survey or study of the cost of Commission rules and forms.

The collection of information under rule 34b–1 is mandatory. The information provided by rule 34b–1 is not kept confidential. The Commission may not conduct or sponsor, and a person is not required to respond to, a collection of information unless it displays a current valid OMB control number.

General comments regarding the above information should be directed to the following persons: (i) Desk Officer for the Securities and Exchange Commission, Office of Information and Regulatory Affairs, Office of Management and Budget, New Executive Office Building, Washington, DC 20503; and (ii) Michael E. Bartell, Associate Executive Director, Office of Information Technology, Securities and Exchange Commission, 450 Fifth Street, NW., Washington, DC 20549. Comments must be submitted to OMB within 30 days of this notice.

Dated: February 14, 2000.

Margaret H. McFarland,

Deputy Secretary.

[FR Doc. 00–3937 Filed 1–17–00; 8:45 am]

BILLING CODE 8010–01–M

SECURITIES AND EXCHANGE COMMISSION

[Rel. No. IC–24286; File No. 812–11506]

Hartford Life Insurance Company, *et al.*

February 11, 2000.

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

ACTION: Notice of application for an order pursuant to Section 11(a) of the Investment Company Act of 1940 (the ''Act'') approving the terms of an offer of exchange and for an order pursuant to Section 6(c) of the Act granting exemptions from Sections 2(a)(32), 22(c) and 27(i)(2)(A) of the Act and Rule 22c-1 thereunder for the recapture of certain bonus credits.

APPLICANTS: Hartford Life Insurance Company (''Hartford Life''), Hartford Life Insurance Company Separate Account Two (''HL Account''), Putnam Capital Manager Trust Separate Account (''HL Putnam Account''), Hartford Life and Annuity Insurance Company (''Hartford Life and Annuity''), Hartford Life and Annuity Insurance Company Separate Account One (''HLA Account''), Putnam Capital Manager Trust Separate Account Two (''HLA Putnam Account'', collectively with the HL Account, HL Putnam Account and HLA Account, the ''Accounts'') and Hartford Securities Distribution Company, Inc. (''HSD'').

SUMMARY OF APPLICATION: Applicants seek an order approving the terms of a proposed offer of exchange of new variable annuity contracts issued by Hartford Life and Hartford Life and Annuity (collectively ''Hartford'') and made available through the Accounts (the ''New Contracts'') for certain outstanding annuity contracts issued by Hartford and made available through the Accounts (the ''Old Contracts'', collectively with the New Contracts, the ''Contracts''). Applicants also seek an order to permit the recapture, from any New Contract canceled during the right to cancel period, a 2% bonus payment credited on amounts transferred to the New Contracts under the proposed offer of exchange.

FILING DATE: The application was filed on February 12, 1999, and amended on October 15, 1999, November 12, 1999, and December 10, 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 must be received by the Commission by 5:30 p.m. on March 7, 2000, 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: Secretary, Securities and Exchange Commission, 450 Fifth Street, NW, Washington, DC 20549–0609. Applicants, Marianne O'Doherty, Esq., Hartford Life Inc., P.O. Box 2999, Hartford, Connecticut 06140–2999.

FOR FURTHER INFORMATION CONTACT: Lorna MacLeod, Senior Counsel, or Susan 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 Public Reference Branch of the Commission.

Applicants' Representations

Applicants

1. Hartford Life is a stock life insurance company engaged in the business of writing life insurance and annuities, both individual and group, in all states of the United States and the District of Columbia. Hartford Life is ultimately controlled by the Hartford Financial Services Group, Inc. (''Hartford Financial Services''), a financial services provider in the United States.

2. The HL Account is the separate account in which Hartford sets aside and invests assets attributable to Hartford Life's Director variable annuity contracts (''HL Director Contracts''). The HL Account is organized and registered under the Act as a unit investment trust (File No. 811–4732).

3. The HL Putnam Account is the separate account in which Hartford sets aside and invests the assets attributable to the Hartford Life's Putnam Hartford Capital Manager Variable Annuity (''HL Putnam Contracts''). The HL Putnam Account is organized and registered under the Act as a unit investment trust (File No. 811–6285).

4. Hartford Life and Annuity is a stock life insurance company engaged in the business of writing life insurance and annuities, both individual and group, in all states of the United States and the District of Columbia, except New York. Hartford Life and Annuity is ultimately controlled by Hartford Financial Services.

5. The HLA Account is the separate account in which Hartford Life and Annuity sets aside and invests assets attributable to Hartford Life and Annuity's Director variable annuity contracts (''HLA Director Contracts,'' collectively with the HL Director Contracts, the ''Director Contracts''). The HLA Account is organized and registered under the Act as a unit investment trust (File No. 811–07426).

6. The HLA Putnam Account is the separate account in which Hartford Life and Annuity sets aside and invests the assets attributable to the HLA Putnam Hartford Capital Manager Variable Annuity (''HLA Putnam Contracts,'' collectively with the HL Putnam Contracts, the ''Putnam Contracts''). The HLA Putnam Account is organized and registered under the Act as a unit investment trust (File No. 811–07622).

7. HSD is registered with the Commission as a broker-dealer and is a member of the National Association of Securities Dealers, Inc. HSD is the principal underwriter for the Contracts and for other Hartford variable insurance products. HSD is an affiliate of Hartford Life and Hartford Life and Annuity. Hartford Life's and Hartford Life and Annuity's parent company indirectly owns 100% of HSD.

8. Both Hartford Life and Hartford Life and Annuity offer Director Contracts and Putnam Contracts. The HL and HLA Director Contracts are identical to each other and the HL and HLA Putnam Contracts are identical to each other in all respects, except that the Hartford Life Contracts are issued through Hartford Life's separate accounts and the Hartford Life and Annuity Contracts are issued through Hartford Life and Annuity's separate accounts.

Reasons for Exchange Offer

9. Applicants assert that during the later part of this decade, the variable annuity marketplace has become increasingly competitive. Many of the purchases of variable annuity contracts in the 1980s and early 1900s are at, or close to, the expiration of their deferred sales charge period, and the contract values of many contracts are no longer subject to a deferred sales charge. Holders of such contracts have become prime targets for competitors' variable annuity sales efforts. One feature offered to variable annuity purchasers by several of Hartford's competitors is a ''bonus'' or ''credit'' funded from the insurer's general account, generally ranging from 1–4% of contract value. Hartford has experienced the effects of these ''bonus offers'' through the loss of a substantial portion of its Director and Putnam Contract business.

10. Hartford states that its competitors are permitted to make bonus offers to Hartford's Director and Putnam Contract owners because offers of exchange to contract owners of unaffiliated insurance companies are not prohibited by Section 11 of the Act by virtue of a no-action position granted to Alexander Hamilton Funds (pub. avail. July 20, 1994) (''Alexander Hamilton''). Applicants state that Alexander Hamilton stands for the proposition that, except for limited exceptions, exchange offers between unaffiliated investment companies are not prohibited under Section 11. Consistent with Section 11(a), therefore, a fund may impose a contingent deferred sales charge (''CDSC'') on shares purchased by investors with proceeds of shares exchanged from an unaffiliated fund.

11. Applicants assert that, but for the existence of the affiliated nature of the exchange, Hartford would be able to offer a bonus program to its existing Director and Putnam Contract owners that is similar to its competitors' programs. However, unlike its competitors who may make bonus offers to Director and Putnam Contract owners, Hartford is constrained from making the similar offer without first obtaining Commission approval of the terms of the exchange.

12. Applicants state that in response to this competitive dilemma, Hartford has developed and exchange offer (''Exchange Offer'') that would give eligible owners of Director and Putnam Contracts the opportunity to exchange their existing Contracts for an enhanced Contract. On the day the exchange is effected (the ''Exchange Date''), eligible owners would also receive a 2% bonus based on the Contract value of each Old Contract surrendered in exchange for an enhanced New Contract (''2% Bonus''). Withdrawals made after the right to cancel period under the New Contract has expired would be governed by the terms of the New Contract, including application of the CDSC. If a Contract owner exercises his or her right to cancel the New Contract, the 2% Bonus will be returned to Hartford and the Old Contract will be reinstated with Contract values that reflect the investment experience while the New Contract was held. Applicants state that the terms of the Exchange Offer are designed to respond to Hartford's competitive dilemma and to assure that persisting Contract owners who accept the Exchange Offer receive an immediate and enduring economic benefit.

The Contracts

13. Certain New Director Contracts (''Director VI'') are offered pursuant to registration statements under the Securities Act of 1933 (the ''1933 Act'') filed on December 23, 1993, and amended on September 28, 1998 (HL File No. 33–73570; HLA File No. 33–73568). When available, other New Director Contracts (''Director VII'') will be offered pursuant to registration statements under the 1933 Act filed on December 22, 1998 (HL File No. 333–69485; HLA File No. 333–69487).

14. Applicants state that the New Director Contracts, which represent either the sixth (or, when available, the seventh) version of Hartford's Director Contract, were designed to enhance the Old Director Contracts. Hartford has sold Director VI since June 27, 1994, and is in the process of obtaining state approvals to sell Director VII. The New Director Contracts are offered as individual and group tax-deferred flexible premium variable annuity contracts. They permit Contract values to be accumulated on a variable, fixed, or combination of variable and fixed basis. They require a minimum initial premium payment of $1,000.

15. Contract values of the New Director Contracts currently may be allocated to sub-accounts of the HL Account (with respect to Hartford Life Director Contracts) or the HLA Account (with respect to HLA Director Contracts) that each invest in 15 different investment company portfolios (''Underlying Funds'')—15 mutual funds sponsored by Hartford. Under four ''propriety'' versions of the HL Director VI Contract and one ''proprietary'' version of the HLA Director VI Contract, Contract values also maybe allocated to various additional Underlying Funds available under those Contracts.

16. Values may also be accumulated on a guaranteed basis by allocation to Hartford's general account (the ''Fixed Account''). Fixed Account interest is currently guaranteed to be credited at a rate of at least 3% on an annual basis.

17. Contract values may be transferred among the sub-accounts of the Hartford Accounts without charge, although Hartford reserves the right to limit the number of transfers to 12 in a Contract year. Transfers to and from the Fixed Account are permitted, subject to certain restrictions described in the prospectus for the New Director Contracts.

18. New Director Contract owners may enroll in a special pre-authorized transfer program known as Hartford's Dollar Cost Averaging Bonus Program (the ''DCA Bonus Program''). Contract owners who enroll under the DCA Bonus Program may allocate a minimum of $5,000 of their premium payment into the DCA Bonus Program and pre-authorize transfers to any of the sub-accounts.

19. Contract values under the New Director Contracts may be accessed at any time prior to the annuity commencement date by means of partial surrenders or full surrender. The New Director Contracts permit withdrawal of up to 10% (15% in the case of Director VII) of premium payments per Contract year during the initial CDSC period and, after the seventh Contract year, 100% of Contract value less premium payments made during the seven years prior to surrender, and 10% (15% in the case of Director VII) of premium payments invested for less than seven years. The annual withdrawal amount, which is not subject to the CDSC, is also referred to herein as the ''free withdrawal amount.''

20. The New Director Contracts provide an enhanced guaranteed death benefit in the event of the death of the annuitant or Contract owner before annuity payments have commenced. The death benefit will be calculated upon receipt of due proof of death at Hartford's Administrative Office and will equal the greatest of: (a) The

Contract value; (b) 100% of all premium payments made under the Contract reduced by the dollar amount of any partial surrenders since the date of issue; or (c) the maximum anniversary value preceding the date of death.

21. The Director VII Contract also provides for an optional death benefit which must be applied for at the time of application or exchange. For an additional charge at an annual rate of 15% of the average daily sub-account value, the optional death benefit is equal to the greatest of: (a) The Contract value; (b) 100% of all premium payments made under the Contract, reduced by the dollar amount of any partial surrenders since the Contract issue date; (c) the maximum anniversary value; or (d) the interest accumulation value, which is equal to total premium payments, adjusted for partial surrenders, compounded daily at an annual interest rate of 5.0%.

22. The New Director Contracts contain either five (Director VI) or seven (Director VII) annuity payment options, including the five payment options available under the Old Director Contracts. Annuity options are available on a fixed or variable basis, or a combination thereof.

23. The New Director Contracts assess a CDSC against partial or full surrenders in excess of the free withdrawal amount. The length of time from receipt of a premium payment to the time of surrender determines the percentage of the CDSC. During the first seven years from each premium payment, a CDSC will be assessed against the surrender of premium payments that is a percentage of the amount surrendered (not to exceed the aggregate amount of the premium payments made). For Director VI, the CDSC ranges from 6% in year 1 to 0% in years 8 and after. For Director VII, the CDSC ranges from 7% in year 1 to 0% in years 8 and after.

24. The New Director Contracts provide for a waiver of the CDSC if the annuitant is confined, at the recommendation of a physician for medically necessary reasons, for at least 180 days, to a hospital or a nursing facility. Additionally, no CDSC is assessed in the event of death of the annuitant, death of the Contract Owner or if payments are made under an annuity option.

25. During the life of the New Director Contracts, Hartford deducts a mortality and expense risk charge from Contract value at an annual rate of 1.25% of the average daily sub-account value.

26. A charge for administrative expenses is deducted annually on each New Director Contract from the Contract value. The annual maintenance fee is $30 per Contract year, and is waived on Contracts with a $50,000 or greater Contract value.

27. Charges are deducted under the New Director Contracts for premium tax, if applicable. Certain states impose a premium tax, currently ranging up to 3.5%. Hartford pays premium taxes at the time imposed and recovers premium taxes upon full surrender, when a death benefit is paid or at annuitization.

28. Certain New Putnam Contracts (''Putnam V'') are offered pursuant to registration statements under the 1933 Act filed on December 23, 1993, and amended on April 15, 1998 (HL File No. 33–73566; HLA File No. 333–73572). When available, other New Putnam Contracts (''Putnam VI'') will be offered pursuant to registration statements under the 1933 Act filed on December 22, 1998 (HL File No. 333–69439; HLA File No. 333–69429).

29. The New Putnam Contracts, which are either the fifth (or, when available, the sixth) version of Hartford's Putnam Capital Manager Contract, are identical to the New Director Contracts except for differences in the Underlying Funds and the administration charge discussed below. Hartford has sold Putnam V since June 27, 1994, and is in the process of obtaining state approvals to sell Putnam VI.

30. There are currently 20 sub-accounts available under the New Putnam Contract, each of which invests in an Underlying Fund sponsored by Putnam.

31. Charges under the New Putnam Contracts are identical to charges under the New Director Contracts, except that Hartford makes a daily charge for administration at the annual rate of .15% against all new Putnam Contract values held in the Putnam Account during both the accumulation and annuity phases of the Contract.

32. The Old Director Contracts (four contracts also referred to respectively as ''Director II'' through ''Director V'') are offered pursuant to registration statements under the 1933 Act (HL Director II through Director V: File No. 33–06952; HLA Director II through V: File No. 33–56790).

33. The Old Director Contracts represent the second through fifth versions of Hartford's Director Contract. They are offered as flexible premium group and individual tax-deferred variable annuity contracts. They permit Contract values to be accumulated only on a variable basis (Director II) or on a variable, fixed or combination variable and fixed bases (Director III through V).

34. Contract values of the Old Director Contracts currently may be allocated to the same 15 sub-accounts of the Hartford Account available under the New Director Contract, each of which invests in Underlying Funds sponsored by Hartford.

35. Contract values of an Old Director Contract may be accessed by means of partial surrenders or full surrender. Old Director Contracts permit an annual 10% free withdrawal amount also available under the Director VI Contract.

36. The Old Director Contracts offer a minimum (no step-up) death benefit in the case of Director II and a periodic step-up death benefit in the cases of Director III through Director V. In particular, the death benefit provided under the Old Director Contracts may be calculated based on the Contract value on a specified Contract anniversary rather than the maximum anniversary value preceding the date of death.

37. The Old Director Contract has a CDSC. Additionally, a $25 charge is deducted from Contract value annually for Contract maintenance, and a mortality and expense risks charge is deducted from Contract value at an annual rate of 1.25% of daily sub-account value. Charges for premium taxes, if any, are deducted from premium payments under the New Director Contracts. Certain states impose a premium tax, currently ranging up to 3.5%. Hartford pays premium taxes at the time imposed and recovers the premium taxes upon full surrender, death or annuitization.

38. The Old Putnam Contracts (four contracts referred to respectively as ''Putnam I'' through ''Putnam IV'') are offered pursuant to registration statements under the 1933 Act (HL Putnam I through Putnam III: File No. 33–17207; HL Putnam IV: File No. 33–73566; HLA Putnam I through V: File No. 33–60702).

39. The Old Putnam Contracts represent the first through fourth versions of Hartford's Putnam Contract. They are identical to the Old Director II through V Contracts except for offering different Underlying Funds and assessing an administration charge in the manner described below.

40. Contract values of the Old Putnam Contracts currently may be allowed to the same 20 sub-accounts of the Putnam Account available under the New Putnam Contract, each of which invests in Underlying Funds sponsored by Putnam.

41. Charges under the Old Putnam Contracts are identical to the charges under the Old Director II through V Contracts, except that each Old Putnam Contract deducts administration fees at an annual rate of .15% of average daily Putnam sub-account value.

42. Applicants represent that the features and benefits of the New Contracts will be no less favorable than under the Old Contract, except for differences in the minimum guaranteed interest rates under the Fixed Account option and fixed annuity options. Applicants also represent that, with the exception of the CDSC and the annual maintenance fee, the fees and charges of the New Contracts will be no higher than those of the Old Contract.

Terms of the Exchange Offer

43. Applicants propose to offer eligible owners of Old Contracts the opportunity to exchange their Old Contracts for New Contracts by means of the Exchange Offer. Eligible Director II–V Contract owners will be permitted to exchange their Old Director Contract for any one of five versions of a Director VI Contract, and when available, a Director VII Contract. Similarly, eligible Putnam I–IV Contract owners will be permitted to exchange their Old Putnam Contract for a Putnam V Contract, and when available, a Putnam VI Contract. To be eligible for the Exchange Offer, Director and Putnam Contract owners must (a) have completed seven or more Contract years under their Old Contract; and either (b) have not made deposits of premium under the Contract in the prior 24 months; or (c) have remaining surrender charges of less than 2% of their current Contract value.

44. Hartford, from its general account, will provide a 2% Bonus to each owner of an Old Contract who accepts the offer, which is based on the Contract value of each Old Contract surrendered in exchange for a New Contract. The Exchange Offer will provide that, upon acceptance of the offer, a New Contract will be issued with a Contract value equal to 2% greater than the Contract value of the Old Contract surrendered in the exchange. The Contract value of an Old Contract (''Exchange Value''), together with the 2% Bonus and any additional premium payments submitted for the New Contract, will be applied to the New Contract as of the Exchange Date. No CDSC will be deducted upon the surrender of an Old Contract in connection with an exchange.

45. If a Contract owner exercises his or her right to cancel the New Contract values that reflect the investment experience while the New Contract was held. After expiration of the New Contract's right to cancel period, withdrawals will be governed by the terms of the New Contract for purposes of calculating any CDSC. The Exchange Date will be the issue date of the New Contract for purposes of determining Contract years and anniversaries after the Exchange Date.

46. After an initial notification of the Exchange Offer in quarterly reports or other communications to Director and Putnam Contract owners and contacts made by Hartford's registered representatives, the Exchange Offer will be made by providing eligible owners of Old Contracts who express an interest in learning the details of the offer a prospectus for the New Contracts, accompanied by a letter explaining the offer (''Offering Letter'') and sales literature that compares the Old and New Contracts.

47. The Offering Letter will advise owners of an Old Contract that the Exchange Offer is specifically designed for those Contract owners who intend to continue to hold their Contracts as long-term investment vehicles. The letter will state that the offer is not intended for all Contract owners, and that it is especially not appropriate for any Contract owner who anticipates surrendering all or a significant part (*i.e.*, more than the 10 or 15% on an annual basis) or his or her Contract before five to seven years. In this regard, the letter will encourage Contract owners to carefully evaluate their personal financial situation when deciding whether to accept or reject the Exchange Offer. In addition, the Offering Letter will explain how an owner of an Old Contract contemplating an exchange may avoid the application CDSC on the New Contract if no more than the annual ''free withdrawal amount'' is surrendered and any subsequent deposits are held until expiration of the CDSC period. In this regard, the Offering Letter will state in clear plain English that if the New Contract is surrendered during the initial CDSC period: (a) the 2% Bonus may be more than offset by the CDSC; and (b) a Contract owner may be worse off than if he or she had rejected the Exchange Offer.

48. To accept the Exchange Offer, an owner of an Old Contract must complete an internal exchange form. Applicants state that no adverse tax consequences will be incurred by those Contract owners who accept the Exchange Offer and that the exchanges will constitute tax-free exchanges pursuant to Section 1035 of the Internal Revenue Code.

49. The Exchange Offer is meant to encourage existing Contract owners to remain with Hartford rather than surrender their Contracts in exchange for a competitor's product offering a similar bonus. If the New Contract (CDSC) is not permitted on the Exchange Value, Applicants believe that some Contract owners might exchange their New Contracts with the intent to take advantage of the 2% Bonus and then surrender the New Contract without a CDSC. Without the CDSC, Hartford would have no assurance that a Contract owner who accepted the Exchange Offer would persist long enough for the 2% Bonus and payments to register representatives to be recouped through standard fees from the ongoing operation of the New Contracts. Applicants state that registered representatives will be paid commissions for soliciting exchanges that are less than they normally are paid for soliciting sales of New Contracts. Applicants assert that compensating HSD's registered representatives for these exchanges is necessary in order to provide sufficient incentive for them to compete with competitors' registered representatives.

Applicant's Conditions

Applicants agree to the following conditions:

1. The Offering Letter will contain concise, plain English statements that: (a) The Exchange Offer is suitable only for Contract owners who expect to hold their Contracts as long term investments; and (b) if the New Contract is surrendered during the initial CDSC period, the 2% bonus may be more than offset by the CDSC and a Contract owner may be worse off than if he or she had rejected the Exchanger Offer.

2. The Offering Letter will disclose in concise, plain English each aspect of the New Contracts that will be less favorable than the Old Contracts.

3. Hartford will send the Offering Letter directly to eligible Contract owners. A Contract owner choosing to exchange will than complete and sign an internal exchange form, which will prominently restate in concise, plain English the statements required in Condition No. 1, and return it to Hartford. If the internal exchange form is more than two pages long, Hartford will us a separate document to obtain Contract owner acknowledgement of the statements required in Condition No. 1.

4. Hartford will maintain the following separately identifiable records in an easily accessible place for the time periods specified below in this Condition No. 4 for review by the Commission upon request: (a) Records showing the level of exchange activity and how it relates to the total number of Contract owners eligible to exchange (quarterly as a percentage of the number eligible); (b) copies of any form of Offering Letter and other written materials or scripts for presentations by representatives regarding the Exchange Offer that Hartford either prepares or

approves, including the dates that such materials were used; (c) records containing information about each exchange transaction that occurs, including the name of the Contract owner; Old and New Contract numbers; the amount of CDSC waived on surrender of the Old Contract; Bonus paid; the name and CRD number of the registered representative soliciting the exchange, firm affiliation, branch office address, telephone number and the name of the registered representative's broker-dealer; commission paid; the internal exchange form (and separate document, if any, used to obtain the Contract owner's acknowledgment of the statements required in Condition No. 1) showing the name, date of birth, address and telephone number of the Contract owner and the date the internal exchange form (or separate document) was signed; amount of Contract value exchanged; and persistency information relating to the New Contract, including the date of any subsequent surrender and the amount of CDSC paid on the surrender; and (d) logs showing a record of any Contract owner complaint about the exchange; state insurance department inquiries about the exchange; or litigation, arbitration, or other proceeding regarding any exchange. The logs will include the date of the complaint or commencement of the proceeding, name and address of the person making the complaint or commencing the proceeding, nature of the complaint or proceeding, and the persons named or involved in the complaint or proceeding. Applicants will retain records specified in (a) and (d) for a period of six years after the date the records are created, records specified in (b) for a period of six years after the date of last use, and records specified in (c) for a period of two years after the date that the initial CDSC period of the New Contract ends.

Applicants' Legal Analysis

Section 11

1. Section 11(a) of the Act makes it unlawful for any registered open-end 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, unless the terms of the offer have first been submitted to and approved by the Commission or are in accordance with Commission rules adopted under Section 11.

2. Section 11(c) of the Act, in pertinent part, requires, in effect, that any offer of exchange of the securities of a registered unit investment trust for the securities of any other investment company be approved by the Commission or satisfy applicable rules adopted under Section 11, regardless of the basis of the exchange.

3. The purpose of Section 11 of the Act is to prevent ''switching,'' the practice of inducing security holders of one investment company to exchange their securities for those of a different investment company solely for the purpose of exacting additional selling charges. That type of practice was found by Congress to be widespread in the 1930s prior to adoption of the Act.

4. Section 11(c) of the Act requires Commission approval (by order or by rule) of any exchange, regardless of its basis, involving securities issued by a unit investment trust, because investors in unit investment trusts were found by Congress to be particularly vulnerable to switching operations.

5. Applicants assert that the potential for harm to investors perceived in switching was its use to extract additional sales charges from those investors.

6. Applicants assert that the terms of the proposed Exchange Offer do not present the abuses against which Section 11 was intended to protect. The Exchange Offer was designed to allow Hartford to compete on a level playing field with its competitors who are making bonus offers to its current Director and Putnam Contract owners. No additional sales load or other fee will be imposed at the time of exercise of the exchange Offer.

7. Rule 11a–2, by its express terms, provides Commission approval of certain types of offers of exchange of one variable annuity contract for another. Applicants assert that other than the relative net asset value requirement (which is not satisfied because exchanging Contract owners will be given a 2% Bonus), the only part of Rule 11a–2 that would not be satisfied by the proposed Exchange Offer is the requirement that payments under the Old Contracts be treated as if they had been made under the New Contracts on the dates actually made. This provision of Rule 11a–2 is often referred to as a ''tacking'' requirement because it has the effect of ''tacking together'' the CDSC expiration periods of the exchanged and acquired contracts.

8. Applicants assert that the absence of tacking does not mean that an exchange offer cannot be attractive and beneficial to investors. Applicants state that the proposed Exchange Offer would assure an immediate and enduring economic benefit to investors. The 2% Bonus would be applied immediately and the fact that asset-based charges would not be increased by the exchange would assure that the benefit would ensure. An owner of an Old Contract who intends to continue to hold the Contract as a long-term retirement planning vehicle will be significantly advantaged by the Exchange Offer because this 2% Bonus will automatically be added to his or her Contract value upon receipt of an enhanced New Contract. No sales charge will ever be paid on the amount rolled over in the exchange unless the New Contract is surrendered before expiration of the New Contract's CDSC period.

9. Applicants assert that tacking should be viewed as a useful way to avoid the need to scrutinize the terms of an offer of exchange to make sure that there is no abuse. Tacking is not a requirement of Section 11. Rather, it is a creation of a rule designed to approve the terms of offers of exchange ''sight unseen.'' Tacking focuses on the closest thing to multiple deduction of sales loads that is possible in a CDSC context—multiple exposure to sales loads upon surrender or redemption. If tacking and other safeguards of Rule 11a–2 are present, there is no need for the Commission or its staff to evaluate the terms of the offer. The absence of tacking in this fully scrutinized Section 11 application will have no impact on offers made pursuant to the rule on a ''sight unseen'' basis.

10. Applicants assert that the terms of Hartford's Exchange Offer are better than those of its competitors. No tacking is required when Hartford's competitors offer their variable annuity contracts to owners of Old Contracts or when Hartford makes such an offer to competitors' contract owners. In those exchanges, unlike the Exchange Offer proposed by Hartford, exchanging Contract owners must pay any remaining CDSC on the exchanged Contract at the time of the exchange.

11. To the extent there are differences in the Contracts, those differences relate to enhanced contractual features and charges that are fully described in the prospectuses for the New Contracts. Furthermore, the Offering Letter will contain concise, plain English statements that: (a) the Exchange Offer is suitable only for Contract owners who expect to hold their Contracts as long-term investments; and (b) if the New Contract is surrendered during the initial CDSC period, the 2% bonus may be more than offset by the CDSC and a

Contract owner may be worse off than if he or she had rejected the Exchange Offer. Applicants assert that Contract owners should have the opportunity to decide, on the basis of full and fair disclosure, whether the enhancements of the New Contracts and the 2% Bonus justify accepting the offer.

Sections 2(a)(32), 22(c), 27(i)(2)(A) and Rule 22c–1

12. Section 6(c) of the 1940 Act authorizes the Commission to exempt any person, security or transaction, or any class or classes of persons, securities or transactions from the provisions of the 1940 Act and the rules promulgated thereunder, if and to the extent that such exemption is necessary or appropriate in the public interest and consistent with the protection of investors and the purposes fairly intended by the policy and provisions of the 1940 Act. Applicants seek exemption pursuant to Section 6(c) from Sections 2(a)(32), 22(c), and 27(i)(2)(A) of the Act and rule 22c–1 thereunder to the extent deemed necessary to permit Hartford to issue New Contracts that provide for a 2% Bonus upon exchange, and to recapture the 2% Bonus when a Contract owner returns a New Contract to Hartford for a refund during the right to cancel period.

13. Applicants assert that with respect to refunds paid upon the return of the New Contracts within the right to cancel period, the amount payable by Hartford must be reduced by the 2% Bonus amount. Otherwise, purchasers could apply for New Contracts for the sole purpose of exercising the right to cancel provision and making a quick profit. Applicants represent that it is not administratively feasible to track the 2% Bonus amount in any of the Accounts after the 2% Bonus is applied. Accordingly, the asset-based charges applicable to the Accounts will be assessed against the entire amounts held in the respective Accounts, including the 2% Bonus amount, during the right to cancel period. As a result, during such period, the aggregate asset-based charges assessed against a Contract owner's account value will be higher than those that would be charged if the owner's account value did not include the 2% Bonus.

14. Subsection (i) of Section 27 of the Act provides that Section 27 does not apply to any registered separate account funding variable insurance contracts, or to the sponsoring insurance company and principal underwriter of such account, except as provided in paragraph (2) of the subsection. Paragraph (2) provides that it shall be unlawful for such a separate account or sponsoring insurance company to sell a contract funded by the registered separate account unless, among other things, such contract is a redeemable security. Section 2(a)(32) defines ''redeemable security'' as any security, other than short-term paper, under the terms of which the holder, upon presentation to the issuer, is entitled to receive approximately his proportionate share of the issuer's current net assets, or the cash equivalent thereof.

15. Applicants submit that the recapture of the 2% Bonus amount if an owner returns the Contract during the right to cancel period would not deprive an owner of his or her proportionate share of the issuer's current net assets. Applicants assert that an owner's interest in the 2% Bonus amount allocated to his or her account value upon exchange is not vested until the applicable right to cancel period has expired without return of the Contract. Until the right to recapture has expired and the 2% Bonus amount is vested, Applicants assert that Hartford retains the right and interest in the 2% Bonus amount, although not in the earnings attributable to that amount. Applicants assert that when Hartford recaptures the 2% Bonus, it is merely retrieving its own assets, and the Contract owner has not been deprived of a proportionate share of the applicable Account's assets.

16. In addition, Applicants assert that permitting a Contract owner to retain the 2% Bonus amount under a New Contract upon exercising the right to cancel would be unfair and would encourage individuals to exchange into a New Contract with no intention of keeping it but of retaining it for a quick profit. The amounts recaptured equal the 2% Bonus provided by Hartford from its general account assets, and any gain would remain a part of the Contract owner's Contract value. In addition, the amount the Contract owner receives in the circumstances where the 2% Bonus is recaptured will always equal or exceed the surrender value of the New Contract.

17. Applicants submit that the provisions for recapture of the 2% Bonus under the New Contracts do not violate Sections 2(a)(32) and 27(i)(2)(A) of the Act. However, to avoid any uncertainty as to full compliance with the Act, Applicants request an exemption from those sections, to the extent deemed necessary, to permit the recapture of the 2% Bonus if an owner returns the New Contract during the right to cancel period without the loss of the relief from Section 27 provided by Section 27(i).

18. Section 22(c) of the 1940 Act authorizes the Commission to make rules and regulations applicable to registered investment companies and to principal underwriters of, and dealers in, the redeemable securities of any registered investment company to accomplish the same purposes as contemplated by Section 22(a). Rule 22c–1 thereunder prohibits a registered investment company issuing any redeemable security, a person designated in such issuer's prospectus as authorized to consummate transactions in any such security, and a principal underwriter of, or dealer in, such security, from selling, redeeming, or repurchasing any such security except at a price based on the current net asset value of such security; which is next computed after receipt of a tender of such security for redemption or of an order to purchase or sell such security.

19. Hartford's recapture of the 2% Bonus might arguably be viewed as resulting in the redemption of redeemable securities for a price other than one based on the current net asset value of the Accounts. Applicants assert, however, that recapture of the 2% Bonus does not violate Section 22(c) and Rule 22c–1. Applicants argue that the recapture does not involve either of the evils that Rule 22c–1 was intended to eliminate or reduce, namely: (i) The dilution of the value of the outstanding redeemable securities of registered investment companies through their sale at a price below net asset value or their redemption or repurchase at a price above it; and (ii) other unfair results, including speculative trading practices. The proposed recapture of the 2% Bonus does not pose a threat of dilution. To effect a recapture of the 2% Bonus, Hartford will redeem interests in a Contract owner's account at a price determined on the basis of the current net asset value of the Account. The amount recaptured will equal the amount of the 2% Bonus that Hartford paid out of its general account assets. Although the Contract owner will be entitled to retain any investment gain attributable to the 2% Bonus, the amount of the gain will be determined on the basis of the current net asset value of the Account. Thus, Applicants state that no dilution will occur upon the 2% Bonus recapture. Applicants also submit that the second harm that Rule 22c–1 was designed to address, namely, speculative trading practices calculated to take advantage of backward pricing, will not occur as a result of the recapture.

20. Applicants argue that Section 22(c) and Rule 22c–1 should not apply because neither of the harms that Rule 22c–1 was meant to address are found

in the recapture. However, to avoid any uncertainty as to full compliance with the Act, Applicants request an exemption from the provisions of Section 22(c) and rule 22c–1 to the extent deemed necessary to permit them to recapture the 2% Bonus under the New Contracts.

Conclusion

For the reasons summarized above, Applicants submit that the Exchange Offer is consistent with the protections provided by Section 11 of the Act, and that approval of the Exchange Offer is necessary or appropriate in the public interest and consistent with the protection of investors and the purposes fairly intended by the policies and provisions of the Act. Applicants further submit that their request for exemptions from Sections 2(a)(32), 22(c) and 27(i)(2)(A) of the Act and Rule 22c–1 thereunder meet the standards set out in Section 6(c) of the Act. Applicants submit that the requested order should therefore be granted.

By the Commission.

Margaret H. McFarland,

Deputy Secretary.

[FR Doc. 00–3872 Filed 2–17–00; 8:45 am]

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 35–27136]

Filings Under the Public Utility Holding Company Act of 1935, as Amended (''Act'')

February 11, 2000.

Notice is hereby given that the following filing(s) has/have been made with the Commission pursuant to provisions of the Act and rules promulgated under the Act. All interested persons are referred to the application(s) and/or declaration(s) for complete statements of the proposed transaction(s) summarized below. The application(s) and/or declaration(s) and any amendment(s) is/are available for public inspection through the Commission's Branch of Public Reference.

Interested persons wishing to comment or request a hearing on the application(s) and/or declaration(s) should submit their views in writing by March 7, 2000, to the Secretary, Securities and Exchange Commission, Washington, D.C. 20549–0609, and serve a copy on the relevant applicant(s) and/or declarant(s) at the address(es) specified below. Proof of service (by affidavit or, in the case of an attorney at law, by certificate) should be filed with the request. Any request for hearing should identify specifically the issues of facts or law that are disputed. A person who so requests will be notified of any hearing, if ordered, and will receive a copy of any notice or order issued in the matter. After March 7, 2000, the application(s) and/or declaration(s), as filed or as amended, may be granted and/or permitted to become effective.

Yankee Atomic Electric Company (70–9561)

Yankee Atomic Electric Company (''Yankee''), located at Suite 200, 19 Midstate Drive, Auburn, Massachusetts, 01501, a subsidiary of New England Electric System and Northeast Utilities, both registered holding companies, has filed a declaration under section 12(c) of the Act and rule 42 under the Act.

Yankee proposes to repurchase, on a *pro rata* basis, from its ten stockholders (''Sponsors''), 95%, or 145,730 shares, of its presently outstanding common stock at a purchase price of $100 per share.[1] The purchase price is equal to the book value per share of the common stock on June 30, 1999. The repurchase is subject to the condition that all Sponsors tender their allotment of shares. Yankee intends to accomplish this repurchase in one or more steps over the next one to two years. The funds for the repurchase will be obtained by liquidating short-term investments held by Yankee at June 30, 1999. After the proposed repurchase, Yankee will maintain minimal equity until it ultimately prepares to liquidate and wrap up its affairs.

Yankee is a single purpose electric utility which formerly operated a nuclear powered electric generation facility (''Rowe Plant''), the output of which was sold to Yankee's ten Sponsors. The Rowe Plant was permanently taken out of service in February 1992 and Yankee is in the process of decommissioning the facility. Under power contracts between Yankee and each Sponsor, which have been approved by the Federal Energy Regulatory Commission, the Sponsors are continuing to make payments to Yankee to cover funds for decommissioning the Rowe Plant and waste disposal, amortization of plant investment and return on equity. As these obligations are reduced or provided for, Yankee believes its minimum equity requirements will also significantly decline. Therefore, Yankee contemplates this initial repurchase of common stock to reduce its equity.

[1] The ten Sponsors, each of which is an affiliate of Yankee, are: New England Power Company; The Connecticut Light & Power Company; Public Service Company of New Hampshire; Western Massachusetts Electric Company; Boston Edison Company; Central Maine Power Company; Montaup Electric Company; Commonwealth Electric Company; Cambridge Electric Light Company; and Central Vermont Public Service Corp. The Sponsors currently hold all the outstanding shares of common stock of Yankee.

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

Margaret H. McFarland,

Deputy Secretary.

[FR Doc. 00–3938 Filed 2–17–00; 8:45 am]

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SECURITIES AND EXCHANGE COMMISSION

[Release No. 34–42418; File No. SR–NASD–00–03]

Self-Regulatory Organizations; Notice of Filing of Proposed Rule Change by the National Association of Securities Dealers, Inc. To Amend NASD Rule 2520 Relating to Margin Requirements for Day-Trading Customers

February 11, 2000.

Pursuant to Section 19(b)(1) of the Securities Exchange Act of 1934 (''Act''),[1] and Rule 19b–4 thereunder,[2] notice is hereby given that on January 13, 1999, the National Association of Securities Dealers, Inc. (''NASD''), through its wholly-owned subsidiary, the National Association of Securities Dealers Regulation (''NASD Regulation''), filed with the Securities and Exchange Commission (''SEC'' or ''Commission'') the proposed rule change as described in Items I, II and III below, which Items have been prepared by the NASD. The Commission is publishing this notice to solicit comments on the proposed rule change from interested persons.

I. Self-Regulatory Organization's Statement of the Terms of Substance of the Proposed Rule Change

NASD Regulation proposes to amend NASD Rule 2520 to impose overall more stringent margin requirements for day-trading customers. The text of the proposal is below. Deletions are in brackets, and additions are in italics.

NASD RULE 2520. Margin Requirements

(a) Definitions No change.

(b) Initial Margin

For the purpose of effecting new securities transactions and commitments, the customer shall be required to deposit margin in cash and/

[1] 15 U.S.C. 78s(b)(1).

[2] 17 CFR 240.19b–4.