, to permit illustrations to reflect Portfolio Company operating expenses after

taking account of contractual limitations that require reimbursement or waiver of expenses, but only for the period of the contractual limitation.⁶⁸

Hypothetical Illustrations Based on Historical Rates of Return

The Commission requested comment on the use of hypothetical illustrations constructed using historical rates of return for the Portfolio Companies ("hypothetical historical illustrations") rather than assumed rates of return. Some variable life insurance registrants have included these illustrations in their prospectuses, although this practice is not widespread. Proposed Form N-6 did not specifically address hypothetical historical illustrations, and we are not modifying Form N-6 in this regard.

Commenters' views were mixed. One commenter expressed concern about the use of actual historical performance to illustrate hypothetical future values and argued that, to the extent actual results are used, illustrations lose much of their hypothetical nature, despite any disclaimer to the contrary. Another commenter noted that using hypothetical historical illustrations in the prospectus would result in extremely long illustrations, adding to the complexity of the prospectus. Several other commenters argued that the Commission should permit the use of hypothetical historical illustrations in the prospectus and SAI by registrants who believe they contribute to investor understanding of a policy.

We continue to have a number of concerns about the use of hypothetical historical illustrations. While hypothetical illustrations that show a pattern of assumed returns, e.g., 0%, 6%, and 12%, may help investors understand how different rates of return affect policy performance, historical rates of return illustrated in hypothetical historical illustrations will not follow a pattern and therefore are not useful to an investor attempting to

⁶⁸ Under Form N-1A, the staff has permitted mutual funds with fees that are subject to a contractual limitation that requires reimbursement or waiver of expenses to take account of the reimbursement or waiver in calculating the example required by the fee table of Item 3, but only for the duration of the contractual limitation. Funds may not assume that the reimbursement or waiver will continue for periods subsequent to the contractual limitation period in calculating expenses shown in the example. Cf. Letter from Barry D. Miller, Associate Director, Division of Investment Management, SEC, to Craig S. Tyle, General Counsel, Investment Company Institute (Oct. 2, 1998) (permitting funds with fees that are subject to a contractual limitation that requires reimbursement or waiver to add two lines to the fee table showing the amount of the reimbursement or waiver and total net expenses).

⁶⁷ Item 26(h).

understand how a particular change in rates of return might affect policy values. In addition, hypothetical historical illustrations have limited value in presenting past performance because they depend on the particular hypothetical policyholder, face amount, and premium payment pattern selected. Hypothetical historical illustrations also tend to invite prospective investors to assume that the cash values and death benefits presented represent the values that they can expect and may be misconstrued as projections. Finally, hypothetical historical illustrations can add undue complexity to the information already presented to investors.

Nonetheless, we do not believe that it is appropriate to prohibit the use of hypothetical historical illustrations in the prospectus or SAI, provided that they are not incomplete, inaccurate, or misleading and do not, because of their nature, quantity, or manner of presentation, obscure or impede understanding of information that is required to be included.⁶⁹ We caution registrants, however, that it is incumbent upon them to ensure that any hypothetical historical illustrations comply with this standard.

Personalized Illustrations

Personalized illustrations are frequently provided by insurers to prospective variable life insurance investors at the point of sale. These illustrations reflect the investor's particular circumstances, including age, sex, risk classification, proposed face amount, and expected premium payment pattern. Proposed Form N-6 did not address personalized illustrations because these illustrations are customized for individual investors, delivered at the point of sale, and are not susceptible to inclusion in a prospectus. Form N-6, as adopted, follows the approach of the proposal, except that, at the suggestion of several commenters, we have added a requirement that registrants who make personalized illustrations available disclose that fact and provide a toll-free telephone number for requesting personalized illustrations.⁷⁰ As a result, insurers may use personalized illustrations in sales literature subject to the antifraud provisions of the federal securities laws and rule 156 under the Securities Act, as long as the sales literature is preceded or accompanied by the prospectus.⁷¹ The antifraud

provisions make it unlawful to use materially misleading sales literature in connection with the purchase or sale of investment company securities.

A significant number of commenters expressed the view that the Commission should prescribe requirements for personalized illustrations, either in Form N-6 or in another rulemaking or interpretive proceeding. These commenters argued that mandating some degree of uniformity would benefit investors, *e.g.*, by facilitating comparisons among different policies. The commenters suggested a range of approaches, including standards for personalized illustrations that are similar to the requirements for hypothetical prospectus illustrations, as well as standards conforming, to the extent practicable, to the National Association of Insurance Commissioners standards for fixed life insurance policy illustrations.⁷²

The Commission has determined not to propose standards for personalized illustrations at this time. Commenters' views on the appropriate standards varied significantly, and, in some cases, were not specific, and we believe that it would be inadvisable to delay the benefits of Form N-6 in order to resolve differing views with respect to personalized illustrations.

In the Proposing Release, we expressed our view that it may be misleading to market a variable life insurance policy based on illustrations that reflect assumed rates of return and the fees and charges of a single Portfolio Company when those fees and charges are less than the arithmetic average of fees and charges for all available Portfolio Companies. For that reason, we noted our concern about the practice of using a single Portfolio Company's fees and charges in personalized illustrations. As described above, however, we would not object if personalized illustrations are provided to a particular investor based on a weighted average of the expenses of the Portfolio Companies in which the investor already invests or expects to invest, provided that the illustrations

are not misleading.⁷³ As a result, if an investor invests or expects to invest in a single Portfolio Company, it is not *per se* misleading to use that Portfolio Company's fees and charges in personalized illustrations for that investor. We remain concerned, however, with personalized illustrations that use a single Portfolio Company's fees and charges in situations when an investor does not invest, or expect to invest, exclusively in that Portfolio Company, particularly when that Portfolio Company has low expenses relative to other Portfolio Companies.

C. Part C—Other Information—Exhibits—Actuarial Opinion (Item 27(l))

We are adopting with modifications proposed Item 27(l), which requires an opinion of an actuarial officer of the depositor if a registrant includes illustrations in the registration statement. As proposed, the actuarial opinion would have been required to indicate that: (i) The values illustrated are consistent with the provisions of the policy and the depositor's administrative procedures; (ii) the rate structure of the policy, and the assumptions selected for the illustrations, do not result in an illustration of the relationship between premiums and benefits that is materially more favorable than for a substantial majority of other prospective policyholders; and (iii) the illustrations are based on a commonly used rating classification and premium amounts and ages appropriate for the markets in which the policy is sold.

Several commenters objected to the second prong of the actuarial opinion requirement, arguing that it would require difficult judgments for which there are no established standards. Commenters also noted that the requirement that the relationship between premiums and benefits not be materially more favorable than for a "substantial majority" of other prospective policyholders could in some cases conflict with other requirements of proposed Form N-6 regarding hypothetical illustrations.

We agree with commenters that modifications are required to our proposal. Therefore, we are replacing the second prong of the proposed actuarial opinion requirement with a requirement to indicate that the policy has not been designed, and the assumptions for the illustrations (including sex, age, rating classification, and premium amount and payment

Act of 1934 [15 U.S.C. 78j(b)] and Rule 10b-5 thereunder [17 CFR 240.10b-5]; Rule 156 under the Securities Act [17 CFR 230.156]; Section 34(b) of the Investment Company Act [15 U.S.C. 80a-33(b)]; Section 2(a)(10)(a) of the Securities Act [15 U.S.C. 77b(a)(10)(a)].

⁷² Cf. NASD Conduct Rules, "Communications with the Public About Variable Life Insurance and Variable Annuities," IM-2210-2(b)(5)(B) (requiring personalized illustrations in sales literature to follow all of the standards set forth for hypothetical illustrations using assumed rates of return).

⁷³ See *supra* Section II.B.3, "Permitted Use of Hypothetical Illustrations; Portfolio Company Charges and Expenses."

⁶⁹ General Instruction C.3.(b).

⁷⁰ Item 1(b)(1); Item 26(a).

⁷¹ Section 17(a) of the Securities Act [15 U.S.C. 77q(a)]; Section 10(b) of the Securities Exchange

schedule) have not been selected, to make the relationship between premiums and benefits, as shown in the illustrations, appear to be materially more favorable than for any other prospective purchaser with different assumptions.⁷⁴

D. Technical Rule Amendments

When we proposed Form N-6, we also proposed several technical rule amendments to accommodate Form N-6. We are adopting these amendments as proposed.

The Commission is amending rules 134b, 430, 430A, 495, 496, and 497 under the Securities Act and rules 8b-11 and 8b-12 under the Investment Company Act to add Form N-6 to the list of forms referenced in those rules.⁷⁵ We also are adopting new rules prescribing the use of Form N-6 to register insurance company separate accounts that are registered as unit investment trusts and that offer variable life insurance policies under the Investment Company Act and to register their securities under the Securities Act.⁷⁶ Finally, we are amending Form N-8B-2 to clarify that Form N-8B-2 is not the proper form for Investment Company Act registration of insurance company separate accounts registered as unit investment trusts.⁷⁷

E. Adoption of Amendment to Form N-1A

Currently, Form N-1A does not require a mutual fund that offers its shares exclusively as investment options for variable annuity contracts and variable life insurance policies to include the fee table in its prospectus.⁷⁸ In the Proposing Release, we stated that if Form N-6, as adopted, did not require separate disclosure of the operating expenses of each Portfolio Company, we would amend Form N-1A to require the prospectus of a mutual fund that offers its shares as investment options for variable life insurance policies to include a fee table.⁷⁹ We also requested comment on whether to eliminate the exclusion from the fee table requirement

in Form N-1A for mutual funds that offer their shares as investment options for variable annuity contracts if the exclusion is eliminated for mutual funds that offer their shares as investment options for variable life insurance policies.⁸⁰

The only commenter to address the issue of whether disclosure of Portfolio Company expenses should be required in the Portfolio Company prospectus supported a requirement that a mutual fund offering its shares as investment options for variable life insurance policies include a fee table in its prospectus. The commenter agreed that the Portfolio Company prospectus is the appropriate location for disclosure of Portfolio Company operating expenses, though the commenter also suggested that the Form N-6 fee table should not include any Portfolio Company operating expenses.

As proposed, we are amending Form N-1A to eliminate the existing exclusion from the fee table requirement for mutual funds that offer their shares as investment options for variable life insurance policies. This will ensure that variable life investors have access to complete information about Portfolio Company fees and expenses. In addition, to foster consistent presentation of fund expenses for variable annuities and variable life insurance, we are eliminating the exclusion from the fee table requirement for mutual funds that offer their shares as investment options for variable annuity contracts.⁸¹

F. Effective Dates and Transition Period

Form N-6 will eventually replace Forms N-8B-2 and S-6 for insurance company separate accounts that are registered as unit investment trusts and that offer variable life insurance policies. As discussed in the Proposing

Release, the Commission is providing for a transition period after the effective date of Form N-6 that gives registrants sufficient time to update their prospectuses or to prepare new registration statements under the new Form N-6 requirements.⁸² After the transition period, separate accounts that are registered as unit investment trusts and that offer variable life insurance policies will be permitted to use Forms N-8B-2 and S-6 only if they no longer offer their policies to new purchasers. The Commission, however, encourages registrants that are no longer offering policies to new purchasers to convert to Form N-6 since this format may be beneficial to both registrants and continuing investors.

All new registration statements, and post-effective amendments that are annual updates to effective registration statements (except for separate account registration statements that are no longer used to offer variable life insurance policies to new purchasers) filed on or after December 1, 2002, must comply with Form N-6. The final compliance date for filing amendments to effective registration statements to conform with Form N-6 is December 1, 2003. A registrant may, at its option, comply with the requirements of Form N-6 at any time after the effective date, which the Commission is specifying as June 1, 2002.⁸³ Registrants on Form N-1A must comply with the amendment to Form N-1A with respect to all new registration statements, and post-effective amendments that are annual updates to effective registration statements, filed on or after September 1, 2002.

Registrants filing Form N-6 for purposes of updating their existing registration statements on Forms N-8B-2 and S-6 will be deemed to be filing amendments to Form N-6 and should indicate this on the facing sheet. These post-effective amendments should be filed under Securities Act rule 485(a) rather than rule 485(b).⁸⁴ Form N-6 will

⁸⁰ *Id.*

⁸¹ One commenter encouraged the Commission to make Portfolio Company expense disclosure requirements in Forms N-6 and N-4 consistent, arguing that a requirement to report Portfolio Company expenses for variable life prospectuses differently than for variable annuity prospectuses would complicate the process of preparing registration statements without improving the quality of disclosure. In a companion release, we are proposing amendments to generally conform the format and instructions for the variable annuity fee table to that in Form N-6. See Form N-4 Proposing Release, *supra* note 1. In the Form N-4 Proposing Release, we noted that if we adopt changes to the Form N-4 proposals in response to comments, we intend to adopt conforming changes to Form N-6. We therefore requested that commenters on the proposed amendments to the fee table of Form N-4 address how their comments would apply to the fee table of Form N-6, and whether a different approach to any aspect of fee and expense disclosure is warranted in Form N-6 because of the differences between variable life insurance and variable annuities.

⁸² See Form N-6 Proposing Release, *supra* note 9, 63 FR at 14001.

⁸³ During the transition period, a separate account that is using Form N-6 should include in Item 3 a fee table for any Portfolio Company whose Form N-1A has not been updated to include a fee table as required by the amendment to Form N-1A.

⁸⁴ A post-effective amendment may only be filed under rule 485(b) under the Securities Act [17 CFR 230.485(b)] if it is filed for one or more specified purposes, including to make non-material changes to the registration statement. A post-effective amendment filed for any purpose not specified in rule 485(b) must be filed pursuant to rule 485(a) under the Securities Act [17 CFR 230.485(a)]. A post-effective amendment filed under rule 485(b) may become effective immediately upon filing, while a post-effective amendment filed under rule 485(a) generally becomes effective either 60 days or

⁷⁴ Item 27(l)(2).

⁷⁵ 17 CFR 230.134b, 230.430, 230.430A, 230.495, 230.496, and 230.497; 17 CFR 270.8b-11 and 270.8b-12.

⁷⁶ 17 CFR 239.17c; 17 CFR 274.11d.

⁷⁷ See amendments to Form N-8B-2 and 17 CFR 274.12 (prescribing Form N-8B-2). The Commission did not propose and is not adopting amendments to Form S-6 or 17 CFR 239.16 (prescribing Form S-6) because the form and the rule state that Form S-6 is to be used to register the securities of unit investment trusts registered on Form N-8B-2.

⁷⁸ Item 3 of Form N-1A.

⁷⁹ Form N-6 Proposing Release, *supra* note 9, 63 FR at 13994.

require registration statement disclosure that is revised from that required by Forms N-8B-2 and S-6 and, in some cases, such as the fee table information required by Item 3, completely new. Because post-effective amendments filed to comply with the requirements of Form N-6 will involve a number of material changes to disclosure that do not fall within the scope of rule 485(b), registrants should file these amendments under rule 485(a).⁸⁵ However, we would not object if existing Portfolio Companies file their first annual update complying with the amendment to Form N-1A pursuant to rule 485(b), provided that the post-effective amendment otherwise meets the conditions for immediate effectiveness under the rule.

One commenter requested that, because Form N-6 will include financial statements in an SAI to be made available to investors upon request, the Commission permit existing registrants to make financial statements available only upon request while using Forms N-8B-2 and S-6 during the transition period. We have determined not to adopt the commenter's suggestion. We believe that Form N-6, taken as a whole, represents a dramatic improvement in the disclosure that investors in variable life insurance policies receive. Therefore, we believe that it would not generally be appropriate for a post-effective amendment to comply with some, but not all, of the requirements of the form.

G. Form N-1

The Commission requested comment on whether there is any continuing need for Form N-1 or whether it could be rescinded. The form currently would be used only by an open-end management investment company that is a separate account of an insurance company offering variable life insurance policies. Today, virtually all separate accounts

75 days after filing, unless the effective date is accelerated by the Commission.

⁸⁵ See N-4 Adopting Release, *supra* note 8, 50 FR at 26156 n.51 (variable annuity registrants converting to Form N-3 or Form N-4 required to file post-effective amendment under rule 485(a)); Letter from Barry D. Miller, Associate Director, Division of Investment Management, to Craig S. Tyle, Esq., General Counsel, Investment Company Institute (May 19, 1998) (post-effective amendments to comply with revised Form N-1A should be filed under rule 485(a)).

The Commission encourages registrants to request selective review of their filings, where the filing contains disclosure that is not substantially different from the disclosure contained in prior filings reviewed by the staff. See Investment Company Act Release No. 13768 (Feb. 15, 1984) [49 FR 6708]. Selective review enables the staff to concentrate its review on those portions of the filing that are changed.

issuing variable life insurance policies are organized as unit investment trusts.

One commenter noted that several contracts registered on Form N-1 are still in existence, but not actively marketed. The commenter recommended that the form be retained because requiring these registrants to convert to a new format would be unnecessarily expensive and unproductive. The Commission has decided to retain the Form N-1 because of this continuing need for it.

III. Cost/Benefit Analysis

The Commission is sensitive to the costs and benefits of its rules. In the Proposing Release, we requested comments and empirical data regarding the costs and benefits of proposed Form N-6. Many commenters stated that the adoption of Form N-6 would significantly benefit the variable life insurance industry, by reducing printing and postage costs for registrants issuing variable life insurance products, and some commenters noted that these savings may be passed on to investors. None of these commenters, however, provided specific data quantifying the costs or benefits of the proposed form.

A. Background

Variable life insurance is similar to traditional life insurance, except that the cash value and/or death benefit vary based on the investment performance of the assets in which the premium payments are invested. Premium payments under a variable life insurance policy, unlike a traditional life insurance policy, are invested in an insurance company separate account, which generally is not subject to state law investment restrictions. A variable life policyholder typically is offered a variety of investment options (e.g., equity, bond, and money market mutual funds). Death benefits and cash values are directly related to performance of the separate account, although typically there is a guaranteed minimum death benefit.

A separate account funding a variable life insurance policy most commonly is registered as a unit investment trust under the Investment Company Act. Separate accounts registered as unit investment trusts are divided into sub-accounts, each of which invests in a different Portfolio Company. Both separate account unit investment trusts and the Portfolio Companies in which they invest are registered as investment companies under the Investment Company Act, and their securities are registered under the Securities Act. Investors in variable life insurance policies receive the prospectuses for

both the separate account unit investment trust and the Portfolio Companies. Portfolio Companies, as mutual funds, use Form N-1A to register under the Investment Company Act and to register their shares under the Securities Act. Variable life separate accounts, as unit investment trusts, register under the Investment Company Act on Form N-8B-2 and register their securities under the Securities Act on Form S-6.

Forms N-8B-2 and S-6 were designed for non-separate account unit investment trusts and were adopted before the establishment of the first separate account to fund variable life insurance policies. While much of their required disclosure is useful, the forms request some information that is not typically of consequence to a buyer of variable life insurance. More importantly, many matters that would be significant to a buyer of a variable life insurance policy are not addressed at all by the forms.

To address these shortcomings, the Commission proposed Form N-6. Unlike current Forms S-6 and N-8B-2, Form N-6 is specifically tailored to variable life insurance. Form N-6 will streamline variable life prospectus disclosure by adopting a two-part format consisting of a simplified prospectus, designed to contain essential information that assists an investor in making an investment decision, and a statement of additional information, containing more extensive information and detailed discussion of matters included in the prospectus that investors could obtain upon request.

B. Benefits

1. Reduced Printing and Postage Costs

As described above, Form N-6 will employ a two-part disclosure format consisting of a simplified prospectus, and a statement of additional information, or SAI. As several commenters on the Proposing Release stated, this two-part disclosure format would reduce needless printing and postage expenses significantly.⁸⁶ These savings could be substantial, because many variable life insurance issuers send an updated prospectus to existing policyholders each year.

In particular, under Form N-6 the financial statement disclosure of the

⁸⁶ See comment letters from John Hancock Mutual Life Insurance Company (June 30, 1998), The Equitable Life Assurance Society of the United States (July 10, 1998), ReliaStar Financial Corp. (July 16, 1998), and American Council of Life Insurance (Aug. 10, 1998). The comment letters are available for public inspection and copying at the Commission's Public Reference Room in File No. S7-9-98.

registrant separate account and the insurance company depositor, which is currently required to be included in the prospectus for the variable life insurance policy, would be presented in the newly created SAI or in Part C of the registration statement, and would generally only be provided to investors upon request. The financial statements contained in variable life insurance prospectuses typically are between 30 and 80 pages in length, and the printing and postage costs attributable to these financial statements may range from \$5,400 to \$323,000, depending on the number of copies printed and the length of the financial statements.⁸⁷ Therefore, based on an estimate of 200 variable life insurance policies registered with the Commission, the cost savings resulting from the exclusion of financial statements from variable life insurance prospectuses could range from \$1,080,000 to \$64,600,000, although we believe that an estimate at the lower end of this range is more likely.⁸⁸ One insurance company provided the staff with an estimate that it would have

saved \$61,254 overall in the printing costs of its 2001 variable life insurance prospectuses, if it had been able to exclude the financial statements from its prospectuses.⁸⁹ Therefore, the Commission believes that the cost savings to issuers resulting from exclusion of financial statements from the Form N-6 prospectus could be significant. Further, at least some of these cost savings could be passed on to investors.

We note that these cost savings may be reduced if investors in a variable life insurance policy request copies of the SAI, which will contain many of the financial statements currently required in the Form S-6 prospectus, or if registrants must deliver copies of the SAI to variable life investors for other reasons, such as to meet state regulatory requirements. Some insurers may also need to incur costs in setting up and maintaining a system for processing requests for an SAI, including a toll-free telephone number. However, based on the staff's discussions with issuers regarding other investment company

registration forms, such as Form N-4 and Form N-1A, we estimate that fewer than 1% of investors are likely to request an SAI. Currently, at least one state requests that issuers agree to deliver an SAI to applicants for a variable contract.⁹⁰

2. Reduced Filing Costs

The adoption of Form N-6 will allow variable life insurance registrants to use a single integrated form for Investment Company Act and Securities Act registration, eliminating unnecessary paperwork and duplicative reporting. As a result of this simplified registration process, the Commission estimates that the annual net cost savings to issuers of variable life insurance policies for preparing and filing initial registration statements and post-effective amendments on Form N-6 will be \$2,141,288. The annual costs of filing initial registration statements and post-effective amendments on Forms S-6, N-8B-2, and N-6 are summarized in the tables below, and the discussion that follows:

COST OF INITIAL FILINGS ON FORMS S-6, N-8B-2, AND N-6

	Form S-6	Form N-8B-2	Form N-6	Form N-6, net cost savings
Number of filings	59	24	59
Hours per filing	850	44	800
Total hours	50,150	1056	47,200
Internal cost per filing	\$71,400	\$3,696	\$67,200	7,896
Total internal costs	4,212,600	88,704	3,964,800	336,504
External cost per filing	30,000	0	20,000	10,000
Total external cost	1,770,000	0	1,180,000	590,000
Total costs per filing	101,400	3,696	87,200	17,896
Total filing costs	5,982,600	88,704	5,144,800	926,504

COST OF FILING POST-EFFECTIVE AMENDMENTS ON FORMS S-6, N-8B-2, AND N-6

	Form S-6 (post-effective amendments filed as annual updates)	Form S-6 (post-effective amendments filed for other reasons)	Form N-8B-2	Form N-6 (post-effective amendments filed as annual updates)	Form N-6 (post-effective amendments filed for other reasons)	Form N-6, Net cost savings
Number of filings	200	300	11	200	300
Hours per filing	100	10	16	100	10
Total hours	20,000	3000	176	20,000	3000

⁸⁷ These estimates are based on information supplied to the Commission staff by three life insurance companies.

⁸⁸ The estimate of the number of variable life insurance policies is based on the Commission's analysis of data from its EDGAR system on the number of initial registration statements and post-

effective amendments filed on Form S-6 in 2000 and 2001 by separate accounts offering variable life insurance policies.

⁸⁹ This insurer notes that it currently maintains 20 variable life prospectuses, which in 2001 included 1007 pages of depositor and separate account financial statements.

⁹⁰ According to a representative of an insurance industry group, California currently asks registrants to agree to provide an SAI to all applicants for a variable annuity contract in order to obtain expedited state approval of the contract.

COST OF FILING POST-EFFECTIVE AMENDMENTS ON FORMS S-6, N-8B-2, AND N-6—Continued

	Form S-6 (post-effective amendments filed as annual updates)	Form S-6 (post-effective amendments filed for other reasons)	Form N-8B-2	Form N-6 (post-effective amendments filed as annual updates)	Form N-6 (post-effective amendments filed for other reasons)	Form N-6, Net cost savings
Internal costs per filing	\$8,400	\$840	\$1344	\$8,400	\$840	\$1344
Total internal costs	1,680,000	252,000	14,784	1,680,000	252,000	14,784
External cost per filing	13,500	2,000	0	7,500	2,000	6,000
Total external costs	2,700,000	600,000	0	1,500,000	600,000	1,200,000
Total costs per filing	21,900	2,840	1344	15,900	2,840	7,344
Total filing costs	4,380,000	852,000	14,784	3,180,000	852,000	1,214,784

Form S6

The Commission estimates that 59 initial registration statements and 500 post-effective amendments are filed by variable life insurance policies on Form S-6 annually.⁹¹ We estimate the hour burden of an initial registration statement filed on Form S-6 at 850 hours, which is similar to, but slightly greater than, the hour burden of an initial registration statement filed on Form N-6, which we estimate to be 800 hours.⁹² The difference in this hour

⁹¹ These estimates are based on the staff's analysis of data from the EDGAR system on the number of initial registration statements and post-effective amendments filed on Form S-6 in 2000 by separate accounts offering variable life insurance policies. The numbers of initial registration statements and post-effective amendments filed on Form S-6 have been consistent in recent years. Based on this data, we estimate that there are approximately 200 registered variable life insurance policies that file at least one post-effective amendment per year to update their financial statements. In addition to filing at least one annual update by post-effective amendment, these variable life insurance policies also file an estimated 300 other post-effective amendments annually on Form S-6. These 300 other post-effective amendments are generally filed pursuant to Securities Act rule 485(b) to make non-material changes to the registration statement, and are generally more limited and much simpler to prepare than post-effective amendments filed for the purpose of annual updates.

⁹² Form N-6 Proposing Release, *supra* note 9, 63 FR at 14002. The hour burden estimate of 800 hours for Form N-6 is based on the hour burden estimate for similar investment company registration forms, in particular Form N-1A, which are of similar length and complexity. See Investment Company Act Release No. 24082 (Oct. 14, 1999) [64 FR 59826, 59854 nn. 293-294 (Nov. 3, 1999)] (estimating PRA hour burden per portfolio at 800 hours for an initial filing on Form N-1A, and 100 hours for a post-effective amendment on Form N-1A).

The Commission has estimated the average hour burden of preparing Form S-6, for purposes of the Paperwork Reduction Act, to be 35 hours per unit investment trust. See Submission for OMB Review; Comment Request (Extension of Form S-6) (Nov. 30, 1998) [63 FR 67152 (Dec. 4, 1998)]. However, the vast majority of investment companies filing on Form S-6 are not unit investment trusts offering variable life insurance policies. See *id.* (estimating that "[e]ach year approximately 3,600 investment companies file a Form S-6"). The hourly burden

burden is attributable to the fact that Form S-6, on balance, requires more information to be included in an initial registration statement than would Form N-6.⁹³ Thus, we estimate internal costs involved in preparing an initial registration statement on Form S-6, based on a weighted average hourly wage rate of \$84, at \$71,400 (850 hours × \$84).⁹⁴

We estimate external costs associated with completing an initial registration statement on Form S-6 to be \$30,000, compared to \$20,000 on Form N-6. These external costs include all costs associated with filing on Form S-6 other than wages, salaries, and fees paid for the hour burden. These costs may include, for example, the cost of preparing a filing for the EDGAR system ("EDGARization"), typesetting of the prospectus (which is typically done before the prospectus is filed on EDGAR), and the cost of outside counsel and independent auditors in connection with filing on Form S-6. The difference in external costs between Form S-6 and Form N-6 is attributable primarily to

and cost of filing a variable life insurance policy on Form S-6 are much greater than for other unit investment trusts, largely because of the complexity of the product.

⁹³ For example, Form S-6 requires interim financial statements to be included in a registration statement in circumstances where they would not be required by Form N-6; see Instruction 3 to Item 24.

⁹⁴ The Commission's estimate concerning the weighted average wage rate to prepare Forms S-6, N-8B-2, and N-6 is based on salary information for the securities industry compiled by the Securities Industry Association, and on consultation with industry representatives regarding the percentage of time required by both professional and clerical staff to prepare these forms. See Securities Industry Association, *Report on Management & Professional Earnings in the Securities Industry—2000* (Sept. 2000). The weighted average hourly wage rate of \$84 per hour includes overhead costs and assumes that at least 80% of the total time required to prepare Form N-6 would be incurred by attorneys and accountants, and any remaining time would be incurred by paralegal staff.

the fact that the required inclusion of financial statements in the Form S-6 prospectus results in significantly higher costs for typesetting and EDGARization associated with filing a registration statement.⁹⁵ Based on an estimate of internal costs of \$71,400 and external costs of \$30,000 per initial registration statement on Form S-6, therefore, we estimate the total cost to a variable life insurance issuer of preparing and filing an initial registration statement on Form S-6 to be \$101,400. Thus, total annual costs to variable life insurance issuers of filing initial registration statements on Form S-6 are estimated to be \$5,982,600 (\$101,400 × 59).

There are also costs associated with filing post-effective amendments on Form S-6. The Commission estimates, based on the numbers of filings received on EDGAR in 2001, that there are approximately 200 variable life insurance policies registered with the Commission that file at least one post-effective amendment per year to update their financial statements. These post-effective amendments may be filed pursuant to Securities Act rule 485(a) or rule 485(b). In addition to filing at least one post-effective amendment annually to update their financial statements, the Commission estimates that these variable life insurance policies also file an estimated 300 other post-effective amendments annually on Form S-6. These 300 other post-effective amendments are generally filed pursuant to Securities Act rule 485(b) to make non-material changes to the registration statement, and are generally more limited and much simpler to

⁹⁵ The estimates of these external costs, which are distinct from the printing and postage costs described above, are based on information supplied to the staff by several life insurance companies, in light of their experience in filing on Forms S-6 and N-4.

prepare than post-effective amendments filed as annual updates.

We estimate that the cost of preparing and filing a post-effective amendment to a previously effective registration statement on Form S-6 for the purpose of an annual update is \$21,900, which reflects internal costs of \$8,400 (100 hours × \$84) plus external costs of \$13,500. While the estimated internal costs of filing an annual update on Form S-6 are the same as those for Form N-6, the estimated external costs of \$13,500 are significantly higher than the comparable \$7,500 costs for annual updates on Form N-6, largely because of higher costs for typesetting and EDGARization resulting from the inclusion of financial statements in the Form S-6 prospectus. Thus, the total annual cost to variable life insurance issuers of filing post-effective amendments on Form S-6 for the purpose of annual updates is \$4,380,000 (\$21,900 × 200 filings).⁹⁶

We estimate the cost of preparing and filing a post-effective amendment on Form S-6 for a purpose other than an annual update to be \$2,840, which reflects internal costs of \$840 (10 hours × \$84) plus other external costs of \$2,000.⁹⁷ These estimated costs are the same as those for filing such an amendment on Form N-6.

Thus, we estimate that the requirement that variable life insurance separate accounts file on Form S-6 results in an annual cost to registrants of approximately \$11,214,600 ((59 × \$101,400) + (200 × \$21,900) + (300 × \$2,840)).

Form N-8B-2

The Commission estimates that variable life insurance separate accounts file 24 initial registration statements and 11 post-effective amendments on Form N-8B-2 annually. The current estimated cost of preparing an initial registration statement on Form N-8B-2 is \$3,696, and the estimated cost of preparing each post-effective amendment on Form N-8B-2 is \$1,344.⁹⁸ Thus, we estimate that

⁹⁶ The cost estimate for preparing and filing a post-effective amendment filed as an annual update on Form S-6 was calculated by multiplying the estimated number of hours required to prepare this type of post-effective amendment on Form S-6 (100 hours) by the weighted average hourly wage (\$84), and adding other costs associated with completing a post-effective amendment of \$13,500.

⁹⁷ The cost estimate for an additional post-effective amendment filed on Form S-6 is calculated by multiplying the estimated number of hours to prepare the post-effective amendment (10 hours) by the weighted average hourly wage (\$84) and adding other costs associated with completing the post-effective amendment of \$2,000.

⁹⁸ The cost estimate for an initial registration statement on Form N-8B-2 is calculated by multiplying the estimated number of hours to

the requirement that variable life insurance separate accounts file on Form N-8B-2 results in an annual cost to registrants of approximately \$103,488 ((24 × \$3,696) + (11 × \$1,344)).

Form N-6

The Commission estimates that approximately 59 initial registration statements and 500 post-effective amendments will be filed on Form N-6 annually.⁹⁹ We estimate that the cost of preparing and filing an initial registration statement on Form N-6 will be \$87,200, based on an estimate of 800 hours and \$20,000 in external costs per initial registration statement, as described above.¹⁰⁰ In addition, we estimate that the cost of preparing and filing a post-effective amendment to a previously effective registration statement for the purpose of an annual update is \$15,900, based on an estimate of 100 hours and \$7,500 in external costs per annual update post-effective amendment, as described above.¹⁰¹ The estimated cost of preparing and filing a post-effective amendment on Form N-6 for a purpose other than an annual

prepare an initial registration statement on Form N-8B-2 (44 hours) by the weighted average hourly wage (\$84). The cost estimate for a post-effective amendment on Form N-8B-2 is calculated by multiplying the estimated number of hours required to prepare a post-effective amendment to Form N-8B-2 (16 hours) by the weighted average hourly wage (\$84). See Proposed Collection; Comment Request (Extension of Form N-8B-2) (May 17, 2001) [66 FR 28764 (May 24, 2001)] (estimating 44 hours for initial registration statement on Form N-8B-2 and 16 hours for post-effective amendment on Form N-8B-2).

⁹⁹ These estimates are based on the staff's analysis of data from the EDGAR system on the number of initial registration statements and post-effective amendments filed on Form S-6 in 2000 by separate accounts offering variable life insurance policies. The numbers of initial registration statements and post-effective amendments filed on Form S-6 have been consistent in recent years. Based on this data, we estimate that there are approximately 200 registered variable life insurance policies that file at least one post-effective amendment per year to update their financial statements. In addition to filing at least one annual update by post-effective amendment, these variable life insurance policies will also file an estimated 300 other post-effective amendments annually on Form N-6. We expect that these 300 other post-effective amendments will generally be filed pursuant to Securities Act rule 485(b) to make non-material changes to the registration statement, and will generally be more limited and much simpler to prepare than post-effective amendments filed for the purpose of annual updates.

¹⁰⁰ See Form N-6 Proposing Release, *supra* note 9, 63 FR at 14002 (estimating burden of preparing initial registration statement on Form N-6 at 800 hours and \$20,000 in additional costs).

¹⁰¹ See Form N-6 Proposing Release, *supra* note 9, 63 FR at 14002 (estimating that 200 separate accounts offering variable life insurance policies would file annual post-effective amendments on Form N-6, at an hour burden of 100 hours per post-effective amendment and cost of \$7,110,500 per post-effective amendment); see also note 110 *infra*.

update is \$2,840.¹⁰² The total annual cost to issuers of variable life insurance policies filing on Form N-6 is therefore estimated to be \$9,176,800 ((59 × \$87,200) + (200 × \$15,900) + (300 × \$2,840)).

Thus, we estimate an annual net savings in filing costs to issuers of variable life insurance policies of approximately \$2,141,288 (total annual costs of \$9,176,800 associated with filing on Form N-6 compared to total annual costs of \$11,318,088 associated with filing on Forms S-6 and N-8B-2).

3. Enhanced Disclosure Information

Form N-6 will enhance the disclosure provided to investors about variable life insurance policies in several respects:

- *Tailored Registration Form.* Form N-6 will eliminate requirements in Forms S-6 and N-8B-2 that are not relevant to variable life insurance. Form N-6 also will include items that are specifically addressed to variable life insurance products, such as descriptions of contractual provisions relating to premiums, death benefits, cash values, surrenders and withdrawals, and loans.¹⁰³

- *Plain English.* The Commission's plain English rule will apply to the front and back cover pages and the risk/benefit summary in the variable life insurance prospectus.¹⁰⁴ This should result in better, clearer disclosure to investors.

- *Reducing Complex and Lengthy Prospectus Disclosure.* Form N-6 will streamline variable life prospectus disclosure by adopting a two-part format consisting of a simplified prospectus, designed to contain essential information that assists an investor in making an investment decision, and an SAI containing more extensive information and detailed discussion of matters included in the prospectus that investors could obtain upon request.

- *Standardized Fee Information.* Form N-6 will require variable life insurance registrants to provide a uniform, tabular presentation of fees and charges, in order to improve the

¹⁰² The cost estimate for a post-effective amendment filed on Form N-6 for a purpose other than an annual update is calculated by multiplying the estimated number of hours to prepare the post-effective amendment (10 hours) by the weighted average hourly wage (\$84) and adding other costs associated with completing the post-effective amendment of \$2,000. We estimate that the hours and cost necessary to prepare a post-effective amendment for this purpose on Form N-6 will be the same as those needed to prepare this type of post-effective amendment on Form S-6.

¹⁰³ Items 7 (premiums), 8 (death benefits and cash values), 9 (surrenders and withdrawals), and 10 (loans).

¹⁰⁴ Rule 421(d) under the Securities Act [17 CFR 230.421(d)].

disclosure to investors of the often complex charges associated with variable life insurance policies and increase the comparability of charges among policies.

This improved disclosure of the features of variable life insurance policies that will result from the adoption of Form N-6 will provide several important benefits. First, because of improved disclosure, investors will be more informed about the features of different policies, and will be able to spend less time searching for a variable life insurance contract that is best suited to their particular needs. For example, an investor who is interested in finding a variable life insurance policy with a particular set of features at the lowest cost may be able to do so more easily, because the Form N-6 prospectus requires prominent disclosure of the risks and benefits of the policy, and a standardized table of the fees and charges assessed by the policy. In addition, the improved disclosure required by Form N-6 will promote competition among issuers of variable life insurance policies as they seek to attract these more informed investors. Thus, improved disclosure will result in more efficient allocation of investors' assets among competing variable life insurance policies, and also vis-à-vis other, competing types of financial products. This beneficial effect may be somewhat limited, however, by the extent to which investors do not rely on a prospectus in choosing whether to purchase a variable life insurance policy, but instead may rely on brokers and other investment professionals in determining whether to purchase a variable life insurance policy. In some cases, investment professionals may use the improved disclosure in the prospectus of Form N-6 to make more informed sales recommendations to investors.

Second, the improved disclosure promoted by Form N-6 may promote competition among issuers of variable life insurance policies, and hence may also result in more efficient asset allocation among variable life insurance policies. Although it is not possible to quantify the beneficial effects of this increased competition, we believe that they may be significant, given that assets in variable life insurance products total approximately \$42.8 billion, and new variable life insurance premiums may equal \$6.9 billion per year.¹⁰⁵

¹⁰⁵ *Lipper Variable Insurance Products Performance Analysis*, 4th Quarter 2001 Report, Vol. 1 at 1-1, *supra* note 4; Geraldine Murtagh, *Variable Life Still Cookin'*; *3rd Quarter Sales Surged*

Third, because Form N-6, unlike Forms S-6 and N-8B-2, will require disclosure specifically tailored to variable insurance policies, the adoption of Form N-6 may permit the Commission staff who review variable life insurance filings on Form S-6 to review these filings more quickly and efficiently, and thus to provide investor protection more effectively.

In connection with the adoption of Form N-6, the Commission is also amending Form N-1A, the registration form for open-end management investment companies, by removing the current exclusion from the fee table requirement of Form N-1A for funds that offer their shares exclusively as investment options for variable annuity contracts and variable life insurance policies, and requiring that these funds include a fee table in their prospectuses. This amendment is being made because the fee table in the Form N-6 prospectus will allow variable life registrants to disclose the range of expenses for all Portfolio Companies offered through a variable life insurance policy in the variable life prospectus, rather than having to separately state the fees and charges of each Portfolio Company. This amendment to Form N-1A will ensure that variable life insurance investors continue to have access to complete information about Portfolio Company fees and expenses. Further, because currently the requirements for disclosure of Portfolio Company fees and expenses in variable annuity and variable life prospectuses vary, to a limited extent, from the disclosure requirements of Form N-1A, the amendment will produce consistent disclosure of fees and expenses by Portfolio Companies that offer their shares exclusively through separate accounts and by mutual funds that sell shares directly to the public. This more consistent disclosure may result in more efficient allocation of assets among variable insurance products and mutual funds.

C. Costs

Variable life insurance issuers will incur a one-time cost for training in order for their personnel, particularly lawyers and others who are responsible for supervising the preparation of variable life insurance filings, to review and analyze the disclosure requirements of Form N-6. Although Form N-6 is a new registration form, much of the information required by Form N-6 is

29%, National Underwriter Life & Health/Financial Services Edition, Jan. 15, 2001, at 26 (discussing industry survey estimating that new variable life insurance premiums equaled \$5.18 billion for the first 9 months of 2000).

already required by existing registration forms. Further, Form N-6 has been the subject of extensive discussion within the variable life insurance industry, and many industry participants are already generally familiar with its requirements. Therefore, we expect that this one-time cost will be significant but limited.

Because we expect that in each insurance company issuing variable life insurance policies, several lawyers and other supervisory professionals will require several hours of training in the disclosure requirements of Form N-6, we estimate that this cost will be \$20,000 for each variable life insurance policy that is currently registered on Form S-6 and is actively being sold. Based on an estimate of 200 variable life insurance policies that are currently registered on Form S-6, we estimate these one-time costs attributable to the adoption of Form N-6 at \$4,000,000 (200 × \$20,000).

Further, because Form N-6 will require an insurer issuing a variable life insurance policy to deliver an SAI to investors upon request, and to maintain a toll-free telephone number for investors to use in requesting the SAI, some insurers may need to incur both fixed and variable costs in setting up and maintaining a system for processing these requests.¹⁰⁶ However, because only a small percentage of investors are expected to request an SAI, these costs may be limited. In addition, because Form N-6 will allow financial statements to be included in the SAI rather than the prospectus, insurers may realize savings on fixed costs associated with typesetting the prospectus, regardless of the numbers of investors who request an SAI.

In addition to costs imposed by the adoption of Form N-6, the amendments the Commission is adopting to Form N-1A will impose certain costs on funds registered on Form N-1A that offer their shares exclusively as investment options for variable annuity contracts and variable life insurance policies. The Commission estimates that 163 post-effective amendments on Form N-1A and 9 initial registration statements on Form N-1A are filed annually for fund portfolios that offer their shares exclusively as investment options for variable annuity contracts and variable life insurance policies and hence do not include a fee table in their prospectuses.¹⁰⁷ We estimate that the

¹⁰⁶ Item 1(b)(1) of Form N-6.

¹⁰⁷ These estimates are based on the Commission's analysis of data from its EDGAR system on the number of initial registration statements and post-effective amendments filed on Form N-1A in 2000 by funds offering shares

hour burden of adding fee table disclosure to these registration statements will be minimal, because the fund portfolios must already compile and provide fee table information for issuers of variable insurance contracts that include these portfolios as investment options, and hence provide information about their fees and expenses in the contract prospectuses.

Therefore, we estimate that the average hour burden per Form N-1A registration statement for adding this fee information will be 2 hours, for either an initial registration statement or a post-effective amendment. Based on an estimated number of 10 portfolios per registration statement for a fund offering its shares exclusively as investment options for variable annuity contracts and variable life insurance policies, the average hour burden per portfolio for adding this disclosure will be 0.2 hours.¹⁰⁸ We therefore estimate the annual industry cost of the amendments to Form N-1A to be 344 hours, or \$28,896.¹⁰⁹

D. Conclusion

Based on information provided in the comment letters and its own analysis, the Commission believes that the adoption of Form N-6 will permit separate accounts issuing variable life insurance policies to register under the Investment Company Act and to offer their securities under the Securities Act more efficiently, and that, in the long term, the benefits of the new form justify the associated costs.

IV. Paperwork Reduction Act

A. Adoption of Form N-6

As explained in the Proposing Release, certain provisions of Form N-6 contain "collection of information" requirements within the meaning of the Paperwork Reduction Act of 1995 [44 U.S.C. 3501 *et seq.*]. We published a notice soliciting comments on the collection of information requirements in the Proposing Release and submitted these requirements to the Office of Management and Budget ("OMB") for

exclusively to one or more separate accounts. The numbers of initial registration statements and post-effective amendments filed on Form N-1A by these funds have been consistent in recent years.

¹⁰⁸ The Commission has previously estimated that 1,575 funds registered on Form N-1A are underlying portfolios for variable insurance contracts. See After-Tax Returns Adopting Release, *supra* note 16, 66 FR at 9012. The estimate of ten portfolios per registration statement is based on the number of portfolios currently registered (1,575) divided by the number of registrants filing post-effective amendments (163).

¹⁰⁹ This cost estimate was calculated by multiplying the annual hour burden (344) by the weighted average hourly wage (\$84).

review in accordance with 44 U.S.C. 3507(d) and 5 CFR 1320.11. The Commission did not receive any comments on the Paperwork Reduction Act portion of the Proposing Release.

As described above, Form N-6 will be used by insurance company separate accounts that are registered as unit investment trusts and that offer variable life insurance policies. Form N-6 will provide these variable life insurance separate accounts a single, integrated form for Investment Company Act and Securities Act registration. For these separate accounts, it will replace Form N-8B-2, currently used by separate accounts to register as unit investment trusts under the Investment Company Act, and Form S-6, currently used by separate accounts to offer their securities under the Securities Act. A registration statement on Form N-6 will consist of a simplified prospectus that is designed to include items that are specifically addressed to variable life insurance products, a statement of additional information that contains more extensive information that investors could obtain upon request, and other information not included in the prospectus or the SAI.

The information required by Form N-6 is primarily for the use and benefit of investors. The Form N-6 prospectus will contain essential information to assist an investor in making an investment decision, such as a description of contractual provisions relating to premiums, death benefits, cash values, loans, and surrenders and withdrawals. The prospectus will also include a uniform, tabular presentation of fees and charges, which will improve disclosure and enhance the comparability of charges among policies. Information requirements in the current registration forms that are not relevant to variable life insurance will be eliminated from the Form N-6 prospectus. The information required to be filed with the Commission pursuant to the information collection will also permit the verification of compliance with securities law requirements and will assure the public availability and dissemination of the information.

In the Proposing Release, the Commission estimated the burden hours that would be necessary for the collection of information requirements under the proposed Form N-6. We have, however, revised certain estimates contained in the Proposing Release based on an analysis of the data contained in the Commission's EDGAR system with respect to the number of initial registration statements and post-effective amendments filed on Forms S-6 and N-8B-2 by separate accounts

offering variable life insurance in the years 2000 and 2001.

The Commission estimates that there are approximately 200 variable life insurance policies issued by separate accounts registered as unit investment trusts. The Commission estimates that these separate accounts will file as many as 59 initial registration statements and 500 post-effective amendments on proposed Form N-6 annually.¹¹⁰

In the Proposing Release, the Commission estimated that the hour burden for preparing and filing an initial registration statement on proposed Form N-6 is 800 hours.¹¹¹ We received no comments on this estimate, and therefore we continue to estimate that the hour burden for an initial filing on Form N-6 is 800 hours. Thus, the annual hour burden for preparing and filing initial registration statements on Form N-6 would be 47,200 hours (59 × 800 hours). We estimate that the hour burden for preparing and filing a post-effective amendment on proposed Form N-6 for purposes of an annual update is 100 hours, while additional post-effective amendments would require 10 hours. Thus, the total annual hour

¹¹⁰ In the Form N-6 Proposing Release, the Commission estimated that there would be as many as 50 initial registration statements and 200 post-effective amendments that would be filed annually on proposed Form N-6. This estimate was based on the fact that there were approximately 200 separate accounts issuing variable life insurance policies registered with the Commission, and that each separate account must file at least one post-effective amendment per year to update its financial statements. The Commission estimates, based on its analysis of data from the EDGAR filing system for 2000 and 2001, that there are approximately 200 variable life insurance policies currently registered with the Commission filing annual post-effective amendment updates. In addition to filing at least one post-effective amendment annually to update their financial statements, the Commission estimates, based on EDGAR filing data, that these variable life insurance policies also file 300 additional post-effective amendments annually on Form S-6. These 300 other post-effective amendments are generally filed pursuant to Securities Act rule 485(b) to make non-material changes to the registration statement, and are generally more limited and much simpler to prepare than post-effective amendments filed as annual updates. Accordingly, we estimate the hour burden for each of these additional post-effective amendments to be 10 hours. We estimate that the number of post-effective amendments filed on Form N-6 as annual updates, and the number of post-effective amendments filed on Form N-6 for other purposes, will be the same as the numbers of such post-effective amendments currently filed on Form S-6.

¹¹¹ The hour burden of 800 hours for Form N-6 is based on the hour burden estimate for similar investment company registration forms, in particular Form N-1A, which are of similar length and complexity. See Investment Company Act Release No. 24082 (Oct. 14, 1999) [64 FR 59826, 59854 nn. 293-294 (Nov. 3 1999)] (estimating PRA hour burden per portfolio at 800 hours for an initial filing on Form N-1A, and 100 hours for a post-effective amendment on Form N-1A).

burden for preparing and filing post-effective amendments on Form N-6 would be 23,000 hours ((200 × 100 hours) + (300 × 10 hours)). The total annual hour burden for proposed Form N-6, therefore, is estimated to be 70,200 hours (47,200 hours + 23,000 hours).

The Commission estimates that the cost burden for preparing and filing an initial registration statement on proposed Form N-6 is \$20,000. This cost burden includes all costs associated with filing on Form N-6 other than wages, salaries, and fees paid for the hour burden. These costs may include, for example, the cost of preparing a filing for the EDGAR system ("EDGARization"), typesetting of the prospectus (which is typically done before the prospectus is filed on EDGAR), and the cost of outside counsel and independent auditors in connection with filing on Form N-6. Thus, the annual cost burden for preparing and filing initial registration statements would be \$1,180,000 (59 × \$20,000). The Commission estimates that the cost burden for preparing and filing a post-effective amendment on proposed Form N-6 for purposes of an annual update is \$7,500, while the cost of preparing and filing an additional post-effective amendment is \$2,000. Thus, the total annual cost burden for preparing and filing post-effective amendments on Form N-6 would be \$2,100,000 ((200 × \$7,500) + (300 × \$2,000)). The total annual cost burden for proposed Form N-6, therefore, is estimated to be \$3,280,000 (\$2,100,000 + \$1,180,000).

OMB approved the collection requirements contained in Form N-6 (OMB Control No. 3235-0503). The title for the collection of information is "Form N-6 Under the Investment Company Act of 1940 and the Securities Act of 1933, Registration Statement of Variable Life Insurance Separate Accounts Registered as Unit Investment Trusts." The information collection requirements imposed by Form N-6 are mandatory. Responses to the collection of information will not be kept confidential. An agency may not conduct or sponsor, and a person is not required to respond to, a collection of information unless it displays a currently valid OMB control number.

B. Amendment to Form N-1A

Form N-1A, the registration form for open-end management investment companies, contains "collection of information" requirements within the meaning of the Paperwork Reduction Act of 1995 [44 U.S.C. 3501 *et seq.*], and the Commission is submitting the proposed collections of information to the Office of Management and Budget

for review in accordance with 44 U.S.C. 3507(d) and 5 CFR 1320.11. The title for the collection of information is "Form N-1A under the Investment Company Act of 1940 and Securities Act of 1933, Registration Statement of Open-End Management Investment Companies." The information collection requirements imposed by Form N-1A are mandatory. Responses to the collection of information will not be kept confidential. An agency may not conduct or sponsor, and a person is not required to respond to, a collection of information unless it displays a currently valid control number.

Form N-1A (OMB Control No. 3235-0307) was adopted pursuant to section 8(a) of the Investment Company Act [15 U.S.C. 80a-8] and section 5 of the Securities Act [15 U.S.C. 77e]. The purpose of Form N-1A is to meet the registration and disclosure requirements of the Securities Act and Investment Company Act and to enable open-end management investment companies to provide investors with information necessary to evaluate an investment in an investment company.

The Commission is amending Form N-1A by eliminating the current exclusion from the fee table requirement of Form N-1A for funds that offer their shares exclusively as investment options for variable annuity contracts and variable life insurance policies, and requiring that these funds include a fee table in their prospectuses. This amendment is being adopted because the fee table in the Form N-6 prospectus will require variable life registrants to disclose the range of expenses for all Portfolio Companies offered through a variable life insurance policy, rather than separately stating the fees and charges of each Portfolio Company. In addition, the Commission is proposing amendments to conform the treatment of fund expenses in the fee table of Form N-4, the registration form for variable annuity contracts, to that in Form N-6.¹¹² The amendment to Form N-1A will ensure that investors continue to have access to complete information about Portfolio Company fees and expenses.

The Commission estimates that 163 post-effective amendments on Form N-1A and 9 initial registration statements on Form N-1A are filed annually for fund portfolios that offer their shares exclusively as investment options for variable annuity contracts and variable life insurance policies and hence do not include a fee table in their

prospectuses.¹¹³ We estimate that the hour burden of adding fee table disclosure to these registration statements will be minimal, because the fund portfolios must already compile and provide fee table information for issuers of variable annuity contracts and variable life insurance policies that include these portfolios as investment options, and hence provide information about their fees and expenses in the contract prospectuses. Therefore, we estimate that the average hour burden per registration statement for adding this fee information will be 2 hours, for either an initial registration statement or a post-effective amendment. Based on an estimated number of 10 portfolios per registration statement for a fund offering shares exclusively to separate accounts, the average hour burden per portfolio for adding this disclosure will be 0.2 hours.¹¹⁴ Thus, we estimate that the amendment to Form N-1A will add 344 hours [(163 post-effective amendments + 9 initial registration statements) × 2 hours] to the previous Form N-1A annual burden of 1,145,843 hours, resulting in a new total Form N-1A annual hour burden of 1,146,187 hours.

We request your comments on the accuracy of our estimate of the burden of the amendment to Form N-1A. Pursuant to 44 U.S.C. 3506(c)(2)(B), the Commission solicits comments to: (i) Evaluate whether the proposed collection of information is necessary for the proper performance of the functions of the agency, including whether the information will have practical utility; (ii) evaluate the accuracy of the Commission's estimate of burden of the proposed collection of information; (iii) determine whether there are ways to enhance the quality, utility, and clarity of the information to be collected; and (iv) evaluate whether there are ways to minimize the burden of the collection of information on those who are to respond, including through the use of automated collection

¹¹³ These estimates are based on the Commission's analysis of data from its EDGAR system on the number of initial registration statements and post-effective amendments filed on Form N-1A in 2000 by funds offering shares exclusively to one or more separate accounts. The number of initial registration statements and post-effective amendments filed on Form N-1A by these funds have been consistent in recent years.

¹¹⁴ The Commission has previously estimated that 1,575 funds registered on Form N-1A are underlying portfolios for variable insurance contracts. See After-Tax Returns Adopting Release, *supra* note 16, 66 FR at 9012. The estimate of ten portfolios per registration statement is based on the number of portfolios currently registered (1,575) divided by the number of registrants filing post-effective amendments (163).

¹¹² See Form N-4 Proposing Release, *supra* note 1.

techniques or other forms of information technology.

Persons submitting comments on the collection of information requirements should direct the comments to the Office of Management and Budget, Attention: Desk Officer for the Securities and Exchange Commission, Office of Information and Regulatory Affairs, Room 3208, New Executive Office Building, Washington, DC 20503, and should send a copy to Jonathan G. Katz, Secretary, Securities and Exchange Commission, 450 Fifth Street, NW, Washington, DC 20549-0609, with reference to File No. S7-9-98. Request for materials submitted to OMB by the Commission with regard to this collection of information should be in writing, refer to File No. S7-9-98, and be submitted to the Securities and Exchange Commission, 450 Fifth Street, NW, Washington, DC 20549, Attention: Records Management, Office of Filings and Information Services. OMB is required to make a decision concerning the collection of information between 30 and 60 days after publication of this release. Consequently, a comment to OMB is best assured of having its full effect if OMB receives it within 30 days after publication of this release.

V. Effects on Efficiency, Competition, and Capital Formation

Section 2(c) of the Investment Company Act, section 2(b) of the Securities Act, and section 3(f) of the Securities Exchange Act of 1934 require the Commission, when engaging in rulemaking that requires it to consider or determine whether an action is consistent with the public interest, to consider, in addition to the protection of investors, whether the action will promote efficiency, competition, and capital formation.¹¹⁵ The Commission has considered these factors.

The adoption and implementation of Form N-6, and the related amendment to Form N-1A, will improve efficiency and competition among issuers of variable life insurance policies. Unlike Forms N-8B-2 and S-6 that currently are used by variable life insurance issuers, Form N-6 is specifically tailored to variable life insurance. The requirements of the form focus on information that is essential to a decision to invest in a particular variable life insurance policy, and the form is intended to enhance the comparability of information about variable life insurance policies. For example, Form N-6 will require variable life insurance registrants to provide a uniform, tabular presentation of fees

and charges assessed by a variable life insurance policy. The enhanced disclosure of this essential information about charges and other features of a variable life insurance policy will enable investors to become more informed about the different aspects of variable life insurance policies, and therefore will promote more efficient allocation of investors' assets, both among different variable life insurance policies and vis-à-vis other, competing types of financial products. In addition, the enhanced disclosure required by Form N-6 will promote competition among issuers of variable life insurance policies as they seek to attract these more knowledgeable investors. While investors will be better equipped to make investment decisions following the adoption of Form N-6, it is unclear whether Form N-6 will affect capital formation.

VI. Regulatory Flexibility Act Certification

Pursuant to Section 605(b) of the Regulatory Flexibility Act [5 U.S.C. 605(b)] the Chairman of the Commission has certified that proposed Form N-6 does not have a significant economic impact on a substantial number of small entities. The initial certification was attached to the Proposing Release as Appendix A. We requested comments on the certification, but received none. Pursuant to Section 605(b) of the Regulatory Flexibility Act [5 U.S.C. 605(b)], the Chairman of the Commission also has certified that the amendment to Form N-1A adopted as part of this Adopting Release does not have a significant economic impact on a substantial number of small entities. Few, if any, small entities would be affected by the amendment to Form N-1A, and the amendment to Form N-1A would not have a significant economic impact. The Chairman's certification, including the reasons therefor, is attached to this release as Appendix A.

VII. Statutory Authority

The Commission is amending its rules and forms, and adding Form N-6, pursuant to sections 5, 7, 8, 10, and 19(a) of the Securities Act [15 U.S.C. 77e, 77g, 77h, 77j, and 77s(a)] and sections 8, 22, 24, 26, 30, and 38 of the Investment Company Act [15 U.S.C. 80a-8, 80a-22, 80a-24, 80a-26, 80a-29, and 80a-37]. The authority citations for the amendments to the rules and forms precede the text of the amendments.

Text of Rule Amendments and Forms

List of Subjects

17 CFR Parts 230, 270, and 274

Investment companies, Reporting and recordkeeping requirements, Securities.

17 CFR Part 239

Reporting and recordkeeping requirements, Securities.

For the reasons set out in the preamble, the Commission amends Chapter II, Title 17 of the Code of Federal Regulations as follows.

PART 230—GENERAL RULES AND REGULATIONS, SECURITIES ACT OF 1933

1. The authority citation for Part 230 continues to read in part as follows:

Authority: 15 U.S.C. 77b, 77c, 77d, 77f, 77g, 77h, 77j, 77r, 77sss, 77z-3, 78c, 78d, 78l, 78m, 78n, 78o, 78t, 78w, 78ll(d), 78mm, 79t, 80a-8, 80a-24, 80a-28, 80a-29, 80a-30, and 80a-37, unless otherwise noted.

* * * * *

2. Revise § 230.134b to read as follows:

§ 230.134b Statements of additional information.

For the purpose only of Section 5(b) of the Act (15 U.S.C. 77e(b)), the term "prospectus" as defined in Section 2(a)(10) of the Act (15 U.S.C. 77b(a)(10)) does not include a Statement of Additional Information filed as part of a registration statement on Form N-1A (§ 239.15A and § 274.11A of this chapter), Form N-2 (§ 239.14 and § 274.11a-1 of this chapter), Form N-3 (§ 239.17a and § 274.11b of this chapter), Form N-4 (§ 239.17b and § 274.11c of this chapter), or Form N-6 (§ 239.17c and § 274.11d of this chapter) transmitted prior to the effective date of the registration statement if it is accompanied or preceded by a preliminary prospectus meeting the requirements of § 230.430.

3. Amend § 230.430 to revise the introductory text of paragraph (b) to read as follows:

§ 230.430 Prospectus for use prior to effective date.

* * * * *

(b) A form of prospectus filed as part of a registration statement on Form N-1A (§ 239.15A and § 274.11A of this chapter), Form N-2 (§ 239.14 and § 274.11a-1 of this chapter), Form N-3 (§ 239.17a and § 274.11b of this chapter), Form N-4 (§ 239.17b and § 274.11c of this chapter), or Form N-6 (§ 239.17c and § 274.11d of this chapter) shall be deemed to meet the requirements of Section 10 of the Act

¹¹⁵ 15 U.S.C. 77b(b), 78c(f), and 80a-2(c).

(15 U.S.C. 77j) for the purpose of Section 5(b)(1) thereof (15 U.S.C. 77e(b)(1)) prior to the effective date of the registration statement, provided that:

* * * * *

4. Amend § 230.430A to revise paragraph (e) before the Note to read as follows:

§ 230.430A Prospectus in a registration statement at the time of effectiveness.

* * * * *

(e) In the case of a registration statement filed on Form N-1A (§ 239.15A and § 274.11A of this chapter), Form N-2 (§ 239.14 and § 274.11a-1 of this chapter), Form N-3 (§ 239.17a and § 274.11b of this chapter), Form N-4 (§ 239.17b and § 274.11c of this chapter), or Form N-6 (§ 239.17c and § 274.11d of this chapter), the references to "form of prospectus" in paragraphs (a) and (b) of this section and the accompanying Note shall be deemed also to refer to the form of Statement of Additional Information filed as part of such a registration statement.

* * * * *

5. Amend § 230.495 to revise paragraphs (a), (c), and (d) to read as follows:

§ 230.495 Preparation of registration statement.

(a) A registration statement on Form N-1A (§ 239.15A and § 274.11A of this chapter), Form N-2 (§ 239.14 and § 274.11a-1 of this chapter), Form N-3 (§ 239.17a and § 274.11b of this chapter), Form N-4 (§ 239.17b and § 274.11c of this chapter), or Form N-6 (§ 239.17c and § 274.11d of this chapter), shall consist of the facing sheet of the applicable form; a prospectus containing the information called for by such form; the information, list of exhibits, undertakings and signatures required to be set forth in such form; financial statements and schedules; exhibits; and other information or documents filed as part of the registration statement; and all documents or information incorporated by reference in the foregoing (whether or not required to be filed).

* * * * *

(c) In the case of a registration statement filed on Form N-1A (§ 239.15A and § 274.11A of this chapter), Form N-2 (§ 239.14 and § 274.11a-1 of this chapter), Form N-3 (§ 239.17a and § 274.11b of this chapter), Form N-4 (§ 239.17b and § 274.11c of this chapter), or Form N-6 (§ 239.17c and § 274.11d of this chapter), Parts A and B shall contain the

information called for by each of the items of the applicable Part, except that unless otherwise specified, no reference need be made to inapplicable items, and negative answers to any item may be omitted. Copies of Parts A and B may be filed as part of the registration statement in lieu of furnishing the information in item-and-answer form. Wherever such copies are filed in lieu of information in item-and-answer form, the text of the items of the form is to be omitted from the registration statement, as well as from Parts A and B, except to the extent provided in paragraph (d) of the section.

(d) In the case of a registration statement filed on Form N-1A (§ 239.15A and § 274.11A of this chapter), Form N-2 (§ 239.14 and § 274.11a-1 of this chapter), Form N-3 (§ 239.17a and § 274.11b of this chapter), Form N-4 (§ 239.17b and § 274.11c of this chapter), or Form N-6 (§ 239.17c and § 274.11d of this chapter), where any item of those forms calls for information not required to be included in Parts A and B (generally Part C of such form), the text of such items, including the numbers and captions thereof, together with the answers thereto, shall be filed with Parts A or B under cover of the facing sheet of the form as part of the registration statement. However, the text of such items may be omitted, provided the answers are so prepared as to indicate the coverage of the item without the necessity of reference to the text of the item. If any such item is inapplicable, or the answer thereto is in the negative, a statement to that effect shall be made. Any financial statements not required to be included in Parts A and B shall also be filed as part of the registration statement proper, unless incorporated by reference pursuant to § 230.411.

* * * * *

6. Revise § 230.496 to read as follows:

§ 230.496 Contents of prospectus and statement of additional information used after nine months.

In the case of a registration statement filed on Form N-1A (§ 239.15A and § 274.11A of this chapter), Form N-2 (§ 239.14 and § 274.11a-1 of this chapter), Form N-3 (§ 239.17a and § 274.11b of this chapter), Form N-4 (§ 239.17b and § 274.11c of this chapter), or Form N-6 (§ 239.17c and § 274.11d of this chapter), there may be omitted from any prospectus or Statement of Additional Information used more than 9 months after the effective date of the registration statement any information previously required to be contained in the prospectus or the Statement of

Additional Information insofar as later information covering the same subjects, including the latest available certified financial statements, as of a date not more than 16 months prior to the use of the prospectus or the Statement of Additional Information is contained therein.

7. Amend § 230.497 to revise paragraphs (c) and (e) to read as follows:

§ 230.497 Filing of investment company prospectuses—number of copies.

* * * * *

(c) For investment companies filing on Form N-1A (§ 239.15A and § 274.11A of this chapter), Form N-2 (§ 239.14 and § 274.11a-1 of this chapter), Form N-3 (§ 239.17a and § 274.11b of this chapter), Form N-4 (§ 239.17b and § 274.11c of this chapter), or Form N-6 (§ 239.17c and § 274.11d of this chapter), within five days after the effective date of a registration statement or the commencement of a public offering after the effective date of a registration statement, whichever occurs later, ten copies of each form of prospectus and form of Statement of Additional Information used after the effective date in connection with such offering shall be filed with the Commission in the exact form in which it was used.

* * * * *

(e) For investment companies filing on Form N-1A (§ 239.15A and § 274.11A of this chapter), Form N-2 (§ 239.14 and § 274.11a-1 of this chapter), Form N-3 (§ 239.17a and § 274.11b of this chapter), Form N-4 (§ 239.17b and § 274.11c of this chapter), or Form N-6 (§ 239.17c and § 274.11d of this chapter), after the effective date of a registration statement, no prospectus that purports to comply with Section 10 of the Act (15 U.S.C. 77j) or Statement of Additional Information that varies from any form of prospectus or form of Statement of Additional Information filed pursuant to paragraph (c) of this section shall be used until five copies thereof have been filed with, or mailed for filing to the Commission.

* * * * *

PART 239—FORMS PRESCRIBED UNDER THE SECURITIES ACT OF 1933

8. The general authority citation for Part 239 is revised to read as follows:

Authority: 15 U.S.C. 77f, 77g, 77h, 77j, 77s, 77z-2, 77sss, 78c, 78l, 78m, 78n, 78o(d), 78u-5, 78w(a), 78ll(d), 79e, 79f, 79g, 79j, 79l, 79m, 79n, 79q, 79t, 80a-8, 80a-24, 80a-26, 80a-29, 80a-30, and 80a-37, unless otherwise noted.

* * * * *

9. Add § 239.17c to read as follows:

§ 239.17c Form N-6, registration statement for separate accounts organized as unit investment trusts that offer variable life insurance policies.

Form N-6 shall be used for registration under the Securities Act of 1933 of securities of separate accounts that offer variable life insurance policies and that register under the Investment Company Act of 1940 as unit investment trusts. This form is also to be used for the registration statement of such separate accounts pursuant to section 8(b) of the Investment Company Act of 1940 (§ 274.11d of this chapter).

PART 270—RULES AND REGULATIONS, INVESTMENT COMPANY ACT OF 1940

10. The authority citation for part 270 is amended by adding the following citation:

Authority: 15 U.S.C. 80a-1, *et seq.*, 80a-34(d), 80a-37, 80a-39, unless otherwise noted;

* * * * *

Section 270.8b-11 is also issued under 15 U.S.C. 77s, 80a-8, and 80a-37.

* * * * *

11. The authority citation following § 270.8b-11 is removed.

12. Amend § 270.8b-11 to revise paragraph (b) to read as follows:

§ 270.8b-11 Number of copies; signatures; binding.

* * * * *

(b) In the case of a registration statement filed on Form N-1A (§ 239.15A and § 274.11A of this chapter), Form N-2 (§ 239.14 and § 274.11a-1 of this chapter), Form N-3 (§ 239.17a and § 274.11b of this chapter), Form N-4 (§ 239.17b and § 274.11c of this chapter), or Form N-6 (§ 239.17c and § 274.11d of this chapter), three complete copies of each part of the registration statement (including, if applicable, exhibits and all other papers and documents filed as part of Part C of the registration statement) shall be filed with the Commission.

* * * * *

13. Amend § 270.8b-12 to revise paragraph (b) to read as follows:

§ 270.8b-12 Requirements as to paper, printing and language.

* * * * *

(b) In the case of a registration statement filed on Form N-1A (§ 239.15A and § 274.11A of this chapter), Form N-2 (§ 239.14 and § 274.11a-1 of this chapter), Form N-3 (§ 239.17a and § 274.11b of this chapter), Form N-4 (§ 239.17b and § 274.11c of this chapter), or Form N-6 (§ 239.17c and § 274.11d of this chapter), Part C of the registration statement shall be filed on good quality, unglazed, white paper, no larger than 8½ x 11 inches in size, insofar as practicable. The prospectus and, if applicable, the Statement of Additional Information, however, may be filed on smaller-sized paper provided that the size of paper used in each document is uniform.

* * * * *

PART 274—FORMS PRESCRIBED UNDER THE INVESTMENT COMPANY ACT OF 1940

14. The authority citation for Part 274 is revised to read as follows:

Authority: 15 U.S.C. 77f, 77g, 77h, 77j, 77s, 78c(b), 78l, 78m, 78n, 78o(d), 80a-8, 80a-24, 80a-26, and 80a-29, unless otherwise noted.

15. Form N-1A, Item 3 (referenced in §§ 239.15A and 274.11A) is amended by revising the introductory text to read as follows:

Note: The text of Form N-1A does not and this amendment will not appear in the *Code of Federal Regulations*.

Form N-1A

* * * * *

Item 3. Risk/Return Summary: Fee Table

Include the following information, in plain English under rule 421(d) under the Securities Act, after Item 2:

* * * * *

16. Add § 274.11d to read as follows:

§ 274.11d Form N-6, registration statement of separate accounts organized as unit investment trusts that offer variable life insurance policies.

Form N-6 shall be used as the registration statement to be filed

pursuant to section 8(b) of the Investment Company Act of 1940 by separate accounts that offer variable life insurance policies to register as unit investment trusts. This form shall also be used for registration under the Securities Act of 1933 of the securities of such separate accounts (§ 239.17c of this chapter).

17. Revise § 274.12 to read as follows:

§ 274.12 Form N-8B-2, registration statement of unit investment trusts that are currently issuing securities.

This form shall be used as the registration statement to be filed, pursuant to section 8(b) of the Investment Company Act of 1940, by unit investment trusts other than separate accounts that are currently issuing securities, including unit investment trusts that are issuers of periodic payment plan certificates.

18. Revise Form N-8B-2 (referenced in § 274.12), General Instruction 1, to read as follows:

Note: The text of Form N-8B-2 does not and this amendment will not appear in the *Code of Federal Regulations*.

Form N-8B-2

* * * * *

General Instructions for Form N-8B-2.

* * * * *

1. Rule as to Use of Form

This form shall be used as the form for registration statements to be filed, pursuant to Section 8(b) of the Investment Company Act of 1940, by unit investment trusts other than separate accounts that are currently issuing securities, including unit investment trusts that are issuers of periodic payment plan certificates and unit investment trusts of which a management investment company is the sponsor or depositor.

* * * * *

19. Add Form N-6 (referenced in § 239.17c and § 274.11d) to read as follows:

Note: The text of Form N-6 will not appear in the *Code of Federal Regulations*.

BILLING CODE 8010-01-P

OMB APPROVAL	
OMB Number:	3235-0503
Expires:	July 31, 2004
Estimated average burden hours per response:	240.0

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM N-6

REGISTRATION STATEMENT UNDER THE SECURITIES ACT OF 1933

Pre-Effective Amendment No. ___

Post-Effective Amendment No. ___

and/or

REGISTRATION STATEMENT UNDER THE INVESTMENT COMPANY
ACT OF 1940

Amendment No. ___

(Check appropriate box or boxes.)

(Exact Name of Registrant)

(Name of Depositor)

(Address of Depositor's Principal Executive Offices) (Zip Code)

Depositor's Telephone Number, including Area Code _____

(Name and Address of Agent for Service)

Approximate Date of Proposed Public Offering _____

It is proposed that this filing will become effective (check appropriate box)

- immediately upon filing pursuant to paragraph (b)
- on (date) pursuant to paragraph (b)
- 60 days after filing pursuant to paragraph (a)(1)
- on (date) pursuant to paragraph (a)(1) of Rule 485.

If appropriate, check the following box:

This post-effective amendment designates a new effective date for a previously filed post-effective amendment.

Omit from the facing sheet reference to the other Act if the registration statement or amendment is filed under only one of the Acts. Include the "Approximate Date of Proposed Public Offering" only where securities are being registered under the Securities Act of 1933.

Form N-6 is to be used by separate accounts that are unit investment trusts that offer variable life insurance contracts to register under the Investment Company Act of 1940 and to offer their securities under the Securities Act of 1933. The Commission has designed Form N-6 to provide investors with information that will assist them in making a decision about investing in a variable life insurance contract. The Commission also may use the information provided in Form N-6 in its regulatory, disclosure review, inspection, and policy-making roles.

A Registrant is required to disclose the information specified by Form N-6, and the Commission will make this information public. A Registrant is not required to respond to the collection of information contained in Form N-6 unless the Form displays a currently valid Office of Management and Budget ("OMB") control number. Please direct comments concerning the accuracy of the information collection burden estimate and any suggestions for reducing the burden to Secretary, Securities and Exchange Commission, 450 5th Street, NW, Washington, DC 20549-0609. The OMB has reviewed this collection of information under the clearance requirements of 44 U.S.C. 3507.

Contents of Form N-6

General Instructions

- A. Definitions
- B. Filing and Use of Form N-6
- C. Preparation of the Registration Statement
- D. Incorporation by Reference

Part A: Information Required in a Prospectus

- Item 1. Front and Back Cover Pages
- Item 2. Risk/Benefit Summary: Benefits and Risks
- Item 3. Risk/Benefit Summary: Fee Table
- Item 4. General Description of Registrant, Depositor, and Portfolio Companies
- Item 5. Charges
- Item 6. General Description of Contracts
- Item 7. Premiums
- Item 8. Death Benefits and Contract Values
- Item 9. Surrenders, Partial Surrenders, and Partial Withdrawals
- Item 10. Loans
- Item 11. Lapse and Reinstatement
- Item 12. Taxes
- Item 13. Legal Proceedings
- Item 14. Financial Statements

Part B: Information Required in a Statement of Additional Information

- Item 15. Cover Page and Table of Contents
- Item 16. General Information and History
- Item 17. Services
- Item 18. Premiums

- Item 19. Additional Information About Operation of Contracts and Registrant
- Item 20. Underwriters
- Item 21. Additional Information About Charges
- Item 22. Lapse and Reinstatement
- Item 23. Loans
- Item 24. Financial Statements
- Item 25. Performance Data
- Item 26. Illustrations

Part C: Other Information

- Item 27. Exhibits
- Item 28. Directors and Officers of the Depositor
- Item 29. Persons Controlled by or Under Common Control with the Depositor or the Registrant
- Item 30. Indemnification
- Item 31. Principal Underwriters
- Item 32. Location of Accounts and Records
- Item 33. Management Services
- Item 34. Fee Representation

Signatures

General Instructions

A. Definitions

References to sections and rules in this Form N-6 are to the Investment Company Act of 1940 [15 U.S.C. 80a-1 *et seq.*] (the "Investment Company Act"), unless otherwise indicated. Terms used in this Form N-6 have the same meaning as in the Investment Company Act or the related rules, unless otherwise indicated. As used in this Form N-6, the terms set out below have the following meanings:

"Depositor" means the person primarily responsible for the organization of the Registrant and the person, other than the trustee or custodian, who has continuing functions or responsibilities for the administration of the affairs of the Registrant. "Depositor" includes the sponsoring insurance company that establishes and maintains the Registrant. If there is more than one Depositor, the information called for in this Form about the Depositor must be provided for each Depositor.

"Portfolio Company" means any company in which the Registrant invests.

"Registrant" means the separate account (as defined in section 2(a)(37) of the Investment Company Act [15 U.S.C. 80a-2(a)(37)]) that offers the Variable Life Insurance Contracts.

"SAI" means the Statement of Additional Information required by Part B of this Form. "Securities Act" means the Securities Act of 1933 [15 U.S.C. 77a *et seq.*].

"Securities Exchange Act" means the Securities Exchange Act of 1934 [15 U.S.C. 78a *et seq.*].

"Variable Life Insurance Contract" or "Contract" means a life insurance contract that provides for death benefits and cash values that may vary with the investment experience of any separate account. Unless the context otherwise requires, "Variable Life Insurance Contract" or "Contract" refers to the Variable Life Insurance Contracts being offered pursuant to the registration statement prepared on this Form.

B. Filing and Use of Form N-6

1. What Is Form N-6 Used For?

Form N-6 is used by all separate accounts that are registered under the Investment Company Act as unit investment trusts and offering Variable Life Insurance Contracts to file:

(a) An initial registration statement under the Investment Company Act and amendments to the registration statement;

(b) An initial registration statement under the Securities Act and amendments to the registration statement, including amendments required by section 10(a)(3) of the Securities Act [15 U.S.C. 77j(a)(3)]; or

(c) Any combination of the filings in paragraph (a) or (b).

2. What Is Included in the Registration Statement?

(a) For registration statements or amendments filed under both the Investment Company Act and the Securities Act or only under the Securities Act, include the facing sheet of the Form, Parts A, B, and C, and the required signatures.

(b) For registration statements or amendments filed only under the Investment Company Act, include the facing sheet of the Form, responses to all Items of Parts A (except Items 1, 2, 3, and 14), B, and C (except Items 27 (c), (k), (l), (n), and (o)), and the required signatures.

3. What Are the Fees for Form N-6?

No registration fees are required with the filing of Form N-6 to register as an investment company under the Investment Company Act or to register securities under the Securities Act. If Form N-6 is filed to register securities under the Securities Act and securities are sold to the public, registration fees must be paid on an ongoing basis after the end of the Registrant's fiscal year. *See* section 24(f) [15 U.S.C. 80a-24f-2] and related rule 24f-2 [17 CFR 270.24f-2].

4. What Rules Apply to the Filing of a Registration Statement on Form N-6?

(a) For registration statements and amendments filed under both the Investment Company Act and the Securities Act or only under the Securities Act, the general rules regarding the filing of registration statements in Regulation C under the Securities Act [17 CFR 230.400-230.497] apply to the filing of Form N-6. Specific requirements concerning investment companies appear in rules 480-485 and 495-497 of Regulation C.

(b) For registration statements and amendments filed only under the Investment Company Act, the general provisions in rules 8b-1-8b-32 [17 CFR 270.8b-1-270.8b-32] apply to the filing of Form N-6.

(c) The plain English requirements of rule 421 under the Securities Act [17 CFR 230.421] apply to prospectus disclosure in Part A of Form N-6.

(d) Regulation S-T [17 CFR 232.10-232.903] applies to all filings on the Commission's Electronic Data Gathering, Analysis, and Retrieval system ("EDGAR").

C. Preparation of the Registration Statement

1. Administration of the Form N-6 Requirements

(a) The requirements of Form N-6 are intended to promote effective communication between the Registrant and prospective investors. A Registrant's prospectus should clearly disclose the fundamental features and risks of the Variable Life Insurance Contracts, using concise, straightforward, and easy to understand language. A Registrant should use document design techniques that promote effective communication.

(b) The prospectus disclosure requirements in Form N-6 are intended to elicit information for an average or typical investor who may not be sophisticated in legal or financial matters. The prospectus should help investors to evaluate the risks of an investment and to decide whether to invest in a Variable Life Insurance Contract by providing a balanced disclosure of positive and negative factors. Disclosure in the prospectus should be designed to assist an investor in comparing and contrasting a Variable Life Insurance Contract with other Contracts.

(c) Responses to the Items in Form N-6 should be as simple and direct as reasonably possible and should include only as much information as is necessary to enable an average or typical investor to understand the particular characteristics of the Variable Life Insurance Contracts. The prospectus should avoid including lengthy legal and technical discussions and simply restating legal or regulatory requirements to which Contracts generally are subject. Brevity is especially important in describing the practices or aspects of the Registrant's operations that do not differ materially from those of other separate accounts. Avoid excessive detail, technical or legal terminology, and complex language. Also avoid lengthy sentences and paragraphs that may make the prospectus difficult for many investors to understand and detract from its usefulness.

(d) The requirements for prospectuses included in Form N-6 will be administered by the Commission in a way that will allow variances in disclosure or presentation if appropriate for the circumstances involved while remaining consistent with the objectives of Form N-6.

2. Form N-6 Is Divided Into Three Parts

(a) *Part A.* Part A includes the information required in a Registrant's prospectus under section 10(a) of the Securities Act. The purpose of the prospectus is to provide essential information about the Registrant and the Variable Life Insurance Contracts in a way that will help investors to make informed decisions about whether to purchase the securities described in the prospectus. In responding to the Items in Part A, avoid cross-references to the SAI. Cross-references within the prospectus are most useful when their use assists investors in understanding the information presented and does not add complexity to the prospectus.

(b) *Part B.* Part B includes the information required in a Registrant's SAI. The purpose of the SAI is to provide additional

information about the Registrant and the Variable Life Insurance Contracts that the Commission has concluded is not necessary or appropriate in the public interest or for the protection of investors to be in the prospectus, but that some investors may find useful. Part B affords the Registrant an opportunity to expand discussions of the matters described in the prospectus by including additional information that the Registrant believes may be of interest to some investors. The Registrant should not duplicate in the SAI information that is provided in the prospectus, unless necessary to make the SAI comprehensible as a document independent of the prospectus.

(c) *Part C.* Part C includes other information required in a Registrant's registration statement.

3. Additional Matters

(a) *Organization of Information.* Organize the information in the prospectus and SAI to make it easy for investors to understand. Disclose the information required by Items 2 and 3 (the Risk/Benefit Summary) in numerical order at the front of the prospectus, except that the information required by Item 3 (Risk/Benefit Summary: Fee Table) must precede the information required by Item 2 (Risk/Benefit Summary: Benefits and Risks) if the information in response to Item 2 exceeds five pages in length. Do not precede Items 2 and 3 with any other Item except the Cover Page (Item 1) or a table of contents meeting the requirements of rule 481(c) under the Securities Act [17 CFR 230.481(c)]. If the discussion in the Risk/Benefit Summary also responds to disclosure requirements in other items of the prospectus, a Registrant need not include additional disclosure in the prospectus that repeats the information in the Risk/Benefit Summary.

(b) *Other Information.* A Registrant may include, except in the Risk/Benefit Summary, information in the prospectus or the SAI that is not otherwise required. For example, a Registrant may include charts, graphs, or tables so long as the information is not incomplete, inaccurate, or misleading and does not, because of its nature, quantity, or manner of presentation, obscure or impede understanding of the information that is required to be included. Specifically, Registrants are free to include in the prospectus financial statements required to be in the SAI, and may include in the SAI financial statements that may be placed in Part C. The Risk/Benefit Summary may not include disclosure other than that required or permitted by Items 2 and 3.

(c) *Use of Form N-6 to Register Multiple Contracts or Contracts Sold in Both the Group and Individual Markets.*

(i) When disclosure is provided in a single prospectus for more than one Variable Life Insurance Contract, or for a Contract that is sold in both the group and individual markets, the disclosure should be presented in a format designed to communicate the information effectively. Registrants may order or group the response to any Item in any manner that organizes the information into readable and comprehensible segments and is consistent with the intent of the

prospectus to provide clear and concise information about the Registrants or Variable Life Insurance Contracts. Registrants are encouraged to use, as appropriate, tables, side-by-side comparisons, captions, bullet points, or other organizational techniques when presenting disclosure for multiple Variable Life Insurance Contracts or for Contracts sold in both the group and individual markets.

(ii) Paragraph (a) requires Registrants to disclose the information required by Items 2 and 3 in numerical order at the front of the prospectus and not to precede the Items with other information, except that the information required by Item 3 must precede the information required by Item 2 if the information in response to Item 2 exceeds five pages in length. As a general matter, Registrants providing disclosure in a single prospectus for more than one Variable Life Insurance Contract, or for Contracts sold in both the group and individual markets, may depart from the requirement of paragraph (a) as necessary to present the required information clearly and effectively (although the order of information required by each Item must remain the same and Registrants must comply with the requirement that Item 3 precede Item 2 if the response to Item 2 exceeds five pages in length). For example, the prospectus may present all of the Item 2 information for several Variable Life Insurance Contracts followed by all of the Item 3 information for the Contracts, except that the information required by Item 3 must precede the information required by Item 2 if the information in response to Item 2 exceeds five pages in length. Alternatively, the prospectus may present Items 2 and 3 for each of several Contracts sequentially, except that the information required by Item 3 for any Contract must precede the information required by Item 2 for that Contract if the information in response to Item 2 for that Contract exceeds five pages in length. Other presentations also would be acceptable if they are consistent with the Form's intent to disclose the information required by Items 2 and 3 in a standard order at the beginning of the prospectus and the requirement that the information required by Item 3 must precede the information required by Item 2 if the information in response to Item 2 exceeds five pages in length.

(d) *Dates.* Rule 423 under the Securities Act [17 CFR 230.423] applies to the dates of the prospectus and the SAI. The SAI should be made available at the same time that the prospectus becomes available for purposes of rules 430 and 460 under the Securities Act [17 CFR 230.430 and 230.460].

(e) *Sales Literature.* A Registrant may include sales literature in the prospectus so long as the amount of this information does not add substantial length to the prospectus and its placement does not obscure essential disclosure.

D. Incorporation by Reference

1. Specific Rules for Incorporation by Reference in Form N-6

(a) A Registrant may not incorporate by reference into a prospectus information that Part A of this Form requires to be included

in a prospectus, except as specifically permitted by Part A of the Form.

(b) A Registrant may incorporate by reference any or all of the SAI into the prospectus (but not to provide any information required by Part A to be included in the prospectus) without delivering the SAI with the prospectus.

(c) A Registrant may incorporate by reference into the SAI or its response to Part C information that Parts B and C require to be included in the Registrant's registration statement.

2. General Requirements

All incorporation by reference must comply with the requirements of this Form and the following rules on incorporation by reference: rule 10(d) of Regulation S-K under the Securities Act [17 CFR 229.10(d)] (general rules on incorporation by reference, which, among other things, prohibit, unless specifically required by this Form, incorporating by reference a document that includes incorporation by reference to another document, and limits incorporation to documents filed within the last 5 years, with certain exceptions); rule 411 under the Securities Act [17 CFR 230.411] (general rules on incorporation by reference in a prospectus); rule 303 of Regulation S-T [17 CFR 232.303] (specific requirements for electronically filed documents); and rules 0-4, 8b-23, and 8b-32 [17 CFR 270.0-4, 270.8b-23, and 270.8b-32] (additional rules on incorporation by reference for investment companies).

Part A: Information Required in a Prospectus

Item 1. Front and Back Cover Pages

(a) *Front Cover Page.* Include the following information, in plain English under rule 421(d) under the Securities Act [17 CFR 230.421(d)], on the outside front cover page of the prospectus:

- (1) The Registrant's name.
- (2) The Depositor's name.
- (3) The types of Variable Life Insurance Contracts offered by the prospectus (e.g., group, individual, scheduled premium, flexible premium).
- (4) The date of the prospectus.
- (5) The statement required by rule 481(b)(1) under the Securities Act.

Instruction. A Registrant may include on the front cover page any additional information, subject to the requirement set out in General Instruction C.3.(b).

(b) *Back Cover Page.* Include the following information, in plain English under rule 421(d) under the Securities Act [17 CFR 230.421(d)], on the outside back cover page of the prospectus:

(1) A statement that the SAI includes additional information about the Registrant. Explain that the SAI and, if available, personalized illustrations of death benefits, cash surrender values, and cash values, are available, without charge, upon request, and explain how contractowners may make inquiries about their Contracts. Provide a toll-free (or collect) telephone number for investors to call: to request the SAI and, if available, personalized illustrations; to request other information about the

Contracts; and to make contractowner inquiries.

Instructions.

1. A Registrant may indicate, if applicable, that the SAI and other information are available on its Internet site and/or by E-mail request.

2. A Registrant may indicate, if applicable, that the SAI and other information are available from an insurance agent or financial intermediary (such as a broker-dealer or bank) through which the Contracts may be purchased or sold.

3. When a Registrant (or an insurance agent or financial intermediary through which Contracts may be purchased or sold) receives a request for the SAI, the Registrant (or insurance agent or financial intermediary) must send the SAI within 3 business days of receipt of the request, by first-class mail or other means designed to ensure equally prompt delivery.

(2) A statement whether and from where information is incorporated by reference into the prospectus as permitted by General Instruction D. Unless the information is delivered with the prospectus, explain that the Registrant will provide the information without charge, upon request (referring to the telephone number provided in response to paragraph (b)(1)).

Instruction. The Registrant may combine the information about incorporation by reference with the statements required under paragraph (b)(1).

(3) A statement that information about the Registrant (including the SAI) can be reviewed and copied at the Commission's Public Reference Room in Washington, DC. Also state that information on the operation of the public reference room may be obtained by calling the Commission at 202-942-8090. State that reports and other information about the Registrant are available on the Commission's Internet site at <http://www.sec.gov> and that copies of this information may be obtained, upon payment of a duplicating fee, by writing the Public Reference Section of the Commission, 450 Fifth Street, NW, Washington, DC 20549-0102.

(4) The Registrant's Investment Company Act file number on the bottom of the back cover page in type size smaller than that generally used in the prospectus (e.g., 8-point modern type).

Item 2. Risk/Benefit Summary: Benefits and Risks

Include, in plain English under rule 421(d) under the Securities Act [17 CFR 230.421(d)], a concise description of the Contract, including, but not necessarily limited to, the following information:

(a) *Contract Benefits.* Summarize the benefits available under the Contract, including death benefits, withdrawal and surrender benefits, and loans.

(b) *Contract Risks.* Summarize the principal risks of purchasing a Contract, including the risks of poor investment performance, that Contracts are unsuitable as short-term savings vehicles, the risks of Contract lapse, limitations on access to cash value through withdrawals, and the possibility of adverse tax consequences.

(c) *Portfolio Company Risks.* A statement to the effect that a comprehensive discussion of the risks of each Portfolio Company may be found in the Portfolio Company's prospectus.

Instruction. Registrants may, but are not required to, include information about the Portfolio Companies in response to this Item 2.

Item 3. Risk/Benefit Summary: Fee Table

Include the following information, in plain English under rule 421(d) under the Securities Act [17 CFR 230.421(d)], after Item 2:

The following tables describe the fees and expenses that you will pay when buying, owning, and surrendering the Policy. The first table describes the fees and expenses that you will pay at the time that you buy the Policy, surrender the Policy, or transfer cash value between investment options.

TRANSACTION FEES

Charge	When charge is deducted	Amount deducted
Maximum Sales Charge Imposed on Premiums (Load)		
Premium Taxes		
Maximum Deferred Sales Charge (Load)		
Other Surrender Fees		
Transfer Fees		

The next table describes the fees and expenses that you will pay periodically during the time that you own the Policy, not including [Portfolio Company] fees and expenses.

PERIODIC CHARGES OTHER THAN [PORTFOLIO COMPANY] OPERATING EXPENSES

Charge	When charge is deducted	Amount deducted
Cost of Insurance*: Minimum and Maximum Charge for a [Representative Contractowner]		
Annual Maintenance Fee		
Mortality and Expense Risk Fees		
Administrative Fees		

*[Footnote: Include disclosure required by Instruction 3(b).]

The next table describes the [Portfolio Company] fees and expenses that you will pay periodically during the time that you own the Policy. The table shows the minimum and maximum fees and expenses charged by any of the [Portfolio Companies]. More detail concerning each [Portfolio Company's] fees and expenses is contained in the prospectus for each [Portfolio Company].

**ANNUAL [PORTFOLIO COMPANY]
OPERATING EXPENSES**

[Expenses that are deducted from [Portfolio Company] assets]

	Minimum	Maximum
Management Fees	_____ %	_____ %
Distribution [and/ or Service] (12b-1) Fees	_____ %	_____ %
Other Expenses	_____ %	_____ %
Total Annual [Portfolio Company] Operating Expenses	_____ %	_____ %

Instructions.

1. General.

(a) Round all dollar figures to the nearest dollar and all percentages to the nearest hundredth of one percent.

(b) Include the narrative explanations in the order indicated. A Registrant may modify a narrative explanation if the explanation contains comparable information to that shown.

(c) A Registrant may omit captions if the Registrant does not charge the fees or expenses covered by the captions. A Registrant may modify or add captions if the captions shown do not provide an accurate description of the Registrant's fees and expenses.

(d) If a Registrant uses one prospectus to offer a Contract in both the group and individual variable life markets, the Registrant may include narrative disclosure in a footnote or following the tables identifying markets where certain fees are either inapplicable or waived or lower fees are charged. In the alternative, a Registrant may present the information for group and individual contracts in another format consistent with General Instruction C.3.(c).

(e) The "When Charge is Deducted" column must be used to show when a charge is deducted, e.g., upon purchase, surrender or partial surrender, policy anniversary, monthly, or daily.

(f) Under the "Amount Deducted" column, the Registrant must disclose the maximum guaranteed charge unless a specific instruction directs otherwise. The Registrant should include the basis on which the charge is imposed (e.g., 0.95% of average daily net assets, \$5 per exchange, \$5 per thousand dollars of face amount). The Registrant may disclose the current charge, in addition to the maximum charge, if the disclosure of the current charge is no more prominent than,

and does not obscure or impede understanding of the disclosure of the maximum charge. In addition, the Registrant may include in a footnote to the table a tabular, narrative, or other presentation providing further detail regarding variations in the charge. For example, if deferred sales charges decline over time, the Registrant may include in a footnote a presentation regarding the scheduled reductions in the deferred sales charges. Charges assessed on the basis of the face amount should be disclosed as the charge per \$1000 of face amount.

2. Transaction Fees.

(a) "Other Surrender Fees" include any fees charged for surrender or partial surrender, other than sales charges imposed upon surrender or partial surrender.

(b) "Transfer Fees" include any fees charged for any transfer or exchange of cash value from the Registrant to another investment company, from one sub-account of the Registrant to another sub-account or the Depositor's general account, or from the Depositor's general account to the Registrant.

(c) If the Registrant (or any other party pursuant to an agreement with the Registrant) charges any other transaction fee, add another caption describing it and complete the other columns of the table for that fee.

3. Periodic Charges Other Than [Portfolio Company] Operating Expenses.

(a) The Registrant may substitute the term used in the prospectus to refer to the Portfolio Companies for the bracketed portion of the caption provided.

(b) For "Cost of Insurance" and any other charges that depend on Contractowner characteristics, such as age or rating classification, the Registrant should disclose the minimum and maximum charges that may be imposed for a Contract, and the charges that may be paid by a representative Contractowner, using appropriate sub-captions. In a footnote to the table, disclose (i) that the cost of insurance or other charge varies based on individual characteristics; (ii) that the cost of insurance charge or other charge shown in the table may not be representative of the charge that a particular Contractowner will pay; and (iii) how the Contractowner may obtain more information about the particular cost of insurance or other charges that would apply to him or her.

(i) In disclosing cost of insurance or other charges that depend on Contractowner characteristics for a representative Contractowner, the Registrant should assume characteristics (e.g., sex, age, and rating classification) that are fairly representative of actual or expected Contract sales, and describe these characteristics in the sub-caption for the charge (e.g., "charge for a 40-year-old non-smoking female"). The rating classification used for the representative Contractowner should be the classification with the greatest number of outstanding Contracts (or expected Contracts in the case of a new Contract), unless this rating classification is not fairly representative of actual or expected Contract sales. In this case, the Registrant should use a commonly used rating classification that is fairly representative of actual or expected Contract sales.

(ii) The Registrant may supplement this disclosure of the minimum charges,

maximum charges, and charges for a representative Contractowner with additional disclosure immediately following the fee table. For example, the additional disclosure may include an explanation of the factors that affect the cost of insurance or other charge or tables showing the cost of insurance or other charge for a spectrum of representative Contractowners.

(c) "[Annual] Maintenance Fee" includes any Contract, account, or similar fee imposed on any recurring basis. Any non-recurring Contract, account, or similar fee should be included in the "Transaction Fees" table.

(d) "Mortality and Expense Risk Fees" may be listed separately on two lines in the table.

(e) If the Registrant (or any other party pursuant to an agreement with the Registrant) imposes any other recurring charge other than annual Portfolio Company Operating Expenses, add another caption describing it and complete the other columns of the table for that charge.

4. Annual [Portfolio Company] Operating Expenses.

(a) The Registrant may substitute the term used in the prospectus to refer to the Portfolio Companies for the bracketed portion of the caption provided.

(b) If a Registrant has multiple sub-accounts, it should disclose the minimum and maximum expenses of any Portfolio Companies for each line item. For example, if a Registrant has five sub-accounts with management fees of 0.50%, 0.70%, 1.00%, 1.10%, and 1.25%, respectively, it should disclose that management fees range from 0.50% to 1.25%. The minimum and maximum amounts disclosed for "Total Annual [Portfolio Company] Operating Expenses" should be the minimum and maximum "Total Annual [Portfolio Company] Operating Expenses" for any Portfolio Company, and not the sum of the minimum and maximum amounts disclosed for the individual line items. For example, assume a Registrant has three sub-accounts. Sub-account 1 has management fees of 0.50%, 12b-1 fees of 0.25%, other expenses of 0.30%, and total expenses of 1.05%; sub-account 2 has management fees of 0.90%, 12b-1 fees of 0.00%, other expenses of 0.25%, and total expenses of 1.15%; and sub-account 3 has management fees of 1.00%, 12b-1 fees of 0.00%, other expenses of 0.25%, and total expenses of 1.25%. The minimum and maximum amounts to be disclosed in the table are: management fees—0.50%–1.00%; 12b-1 fees—0.00%–0.25%; other expenses—0.25%–0.30%; total annual [Portfolio Company] operating expenses—1.05%–1.25%. The total annual [Portfolio Company] operating expenses are the expenses of sub-accounts 1 and 3, respectively, not the sum of the minimum and maximum amounts disclosed for the individual line items, which would be 0.75%–1.55%.

(c) "Management Fees" include investment advisory fees (including any fees based on a Portfolio Company's performance), any other management fees payable to a Portfolio Company's investment adviser or its affiliates, and administrative fees payable to a Portfolio Company's investment adviser or its affiliates that are not included as "Other Expenses."

(d) "Distribution [and/or Service] (12b-1) Fees" include all distribution or other expenses incurred during the most recent fiscal year under a plan adopted pursuant to rule 12b-1 [17 CFR 270.12b-1].

(e)(i) "Other Expenses" include all expenses not otherwise disclosed in the table that are deducted from a Portfolio Company's assets. The amount of expenses deducted from a Portfolio Company's assets are the amounts shown as expenses in the Portfolio Company's statement of operations (including increases resulting from complying with paragraph 2(g) of rule 6-07 of Regulation S-X [17 CFR 210.6-07]).

(ii) "Other Expenses" do not include extraordinary expenses as determined under generally accepted accounting principles (see Accounting Principles Board Opinion No. 30). If extraordinary expenses were incurred by any Portfolio Company that would, if included, materially affect the minimum or maximum amounts shown in the table, disclose in a footnote to the table what the minimum and maximum "Other Expenses" would have been had the extraordinary expenses been included.

(f)(i) Base the percentages of "Annual [Portfolio Company] Operating Expenses" on amounts incurred during the most recent fiscal year, but include in expenses amounts that would have been incurred absent expense reimbursement or fee waiver arrangements. If a Portfolio Company has a fiscal year different from that of the Registrant, base the expenses on those incurred during either the period that corresponds to the fiscal year of the Registrant, or the most recently completed fiscal year of the Portfolio Company. If the Registrant or a Portfolio Company has changed its fiscal year and, as a result, the most recent fiscal year is less than three months, use the fiscal year prior to the most recent fiscal year as the basis for determining "Annual [Portfolio Company] Operating Expenses."

(ii) If there have been any changes in "Annual [Portfolio Company] Operating Expenses" that would materially affect the information disclosed in the table:

(A) Restate the expense information using the current fees as if they had been in effect during the previous fiscal year; and

(B) In a footnote to the table, disclose that the expense information in the table has been restated to reflect current fees.

(iii) A change in "Annual [Portfolio Company] Operating Expenses" means either an increase or a decrease in expenses that occurred during the most recent fiscal year or that is expected to occur during the current fiscal year. A change in "Annual [Portfolio Company] Operating Expenses" does not include a decrease in operating expenses as a percentage of assets due to economies of scale or breakpoints in a fee arrangement resulting from an increase in a Portfolio Company's assets.

(g) A Registrant may reflect minimum and maximum actual [Portfolio Company] operating expenses that include expense reimbursement or fee waiver arrangements in a footnote to the table. If the Registrant provides this disclosure, also disclose the period for which the expense reimbursement

or fee waiver arrangement is expected to continue, or whether it can be terminated at any time at the option of a Portfolio Company.

(h) A Registrant may include additional tables showing annual operating expenses separately for each Portfolio Company immediately following the required table of "Annual [Portfolio Company] Operating Expenses." The additional tables should be prepared in the format, and in accordance with the Instructions, prescribed in Item 3 of Form N-1A [17 CFR 239.15A; 17 CFR 274.11A] for disclosing "Annual Fund Operating Expenses."

5. *New Registrants.* For purposes of this Item, a "New Registrant" is a Registrant (or sub-account of the Registrant) that does not include in Form N-6 financial statements reporting operating results or that includes financial statements for the Registrant's (or sub-account's) initial fiscal year reporting operating results for a period of 6 months or less. The following Instructions apply to New Registrants.

(a) Base the percentages in "Annual [Portfolio Company] Operating Expenses" on payments that will be made, but include in expenses amounts that will be incurred without reduction for expense reimbursement or fee waiver arrangements, estimating amounts of "Other Expenses." Disclose in a footnote to the table that "Other Expenses" are based on estimated amounts for the current fiscal year.

(b) A New Registrant may reflect in a footnote to the table expense reimbursement or fee waiver arrangements that are expected to reduce any minimum or maximum [Portfolio Company] operating expense or the estimate of minimum or maximum "Other Expenses" (regardless of whether the arrangement has been guaranteed). If the New Registrant provides this disclosure, also disclose the period for which the expense reimbursement or fee waiver arrangement is expected to continue, or whether it can be terminated at any time at the option of a Portfolio Company.

Item 4. General Description of Registrant, Depositor, and Portfolio Companies

Concisely discuss the organization and operation or proposed operation of the Registrant. Include the information specified below.

(a) *Depositor.* Provide the name and address of the Depositor.

(b) *Registrant.* Briefly describe the Registrant. Include a statement indicating that:

(1) Income, gains, and losses credited to, or charged against, the Registrant reflect the Registrant's own investment experience and not the investment experience of the Depositor's other assets;

(2) The assets of the Registrant may not be used to pay any liabilities of the Depositor other than those arising from the Contracts; and

(3) The Depositor is obligated to pay all amounts promised to Contractowners under the Contracts.

(c) *Portfolio Companies.* Briefly describe the Registrant's sub-accounts and each Portfolio Company. For each Portfolio Company, include:

(1) Its name;

(2) Its type (e.g., money market fund, bond fund, balanced fund, etc.) or a brief statement concerning its investment objectives; and

(3) Its investment adviser and any sub-investment adviser.

Instructions.

1. Do not describe sub-accounts that fund obligations of the Depositor under contracts that are not offered by this prospectus.

2. Registrants are not required to include detailed information about Portfolio Companies in the prospectus. If a Portfolio Company's name describes its type, a Registrant need not separately provide the Portfolio Company's type or a statement concerning its investment objectives.

(d) *Portfolio Company Prospectus.* State conspicuously how investors may obtain a prospectus and, if available, a fund profile, containing more complete information on each Portfolio Company.

(e) *Voting.* Concisely discuss the rights of Contractowners to instruct the Depositor on the voting of shares of the Portfolio Companies, including the manner in which votes will be allocated.

Item 5. Charges

(a) *Description.* Briefly describe all charges deducted from premiums, cash value, assets of the Registrant, or any other source (e.g., sales loads, premium and other taxes, administrative and transaction charges, risk charges, contract loan charges, cost of insurance, and rider charges). Indicate whether each charge will be deducted from premium payments, cash value, the Registrant's assets, the proceeds of withdrawals or surrenders, or some other source. When possible, specify the amount of any charge as a percentage or dollar figure (e.g., 0.95% of average daily net assets, \$5 per exchange, \$5 per thousand dollars of face amount). For recurring charges, specify the frequency of the deduction (e.g., daily, monthly, annually). Identify the person who receives the amount deducted, briefly explain what is provided in consideration for the charges, and explain the extent to which any charge can be modified. Where it is possible to identify what is provided in consideration for a particular charge (e.g., use of sales load to pay distribution costs, use of cost of insurance charge to pay for insurance coverage), please explain what is provided in consideration for that charge separately.

Instructions.

1. Describe the sales loads applicable to the Contract and how sales loads are charged and calculated, including the factors affecting the computation of the amount of the sales load. If the Contract has a front-end sales load, describe the sales load as a percentage of the applicable measure of premium payments (e.g., actual premiums paid, target or guideline premiums). For Contracts with a deferred sales load, describe the sales load as a percentage of the applicable measure of premium payments (or other basis) that the deferred sales load may represent. Percentages should be shown in a table. Identify any events on which a deferred sales load is deducted (e.g., surrender, partial surrender, increase or decrease in face amount). The description of any deferred

sales load should include how the deduction will be allocated among sub-accounts of the Registrant and when, if ever, the sales load will be waived (e.g., if the Contract provides a free withdrawal amount).

2. Identify the factors that determine the applicable cost of insurance rate. Specify whether the mortality charges guaranteed in the contracts differ from the current charges. Identify the factors that affect the amount at risk, including investment performance, payment of premiums, and charges. Disclose how the cost of insurance charge is calculated based on the cost of insurance rate, amount at risk, and any other applicable factors. If the Depositor intends to use simplified underwriting or other underwriting methods that would cause healthy individuals to pay higher cost of insurance rates than they would pay under a substantially similar policy that is offered by the Depositor using different underwriting methods, state that the cost of insurance rates are higher for healthy individuals when this method of underwriting is used than under the substantially similar policy.

3. If the Contract's charge for premium or other taxes varies according to jurisdiction, identification of the range of current premium or other taxes is sufficient.

4. Identify charges that may be different in amount or method of computation when imposed in connection with, or subsequent to, increases in face amount of a Contract and briefly describe the differences.

(b) *Portfolio Company Charges.* State that charges are deducted from and expenses paid out of the assets of the Portfolio Companies that are described in the prospectuses for those companies.

(c) *Incidental Insurance Charges.* If incidental insurance benefits (as defined in Rules 6e-2 and 6e-3(T) [17 CFR 270.6e-2, 17 CFR 270.6e-3(T)]) are offered along with the Contract, state that charges also will be made for those benefits.

Item 6. General Description of Contracts

(a) *Contract Rights.* Identify the person or persons (e.g., the Contractowner, insured, or beneficiary) who have material rights under the Contracts, and the nature of those rights.

(b) *Contract Limitations.* Briefly describe any provisions for and limitations on:

(1) Allocation of premiums among sub-accounts of the Registrant;

(2) Transfer of Contract values between sub-accounts of the Registrant; and

(3) Conversion or exchange of Contracts for another contract, including a fixed or variable annuity or life insurance contract.

Instruction. In discussing conversion or exchange of Contracts, the Registrant should include any time limits on conversion or exchange, the name of the company issuing the other contract and whether that company is affiliated with the issuer of the Contract, and how the cash value of the Contract will be affected by the conversion or exchange.

(c) *Contract or Registrant Changes.* Briefly describe the changes that can be made in the Contracts or the operations of the Registrant by the Registrant or the Depositor, including:

(1) Why a change may be made (e.g., changes in applicable law or interpretations of law);

(2) Who, if anyone, must approve any change (e.g., the Contractowner or the Commission); and

(3) Who, if anyone, must be notified of any change.

Instruction. Describe only those changes that would be material to a purchaser of the Contracts, such as a reservation of the right to deregister the Registrant under the Investment Company Act. Do not describe possible non-material changes, such as changing the time of day at which Contract values are determined.

(d) *Other Benefits.* Identify any other material incidental benefits in the Contracts.

(e) *Class of Purchasers.* Disclose any limitations on the class or classes of purchasers to whom the Contracts are being offered.

Item 7. Premiums

(a) *Purchase Procedures.* Describe the provisions of the Contract that relate to premiums and the procedures for purchasing a Contract, including:

(1) The minimum initial and subsequent premiums required and any limitations on the amount and the frequency of premiums that will be accepted. If there are separate limits for each sub-account, state these limits;

(2) Whether required premiums, if any, are payable for the life of the Contract or some other term;

(3) Whether payment of certain levels of premiums will guarantee that the Contract will not lapse regardless of the Contract's cash value;

(4) If applicable, under what circumstances premiums may be required in order to avoid lapse and how the amount of the additional premiums will be determined;

(5) If applicable, under what circumstances nonpayment of a required premium will not cause the Contract to lapse;

(6) If applicable, under what circumstances premiums in addition to the required premiums will be permitted; and

(7) If applicable, whether the level of the Contract's required premiums may change and, if so, how the amount of the change will be determined.

(b) *Premium Amount.* Briefly describe the factors that determine the amount of any required premiums (e.g., face amount, death benefit option, and charges and expenses).

(c) *Premium Payment Plans.* Identify the premium payment plans available. Include the available payment frequencies, payment facilities such as employee payroll deduction plans and preauthorized checking arrangements, and any special billing arrangements. Indicate whether the premium payment plan or schedule may be changed.

(d) *Premium Due Dates.* Briefly explain the provisions of the Contract that relate to premium due dates and the operation of any grace period, including the effect of the insured's death during the grace period.

(e) *Automatic Premium Loans.* If applicable, briefly describe the circumstances under which required premiums may be paid by means of an automatic premium loan.

(f) *Sub-Account Valuation.* Describe the procedures for valuing sub-account assets, including:

(1) An explanation of when the required premiums and additional premiums are

credited to the Contract's cash value in the sub-accounts, and the basis (e.g., accumulation unit value) on which premiums are credited;

(2) An explanation, to the extent applicable, that premiums are credited to the Contract's cash value on the basis of the sub-account valuation next determined after receipt of a premium;

Instruction. If, in any case, a delay occurs between the receipt of premiums and the crediting of premiums to the sub-accounts (e.g., a delay during the "free-look" period), describe where the premiums are held in the interim.

(3) An explanation of when valuations of the assets of the sub-accounts are made; and

(4) A statement identifying in a general manner any national holidays when sub-account assets will not be valued and specifying any additional local or regional holidays when sub-account assets will not be valued.

Instruction. In responding to this paragraph, a Registrant may use a list of specific days or any other means that effectively communicates the information (e.g., explaining that sub-account assets will not be valued on the days on which the New York Stock Exchange is closed for trading).

Item 8. Death Benefits and Contract Values

(a) *Death Benefits.* Briefly describe the death benefits available under the Contract.

Instruction. Include:

(i) When insurance coverage is effective;

(ii) When the death benefit is calculated and payable;

(iii) How the death benefit is calculated;

(iv) Who has the right to choose the form of benefit and the procedure for choosing the form of benefit, including when the choice is made and whether the choice is revocable;

(v) The forms the benefit may take and the form of benefit that will be provided if a particular form has not been elected; and

(vi) Whether there is a minimum death benefit guarantee associated with the Contract.

Also describe if and how a Contractowner may increase or decrease the face amount, including the minimum and the maximum amounts, any requirement of additional evidence of insurability, and whether charges, including sales load, are affected.

(b) *Charges and Contract Values.* Explain how the investment performance of the Portfolio Companies, expenses, and deduction of charges affect Contract values and death benefits.

Item 9. Surrenders, Partial Surrenders, and Partial Withdrawals

(a) *Surrender.* Briefly describe how a Contractowner can surrender a Contract, including any limits on the ability to surrender, how the proceeds are calculated, and when they are payable.

(b) *Partial Surrender and Withdrawal.* Indicate generally whether and under what circumstances partial surrenders and partial withdrawals are available under a Contract, including the minimum and maximum amounts that may be surrendered or withdrawn, any limits on their availability, how the proceeds are calculated, and when the proceeds are payable.

(c) *Effect of Partial Surrender and Withdrawal.* Briefly describe whether partial surrenders or partial withdrawals will affect a Contract's cash value or death benefit and whether any charge(s) will apply.

(d) *Sub-Account Allocation.* Describe how partial surrenders and partial withdrawals will be allocated among the sub-accounts.

Instruction. The Registrant should generally describe the terms and conditions that apply to these transactions. Technical information regarding the determination of amounts available to be surrendered or withdrawn should be included in the SAI.

(e) *Revocation Rights.* Briefly describe any revocation rights (e.g., "free-look" provisions), including a description of how the amount refunded is determined, the method for crediting earnings to premiums during the free-look period, and whether investment options are limited during the free-look period.

Item 10. Loans

Briefly describe the loan provisions of the Contract, including any of the following that are applicable.

(a) *Availability of Loans.* A brief statement that a portion of the Contract's cash surrender value may be borrowed.

(b) *Limitations.* Any limits on availability of loans (e.g., a prohibition on loans during the first contract year).

(c) *Interest.* A statement of the amount of interest charged on the loan and the amount of interest credited to the Contract in connection with the loaned amount.

(d) *Effect on Cash Value and Death Benefit.* A brief explanation that amounts borrowed under a Contract do not participate in a Registrant's investment experience and that loans, therefore, can affect the Contract's cash value and death benefit whether or not the loan is repaid. Also, a brief explanation that the cash surrender value and the death proceeds payable will be reduced by the amount of any outstanding Contract loan plus accrued interest.

(e) *Procedures.* The loan procedures, including how and when amounts borrowed are transferred out of the Registrant and how and when amounts repaid are credited to the Registrant.

Item 11. Lapse and Reinstatement

(a) *Lapse.* State when and under what circumstances a Contract will lapse.

(b) *Lapse Options.* Describe briefly any lapse options available. Indicate those that will not apply unless they are elected and those that will apply in the absence of an election. Indicate whether the availability of any of the lapse options is limited.

(c) *Effect of Lapse.* Describe briefly the factors that will determine the amount of insurance coverage provided under the available lapse options. Describe concisely how the cash value, surrender value, and death benefit will be determined. If these values and benefits will be determined in the same manner as prior to lapse, a statement to that effect is sufficient.

(d) *Reinstatement.* State under what circumstances a Contract may be reinstated. Explain any requirements for reinstatement, including charges to be paid by the Contractowner, outstanding loan repayments, and evidence of insurability.

Item 12. Taxes

(a) *Tax Consequences.* Describe the material tax consequences to the Contractowner and beneficiary of buying, holding, exchanging, or exercising rights under the Contract.

Instruction. Discuss the taxation of death benefit proceeds, periodic and non-periodic withdrawals, loans, and any other distribution that may be received under the Contract, as well as the tax benefits accorded the Contract and other material tax consequences. Describe, if applicable, whether the tax consequences vary with different uses of the Contract.

(b) *Effect.* Describe the effect, if any, of taxation on the determination of cash values or sub-account values.

Item 13. Legal Proceedings

Describe any material pending legal proceedings, other than ordinary routine litigation incidental to the business, to which the Registrant, the Registrant's principal underwriter, or the Depositor is a party. Include the name of the court in which the proceedings are pending, the date instituted, the principal parties involved, a description of the factual basis alleged to underlie the proceeding, and the relief sought. Include similar information as to any legal proceedings instituted, or known to be contemplated, by a governmental authority.

Instruction. For purposes of this requirement, legal proceedings are material only to the extent that they are likely to have a material adverse effect on the Registrant, the ability of the principal underwriter to perform its contract with the Registrant, or the ability of the Depositor to meet its obligations under the Contracts.

Item 14. Financial Statements

If all of the required financial statements of the Registrant and the Depositor (see Item 24) are not in the prospectus, state, under a separate caption, where the financial statements may be found. Briefly explain how investors may obtain any financial statements not in the Statement of Additional Information.

Part B: Information Required in a Statement of Additional Information

Item 15. Cover Page and Table of Contents

(a) *Front Cover Page.* Include the following information on the outside front cover page of the SAI:

- (1) The Registrant's name.
- (2) The Depositor's name.
- (3) A statement or statements:
 - (A) That the SAI is not a prospectus;
 - (B) How the prospectus may be obtained; and
 - (C) Whether and from where information is incorporated by reference into the SAI, as permitted by General Instruction D.

Instruction. Any information incorporated by reference into the SAI must be delivered with the SAI.

(4) The date of the SAI and of the prospectus to which the SAI relates.

(b) *Table of Contents.* Include under appropriate captions (and subcaptions) a list of the contents of the SAI and, when useful, provide cross-references to related disclosure in the prospectus.

Item 16. General Information and History

(a) *Depositor.* Provide the date and form of organization of the Depositor, the name of the state or other jurisdiction in which the Depositor is organized, and a description of the general nature of the Depositor's business.

Instruction. The description of the Depositor's business should be short and need not list all of the businesses in which the Depositor engages or identify the jurisdictions in which it does business if a general description (e.g., "life insurance" or "reinsurance") is provided.

(b) *Registrant.* Provide the date and form of organization of the Registrant and the Registrant's classification pursuant to Section 4 [15 U.S.C. 80a-4] (i.e., a separate account and a unit investment trust).

(c) *History of Depositor and Registrant.* If the Depositor's name was changed during the past five years, state its former name and the approximate date on which it was changed. If, at the request of any state, sales of contracts offered by the Registrant have been suspended at any time, or if sales of contracts offered by the Depositor have been suspended during the past five years, briefly describe the reasons for and results of the suspension. Briefly describe the nature and results of any bankruptcy, receivership, or similar proceeding, or any other material reorganization, readjustment, or

succession of Depositor during the past five years.

(d) *Ownership of Sub-Account Assets.* If 10 percent or more of the assets of any sub-account are not attributable to Contracts or to accumulated deductions or reserves (e.g., initial capital contributed by the Depositor), state what percentage those assets are of the total assets of the Registrant. If the Depositor, or any other person controlling the assets, has any present intention of removing the assets from the sub-account, so state.

(e) *Control of Depositor.* State the name of each person who controls the Depositor and the nature of its business.

Instruction. If the Depositor is controlled by another person that, in turn, is controlled by another person, give the name of each control person and the nature of its business.

Item 17. Services

(a) *Expenses Paid by Third Parties.* Describe all fees, expenses, and costs of the Registrant that are to be paid by persons other than the Depositor or the Registrant, and identify those persons.

(b) *Service Agreements.* Summarize the substantive provisions of any management-related service contract that may be of interest to a purchaser of the Registrant's securities, under which services are provided to the Registrant, unless the contract is described in response to some other item of this form. Indicate the parties to the contract, and the total dollars paid and by whom for each of the past three years.

Instructions.

1. The term "management-related service contract" includes any contract with the Registrant to keep, prepare, or file accounts, books, records, or other documents required under federal or state law, or to provide any similar services with respect to the daily administration of the Registrant, but does not include the following:

(a) Any agreement with the Registrant to act as custodian or agent to administer purchases and redemptions under the Contracts; and

(b) Any contract with the Registrant for outside legal or auditing services, or contract for personal employment entered into with the Registrant in the ordinary course of business.

2. In summarizing the substantive provisions of any management-related service contract, include the following:

(a) The name of the person providing the service;

(b) The direct or indirect relationships, if any, of the person with the Registrant, its Depositor, or its principal underwriter; and

(c) The nature of the services provided, and the basis of the compensation paid for the services for the Registrant's last three fiscal years.

(c) *Other Service Providers.*

(1) Unless disclosed in response to paragraph (b) or another item of this form, identify and state the principal business address of any person who provides significant administrative or business affairs management services for the Registrant (e.g., an "Administrator," "Sub-Administrator," "Servicing Agent"), describe the services provided, and the compensation paid for the services.

(2) State the name and principal business address of the Registrant's custodian and independent public accountant and describe generally the services performed by each.

(3) If the Registrant's assets are held by a person other than the Depositor, a commercial bank, trust company, or depository registered with the Commission as custodian, state the nature of the business of that person.

(4) If an affiliated person of the Registrant or the Depositor, or an affiliated person of the affiliated person, acts as administrative or servicing agent for the Registrant, describe the services the person performs and the basis for remuneration. State, for the past three years, the total dollars paid for the services, and by whom.

Instruction. No disclosure need be given in response to paragraph (c)(4) of this item for an administrative or servicing agent who is also the Depositor.

(5) If the Depositor is the principal underwriter of the Contracts, so state.

Item 18. Premiums

(a) *Administrative Procedures.* Discuss generally the Registrant's administrative rules applicable to premium payments, to the extent that they are not discussed in the prospectus.

Instruction. Examples include information regarding any condition applicable to changes in premium payment schedules, any limitations on prepayments of premiums, any relevant rules for classifying payments made other than in response to a bill or in an amount other than the amount billed for, etc.

(b) *Automatic Premium Loans.* If the contract provides an automatic premium loan option, describe the option, including the circumstances under which it will be used to pay a required premium and whether, and how, interest will be charged on the loan. Describe any effect not described in the prospectus that an automatic

premium loan could have on the Contract (e.g., how automatic premium loans affect cash value).

Item 19. Additional Information About Operation of Contracts and Registrant

(a) *Incidental Benefits.* To the extent not described in the prospectus, explain the manner in which the purchase or operation of other incidental benefits affects the exercise of rights and the determination of benefits under the Contract such as whether the Contract or any rider provides for a change of insured or for all or a portion of the death benefit to be paid while the insured is still alive.

(b) *Surrender and Withdrawal.* To the extent not described in the prospectus, explain the Contract's surrender and withdrawal provisions.

(c) *Material Contracts Relating to the Registrant.* Disclose any material contract relating to the operation or administration of the Registrant.

Item 20. Underwriters

(a) *Identification.* Identify each principal underwriter (other than the Depositor) of the Contracts, and state its principal business address. If the principal underwriter is affiliated with the Registrant, the Depositor, or any affiliated person of the Registrant or the Depositor, identify how they are affiliated (e.g., the principal underwriter is controlled by the Depositor).

(b) *Offering and Commissions.* For each principal underwriter distributing Contracts of the Registrant, state:

(1) Whether the offering is continuous; and

(2) the aggregate dollar amount of underwriting commissions paid to, and the amount retained by, the principal underwriter for each of the Registrant's last three fiscal years.

(c) *Other Payments.* With respect to any payments made by the Registrant to an underwriter of or dealer in the Contracts during the Registrant's last fiscal year, disclose the name and address of the underwriter or dealer, the amount paid and basis for determining that amount, the circumstances surrounding the payments, and the consideration received by the Registrant. Do not include information about:

(1) Payments made through deduction from premiums paid at the time of sale of the Contracts; or

(2) Payments made from cash values upon full or partial surrender of the Contracts or from an increase or decrease in the face amount of the Contracts.

Instructions.

1. Information need not be given about the service of mailing proxies or periodic reports of the Registrant.

2. Information need not be given about any service for which total payments of less than \$5,000 were made during each of the Registrant's last three fiscal years.

3. Information need not be given about payments made under any contract to act as administrative or servicing agent.

4. If the payments were made under an arrangement or policy applicable to dealers generally, describe only the arrangement or policy.

(d) *Commissions to Dealers.* State the commissions paid to dealers as a percentage of premiums.

Item 21. Additional Information About Charges

(a) *Sales Load.* Describe the method that will be used to determine the sales load on the Contracts offered by the Registrant.

(b) *Special Purchase Plans.* Describe any special purchase plans (e.g., group life insurance plans) or methods that reflect scheduled variations in, or elimination of, any applicable charges (e.g., group discounts, waiver of deferred sales loads for a specified percentage of cash value, investment of proceeds from another Contract, exchange privileges, employee benefit plans, or the terms of a merger, acquisition, or exchange offer made pursuant to a plan of reorganization). Identify each class of individuals or transactions to which the plans or methods apply, including officers, directors, members of the board of managers, or employees of the Depositor, underwriter, Portfolio Companies, or investment adviser to Portfolio Companies, and the amount of the reductions, and state from whom additional information may be obtained. For special purchase plans or methods that reflect variations in, or elimination of, charges other than according to a fixed schedule, describe the basis for the variation or elimination (e.g., the size of the purchaser, a prior existing relationship with the purchaser, the purchaser's assumption of certain administrative functions, or other characteristics that result in differences in costs or services).

(c) *Underwriting Procedures.* Briefly identify underwriting procedures used in connection with the Contract and any effect of different types of underwriting on the charges in the Contract. Specify the basis of the mortality charges guaranteed in the Contracts.

(d) *Increases in Face Amount.* Describe in more detail the charges

assessed on increases in face amount, including the procedures used following an increase in face amount to allocate cash values and premium payments between the original Contract and incremental Contracts.

Item 22. Lapse and Reinstatement

To the extent that the prospectus does not do so, describe the lapse and reinstatement provisions of the Contract. Include a discussion of any time limits that apply, how the charge to reinstate is determined, and any other conditions that apply to reinstatement. Describe the features of any lapse options not described in the prospectus, including any factors that will determine the amount or duration of the insurance coverage, and the limitations and conditions on availability of each lapse option. Identify which contract transactions (e.g., loans, partial withdrawals and surrenders, transfers) are available while the Contract is continued under a lapse option. Indicate when limits on contract transactions are different from those that apply prior to lapse.

Item 23. Loans

(a) *Loan Provisions.* To the extent that the prospectus does not do so, explain the loan provisions of the Contract.

(b) *Amount Available.* State how the amount available for a policy loan is calculated.

(c) *Effect on Cash Value and Sub-Accounts.* Describe how loans and loan repayments affect cash value and how they are allocated among the sub-accounts.

(d) *Interest.* Describe how interest accrues on the loan, when it is payable, and how interest is treated if not paid. Explain how interest earned on the loaned amount is credited to the Contract and allocated to the sub-accounts.

(e) *Other Effects.* Describe any other effect not already described in the prospectus that a loan could have on the Contract (e.g., the effect of a Contract loan in excess of cash value).

Item 24. Financial Statements

(a) *Registrant.* Provide financial statements of the Registrant.

Instruction. Include, in a separate section, the financial statements and schedules required by Regulation S-X [17 CFR 210]. Financial statements of the Registrant may be limited to:

(i) An audited balance sheet or statement of assets and liabilities as of the end of the most recent fiscal year;

(ii) An audited statement of operations for the most recent fiscal year conforming to the requirements of Rule

6-07 of Regulation S-X [17 CFR 210.6-07];

(iii) An audited statement of cash flows for the most recent fiscal year if necessary to comply with generally accepted accounting principles; and

(iv) Audited statements of changes in net assets conforming to the requirements of Rule 6-09 of Regulation S-X [17 CFR 210.6-09] for the two most recent fiscal years.

(b) *Depositor.* Provide financial statements of the Depositor.

Instructions.

1. Include, in a separate section, the financial statements and schedules of the Depositor required by Regulation S-X. If the Depositor would not have to prepare financial statements in accordance with generally accepted accounting principles except for use in this registration statement or other registration statements filed on Forms N-3, N-4, or N-6, its financial statements may be prepared in accordance with statutory requirements. The Depositor's financial statements must be prepared in accordance with generally accepted accounting principles if the Depositor prepares financial information in accordance with generally accepted accounting principles for use by the Depositor's parent, as defined in Rule 1-02(p) of Regulation S-X [17 CFR 210.1-02(p)], in any report under sections 13(a) and 15(d) of the Securities Exchange Act [15 U.S.C. 78m(a) and 78o(d)] or any registration statement filed under the Securities Act.

2. All statements and schedules of the Depositor required by Regulation S-X, except for the consolidated balance sheets described in Rule 3-01 of Regulation S-X [17 CFR 210.3-01], and any notes to these statements or schedules, may be omitted from Part B and instead included in Part C of the registration statement. If any of this information is omitted from Part B and included in Part C, the consolidated balance sheets included in Part B should be accompanied by a statement that additional financial information about the Depositor is available, without charge, upon request. When a request for the additional financial information is received, the Registrant should send the information within 3 business days of receipt of the request, by first-class mail or other means designed to ensure equally prompt delivery.

3. Notwithstanding Rule 3-12 of Regulation S-X [17 CFR 210.3-12], the financial statements of the Depositor need not be more current than as of the end of the most recent fiscal year of the Depositor. In addition, when the anticipated effective date of a

registration statement falls within 90 days subsequent to the end of the fiscal year of the Depositor, the registration statement need not include financial statements of the Depositor more current than as of the end of the third fiscal quarter of the most recently completed fiscal year of the Depositor unless the audited financial statements for such fiscal year are available. The exceptions to Rule 3-12 of Regulation S-X contained in this Instruction 3 do not apply when:

(i) The Depositor's financial statements have never been included in an effective registration statement under the Securities Act of a separate account that offers variable annuity contracts or variable life insurance contracts; or

(ii) The balance sheet of the Depositor at the end of either of the two most recent fiscal years included in response to this Item shows a combined capital and surplus, if a stock company, or an unassigned surplus, if a mutual company, of less than \$1,000,000; or

(iii) The balance sheet of the Depositor at the end of a fiscal quarter within 135 days of the expected date of effectiveness under the Securities Act (or a fiscal quarter within 90 days of filing if the registration statement is filed solely under the Investment Company Act) would show a combined capital and surplus, if a stock company, or an unassigned surplus, if a mutual company, of less than \$1,000,000. If two fiscal quarters end within the 135 day period, the Depositor may choose either for purposes of this test.

Any interim financial statements required by this Item need not be comparative with financial statements for the same interim period of an earlier year.

Item 25. Performance Data

(a) *Calculation.* If the Registrant advertises any performance data, include an explanation of how performance is calculated, whether the data reflects all charges, the nature of any charges that are not reflected in the data, and the effect on performance of excluding those charges. If the Registrant advertises its performance calculated in more than one manner, briefly explain the material differences between the calculations.

(b) *Quotation.* For each sub-account for which the Registrant advertises any performance data, furnish:

(1) a quotation of performance, computed by each of the methods used in advertising; and

(2) the length of and the last day in the period used in computing the quotation.

Item 26. Illustrations

The Registrant may, but is not required to, include a table of hypothetical illustrations of death benefits, cash surrender values, and cash values in either the prospectus or the SAI. The following standards should be used to prepare any table of hypothetical illustrations that is included in the prospectus or the SAI:

(a) *Narrative Information.* The illustrations should be preceded by a clear and concise explanation, including (i) a description of the expenses reflected in the illustrations; (ii) that the illustrations are based on assumptions about investment returns and Contractowner characteristics; (iii) the circumstances under which actual results for a particular purchaser of the Contract would differ from the illustrations; and (iv) whether personalized illustrations are available and, if available, how they may be obtained.

(b) *Headings.* The headings should contain the following information: sex, age, rating classification (*e.g.*, nonsmoker, smoker, preferred, or standard), premium amount and payment schedule, face amount, and death benefit option.

(c) *Premiums, Ages.* Premium amounts used in the illustrations should be representative of the actual or expected typical premium amount. The typical premium amount may be based on the average or median premium amount or some other reasonable basis that results in a typical premium amount that is fairly representative of actual or expected Contract sales. Ages used in the illustrations should be representative of actual or expected Contract sales.

(d) *Rating Classifications.* Illustrations should be shown for the rating classification with the greatest number of outstanding Contracts (or expected Contracts in the case of a new Contract), unless this rating classification is not fairly representative of actual or expected Contract sales. In this case, illustrations should be shown for a commonly used rating classification that is fairly representative of actual or expected Contract sales.

(e) *Years.* Illustrated values should be provided for Contract years one through ten, for every five years beyond the tenth Contract year, and for the year of Contract maturity.

(f) *Illustrated Values.* Death benefits and cash surrender values should be illustrated at three rates of return and two levels of charges (described in paragraphs (g) and (i)). The Registrant may also illustrate cash values, but cash

values must be accompanied by corresponding cash surrender values. All illustrated values should be determined as of the end of the Contract year.

(g) *Rates of Return.* The Registrant should use gross rates of return of 0%, 6%, and one other rate not greater than 12%. Additional gross rates of return no greater than 12% may be used. Explain that the gross rates of return used in the illustrations do not reflect the deductions of the charges and expenses of the Portfolio Companies.

(h) *Portfolio Company Charges.* Portfolio Company management fees and other Portfolio Company charges and expenses should be reflected using the arithmetic average of those charges and expenses incurred during the most recent fiscal year for all of the available Portfolio Companies or any materially greater amount expected to be incurred during the current fiscal year. In determining charges and expenses incurred during the most recent fiscal year or expected to be incurred during the current fiscal year, include amounts that would have been incurred absent expense reimbursement or fee waiver arrangements.

(i) *Other Charges.* Values should be illustrated using both current and guaranteed maximum charges at the 0% rate of return, the 6% rate of return, and one other rate of return no greater than 12%. Illustrated values should accurately reflect all charges deducted under the Contract (*e.g.*, mortality and expense risk, administrative, cost of insurance) as well as the actual timing of the deduction of those charges (*e.g.*, daily, monthly, annually). For example, for a Contract with a mortality and expense risk charge that is deducted from sub-account assets at a given annual rate, the illustrated values will be lower if the charge is deducted from assets on a daily basis rather than on a monthly or annual basis.

(j) *Additional Information.* Subject to the requirement set out in General Instruction C.3.(b), additional information may be shown as part of the illustrations, provided that it is consistent with the standards of this Item 26.

Part C: Other Information

Item 27. Exhibits

Subject to General Instruction D regarding incorporation by reference and rule 483 under the Securities Act [17 CFR 230.483], file the exhibits listed below as part of the registration statement. Letter or number the exhibits in the sequence indicated and file copies rather than originals, unless

otherwise required by rule 483. Reflect any exhibit incorporated by reference in the list below and identify the previously filed document containing the incorporated material.

(a) *Board of Directors Resolution.* The resolution of the board of directors of the Depositor authorizing the establishment of the Registrant.

(b) *Custodian Agreements.* All agreements for custody of securities and similar investments of the Registrant, including the schedule of remuneration.

(c) *Underwriting Contracts.* Underwriting or distribution contracts between the Registrant or Depositor and a principal underwriter and agreements between principal underwriters or the Depositor and dealers.

(d) *Contracts.* The form of each Contract, including any riders or endorsements.

(e) *Applications.* The form of application used with any Contract provided in response to (d) above.

(f) *Depositor's Certificate of Incorporation and By-Laws.* The Depositor's current certificate of incorporation or other instrument of organization and by-laws and any related amendment.

(g) *Reinsurance Contracts.* Any contract of reinsurance related to a Contract.

(h) *Participation Agreements.* Any participation agreement or other contract relating to the investment by the Registrant in a Portfolio Company.

(i) *Administrative Contracts.* Any contract relating to the performance of administrative services in connection with administering a Contract.

(j) *Other Material Contracts.* Other material contracts not made in the ordinary course of business to be performed in whole or in part on or after

the filing date of the registration statement.

(k) *Legal Opinion.* An opinion and consent of counsel regarding the legality of the securities being registered, stating whether the securities will, when sold, be legally issued and represent binding obligations of the Depositor.

(l) *Actuarial Opinion.* If illustrations are included in the registration statement as permitted by Item 26, an opinion of an actuarial officer of the Depositor as to those illustrations indicating that:

(1) the illustrations of cash surrender values, cash values, death benefits, and/or any other values illustrated are consistent with the provisions of the Contract and the Depositor's administrative procedures;

(2) the rate structure of the Contract has not been designed, and the assumptions for the illustrations (including sex, age, rating classification, and premium amount and payment schedule) have not been selected, so as to make the relationship between premiums and benefits, as shown in the illustrations, appear to be materially more favorable than for any other prospective purchaser with different assumptions; and

(3) the illustrations are based on a commonly used rating classification and premium amounts and ages appropriate for the markets in which the Contract is sold.

(m) *Calculation.* If illustrations are included in the registration statement as permitted by Item 26, one sample calculation for each item illustrated, e.g., cash surrender value, cash value, and death benefits, showing how the illustrated values for the fifth Contract year have been calculated. Demonstrate how the annual investment returns of

the sub-accounts were derived from the hypothetical gross rates of return, how charges against sub-account assets were deducted from the annual investment returns of the sub-accounts, and how the periodic deductions for cost of insurance and other Contract charges were made to arrive at the illustrated values. Describe how the calculation would differ for other years.

(n) *Other Opinions.* Any other opinions, appraisals, or rulings, and related consents relied on in preparing the registration statement and required by section 7 of the Securities Act [15 U.S.C. 77g].

(o) *Omitted Financial Statements.* Financial statements omitted from Item 24.

(p) *Initial Capital Agreements.* Any agreements or understandings made in consideration for providing the initial capital between or among the Registrant, Depositor, underwriter, or initial Contractowners and written assurances from the Depositor or initial Contractowners that purchases were made for investment purposes and not with the intention of redeeming or reselling.

(q) *Redeemability Exemption.* Disclosure (if not provided elsewhere in the registration statement) of insurance procedures for which the Registrant and Depositor claim any exemption pursuant to rule 6e-2(b)(12)(ii) or rule 6e-3(T)(b)(12)(iii) under the Investment Company Act.

Item 28. Directors and Officers of the Depositor

Provide the following information about each director or officer of the Depositor:

(1)
Name and Principal
Business Address

(2)
Positions and Offices with Depositor

Instruction. Registrants are required to provide the above information only for officers or directors who are engaged directly or indirectly in activities relating to the Registrant or the Contracts, and for executive officers including the Depositor's president, secretary, treasurer, and vice presidents who have authority to act as president in his or her absence.

Item 29. Persons Controlled by or Under Common Control With the Depositor or the Registrant

Provide a list or diagram of all persons directly or indirectly controlled by or under common control with the Depositor or the Registrant. For any person controlled by another person, disclose the percentage of voting securities owned by the immediately controlling person or other basis of that person's control. For each company, also provide the state or other sovereign

power under the laws of which the company is organized.

Instructions.

1. Include the Registrant and the Depositor in the list or diagram and show the relationship of each company to the Registrant and Depositor and to the other companies named, using cross-references if a company is controlled through direct ownership of its securities by two or more persons.

2. Indicate with appropriate symbols subsidiaries that file separate financial statements, subsidiaries included in consolidated financial statements, or

unconsolidated subsidiaries included in group financial statements. Indicate for other subsidiaries why financial statements are not filed.

Item 30. Indemnification

State the general effect of any contract, arrangements, or statute under which any underwriter or affiliated person of the Registrant is insured or

indemnified against any liability incurred in his or her official capacity, other than insurance provided by any underwriter or affiliated person for his or her own protection.

Item 31. Principal Underwriters

(a) *Other Activity.* State the name of each investment company (other than the Registrant) for which each principal

underwriter currently distributing the Registrant's securities also acts as a principal underwriter, depositor, sponsor, or investment adviser.

(b) *Management.* Provide the information required by the following table for each director, officer, or partner of each principal underwriter named in the response to Item 20:

(1) Name and Principal Business Address	(2) Positions and Offices with Underwriter
--	---

Instruction. If a principal underwriter is the Depositor or an affiliate of the Depositor, and is also an insurance company, the above information for officers or directors need only be provided for officers or directors who are engaged directly or indirectly in activities relating to the Registrant or the Contracts, and for executive officers including the Depositor's or its affiliate's president, secretary, treasurer, and vice presidents who have authority to act as president in his or her absence.

(c) *Compensation From the Registrant.* Provide the information required by the following table for all commissions and other compensation received, directly or indirectly, from the Registrant during the Registrant's last fiscal year by each principal underwriter:

(1) Name of Principal Underwriter	(2) Net Underwriting Discounts and Commissions	(3) Compensation on Events Occasioning the Deduction of a Deferred Sales Load	(4) Brokerage Commissions	(5) Other Compensation
--------------------------------------	---	--	------------------------------	---------------------------

Instructions.

1. Disclose the type of services rendered in consideration for the compensation listed under column (5).

2. Exclude information about bona fide contracts with the Registrant or its Depositor for outside legal or auditing services, or bona fide contracts for personal employment entered into with the Registrant or its Depositor in the ordinary course of business.

3. Exclude information about any service for which total payments of less than \$5,000 were made during each of the Registrant's last three fiscal years.

4. Exclude information about payments made under any agreement whereby another person contracts with the Registrant or its Depositor to perform as custodian or administrative or servicing agent.

Item 32. Location of Accounts and Records

State the name and address of each person maintaining physical possession of each account, book, or other document required to be maintained by section 31(a) [15 U.S.C. 80a30(a)] and the rules under that section.

Item 33. Management Services

Provide a summary of the substantive provisions of any management-related service contract not discussed in Part A or B, disclosing the parties to the contract and the total amount paid and

by whom for the Registrant's last three fiscal years.

Instructions.

1. The instructions to Item 17 also apply to this Item.

2. Exclude information about any service provided for payments totaling less than \$5,000 during each of the Registrant's last three fiscal years.

Item 34. Fee Representation

Provide a representation of the Depositor that the fees and charges deducted under the Contracts, in the aggregate, are reasonable in relation to the services rendered, the expenses expected to be incurred, and the risks assumed by the Depositor.

Signatures

Pursuant to the requirements of (the Securities Act and) the Investment Company Act, the Registrant (certifies that it meets all of the requirements for effectiveness of this registration statement under rule 485(b) under the Securities Act and) has duly caused this registration statement to be signed on its behalf by the undersigned, duly authorized, in the City of _____, and State of _____ on the day of _____, _____ (Year)

By _____
(Signature and Title)
By _____

(Depositor)
By _____
(Name of officer of Depositor) _____
(Title)

Instruction. If the registration statement is being filed only under the Securities Act or under both the Securities Act and the Investment Company Act, it should be signed by both the Registrant and the Depositor. If the registration statement is being filed only under the Investment Company Act, it should be signed only by the Registrant.

Pursuant to the requirements of the Securities Act, this registration statement has been signed below by the following persons in the capacities and on the dates indicated.
(Signature) (Title) (Date) _____

Dated: April 12, 2002.
By the Commission.
Margaret H. McFarland,
Deputy Secretary.

Appendix A

[Note: Appendix A to the preamble will not appear in the Code of Federal Regulations]

Regulatory Flexibility Act Certification

I, Harvey L. Pitt, Chairman of the Securities and Exchange Commission, on information and belief, hereby certify, pursuant to 5 U.S.C. 605(b), that Form N-6 and the related amendment to Form N-1A would not have a significant economic impact on a substantial number of small entities. Form

N-6 would be used by insurance company separate accounts registered as unit investment trusts that offer variable life insurance policies for registration under the Investment Company Act of 1940 and offer securities under the Securities Act of 1933.

Form N-6 generally would not have a significant economic impact on small entities. Few, if any, registered insurance company separate accounts have net assets of less than \$50,000,000, when separate account assets are aggregated with the assets of the sponsoring insurance company. As a result, few, if any, small entities within the definitions contained in rule 0-10 under the Investment Company Act and rule 157 under the Securities Act would be affected by Form N-6.

The amendment to Form N-1A, the registration form for open-end management investment companies, or mutual funds, would eliminate the current exclusion from the fee table requirement of Form N-1A for mutual funds that offer their shares exclusively as investment options for variable annuity contracts and variable life insurance policies, and would require that these funds include a fee table in their prospectuses.

Few, if any, small entities within the definition provided in rule 0-10 under the Investment Company Act of 1940 would be affected by the amendment to Form N-1A. Moreover, the economic impact of the amendment would not be significant. A mutual fund that offers its shares exclusively as investment options for variable annuity

contracts and variable life insurance policies would already provide fee table information to any issuer of variable annuity contracts or variable life insurance policies that includes such a mutual fund as an investment option, in order for the issuer to include this information in the prospectus for the variable annuity contract or variable life insurance policy. Accordingly, the amendment to Form N-1A would not have a significant economic impact on a substantial number of small entities.

Dated: April 11, 2002.

Harvey L. Pitt,
Chairman.

[FR Doc. 02-9457 Filed 4-22-02; 8:45 am]

BILLING CODE 8010-01-P