

Integrity's ability effectively to take advantage of business opportunities as these opportunities arise. Applicants further submit that the requested relief is consistent with the purposes of the 1940 Act and the protection of investors for the same reasons. If National Integrity were required repeatedly to seek exemptive relief with respect to the same issues addressed in this application, investors would not receive any benefit or additional protection thereby.

5. Applicants represent that they have reviewed publicly-available information regarding the aggregate level of the mortality and expense risk charges under variable annuity contracts comparable to the Contracts currently being offered in the insurance industry, taking into consideration such factors as current charge levels, the manner in which charges are imposed, the presence of charge level or annuity rate guarantees and the markets in which the Contracts will be offered. Based upon the foregoing, Applicants represent that the mortality and expense risk charges under the Contracts are within the range of industry practice for comparable contracts. Applicants will maintain at the headquarters of Arm Financial and make available to the Commission, upon request, a memorandum outlining the methodology underlying this representation. Similarly, prior to making available any Future Contracts through the Separate Accounts or Other Separate Accounts, Applicants will represent that the mortality and expense risk charges under any such contracts will be within the range of industry practice for comparable contracts. Applicants will maintain at the headquarters of Arm Financial and make available to the Commission, upon request, a memorandum outlining the methodology underlying such representation.

6. Applicants do not believe that the CDSC under the Contracts will necessarily cover the expected costs of distribution the Contracts. Any shortfall will be made up from National Integrity's general account assets which will include amounts derived from mortality and expense risk charges. National Integrity has concluded that there is a reasonable likelihood that the distribution financing arrangement being used in connection with the Contracts will benefit the Separate Accounts and the Participants. National integrity will maintain at the headquarters of Arm Financial and make available to the Commission, upon request, a memorandum setting forth the basis for this representation. Similarly, National Integrity will maintain at the

headquarters of Arm Financial and make available to the Commission, upon request, a memorandum setting forth the basis for the same representation with respect to Future Contracts offered by the Separate Accounts or by Other Separate Accounts.

7. Applicants represent that the Separate Accounts and Other Separate Accounts will invest only in a management investment company which has undertaken, in the event such company adopts a plan under Rule 12b-1 under the 1940 Act to finance distribution expenses, to have a board of directors or trustees, a majority of whom are not "interested persons" of the company within the meaning of Section 2(a)(19) of the 1940 Act, formulate and approve any plan under Rule 12b-1 to finance distribution expenses.

Conclusion

Applicants assert that, for the reasons and upon the facts set forth above, the requested exemptions from Sections 26(a)(2)(C) and 27(c)(2) of the 1940 Act to deduct the mortality and expense risk charge under the Contracts are necessary and appropriate in the public interest and consistent with the protection of investors and the policies and provisions of the 1940 Act.

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

Margaret H. McFarland,

Deputy Secretary.

[FR Doc. 96-7155 Filed 3-22-96; 8:45 am]

BILLING CODE 8010-01-M

[Rel. No. IC-21831; File No. 812-9784]

Princor Balanced Fund, Inc., et al.

March 19, 1996.

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

ACTION: Notice of Application for an Order under the Investment Company Act of 1940 (the "1940 Act").

APPLICANTS: Princor Balanced Fund, Inc., Princor Blue Chip Fund, Inc., Princor Capital Accumulation Fund, Inc., Princor Emerging Growth Fund, Inc., Princor Growth Fund, Inc., Princor World Fund, Inc., Princor Bond Fund, Inc., Princor Cash Management Fund, Inc., Princor Government Securities Income Fund, Inc., Princor High Yield Fund, Inc., Princor Utilities Fund, Inc. (collectively, the "Funds"), Princor Financial Services Corporation ("Princor") and Principal Mutual Life Insurance Company ("Principal Mutual").

RELEVANT 1940 ACT SECTIONS: An order of the Commission is requested under Section 11(a) of the 1940 Act.

SUMMARY OF APPLICATION: Applicants seek an order approving the terms of an offer of exchange by the Funds and Princor to certain holders of participation certificates under variable annuity contracts (the "Contracts") issued by Separate Account B ("Account B") and Separate Account C ("Account C," and together with Account B, the "Accounts") of Principal Mutual.

FILING DATE: The application was filed on September 27, 1995, and amended on March 13, 1996.

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 April 15, 1996, 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 may request notification of a hearing by writing to the Secretary of the Commission.

ADDRESSES: Secretary, SEC, 450 5th Street, NW., Washington, DC 20549. Applicants, Michael D. Roughton, Esq., The Principal Financial Group, Des Moines, Iowa 50392-0300.

FOR FURTHER INFORMATION CONTACT: Mark C. Amorosi, Attorney, or Patrice M. Pitts, Special Counsel, Office of Insurance Products (Division of Investment Management), at (202) 942-0670.

SUPPLEMENTARY INFORMATION: Following is a summary of the application; the complete application is available for a fee from the Public Reference Branch of the Commission.

Applicants' Representations

1. Each Fund was organized by Principal Mutual as a Maryland corporation and is registered under the 1940 Act as an open-end, diversified, management investment company. Each Fund has two classes of shares, "A Shares" (which are sold with a front-end sales load of up to 4.75%) and "B Shares" (which, for the Funds other than the Princor Cash Management Fund, are sold with a deferred sales load of up to 4% that declines to 0% after the sixth year). The Funds have a wide range of investment objectives.

2. Princor is an indirect, wholly-owned subsidiary of Principal Mutual. Princor is registered with the Commission as a broker-dealer and is a member of the NASD. Princor is the principal underwriter for each of the Funds and for the variable annuity contracts issued by the Accounts.

3. The investment adviser of each of the Funds is Princor Management Corporation ("PMC"), an indirect wholly-owned subsidiary of Principal Mutual. The investment sub-adviser of each Fund other than the Princor Bond Fund, the Princor Cash Management Fund and the Princor High Yield Fund is Invista Capital Management, Inc., which is also an indirect wholly-owned subsidiary of Principal Mutual.

4. The Funds' expense ratios for their last fiscal year ranged from a low of 0.70%¹ for the Princor Cash Management Fund to a high of 1.74% for the Princor Emerging Growth Fund and the Princor World Fund.

5. The Contracts are group variable annuity contracts issued by Account B and Account C of Principal Mutual, a mutual life insurance company. The Contracts issued by Account B are designed for use in connection with tax-deferred retirement plans, including plans or programs adopted by public school systems or other agencies of a state or its subdivisions or certain tax exempt organizations pursuant to Section 403(b) of the Internal Revenue Code of 1986, as amended (the "Code"), and individual retirement annuity plans or programs adopted pursuant to Section 408 of the Code. The Contracts issued by Account C are designed for use in conjunction with qualified plans adopted pursuant to Section 401(a) of the Code. Applicants state that the Contracts are not being offered to new groups but continue to be offered to participants in existing group contracts, including new participants.

6. The Contracts have a contingent deferred sales load ("CDSL") that declines from 7% to 0% of the amount withdrawn over a period of ten years. In no case will the CDSL exceed 9% of payments relating to the amounts withdrawn.

7. Applicants state that the Contracts have an administration charge of \$25 per year for each participant and an asset-based administrative charge. That asset-based administrative charge is 0.50% of the first \$50,000 of Contract value of a participant. If payments for a participant under a Contract are made as

part of a retirement plan sponsored by, or program of, the employer of a participant and Principal Mutual receives all of that portion of the payments under such a plan or program which is directed to annuity contracts for all employees participating in the plan or program, then the percentage of the asset-based administration charge will be computed by dividing 0.50% of the first \$50,000 of Contract value of a participant by the total Contract value of all that employer's participants. In some cases, employers pay all or a portion of those administration charges for their participants.

8. A mortality and expense risk charge of up to 2.00% of the assets of the issuing Account may be deducted under the Contracts. Currently, Applicants state that this charge is 1.4965% (1.0001% for a rollover individual retirement annuity). An increase to more than 1.75% would require approval of the Commission.

9. There is no charge for transfers under the Contracts, but such transfers are limited to two per twelve month period, absent consent of Principal Mutual. State premium taxes are deducted at annuitization or from payments, in accordance with applicable state laws.

10. The expense ratios of the three underlying funds which serve as the investment vehicle for the Accounts were 0.51%, 0.55% and 0.60% on an annual basis in their last fiscal year. Applicants state that when the underlying fund expenses are added to the 1.4965% current mortality and expense risk charge of the Contract, the ongoing expense of the Contracts ranges from 2.0065% to 2.0965%, excluding the \$25 per year administration fee and any applicable asset-based administration charges, and disregarding the possibility of an increase in the mortality and expense risk charge to 1.75% without Commission approval or to 2.00% with Commission approval. For Contracts sold as rollover individual retirement annuities, the range of such expenses is 1.5101% to 1.6001%, also excluding administration charges and disregarding the possibility of increases in the mortality and expense risk charge.

11. Class A Shares of the Funds will be offered to holders of participation certificates issued under the Contracts. Any exchange pursuant to the offer will be at relative net asset value (i.e., immediately after an exchange, the aggregate value of the shares of the Fund or Funds acquired will be identical to the participant's cash value under the Contract immediately prior to the exchange). Applicants state that no

administrative fee or any other charge will be imposed for effecting the exchange. However, Principal Mutual reserves the right to deduct the annual \$25 Contract administration fee due at the time an exchange is effected. The CDSL on the Contracts exchanged for Fund shares will not be imposed, and no front-end load of a Fund will be deducted from the proceeds exchanged for Fund shares.

12. Applicants state that the exchange offer will be conveyed to offerees by written materials and by telephone contact by registered representatives of Princor. Each offeree who expresses interest in the exchange offer will be mailed a combined prospectus for the Funds. Accompanying the prospectus will be sales literature that has been approved by the NASD and a cover letter. The sales literature and cover letter will highlight the differences between the Principal Mutual Contracts and shares of the Funds and the terms of the exchange offer. Interested offerees will then be contacted again by telephone by registered representatives of Princor who will be compensated by a payment of 1% of the amounts exchanged, but that compensation will be paid entirely by Princor and not by any holder of a Contract who accepts the exchange offer.

13. The exchanges will be effected as direct transfers and direct rollovers and will not have adverse tax consequences for offerees who accept the exchange offer.

Applicants' Legal Analysis

1. Section 11(a) of the 1940 Act makes it unlawful for a registered open-end investment company or any principal underwriter for such a company to make or cause to be made an offer to the holder of a security of such company or of any other open-end investment company to exchange his security for a security in the same or another such company on any basis other than the relative net asset values of the respective securities to be exchanged, unless the terms of the offer have first been submitted to and approved by the Commission or are in accordance with such rules and regulations as the Commission may have prescribed in respect of such offers which are in effect at the time such offer is made.

2. Section 11(c) of the 1940 Act provides that, irrespective of the basis of exchange, subsection (a) shall be applicable to any type of offer of exchange of the securities of registered unit investment trusts for the securities of any other investment company.

3. Applicants maintain, for the reasons set forth below, that the terms

¹ Applicants state that this ratio reflects the impact of a voluntary waiver of advisory fees by PMC. The expense ratio without that waiver during the last fiscal year would have been 0.90%.

of the proposed offer of exchange do not involve any of the "switching" (i.e., offer of exchange made solely for the purpose of assessing additional selling charges) abuses that led to the adoption of Section 11 of the 1940 Act.

4. Applicants state that the exchange will be made on the basis of relative net asset value (i.e., immediately after an exchange, the cash value of the Fund shares acquired will be identical to the participant's cash value under the Contract immediately prior to the exchange). Further, no CDSL will be applicable to Fund shares acquired as part of the exchange, and no administrative fee or sales load will be deducted at the time of the exchange. Applicants state that the exchanges will not have adverse tax consequences for offerees who accept the exchange offer because the exchanges proposed would be made as direct rollovers or direct transfers.

5. Applicants state that Funds with investment objectives comparable to those of the investment options under the Contracts will be available through the exchange offer. In addition, Funds with a much wider variety of investment objectives will be available through the exchange offer than are currently available under the Contracts. Furthermore, Applicants state that the expenses of the Funds are generally lower than the combined expenses and fees of the Accounts and the investment companies in which the Accounts invest. Accordingly, those who accept the exchange offer should incur lower expenses as Fund shareholders than as Contract participants.

6. Applicants assert that compensation by Princor to its registered representatives for successfully soliciting exchanges under the terms and circumstances, which includes no payment of additional sales loads or charges by those accepting the exchange offer, does not adversely affect the public interest or impair investor protection in any way.

7. Applicants have consented to the following conditions:

(a) No redemption or administrative fee will be imposed in connection with the proposed exchanges unless the fee would be permissible under Rules 11a-2 and 11a-3 for exchanges authorized by these Rules.

(b) At the commencement of the exchange offer, and at all times thereafter, the prospectus or the statement of additional information, as appropriate, of the offering Fund will disclose:

(i) The amount of any administrative or redemption fee, if any, imposed in

connection with the exchange transaction; and

(ii) that the exchange offer is subject to termination and its terms are subject to change.

(c) Whenever the exchange offer is to be terminated or its terms are to be amended materially, any holder of a security subject to that offer shall be given prominent notice of the impending termination or amendment at least 60 days prior to the date of termination or the effective date of the amendment, provided that no notice need be given if, under extraordinary circumstances, either:

(i) there is either a suspension of the redemption of the exchanged security under Section 22(e) of the 1940 Act and the rules and regulations thereunder, or

(ii) the offering Fund temporarily delays or ceases the sale of the security to be acquired because it is unable to invest amounts effectively in accordance with applicable investment objectives, policies and restrictions.

Other than in the circumstances set forth in (c)(i) and (c)(ii) above, Applicants will dispense with the 60 days notice requirement only upon obtaining further relief from the Commission authorizing them to do so.

Conclusion

For the reasons set forth above, Applicants submit that the proposed offer of exchange is consistent with the intent and purpose of Section 11 of the 1940 Act, and that none of the abuses which Section 11 was enacted to prevent are present.

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

Margaret H. McFarland,

Deputy Secretary.

[FR Doc. 96-7156 Filed 3-22-96; 8:45 am]

BILLING CODE 8010-01-M

[Investment Company Act Release No. 21828; 811-6615]

Prudential Adjustable Rate Securities Fund, Inc.

March 18, 1996.

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

ACTION: Notice of Application for Deregistration under the Investment Company Act of 1940 (the "Act").

APPLICANT: Prudential Adjustable Rate Securities Fund, Inc.

RELEVANT ACT SECTION: Section 8(f).

SUMMARY OF APPLICATION: Applicant requests an order declaring that it has ceased to be an investment company.

FILING DATE: The application was filed on February 7, 1996.

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 SEC's Secretary and serving applicant with a copy of the request, personally or by mail. Hearing requests should be received by the SEC by 5:30 p.m. on April 12, 1996 and should be accompanied by proof of service on the applicant, 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 SEC's Secretary.

ADDRESSES: Secretary, SEC, 450 5th Street, NW., Washington, DC 20549. Applicant, One Seaport Plaza, New York, New York 10292.

FOR FURTHER INFORMATION CONTACT: Sarah A. Buescher, Staff Attorney, at (202) 942-0573, or Robert A. Robertson, Branch Chief, at (202) 942-0564 (Division of Investment Management, Office of Investment Company Regulation).

SUPPLEMENTARY INFORMATION: The following is a summary of the application. The complete application may be obtained for a fee from the SEC's Public Reference Branch.

Applicant's Representations

1. Applicant is an open-end management investment company organized as a Maryland corporation. On March 25, 1992, applicant filed a registration statement pursuant to section 8(b) of the act on Form N-1A. The registration statement became effective on June 1, 1992, and the initial public offering commenced on June 10, 1992. Applicant has two classes of shares, Class A and Class B.

2. On May 15, 1995, applicant's board of directors approved an Agreement and Plan of Reorganization and Liquidation (the "Agreement"). The Agreement provided that applicant would transfer its assets to Prudential Government Securities Trust-Short-Intermediate Term Series ("Term Series"), in exchange for shares of Term Series.

3. In order to comply with rule 17a-8, which provides an exemption for mergers of certain affiliated investment companies, applicant's directors determined that the reorganization was in the best interest of applicant and applicant's shareholders and that the interests of existing shareholders would