

SECURITIES AND EXCHANGE COMMISSION

[Rel. No. IC-24187; File No. 812-11332]

SAFECO Life Insurance Company and SAFECO Life Deferred Variable Annuity Account

December 7, 1999.

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

ACTION: Notice of application for an order pursuant to Section 26(b) of the Investment Company Act of 1940, as amended ("1940 Act") approving the proposed substitution of securities.

SUMMARY OF APPLICATION: Applicants request an order approving the proposed substitution of shares of the Growth Portfolio, Northwest Portfolio, and Bond Portfolio of the SAFECO Resource Series Trust for shares of the Growth & Income Portfolio, Northwest Portfolio, and Income Portfolio of the Composite Deferred Series, Inc., respectively, each held by SAFECO Life Deferred Variable Annuity Account to support individual flexible premium deferred variable annuity contracts (the "Contracts") issued by SAFECO.

APPLICANTS: SAFECO Life Insurance Company ("SAFECO") and SAFECO Life Deferred Variable Annuity Account ("SAFECO Account") (together, "Applicants").

FILING DATE: The application was filed on September 28, 1998, and amended and restated on June 17, 1999, October 19, 1999 and December 6, 1999.

HEARING OR NOTIFICATION OF HEARING: An order granting the application will be issued unless the Commission orders a hearing. Interested persons may request a hearing by writing to the Secretary of the Commission and serving Applicants with a copy of the request, personally or by mail. Hearing requests should be received by the Commission by 5:30 p.m. on December 28, 1999, and should be accompanied by proof of service on the Applicants, in the form of an affidavit, or for lawyers, a certificate of service. Hearing requests should state the nature of the writer's interest, the reason for the request, and the issues contested. Persons may request notification of a hearing by writing to the Secretary of the SEC.

ADDRESSES: Secretary, Securities and Exchange Commission, 450 Fifth Street, N.W., Washington, DC 20549-0609. Applicants, c/o William E. Crawford, Esq., SAFECO Life Insurance Company, 15411 N.E. 51st Street, Redmond, WA 98052.

FOR FURTHER INFORMATION CONTACT: Zandra Y. Bailes, Senior Counsel, or

Susan M. Olson, Branch Chief, Office of Insurance Products, Division of Investment Management at (202) 942-0670.

SUPPLEMENTARY INFORMATION: The following is a summary of the application. The complete application is available for a fee from the SEC's Public Reference Branch, 450 Fifth Street, N.W., Washington, D.C. 20549 (tel. (202) 942-8090)).

Applicants' Representations

1. SAFECO is a stock life insurance company organized under the laws of the state of Washington on January 23, 1957. SAFECO is a wholly owned subsidiary of SAFECO Corporation, a holding company whose subsidiaries are engaged primarily in insurance and financial service businesses. SAFECO writes individual and group life, accident and health insurance and annuities. SAFECO is licensed to do business in the District of Columbia and all states except New York.

2. Effective December 31, 1997, SAFECO acquired WM Life Insurance Company ("WM Life"), and WM Life became a wholly owned subsidiary of SAFECO. WM Life was the depositor of WM Life Deferred Variable Annuity Account ("WM Life Account") at the time WM Life was acquired by SAFECO. However, as of June 30, 1998, WM Life was merged into SAFECO, and WM Life ceased to exist as a separate insurance company. SAFECO filed (1) an amendment to WM Life Account's registration statement on Form N-4 under the 1940 Act to reflect the renaming of WM Life Account as "SAFECO Deferred Variable Annuity Account;" and (2) a new registration statement on Form N-4 under the Securities Act of 1933 ("1933 Act").

3. WM Life established the WM Life Account on December 23, 1986, as a segregated investment account under Arizona law. The WM Life Account was, and the SAFECO Account is, a "separate account" as defined by Rule 0-1(e) under the 1940 Act, and is registered under the 1940 Act as a unit investment trust (File No. 811-4961). The SAFECO Account's assets support the Contracts, and the Contracts have been registered under the 1933 Act (File No. 33-11011).

4. The SAFECO Account currently is divided into six active subaccounts, three of which invest solely in corresponding portfolios (each, a "Portfolio") of the Composite Deferred Series, Inc. ("Composite Fund"), and three of which invest in corresponding Portfolios of the Scudder Variable Life Investment Fund. The three Portfolios of

the Composite Fund available through the SAFECO Account are the only Portfolios involved in the substitutions discussed in the Application.

5. The Composite Fund was incorporated under the laws of the state of Washington on December 8, 1986, and is registered under the 1940 Act as an open-end management investment company (File No. 811-4962). The Composite Fund is a series investment company as defined by rule 189f-2 under the 1940 Act and currently comprises three Portfolios: Growth & Income Portfolio, Northwest Portfolio; and Income Portfolio. The Composite Fund has registered shares issued in connection with these Portfolios under the 1933 Act. WM Advisors, Inc. ("Adviser") (which was an affiliate of WM Life and is now an affiliate of SAFECO) is the investment manager of the Composite Fund.

6. SAFECO Resource Series Trust ("Trust") was organized as a Delaware business trust on May 13, 1993. The Trust is registered under the 1940 Act as an open-end management investment company (File No. 811-4717). The Trust is a series investment company as defined by Rule 18f-2 under the 1940 Act and currently comprises six series, three of which are involved in the substitutions discussed in the application: Growth Portfolio; Northwest Portfolio; and Bond Portfolio. The Trust has registered shares issued in connection with these series under the 1933 Act. SAFECO Asset Management Company an affiliate of SAFECO, serves as the investment manager of each series of the Trust.

7. The Contracts are flexible premium deferred variable annuity contracts. The Contracts originally were issued by WM Life. However, SAFECO became the depositor for the Contracts following the June 30, 1998 merger of WM Life into SAFECO, and the intact transfer of the WM Life Account to SAFECO.

8. The Contracts permit an unlimited number of transfers to be made from the subaccounts of the applicable separate account at any time before the annuity date. No charge is imposed on any transfer. Each transfer must be at least \$1,000 or the entire amount in that subaccount if less than \$1,000. No transfers are permitted after the annuity date.

9. SAFECO, on its own behalf and on behalf of the SAFECO Account, proposes to make certain substitutions of shares held in the SAFECO Account. SAFECO proposes to substitute: (1) shares of the Trust's Growth Portfolio for shares of the Composite Fund's Growth & Income Portfolio, (2) shares of the Trust's Northwest Portfolio for

shares of the Composite Fund's Northwest Portfolio, and (3) shares of the Trust's Bond Portfolio for shares of the Composite Fund's Income Portfolio.

10. The proposed substitutions are principally the result of the acquisition by SAFECO of WM Life whereby WM Life became a wholly owned subsidiary of SAFECO. SAFECO is seeking to consolidate the assets of the Composite Fund with those of other management investment company portfolios having substantially identical or very similar investment objectives that are advised by affiliated persons of SAFECO. SAFECO believes that the consolidation will simplify the structure of the mutual fund portfolios, and that the reduction in duplicative portfolios will provide better service and less confusion to Contract owners.

11. Applicants represent that the assets of the Composite Fund would remain stagnant or decline because the shares of the Composite Fund are available only through purchase of the Contracts, and no new Contracts are being sold by WM Life. By contrast, shares of the Trust are sold to other separate accounts of SAFECO and may be sold to other life insurance companies and qualified retirement plans. Applicants state that the assets of the Trust are likely to increase, which will likely result in lower expenses to Contract owners in the long run.

12. Applicants represent that the Composite Fund's Portfolios have substantially similar investment objectives as the Trust's Portfolios. The Trust's Northwest Portfolio and the Composite Fund's Northwest portfolio each seek capital growth by investing in securities of companies located in the same five states: Alaska, Idaho, Montana, Oregon and Washington. The Trust's Growth Portfolio and the Composite Fund's Growth & Income Portfolio each seek capital growth and current income by investing in a diversified pool of common stocks, although each may also invest in bonds and preferred stocks. The Trust's Bond Portfolio and the Composite Fund's Income Portfolio each seek to provide a high level of current income that is consistent with capital stability by investing primarily in debt securities.

13. Applicants represent that the Trust's Portfolios will all have higher expense ratios than the Composite's Portfolios. Applicants state that the pro forma expense ratio for the Growth Portfolios is .77%, while the expense ratio for the Composite Fund's Growth & Income Portfolio during 1998 was .60%. Applicants state that the pro forma expense ratio for the Trust's Northwest Portfolio will be .89% while

1998's expense ratio for the Composite Fund's Northwest Portfolio was .66%. In addition, Applicants state that the pro forma expense ratio for the Bond Portfolio is .89%, while the expense ratio for the Composite Fund's Income Portfolio during 1998 was .67%.

14. To prevent current Contract owners with values allocated to the Composite Fund Portfolios from paying higher expenses resulting from the substitution, SAFECO will reduce the mortality and expense risk charge at the separate account level for such Contract owners to the extent necessary to offset the amount by which each Trust series' expense ratio after the substitution exceeds the 1998 expense ratio level of the corresponding Composite Fund Portfolio. Applicants represent, therefore, that the total expenses borne by these Contract owners—the sum of the mortality and expense risk charge and the Trust series expenses—will remain the same and not increase as a result of the substitution. SAFECO guarantees that this mortality and expense risk charge deduction will remain in effect until January 1, 2003. By this date, the majority of Contract owners with values allocated to the Composite Fund Portfolios will no longer be subject to the contingent deferred sales charge on withdrawals. After that date, SAFECO will waive any remaining contingent deferred sales charges applicable to the Contracts.

15. SAFECO believes that by making the proposed substitutions, it can continue to serve the interests of owners of the Contracts in that: (1) Substituting certain portfolios of the Trust will allow owners of the Contracts to continue to participate in underlying funds having substantially identical or substantially similar investment objectives as the Portfolios of the Composite Fund currently available through the SAFECO Account; and (2) the owners of the Contracts will continue to receive the benefits of professional portfolio management while increasing SAFECO's ability (a) to control the expenses associated with the management and administration of the portfolios available through the SAFECO Account, and (b) to ensure quality and timeliness of services.

16. The registration statement for the SAFECO Account and the Contract discloses that SAFECO intends to eliminate the Portfolios of the Composite Fund and substitute other mutual fund portfolios in the near future. If the Commission approves the proposed substitution, SAFECO will prepare a supplement to the prospectus for the Contracts and the SAFECO Account, informing all Contract owners

that on the date of the proposed substitution, the specified Trust series will replace the Composite Fund Portfolios as the underlying investments for the subaccounts. The supplement also will (1) remind Contract owners that they may transfer Contract value in any one of the affected subaccounts to another subaccount(s) free of charge and (2) describe the mortality and expense risk charge reduction that SAFECO will provide to Contract owners with values allocated to the subaccounts currently investing in Composite Fund Portfolios.

17. The proposed substitutions will take place at relative net asset values with no change in the amount of any owner's Contract or Contract value or in the dollar value of his or her investment in the separate account. Contract owners will not incur any fees or charges as a result of the proposed substitutions nor will their rights or SAFECO's obligations under the Contract be altered in any way. SAFECO will pay all expenses incurred in connection with the proposed substitutions, including legal, accounting, and other fees and expenses. The proposed substitutions will not cause the Contract or SAFECO Account fees and charges currently being paid by existing Contract owners to be greater after the proposed substitutions than before the proposed substitutions. In addition, neither the proposed substitutions nor the reduction in the mortality and expense risk charge at the separate account level will impose any tax liability on Contract owners.

18. In addition to the prospectus supplement to be distributed to owners of Contracts, within five days after the proposed substitutions, any Contract owners who were affected by the substitution will be sent a written notice informing them that the substitutions took place and reminding them of their transfer rights.

Applicants' Legal Analysis

1. Applicants request that the Commission issue an order pursuant to Section 26(b) of the 1940 Act approving the substitutions by SAFECO of shares held by corresponding subaccounts of the SAFECO Account as follows: (1) Shares of the Trust's Growth Portfolio for shares of the Composite Fund's Growth & Income Portfolio; (2) shares of the Trust's Northwest Portfolio for shares of the Composite Fund's Northwest Portfolio; and (3) shares of the Trust's Bond Portfolio for shares of the Composite Fund's Income Portfolio.

2. Section 26(b) of the 1940 Act requires the depositor of a registered unit investment trust holding the securities of a single issuer to receive

Commission approval before substituting the securities held by the trust. Section 26(b) also states that the Commission shall issue an order approving such substitution if the evidence establishes that it is consistent with the protection of investors and the purposes fairly intended by the policy and provisions of the 1940 Act.

3. The Contract expressly reserves to the depositor (originally WM Life) the right, subject to compliance with applicable law, to substitute shares of another open-end registered investment company for shares of an open-end registered investment company held by a subaccount of the separate account. Applicants represent that the statement of additional information for the Contract and the SAFECO Account contains appropriate disclosure of this right.

4. This right of substitution was reserved to protect the depositor and the Contract owners in situations where either might be harmed or disadvantaged by circumstances surrounding the issuer of the shares held by one or more of the depositor's separate accounts, and to afford the opportunity to replace such shares where to do so could benefit the depositor and Contract owners.

5. Applicants represent that the Trust's Growth Portfolio, Northwest Portfolio, and Bond Portfolio are each suitable and appropriate investment vehicles for Contract owners. The investment objectives of each of the Trust Portfolios involved in the substitution are substantially similar to the investment objectives of the corresponding Composite Fund Portfolio.

6. Applicants anticipate that Contract owners will be at least as well off with the proposed array of investment options offered after the proposed substitutions as they have been with the array of investment options offered prior to the substitutions. The proposed substitutions retain investment flexibility for Contract owners, which is a central feature of the Contracts. All Contract owners will be permitted to allocate purchase payments to and transfer Contract values among and between the same number of investment subaccounts (with substantially the same investment objectives) as they could before the proposed substitutions.

7. Applicants assert that none of the proposed substitutions is the type of substitution which Section 26(b) was designed to prevent. Unlike traditional unit investment trusts where a depositor could only substitute an investment security in a manner which permanently affected all the investors in

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

8. In addition, the proposed substitutions are unlike the type of substitution which Section 26(b) was designed to prevent in that by purchasing a Contract, Contract owners select much more than a particular investment company in which to invest their Contract values. They also select the specific type of insurance coverage offered under their Contract as well as numerous other rights and privileges set forth in the Contract. Contract owners may also have considered the depositor's size, financial condition, type and its reputation for service in selecting their Contract. None of these factors will diminish as a result of the proposed substitutions.

9. Finally, whereas the assets of the Composite Fund can be expected to remain stagnant or decline since no new Contracts are being sold, the proposed substitutions will allow Contract owners to participate in mutual fund portfolios that are being actively sold through other separate accounts, and therefore the assets of the Trust are likely to increase.

Conclusion

Applicants submit that, for all the reasons stated above, the proposed substitutions are consistent with the protection of investors and the purposes fairly intended by the policy and provisions of the 1940 Act.

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

Jonathan G. Katz,

Secretary.

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DEPARTMENT OF TRANSPORTATION

Coast Guard

[USCG-1999-6605]

Secretarial Authorization for Certain Members and Employees of the U.S. Coast Guard to Serve on the Board of Control, Coast Guard Mutual Assistance

AGENCY: Coast Guard, DOT.

ACTION: Notice.

SUMMARY: The Commandant of the Coast Guard, exercising authority delegated by the Secretary of Transportation, has authorized certain military members and employees to serve, without compensation, on the Board of Control of Coast Guard Mutual Assistance, a non-federal military-welfare entity. He has so authorized them for the purpose of providing coordination, oversight, and advice to the management of the Coast Guard's Mutual Assistance Program. Participation of the designated officials in the activities of Coast Guard Mutual Assistance will not extend to participation in day-to-day operations.

DISCUSSION: The Secretary of Transportation, through the Commandant, has authorized the following members and employees of the Coast Guard to serve, without compensation, on the Board of Control of Coast Guard Mutual Assistance (see 10 U.S.C. 1033 and 1589). *Officers:* Commandant of the Coast Guard, Admiral James M. Loy, USCG (President); Assistant Commandant for Human Resources, Rear Admiral Fred L. Ames, USCG (Executive Vice President); Captain James E. Evans, USCG (Second Vice President); Lieutenant Commander Barry A. Compagnoni, USCG (Treasurer); Chief Warrant Officer Roberto Ruiz, USCG (Secretary). *Members:* Commander James D. Bjostad, USCG (Commissioned Officer); Lieutenant Commander Barry A. Compagnoni, USCG (Commissioned Officer); Chief Warrant Officer Robert H. Gitschier, USCG (RET), (Retired Member); Master Chief Petty Officer Vincent W. Patton, USCG (Master Chief Petty Officer of the Coast Guard); Master Chief Petty Officer Mark A. Lewack, USCG (Enlisted, E-7 or above); Petty Officer First Class Petra A. Wolford, USCG (Enlisted, E-6 or below); Petty Officer First Class Scott C. Tull, USCG (Enlisted, E-6 or below); Ms. Maureen Melton (Civilian employee); Mrs. Jennifer Rechsteiner (Civilian employee); Lieutenant Commander Charles E. Martin, USCG (RET) (USCG Auxiliary); Captain Francis C. Buckley, USCG (Reserve); Chief Warrant Officer