

effective upon the acceptance of a Certificate of Merger by the Secretary of the Commonwealth of Massachusetts.

KeySpan New England will succeed to Eastern's ownership interests in the gas utilities and the nonutility subsidiaries owned by Eastern. KeySpan New England will also be the successor of Eastern with respect to its commitments and authorizations set forth in the Merger Order and Financing Order. In addition, Applicants request that the Commission approve KeySpan New England, as the successor of Eastern, as an exempt holding company under the Act after the Transaction is completed.

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

J. Lynn Taylor,

Assistant Secretary.

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SECURITIES AND EXCHANGE COMMISSION

[Release No. IC-25510; File No. 812-12624]

Notice of Application

April 5, 2002.

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

ACTION: Notice of application for an order pursuant to Section 26(c) of the Investment Company Act of 1940 (the "1940 Act") approving certain substitutions of securities.

Applicants: Merrill Lynch Life Insurance Company ("MLLIC"), Merrill Lynch Variable Life Separate Account ("Separate Account 1"), Merrill Lynch Life Variable Life Separate Account II ("Separate Account 2"), Merrill Lynch Life Variable Annuity Separate Account ("Separate Account 3"), Merrill Lynch Life Variable Annuity Separate Account A ("Separate Account 4"), ML Life Insurance Company of New York ("MLNY"), ML of New York Variable Life Separate Account ("Separate Account 5"), ML of New York Variable Life Separate Account II ("Separate Account 6"), ML of New York Variable Annuity Separate Account ("Separate Account 7"), and ML of New York Variable Annuity Separate Account A ("Separate Account 8") (except for MLLIC and MLNY, each a "Separate Account"; Separate Accounts 1 through 8 collectively referred to herein as the "Separate Accounts") (all foregoing parties collectively referred to herein as the "Applicants").

Summary of Application: The Applicants request an order pursuant to

Section 26(c) of the 1940 Act to permit the substitution of shares of the Large Cap Core Focus Fund and Core Bond Focus Fund of the Merrill Lynch Variable Series Funds, Inc. and the Core Bond Strategy Portfolio of the Merrill Lynch Series Fund, Inc. (collectively, the "Replacement Portfolios") for shares of the Natural Resources Focus Fund and Global Bond Focus Fund of the Merrill Lynch Variable Series Funds, Inc. (collectively, the "Substituted Portfolios") currently held by the Separate Accounts.

Filing Date: The application was filed on August 31, 2001, and amended and restated on January 25, 2002, April 3, 2002 and April 5, 2002.

Hearing or Notification of Hearing: An order granting the application will be issued unless the Commission orders a hearing. Interested person may request a hearing by writing to the Secretary of the Commission and serving Applicants with a copy of the request, in person or by mail. Hearing requests must be received by the Commission by 5:30 p.m. on April 29, 2002, and accompanied by proof of service on Applicants, in the form of an affidavit or, for lawyers, a certificate of service. Hearing requests should state the nature of the writer's interest, the reason for the request, and the issues contested. Persons may request notification of a hearing by writing to the Secretary of the Commission.

ADDRESSES: Secretary, Securities and Exchange Commission, 450 Fifth Street, NW., Washington, DC 20549-0609. Applicants, c/o Edward W. Diffin, Jr., Esq., Merrill Lynch Insurance Group, 7 Roszel Road, Princeton, New Jersey 08540-6205 and Stephen E. Roth, Esq., Sutherland Asbill & Brennan LLP, 1275 Pennsylvania Ave., NW., Washington, DC 20004.

FOR FURTHER INFORMATION CONTACT: Joyce M. Pickholz, Senior Counsel, or William J. Kotapish, Assistant Director, at (202) 942-0670, Office of Insurance Products, Division of Investment Management.

SUPPLEMENTARY INFORMATION: The following is a summary of the application. The complete application may be obtained for a fee from the Public Reference Branch of the Commission, 450 5th Street, NW., Washington, DC 20549-0102 [tel. (202) 942-8090].

Applicants' Representations

1. MLLIC is a stock life insurance company that is domiciled in Arkansas. Its operations include both life insurance and annuity products. As of December 31, 2001, MLLIC had assets of

approximately \$15.5 billion. MLLIC is authorized to operate as a life insurance company in forty-nine states, the District of Columbia, the U.S. Virgin Islands, Guam and Puerto Rico. MLLIC was originally incorporated under the laws of the State of Washington, on January 27, 1986, and redomesticated to the State of Arkansas on August 31, 1991. MLLIC is a wholly-owned subsidiary of Merrill Lynch Insurance Group, Inc. MLLIC is an indirect wholly-owned subsidiary of Merrill Lynch & Co., Inc. MLLIC is the depositor and sponsor of Separate Accounts 1-4.

2. Separate Account 1 is a separate investment account of MLLIC and is registered under the 1940 Act as a unit investment trust. Separate Account 1 serves as a funding vehicle for certain variable life insurance contracts issued by MLLIC (collectively, "Second Generation MLLIC VLI Contracts"). Separate Account 1 is a "separate account" as defined in Section 2(a)(37) of the 1940 Act.

3. Separate Account 2 is a separate investment account of MLLIC and is registered under the 1940 Act as a unit investment trust. Separate Account 2 serves as a funding vehicle for certain variable life insurance contracts issued by MLLIC (collectively, "First Generation MLLIC VLI Contracts"). Separate Account 2 is a "separate account" as defined in Section 2(a)(37) of the 1940 Act.

4. Separate Account 3 is a separate investment account of MLLIC and is registered under the 1940 Act as a unit investment trust. Separate Account 3 serves as a funding vehicle for certain variable annuity insurance contracts issued by MLLIC ("MLLIC Portfolio Plus Contracts"). Separate Account 3 is a "separate account" as defined in Section 2(a)(37) of the 1940 Act.

5. Separate Account 4 is a separate investment account of MLLIC and is registered under the 1940 Act as a unit investment trust. Separate Account 4 serves as a funding vehicle for certain variable annuity insurance contracts issued by MLLIC (collectively, "MLLIC Retirement Plus Contracts"). Separate Account 4 is a "separate account" as defined in Section 2(a)(37) of the 1940 Act.

6. MLNY is a stock life insurance company that is organized under the laws of the State of New York. MLNY is an indirect wholly owned subsidiary of Merrill Lynch & Co., Inc. MLNY is authorized to sell life insurance and annuities in nine states, and had approximately \$1.3 billion of assets under management as of December 31,

2001. MLNY is the depositor and sponsor of Separate Accounts 5–8.

7. Separate Account 5 is a separate investment account of MLNY and is registered under the 1940 Act as a unit investment trust. Separate Account 5 serves as a funding vehicle for certain variable life contracts issued by MLNY (“First Generation MLNY VLI Contracts”). Separate Account 5 is a “separate account” as defined in Section 2(a)(37) of the 1940 Act.

8. Separate Account 6 is a separate investment account of MLNY and is registered under the 1940 Act as a unit investment trust. Separate Account 6 serves as a funding vehicle for certain variable life contracts issued by MLNY (“Second Generation MLNY VLI Contracts”). Separate Account 6 is a “separate account” as defined in Section 2(a)(37) of the 1940 Act.

9. Separate Account 7 is a separate investment account of MLNY and is registered under the 1940 Act as a unit investment trust. Separate Account 7 serves as a funding vehicle for certain variable annuity contracts issued by MLNY (“MLNY Portfolio Plus Contracts”). Separate Account 7 is a “separate account” as defined in Section 2(a)(37) of the 1940 Act.

10. Separate Account 8 is a separate investment account of MLNY and is registered under the 1940 Act as a unit investment trust. Separate Account 8 serves as a funding vehicle for certain variable annuity contracts issued by MLNY (“MLNY Retirement Plus Contracts”) (together with the Second Generation MLLIC VLI Contracts, First

Generation MLLIC VLI Contracts, MLLIC Portfolio Plus Contracts, MLLIC Retirement Plus Contracts, First Generation MLNY VLI Contracts, Second Generation MLNY VLI Contracts and MLNY Portfolio Plus Contracts, the “Variable Contracts”). Separate Account 8 is a “separate account” as defined in Section 2(a)(37) of the 1940 Act.

11. Merrill Lynch, Pierce, Fenner & Smith, Incorporated (“MLPF&S”) serves as principal underwriter and distributor for the Variable Contracts. MLPF&S was organized in 1958 under the laws of the State of Delaware and is registered as a broker-dealer under the Securities Exchange Act of 1934. It is a member of the National Association of Securities Dealers, Inc. MLPF&S may enter into selling agreements with other broker-dealers registered under the Securities Exchange Act of 1934 whose representatives are authorized by applicable law to sell the Variable Contracts.

12. Merrill Lynch Series Fund, Inc. (“Series Fund”) is registered as an open-end management investment company under the 1940 Act (File No. 811–3091) and currently offers nine separate investment portfolios, one of which would be involved in the proposed substitutions. The Series Fund issues a separate series of shares of common stock in connection with each portfolio, and has registered such shares under the Securities Act of 1933 (“1933 Act”) on Form N–1A (File No. 2–69062). Each separate series offers only one class of shares. Merrill Lynch Investment

Managers, L.P. (“MLIM”) serves as the investment manager to each portfolio. MLIM is an indirect subsidiary of Merrill Lynch & Co., Inc. MLIM receives an investment advisory fee from each portfolio it manages.

13. Merrill Lynch Variable Series Funds, Inc. (“Variable Series Funds”) is registered as an open-end management investment company under the 1940 Act (File No. 811–3290) and currently offers nineteen separate investment portfolios, four of which would be involved in the proposed substitutions. The Variable Series Funds issues a separate series of shares of common stock in connection with each portfolio, and has registered such shares under the 1933 Act on Form N–1A (File No. 2–74452). Each separate series offers two classes of shares, Class A shares and Class B shares. The sole distinction between Class A shares and Class B shares is the imposition of a distribution fee of 0.15% on Class B shares pursuant to Rule 12b-1 under the 1940 Act. Under the proposed substitutions, shareholders of the Substituted Portfolios would receive Class A shares of the Replacement Portfolio. MLIM serves as the investment manager to each portfolio, for which it receives investment advisory fees.

14. The following chart sets out the investment objectives and certain policies of each Substituted Portfolio and each Replacement Portfolio, as stated in their respective prospectuses and statements of additional information.

Substituted portfolios	Replacement portfolios
Natural Resources Focus Fund of the Variable Series Funds Investment Objective: Capital appreciation and protection of purchasing power of shareholder's capital through investments primarily in equity securities of companies with substantial natural resource assets Investment Policies: The Fund generally invests in a portfolio consisting of domestic and foreign companies in a variety of natural resource-related sectors, such as mining, energy, chemicals, paper, steel, or agriculture. Under certain economic circumstances, the Fund may concentrate its investments in one or more of these sectors (although it will not invest more than 25% of its assets in any one industry within a sector). The Fund is non-diversified, which means that it can invest more of its assets in fewer companies than other funds Global Bond Focus Fund of the Variable Series Funds Investment Objective: To provide high total investment return Investment Policies:	Large Cap Core Focus Fund of the Variable Series Funds Investment Objective: To seek high total investment return. Investment Policies: The Fund tries to choose investments that will increase in value by investing primarily in a diversified portfolio of equity securities of large capitalization companies located in the United States. The Fund uses an investment approach that blends growth and value. Current income from dividends and interest are not an important consideration in selecting portfolio securities. Core Bond Focus Fund of the Variable Series Funds Investment Objective: Primarily to obtain a high level of current income, and secondarily, to seek capital appreciation when consistent with its primary objective. Investment Policies:

Substituted portfolios	Replacement portfolios
The Fund invests in a global portfolio of fixed-income securities denominated in various currencies, including multinational currency units. The Fund invests in fixed-income securities that have a credit rating of A or better by Standard and Poor's or by Moody's commercial paper rated A-1 by Standard & Poor's Prime-1 by Moody's or obligations that MLIM has determined to be of similar creditworthiness	The Fund invests in fixed-income securities of any kind and maturity rated investment grade by a Nationally Recognized Statistical Rating Organization. The Fund invests most of its assets in securities issued by U.S. companies, but may also invest in securities issued by foreign companies if they are denominated in U.S. dollars. The Fund's investments emphasize current income more than growth of capital. Core Bond Strategy Portfolio of the Series Fund Investment Objective: Primarily to provide a high level of current income, and secondarily, to seek capital appreciation. Investment Policies: The Portfolio invests at least 65% of its assets in debt securities of any kind and maturity that have a rating within the four highest grades of Moody's or Standard & Poor's.

15. The following chart describes the fees payable for advisory and subadvisory services for the year ending December 31, 2001, expressed as an annual percentage of average daily net assets, by each Substituted Portfolio and each Replacement Portfolio.

Substituted portfolios		Replacement portfolios	
Name	Percent	Name	Percent
Natural Resources Focus Fund Annual Advisory Fees	0.65	Large Cap Core Focus Fund Annual Advisory Fees	¹ 0.45
Global Bond Focus Fund Annual Advisory Fees	0.60	Core Bond Focus Fund Annual Advisory Fees	² 0.43
		Core Bond Strategy Portfolio Annual Advisory Fees	³ 0.33

¹ The Large Cap Core Focus Fund pays an annual advisory fee based on the average daily value of the Fund's net assets, as follows: 0.50% of the average daily net assets not exceeding \$250 million, 0.45% of the next \$50 million, 0.425% of the next \$100 million, and 0.40% of the amount in excess of \$400 million.

² The Core Bond Focus Fund pays an annual advisory fee based on the aggregate daily value of the net assets of the Fund and another fund managed by MLIM (the High Current Income Fund). The annual advisory fee, based upon the aggregate average daily value of the combined portfolios' net assets, is 0.50% of the average daily net assets not exceeding \$250 million, 0.45% of the next \$250 million, and 0.40% of the amount in excess of \$500 million.

³ The Core Bond Strategy Portfolio pays an annual advisory fee based upon the aggregate average daily value of the Portfolio and eight other portfolios that are managed by MLIM. The annual advisory fee, based upon the aggregate average daily value of the nine combined portfolios' net assets, is 0.50% of the average daily net assets not exceeding \$250 million, 0.45% of the next \$50 million, 0.40% of the next \$100 million, 0.35% of the next \$400 million, and 0.30% of the amount in excess of \$800 million.

16. The following chart describes the total operating expenses (before and after any waivers and reimbursements) for the year ended December 31, 2001, expressed as an annual percentage of average daily net assets, of the Substituted Portfolios and the Replacement Portfolios. Neither the Substituted Portfolios nor shares of the Replacement Portfolios have adopted any plan pursuant to Rule 12b-1 under the 1940 Act.

	Substituted portfolio: natural resources focus fund	Replacement portfolio: large cap core focus fund
Management Fees	0.65%	0.45%
Other Expenses	0.33%	0.08%
Total Operating Expenses	0.98%	0.53%
Less Expense Waivers and Reimbursements	N/A	N/A
Net Operating Expenses	0.98%	0.53%

	Substituted portfolio: global bond focus fund	Replacement portfolios	
		Core bond focus fund	Core bond strategy portfolio
Management Fees	0.60%	0.43%	0.33%
Other Expenses	0.19%	0.08%	0.11%
Total Operating Expenses	0.79%	0.51%	0.44%
Less Expense Waivers and Reimbursements	N/A	N/A	N/A
Net Operating Expenses	0.79%	0.51%	0.44%

17. Pursuant to their authority under the respective Variable Contracts and the prospectuses describing the same, and subject to the approval of the Commission under Section 26(c) of the 1940 Act, MLLIC and MLNY propose to substitute shares of the Replacement Portfolios for shares of the Substituted Portfolios in the Separate Accounts (the "Substitutions") as follows: Substitute shares of the Core Bond Strategy Portfolio for shares of the Global Bond Focus Fund under certain of the First Generation MLLIC VLI Contracts, the Second Generation MLLIC VLI Contracts, certain of the First Generation MLNY VLI Contracts, and the Second Generation MLNY VLI Contracts; (b) substitute shares of the Large Cap Core Focus Fund for shares of the Natural Resources Focus Fund under the MLLIC Portfolio Plus Contracts, the MMLIC Retirement Plus Contracts, the MLNY Portfolio Plus Contracts, and the MLNY Retirement Plus Contracts; and (c) substitute shares of the Core Bond Focus Fund for shares of the Global Bond Focus Fund under the MLLIC Retirement Plus Contracts and the MLNY Retirement Plus Contracts.

18. Following these transactions, each Separate Account will have two

subaccounts holding shares of the Replacement Portfolios. Each Separate Account will combine the two subaccounts holding shares of each Replacement Portfolio by transferring shares on the same date from one of the subaccounts holding shares of the Replacement Portfolio to the other subaccount holding shares of the Replacement Portfolio. The net effect of the Substitutions will be to eliminate the subaccount in each Separate Account relating to the Substituted Portfolios.

19. Applicants submit that the investment objectives and policies of the Substituted Portfolios are relatively narrow, and their investment strategies may result in more volatile performance. Particularly, the Natural Resources Focus Fund's investments are concentrated in natural resource-related sectors and the Global Bond Focus Fund, a non-diversified fund, concentrates its assets in a relatively small number of investments, which increases its risk exposure. Further, the Board of Directors of the Variable Series Funds has determined to liquidate the Substituted Portfolios. After considering the limited prospects for growth in the Substituted Portfolios and their poor

performance and asset growth to date, the Applicants determined that it would be both difficult to find replacement funds which mirror their investment objectives and policies, and inadvisable to do so. Rather, Applicants determined that it was in the best interests of Variable Contract owners to substitute them into portfolios currently available under the Variable Contracts that have comparable, albeit broader, investment objectives. Each Variable Contract offers either one or the other, but not both of the Replacement Portfolios for the Global Bond Focus Fund.

20. The Substitutions are necessary due to the impending liquidation of the Substituted Portfolios by the Variable Series Funds. In addition, MLLIC and MLNY believe that the elimination of these investment options will make their Variable Contracts more efficient to administer and oversee and thus, more cost-efficient and attractive to customers. The Replacement Portfolios have gathered more assets and have generally performed better than the Substituted Portfolios over time, as shown in the charts below.

SUBSTITUTED PORTFOLIOS

Year	Global Bond Focus Fund		Natural Resources Focus Fund	
	Net assets (in thousands) at December 21	Net change	Net assets (in thousands) at December 31	Net change
2001	\$26,801	(22.65%)	\$11,358	(30.18%)
2000	34,649	(25.32%)	16,268	11.92%
1999	46,399	(33.16%)	14,535	(6.47%)
1998	69,416	(8.79%)	15,540	(42.40%)
1997	76,107	(18.55%)	26,979	(40.31%)

SUBSTITUTED PORTFOLIOS

Average annual total return	Global bond focus fund	Natural resources focus fund
One Year	(3.20%)	(11.00%)
Five Years	0.48%	3.08%
Ten Years		5.39%
Since Inception	3.22%	4.51%
	(July 1, 1993)	(June 1, 1998)

REPLACEMENT PORTFOLIOS

Year	Large cap core focus fund		Core bond focus fund		Core bond strategy fund	
	Net assets (in thousands) at December 31	Net change	Net assets (in thousands) at December 31	Net change	Net assets (in thousands) at December 31	Net change
2001	\$597,713	(21.51%)	\$646,147	27.38%	\$130,204	10.26%
2000	761,558	(20.53%)	507,248	(6.69%)	118,088	(1.60%)
1999	958,313	11.06%	543,578	(8.53%)	120,007	(8.90%)
1998	862,897	(1.39%)	594,301	12.61%	131,729	5.60%

REPLACEMENT PORTFOLIOS—Continued

Year	Large cap core focus fund		Core bond focus fund		Core bond strategy fund	
	Net assets (in thousands) at December 31	Net change	Net assets (in thousands) at December 31	Net change	Net assets (in thousands) at December 31	Net change
1997	875,064	10.17%	527,770	(1.97%)	124,746	5.73%

REPLACEMENT PORTFOLIOS

Average annual total return	Large cap core focus fund	Core bond focus fund	Core bond strategy portfolio
One Year	(7.39%)	6.68%	7.83%
Five Years	9.42%	6.07%	6.36%
Ten Years	10.18%	6.55%	6.94%
Since Inception	13.78%	9.36%	10.04%
	(April 29, 1982)	(April 29, 1982)	(Jan. 7, 1981)

21. MLLIC and MLNY will effect the Substitutions as soon as practicable following the issuance of the requested order as follows. As of the effective date of the Substitutions ("Effective Date"), shares of each Substituted Portfolio will be redeemed in cash by MLLIC and MLNY. The proceeds of such redemptions will then be used to purchase shares of each Replacement Portfolio by cash purchases, with each subaccount of the Separate Accounts investing the proceeds of its redemption from a Substituted Portfolio in the corresponding Replacement Portfolio.

22. All redemptions of shares of the Substituted Portfolios and purchases of shares of the Replacement Portfolios will be effected in accordance with Rule 22C-1 under the 1940 Act. The Substitutions will take place at relative net asset value with no change in the amount of any Variable Contract owner's contract value or death benefit or in the dollar value of his or her

investments in any of the subaccounts. Variable Contract owners will not incur any additional fees or charges as a result of the Substitutions, nor will their rights or MLLIC's and MLNY's obligations under the Variable Contracts be altered in any way. All expenses incurred in connection with the Substitutions, including legal, accounting, transactional, and other fees and expenses, including brokerage commissions, will be paid by MLLIC and MLNY. In addition, the Substitutions will not impose any tax liability on Variable Contract owners. The Substitutions will not cause the Variable Contract fees and charges currently paid by existing Variable Contract owners to be greater after the Substitutions than before the Substitutions. Neither MLLIC nor MLNY will exercise any right it may have under the Variable Contracts to impose restrictions on transfers under the Variable Contracts for a period of at

least thirty days following the Substitutions.

23. For each period (not to exceed a fiscal quarter) during the 24 months following the date of the Substitutions, MLLIC and MLNY will reimburse (on the last business day of any such period) any subaccount available through a Variable Contract and investing in a Replacement Portfolio such that the sum of the Replacement Portfolio operating expenses (taking into account expense waivers and reimbursements) together with subaccount expenses⁴ for such period on an annualized basis will not exceed the following limits (which equal, for each Variable Contract, the respective Substituted Portfolio's net operating expenses, together with any subaccount expenses, for the fiscal year prior to the Substitutions) for those Variable Contract owners who were Variable Contract owners on the date of the Substitutions:

Variable contracts	Expense cap		
	Large cap core focus fund	Core bond focus fund	Core bond strategy portfolio
MLLIC Investor Life	N/A	N/A	1.69%
MLLIC Investor Life Plus	N/A	N/A	1.69%
MLLIC Estate Investor Single	N/A	N/A	1.69%
MLLIC Estate Investor Joint	N/A	N/A	1.69%
MLLIC Prime Plan V	N/A	N/A	1.39%
MLLIC Prime Plan VI	N/A	N/A	1.54%
MLLIC Prime Plan 7	N/A	N/A	1.69%
MLLIC Prime Plan Investor	N/A	N/A	1.69%
MLLIC Portfolio Plus	2.28%	N/A	N/A
MLLIC Retirement Plus	2.33%	2.14%	N/A
MLNY Prime Plan V	N/A	N/A	1.39%
MLNY Prime Plan VI	N/A	N/A	1.54%
MLNY Prime Plan 7	N/A	N/A	1.69%
MLNY Prime Plan Investor	N/A	N/A	1.69%
MLNY Investor Life	N/A	N/A	1.69%

⁴ Subaccount expenses refer to those asset-based expenses that are deducted on a daily basis from

subaccount assets and reflected in the calculation of subaccount unit values. Examples of subaccount

expenses may include the mortality and expense risk charge or administrative expenses.

Variable contracts	Expense cap		
	Large cap core focus fund	Core bond focus fund	Core bond strategy portfolio
MLNY Investor Life Plus	N/A	N/A	1.69%
MLNY Portfolio Plus	2.28%	N/A	N/A
MLNY Retirement Plus	2.33%	2.14%	N/A

24. Variable Contract owners have been notified of the amended and restated application by means of a supplement to the prospectus for each of the Variable Contracts that discloses that the Applicants have filed the amended and restated application and seek approval for the Substitutions.

25. Further, before the Effective Date, a notice ("Pre-Substitution Notice") in the form of an additional supplement to the prospectuses for the Variable Contracts, will be mailed to Variable Contract owners setting forth the scheduled Effective Date and advising Variable Contract owners that contract values attributable to investments in the Substituted Portfolios will be transferred to the Replacement Portfolios, without charge and without counting toward the number of transfers permitted without charge, on the Effective Date. The Pre-Substitution Notice will state that, from the date the amended and restated application was filed with the Commission through the date 30 days after the Substitutions, Variable Contract owners may make one transfer of contract value from the subaccount corresponding to the Substituted Portfolios (before the Substitutions) or the Replacement Portfolios (after the Substitutions) to any other subaccount without charge and without that transfer counting toward the number permitted without charge under the Variable Contract. In addition, within five days after the Substitutions, any Variable Contract owners who were affected by the Substitutions will be sent a written notice informing them that the Substitutions were carried out and advising them of their transfer rights ("Post-Substitution Notice").

Applicants' Legal Analysis

1. Section 26(c) of the 1940 Act prohibits any depositor or trustee of a unit investment trust that invests exclusively in the securities of a single issuer from substituting the securities of another issuer without the approval of the Commission. Section 26(c) provides that such approval shall be granted by order of the Commission, if the evidence establishes that the substitution is consistent with the protection of

investors and the purposes of the 1940 Act.

2. Section 26(c) was intended to provide for Commission scrutiny of proposed substitutions which could, in effect, force shareholders dissatisfied with the substitute security to redeem their shares, thereby possibly incurring a loss of the sales load deducted from initial purchase payments, an additional sales load upon reinvestment of the proceeds of redemption, or both. The section was designed to forestall the ability of a depositor to present holders of interests in a unit investment trust with situations in which a holder's only choice would be to continue an investment in an unsuitable underlying security, or to elect a costly and, in effect, forced redemption. The Applicants submit that the Substitutions meet the standards set forth in Section 26(c) and that, if implemented, the Substitutions would not raise any of the aforementioned concerns that Congress intended to address when the 1940 Act was amended to include this provision.

3. The replacement of the Substituted Portfolios with the Replacement Portfolios is consistent with the protection of Variable Contract owners and the purposes fairly intended by the policy and provisions of the 1940 Act and, thus, meets the standards necessary to support an order pursuant to Section 26(c) of the 1940 Act. The Variable Series Funds is liquidating the Substituted Portfolios as a result of a Board determination that the performance of each Substituted Portfolio, in light of its narrow investment objectives and increased potential risk, has not met expectations and has generally lagged behind the performance of relevant stock market indices. As a result of these liquidations, the Applicants must transfer their Contract owners to a different investment option. The Applicants determined that it was in the best interests of the Contract owners to substitute them into currently available portfolios that have comparable, albeit broader, investment objectives. In addition, Applicants assert that the types of securities in which the Replacement Funds invest are virtually

identical to those of their respective Substituted Portfolios.

4. MLIM currently serves as investment adviser for both the Substituted Portfolios and the Replacement Portfolios. Thus, the level of services and quality provided by MLIM will remain unchanged after the Substitutions. Further, the asset levels of the relevant classes of shares of the Replacement Portfolios should lead to lower expense ratios over time.

5. Apart from the replacement of the underlying investment vehicle, the rights of the Variable Contract owners and the obligations of MLLIC and MLNY under the Variable Contracts would not be altered by the Substitutions except that Variable Contract owners will not have the right to allocate contract value to subaccounts that invest in the Substituted Portfolios. In each case, however, the Substituted Portfolio has already been closed to additional allocations of premium and contract value. Variable Contract owners will not incur any additional tax liability as a result of the Substitutions. MLLIC and MLNY will bear the costs of any legal or accounting fees of the Substitutions and transactional expenses, including brokerage commissions.

6. From the date the amended and restated application is filed with the Commission to the date 30 days after the Effective Date, Variable Contract owners will have the right to make one transfer of contract value from the subaccounts invested in a Substituted Portfolio (before the Substitutions) or a Replacement Portfolio (after the Substitutions) to any other subaccount without charge and without that transfer counting toward the number permitted under the Variable Contract (regardless of whether during the accumulation period or the annuity period). Each Variable Contract owner will receive a prospectus supplement regarding the Substitutions and will, prior to the Effective Date, receive a prospectus for the relevant Replacement Portfolio. A Pre-Substitution Notice (in the form of an additional prospectus supplement) will also be mailed to Variable Contract owners prior to the Effective Date. The Pre-Substitution Notice will set forth the

scheduled Effective Date and advise Variable Contract owners of their transfer rights. The Effective Date will be no earlier than 20 days after the mailing of the Pre-Substitution Notice.

7. The Applicants note that, in accordance with the terms of each of the Variable Contracts, no sales charges or surrender charges will apply to transfers in connection with the Substitutions, and MLLIC and MLNY represent that no such charge shall be imposed. In addition, within five days after the Substitutions, any Variable Contract owners who were affected by the Substitutions will be sent a Post-Substitution Notice informing them that the Substitutions were carried out and advising them of their transfer rights. The Applicants assert that the procedures to be implemented are sufficient to assure that each Variable Contract owner's cash values immediately after the Substitutions shall be equal to the cash value immediately before the Substitutions, and that the Substitutions will not affect the value of the interests of those owners of other MLLIC and MLNY variable contracts (other than the Variable Contracts) who currently have contract value allocated to any of the portfolios of the Series Fund or the Variable Series Funds.

Applicants' Conditions

For purposes of the approval sought pursuant to Section 26(c) of the 1940 Act, the Substitutions described in the third amended and restated application will not be completed, unless all of the following conditions are met.

1. The Commission shall have issued an order approving the Substitutions under Section 26(c) of the 1940 Act, as necessary to carry out the transactions described in the third amended and restated application.

2. Each Variable Contract owner will have been sent (a) prior to the Effective Date, a copy of the effective prospectus relating to the relevant Replacement Portfolio, (b) prior to the Effective Date, a Pre-Substitution Notice describing the terms of the Substitutions and the rights of the Variable Contract owners in connection with the Substitutions, and (c) if affected by the Substitutions, a Post-Substitution Notice within five days after the Substitutions informing them that the Substitutions were carried out and advising them of their transfer rights.

3. MLLIC and MLNY shall have satisfied themselves that (a) the Variable Contracts allow the substitution of portfolios in the manner contemplated by the Substitutions and related transactions described herein, (b) the

transactions can be consummated as described in the third amended and restated application under applicable insurance laws, and (c) that any applicable regulatory requirements in each jurisdiction where the Variable Contracts are qualified for sale have been complied with to the extent necessary to complete the transaction.

Applicants assert that, for the reasons summarized above, the proposed Substitutions meet the standards of Section 26(c) of the Act and that the requested order should be granted.

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

Jill M. Peterson,

Assistant Secretary.

[FR Doc. 02-8805 Filed 4-10-02; 8:45 am]

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SECURITIES AND EXCHANGE COMMISSION

[Release No. IC-25509; File No. 812-12668]

Lincoln Benefit Life Company, et al.

April 4, 2002.

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

ACTION: Notice of an application for an order pursuant to Section 26(c) of the Investment Company Act of 1940 (the "1940 Act") approving a substitution of underlying fund shares by certain unit investment trusts.

Applicants: Lincoln Benefit Life Company ("Lincoln Benefit"), Lincoln Benefit Life Variable Annuity Account (the "VA Account"), and Lincoln Benefit Life Variable Life Account (the "VL Account") (collectively, the "Applicants").

Summary of Application: Applicants request an order to permit certain registered unit investment trusts to substitute shares of the T. Rowe Price MidCap Growth Fund (the "Replacement Fund") of the T. Rowe Price Equity Series, Inc. ("TRP Equity Series") for shares of the Strong Discovery Fund II (the "Replaced Fund") of the Strong Variable Insurance Funds, Inc. ("Strong VI Funds").

Filing Date: The application was filed on October 19, 2001, and amended and restated on March 19, 2002.

Hearing or Notification of Hearing: An order granting the application will be issued unless the SEC orders a hearing. Interested persons may request a hearing by writing to the Secretary of the SEC and serving Applicants with a copy of the request, in person or by mail. Hearing requests must be received

by the SEC by 5:30 p.m. on April 29, 2002, and must be accompanied by proof of service on Applicants, in the form of an affidavit or, for lawyers, a certificate of service. Hearing requests should state the nature of the requester's interest, the reason for the request, and the issues contested. Persons may request notification of a hearing by writing to the Secretary of the SEC.

ADDRESSES: Secretary, SEC, 450 Fifth Street, NW, Washington, DC, 20549-0609; Applicants, c/o Jorden Burt LLP, 1025 Thomas Jefferson Street, N.W., Suite 400 East, Washington, DC, 20007-0806, Attention: Christopher S. Petito, Esq.

FOR FURTHER INFORMATION CONTACT:

Kenneth C. Fang, Attorney, or William J. Kotapish, Assistant Director, at (202) 942-0670, Office of Insurance Products, Division of Investment Management.

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

Applicants' Representations

1. Lincoln Benefit is a stock life insurance company organized under the laws of the state of Nebraska in 1938. Lincoln Benefit is an indirect wholly-owned subsidiary of The Allstate Corporation.

2. The VA Account is a segregated asset account of Lincoln Benefit. It was established by Lincoln Benefit in 1992, in accordance with the laws of the state of Nebraska and is registered as a unit investment trust under the 1940 Act. Lincoln Benefit issues certain variable annuity contracts through the VA Account.

3. The VL Account was established by Lincoln Benefit in 1992 in accordance with laws of the state of Nebraska and is registered as a unit investment trust under the 1940 Act. The VL Account is used to fund certain variable life insurance policies issued by Lincoln Benefit.

4. The above noted segregated asset accounts are referred to as "Separate Account Applicants." Certain variable annuity contracts and variable life policies issued by Lincoln Benefit through the Separate Account Applicants are referred to herein as "Contracts." The variable interests under the Contracts are registered with the SEC under the Securities Act of 1933.

5. Strong VI Funds was organized as a Wisconsin corporation on December 28, 1990. Strong VI Funds currently