

determine the interest rate on interfund loans and review no less frequently than annually the continuing appropriateness of the Bank Loan Rate formula, and (c) will review no less frequently than annually the continuing appropriateness of the Fund's participation in the Proposed Credit Facility.

15. In the event an interfund loan is not paid according to its terms and the default is not cured within two business days from its maturity or from the time the lending Fund makes a demand for payment under the provisions of the interfund loan agreement, USBAM will promptly refer the loan for arbitration to an independent arbitrator selected by the Board of each Fund involved in the loan who will serve as arbitrator of disputes concerning the interfund loans.⁵ The arbitrator will resolve any problem promptly, and the arbitrator's decision will be binding on all Funds involved. The arbitrator will submit, at least annually, a written report to the Boards setting forth a description of the nature of any dispute and the actions taken by the Funds to resolve the dispute.

16. Each Fund will maintain and preserve for a period of not less than six years from the end of the fiscal year in which any transaction by it under the Proposed Credit Facility occurred, the first two years in an easily accessible place, written records of all such transactions setting forth a description of the terms of the transaction, including the amount, the maturity, and the rate of interest on the loan, the rate of interest available at the time on short-term repurchase agreements and bank borrowings, the yield on the Money Market Funds and such other information presented to the Fund's Board in connection with the review required by conditions 13 and 14.

17. USBAM will prepare and submit to the Funds' Boards for review an initial report describing the operations of the Proposed Credit Facility and the procedures to be implemented to ensure that all Funds are treated fairly. After commencement of operations of the Proposed Credit Facility, USBAM will report on the operations of the Proposed Credit Facility at the Boards' quarterly meetings. In addition, for two years following the commencement of the Proposed Credit Facility, the independent public accountant for each Fund shall prepare an annual report that evaluates USBAM's assertion that it has established procedures reasonably

designed to achieve compliance with the conditions of the order. The report shall be prepared in accordance with the Statements on Standards for Attestation Engagements No. 3 and it shall be filed pursuant to Item 77Q3 of Form N-SAR. In particular, the report shall address procedures designed to achieve the following objectives: (a) That the Interfund Loan Rate will be higher than the Repo Rate and, if applicable, the yield on the highest yielding Money Market Fund in which a lending Fund is permitted to invest, but lower than the Bank Loan Rate; (b) compliance with the collateral requirements as set forth in the application; (c) compliance with the percentage limitations on interfund borrowing and lending; (d) allocation of interfund borrowing and lending demand in an equitable manner and in accordance with procedures established by the Boards; and (e) that the interest rate on any interfund loan does not exceed the interest rate on any third party borrowings of a borrowing Fund at the time of the interfund loan.

After the final report is filed, the Funds' external auditors, in connection with their Fund audit examinations, will continue to review the operation of the Proposed Credit Facility for compliance with the conditions of the application and their review will form the basis, in part, of the auditor's report on internal accounting controls in Form N-SAR.

18. No Fund will participate in the Proposed Credit Facility upon receipt of requisite regulatory approval unless it has fully disclosed in its statement of additional information all material facts about its intended participation.

Applicants also agree that condition number 2 to the Order will be modified as follows:

No Underlying Portfolio will acquire securities of any other investment company in excess of the limits contained in section 12(d)(1)(A) of the Act, except to the extent that an Underlying Portfolio has obtained exemptive relief from the Commission permitting it to (i) purchase securities of an affiliated money market fund for short-term cash management purposes, or (ii) engage in interfund borrowing and lending transactions.

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

Margaret H. McFarland,

Deputy Secretary.

[FR Doc. 02-7326 Filed 3-26-02; 8:45 am]

BILLING CODE 8010-01-P

SECURITIES AND EXCHANGE COMMISSION

[Release No. IC-25490; File No. 812-12714]

Integrity Life Insurance Company, et al.; Notice of Application

March 20, 2002.

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

ACTION: Notice of application for an order pursuant to section 26(c) of the Investment Company Act of 1940 (the "Act"), approving substitution of shares of one registered management investment company with shares of another registered management investment company.

SUMMARY OF APPLICATION: Applicants seek an order approving the proposed substitution of shares of the Touchstone High Yield Fund for shares of the Morgan Stanley High Yield Portfolio (the "Substitution").

APPLICANTS: Integrity Life Insurance Company ("Integrity"), Separate Account II of Integrity Life Insurance Company ("Integrity Separate Account"), National Integrity Life Insurance Company ("National Integrity"), Separate Account II of National Integrity Life Insurance Company ("National Integrity Separate Account") and Touchstone Advisors, Inc. ("Touchstone") (collectively, the "Applicants").

FILING DATE: The application was filed on December 7, 2001 and amended and restated on March 18, 2002.

HEARING OR NOTIFICATION OF HEARING: An order granting the application will be issued unless the Commission orders a hearing. Interested persons may request a hearing by writing to the Secretary of the Commission and serving Applicants with a copy of the request, personally or by mail. Hearing requests must be received by the Commission by 5:30 p.m. on April 15, 2002, and should be accompanied by proof of service on Applicants in the form of an affidavit or, for lawyers, a certificate of service. Hearing requests should state the nature of the requester's interest, the reason for the request, and the issues contested. Persons who wish to be notified of a hearing may request notification by writing to the Secretary of the Commission.

ADDRESSES: For the Commission: Secretary, Securities and Exchange Commission, 450 Fifth Street, NW, Washington, DC 20549-0609. For Applicants: P.O. Box 740074, Louisville, Kentucky, 40202-3319.

FOR FURTHER INFORMATION CONTACT: Alison Toledo, Senior Counsel, or Lorna

⁵ If the dispute involves Funds with separate Boards, the directors of each Fund will select an independent arbitrator that is satisfactory to each Fund.

MacLeod, 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 Public Reference Branch of the Commission, 450 Fifth Street, NW, Washington, DC 20549-0102 (202-942-8090).

Applicants' Representations

1. The Integrity Separate Account was established under Ohio law in 1992. The Integrity Separate Account is registered under the Act as a unit investment trust and is used to fund variable annuity contracts issued by Integrity. One Integrity variable annuity contract (the "Integrity Contract") is affected by this application.

2. National Integrity is a stock life insurance company organized under the laws of New York. National Integrity is a direct subsidiary of Integrity and an indirect subsidiary of Western and Southern Life Insurance Company.

3. The National Integrity Separate Account was established under New York law in 1992. The National Integrity Separate Account is registered under the Act as a unit investment trust and is used to fund variable annuity contracts issued by National Integrity. One National Integrity variable annuity contract (the "National Integrity Contract") is affected by this application (collectively, Integrity Contracts and National Integrity Contracts referred to as the "Contracts").

4. Purchase payments under the Contracts are allocated to one or more subaccounts of the Separate Accounts. Income, gains and losses, whether or not realized, from assets allocated to the Separate Accounts are, as provided in the Contracts, credited to or charged

against the Separate Accounts without regard to other income, gains or losses of Integrity and National Integrity, as applicable. The assets maintained in the Separate Accounts will not be charged with any liabilities arising out of any other business conducted by Integrity or National Integrity, as applicable.

Nevertheless, all obligations arising under the Contracts, including the commitment to make annuity payments or death benefit payments, are general corporate obligations of Integrity and National Integrity. Accordingly, all of the assets of each of Integrity and National Integrity are available to meet its obligations under its Contracts.

5. Touchstone, a subsidiary of Western and Southern Life Insurance Company, is an investment adviser registered under the Investment Advisers Act of 1940. As of December 31, 2001, Touchstone had \$1.6 billion in assets under management.

6. Each of the Contracts permits allocations of accumulation value to available subaccounts that invest in specific investment portfolios of underlying mutual funds. At the time of filing this application, the Integrity Contract offered 50 portfolios and the National Integrity Contract offered 31 portfolios. Both Contracts offer the Morgan Stanley High Yield Portfolio of the Universal Institutional Funds, Inc. (the "Universal Funds").

7. Both Contracts permit transfers of accumulation value from one subaccount to another subaccount at any time prior to annuitization, subject to certain restrictions and charges. No sales charge applies to such a transfer of accumulation value among Subaccounts. The Contracts permit up to twelve free transfers during any contract year. A fee of \$20 may be imposed on transfers in excess of twelve in a contract year. Transfers must be at

least \$250, or, if less, the entire amount in the subaccount from which value is to be transferred. A variety of types of automatic scheduled transfers are permitted without charge and are not counted against the twelve free transfers in a contract year.

8. Each of the Contracts reserves the right, upon notice to contractowners, to add, combine or remove subaccounts, or to withdraw assets from one subaccount and put them into another subaccount. The reserved right is disclosed in each Contract's prospectus.

9. The Morgan Stanley High Yield Portfolio, a separate series of the Universal Funds, is currently an investment option under the Contracts. The Universal Funds is an open-end management investment company registered under the Act. The Morgan Stanley High Yield Portfolio is managed by Morgan Stanley Asset Management, Inc. ("MSAM").

10. The investment objective of the Morgan Stanley High Yield Portfolio is to seek above-average total return over a market cycle of three to five years by investing primarily in high yield securities (commonly referred to as "junk bonds"). The total annual expenses of the Morgan Stanley High Yield Portfolio for the fiscal year ended December 31, 2000 were .80% of average daily net assets (.26% in management fees and .54% in other expenses). Absent voluntary reimbursements by MSAM, those expenses would have been 1.04% (.50% in management fees and .54% in other expenses). As of December 31, 2001, the Morgan Stanley High Yield Portfolio had \$52.9 million in assets. As of December 31, 2001, the average annual total returns of the Morgan Stanley High Yield Portfolio, whose inception date is August 31, 1992, were as follows:

1 year	3 years	5 years	10 years	Life of portfolio
5.87%	- 4.33%	- 1.50%	n/a	4.13%

11. The Touchstone High Yield Fund is a separate series of the Touchstone Variable Series Trust, an open-end management investment company registered under the Act. It is currently not an investment option under the Contracts. The Touchstone High Yield Fund is managed by Touchstone.

12. The investment objective of the Touchstone High Yield Fund is to achieve a high level of current income as its main goal, with capital appreciation as a secondary

consideration, by investing primarily in high yield securities. The total annual expenses of the Touchstone High Yield Fund for the fiscal year ended December 31, 2000 were .80% of average daily net assets (.10% in management fees and .70% in other expenses). Absent voluntary reimbursements by Touchstone Advisors, Inc., those expenses would have been 1.50% (.60% in management fees and .90% in other expenses). However, on February 21, 2002, Touchstone's Board of Directors

voted to amend the investment advisory agreement with the Touchstone High Yield Fund to decrease the contractual management fee before waivers and reimbursements to .50% effective May 1, 2002. As of December 31, 2001, the Touchstone High Yield Fund had \$17.2 million in assets. As of December 31, 2001, the average annual total returns of the Touchstone High Yield Fund, whose inception date is May 17, 1999, were as follows:

1 year	3 years	5 years	10 years	Life of portfolio
5.38%	n/a	n/a	n/a	- 2.07%

13. Applicants seek an order permitting the substitution of shares of Touchstone High Yield Fund for shares of the Morgan Stanley High Yield Portfolio. The Substitution will take place at the portfolios' relative net asset values determined on the date of the Substitution in accordance with Section 22 of the Act and Rule 22c-1 thereunder with no change in the amount of any contractowner's cash value or death benefit or in the dollar value of his or her investment in either of the subaccounts. Accordingly, there will be no financial impact on any contractowner. The Substitution will be effected by having each of the subaccounts that invests in the Morgan Stanley High Yield Portfolio redeem its shares at the net asset value calculated on the date of the Substitution and purchase shares of the Touchstone High Yield Fund at the net asset value calculated on the same date.

14. The Substitution will be described in supplements to the prospectuses for the Contracts ("Stickers") filed with the Commission and mailed to contractowners. The Stickers will give contractowners notice of the Substitution and will describe the reasons for engaging in the Substitution. The Stickers will also inform contractowners with value allocated to a subaccount investing in the Morgan Stanley High Yield Portfolio that no additional amount may be allocated to those subaccounts on or after the date of the Substitution. In addition, the Stickers will inform affected contractowners that they will have the opportunity to reallocate accumulation value:

- Prior to the Substitution from the subaccounts investing in the Morgan Stanley High Yield Portfolio, and
- For 30 days after the Substitution from the subaccounts investing in Touchstone High Yield Fund to subaccounts investing in other portfolios available under the respective Contracts, without the imposition of any transfer charge or limitation and without diminishing the number of free transfers that may be made in a given contract year.

15. The prospectuses for the Contracts, as supplemented by the Stickers, will reflect the Substitution. Each contractowner will be provided with a prospectus for the Touchstone High Yield Fund before the Substitution. Within five days after the

Substitution, Integrity and National Integrity will each send affected contractowners written confirmation that the Substitution has occurred.

16. Integrity and National Integrity, as applicable, will pay all expenses and transaction costs of the Substitution, including all legal, accounting and brokerage expenses relating to the Substitution. No costs will be borne by contractowners. Affected contractowners will not incur any fees or charges as a result of the Substitution, nor will their rights or the obligations of the Applicants under the Contracts be altered in any way. The Substitution will not cause the fees and charges under the Contracts currently being paid by contractowners to be greater after the Substitution than before the Substitution. The Substitution will have no adverse tax consequences to contractowners and will in no way alter the tax benefits to contractowners.

17. Applicants believe that their request satisfies the standards for relief of section 26(c) of the Act, as set forth below, because the affected contractowners will have:

(1) Contract value allocated to a subaccount invested in a portfolio with an investment objective and investment policies substantially similar to the investment objective and policies of the substituted portfolio—both the Morgan Stanley High Yield Portfolio and the Touchstone High Yield Fund seek a high return by investing primarily in high yield securities;

(2) superior performance to that of the substituted portfolio—the Touchstone High Yield Fund has consistently outperformed the Morgan Stanley High Yield Portfolio since its inception; and

(3) current total annual expenses that are the same as those of the substituted portfolio—the Touchstone High Yield Fund has the same current total annual expenses as the Morgan Stanley High Yield Portfolio and anticipates decreasing its gross expenses as it achieves economies of scale through asset growth.

Applicants' Legal Analysis

1. Section 26(c) of the Act makes it unlawful for any depositor or trustee of a registered unit investment trust holding the security of a single issuer to substitute another security for such security unless the Commission approves the substitution. The Commission will approve such a substitution if the evidence establishes

that it is consistent with the protection of investors and the purposes fairly intended by the policy and provisions of the Act.

2. The purpose of Section 26(c) is to protect the expectation of investors in a unit investment trust that the unit investment trust will accumulate shares of a particular issuer by preventing unscrutinized substitutions that might, in effect, force shareholders dissatisfied with the substituted security to redeem their shares, thereby possibly incurring either a loss of the sales load deducted from initial premium payments, an additional sales load upon reinvestment of the redemption proceeds, or both. Moreover, in the insurance product context, a contractowner forced to redeem may suffer adverse tax consequences. Section 26(c) affords this protection to investors by preventing a depositor or trustee of a unit investment trust that holds shares of one issuer from substituting for those shares the shares of another issuer, unless the Commission approves that substitution.

3. The purposes, terms and conditions of the Substitution are consistent with the principles and purposes of Section 26(c) and do not entail any of the abuses that Section 26(c) is designed to prevent. Applicants have reserved the right to make such a substitution under the Contracts and this reserved right is disclosed in each Contract's prospectus.

4. Substitutions have been common where the substitute portfolio has investment objectives and policies that are similar to those of the eliminated portfolio, current expenses that are similar to or lower than those of the eliminated portfolio, and performance that is similar to or better than that of the eliminated portfolio. The Morgan Stanley High Yield Portfolio and the Touchstone High Yield Fund have substantially similar investment objectives and policies. The current total annual expenses for each of the portfolios are .80%. The Touchstone High Yield Fund has had consistently better performance than the Morgan Stanley High Yield Portfolio since its inception.

5. The Substitution will not result in the type of costly forced redemption that Section 26(c) was intended to guard against and, for the following reasons, are consistent with the protection of investors and the purposes fairly intended by the Act:

(1) The Touchstone High Yield Fund is an appropriate portfolio to which to move contractowners with value allocated to the Morgan Stanley High Yield Portfolio because the portfolios have substantially similar investment objectives and policies.

(2) The costs of the Substitution, including any brokerage costs, will be borne by Integrity and National Integrity and will not be borne by contractowners. No charges will be assessed to effect the Substitution.

(3) The Substitution will be at the net asset values of the respective shares without the imposition of any transfer or similar charge and with no change in the amount of any contractowner's cash value or death benefit or in the dollar value of his or her investment of either of the subaccounts.

(4) The Substitution will not cause the fees and charges under the Contracts currently being paid by contractowners to be greater after the Substitution than before the Substitution and in each case will result in contractowners' contract values being moved to a portfolio with the same current total annual expenses (including lower current management fees) than the current total annual expenses of the Morgan Stanley High Yield Portfolio.

(5) Touchstone will cap total annual expenses of the Touchstone High Yield Fund at .80% of average daily net assets for a two-year period beginning on the date of the Substitution.

(6) All contractowners will be given notice of the Substitution prior to the Substitution and will have an opportunity for 30 days after the Substitution to reallocate accumulation value among other available subaccounts without the imposition of any transfer charge or limitation and without being counted as one of the contractowner's free transfers in a contract year.

(7) Within five days after the Substitution, Integrity and National Integrity will send to its affected contractowners written confirmation that the Substitution has occurred.

(8) For those contractowners who are contractowners on the date of the Substitution, Integrity and National Integrity will not increase Separate Account or Contract fees and expenses for a two-year period beginning on the date of the Substitution.

(9) The Substitution will in no way alter the insurance benefits to contractowners or the contractual obligations of Integrity and National Integrity.

(10) The Substitution will have no adverse tax consequences to

contractowners and will in no way alter the tax benefits to contractowners.

Conclusion

Applicants request an order of the Commission pursuant to section 26(c) of the Act approving the Substitution. Section 26(c), in pertinent part, provides that the Commission shall issue an order approving a substitution of securities if the evidence establishes that it is consistent with the protection of investors and the purposes fairly intended by the policy and provisions of the Act. For the reasons and upon the facts set forth above, the requested order meets the standards set forth in Section 26(c) and should, therefore, be granted.

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

Margaret H. McFarland,
Deputy Secretary.

[FR Doc. 02-7289 Filed 3-26-02; 8:45 am]

BILLING CODE 8010-01-P

SECURITIES AND EXCHANGE COMMISSION

[Release No. 33-8072, File No. S7-04-02]

Securities Uniformity; Annual Conference on Uniformity of Securities Laws

AGENCY: Securities and Exchange Commission.

ACTION: Notice of conference; Request for comments.

SUMMARY: The Commission and the North American Securities Administrators Association, Inc. today announced a request for comments on the proposed agenda for their annual conference to be held on April 15, 2002. This meeting seeks to carry out the policies and purposes of section 19(c) of the Securities Act of 1933, principally to increase cooperation between the Commission and state securities regulatory authorities in order to maximize the effectiveness and efficiency of securities regulation.

DATES: The conference will be held on April 15, 2002. Your comments must be received by April 10, 2002 in order to be considered for discussion by conference participants.

ADDRESSES: Please send three copies of written comments to Jonathan G. Katz, Secretary, Securities and Exchange Commission, 450 5th Street, NW, Washington, DC 20549-0609. Comments also can be sent electronically to the following e-mail address: rule-comments@sec.gov. Comment letters should refer to File No.

S7-04-02; if e-mail is used, please include this file number on the subject line. Anyone can inspect and copy the comment letters at our Public Reference Room, 450 5th Street, NW, Washington, DC 20549-0102. All electronic comment letters will be posted on the Commission's Internet Web site, <http://www.sec.gov>.¹

FOR FURTHER INFORMATION CONTACT:

Marva Simpson, Office of Small Business Policy, Division of Corporation Finance, Securities and Exchange Commission, 450 5th Street, NW, Washington, DC 20549-0310, (202) 942-2950.

SUPPLEMENTARY INFORMATION:

I. Discussion

The federal government and the states have jointly regulated securities offerings and the securities industry since the adoption of the federal regulatory structure in the Securities Act of 1933 (the "Securities Act").² Issuers trying to raise capital through securities offerings, as well as participants in the secondary trading markets, must comply with the federal securities laws as well as all applicable state laws and regulations. Parties involved in this process have long recognized the need to increase uniformity and cooperation between the federal and state regulatory systems so that capital formation can be made easier while investor protections are retained.

Congress endorsed greater uniformity in securities regulation with the enactment of section 19(c) of the Securities Act in the Small Business Investment Incentive Act of 1980.³ Section 19(c) authorizes the Commission to cooperate with any association of state securities regulators that can assist in carrying out that Section's policy and purpose. Section 19(c) mandates greater federal and state cooperation in securities matters in order to:

- Maximize effectiveness of regulation;
- Maximize uniformity in federal and state standards;
- Minimize interference with the business of capital formation; and
- Reduce the costs, paperwork and burdens of raising investment capital, particularly by small business, and also reduce the costs of the government programs involved.

¹ We do not edit personal, identifying information, such as names or electronic mail addresses, from electronic submissions. Submit only information you wish to make publicly available.

² 15 U.S.C. 77a *et seq.*

³ Pub. L. 96-477, 94 Stat. 2275 (October 21, 1980).